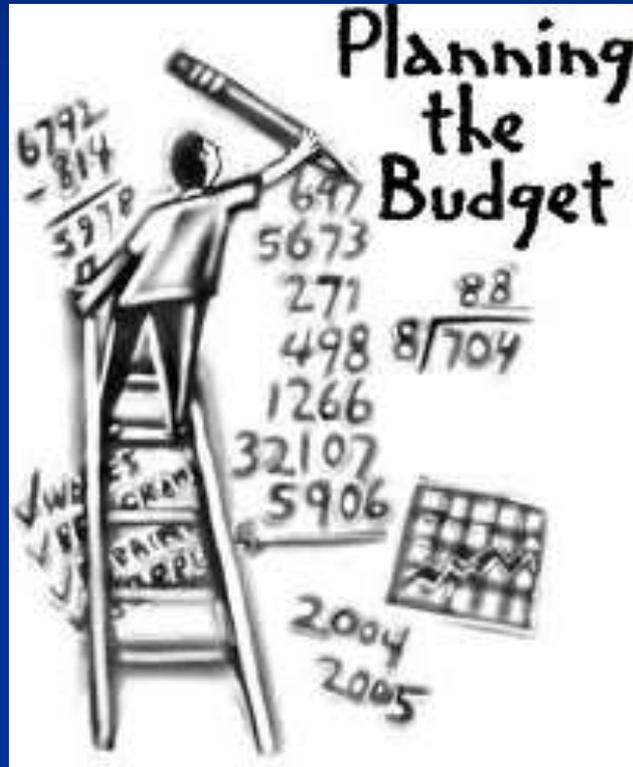


Performance-based Budgeting - legal base

Lessons learnt & practical recommendations



Grzegorz Orawiec

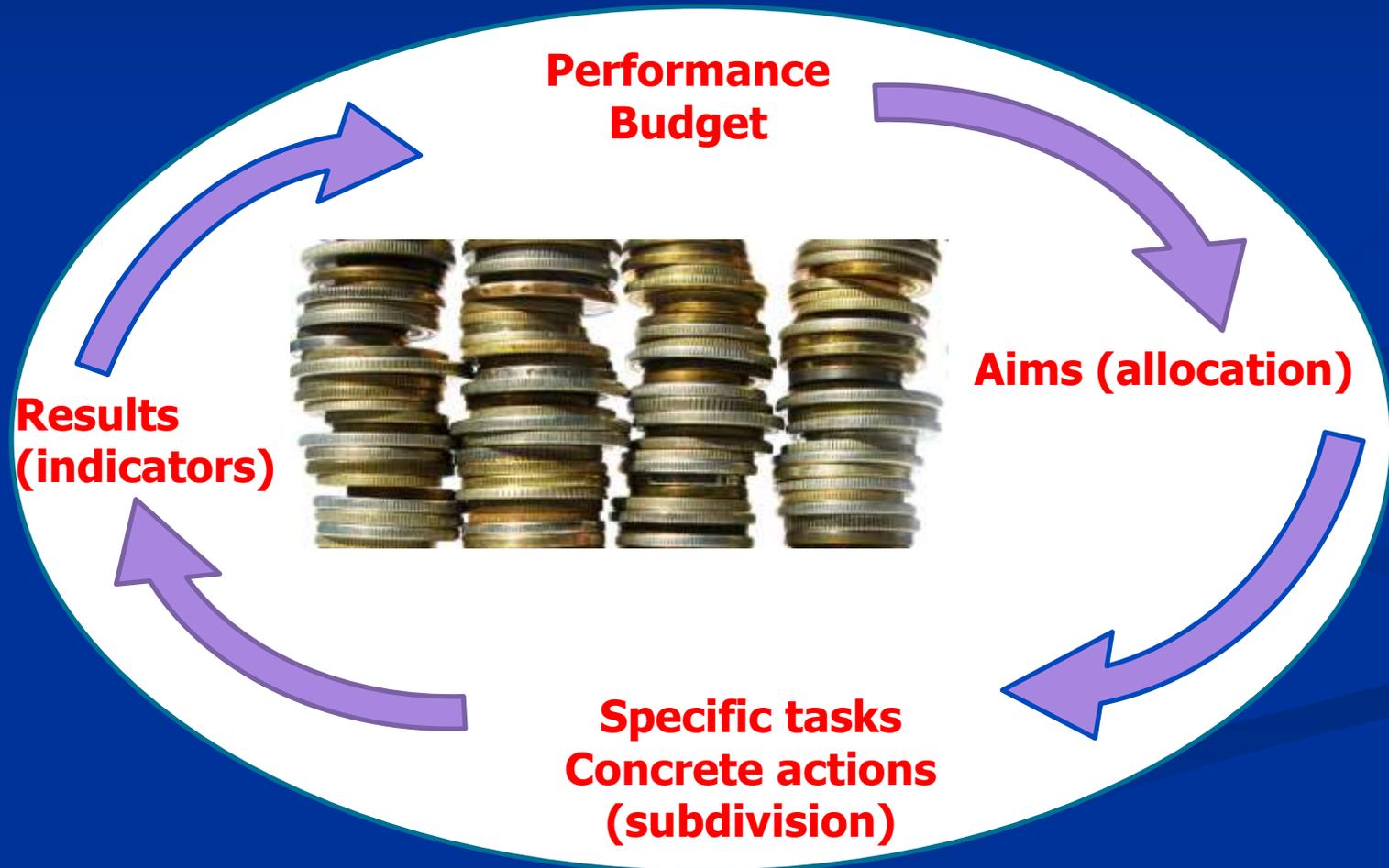
Cracow

11 December 2013

Performance budget

PBB sets the aims, to which money is “connected” (allocated)

From these aims, specific tasks are delineated and funds are then subdivided among them.



Performance-based budgeting

- **Performance budgets** use aims, tasks and indicators (measured results) to explain why the money is being spent.
- The key word “**result**”
- The entire planning and budgeting framework is **result oriented**. There are tasks and activities to achieve these results.

- Performance budgeting comprises **three elements**:
 - **strategy** (different ways to achieve the final result)
 - **activity/outputs** (what will be done to achieve the final result)
 - **result** → concrete measures (indicators)

PBB – only one (**rather final**) puzzle of modern public finance

The legal framework for improving public finance

- Fiscal rules
- Consolidation of fiscal sector
- Multi-annual planning
- Independent public institutions
- Performance-based budgeting

http://ec.europa.eu/economy_finance

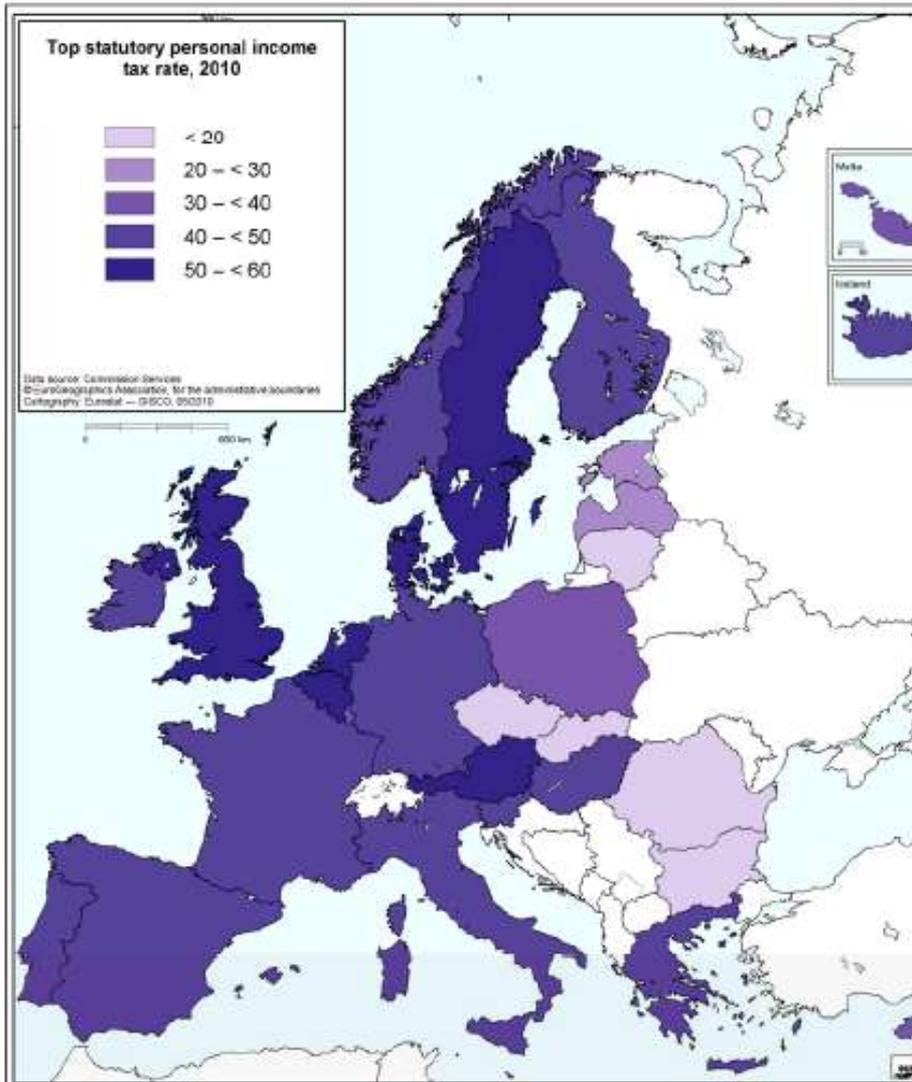


Performance-based budgeting – the legal base

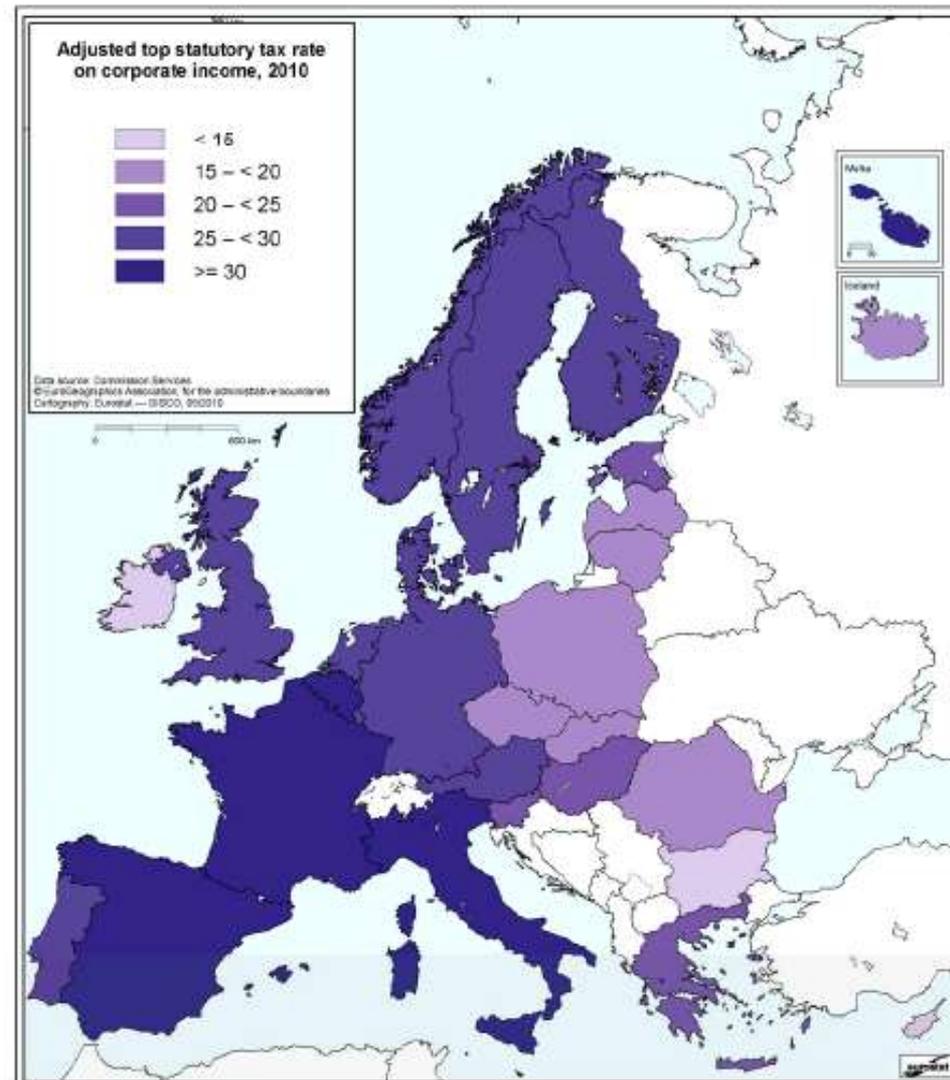
- The is **no single** model of performance-based budgeting:
 - LOLF (France), PSA (GB), PART (USA), VBTB (the Netherlands)
- National ↔ Regional ↔ Local level (**administrative division**)
- Countries which directly adopted foreign models later had **adjust these models** or reconstruct them completely with respect to:
 - specifics of their own public finances
 - national priorities
 - social-economical circumstances

Taxes in EU

Map I-2.1: Distribution of top personal tax rates



Map I-2.2: Distribution of corporate tax rates



EU & macroeconomic stabilization policy

PBB – only one of the useful tools

- Fiscal policy: government spending and taxes.
- The framework for fiscal policies of EU Member States is intended to monitor and supervise the **deficits** and **debts** of each MS - the aim of **sound public finances** in the context of **deeper economic integration** (EC).
- The aim is to achieve **balanced budgetary positions** in the medium term (3-5 years):
 - Fiscal rules: The size of the deficit (max. **3%** of GDP), public debt (max. **60%**)
 - Tax policy: The taxes – variety of rates
 - Government spending – different strategies e.g. **PBB**
- Monetary policy controls the value of currency. It is concerned with the amount of money in circulation (inflation).
 - Interest rates - set by NCB / ECB
 - Reserve requirements
 - **EU**: common monetary policy ^ national but coordinated fiscal policy

- (e.g. Poland – Constitution – Art.. 126: 3/5 GDP)

The **deficit** in general government finances to GDP

Selected Eurozone MS

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Eurozone	-1,3	0,1	-1,8	-2,5	-3,1	-2,9	-2,5	-1,3	-0,6	-1,9	-5,3	-6,5
Belgium	-0,6	0	0,4	-0,1	-0,1	-0,3	-2,7	0,3	-0,2	-1,2	-5,9	-5,1
Germany	-1,5	1,3	-2,8	-3,7	-4	-3,8	-3,3	-1,6	0,2	0	-3,2	-5,5
Ireland	2,7	4,8	0,9	-0,4	0,4	1,4	1,7	3	0,3	-7,2	-11,7	-11,6
Greece	b/d	-3,7	-4,5	-4,8	-5,6	-7,5	-5,2	-2,9	-3,7	-7,8	-12,7	-8,7
Spain	-1,4	-1	-0,6	-0,5	-0,2	-0,3	1	2	1,9	-4,1	-9,6	-7,7
France	-1,8	-1,5	-1,5	-3,1	-4,1	-3,6	-2,9	-2,3	-2,7	-3,4	-7,9	-8,2
Italy	-1,7	-0,8	-3,1	-2,9	-3,5	-3,5	-4,3	-3,3	-1,5	-2,7	-5,3	-5,0
Holland	0,4	2	-0,2	-2,1	-3,1	-1,7	-0,3	0,5	0,2	0,7	-4,9	-6,1
Austria	-2,3	-1,7	0	-0,7	-1,4	-4,4	-1,6	-1,6	-0,6	-0,4	-3,5	-4,7
Portugal	-2,8	-2,9	-4,3	-2,8	-2,9	-3,4	-6,1	-3,9	-2,6	-2,7	-6,5	-6,7
Slovenia	-3	-3,7	-4	-2,5	-2,7	-2,2	-1,4	-1,3	0	-1,8	-5,7	-5,7
Slovakia	-7,4	-12,3	-6,5	-8,2	-2,8	-2,4	-2,8	-3,5	-1,9	-2,3	-6,3	-5,5
Finland	1,6	6,9	5	4,1	2,6	2,4	2,8	4	5,2	4,4	-2,2	-3,6

 **European Commission**
Economic and Financial Affairs



European Commission > Economic and Financial Affairs > Stability and Growth pact > ... > All programmes and assessments

- Home
- News
- The euro
- EU economic situation
- Stability and Growth Pact
 - Stability and convergence programmes
 - All programmes and assessments
 - Excessive deficit procedure
 - Early warning mechanism and policy advice
 - Relevant legal texts and guidelines
 - Data and methods
 - Sustainability of public finances
- Analysing structural reforms and EU policies
- International economic issues

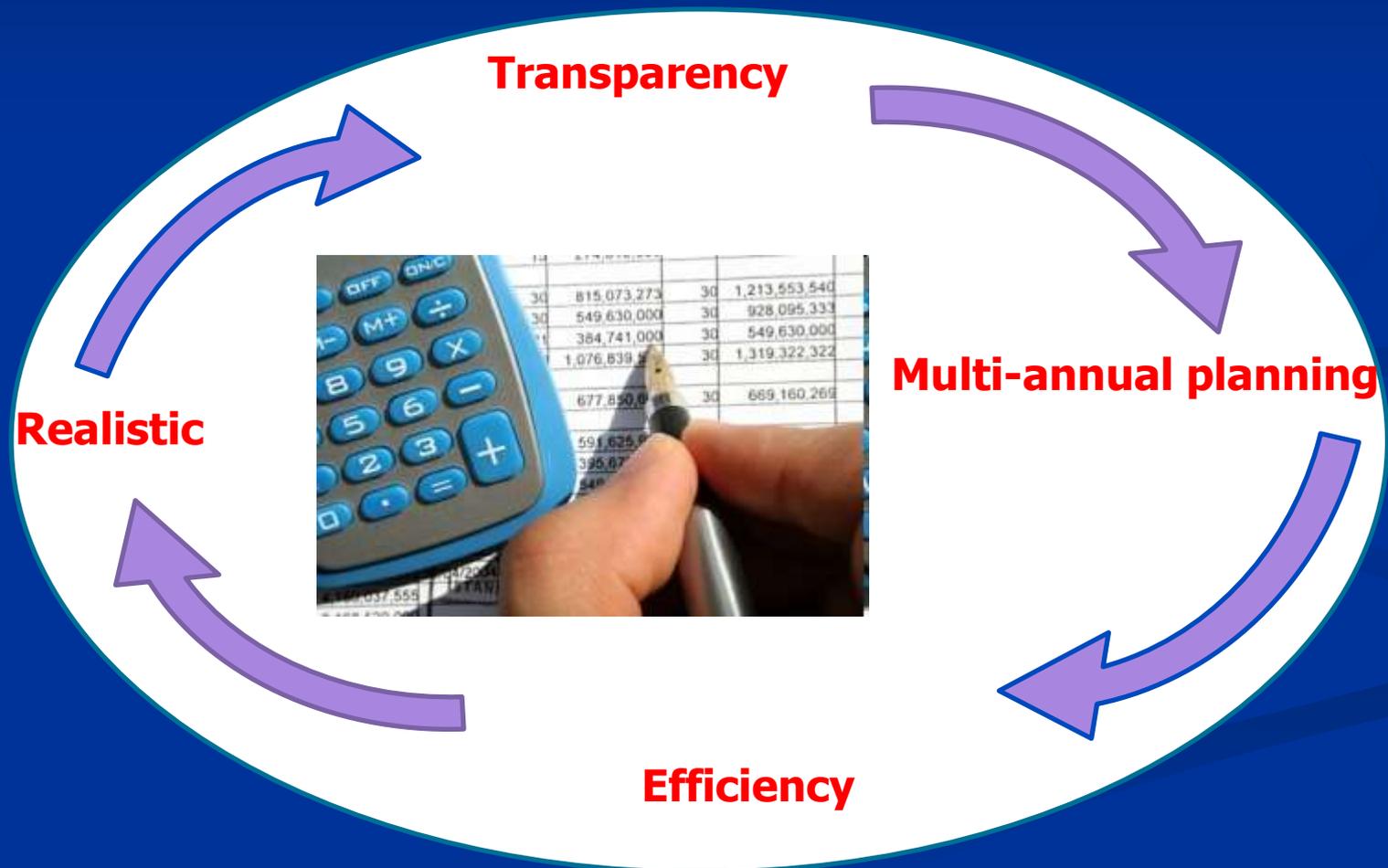
Stability and Convergence programmes (or updates) and National Reform Programmes 2011 - programmes received to date*

Jump directly to...

	Stability / Convergence Programme (update)	National Reform Programme	Staff Working Paper	Commission Recommendation	Council Recommendation
Belgium	15.04.2011 fr nl	15.04.2011 fr nl	07.06.2011	07.06.2011	12.07.2011
Bulgaria	15.04.2011 bg	15.04.2011 bg	07.06.2011	07.06.2011	12.07.2011
		Annex 1 bg			
		Annex 2 bg			
Czech Republic	05.05.2011 cs	29.04.2011 cs	07.06.2011	07.06.2011	12.07.2011
Denmark	09.05.2011 da	09.05.2011 da	07.06.2011	07.06.2011	12.07.2011
Germany	27.04.2011 de	07.04.2011 de	07.06.2011	07.06.2011	12.07.2011
Estonia	28.04.2011 ee	28.04.2011 ee	07.06.2011	07.06.2011	12.07.2011
		Annex ee			
Ireland	29.04.2011	29.04.2011	07.06.2011	07.06.2011	12.07.2011
Greece	10.08.2011	29.04.2011	07.06.2011	07.06.2011	12.07.2011
Spain	29.04.2011 es	29.04.2011 es	07.06.2011	07.06.2011	12.07.2011
		Annex 1 es			
		Annex 2 es			
		Annex 3 es			
France	03.05.2011 fr	03.05.2011 fr	07.06.2011	07.06.2011	12.07.2011
Italy	13.04.2011 it (1)	13.04.2011 it (1)	07.06.2011	07.06.2011	12.07.2011

Performance budget – one optimal model ?

Consolidated expenditure plan for entities from the public finance sector, prepared in a **functional system** (function, task, subtask), based on the targets and measures of their realisation (+ **MTBFs** = more than one budgetary year).



The performance budget in Poland

➤ Poland currently has a **traditional budget system** that is based on organisational units and control of inputs.

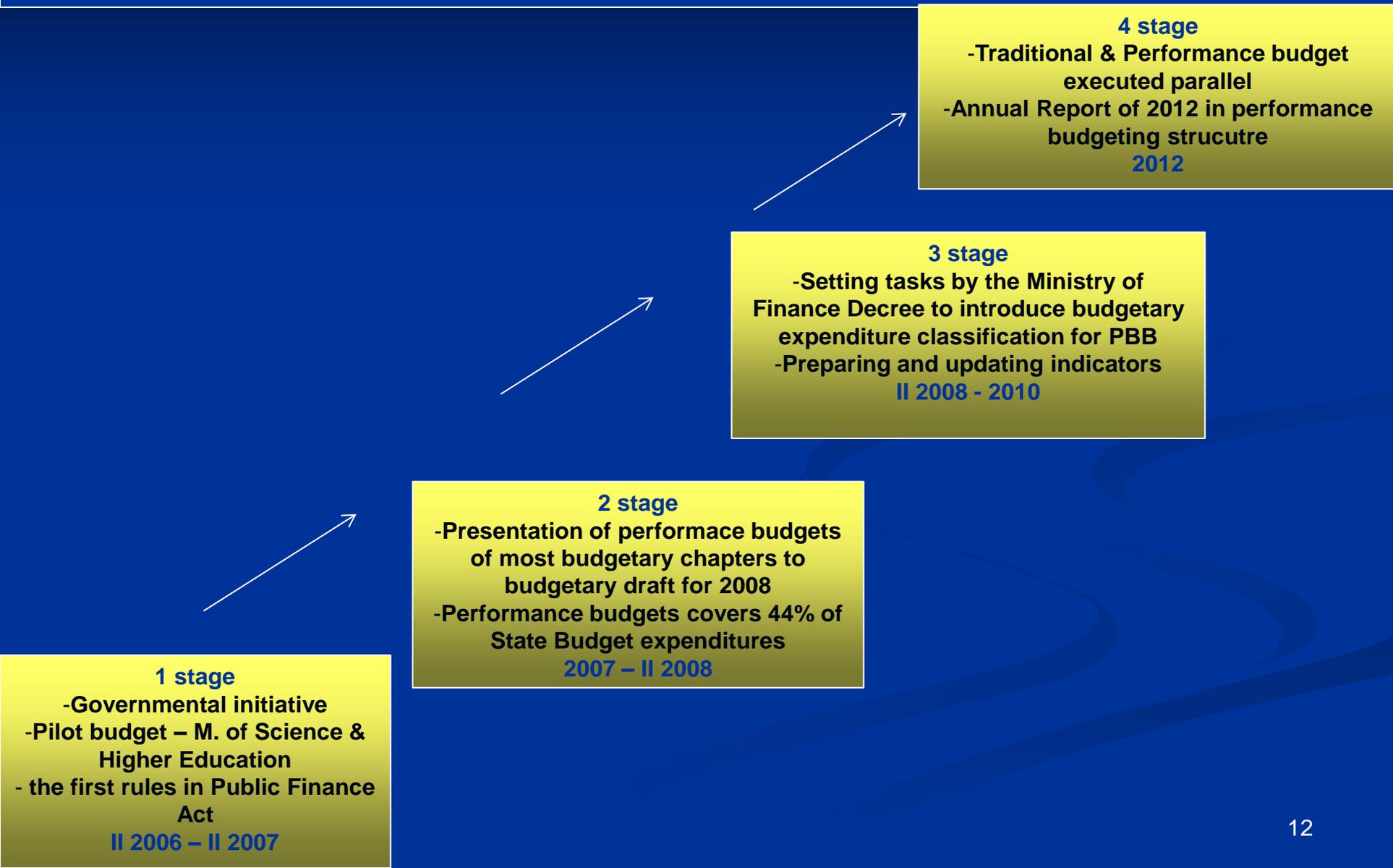
➤ But also – Poland in the process of introducing a **new budget system**, the performance-based budgeting system

➤ The aims:

- **Improve public finance management** (rational use of resources: money → tasks)
- **More universal and competent supervision** of public funds spending (indicators),
- **Multi-year budgeting** (analysis of different scenarios)
- **Transparency and accountability** (improvement of effectiveness of public administration)

➤ **“step by step”** scenario → **2013**: national budget prepared parallel in traditional & performance-based methods

Polish implementation plan for performance budget



Legal base for Performance-based Budget in Poland (1/2)

- **Public Finance Act** – 2009 (public expenditures plan in tasks order - 2006)
 - next step complex reform of public finance (new debt's rules, MTBF, performance-based budgeting)
- **Regulation of Ministry of Finance** on detailed rules, methods and time limits for materials essential for preparation of national budget – each year
 - basic rules, indicators
- **Decree of Ministry of Finance** on standards to define goals and actions for public finance sector's entities for 2011 budgets
 - compatibility of goals with present economic & social situation (e.g. consultations, technical & human capacity)
 - compliance of goals& actions with actual strategic planning documents (e.g. NDS, RDP)
 - Detailed standards to define goals for performance-based budgeting (e.g. precise, coherent, measurable)
- **Regulation of Ministry of Finance** changing organizational scheme of Ministry of Finance (e.g. 2009)

Legal base for Performance-based Budget in Poland (2/2)

- First steps directly on **governmental level**
 - <2006-2008> Council of Ministers (Law Office) – first basic documents and methodology for PBB
 - since I 2008 Ministry of Finance responsible for PBB
- **National Coordinator for PBB** (in the structure of Ministry of Finance – annual report to the Minister of Finance – 15 February, ESF) – main tasks:
 - coordination of preparation of models and demonstration forms for PBB for public entities
 - coordination of list of goals, tasks and results
 - compliance of these goals and tasks with national strategic documents
- **Public Finance Reform Department (RF)**, responsible for:
 - improvement of public finance system in Poland
 - economic & legal analysis of exist and new proposals
 - expert support for National Coordinator for PBB



PBB in Local Self-Governments in Poland



- **Three-gradual system** of administration (16 regions, 314 counties, 2478 local municipalities)
- Increasing status of regions (**decentralization**) & More **responsibility** for local level
- **First PBB in Poland – Cracow (1994)** ↔ Rochester (USA) → 60 municipalities
- PBB in LSG as **additional** planning document (annex)
- **Free choice** of local municipalities & **no sanctions** for not fulfilling the indicators (testing period)
- **External support**: USAID, Know-How Fund (GB), IDP - 30 (MSWiA), ESF – 18
- PBB in LSG: intensive **social consultations** & **flexible structure** (fields, indicators)
- EU funds → intensive investments → **more restricted** public finance rules:
 - debt limits, debt/revenue relation, operational surplus index, MTBF
- **Complex reform** of public finance at national & regional level

The main independent institutions in the sector of public finance in Poland

- **National fiscal entities** are defined as :
 - independent public bodies, other than the central bank, government or parliament that prepare **macroeconomic forecasts** for the budget, **monitor fiscal performance** and/or **advise the government** on fiscal policy matters.
- The Supreme Chamber of Control (NIK) – state budget
- The Regional Audit Chamber (RIO) – regional & local level
- The Treasury Control Office (UKS)
- The Supervisor of Public Finance Discipline
- * **Internal Audit** (Act on Public Finance -2009)

NIK (The Supreme Chamber of Control):

- **NIK (The Supreme Chamber of Control):**
 - annual periodic work plans = based on directions established by the NIK College for a period of three years
 - The NIK is only subordinate to the Sejm (lower chamber of the Polish Parliament)
 - The President of NIK has the immunity
 - concentration on whole public finance sector, especially at national level
 - special care for execution of the **state budget**
 - wide-ranging audit of the revenue and expenditure of the state and all institutions and corporations that make use of public funds
- Additional control issues:
 - Management of public property by state and local governmental bodies and economic entities
 - concentration on subsidies, grants from State Budget & foreign programmes
 - control of advisability & accuracy & thrift of public spendings

The Regional Account Chamber (RIO)

- The independent state institution with control powers to local self-governments (mainly financial aspect)
- The RIO is subordinate to the appropriate Minister for Public Administration & supervision of the Prime Minister
- The network – 16 RIO based on polish administrative division
- RIO is divided into departments:
 - Control of finance management
 - Information, analysis and training



The Regional Account Chamber (RIO)

the main control areas:

- Control local self-government bodies (regions – counties – local municipalities & associations & other entities spending money from self-government budget) in area of:
 - public finance (all aspects of local budgets)
 - public procurement
- The proposal of the budget, obligatory financial forecasts and indicators
- Annual execution of the budget & quartely financial report (+ Ministry of Finance)
- Conformity with law (e.g. economic classification of budget expenses & chart of accounts)
- Supervision of local self-government's resolutions (Local Councils - opinions)
- Information & training activity (eventual income can be destined only to the same activity)

The Regional Account Chamber (RIO)

the main control areas:

- Important deadlines (local municipality → RIO)
 - **15 November**: proposal of budget for next year & all obligatory forecasts and indicators: WPI, WPF, individual debt/revenue ratio → RIO public opinion (15 December)
 - **31 December**: budget accepted by Local / City Council (exceptions: 31 January next year)
 - **31 March**: annual report about budget's execution
 - **31 August**: report about budget's execution for first half year
- Each: credit, loan, issue of bonds ↔ RIO opinion (creditworthy)
- Types of control:
 - **documents'** control (budget, obligatory financial forecasts and indicators)
 - **complex** control (whole finance management of public entity – at least one in four-year period)
 - **task** control (selected issues of the public entity v entities)
 - **temporary** control (if the need arise)



Local Self-Government access to the capital

- **Own financial resources** (e.g. taxation, governmental subsidy – **BUT**: ↑ tasks, ↓ budgetary revenue)
- **Private bank sector** (credits) – **BUT**: ↑ cost of loans (interest rates), ↓ access to capital (world financial crisis & "hot investments" time → increasing liabilities of local municipalities)
- **Special governmental loans** (e.g. EU projects) – **BUT**: limited access
- **National capital market** → the municipality bonds market – ...

Local Self-Government access to the capital market – Poland

■ The structure of local government debt in Poland (%)

	2011
Short-term bank loans	6 %
Long-term bank loans	82 %
Municipality bonds	12 %

■ The share of local government debt in general government debt (%)

	2002	2011	The average 2002 - 2011
Greece	0,5	0,8	0,7
Poland	4,0	5,0	4,4
Luxemburg	34,00	33,2	38,2

Poland – Fiscal policy

- Local self-government - The Public Finance Act – 2009
 - the limited aims of loans & municipality bonds,
 - debt limits – 15% (total amount of credit installments may not exceed 15% of the planned revenues in the particular budgetary year) e.g. 50 million € local budget → 8 million € of installments
 - 60% (total debt may not exceed 60% of revenues in the particular budgetary year)
 - public debt/GDP \geq 55% → local budget's deficit only for EU projects ^ only 12% limit for annual installments
 - public debt/GDP \geq 60% → no deficit at the local level
- List of task for medium term

Debt / Revenue relation

Local self-government in Poland – new rules

- (1): Annual budget – since 2014 (art. 242)
- Current expenditures \leftrightarrow Current revenue

Current expenditures (**Wb**) \leq Current revenue (**Db**) + budgetary surplus from previous years (**Nb**) + free sources based on bonds, credits & loans from previous years (**Wś**)

$$Wb_n \leq Db_n + Nb_{<n} + Wś_{<n}$$

- Exception: \geq only for amount of current expenditures with external funds if these external funds (art. 5) were not transferred in current year

Debt / Revenue relation

Local self-government in Poland

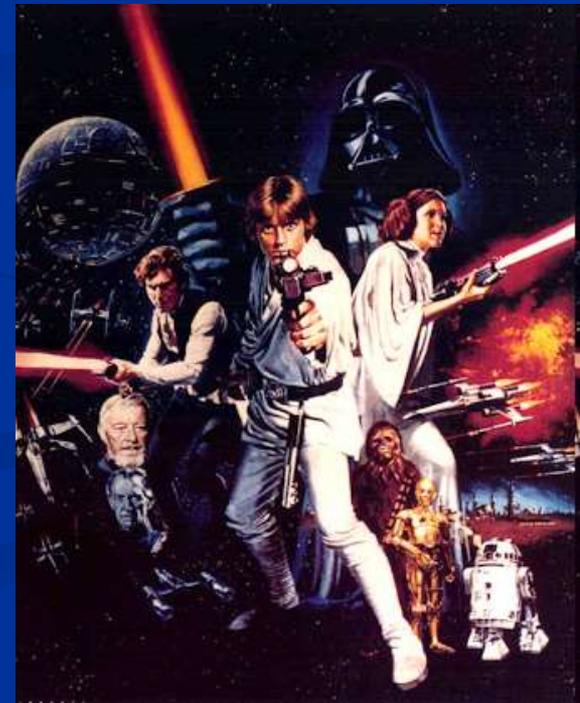
- operational surplus index
- arithmetic mean for last three budgetary years
 - repayment of debt (**R**) & interest (**O**) / annual revenue (**D**)
 - Current revenue (**Db**), Revenue from (sale of property (**Sm**), Current expenditures (**Wb**)
- Increasing debt possible only if:
 - surplus in current section of the budget (revenue ↔ expenditures) v revenue from sale of public (council) property

$$\left(\frac{R+O}{D}\right)_n \leq \frac{1}{3} \left(\frac{Db_{n-1} + Sm_{n-1} - Wb_{n-1}}{D_{n-1}} \right) + \left(\frac{Db_{n-2} + Sm_{n-2} - Wb_{n-2}}{D_{n-2}} \right) + \left(\frac{Db_{n-3} + Sm_{n-3} - Wb_{n-3}}{D_{n-3}} \right)$$

PBB – always remember that:

- Step by step attitude (e.g. fiscal rules, consolidation of fiscal sector)
 - One mission → one team
(system of independent public institutions, audit & control)
 - Need for planning (Medium-term budgetary frameworks)
 - Final result: Performance-based budgeting as the tool in modern national system of public finance (NPM)
- Complex team work + time

Don't afraid – **May the Force be with you**



**”Men build too many walls and not
enough bridges”**

Isaac Newton

Thank you for your attention

Grzegorz Orawiec



RIO (The Regional Audit Chamber)

■ RIO (The Regional Audit Chamber)

- concentration on public finance management at **self-government sector** (three levels: regions / counties / local municipalities)
- directly **controlling the budgets**: e.g. economic classification, charts of accounts, fiscal rules (e.g. debt limits, investments / current spendings)

■ The scope of the control:

- the proposal of the budget
 - annual execution of the budget
 - quarterly financial report (+ Ministry of Finance)
 - conformity with law (e.g. economic classification of budget expenses & chart of accounts)
- Information & training tasks (advisory activity) e.g. **PBB**

Budget projections → risk identification & assessment:

Basic definitions

- Risk – the possibility of an event occurring that would cause that actual budget circumstances would be differ from those assumed when forecasting budget revenue and expenditures
- Risk – can never be eliminated → ACAT
- Risk – allocated through: legal regulations ^ the formal limits ^ legal institutions (external & internal control)
- The basic problem: debt / revenue relation
- Creating new budget → the base from previous year

Budget projections methodology over the medium term



The main defined risks - Budget projections 1 / 4

Selling assets & Privatization

- Assets report & privatization programme – best time for transactions
- Official valuation of real estate + e.g. 10% (mayor's decision)
- Development plan for territory of local municipality (agricultural, investment, building plots)
- Land division (small building plots) & fit up (water, electricity, roads)

Local economy

- Indirect & long-term activities:
 - promotion & investment actions expressing tourism attractions (e.g. EU funds)
 - special tax reliefs for local entrepreneurs
 - looking for strategic investors generating new work places

Development plan for territory of local municipality



The main defined risks - Budget projections 2 / 4

Current revenue & Taxes

- Planning current revenue for medium-term (e.g. property lease, services) – special equipment
- Participation in national taxes (personal & corporate tax rates) – general national economic situation
- Determine local taxes (real estate, means of transport, agricultural taxes) – thresholds (City Council) & reliefs (Mayor)



The main defined risks - Budget projections 3 / 4

New tasks

- Own tasks (obligatory & optional) – local infrastructure, sport, culture, promotion
- External tasks (money transfer from government) - register of business activity
- Essential reforms e.g. system of schools
- Educational grant per pupil



External funds

- Long-term planning & programming (WPI & WPF)
- System of pre-agreements (simply application form → reduction of costs e.g. technical documentation, feasibility studies, planning permission, environmental report → II stage → final financial agreement)
- System of reimbursements & controls (financial flow, 3 months ^ 5% rule)

The main defined risks - Budget projections 4 / 4

Public debt / revenue ratio

- EU & MS rules (new polish tools for local self-governments):
 - maximum 5% discount for municipal bonds
 - ban on loans, credits & municipal bonds based on foreign currencies (€, £, \$)
 - credits & loans only taken out in banks with registered office in Poland (Polish Commission for Banks' Supervision)
 - only loans & credits repaid at least once a year
 - current expenditures only from current loans (the same budgetary year)
 - long-term loans & credits for investments pointed in WPI
 - ban on guarantee for loans without precise date and total amount of repayment
 - level of debt = public information