

## ISSUES in OUTPUTS AND OUTCOMES BUDGETING

*US Pant*

**B**udget is the instrument in the hands of the Government in achieving its objectives in public finance. The Finance Ministry is entrusted the task to prepare the Budget after seeking information from all the Ministries, Departments etc. and the Finance Minister presents his proposals before the Parliament to obtain legislative sanctions. In the traditional budgeting, once the proposals are approved the Budget execution is left to the concerned authorities/Departments. The scrutiny of the revenue collection and expenditure is done by the Auditor General whose reports are scrutinized and commented upon by the various Committees such as the Standing Committees of Parliament and the Public Accounts Committee. Thus the process of budgeting, i.e., preparation, sanction, execution, scrutiny; and performance appraisal, involve different stages is a complex task.

One of the primary functions of the government is to assess and ensure that the resources consumed by the system are commensurate with the benefits to the society. In recent times, budget has become an instrument of performance appraisal rather than a control tool, in the hands of the legislature. The new concepts of transparency, value for money, economy-efficiency-effectiveness paradigm, people's participation in the development process, have transformed the role of the State drastically. Results and performance orientation is the buzz word now. The shift from inputs and compliance to outputs and outcomes has been a long journey in the public sector financial management.

### **Budgeting for Results**

One of the prime concerns of the public policy managers today is to have a result oriented budgetary system instead of monitoring of the authorized levels of spending by various agencies. Performance outputs and measurement of the performance of the spending activities of the public sector is considered the key objective of the budgetary process. The concept of performance monitoring and measurement is a complex one to implement, particularly because of the nature of public spending; which is often said to be directed towards the maximization of the welfare of the society.

The Performance Budgeting has so far been recognized as essential in the system of India, with the separate Performance Budget documents being tabled in the Parliament. Such separation of the main Budget documents and the Performance Budget makes the latter a routine and meaningless exercise. The associated problems with performance measurement are the accountability and responsibility aspects in the Indian system still leave much to be desired.

It is with this background, the Government has now decided that the Budgeting be linked with the "outputs" and "outcomes". Such decision has been taken at the highest level, i.e., at the level of the Prime Minister of India. All ministries have now given the outputs and outcomes, *vis a vis* the expenditure and outlay. The benchmarking of the outputs and outcomes is underway and the matter is now being finalized by the Ministry of Finance and the Planning Commission of India. Such output and outcomes monitoring is intended to be done only in respect of the quantifiable targets; the usual administrative and service expenditure has been separated, out of the purview of this monitoring. Though it is a late call, it will go a long way in strengthening the public financial management system.

A very important aspect to consider here is the focus of the services. The benchmark for ascertaining the nature of services is to **identify whether the services are directed towards the public/social good or the private good**. As an example, the World Bank studied the education system in Indonesia and found that almost entire benefits of higher education provided under the public funds are monopolized by the richest class of the society. These results may hold good for most of the

developing countries. Similarly, a distinction has to be made between providing the clinical services to the citizens, which serve the private or individual health interests; and the preventive and community health programs, serving the interests of the entire society.

The fertilizer subsidy scheme, which was started in the early 1950's in India, may have been a good scheme at that time; but it is now widely believed that the beneficiaries of this scheme are only the rich farmers and the scheme as such is no longer relevant in serving the interests of the society as a whole. On the flip side, it goes well with the larger objective of the government to increase the agriculture and farm production, by providing incentives to this sector. Such subsidies are very much prevalent in the developed countries. The issue thus, will be to have a flexible approach to suit the "outcomes" of the specific departments/agencies and their schemes.

Wherever necessary, government will have to make a provision for such section of the society, who need to be provided a cover due to social and economic reasons. The resources and savings available due to withdrawing of activities may be channeled towards the social programs and schemes of the government. However, as remarked earlier, the benchmark should again be **'whether the schemes are meant for the representative groups to the whole society or they are targeted for the particular beneficiary group'**.

### **The Output Methodology**

The Output Methodology, as has been viewed in Australia and OECD countries, is an approach to the management of the total public resources of the State which focuses attention on the Outputs the Government is providing to the community and whether these Outputs are having the intended effect on the Government's policy objectives. Each input is related to the outputs it has produced, with reference to the targets set.

### **Outputs and Outcome**

In the traditional budgeting, focus is on the inputs; and objectives are carried out by allocation of the inputs. In the outputs and outcomes based budgeting and performance appraisal, inputs are defined as the resources to produce the service. In terms of their social value their cost is the parameter to quantify them; while their budgetary performance corresponds to compliance.

Outputs are the 'service' itself. OECD definitions read with Australian guide on the subject suggest that Outputs are goods and services produced by, or on behalf of, a department and provided to customers outside that department. The Government (in a contracts scenario) purchases Outputs from departments in order to achieve policy objectives, or Outcomes. An Outcome is the effect on the society of outputs from governmental entities

The outcomes and outputs framework helps answer three fundamental questions:

- What does government want to achieve?- **outcomes**
- How does it achieve this?- **outputs and administered items**
- How does it know if it is succeeding?- **Performance reporting**

Outcomes can be further segregated into Community Outcomes, Government Policy Priorities and Agency Outcomes.

Community Outcomes are those Outcomes which are achieved over the longer term through contributions from all sectors of the community. The related benchmarks assist in determining the extent to which the Outcomes are achieved. Government Policy Priorities are those policy directions which indicate a change in direction, an area of reform or a change in priority by the Government. Agency Outcomes are those Outcomes for which an agency is accountable and

which contribute to the achievement of both Government Policy Priorities and Community Outcomes.

The reporting on planned and actual performance against outcomes and outputs can be through the Budget proposals and annual reports on:

- their plans
- what they intend to do;
- how they intend to measure it;
- what they believe to be an appropriate performance; and their results
- effectiveness of outputs' and their extent of contributions to outcomes;
- linkages of particular outputs to the 'composite outcome' or any 'multiple outcomes'
- the quality, quantity and price of their outputs;

### **Advantages of the Outputs and Outcomes Budgeting**

- greater emphasis on performance information, reporting of processes and results
- clearer idea of what is expected of the inputs that are consumed in the process
- identification of what is to be delivered to meet those requirements in a price-based performance management environment, in contrast to earlier cost-driven, inputs focused arrangements;
- assessments against agreed performance indicators, derived directly from the specific outcomes and outputs for which the managers and agencies are accountable;
- greater flexibility in the disposition of the resources (inputs) used to deliver the outputs agreed with government
- enhanced levels of transparency
- Outcome statements facilitate effectiveness indicators for decision making and legislative reporting
- Outputs that contribute to more than one outcome are appreciated better
- review government activities by testing cost and effectiveness, to make improvements

### **Benchmarking**

The role of benchmarking will be crucial to appreciate the outputs and outcomes based budgeting and performance measurement. Benchmarking is the process of internal and external comparisons, with the objective of improving the performance of an organization. It is termed as a technique of comparing business practices and performance levels between organizations to identify opportunities for making improvements in the economy, efficiency and effectiveness of an organization's activities. The internal and external comparisons will bring out better alternatives and better performance measures at an economic and efficient manner. The point to be note here is the fact that efficiency and quality do not come hand in glove. It has to be harmonized to suit the overall objectives of the organization, without providing a shelter to poor performance under the garb of quality.

### **Multiple Outcomes**

As mentioned elsewhere in this paper, there can be cases of multiple outputs and outcomes through single schemes; and similarly, there will be cases of multiple schemes contributing to the similar outcomes. This will be true for both the social sector and infrastructure operations. For example, the development of infrastructure of sports facility and associate facilities for the forthcoming Commonwealth Games in the city of Delhi, will contribute equally towards the development of urban infrastructure and transport facility in Delhi at all times; spending on the public health engineering and preventive health measures will have similar outcomes; social welfare schemes of several Indian ministries will contribute towards planned outcomes of the urban and rural development ministries; spending of the Employees State Insurance dispensaries and hospitals for the health facilities for the laborers will contribute towards the schemes of the Health Ministry; public construction activities will

also generate wage employment and spin-offs in the employment sector; the successes in urban transport achieved by the Delhi Metro will also add to efforts of several environmental and health related schemes; and so on.

In contrast the several schemes of the ministries of Tourism, Health, Urban Development, Transport and Highways may have similar outcome of upgrading the urban infrastructure and amenities. The collective contribution of these individual schemes may be difficult to be quantified or segregated in a single time period and geographical are.

### **Forward Budgeting**

It is important that at least in respect of developmental or capital expenditure; a medium-term budgeting plan is drawn up, not only to avoid the time and cost overruns and availability of financing at the right time; but also to measure the outputs and outcomes during and after the completion of the projects/schemes. In cases of any delays in commencement of schemes/projects, it should be possible to make internal adjustment within the projects, wherever necessary. A three year forward plan with rolled over annual budget plan will greatly help the decision makers as well as the projects. The spending ministries will be allowed to carry forward the savings to the forward period and make necessary annual corrections in the estimation of the resources by themselves, within the overall objectives and performance plan.

Forward budgeting has to have backward and forward linkage with strategic planning and will help in all aspects of budgetary objectives. It will have visible effect on the cash management, lowering the instances of wastage, managing the commitments and liabilities, greater anticipation of the utilization of financial resources, management of better and effective utilization of resources; and establishment of the performance indicators; and monitoring of results against resources provided and utilized.

### **Accounting Classification**

The Australian Government's accrual-based, outcomes and outputs framework is aimed at improving both how the work of government agencies is measured (through the application of the accrual-based budgeting and reporting) and what is measured (through specifying outcomes, administered items and outputs). For any help that may be required, online accounting policy guidance provides advice on accounting issues.

In the Indian initiative, quantification and accounting for measurable outputs and outcomes will be the key area to be focused upon. The existing initiative is based on the premises that this will be achieved through the system of cash budgeting and accounting. The problem of measurement with the cash accounting will remain, in cases of spillover outputs over the time period and multiple outputs contributing to the single outcome. Also true will be the cases of multiple outcomes though the operation of the single project or program.

A medium-term view of accounting and budgeting will, thus, be imperative for measurement of quantifiable outputs and outcomes. The Chart of Account will have to undergo the metamorphosis to the extent that it can be adapted to suit the new requirements of outputs and outcomes based budgeting and accounting. The present Chart of Accounts may not be able to reflect the outputs and outcomes in its present form. As a matter of fact, the core Chart of Account may not be able to reflect the outputs and outcomes budgeting and accounting. There is a need to have a policy decision on the issue as to whether the accounting classification should have an economic classification as its object or we need to have a provision of mapping the outputs and outcomes that may be provided in the budget through a correlation program.

Even if we decide to go in for an accounting classification that may reflect the outputs and outcomes *visa a vis* the targeted or planned outcomes; it would be a very difficult task to handle. In the budgetary system it would be possible to map the outputs (and perhaps outcomes to certain extent) by comparing the budget bids of agencies of the previous year and their performance reported periodically and through the next budget bids. The accounting classification may, therefore, not cater to the reporting of outputs and outcomes; and the accounting standards at the same time. In my view, the accounting classification may not be able to map the outputs and outcomes; but through a correlation program it may be possible through the budgetary system.

### **Decentralization**

Decentralization is seen as a precondition for holding managers accountable for what they spend and do. But there is a realization at central levels that accountability cannot hinge solely on the expectation that, once given the opportunity, managers will take charge and turn their organizations into more productive work places. Letting managers manage, past experience has taught, does not mean that they will. The current emphasis is on making them manage by nailing down the performance levels to which they will be held responsible.

Delegation of previously centralized controls has stirred a rethinking of the role of the central budget organization. The old controller role is slipping away and, along with it, the leverage that budget officials exercised over departments as well as a part of their data base for monitoring expenditures. Central staff views performance measures as a handle for reviewing and possibly intervening on other matters of management. The measures provide "talking points" in dealing with departments, move the discussion to a more objective plane, and enable budget makers to question what the departments have accomplished or intend to do. But they believe these measures will be fresh and relevant only if; (a) the affected departments have the lead role in selecting them; (b) the measures are principally used for internal management rather than for central review ; (c) the data are not turned into evidence for reducing budgets but are a means of spending agencies to "spend better"; and (d) the measures are part of a larger framework which encourages managerial initiative and accountability, within which there is a clear definition of the expectations of both spending agencies and central budget staffs.

Balancing these requirements can be a difficult task. On the one hand, central budget experts must take an active role in designing and promoting managerial innovation; on the other, performance measures must be indigenous to departments and accepted by them. In the early stages of development, there is widespread understanding that central staff must take the lead in moving innovation along; if performance measurement matures, central budget staff will have to withdraw to a more circumscribed role. It remains to be seen whether they will be content to be supporting players.

Changing the culture of public management, getting finance staffs to divest the tools that have given them power and access, and prodding managers to reallocate resources for efficiency's sake are all difficult, time-consuming tasks. Shortly after the British Government launched FMI, a White Paper described it as "a program for the life of a Parliament and beyond." It should be noted that initially reforms may end up with a relaxation of financial controls and somewhat more performance information, but fail to bring about a real transformation in financial management. The transformation will be seen over the medium plan period, with continued reforms and necessary modifications. The shift of the central control will have to be redirected towards the macro-system performance results rather than interfering too much with the day to day micro-system management and expenditure behavior of the managers.

## **Accountability**

The report of the Independent Review Committee(1975) on the office of the Auditor General of Canada, defined accountability as:

*Accountability in its simplest term means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties. One who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it had been discharged.*

Accountability framework is significant to introduce and reinforce due to overall results and impacts achieved from the large amount of resources consumed by the public sector. With the continuance of reforms and structural changes like greater delegations and functional independence, it is all the more necessary to attempt at prescribing the managerial responsibility and accountability for the effectiveness and maximization of the benefits from the expenditure from the public exchequer.

In the context of outcomes budgeting, accountability is linked with the planned/targeted outcomes and actual outcomes. The risk factors and any associated inputs and policy constraints have to be analyzed carefully and professionally. If the resource constraint is the reason of under performance, it has to be anticipated as to how much of this can be attributed to the gap in the actual outcome and the planned or targeted outcome. Identification of clear authority and responsibility centers will be crucial here.

## **BUDGETING for RESULTS: SELECT COUNTRIES**

Budgeting for results is often associated with the performance evaluation and management. The measurement of performance is a practice grown with the time. Briefly speaking, it means the adoption of the private sector techniques into the public sector environment. This primarily involves structural and cultural changes in the bureaucratic system of governance. The overhauling of the environment to achieve new target-based activities in the public systems is the performance based management. Budgeting and Budgetary techniques take the precedence over all other aspects of financial management in this direction. This does not, however, imply that good management practices alone will provide the solutions to the problems of performance based management and performance measurement. The commitment of the politicians and the bureaucrats, both holds the key to the effective system of performance evaluation and output. In all the countries where these practices have been adopted, the initiative and commitment has been noticed at the political level.

In the past 25 years, several developed and developing countries have witnessed major changes and a shift from the issues of policy to the issues of management. The traditional bureaucratic systems have been transformed into quasi-autonomous 'corporatised' units and are practicing new style of business like practices. There has been recognition of the 'cost-benefit' and 'cost-cutting' consciousness in these countries; with a view to strike a balance between the quantity of inputs and the quantity, quality and volume of targets achieved. This is also viewed in the context of the resources and capability of the public sector in the broad sense.

In the United States, progress in this area can be traced to the Riddle-Simon work in the 1930s, performance budgeting in the 1950s, and program budgeting in the 1960s. It is in application, however, the evaluation of the performance and performance measurement has broken new grounds. With the new approaches and developments, governments are well equipped with necessary data to develop the competence to apply performance data to their budget and other managerial decisions. The main emphasis is now being given to the institutionalization and internalization of the management practices to provide the right environment for performance indication and output the results. Budgeting is now viewed as a "Contract for Performance"

**UK**

After a series of studies and the Royal Commission Recommendations, a "Financial Management Initiative" (FMI) was introduced during a period of severe pressure on administrative expenditure and contraction in public employment. The attempts were made to balance out and measure the inputs, outputs and results. In announcing FMI, the Government wanted in each department an organization and a system in which managers at all levels had a clear view of their objectives and the means to assess and measure outputs or performance, wherever possible, in relation to objectives.

FMI did not prescribe a uniform approach for all departments. Within broad guidelines each department was allowed to develop their own managerial style and system suited to the circumstances. A common element, however, was the insistence on delegated budgeting wherein the responsibility for resources is pushed down the line to "budget holders" (those who actually spend resources and carry out operations) who were to be given sufficient flexibility and incentive to produce value for money.

Treasury had taken the position that delegation must proceed hand in hand with the spread of accountability within departments. "It is necessary", a Treasury report had insisted, "to recognize the Treasury's legitimate concerns and requirements arising from its responsibility for controlling the level of public expenditure... the central departments need evidence of robust new systems before they can sensibly relax their existing control mechanisms." The importance of the performance information has been recognized in the Treasury's White Paper, Better Accounting for the Tax-Payers Money, which proposes measures link the cost resources to their objectives and outputs.

The government found that the devolution of controls had not always been accompanied by flexibility at operational levels. Instead, headquarters in departments often take over the controls. Adequate steps were taken to overcome this problem by prescribing the responsibility and accountability.

#### *Output the Performance Measures*

FMI conceived budgeting as a "contract for performance" in which departments commit themselves to concrete targets in exchange for agreed to resources. A 1986 Treasury report defined budgeting as:

*...a means of delivering value for money against a background of aims objectives and targets... Budgeting will only fully realise its full potential if it has the support and involvement of top management, if there are strong connections between budgets, outputs and results, and if it operates within a supportive central and managerial environment.*

The linkage of performance measures and budgets were promoted by the extensive publication of such measures in the annual Public Expenditure White Paper. The 1988/1989-1990/1991 White Paper contains more than 1,800 output and performance measures, more than 50 percent above the level of two years before. Rather than further increasing the number of such measures, Treasury embarked on an effort to upgrade their quality principally by emphasizing measure of effectiveness and specific targets.

The information availability on the inputs, outputs and results; performance measurement assumed importance in the areas of resource allocation, decision-making and control purposes. The performance evaluation and output measurement have provided useful discussion points and parameters for budgetary allocation, spending decisions and review of the whole areas of activities of the government sector. It has provided the basis of regular monitoring and appropriate corrective action; both for the Treasury and the spending ministries.

## **Canada**

Departments in Canada were directed to measure and report on performance since the early 1970s, this was further reinforced by the increased Ministerial Authority and Accountability (IMAA) reforms introduced subsequently in the Canadian government. IMAA gives the departments discretion over many administrative measures previously requiring central approval.. Departments have also been granted expanded authority to reallocation resources within approved funding levels, and they are now permitted to carry a portion of their capital funds into the next fiscal year. In exchange IMAA demands enhanced accountability for results. Departments are held accountable for performance expectations set forth in **Memoranda of Understanding** agreed to by them and the Treasury Board.

IMAA was launched in 1986, and it was to be phased in over a number of years. While Canada's governmental system does not permit multi-year commitments on the future resources to be provided, it was found possible to incorporate statements of intent, based on approved budget levels, in the MOUs. Each participating department prepares an annual management report which then triggers an assessment of performance geared to the targets and expectations set in the MOU.

The Treasury Board has been entrusted an active role in designing and promoting IMAA. The broader policy aspects and implementation were also included in the new reforms program launched in 1990, called as "Public Service 2000", aiming at introduction of further changing managerial practices.

### *Performance Measures*

Taking the view that performance indicators should be used principally as a tool for resource allocation, the Canadian Auditor General found "that decision makers do not have the information to ensure that they allocate resources in the most efficient or effective manner." Treasury Board, however, viewed performance indicators more as support for departmental management and less as an activity to support central decisions on resources. It is in this light that IMAA conceives of performance data as an internal departmental management tool which has only secondary utility as a budgeting tool.

The key instrument is the Operational Plan Framework (OPF), introduced in the early 1980s, which provides for departments to establish objective in a hierarchical order and to set forth means of monitoring and reporting on results. The OPF is based on the assumption that objective can be clearly stated in advance and that intended results can be identified. Almost all departments use the OPF structure; still, the Auditor General has found that "managers have considerable difficulty translating objectives into clear measurable and attainable statements of purpose."

IMAA tries to make OPF and other previous innovations more useful by establishing a management environment and center-agency relationship conducive to accountability for performance.

## **Australia**

The development of performance indicators, in Australia, proceeded under the two major reforms initiated by the Australian government in the 1980s: the financial management improvement program (FMIP) and program budgeting from the inputs used to the results achieved.

Until the mid-1980s, financial control was highly centralized, and spending departments had little opportunity or incentive to manage their finances. A government study (1983) suggested that 94 percent of its senior managers perceived financial management to be merely spending the total allocated or controlling expenditures against appropriations. These attitudes were rooted in the form of appropriation and the financial controls built up around it. Departments received separate administrative appropriations for as many as 21 line items. Such appropriations were backed by

detailed estimates submitted to the Department of Finance, attention to inputs in Parliament, and central control of personnel actions.

Centralized control was heavily criticized in the 1983 Review of Commonwealth Administration, which strongly urged central agencies to "place less emphasis on their detailed control activity.... The accent should be on the periodic assessment of departmental performance...." This attitude was also endorsed by the Government's 1984 White Paper on Budget Reform, which gave the green signal to pilot testing PMB and the implementation of FMIP. These initiatives were viewed as part of a *quid pro quo*. In exchange for divesting many existing controls, a new performance-based accountability system was to be established. This linkage of performance accountability and spending flexibility was explicit in a report on FMIP:

*More devolution of responsibility to agencies and, within them to line managers seems to be the greatest incentive that can be provided for improved management performance.... It should also be understood and accepted that increased responsibility has to be matched with increased accountability.*

Devolution was inevitably the first step in the reform process, for, without it, there was no prospect of convincing managers that they had meaningful responsibility for resources and results. Among the initiatives taken thus far have been the consolidation of appropriations for operating expenses into two categories, the installation of a "corporate" planning process at the top of each department, Decentralization of resource management within departments, more transparency in the financial transactions and development of internal evaluation capacity.

Decentralization was introduced during a period of fiscal constraint, in which the government had pursued a policy of stabilizing budgetary outlays, tax revenue, and the deficit as a percentage of the gross domestic product. One element of fiscal restraint is the imposition of an "efficiency dividend" of 3.75 percent over three years. The government viewed the dividend as one of the benefits of Decentralization; departments, with greater flexibility and opportunity for efficiency, can retain any savings in excess of the efficiency dividend.

### ***Performance Measures***

The pace of developing performance measures was slowed by progress in introducing program budgeting. Program Management and Budgeting (PMB) were introduced to identify each organization's objectives and placing them into a framework within which targets are set for managers at all levels. The program structure prescribed the objectives in hierarchical order. The implementation level objectives were subjected to being expressed in measurable terms more than those at the higher levels. However, the measurement of performance has the associated difficulties.

The Department of Finance prescribed the use of performance measures in (1) evaluation plans, (2) policy initiatives, and (3) the Explanatory Notes (ENs) that accompany the annual budget submitted to Parliament. One set of ENs is prepared for each of the 17 component portfolios of the budget. The ENs is organized on a program basis to ensure that each category of expenditure is classified according to the program or element with which it is associated. In view of the uneven implementation of program budgeting, it is to be expected that the ENs vary greatly in the amount and quality of program information. Each EN is structured into two parts, one providing "environmental" information on the problem or need to be addressed, the other setting forth specific performance indicators for measuring the extent to which a particular program is impacting on the identified need.

The Australian government has recognized the inadequacy of the measures introduced and has made their improvement a key objective of FMIP/PMB. As much of the Commonwealth's budget

entails transfer payments to other levels of government, developing useful performance indicators will be a challenging task.

On November, 1992 Minister of Finance, Ralph Willis, announced that Commonwealth Departments were to move to financial reporting on an accrual basis as the next major step in the Government's public sector reform program. In 1994 the Minister of finance, Kim C. Beazley, declared:

*"The new reporting arrangements build on a series of reforms introduced by the Government over the past ten years and are aimed at improving the efficiency and effectiveness of the public sector and its accountability to Ministers and the Parliament."*

*"Our aim is for all departments to include audited accrual based financial statements in their annual reports from 1994-95. Once this is achieved, the value of information will be enhanced as users will have a more effective basis for analyzing departmental performances as well as examining performance trends. More effective scrutiny of such matters as the efficiency of administration and deployment of assets should provide an incentive for better management performance."*

### **Denmark**

The government of Denmark has adhered to a policy of zero real growth in public expenditure since 1983. Fiscal restraint was accompanied by a modernization program of the public sector in two stages. The first stage (1983-1985) concentrated on relationships between spending ministries and the government; the second (1986-87) focused on improving internal agency management. In the first phase, budget reforms provided the institutions greater flexibility in using financial and personnel resources, and held them accountable for spending within fixed provided limits. As modernization progressed, increased emphasis was placed on productivity and financial management.

Throughout the 1980s, the government imposed a two-percent cut (below the inflation-adjusted level) on operating expenditures, to force agencies to be more productive by reducing the resources allocated to them. The 1985 Public Expenditure White Paper announced that future spending limits would be set in terms of desired improvements in productivity. Beginning with the 1987 budget, the government introduced a new method of establishing productivity targets. Public employees were classified into categories, and a separate annual target was set for each category.

Each agency's productivity target was to be derived by determining its mix of personnel and computing the gain that each type was required to achieve. The targets did not require that all programs and agencies had their budgets cut. Within the targets for each ministry; there was scope for reallocation. The targets were only one of the factors influencing budget decisions.

The Department of Management and Personnel (DMP) carried out pilot studies in six agencies, taking care to assure employees that it was the productivity of the organization which was being reviewed, not their individual performance. DMP suggested that successful productivity analysis depends on, among other things, involvement of management and employees, careful specification of the unit being studied and of the outputs being measured, and sensitivity to the qualitative factors affecting productivity.

The productivity gains were encouraged by lending money to agencies (to be repaid out of their future budgets) for acquisition of new technology.

### **Sweden**

In Sweden, performance measures were linked to the budget in the three-year budget frames (total allocations to a major category of expenditure), a new means of allocating resources to encourage in-depth review of operations and performance. Triennial budgeting has been introduced following a long period, beginning in the late 1970s, during which annual across-the-board cuts ("Cheese

slicker") of two percent (in real terms) were imposed on administrative expenditures. This "Cheese slicer", has been made more flexible in subsequent years by requiring agencies to save five percent over a three-year period. While the prescribed five-percent rule is uniform, its application is not, and actual allocations often vary from this starting point.

Although the three-year frames cover only administrative costs, the review process extends to program objectives and expenditures as well. Agencies are expected to assess their total performance and the full range of activities. The government has been offering increased flexibility in administrative management as an incentive for agencies to make a broad assessment of their overall performance.

In the two intervening years of the triennial cycle, each participating agency has to submit a simplified budget request, unless developments warrant changes in the approved direction for the three-year period. Each agency has to submit an annual outcome report on expenditures, performance, productivity change, and the previous year's results. It is contemplated that at the end of the cycle, each agency would undergo a fresh; in-depth scrutiny which would facilitate a new three-year budget frame and decisions on the agency's future objectives and functions.

### ***Productivity Studies***

The Swedish government has laid down priority to productivity in the public sector. This emphasis has been due to various studies showing adverse productivity by the Expert Study Group (ESO) affiliated with the Ministry of Finance. ESO measured changes in public sector productivity.

The productivity studies have become important tool in effort to upgrade the efficiency of Swedish government..

### **Newzeland**

**Newzeland** was one of the first countries who introduced a comprehensive corporatisation model and the system of accrual accounting in the country. Each Department functions like a corporate body and formulates a corporate plan for the year. The Newzeland experience has been considered as great success which has become a model for several other governments to experiment.

The Newzeland system has been supported by the legal framework within the Public Finance Act (1989), Fiscal Responsibility Act and the Appropriation Act.

After a series of developments, the Ministry of Finance developed (1) definition of performance in terms of outputs and outcomes; (2) distinction between purchase and ownership interests; and (3) distinction between the whole government as an accounting entity and the individual departments. A number of administrative controls were removed and the chief executives were made responsible for the departmental financial management. Departmental and Crown reporting requirements were established. One of the important features of the reforms was the providing for the use of generally accepted principles of accounting which were followed by the concepts of accrual accounting. Basis of appropriation was redefined from the programs to the outputs.

While carrying out sweeping reforms, Parliamentary control over the public finances was retained. Cash control significance was undermined by the accrual accounting; but the option to control cash was also retained. Appropriations were linked with the accrual accounting concepts and directed towards output performance.

### ***Budgetary Process***

Certain changes were made in the budgetary process to minimize political influence over the professional approach. An Annual Statement of Fiscal Views has to be made through a Budget

Policy Statement. Departmental purchase agreements developed by the ministers are scrutinized by the Treasury and central agencies, with reference to the broad policy of the Government. It is considered as the strategically driven budget, with a wider role for the Finance Ministry.

#### ***Financial Delegations***

All the departments have been given adequate freedom to acquisition and mix of inputs, including staff and capital items. Chief executives have been given powers to operate their own bank accounts and managing cash. They have also been given powers to shift up to 5% of funds authorized for one output class to another, without approval of the Parliament. Decentralization of detailed technical accounting has allowed Departments to develop their own style based on the commonly accepted principles of accounting. The freedom given has been balanced with the accountability.

Borrowings on behalf of the Government have been restricted to the Finance Ministry. The Department has no right to borrow. Finance Minister has also been given powers to issue guidelines about prudent financial management and instructions about the high-risk financial transactions, like investment of trusts funds.

#### ***Information System***

The financial management system is supported by an elaborate information system for management decisions. Departments have to provide budgetary projections of 10 years, which are not just the forecasts. These are supplemented by the targets and guidelines and the estimates for the supplementary provisions that may be required.

#### ***Measuring of Financial Performance***

Financial performance is measured by the efficient utilization of resources and purchase of quality services by purchaser concepts. In order to enable the performance measurement, non-commercial objectives are funded separately by explicit subsidy. Financial reporting values the assets and liabilities while the Balance Sheet of a Department brings out the net results of the commercial objectives. Performance agreements are signed with the chief executives.

The output cost accounting is based on the accurate costing. The costing principles are based on activity based costing (abc). which enables activity review, resource accounting, output accounting and the cost centre accounting. Together with the accrual accounting, output cost accounting serves an important management tool.

#### **U.S.A.**

The recent changes are the outcome of the "National Performance Review", 1993, initiated by the Vice President Al Gore. This program aimed at improving the financial reporting, immediate effective management practices, objectives based performance and expanded delegation of authority. The important features of this program are as follows:

- performance agreements for departmental heads
- revision of accounting standards by the Federal Accounting Standards Review Board, including introduction of accrual accounting concepts in few selected areas
- a capital charge system
- a Government Performance and Results Act which commits government for managing for outcomes in coming years
- requirement of a Strategic Plan, Annual Performance Plan and Ex-Post Performance Report by each federal agency
- the Chief Financial Officer's Act requires each financial officer to develop and maintain an integrated accounting and financial management system for performance measurement

- linking the Performance Plan to the President's Budget
- Budget Enforcement Act for ensuring fiscal responsibility and accountability

### **Others Countries**

There are a number of other countries who have embarked upon the task of rejuvenating the financial management systems and practices. **Malaysia** launched a Public Sector Reforms Program by the end of last century, with common features with those in the developed countries. **Singapore** has commenced 'Budgeting for Results' programs, with much wider decentralization of powers to the line agencies. These reforms also envisage the usage accrual accounting. The Governments of **Republic of South Africa**, most **CIS republics**, **Ireland** too have switched over to the accrual accounting. France has already launched a major performance reporting and measurement system.

Some countries like **China**, **Japan**, **Germany** and **South Korea** have also introduced performance measures, with much lower standard of transparency in those countries. These countries have also maintained their output performance with strong centralization tendencies in their system. Japan has been able to achieve economic growth and phenomenal financial performance with a relatively very small number of public sector employees in the country; yet with effective public sector management. These countries have some unique management practices and administrative culture, which are not common in the other societies. In most of these countries, except China, privatization program has been kept high in the agenda of the governments. With the increased privatization and global process, transparency norms are also expected to be given more attention.

### **Changing Concepts of Budgeting in the Private Sector**

While the public sector and the private sector are not comparable in terms of the budgetary systems and practices on a one to one basis, the budgetary techniques can be commonly applied in most situations with varied amount of degree and scope., radical changes are noticed in the budgetary system reforms in the private sector all around the world these days. These reforms and new practices are not only aimed at short-term goals of maximization of the shareholders wealth; but are also directed towards the long-term and strategic aspects of the organizational objectives.

The Activity Based Techniques (ABT) and the Total Quality Management (TQM) initiatives are now applied in aspects of management, including budgeting. ABT continue to develop with the greater importance to the activity/process performance measures covering quality and time in addition to cost, providing alternate levels of services, ranking and prioritizing with reference to overall organizational objectives. Priority Based Budgeting (PBB) and Priority Based Cost Management (PBCM), supplement the ABT and TQM. together with the powerful information systems.

Another development is more radical wherein it is believed that the annual budgeting cycle adds little value and takes away too much of the management time. It is also said that the budgetary controls and managing performance are at times contradictory and have an adverse impact on the management behavior. A few companies in the Europe, USA and elsewhere have started following the radically different approach in contrast to the traditional budgeting. They have been using the ABT and management of performance with reference to short-term and realistic resource-demand situations and other usual techniques followed in the private sector, like capacity planning, process analysis, constraint checking, scenario playing and etc. It is too early to predict the future of such informal and short-term budgeting; but given a mix of the techniques adopted; these practices may stabilize in times to come, in the private sector.

## REFERENCES

- Accounting and Auditing in Peoples Republic of China: A Review of Its Practices, Systems, Education and Developments, A Joint Research Study by Shanghai University of Finance and Economics and University of Texas at Dallas, University of Texas Press, Dallas, 1987; also its addendum, 1989
- Binnarsley, Mark, "Do You Measure Up?", *Management Accounting*, November 1996
- Budget Documents, Govt. of India.
- Bunce, Peter and Fraser, Robin, "Beyond Budgeting", *Management Accounting*, February 1997, CIMA, London
- Chopra, Ajay *et al*, India: Economic Reforms and Growth, IMF Occasional Paper No. 134, Washington, 1995
- Economic Survey, Ministry of Finance, Govt. of India, New Delhi.
- Enthoven, Adolf J.H., "The Accountant's Function in Development", *Finance and Development*, IMF, Washington, December, 1965
- Enthoven, Adolf J.H., Mega Accounting Trends: Extended Accounting Dimensions in Changing Societal Patterns, University of Texas at Dullas Press, 1985
- Five Year Plan Documents, Planning Commission, Govt. of India.
- General Financial Rules, 2005, Govt. of India
- Harris, Paul, "Accounting For Change", *Management Accounting*, June 1996
- Kaplan Robert S., "Yesterday's Accounting Undermines Production", *HBR*, Boston, July-August 1984
- Kathpalia, R. (Ed.), Financial Management and Accountability in Public Sector, New Delhi, Oxford, 1994. (Annual).
- Lal B.B., Financial Control in a welfare State, Publication Division, New Delhi, 1980 (2nd Edition).
- Pant U.S. and Srivastava, R.S., Payment and Accounting System in Government of India, Good Book Company, New Delhi, 1996
- Pant U.S., Budgeting and Public Financial Management in India, Impact Books, New Delhi, 1998
- Premchand A., Effective Govt. Accounting, IMF, Washington, 1995
- Premchand A., Performance Budgeting, IMF, Washington, 1995
- Premchand A., Public Expenditure Management, 1993.
- Premchand, A. (ed.), Government Financial Management issues and country studies, IMF, Washington, 1990.
- Reports of Public Enterprises Survey, BPE, Govt. of India.
- Russel A. Taussig and William L. Shaw, "Accounting for Productivity: A Practical Approach", *Management Accounting*, New York, National Association of Accountants, May 1985
- Schick, Allen, The Spirit of Reform: Managing the Newzeland State Sector in a Time of Change, A Report Prepared for the States Service Commission and the Treasury, Wellington, Newzeland, August, 1996
- Scot, Graham C., Government Reforms in Newzeland, IMF Occasional Paper No. 140, Washington, 1996
- Schiavo Campo, S and Tomassi, D, Managing Public Expenditure, ADB, 1999
- Sharma, R.C., Financial Reporting in Public Enterprises, New Delhi, Tiwari Ppublication, 1991.
- Specifying Outcomes and Outputs: The Commonwealth's Accrual-based Outcomes and Outputs Framework and Outcomes and Outputs: Guidance for Review (2001)-Web Guide
- Susan Scaldler *et al*, Economic Adjustments in Low Income Countries: Experience Under the Enhanced Structural Adjustment facility, IMF Occasional paper No.106, Washington, 1993
- Tiwari, A.C., Problems of Fiscal Management in Government, New Delhi, Shipra, 1995.
- The New Financial Reports of Agencies: A Guide to the Use of Accrual Accounting and Reporting by the Commonwealth Agencies, Commonwealth of Australia, Department of Finance, July 1994
- World Bank Report No. 13169.IN, India: Issues in Trade Reforms, Washington, 1994