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## **PERFORMANCE BUDGETING**

### **INTRODUCTION**

In a planned economy, it is logical to think in terms of budgeting both as the nearest link in a well – integrated system of planning, programming and budgeting and as a tool of management. It provides a system of information for decision making, co- ordination, evaluation and control to the appropriate levels of the organization.

### **MEANING OF BUDGETING**

Literally the word 'Budget' means a leather bag or sachet to carry official papers in. From that association, it came to mean those papers themselves, more particularly the papers containing the financial proposals for the year.

### **TYPES OF BUDGET**

There are several types of budget as follows;

- Incremental budget
- Open ended budget
- Fixed ceiling budget
- Flexible budget
- Rollover budget
- Performance budget
- Programme budget
- Zero based budget
- Sunset budget

- Sales budget
- Production budget
- Revenue budget
- Capital expenditure budget
- Case expenditure budget
- Cash budget

### **PERFORMANCE BUDGETING**

Performance budgeting is a system of planning, budgeting, and evaluation that emphasizes the relationship between money budgeted and results expected.

It is a budget that relates the input of resources and the output of services for each organizational unit individually.

#### **COMMON CHARACTERISTICS OF PERFORMANCE BUDGETING**

- ❖ Agency identification of mission, goals, and objectives;
- ❖ Linkage of strategic planning information with the budget;
- ❖ Development and integration of performance measures into the budget; and
- ❖ Disaggregation of expenditures into very broad areas (such as personnel, operating expenses, and capital outlays) rather than more specific line-items.

#### **TYPES OF PERFORMANCE BUDGETING**

- ✓ Presentational performance budgeting
- ✓ Performance informed budgeting
- ✓ Direct performance budgeting

#### **Presentational performance budget**

- It means performance information is presented in budget documents or other government documents.
- The information can refer to targets or results or both and is included as background information for accountability and dialogue with legislators and citizens on public policy issues.
- Performance information is not intended to play a role in decision making and does not do so.

#### **Performance informed budget**

- In this budgeting, resources are indirectly related to proposed future performance or to past performance.

- The performance information is important in the budget decision making process, but does not determine the amount of resources allocated and does not have a predefined weight in the decisions.
- It is used along with other information in the decision making process.

### **Direct performance budgeting**

- It involves allocating resources based on results achieved.
- It is used only in specific sectors in a limited number of organizational for economic co-operation and development countries.

### **OBJECTIVES OF PERFORMANCE BUDGETING**

- ❖ Correlates the physical and financial aspects of programmes and activities.
- ❖ Improve budget formulation, review and decision making at all levels of management in the government machinery.
- ❖ Facilitate better appreciation and review by the legislature.
- ❖ Make possible more effective performance audit.
- ❖ Measure progress towards long term objectives as envisaged in the plan.
- ❖ Bring annual budgets and developmental plans together through a common language.

### **COMPONENTS OF PERFORMANCE BUDGETING**

The performance budgets have certain vital ingredients that to be constantly kept in view;

- i. A programme and activity classification that represents the range of work of each organization.
- ii. A framework of specified objectives for each programme.
- iii. A stipulation of the targets of work or achievement.
- iv. Suitable workload factors, productivity and performance ratios that justify financial requirements of each programme.

### **FORMULATION OF PERFORMANCE BUDGETING**

#### **I.Introductory**

Each performanve budget will in the first instance indicate the organizational structure and the board objectives that govern the approaches and the work of the administrative agencies.This followed b a financial requirements table.

#### **II.Financial Requirements**

This table is the most important part of the performance budget and has three basic elements;

(a) Work programme/Activity classification

It indicating the range of work of the agency in the meaningful categories.

(b) Object wise classification

It showing the same amount distributed among the different objects of expenditure such as establishment charges.

(c) Source of financing

Sources of budgeting indicating the budgetary and account heads under which the funds are being provided in the budget.

### **III.Explanation of Financial Requirements**

(a) Name of activity	Actual (Last year)	Revised estimates (Current year)	Budget estimates (next year)
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(b) Nature and purpose of activity

(c) Physical work inputs and outputs

- ✓ Work load factors, norms yardsticks and standards
- ✓ Progress during last and current year (Target vs. Actual)
- ✓ Explanation of variations
- ✓ Targets for next year
- ✓ Requirements for inputs including staff, materials and equipment
- ✓ Detailed work plans and schedules.

#### **STEPS IN PERFORMANCE BUDGETING**

Four basic steps involved in the performance budgeting

1. Establishing a meaningful classification of public expenditure in terms of functions.
2. Establishment, improvement and extension of activity schedules for all measurable activities of the government.
3. The establishment of work output, employee utilization, standard or unit costs by objective methods, i.e. bringing the system of accounting and financial management into accord with the classification.
4. The creation of related cost and performance recording and reporting system.

#### **STAGES OF PERFORMANCE BUDGETING**

The Performance budgeting can be introduced at any level, that is, branch department or national level. What is important is that the system at the lower level must be organically related to the system at the next higher level .That means it should be derived from and in turn support the level system.

The performance system can be discussed under the following head;

### **a.Objectives**

As far as as possible, the objectives of individual programmes are clearly spelt out in quantitative and measurable terms, setting them against long – term aims and goals of the government.

### **b.Analysis**

The long term strategy and the short term tactics for achieving the objectives are considered possible alternative programmes identified, the costs and benefits of the alternative programmes worked out and the programmes selected.

### **c.Budget/ classification**

The programmes taken up for implementation are classified with reference to a classification system.

The idea is to facilitate allocation of resources to related programmes. When the budget is preferred on the basis of above; it must go through the prescribed procedure of presentation approval of implementation.

### **d.Organising**

The roles of different organization in achieving the specified objectives are demarcated. The financial rules and accounting system are remodeled to effectively implement the programme.

### **e.Evaluation**

Criteria for evaluating the programmes with reference of the objectives are to be evolved. The proper information and reporting systems on financial, physical and economic data relevant to the programmes are installed for monitoring programmes during execution and evaluating them on completion.

## **PREREQUISITES FOR PERFORMANCE BUDGETING**

Performance budgeting in order to be effective requires certain conditions to be satisfied.

- There must be clarity of objectives in the organization. The absence of clear cut objectives would mean that the programme would lack direction.

- The activities must be amenable to quantitative measurement. The performance measurement is futile in quality dominated activities like social welfare, community services.
- How for the output is homogeneous and the process is repetitive. Homogeneity facilitates counting with the help of standard measures.
- There must be variability of the output and direct costs which are attributable to the various levels of operation.

The greater variability of cost and output at operating levels the greater will be the need for performance measurement.

- Whether the programme is susceptible to violent fluctuations on the input and /or the output side.

Where the input is unstable (wide price fluctuations affects costs of raw materials frequently) or the output is erratic (for any reason like strikes, non availability of power or raw material etc.) performance measurement will be relatively difficult.

- Lastly whether the organization is geared or motivated for higher levels of achievement or not. It depends on the environment of the organization.

### **ADVANTAGES OF PERFORMANCE BUDGETING**

- Record keeping along functional lines would help to bring act the variance between budgeted and actual costs.
- Given the desire and drive for efficient management of governmental organization.
- It serves both as a tool for recovering the efficient of existing operations and their results as a system of feeding the data for planning future services.
- It upgrades the budget decision making process by throwing up the requires information on cost of work accomplishments appropriate for various levels of operation.
- It makes legislative review, control and policy making more meaningful and makes budget information and understand to the tax player.
- It should be an excellent instrument for translating long term plan's and programmes into reality.
- Performance classification helps improve public relations by providing clear information for a rational public appraisal of responsible government.
- It helps to bring about an organic integration of planning, programming and budgeting, provides for more effective control, makes legislative control, more meaningful, helps to gear the process of decentralization of

authority in conformity with responsibility and helps to improve public relations.

### **PROBLEMS OF PERFORMANCE BUDGETING**

- 1) The very basis of performance budgeting is classification of governmental work into functions, programmes and activities, but in practice it may not be possible to have such well organized categories.
- 2) The programme and activity classifications developed are sometimes too broad to reveal the significant activities of the department to serve as a basis for budgetary decisions and management.
- 3) This techniques focuses on quantitative than a qualitative evaluation.
- 4) The process of allocation of cost estimates over programme elements is difficult and often these estimates may not as meaningful as they should be.
- 5) It aids but does not solve the greatest problem in budget decision making, viz , the comparative evaluation of projects, functions or activities, unless it is supported by cost benefit analysis which itself is far from perfect especially when the indirect and intangible costs and utilities are involved a big way.

### **PERFORMANCE SYSTEM IN INDIA**

- The demand for the introduction of performance budgeting in India was first made in 1954 during a debate in Lok Sabah.
- The administrative reforms commission recommended to the government that, starting with 1969-70 budget and in two years, it should be introduced in all departments and organizations of the government which in direct charge of developments programmes.
- The ministry of finance had prepared document entiled Performance budget of selected organizations 196-69 which covered alternative presentations of the budgets of four ministries / departments and which was presented to parliament in April 196 as a supplement to the conventional budget documents.

### **CONCLUSION**

Performance budgeting is a system of presenting public expenditure in terms of functions and programmes reflecting the government out put and its cost. Efficacy of its application depends on the skill, imagination, energy and strength of purpose of the user. All it can provide is meaningful basis for administrative

planning, executive co ordination, legislative scrutiny and administrative accountability at all levels of government.

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