

**THE IMPACT OF NEW PUBLIC MANAGEMENT
ON PERFORMANCE-BASED BUDGET IN POLAND**
**WPŁYW NOWEGO ZARZĄDZANIA PUBLICZNEGO
NA BUDŻET ZADANIOWY W POLSCE**

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Abstract: In a market economy, the state fulfilling its function (e.g. in administration, education, health and social security, public security, national defense, justice, etc.) has to bear certain expenses for their implementation. At the same time, the state does not directly produce any income which would provide it with any means to carry out these tasks. Hence, using the attribute of power, out of necessity, it has to refer to the income of other subjects from the private sector, thus making the redistribution of income. The primary source of state revenue are taxes.

A taxpayer, forcibly charged by the state, is interested in the best use of his transferred funds. State's performance should therefore be focused on ensuring the effectiveness of the management of collected public funds.

Thus, the necessity for public administration is management based on respecting the principles of rationalization and the purpose of public expenditure, taking into account the liability (for specific performance), while guaranteeing the legality of the actions taken. Such conditions require not only a good measurement of the results, but above all, clearly defined aims and well-defined resources necessary to achieve them.

The purpose of this article is to present the transformation of Polish public finance sector initiated by the Polish accession to the European Union and the need to implement the mechanisms resistant to the effects of economic crises to public sector.

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Streszczenie: W gospodarce rynkowej państwo spełnia swoje funkcje (na przykład w administracji, edukacji, funkcję bezpieczeństwa zdrowotnego i socjalnego, bezpieczeństwa publicznego, obrony narodowej, sprawiedliwości etc.) i musi ponieść pewne koszty ich implementacji. Jednocześnie państwo nie wytwarza żadnych dochodów, które pozwoliłyby na realizację tych zadań. Dlatego też, wykorzystując atrybut władzy, z konieczności, musi odnosić się do dochodów innych podmiotów z sektora prywatnego, co powoduje redystrybucję dochodów. Podstawowym źródłem dochodów państwa są podatki.

Obciążony przez państwo podatnik jest zainteresowany jak najlepszym wykorzystaniem przekazywanych przez siebie środków. Dlatego też działania państwa powinny być ukierunkowane na zapewnienie skuteczności zarządzania zgromadzonymi funduszami publicznymi.

Zatem koniecznością dla administracji publicznej jest zarządzanie oparte na poszanowaniu zasad racjonalizacji i celowości wydatków publicznych, uwzględniające odpowiedzialność (dla określonej efektywności) przy jednoczesnym zapewnieniu zgodności z prawem podejmowanych działań. Takie warunki wymagają nie tylko dobrego pomiaru wyników, lecz także przede wszystkim jasno określonych celów i ściśle określonych zasobów niezbędnych do ich osiągnięcia.

Celem niniejszego artykułu jest przedstawienie transformacji polskiego sektora finansów publicznych, zainicjowanej przez akcesję Polski do Unii Europejskiej, i potrzeby wdrożenia do sektora publicznego mechanizmów odpornych na skutki kryzysów ekonomicznych.

Keywords: new public management, public finance reform, performance-based budget.

Słowa kluczowe: nowe zarządzanie publiczne, reforma finansów publicznych, budżet zadaniowy.

1. New public management

At the end of the eighties and in the nineties of the previous century, the pressure on the public sector to achieve economic and social effects by the limited focus on inputs intensified. This orientation receives support from the international organizations (IMF, World Bank, OECD). Associated with this orientation term – “new public management”³ – (NPM) is an attempt to bring the public administration closer to a market economy in order to ensure its efficiency in terms of the proper use of public funds for the achievement of preset goals. This is the approach which requires consideration of the economic category regarding responsibility for the functioning of the administrative units.

In Poland, as a result of the start of the transformation process initiated in 1989, “Balcerowicz Plan” was being implemented in the country, involving, among others, the transition from a centrally planned economy to a market economy, and acting in favor of suppressing the inflationary processes. Later, the successive stages of transformation, the processes of globalization and integration with the European Union structures, as well as the economic crises had a direct impact on the social change and changes in the approach to the management of public organizations. A significant element of these changes was the development of modern concepts of management in public administration. In the new conditions, in the relations of the state (public institutions) with a market economy, the need to search for

³ New Public Management first appeared in the UK, Australia and New Zealand in the eighties of the twentieth century, and since the early nineties it has spread in the United States of America. To a lesser or greater extent, its reception is today in literally every European country as well as in Poland.

modern management tools associated with the managerial conceptualization was recognized. From this perspective, the model of public administration has been defined as “*new public management*” which takes into account the assumptions such as: orientation towards results, introduction of market mechanisms, consumer orientation, focusing on managing rather than on the direct provision of services, deregulation, creating conditions for staff initiative, reducing the costs of providing services, extending managerial, public service oriented roles, focusing on flexibility, innovation, entrepreneurship, political neutrality.

The concept of NPM answers for three key questions⁴:

1. How much of the state?

The answer is “*little of the state*”. The reduction of the role of public sector going further than just limiting the role of the producer of public services is assumed. Larger range of impact of the market economy (supply and demand).

2. What state?

The question relates to the reduction of political pressures on decisions. NPM assumes that the principles of the private sector are transferred to public institutions and function in the public sector. The condition for the introduction of NPM recommendations are the reforms of public administration and of public services.

3. How to manage?

NPM focuses on the internal affairs of institutions and public sector organizations, and it relies on professionalism.

Nowadays, New Public Management (NPM) is a model of public administration based on management. This model is also described by a number of other terms, which include, among others:

1. Managerialism;
2. Market-based public administration;
3. Entrepreneurial government;
4. Business-like management;
5. Public managerialism.

New Public Management is a market model which recognizes the existence of independent and equal subjects: self-employed enterprises, independent government departments, public sector subjects and natural persons. Relations between subjects are regulated by contract. Effective rules of behavior which stood the test of competition and are widely recognized as applicable, promote the intensification and expansion of the exchange. The concept of NPM as a result of flattening and fragmentation of organizational structures as well as decentralization of powers ensures flexibility of action of the public sector and increases its effectiveness without limiting its tasks and programs.

⁴ *Management in the public sector – sustainable development – valuation methods*, edited by P. Jeżowski, Warsaw School of Economics Publishing House, Warsaw 2002, p. 14.

As a doctrine of public sector management, NPM is strongly managerial and relies mainly on:

1. Marketization;
2. Public partnership;
3. Flattening of organizational structures;
4. Efficiency and measurable achievements;
5. External audit, competent supervision and evaluation.

Generally, NPM's mission is to increase the effectiveness, and thus the efficiency of the public sector.

New public management focuses on:

1. Proper goal setting and monitoring the performance;
2. Financial management (efficiency);
3. Determination of service standards;
4. Using benchmarking solutions (the possibility of making comparisons on the tested sample solutions);
5. Modern human resources management.

New public management contributes to the strengthening of the public administration by strengthening bonds between the political and administrative spheres and by the creation of citizen-friendly administration.

New public management is concentrated on:

1. Recipients of services – their needs and expectations;
2. Promotion of competition between service providers;
3. Transfer of control of the local community;
4. Decentralizing powers;
5. Introduction of participatory governance.

The purpose of administration in the spirit of NPM is getting results as well as the control and responsibility for results. Effective activity requires a combination of efforts of the public, private and non-government sectors to solve problems. Management directed to achieve results stimulates public organizations to implement innovations and improve the efficiency and effectiveness of their activity, and contributes to improving the quality of policy and decision making⁵.

2. Public finance reform in Poland

Nowadays, in Poland, the new management assumes to replace the traditional bureaucratic model of administration management by managerial model, that is, using in public sector management principles and models previously known and used in the private sector. Modern tools began being implemented in the public sector, including: quality management system based on ISO 9000 requirements, strategic planning, multiannual financial planning, risk management, internal audit,

⁵ H. de Bruijn, *Managing Performance in the Public Sector*, Routledge, London–New York 2002, p. 9.

management control, achievement measurement system (balanced scorecard), cost accounting and performance-based budget, which is a key element of the modern public management.

New Public Management instruments allow for the execution of tasks in cooperation with other subjects, and also helps to increase citizens' trust towards public administration through greater transparency of public finances and the responsibility in spending the public funds. In this spirit, amended in Poland in 2009, *the Public Finance Act* facilitates the state finances and adapts them to the European Union standards, using the key instruments to increase the efficiency of public tasks such as:

1. Multiannual Financial Plan, which is intended to indicate the orientations of the state financial policies (passed once in four years and is updated annually).
2. Performance-based budget as a tool for effective management of public finances and redistribution of public resources in order to achieve better results.
3. Management control as an integral process of strengthening control over public expenditure (actions taken to ensure that the objectives and tasks are realized in a legal, effective, economical and timely way).
4. Audit as a process involving examination and evaluation of the adequacy and effectiveness of the internal control system, risk identification and management, and the quality of performed tasks.
5. Prudence thresholds⁶ and mechanisms designed to limit the public debt, using supportive methods and tools:
 1. Public-Private Partnership is the cooperation between the units of public and local administration, and private subjects in the sphere of public services, which is one of the competitive ways of financing public investment.
 2. Economics of services based on outsourcing with the aim of improving the efficiency of the organization and ensuring its growth and market success.
 3. Quality management system as a process which requires constant modifications and improvements.
 4. Benchmarking as a tool and an element of a long-term strategy.
 5. Budgeting as a tool for the management and control.
 6. Controlling – which embraces functions which are the base for implementing management functions, that is a strategic and operational planning, organizing and managing people.

⁶ *The Public Finance Act of 27 August 2009* (Dz.U. No. 157, item 1240), art. 86.

3. Origin of the performance-based budget in Poland

In Poland, works on the implementation of performance-based budget have been lasting since 2006 and are already well advanced. The completion of the entire process is scheduled for 2015. The most important stages of implementation of performance-based budget in Poland are presented in Table 1.

Table 1. Activities for the implementation of performance-based budget in 2008-2015

Year	Activities for performance-based budget
2008	<ol style="list-style-type: none"> 1. Development of methodological principles for multiannual performance planning. 2. Proposals to the provisions in legislative acts governing the implementation of performance-based budget and multiannual planning.
2009	<ol style="list-style-type: none"> 1. Development of the methodology of performance-based budget. 2. Formulation of guidelines for the reports on the implementation of functions in performance-based budget. 3. Preparation of guidelines for the system supporting performance-based budget.
2010	<ol style="list-style-type: none"> 1. Monitoring of the realization of the budget. 2. Completion of the work (first stage) over the reporting system from the task perspective.
2011	<ol style="list-style-type: none"> 1. Development of measures for all functions of the state. 2. Completion of work (second stage) over the reporting system from the task perspective.
2012	<ol style="list-style-type: none"> 1. The budget for 2013 – parallel development of the budget and its tasks.
2013	<ol style="list-style-type: none"> 1. Preparation of guidelines for the evaluation system of performance-based budget. 2. Implementation of the system to support performance-based budget.
2014	<ol style="list-style-type: none"> 1. Report on the implementation of performance-based budget for 2013.
2015	<ol style="list-style-type: none"> 1. Preparation of a report evaluating the influence of performance-based budget on the public finances. 2. Settlement of the implementation of performance-based budget projects realized under the ESF.

Source: Own study based on: *Performance-based budget in public administration*, edited by M. Postuła, P. Perczyński, Ministry of Finance, Warsaw 2010, pp. 177-178

The task system of the state budget is a tool supporting the process of public management focused on improving the efficiency and effectiveness of the achievement of planned results. It fulfills both functions, an informative one as well as the one which facilitates activities in the planning and implementation of processes for the effective and efficient achievement of planned results by persons exercising public authority.

In the structure of tasks in performance-based budget, the following aspects⁷ can be distinguished:

1. Task, understood as a set of methods and techniques used to build – in accordance with the substantive law – the structure of public tasks in the system of state functions, budget tasks, budget subtasks and activities, and identifying – at every level of a task structure – objectives to be achieved and appropriate to the structure level measures which assess the degree to which each objective has been achieved or realized.
2. Financial, which is a set of methods and techniques used to build a plan for the state budget expenditures or the costs of the unit of public finance sector, necessary to achieve the planned results, by determining the costs indispensable to perform activities defined in the structure of tasks in performance-based budget.
3. Managerial, showing the application of the structure of tasks into public management, both in the administrative systems and individual units of the public finance sector, oriented towards achieving the objectives for the public tasks defined at various levels of the task structure.
4. Functional, can be found in the organizational solutions through which the ministers running the individual government administration departments implement the processes of programming, monitoring and reporting within performance-based state budget.

The structure of tasks of the state budget and the state of its implementation should be considered in the aspect of these four interrelated elements (subsystems).

4. The essence of performance-based budget

Performance-based budget is a modern method of public finance management which, if appropriately applied, can provide answers for questions regarding the planned tasks, expenditure to be realized in a given financial year, the objectives of tasks, methods of measurement, the effects which the realization of objectives should bring and whether the goals have been achieved.

Allen Schick – a theorist of budget, distinguishes between two completely different types of performance-based budgeting, according to a broad and strict definition⁸. *In the broad meaning, performance-based budget is any budget which presents information on what agencies have done or expect to do with the money they are assigned. According to the strict definition, performance-based budget is a budget that clearly links every increase of funds to the increase of results or other figures. A broader concept of budgeting focuses on presenting (presentational*

⁷ See K. Stańczyk, *New public management in Poland – implications for the Ministry of National Defence*, in: *Challenges and dilemmas of public organizations management*, edited by W. Kieżun, J. Wolejszo, S. Sirko, AON, Warsaw 2013.

⁸ A. Schick, *The Performing State: reflection of an idea whose time has come but whose implementation has not*, OECD Journal on Budgeting 2003, Volume 3 – No. 2, s. 101.

budgeting), while the strict one pays special attention to the allocation of financial resources and combining them with the results. Many currently used worldwide performance-based budgets meet the broad definition, however only few manage to meet the strict definition.

For solutions used in Poland, it was assumed that the essence of performance-based budget is the introduction of public expenditure management through the adequately specified and hierarchized objectives for achieving specific effects, measured by the established system of measures⁹.

Performance-based budget is also defined as a public entity financial plan, in which regardless of the current classification of income and expenditure, there are specific tasks characterized by homogeneity. The task is specified (quantitatively and qualitatively) by purpose, cost, performance indicators; there is also a person responsible for its realization¹⁰.

Performance-based budget is therefore the method of public funds management defined as a consolidated expenditure plan of public finance sector units compiled over a horizon longer than one year, paying attention to the state functions, budget tasks and subtasks along with the measures determining the degree of objective implementation¹¹.

Performance-based budget allows you to determine which tasks are the most important for the implementation of specific objectives and by the use of measures it shows to which extent they were implemented.

5. Classification of performance-based budget

Budget structure is an essential element of performance-based budget. New classification consists of several levels: functions, tasks, subtasks, and activities which vary in the degree of detail.

Functions have the highest degree of generality. Currently, 22 functions correspond to the basic areas of state activity. 21 of them concern the policies of the state, and the 22nd is common for the tasks carried out within the whole budget part or a given unit realizing various tasks which cannot be attributed to any of the tasks distinguished from the other functions. Each function has a specific purpose which has to realize within the established socio-economic needs. The list of 22 features can be found in table 2.

The next stage are the tasks which accumulate financial resources for the realization of objectives of the state functions within which they were defined. They embrace all the performed or commissioned activities by the units in a given field, grouped into subtasks. Administrators of budgetary resources within the performed

⁹ T. Lubińska, A. Lozano Platonoff, T. Strąk, *Performance-based budget – rationality – transparency – efficiency*, Economics 2006, No. 5, pp. 647.

¹⁰ See S. Owsiak, *Public finances*, PWN, Warsaw 2005, p. 294.

¹¹ *Performance-based budget in public administration*, edited by M. Postuła, P. Perczyński, Ministry of Finance, Warsaw 2010, p. 26.

tasks determine the objectives for those tasks and measures of assessment of their realization, planning expenditure for a given financial year and for the next two years. They determine the sources of financing and the units which have to carry out the task. Therefore, the task plays the role of managerial – budgetary – accounting category.

Operational nature has a third division of the budget classification, so-called subtasks. They embrace the resources for expenditure on realization of the tasks for which they were defined. As in previous aspects of budget classification, the objective of a subtask and the measure assessing the degree of its realization should be determined. Moreover, apart from planning the public funds for its implementation for a given financial year and the next two years, the sources of financing for a given subtask and a unit which has to perform it should be indicated as well.

Table 2. Budget functions in performance-based budget

Function	Functional criterion
Function 1	State management
Function 2	Internal security and public order
Function 3	Education, upbringing and care
Function 4	Financial management of the state
Function 5	Protecting the rights and interests of State Treasury
Function 6	Economic policy of the state
Function 7	Spatial planning, construction and housing
Function 8	Physical culture and sport
Function 9	Culture and heritage
Function 10	Polish science
Function 11	External security and inviolability of borders
Function 12	Environment
Function 13	Social security and family support
Function 14	Labor market
Function 15	Foreign policy
Function 16	Citizens affairs
Function 17	Balanced development of the country
Function 18	Justice
Function 19	Transport infrastructure
Function 20	Health
Function 21	Agriculture and fishing policy
Function 22	Strategic planning and administrative and technical support

Source: Own study based on: *Information about expenditure for the realization of tasks in a performance-based budget in 2011, Discussion*, Ministry of Finance, Warsaw, May 2012

The last stage of budgetary classification are the activities. At the stage of activity there is a differentiation of the types of expenditure on account of their economic substance – they are used to achieve an objective of a subtask. This way of presentation increases the transparency of the budget. Carefully selected set of objectives and their prioritization are essential for the successful functioning of the performance-based budget.

Measures within the individual tasks and subtasks are used to determine the degree of realization of the objectives. For the individual measures, the base value, which is the last available value of a given measure, as well as the target value, which is to be achieved through the execution of a given task or subtask, are determined. Measures of task execution should be: adequate (properly reflecting the purpose realization of a task should serve), reliable, easy to understand and quantify, and possible to monitor.

6. External security and inviolability of borders

Function 11. External security and inviolability of borders is a function realized by the Ministry of Defence. It follows from the obligation of the state to ensure external security, inviolability of borders and independence as well as favorable conditions for the realization of national interests. Citizens should be also provided with the necessary conditions for the development of civilization, secure and dignified life in a peaceful and stable international environment.

The tasks for realization of this obligation are executed in the context of Polish membership in the North Atlantic Treaty Organization (NATO) and the European Union.

The elementary task in the activities for ensuring the ability of the state to defend and to be ready to resist aggression due to the alliance commitments is the organization and functioning of the Polish Armed Forces. In fulfilling its alliance obligations, in the context of Polish membership in NATO, the Polish Armed Forces maintain their readiness to participate in the multinational activities, operations to combat terrorism carried out in accordance with international law, organized by NATO or the EU, or within temporary coalitions, etc. The performers of tasks, subtasks and activities in this function are the units and organizational institutions of the Ministry of Defence.

In this function, four tasks, eleven subtasks and twenty-six activities were generated. For 2014, as a function no. 11 External security and inviolability of borders, the following tasks and measures of evaluating them were provided:

Task 11.1. Maintaining and developing the operational capacity of the Polish Armed Forces.

Measure: Indicator of achievement of the required level of availability of forces (the ratio of the current level to the required one, in %).

Task 11.2. Intelligence and counterintelligence support.

Measure 1: Acceptance of the reports on the activities of the CSG and the BSC by the higher level agency (Boolean value: yes -1 / no - 0).

Measure 2: Capacity of the administrative and economic structures to ensure the external security of the state (Boolean value : yes -1 / no - 0).

Task 11.3. Realization of alliance and international commitments, and participation in the activities to promote peace and international stability.

Measure: Number of flagship positions in the structures of NATO and the EU (in addition to the national and international military structures in and outside the country), which were allocated by the Armed Forces to fill (in % and per person).

Task 11.4. Readiness of the administrative and economic structures of the country to defend the state.

Measure 1: Degree of the realization of defense tasks in the area of mobilization of the economy (in %).

Measure 2: Degree of the implementation of decisions for maintaining production and / or repair capacity.

Measure 3: Percentage of the tasks realization defined in the Programme of Non-military Defense Preparations (PPPO), (in %).

Assessment of the realization of tasks by the functional persons responsible (co-responsible) for planning, supervision and realization of tasks within the 11th function of performance-based state budget, is conducted with the use of aforementioned measures.

Conclusion

Performance-based budget is a method of public finance management used and being introduced in public finance systems in many OECD countries, and is also recommended (among others) by the European Commission. It forms a part of a broad global trend of deep transformation of public administration and introduces, on a large scale, the approach referred to as New Public Management. New public management was a response to the increasingly worse assessment (in the opinion of the central and local administrations) of administration and the public sector by the society.

The introduction of performance-based budget in Poland should:

1. Improve the transparency of the state budget;
2. Show financial resources which are allocated to the tasks and are spent by different administrators;
3. Help to ascribe the responsibility for achieving the set objectives to specific people;
4. Consolidate the financial plans of many administrators;
5. Show financial plans for three years;
6. Show plans for achieving the objectives during the next three years.

When analyzing performance-based state budget, including expenditure on the activities of the Polish Armed Forces, it can be concluded that performance-based budget allows for a better allocation of financial and property resources, and consequently, for the effective meeting of the needs of society in terms of security of the state and its citizens.

By improving the efficiency of spending the financial resources and increasing the transparency of public finances, performance-based budget contributes to a better perception of the army by society.

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