

ON THE ESSENCE AND EFFICIENCY OF PROGRAMME BUDGETING

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Abstract

The program budgeting applies to cases where expenditure is classified in the budget by objectives (outcomes and outputs) rather than solely by economic categories (i.e., inputs such as salaries) and organizational category. Performance budgeting (or performance-informed budgeting) refers to a wider set of initiatives intended to strengthen the links between the funds provided and the results achieved through ensuring performance information is used in resource allocation decision making. Program and performance budgeting reforms should, therefore, provide information in a way that informs choices about spending alternatives and should improve transparency and accountability of government. There is no “best practice” approach, more “best fit” and the unique context of each country needs to be considered. It could be noted that some key public finance specialists recommend getting the “basics” right first as a priority. At the end of given research, there is introduced an experience of programme budgeting in Hungary, which has already have good results of its use.

Key words: budget, programme, programme budgeting, budgetary system, performance-based budgeting, effectiveness, efficiency.

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1. History of programme budget

Program-based budgeting is a budgeting structure where money is distributed by program or functional area and based on the nature of the activities performed by the program. It is common in many state and local governments, but businesses also use program budgeting. Its purpose is to align spending with program objectives.

“Programs” are groupings of government activities in relation to specific government objectives. Program classification applies this principle across all government activities.

A full system of program budgeting (or subsequent proposals such as zero-based budgeting) has not been successfully realized in any country, in large part because of the high information and complex management requirements of such systems (IMF, 2007).

In its "Budget Process - State Budget Process" overview, the State of Idaho Legislature website points out that state budgets have always been a source of political tension, but development and growth in the use of program budgeting has significantly improved state budgeting processes. Program budgeting lays out all organizational

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programs or functional areas and determines how much resources to put into each program area based on the services and production outputs it creates. (Neil Kokemuller, 2017) The name “Programme Budget” is derived from the simple fact that the planning process is organized by program rather than by department of fiscal input or output (Frank B. Dilley, 1966). At present, no standard definition of program budgeting exists. Program budgeting is generally described as a planning-oriented procedure. (Hagen, p.7)

Programme budgeting developed by U.S. president Lyndon Johnson, is the budgeting system that, contrary to conventional budgeting, describes and gives the detailed costs of every activity or programme that is to be carried out in a budget.

Objectives, outputs and expected results are described fully as are their necessary resource costs, for example, raw materials, equipment and staff. The sum of all activities or programmes constitute the Programme Budget. Thus, when looking at a Programme Budget, one can easily find out what precisely will be carried out, at what cost and with what expected results in considerable detail.

This programme budgeting system was first introduced by the then United States Secretary of Defense Robert S. McNamara in the Pentagon in the 1960s. McNamara allegedly wanted to control the many costly weapons development programmes that were plagued by ever-increasing costs and delays. He called this new system the Planning, Programming and Budgeting System (PPBS). The system was taught at the John F. Kennedy School of Government of Harvard University but it evoked little interest except from critics.

This new approach introduced an unprecedented transparency into management operations together with a concomitant precise pinpointing of managers' responsibilities, and so was widely resisted throughout the entire public sector. However, in the eighties, the UN Inspectorate General picked up the idea and recommended that the United Nations use it to improve its performance. A few institutions tried half-heartedly but only the International Atomic Energy Agency (IAEA) went about it seriously and introduced a complete programme budgeting system that is still in place today.

However, over the years, strong opposition by managers and lack of interest by top management as well as member States have taken the sting out of the system and reduced its transparency. A few years later, the Government of New Zealand was the first to introduce it with great success: within a few years it had solved an intractable stagflation problem. More recently, the United Kingdom government discovered it and now, one government after another is following suit. The need to improve public sector and government performance has worked wonders for programme budgeting. (Programme budgeting, Wikipedia)

Program budgeting passed through several distinct evolutionary periods. The first was the developmental period, which was borne out of the need for a national budget. As difficult as it may be to believe, the budget practices of federal institutions prior to the Budget and Accounting Act of 1921 were such that it was virtually impossible for any appropriating body or the public to know where its money was going (Thomas H. James et al., p.48). The budgeting practice of lumping expenditure had been consistent with the planned purpose of the appropriation. Budgeting procedures basically consisted of revising estimates.

The most significant change in budgeting, which paved the way for program budgeting, occurred in 1907 under the leadership of Frederick A. Cleveland, when New York City's Bureau of Municipal Research adopted this method (William F. Willoughby, p.438).

The second period was a period of control. This period began with the Accounting Act of 1921, creating the Bureau of the Budget and giving the President the responsibility of preparing a comprehensive budget of revenues and expenditures. The purpose of this budget was to provide a means of translating "work programs" into fiscal terms so that each activity could be balanced with other activities and revenues in long-range economic policies, which would take into account past activities and a future program for advanced approval. (U.S. President's Commission on Administrative Management, 1937, p.16)

Contemporary Period. In 1961, Secretary of Defense Robert S. McNamara and his Comptroller, Charles J. Hitch, introduced program budgeting to the Department of Defense (Daniel Seligman, p.117). This was the first time program budgeting had been attempted for an entire agency. A 1964 United Nations report of U.S. budget practices estimated that more than 80% of all U.S. agencies gave cost information in their appropriation requests, providing an effective means for both fund and program control (United Nations, p.2).

Looking back over the history of government and business budgeting, it is remarkable how young is the practice of effective and widespread budgetary control (George A. Steiner, p.44). Program budgeting has only recently come to the public schools. This slow pace tends to conceal the long way that program budgeting has come.

2. Budgeting methods

2.1 Zero Based Budgeting (ZBB)

Zero-based budgeting is an approach to planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting (Historic Budgeting), departmental managers justify only variances versus past years, based on the assumption that the "baseline" is automatically approved. By contrast, in zero-based budgeting, every line item of the budget must be approved, rather than only changes (Eftychia Avgerinou, 2016). During the review process, no reference is made to the previous level of expenditure. Zero-based budgeting requires the budget request be re-evaluated thoroughly, starting from the zero-base. This process is independent of whether the total budget or specific line items are increasing or decreasing.

Zero-based budgeting, or some modified version of it, has been used in the private and public sectors for decades. In the private sector, the major leap was with its application at Texas Instruments by Peter A. Phyrri (CBSE UGC-NET, p.33). Managers have to build a case for their spending as if no baseline existed- to start at zero.

Resources are not necessarily allocated in accordance with previous patterns and consequently each existing item of expenditure has to be annually re-justified.

Put differently, the purpose of ZBB is to reevaluate and reexamine all programs and expenditures for each budgeting cycle by analyzing workload and efficiency measures to determine priorities or alternative levels of funding for each program or expenditure.

Through this system, each program is justified in its entirety each time a new budget is developed (Chiichii Ashwe, p.6).

Decision units should have the following characteristics:

- A specific manager should be clearly responsible for the operation of the program.
- It must have well defined & measurable impacts.
- It must have well defined & measurable objectives.

There can be 2 types of decision package:

The mutually exclusive decision package; the purpose here is to identify for each decision unit the alternative ways of performing its functions so as to enable management to choose the best alternative. One such alternative will be to abolish the decision unit and not to perform its functions at all.

The incremental decision package; here, each manager identifies different levels of effort (and associated costs) and their impact on the function. i.e. there will be a Minimum Level, below which it would be impossible to perform the function; a Base Level, which reflects the current level of activity; and Improvement Level, which shows the effect of increases over the current level.

The term "zero-based budgeting" is sometimes used in personal finance to describe "zero-sum budgeting", the practice of budgeting every dollar of income received, and then adjusting some part of the budget downward for every other part that needs to be adjusted upward.

Zero based budgeting also refers to the identification of a task or tasks and then funding resources to complete the task independent of current resourcing.

Advantages (Zero-based budgeting, Snapshot-31172.pdf):

- Efficient allocation of resources, as it is based on needs and benefits rather than history.
- Drives managers to find cost effective ways to improve operations.
- Detects inflated budgets.
- Increases staff motivation by providing greater initiative and responsibility in decision-making.
- Increases communication and coordination within the organization.
- Identifies and eliminates wasteful and obsolete operations.
- Identifies opportunities for outsourcing.
- Forces cost centers to identify their mission and their relationship to overall goals.
- Helps in identifying areas of wasteful expenditure, and if desired, can also be used for suggesting alternative courses of action

Disadvantages:

- More time-consuming than incremental budgeting.
- Justifying every line item can be problematic for departments with intangible outputs.
- Requires specific training, due to increased complexity vs. incremental budgeting.
- In a large organization, the amount of information backing up the budgeting process may be overwhelming.

Zero Base Budgeting in the public sector and the private sector are very different processes, and this must be understood when implementing a ZBB process in the public sector. “The use of ZBB in the private sector has been limited primarily to administrative overhead activities (i.e. administrative expenses needed to maintain the organization).” (Pyhrr, Peter A., 1977)

President Carter later required the adoption of ZBB by the federal government during the late 1970s. “Zero-Base Budgeting (ZBB) was an executive branch budget formulation process introduced into the federal government in 1977. Its main focus was on optimizing accomplishments available at alternative budgetary levels. Under ZBB agencies were expected to set priorities based on the program results that could be achieved at alternative spending levels, one of which was to be below current funding.” (GAO, 1997)

According to Peter Sarant, the former director of management analysis training for the US Civil Service Commission during the Carter ZBB implementation effort, “ZBB means “different things to different people.” Some definitions are implying that zero-base budgeting is the act of starting budgets from scratch or requiring each program or activity to be justified from the ground up. This is not true; the acronym ZBB, is a misnomer. ZBB is a misnomer because in many large agencies a complete zero-base review of all program elements during one budget period is not feasible; it would result in excessive paperwork and be an almost impossible task if implemented.” (Peter Sarant, p.3) In many respects the “common misunderstanding” of ZBB noted above resemble a “sunset review” process more than a traditional public sector ZBB process.

Components of a public sector ZBB analysis

In general there are three components that make up public sector ZBB:

1. Identify three alternate funding levels for each decision unit (Traditionally, this has been a zero-base level, a current funding level and an enhanced service level.);
2. Determine the impact of these funding levels on program (decision unit) operations using program performance metrics; and
3. Rank the program “decision packages” for the three funding levels.

Importance of performance measures

Performance measures are a key component of the ZBB process. At the core, ZBB requires quality measures that can be used to analyze the impact of alternative funding scenarios on program operations and outcomes. Without quality measures ZBB simply will not work because decision packages cannot be ranked. To perform a ZBB analysis “alternative decision packages are prepared and ranked, thus allowing marginal utility and comparative analysis.”

Traditionally, a ZBB analysis focused on three types of measures. “They (federal agency program staff) were to identify the key indicators to be used in measuring performance and results. These should be “measures of:

1. effectiveness,
2. efficiency, and
3. workload for each decision unit.

Indirect or proxy indicators could be used if these systems did not exist or were under development.

2.2 Program Budget

The program budget differs from the traditional line-item approach to preparing, reviewing, and presenting the budget. Rather than focusing on what a community buys (personnel, commodities, etc.), a program budget focuses on the expected results of services and activities that you carry out. The emphasis is on the attainment of long-term, community-wide goals. In a program budget, you link revenues and expenditures to multiyear programs that meet your municipality's goals, objectives, and strategies. Importantly, a program budget identifies the anticipated results and outputs of these investments.

What is a program? A program classifies all activities in a municipal government by their major purpose and contribution to overall community goals and objectives. A program structure is a way for you to organize all municipal activity into a hierarchy of functional categories. For example, your municipality may establish a "Center City Economic Development Program."

In large municipalities, programs may cut across organizational lines. Your economic development program may include the activities of several municipal departments such as communal services, housing, and water and sewer. In smaller jurisdictions, your programs may be limited to the activities of a single department. A communal services department may have a "Neighborhood Street and Sidewalk Improvement Program."

Ideally, a program should be clearly delineated, have a minimum overlap with other programs, be results oriented, and lend itself to quantification. You will carry out planning, budgeting, administrative control, and reporting within the framework of this program structure.

What Are the Advantages of Program Budgeting? The benefits of using this systematic approach to budgeting include:

- Producing a transparent budget. A program budget presents budget investments in a format that enhances community understanding of the purpose and nature of the services you will provide.
- Focusing attention on community goals, needs, and capabilities. With a program budget you can bring budget investments in line with community objectives, anticipated or desired growth, priorities, and financial capabilities.
- Achieving maximum use of the citizens' taxes. The planning and management focus of a program budget establishes an informed basis upon which you can make decisions, thus helping you avoid costly mistakes. A program budget guides you in making sound annual budget decisions.
- Serving wider community interest. A program budget, once approved, keeps the citizens and business community informed about community programs and activities that affect their lives and enterprises. It also provides information on the results of budget investments.
- Encouraging a more coordinated and efficient government administration. Using a program budget to coordinate budget investments of municipal departments will result in more efficient use of limited resources and will limit conflicts or overlap among projects.

- Maintaining a sound and stable financial program. By programming investments over many years, a program budget can limit the burden that these investments place on the municipal budget. Where there is ample time for programming, you can select the most economical means of designing and financing each project in advance.
- How Is a Program Budget Different from a Performance Budget? Both types of budgets use indicators to measure performance (see the training manual on performance measurement), but they have a different focus. A program budget emphasizes the benefits that citizens gain from municipal expenditures, while a performance budget emphasizes management efficiency in expenditure allocations.

Steps in Developing a Program Budget

Step 1: Establish Goals

Goals represent the ends that a program or an organization (e.g., municipality or municipal department) wants to attain. They define the desired outcome or end result and are typically general in nature. Your goals should be definitive and concise. For example, a municipality may articulate the following goal: “Enhance the Economic Viability of the Central Business District.

Step 2: Establish Objectives

Objectives represent the specific results desired within a fixed period of time. They should specify what is to be accomplished, for whom, and by what date. In terms of the budget, an objective represents a targeted achievement for the forthcoming year. Each objective has one or more performance measures (see the training manual on performance measurement)

Objectives should reflect planned achievements in service quality or service level; thus, key words used in stating objectives include increase, reduce, expand, complete, prevent, maintain.

Examples of objectives are:

- “Increase the Number of Residential Housing Units in the Next Fiscal Year by 2%.”
- “Reduce the Number of Leaks in the Water System by 25%.”
- “Expand the Number of Commercial Enterprises in the Downtown by 10%.”

You can develop goals and quantifiable objectives for the activities of individual programs or departments as well as for the entire municipality

Step 3: Prepare a Budget Calendar

The budget calendar establishes the process and schedule your community will follow in developing the budget. The calendar helps you prepare and enact the budget in a timely way. At a minimum, the calendar should indicate the dates when:

- You will distribute budget worksheets, instructions, and guidelines to departments;
- You will prepare revenue estimates;
- You will compile budget requests and summarize them into a single budget document;

- The mayor and the finance and other committees of the general assembly will review budget
- requests and make appropriate adjustments to budget proposals; and
- The general assembly will adopt the budget.

Step 4: Define Roles in Budget Preparation

There are three major administrative roles in the budget preparation process:

- Preparing budget proposals for consideration by the general assembly;
- Explaining current fiscal conditions, fiscal prospects, and budgetary proposals to the general assembly; and
- Implementing the budget enacted by the general assembly and monitoring performance to ensure that programmatic and fiscal policies are followed.

In smaller local governments, one person may be responsible for all these roles. In larger municipalities, a budget officer or chief financial officer may assist the mayor to fulfill these roles.

Step 5: Distribute Forms and Prepare Departmental Budget Requests

The budget officer distributes budget preparation forms and instructions to municipal departments and enterprises. Ideally, this package includes the municipal goals and objectives established in Steps 1 and 2 to guide managers in establishing funding priorities that are consistent with overall municipal priorities.

The people who manage local activities should be involved in the budget process. However, in a great number of cases, budget requests are prepared without spending much time discussing the budget with the department heads that must operate under it.

You should involve department heads in the details of budget development and implementation.

Budget requests for each service should specify what the service is; what level of service has been provided in the current year; what level of service is needed in the budget year; what will happen if the service is reduced, discontinued, or increased; and the cost of service at the requested level. You can convey this information in an informal way, through a formal statement of specific objectives and workload measures, or through presentations of alternative service levels

Step 6: Review the Budget Requests

The mayor and general assembly are in the unique position of reviewing all requests and must thus be prepared to establish priorities in light of major issues or potential fiscal problems facing the local government. Your review of departmental submissions should start by ensuring that proposals are consistent with the budget policies you established at the beginning of the budget process. Typically, the sum of all budget requests will exceed the total of estimated revenues plus any estimated surplus from the current year. Departments and programs will compete for access to limited governmental funding sources.

You will have to make tough choices, but you should make them in the context of your municipality's overall program and fiscal policy.

Step 7: Establish the Role of Citizens

Since the budget is your community's policy tool, you must make a conscious effort to determine what the citizens think about current policies and services, including where

they think services could be strengthened and what levels of priority they attach to various services. Frequently, local officials rely on the perceptions of departmental management or the most vocal citizens to establish budget policy and service priorities. In both cases, the real preferences of citizens may be distorted. You could undertake a more systematic approach to understanding citizens' needs using techniques such as holding hearings on specific budget policies and service priorities.

Another method is to go to the citizens. Explain the kinds of services for which the municipality is responsible. Discuss municipal fiscal and program policies and obtain feedback. As noted below, once the budget document is assembled, make the document available to the citizens.

Step 8: Prepare the Budget Document

The budget document is the final product of a lengthy process, and the quality of the budget depends largely on the quality of that process. At each stage of development, the budget takes on a different form. Proposed budgets are usually the most comprehensive and largest versions, because they contain critical decision-making information. Your adopted or final budget, on the other hand, may be a smaller summary document that you use to communicate final policies and appropriations.

The budget is a decision-making document: it is the basis for important fiscal and policy decisions. An effective document encourages debate and proper consideration of budgetary issues by delineating the issues and informing participants about the implications of specific actions or inactions.

Step 9: Adopt the Budget

Once you submit the proposed budget, and the general assembly (and the general public) reviews it, it will likely undergo more changes until it is adopted by the general assembly.

Adoption of the proposed budget by the general assembly establishes the legal authority for administrative officials to incur expenditures in the fiscal year. The adoption of the proposed budget is the culmination of an exhaustive review of budget proposals by the general assembly and the mayor

Step 10: Execute and Monitor the Budget

The main purposes of budget execution are to make the appropriations authorized in the adopted budget and to monitor spending. The goals of budget execution are to: (1) provide for an orderly approach to achieve budgetary goals and objectives; (2) ensure that funds are expended only on approved activities; and (3) have adequate stewardship over entrusted financial resources.

2.3 Performance-based budget (PBB)

Performance-based budgeting is the practice of developing budgets based on the relationship between program funding levels and expected results from that program. The performance-based budgeting process is a tool that program administrators can use to manage more cost-efficient and effective budgeting outlays.

Today, when the management of money is more important than ever for public and private entities, budgeting plays an enormous role in controlling operations efficiently and effectively. Budgeting in itself is a familiar process to even the smallest economic unit –

the household - but it needs to be divided into two different classes: budgeting for public entities and private entities.

This differentiation is important because public bodies need to go through many processes before moving into the budget execution phase and post-execution analyses; furthermore, the entire process involves the collaboration of different bodies throughout the government. This collaboration is not only for budget preparation, negotiation and approval processes, but also for the spending approval after the whole budget allocation is finalized. Compared to private sector, it is cumbersome.

Another factor is the increasing awareness of the policies of the World Bank in pursuit of restructuring the budgeting and spending processes of developing nations via the World Bank Treasury Reference Model. This new model has led the public sector to understand, digest and adopt a new style.

According to this new budgeting methodology, traditional methods of analyzing and utilizing budget figures are insufficient. In traditional terms, organizations start building up their long-term plans and break those plans into annual budgets that are formed as forecasts. At the end of the year, budget figures are compared with actual results and a simple actual-budget variance comparison is calculated.

Since the analysis is simple, this analysis lacks any sophistication in terms of adjusting similar budget items for forthcoming periods by increasing or decreasing the expenditure estimates. Basically, variance results are generally used for revising monetary amounts for the next planning and budgeting cycle, and also for very simple departmental performance tracking.

This new approach to budget analysis and utilization is many steps ahead of traditional methods. As an example, a governmental project to enhance the social welfare of children in a remote area can help explain the performance-oriented approach. For such projects, which are generally composed of long-term plans, governments decide on objectives and the activities that are required to be accomplished to achieve them. Practical ways of enhancing social welfare of children in a rural area might include increasing the job skills of parents in the area.

In order to achieve such an objective, the government may plan to establish schooling infrastructures in various locations, complete with the necessary equipment, and further plan to assign trainers to those schools for implementing the educational programs. All these activities have a cost aspect and, at this point, long-term plans are broken down into annual budgets that incorporate the monetary figures. Once the long-term plans are accomplished, the traditional way to gauge the effectiveness of this whole project would be to assess the gap between the budget and the actual money spent. However, with the new budgeting approach, the questions to answer are tougher:

- Did we really succeed in enhancing the social welfare of children?
- Did this project cost what we expected?
- Have we done what we should have done in enhancing the social welfare of children?

Peter van der Knaap (2000) from the Ministry of Finance in the Netherlands suggests: "The general purpose of the proposals is to make budget documents and, hence, the budgetary process more policy-oriented by presenting information on

(intended and achieved) policy objectives, policy measures or instruments, and their costs.” Furthermore, van der Knaap explains that this type of budgeting has the following major performance indicators:

- (the quantity, quality, and costs of) products and services (output) produced by government or government services in order to achieve certain effects, and;
- the intended effects of those measures (outcome).

Within this kind of a planning and budgeting setup, the lack of reliable information on the effects of policies emerges as a serious issue. Therefore, it is important to approach the planning and budgeting cycle in a holistic and integrated way, with collaboration across the areas of policy design, performance measures definition and policy evaluation.

This whole framework points us to a newer way of budgeting, the performance-based budgeting.

As explained by Carter (1994) “Performance budgets use statements of missions, goals and objectives to explain why the money is being spent. It is a way to allocate resources to achieve specific objectives based on program goals and measured results.” The key to understanding performance-based budgeting lies beneath the word “result”. In this method, the entire planning and budgeting framework is result oriented. There are objectives and activities to achieve these objectives and these form the foundation of the overall evaluation.

According to the more comprehensive definition of Segal and Summers (2002), performance budgeting comprises three elements:

- the result (final outcome)
- the strategy (different ways to achieve the final outcome)
- activity/outputs (what is actually done to achieve the final outcome)

Segal and Summers point out that within this framework, a connection exists between the rationales for specific activities and the end results and the result is not excluded, while individual activities or outputs are. With this information, it is possible to understand which activities are cost-effective in terms of achieving the desired result.

As can be seen from some of the definitions used here, Performance-Based Budgeting is a way to allocate resources for achieving certain objectives.(Aristovnik, Aleksander & Seljak, Janko, 2009)

3. Features and elements of budgeting systems

There can be shown some features and elements of different budgeting systems (Roscovan Mihai et al, 2010):

- system planning, programming and budgeting;
- program budgeting;
- output budgeting;
- performance based budgeting.

Table 1. Elements of budgeting systems

	Elements
System planning, programming	<ul style="list-style-type: none"> - identifying and examining the goals and objectives for each area activity of government / agency; - analysis outputs / results given in terms of program objectives; - measuring the total costs of the programs, not only for this year, but for several years forward; - formulating programs for a multiannual expenditure; - establish such procedures as part of systematic budget process.
Program Budgeting	<ul style="list-style-type: none"> - grouping of organizational units and functions under the common functions; - identifying functions and sub-functions costs; - choice of outputs / products organizational unit, depending on the costs; <p>Program budgeting remove from the budget process planning functions of PPBS strategic. It requires an interactive process of sharing costs and defining outputs.</p>
Output Budgeting	<ul style="list-style-type: none"> - summing all costs associated with achieving particular product without take account of the number of agencies involved in providing / producing it; - emphasizing formation the total cost, including distribution administrative expenses; - comparing the results obtained with products / services present to measure efficiency and effectiveness.
Performance based	<ul style="list-style-type: none"> - contains all program budgeting; - incorporate explicit measurement and performance evaluation systems; - introduces the responsibility policy makers associated with rewards and penalties. <p>Program budgeting, budgeting and product performance based budgeting - all are functional, provided the implementation of the first two steps of PPBS budgeting.</p>

4. An Experience of Introduction of Program Budgeting in Hungary

As local government responsibilities in Hungary are defined and categorized by sectors (as are institutions and departments of the mayor's office), the easiest way to introduce program budgeting is to take a sectorial approach. Hungarian local governments that have initiated program budgeting have focused their efforts first on a single sector and then expanded their efforts to other, more complex sectors.

Some of these local governments started program budgeting in the communal services sector.

This sector is not subject to central government mandates on functions and expenditures (thus giving local governments more freedom), and sub-programs can be easily specified. The social services sector, on the other hand, is very complex, and some local governments have taken the approach of specifying sub-programs based on the tasks and activities mandated by the central government. This may be a useful approach; however, a detailed sector analysis can contribute to a clearer definition and management of sub-programs. A detailed sector analysis examines the legal framework; analyzes strengths, weaknesses, opportunities, and threats (SWOT); traces revenues and expenditures; and details the economics and clients of the service. In some cases, a sector analysis may identify sub-programs that combine several tasks. In practically all cases the sector analysis will permit the development of sector goals and objectives, fiscal indicators, and measurable performance outcomes.

Thirty-five local governments in Hungary have now adopted a program budget in varying degrees. Of these, practically all have undertaken a sector analysis in the sector chosen to initiate program budgeting, and all now have budgets that are more transparent and results oriented.

A case study of one of the Hungarian local governments that pioneered program budgeting, Szentes, documents the profound changes that program budgeting has effected in modernizing municipal budgeting practices in Hungary. This study identifies the steps that Szentes took to implement these changes and how the municipality addressed the challenges it faced throughout the process.(United Nations, 1965)

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