

# STRENGTHENING LOCAL GOVERNMENT PLANNING, BUDGETING AND FINANCIAL MANAGEMENT PROCESSES

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Role of Public-Private Partnerships  
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## Objective

- to provide a comprehensive view of the system of planning, budgeting and financial management in subnational governments and their underlying political, legal and operational environment that promote and constrain subnational government performance

## Basic Premises

- subnational financial management systems depend on the political framework and structure of countries
  - ✓ autonomous vs. centrally-directed
  - ✓ centralized vs. decentralized
- subnational financial management systems follow the same standards and techniques applicable to central government

## Importance of Public Financial Management Processes

- to ensure availability of resources when needed
- to promote effective allocation of scarce resources
- to ensure efficient use of funds
- to properly account for and report all transactions in money terms
- to provide for future financial sustainability

## Coverage of Module

### Planning

- ✓ Strategic planning
- ✓ Financial Planning

### Budgeting, Accounting and Audit

- ✓ Budgeting
- ✓ Accounting
- ✓ Internal Control and Internal Audit
- ✓ External Audit

### Performance Monitoring and Evaluation

- ✓ Monitoring
- ✓ Evaluation
- ✓ FMIS

### Public Financial Management Reforms

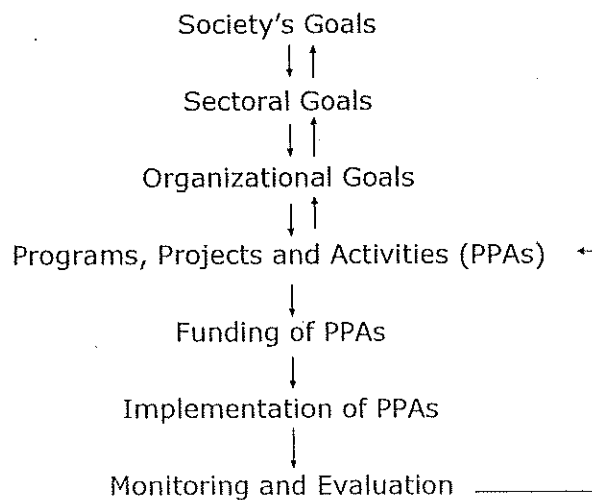
## PLANNING MODULE

- Scope of Planning
- Logical Framework
- Key Considerations
- Characteristics of Good Strategic Plans
- Planning Outputs
- Medium Term Fiscal Plan

## Scope of Planning

- determination of development objectives and directions and identification of key programs and activities that will meet the desired goal
- strategic plans involve
  - major or key policies and programs
  - generally cover the medium term
  - with forward and backward linkages with other programs

## Logical Framework



## Key Considerations

- Assignment of power between central and local government
  - ✓ power of taxation and generation of revenue
  - ✓ distribution of governmental functions
  - ✓ major spending responsibilities
- Form and extent of intergovernmental fiscal transfers
  - ✓ formula based
  - ✓ discretionary
  - ✓ mixed system
- Limitations on the authority of local units
  - ✓ borrowing powers
  - ✓ guarantee by central government
- Comparative level of development of local units

## Characteristics of Good Strategic Plans

- clear objectives; specific targets
- built on collective desire of the community
- in written form
- with specific timelines
- subject to monitoring and evaluation
- programs prioritized
- broad financial requirements and sources identified

## Planning Outputs

- Strategic plan directions and targets
- Key policy thrusts
- Key program priorities
- Medium Term Financial Projections of Fund Sources and Uses
- Implementation Plan and timelines

## Medium Term Fiscal Plan

- **Fiscal strategy**
  - ✓ balanced budget? budget surplus? capital deficit?
- **Revenue strategy**
  - ✓ from intergovernmental fiscal sources?
  - ✓ from existing local sources?
  - ✓ from new local sources?
  - ✓ from intensified collection efforts?
- **Borrowing strategy**
  - ✓ limitations on borrowing authority?
  - ✓ capital projects?
  - ✓ bridge financing?
  - ✓ loan or bond issue?
- **Expenditure strategy**
  - ✓ mandatory expenditures
  - ✓ development priorities
  - ✓ contingencies
  - ✓ public-private partnerships

## **BUDGETING, ACCOUNTING AND AUDIT MODULE**

- Scope of Budgeting and Accounting
- Medium Term Expenditure Framework
- Plan-Budget Linkage
- The Budget and Accounting System
- Budget and Accounting Concepts
- Budget Cycle
  - ✓ Preparation/Formulation
  - ✓ Legislation and Approval
  - ✓ Execution and Control
  - ✓ Review and Audit

## **Scope of Budgeting and Accounting**

- pricing/costing of specific programs and activities to be undertaken during the year
- providing for the legal authority to spend
- allotment and disbursement of public funds
- tracking and accounting for results
- reporting and analysis of financial results

## Medium Term Expenditure Framework

- a framework designed to link planning and budgeting
  - ✓ planning → medium term outlook
  - ✓ budgeting → one year outlook
- a system of generating forward estimates of budget commitments and new activities
- a system that calls attention to fiscal sustainability issues over the medium term

## Plan-budget Linkage

- Plan targets and strategies are clear and quantified
- Programs and projects are identified and prioritized
- Budget supports priority programs and projects
- Budget performance indicators based on desired outputs

## The Budget and Accounting System

- prescribed by country statutes, laws
- consistent with political, economic structures
- determined by constituency requirements/demands
- influenced by practices in other countries and political subdivisions
- in subnational governments, generally patterned after the budget system of the central or national government

## Concepts

- unified or public sector budget vs. administrative or general budget
- recurrent or operating budget vs. capital or development budget
- cash budget vs. accrual budget
- full-cost budget vs. cash budget
- line-item budgets vs. performance-based budgets

## Concepts ... cont'd

- current services budget
- baseline budgets
- full employment or cyclically-adjusted budget
- zero-based budget
- incremental budget

## Budget and Financial Management Cycle

Preparation / formulation

Legislation and approval

Execution and control

Accountability, review and audit

## Preparation/Formulation: Process

- Pre-budget activities
  - ✓ review of local programs, objectives, issues
  - ✓ review of overall budget policy, management issues, budget impact of previous decisions
  - ✓ analysis of economic developments; tentative targets
  - ✓ issuance of initial budget guidelines
- Budget preparation
  - ✓ intra-agency budget review
  - ✓ costing of agency program initiatives
  - ✓ preparation of funding proposals
  - ✓ transmittal of proposal to local budget unit

## Preparation/Formulation . . . cont'd

- Preparation of overall budget
  - ✓ review of competing claims and proposals
  - ✓ negotiations on budget proposals
  - ✓ consolidation of approved agency proposals
  - ✓ approval by local chief executive
- Transmittal of consolidated budget to local council or legislative body

## Budget Formulation : Issues

- Size of the budget: local fiscal policy, deficit policy, extent of service provision
- Size of intergovernment transfer from central government
- Level of discretionary vs. mandatory expenditures
- Compliance to legally mandated expenditure restrictions
  - ✓ limits to borrowings
  - ✓ limits to revenue or tax power
  - ✓ other restrictions

## Budget Formulation : Issues ... cont'd

- Recognition of "non-expenditures"
  - ✓ contingent liabilities
    - loan and credit guarantees
    - performance guarantees
  - ✓ repayment of debt
- Level of transfers to subnational governments, local enterprises and special purpose entities
- ODA or foreign-funded projects
  - ✓ priority claims? commitments?

## Legislation and Approval: Process

- Conduct of budget hearings
  - ✓ Evaluation of current budget programs
  - ✓ Review of issues carried over from previous budgets
  - ✓ Review of actions taken from audit reports
  - ✓ Analysis of new program initiatives
- Vote on individual agency budgets
- Vote on consolidated budget proposal
- Signing of budget appropriation/authority

## Budget Legislation: Issues

- Failure to enact budget
  - ✓ "automatic repeat" or reenacted budget
  - ✓ continuing resolution by legislative authority
- "Off-budget" entities or activities
- Supplemental budgets
  - ✓ emergency requirements
  - ✓ expansion programs from windfall revenues

## Budget Legislation: Issues . . . cont'd

- Earmarked or special purpose revenues
  - ✓ sunset provisions
  - ✓ period limits
- Automatic expenditures
  - ✓ debt service
  - ✓ personnel insurance contributions

## Execution and Control: Process

- Apportionment of budget authority
- Allotment of budgets to spending agencies
- Commitment of funds
- Incurrence of obligations
- Payment/liquidation of obligations
- Reporting of transactions and results

## Budget Execution: Issues

- implementation of "directed" funds
- budget authorizations as "orders to spend" vs. "limits to spending"
- budget impoundment and sequestration
- budget realignment
- use of program/project savings
- use of unutilized budget authority
- contingency budget authority
- expenditure and revenue tracking

## Review and Audit: Process

- Examination of reports and records of transactions
  - ✓ comprehensive or system audit
    - audit of internal control system
  - ✓ general or compliance audit
    - examination of books of disbursing and certifying officers to determine compliance with laws, rules and regulation
  - ✓ special audit
    - examination of selected transactions or programs

## Review and Audit . . . cont'd

- Reporting of overall fiscal status of local government
  - ✓ external audit: expression of opinion on whether or not financial statements present fairly the results of operation of the local governments for the period indicated
- Recommendation of remedial or punitive measures, when necessary

## Budget Review And Audit: Issues

- monitoring of budget performance
  - ✓ progress reports
  - ✓ periodic assessments and implementation of remedial measures
- value-for-money vs. financial audit
- external audit vs. internal audit
- pre-audit vs. post-audit
- simplification of reportorial requirements
  - ✓ harmonization of reporting formats
  - ✓ streamlining of reports
  - ✓ emphasis on report timeliness
- disposition of adverse audit findings

## PERFORMANCE MONITORING AND EVALUATION MODULE

- Scope of Performance Monitoring and Evaluation
- Areas of Concern
- Approaches
- Comparison of Approaches
- Performance Indicators
- Monitoring of Progress

## Scope of Monitoring and Performance Evaluation

Effective budget monitoring and performance evaluation requires understanding of the following:

- What are the objectives?
- What provisions (or resources) were made available to accomplish objectives?
- How was the task/function undertaken?
- What controls were in place to safeguard integrity of work?
- What were the results?
- What do the results mean to the stakeholders
  - ✓ those who undertook the task
  - ✓ those who benefited

## Areas of Concern

REQUISITES	AREA OF CONCERN
Assignment of Task/ Function <b>(WHAT OBJECTIVE)</b>	✓ Defined task, function ✓ Measurable target of performance ✓ Performance indicator
Provision of Resources <b>(WHAT PROVISIONS)</b>	✓ Personnel ✓ Supplies/logistics ✓ Money ✓ Authority (organizational, management)
Execution of Task/ Function <b>(HOW UNDERTAKEN)</b>	✓ Procurement system ✓ Delivery of goods/services ✓ Payments/liquidation

## Areas of Concern . . . cont'd

REQUISITES	AREA OF CONCERN
Monitoring of Progress <b>(WHAT CONTROLS)</b>	✓ Use of resources ✓ Progress of performance ✓ Availability and timeliness of information ✓ Progress report
Evaluation of Performance <b>(WHAT RESULTS)</b>	✓ Report of results ✓ Analysis of results ✓ Validation
Feedback <b>(WHAT IT MEANS TO STAKEHOLDERS:</b> Personnel, organization, beneficiary)	✓ Incentives/punishment for performance ✓ Remedial/corrective measures

## Approaches

- Value-for-money audit
- Responsibility budgeting and accounting  
(also budgeting for results)
- Performance budgeting

## Comparison of Approaches

Particulars	Value for Money	Responsibility Budgeting and Accounting	Performance Budgeting
<b>Concept</b>	Exacting best value for resources provided	Exacting best results from organizational units to which task is assigned	Exacting desired performance from government programs executed by responsible units
<b>Origins</b>	Audit organization	Private Sector Military	Military
<b>Unique features</b>	Enhancement of unit costs and cost attributions  Shift from compliance to value gains for resource contributions	Highly decentralized organizations  Wide flexibility in budget execution for responsible units	Emphasis on controllable factors; uncontrollable factors not a de-merit
<b>Broad Measures/ Indicators</b>	Economy Efficiency Effectiveness	Efficiency Effectiveness Output	input Work Load Efficiency Effectiveness Impact/Outcome

## Performance Indicators Categories

- **Quantity** - number produced/served
- **Quality** - improvement in desirability of product/service
- **Time** - time saved
- **Client Satisfaction:**
  - ✓ **rating** - % satisfied
  - ✓ **willingness to pay** - % willing

## Performance Indicators Illustration

Measure	Focus	Sample Indicator
<b>Input/Economy</b>	Personnel, time, resources spent	No. of personnel employed; total budget spent
<b>Output/Workload</b>	What agency does	No. of audits done; Kilometers of highway constructed
<b>Efficiency</b>	Cost per unit of output	Dollar subsidy per school; dollar cost per irrigation hectare
<b>Effectiveness</b>	Rate of accomplishment	% of clients satisfied; % time savings
<b>Impact/Outcome</b>	End result	Clean city; crime-free zone

## Monitoring Of Progress Key Elements

- Assessing progress of work in the course of the budget year to implement rapid corrective measures, where necessary
- Key elements:
  - ✓ periodic reporting of progress (even if nothing to report)
  - ✓ periodic assessment and feedback on reported progress
  - ✓ spot audit of reported progress
  - ✓ spot check by third parties
  - ✓ rapid execution of corrective measures  
e.g., realignment of resources; transfer of project location
  - ✓ taking difficult decisions early  
e.g., abandon project to cut costs

## PUBLIC FINANCIAL MANAGEMENT REFORMS

- Transparency and accountability mechanisms
  - ✓ scorecards and surveys
- Participation by nongovernment, nonprofit sector
  - ✓ national and international watchdogs
- Extensive use of information technology
- Harmonization of systems and procedures across countries using internationally accepted standards
  - ✓ procurement
  - ✓ accounting and audit
  - ✓ internal control
  - ✓ financial reporting
- Management for results

When the people's trust in the capacity of the central government to deliver public services has been severely eroded, local governments can be relied upon to do a good job at managing the public's scarce resources at the community level.

END OF PRESENTATION

**THANK YOU!**