

УДК 336.13

The Development of the Methodological Principles of Program Budgeting for the Effective Management of Public Finances

Svetlana N. Makarova*

Siberian Federal University

79 Svobodny, Krasnoyarsk, 660041 Russia ¹

Received 13.04.2012, received in revised form 21.04.2012, accepted 31.07.2012

The article deals with the problems of public administration by finance. One of the ways of raising the efficiency of expenses is the use of program budgets. We have developed the methodological principles for program budgeting and classification of the budgets.

Keywords: public administration, finance, principles, classification, performance, program budgeting.

Modern financial relations as an element of the economic relations system develop within the general reform of public and municipal administration. Continuous improvement of the legal framework that regulates legal financial relations does not increase the efficiency of the budget use, does not solve the problems of public and municipal services organization and does not improve their quality.

It can be proved by the “Program of Increasing the Budget Expenses Efficiency” approved by the RF Government Resolution No. 1101-p dated 30.06.2010. The program draws attention to implementation of the target program principles of organizing the actions of the executive bodies and the local authorities, to transfer towards a “program” budget.

Even though the orientation to the target program method of financing the budget expenses within the framework of the formed projects

and programs has already been in practice in some subjects of the Russian Federation since the year 2006, the urgency of the task remains the same. The reasons are mostly caused by the lack of scientific research of the program budgeting mechanisms that function in a whole range of interconnected relation patterns, such as administrative, financial, economic, social and political.

Research of theoretical and practical aspects of social and economic content of the budget, program budgeting, including those concerning the efficient public administration concept, has already become the subject of a series of works by Russian and foreign economists (Afanasyev et.al., 2010; Ovchinnikova and Indutenko, 2007; Shvetsov Yu.G., 2012, Joyce et.al., 2010). However, the problem of forming a program budget in the context of the system of interconnected administrative, financial and social relations and

* Corresponding author E-mail address: msn2004@list.ru

¹ © Siberian Federal University. All rights reserved

in the framework of the concept of efficient public administration of the social sector of economy still remains unexplored. It requires additional research aimed at providing the transformation of the public (municipal) finance management system on the basis of creating adequate program budgeting mechanisms and conditions for effective and efficient use of budget funds when providing public (municipal) services.

**Development
of methodological principles
of program budgeting
and budget programs classification**

The first attempts of implementing program budgeting were made in the USA, in the 1950s. During the 1960s almost 50 states turned to various kinds of program budgeting. All the developing countries followed the developed countries; so, by the end of the 1960s almost all Latin American, many Asian and some African states had changed their budgeting principles for program budgeting. In 2010, Ukraine and Belarus also started program budgeting (Afanasyev et al., 2010).

To our mind, the methodology of program budgeting should be understood as a complex of theoretical and legally regulated principles of social relations that occur in the process of budget formation and utilization. In its turn, the program budget is a form of gathering and spending funds for executing functions and solving tasks of the state and the local authorities on the basis of the target program method.

A budgeting program is a systemized series of measures aimed at reaching one certain purpose, and a number of tasks, the performance of which is offered and provided by the budget funds controller according to the assigned functions. The difference between the program budget and the traditional budget is that all or almost all the expenses are included into the programs, and

each program is directly connected to this or that strategic result of the activities carried out by the institution (Afanasyev et al., 2010).

The base of the program budgeting consists of the following methodological principles (Afanasyev et al., 2010).

The principle of expediency and information richness manifests itself in systematic gathering and managing information about the results of the programs implemented in the process of the budget preparation.

The information sufficiency principle means recognizing the limitedness of financial and human resources for constructing an information system that provides complex assessment of the programs.

Integration principle. The monitoring data of the current programs are to be integrated into the budget process in order to review the budget policy key points, or to modify or replace the low priority programs on time.

The synergy and cooperation principle is confined to the information exchange between the solution initiators and those who bear responsibilities for approving the solutions, and also in the complexity of the approach to budgeting on the federal level.

The management flexibility principle. The implementation of this principle timely adapts the structural units responsible for putting the programs into practice to the changing conditions.

It is worth mentioning that these principles are organizational and management principles as they characterize the program budgeting as a continuous process of budgeting programs management. We suggest that they should be complete with organizational and methodological principles that allow developing some certain algorithms of actions for the authorities to form and utilize program budgets: conjugacy, autonomy, completeness and composition principles.

The principle of program budgets conjugacy with administrative functions of public (municipal) administration.

State authority is not implemented by itself. It is implemented through actions of different kinds that manifest its purpose and concept. Due to the competence secured to them, the state authorities have the opportunity to act in this or that way in these or those situations. Making this opportunity come true assumes carrying out some intensive actions (like making a decision, reviewing and accepting a citizen's complaint, performing registration, controlling and supervising functions etc.).

Such actions reflect the gist of the public and administration functions: regulatory control of the corresponding sphere (branch); control and state-owned property management; public (municipal) services.

The budget program of the authority that is responsible for public (municipal) services basically differs from that of the control and supervision authority in the corresponding sphere. These differences are to be taken into consideration while developing some specific methods of forming program budgets.

The autonomy principle. The objectives, tasks, and measures of one program cannot repeat the objectives, tasks and measures of another. Expenditure commitments of the budget programs also cannot be the same.

The completeness principle. The principle determines the necessity of reflecting all the expenses in the budget expenses program-wise for every successive financial year and scheduling period (in the budget classification). Unlike traditional, the program budget is developed on the basis of expenses classification program-wise (or according to the purposes or kinds of public services), not on the basis of 'budget items (salaries, materials, services cost etc.). The program structure is a way of

describing expenses in the context of reaching the set objectives and performing tasks. The strategic objectives of the state manifest themselves as specified events and results of the executive authorities' activity.

The composition principle. The principle determines the necessity of coordinating the objectives of the budget programs and the forecasts (plans) of the social and economic development. The objectives of the budget programs are aimed at financial provision of the objectives of a higher level: social and economic development of the state concerning all the subjects of its economic system. Budget programs support the liabilities that are set by the state in order to regulate some certain kinds of economic activity, to provide social security for the population and to offer public services.

In order to implement the organizational, management and methodological principles it is necessary to classify the budget programs according to different criteria in order to reveal the relevant features of every group, their differences and similarities that have to be considered when developing the methodological support for the elements of the program budgeting model.

At the moment there are various trends and classifications of target programs according to their objectives, terms, formation levels etc. (Molchanova, 2010). However, for the purposes of program budgeting it is necessary to clarify the existing criteria (formation level, terms, objectives) and to point out the additional ones (number of chief managers, performed tasks).

We offer the following classification of budget programs.

According to the managing level:

- federal programs (formed on the federal level and financed by the federal budget);
- regional programs (formed on the regional level and financed by the regional budget);

- municipal programs (formed on the municipal level and financed by the local budget).

According to the implementation time:

- short-term programs (1-2 years);
- medium-term programs (3-4 years);
- long-term programs (over 5 years).

According to the number of the chief controllers of the budget funds:

- one-authority programs (only one controller who is responsible for the program implementation);
- multiple-authority programs (several controllers, one of which is assigned the functions of a coordinator and bears responsibility for the program implementation).

According to the objective:

- social and economic programs (aimed at changing one or several characteristics of a public (municipal) service, achieving important social and economic results);
- scientific and technical programs (aimed at implementing the achievements of science and technology in the national economy);
- environmental programs (aimed at preserving the environment);
- organizational and management programs (aimed at improving the state and municipal management).

According to the performed tasks:

- tactic programs (offering solutions of the current operational management issues);
- strategic (investment) programs (offering solutions for long-term issues of strategic management).

With due consideration of the principles of program budgeting and the classification characteristics of various budget programs, we offer the conjugacy (interconnection) rules for the programs budgets and administrative functions of

the public (municipal) administration (Table. 1). Conjugated programs and functions are marked with the “+” sign, non-conjugated programs and functions are marked with the “-” sign. The chief controller of the budget funds (authority body) should not form programs that are not conjugated with his administrative functions.

Source: developed by the author

Ministries and services should not form social, economic, science, technology and other “substantial” programs, because the role of these bodies in the public (municipal) administration is the provisional. They provide legal regulation and control over the rules set while achieving the objectives, performing the tasks under other programs of social and economic development of the territory.

Let us study the practice of forming program budgets in the process of regional (belonging to a subject of the Russian Federation) finance management and evaluate it from the point of view of theoretic principles and program budgeting rules.

Program budgeting practice evaluation in the process of regional finance management (based on the Krasnoyarsk region)

In the Krasnoyarsk region the transfer to target program methods of budget planning and utilizing has been in the process of implementation since the year 2006. The order of development, approval and implementation of the target programs has been accepted, the required figures for assessment of the results of the departments’ performing their functions and tasks has been reached. The first target programs were accepted for the period 2007-2009. Regional target programs formed as a part of the regional budget of the Krasnoyarsk region before the year 2009 were transformed into long-term programs.

Table 1. Conjugacy rules for program budgets and administrative functions of the public (municipal) administration

Kind of program	The authority performing the administrative functions			
	Legal regulations (ministry)	Control and supervision (service)	Property management (agency)	Public services organization (agency)
Social and economic	-	-	+	+
Science and technology	-	-	+	+
environmental	-	-	+	+
Organization and management	+	+	+	+
Tactic	+	+	+	+
Strategic	-	-	+	+
One-authority	+	+	+	+
Multiple-authority	-	-	+	+
Short-term	+	+	+	+
Medium-term	+	+	+	+
Long-term	-	-	+	+
Federal	+	+	+	+
Regional	+	+	+	+
Municipal	+	+	+	+

Forming the regional budget of the Krasnoyarsk region for the years 2012-2014, 44 chief controllers of budget funds were assigned; they included 15 ministries, 11 services, 10 agencies and 8 bodies of other kinds (Legislative Assembly of the Krasnoyarsk Region, Election Committee etc.). 16 one-authority programs and 51 long-term target programs are being implemented at the moment.

Let us study the formation of the program budget for 2012-2014 on the example of the Ministry of Education and Science of the Krasnoyarsk region. It is worth noticing that the Ministry deals with educational institutions that provide public education services. Therefore, one authority body concentrates the functions of both legal regulation and public service provision. This situation is typical of the majority of the Ministries of the Krasnoyarsk region (Ministry of Culture, Ministry of Social Policy, Ministry of Health etc.).

Table 2 presents the budget of the Ministry of Education and Science of the Krasnoyarsk region for the year 2012.

Source: developed by the author on the base of the Krasnoyarsk region Law dated 01.12.2011 No. 13-6649 "On Regional Budget for the Year 2012 and Planning Period of 2013-2014"

The basic criterion of forming (classifying) the expenses of the regional budget is an authority (body). For example, the Ministry of Education and Science of the Krasnoyarsk region is coded as 075. Therefore, the expenditures of the regional budget are a sum of the expenditures of all the 44 bodies that act as the chief controllers of the budget funds.

Further, for each of the authorities the budget items are divided into sectors that represent the activity spheres. For example, national economy, education, health etc. Within each sphere there are separate branches (subsectors). For example, fuel and energy complex, pre-school education,

Table 2. Budget of the Ministry of Education and Science of the Krasnoyarsk region for the year 2012.

The titles of the main controllers and the budget classification items	Authority code	Section, subsection	Expenses for 2012, in thousands of roubles
Ministry of Education and Finance of the Krasnoyarsk region	075	-	25758955,3
Education	075	0700	23140849,5
Pre-school education, including:	075	0701	690866,7
Long-term target programs (2 programs)	075	0701	323642,7
General education, including:	075	0702	16910452,8
Long-term target programs (7 programs)	075	0702	480920,6
Primary vocational education, including:	075	0703	2389702,1
Long-term target programs (3 programs)	075	0703	46403,0
Secondary vocational education, including:	075	0704	1861015,7
Long-term target program (1 program)	075	0704	20250,0
Professional training, occupational retraining, advanced professional training, including:	075	0705	183895,0
Federal target program (1 program)	075	0705	33153,0
Higher and post-graduate professional education	075	0706	43192,0
Youth policy and children's health, including:	075	0707	459291,6
Long-term target program (1 program)	075	0707	47088,5
Other education issues, including:	075	0709	602433,6
Long-term target programs (4 programs)	075	0709	11568,9
Culture, cinematography	075	0800	4637,7
Culture	075	0801	4637,7
Social policy	075	1000	2613468,1
Social service	075	1003	848939,5
Family welfare	075	1004	1764528,6

stationary medical assistance etc. The titles of the sectors and subsectors, along with their codes, are assigned by the Budget Code of the Russian Federation, they are the same for all the budgets of the budget system of the RF. In total, it foresees 14 sectors and 100 subsectors.

For the year 2012 the Ministry of Education and Science of the Krasnoyarsk region foresees expenses for all the subsectors of the sector 0700 "education" except the subsector 0708 "applicable scientific research in the sphere of education".

Except the expenses under the sector 0700 "education", the Ministry foresees expenses

under the sectors 0800 "culture, cinematography" and 1000 "social policy".

Under the sector 0800 "culture, cinematography", the funds are distributed between the budget institutions – palaces and houses of culture in the form of subsidies for performing a certain task etc. (subsection 0801 "culture").

Under the sector 1000 "social policy", subsector 1003 "social security of the population" the Ministry compensates a part of the interest on education credits of the citizens and presents subsidies to municipal bodies for carrying out the state functions of providing orphans with

social support, maintaining municipal pre-school education institutions without charging parents etc.

The sector 1000 “social policy”, subsector 1004 “family welfare” foresees the Ministry expenses on lump-sum payments to citizens who adopted an orphan, on carrying out current maintenance of residential premises of orphans etc.

Therefore, the Ministry of Education and Science of the region finances not only expenses on education, but also expenses in other branches of the state authority bodies’ activity.

Within the Ministry’s expenditures structure there are 19 long-term target programs that include 1 federal target program with the total volume of expenses of 963,026.7 thousand roubles. So, the program expenses in the total volume of the Ministry’s expenses constitute only 3.7% (Table 3). Such a situation is typical not only for the chief controllers (authorities) of the regional budget of the Krasnoyarsk region. In total, the expenses on the long-term target programs count up to 18.7% of all the expenses of the regional budget for the year 2012. In this case, we can speak of the program budget only conditionally.

Besides the long-term target programs, the head controllers of the budget funds develop governmental target programs. Governmental target programs contain a list of tasks, measures, results and are included into the Budget Law as a separate appendix.

Expenses under the 16 governmental target programs of the Krasnoyarsk region by the year 2012 count up to 114,945,781.2 billion roubles or 79% per cent of the total expenses of the regional budget. As a result, we get the program budget, as the program share is quite considerable.

Evaluating the practice of forming the program budget from the positions of theoretic principles and program budgeting rules, it is possible to make three remarks.

The first remark. The expenses of governmental target programs are not distributed according to the sectors and subsectors of the budget classification and are not included into the essential part of the Budget Law, the governmental structure of the budget expenses.

The Ministry of Education and Science of the Krasnoyarsk region has developed only one governmental program “Development of General and Professional Education in the Krasnoyarsk Region” for the years 2012-2014. The expenses are 27,351,304.4 thousand roubles.

In the expenditures part of the regional budget (for the Ministry of Education and Science of the Krasnoyarsk region) there is no single line that would reflect the expenses for the governmental target program “Development of General and Professional Education in the Krasnoyarsk Region” for the years 2012-2014 (Table 2).

Let us assume that the expenditures for the only governmental program are the expenditures of the Ministry. Therefore, they must match, but they do not. The expenses on the governmental target program are more than those submitted to the Ministry as to the chief controller of the budget funds.

In the present case, the principle of complete reflection of the program expenses in the budget expenses classification was violated. The rules of the program and administrative body functions conjugation were not followed as well, because the program sets general tasks both for the legal regulation of the education sphere provision of public education services and methodology of their formation. As a result, the efficiency of implementing the program-focused principle of budget planning is decreased, it does not aid increasing the efficiency and effectiveness of the authority bodies’ activity.

The second remark. The governmental target program includes expenses on the implementation of long-term target programs for

Table 3. Expenses for the governmental target program of the Ministry of Education and Science of the Krasnoyarsk region for the year 2012.

Item	2012
Expenses for implementation of the governmental target program “Development of General and Professional Education in the Krasnoyarsk Region” for the years 2012-2014, in thousands of roubles, including:	27351304,4
Long-term target programs (4 programs)	45663,0

the corresponding year. As a result the expenses for the long-term program are counted twice: in the governmental program and in the expenses part of the budget (the chief controller of the budget funds).

For example, the governmental target program of the Ministry of Education and Science of the Krasnoyarsk region “Development of General and Professional Education in the Krasnoyarsk Region” for the years 2012-2014 includes expenses of 4 long-term programs (Table 3). Three of them match in the title and so match the expenses sum with the expenses included into the budget of the chief controller (Table 2). However, one “new program” is foreseen too: “Development of Social Sphere Objects, Capital Repair of the Communal Infrastructure Objects and the Housing Fund of Municipal Entities of Norilsk City and Taimyr Municipal District” for the years 2011-2020, the chief controllers of which are: the Ministry of Housing Maintenance and Utilities of the Krasnoyarsk region, the Ministry of Construction and Architecture of the Krasnoyarsk region, the Ministry of Sport, Tourism and Youth Policy of the Krasnoyarsk region.

Source: developed by the author on the basis of the Resolution of the Government of the Krasnoyarsk region dated 29.11.2011 No. 1038-p “Governmental target program “Development of General and Professional Education in the Krasnoyarsk Region” for the years 2012-2014.

Let us remind you that the Ministry of Education and Science of the Krasnoyarsk region is the chief controller of 19 long-term programs, while only three of them are included into the governmental target program.

In this case, the autonomy principle is broken. Expenditure commitments of the budget programs cannot match. The present situation occurs as a result of the absence of a legally fixed transparent classification, definition system and specific features of budget programs.

In our opinion, the current classification of the target budget programs presented in the Budgeting Code of the Russian Federation (into governmental and long-term) has some serious disadvantages which determine the errors in the methods of their formation both on the regional and the municipal levels. The main feature of a long-term target program is considered to be the period of its implementation, while a governmental program assumes its belonging to the only chief controller of the budget funds. The absence of the specific features of long-term and governmental target programs in the Budgeting Code is compensated with various interpretations and formation methods driven out by regional and municipal regulatory legal acts (as we can see, some of them are not necessarily theoretically substantiated).

The third remark. Expenses for one sphere of the state administration are distributed between several main controllers of the budget funds (authorities). There is no centre that would bear

the responsibility for achieving certain results in the corresponding sphere (in the current example, it is education).

For example, education expenses for 2012, are foreseen, besides the Ministry of Education and Science of the Krasnoyarsk region, also by 11 chief controllers (the Ministry of Culture, the Ministry of Health, the Ministry of Social Policy etc.) for the total sum of 24,395,973.4 thousand roubles, which is comparable to the expenses of the Ministry of Education (25,758,955.3 thousand roubles).

For the present case, the principles of synergy and cooperation are broken. On one hand, medium-term planning in the “education” sector is duly considered to be the source of necessary information for other distributors of the budget funds. On the other hand, the plans and forecasts of social and economic development act as a tool of priority setting for the programs in some certain sectors (education, health etc.). Program budgeting requires institutional unity of the budgeting process planning, for example, by means of combining the mentioned functions within one authority.

Conclusion

The present practical problems and disadvantages of forming program budgets have proved the need for scientific researches of methodology of program budgeting in the context of the interconnection of the administrative,

financial and social relations within one system, in the framework of the efficient state administration concept that works for the social sector of the economy.

Designing a new program classification of budget expenses and the methods of forming governmental, long-term and other budgeting programs must boost the increase of planning, budgeting, accounting, reporting and auditing processes quality. It requires additional scientific researches aimed at creating methodological support for transforming the public (municipal) finance management system on the basis of forming adequate mechanisms of programs budgeting and conditions for effective and efficient utilizing of the budget funds while providing public (municipal) services.

This way, building up a new program budgeting system is a key point in putting the measures foreseen by the modern budget policy of the Russian Federation into practice. The success of that mainly depends on the system approach to carrying out the reforms that would cover such branches and administrative reform, budgeting process reform, public and municipal bodies reform. The key advantages of this approach, in comparison with the traditional one, are: increasing the fiscal stability and efficiency of the branch authorities’ activity; closer connection between the budget and the strategic objectives of the social and economic development of a public-law entity.

References

Budgetary Code of Russian Federation [Electronic resource]: RF Federal Law of 31.07.1998 №145-Φ3. Access is available via information legal service “Consultant plus”, (in Russian).

Program efficiency of budget expenditures for the period till 2012 [Electronic resource]: RF Government Resolution on 30.06.2010. № 1101-p. Access is available via information legal service “Consultant plus”, (in Russian).

On the regional budget for 2012 and the planning period 2013-2014 [Electronic resource]: The law of the Krasnoyarsk Territory of 01.12.2011 №13-6643. Access is available via information legal service “Consultant plus”, (in Russian).

On approval of the departmental target program «Development of the general and professional education of Krasnoyarsk region» for 2012-2014 [Electronic resource]: disposal of the Government of Krasnoyarsk Territory of 29.11.2011. № 1038-p. Access is available via information legal service “Consultant plus”, (in Russian).

M. Afanasyev, B. Alekhin, A. Kravchenko, P. Kradinov, “The program budget: the purposes, tasks, classification and construction principles”, *The Financial magazine*, 3 (2010), 5-18, (in Russian).

N. Molchanova, “Application of a program and target method in regulation of investments at regional level”, *Audit and the financial analysis*, 1 (2010), 269-274, (in Russian).

O. Ovchinnikova, A. Indutenko, “The budgetary management in the conditions of formation of system of the budgeting focused on result”, *Finance and the credit*, 30 (2007), 2-8, (in Russian).

P. Joyce and S. Pattison, “Public Budgeting in 2020: Return to Equilibrium, or Continued Mismatch between Demands and Resources?”, *Public Administration Review*, 70 (1) (2010), 24-32.

Yu. Shvetsov, “State budget and the needs of society”, *Finance and the credit*, 1 (2012), 49-56, (in Russian).

Развитие методологических принципов программного бюджетирования для эффективного управления государственными финансами

С.Н. Макарова

*Сибирский федеральный университет
Россия 660041, Красноярск, пр. Свободный, 79*

Статья посвящена проблемам управления государственными финансами. Одним из направлений повышения эффективности управления является использование программных бюджетов. Нами разработаны методологические принципы программного бюджетирования и классификация бюджетов.

Ключевые слова: управление, государственные финансы, принципы, классификация, эффективность, программное бюджетирование.
