

# Comparison of Performance Budget and Traditional Budget

## COMPARAISON ENTRE LE BUDGET DE PERFORMANCE ET LE BUDGET TRADITIONNEL

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**Abstract:** With the development of marketing economy and legal system construction, people are paying more and more attention to the transparency, structure and the effectiveness of government finance. Information supplied by Government Budget Accounting provides the best way according to which people supervise and judge the government's performance. But current Government Budget Accounting has shortcomings in theory foundation. So it's very urgent to promote reforms on it. This article mainly introduces the difference between the new performance budget and the traditional budget.

**Key words:** Performance budget, Traditional budget, Comparison

**Résumé:** Avec le développement de l'économie de marché et la construction du système légal, on prête plus d'attention à la transparence, la structure et l'efficacité des finances gouvernementales. Et les informations fournies par la Comptabilité de Budget du Gouvernement sont importantes, car on peut superviser et juger, d'après ces informations, la performance du gouvernement. Mais la Comptabilité de Budget du Gouvernement en cours manifeste des défauts dans la fondation théorique. Donc il est urgent d'effectuer la réforme en ce domaine. L'article présent introduit principalement les différences entre le nouveau budget de performance et le budget traditionnel.

**Mots-Clés:** budget de performance, budget traditionnel, comparaison

### 1. INTRODUCTION

The hottest topic in the reform of public management in the whole world at present is the management of budget and governmental accounting. The main thread of budget management is the turning from traditional budget management led by inputting to the budget management led by the performance. The performance budget was implemented by U.S.A. originally and it has gone through reforms such as project planning budget, zero-base budget and so on. In the middle of 1980s some OECD country especially Australia and New Zealand carried a series of reforms named "new public management" that had quite an effect. The traditional input budgeting has been replaced by the out budgeting which measures the performance of government sector and expenditure unit through output indicators. Output budgeting is modern performance budgeting.

Performance budgeting has been approved by a lot of countries in the world because its modern management ideas and advanced techniques.

The study lays particular emphasis on reality abroad. It mainly discusses how to implement effective performance budget, and with which index to examine. The study on performance budget stays in theory mainly in domestic existing documents. Its content is concentrated in two aspects mainly: Firstly, introduce the meaning of the budget performance, foreign experience and enlightenment of our country; secondly, study feasibility and difficulty of implementing the performance budget in our country. This article compares new performance budget with traditional budget systematically on the basis of existing documents.

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## 2. COMPARISON OF BASIC DEFINITION

### 2.1 Definition of performance budget

The definition of the performance budget may be traced back to the US President's definition of the budget office in 1950: "The performance budget is this budget. It explains that asking for allocating funds is to reach the goal and planning the draft how much does it cost for achieving these goals. It also contains indexes of quantization with which to weigh its achievement obtained in the process of implementing each plan and the situation of finishing the work".

U.S.A. national performance Evaluation Commission defines it as "the budget that mission-driven and results-oriented.". From the broad sense, the new performance budget includes all budget reforming which contacts the budget input with the budget output. The focal point of the performance budget is making the result of public project instead of the input of the public budget. It focuses on responsibility of government's behavior and performance measurement. Raising the efficiency is not the only goal of the performance budget. The current performance budget emphasizes the evaluation of the public department's achievement, and then seeks the improvement of public satisfaction.

### 2.2 The definitions of traditional budget

The traditional budget preparing method is mainly one point of line-item budget of the inputting type. It is also translated into the linear budget sometimes. It means that every budgetary expenditure is classified according to the type of the expenditure and goal. Controlling the use of funds can avoid the fund transformation between the personnel expenditure and other subentry expenditure. In the linear budget, every receipt and expenditure has clear source and whereabouts.

## 3. COMPARISON OF THE WORKING ROUTINE AT BUDGETS

### 3.1 Working routine of the performance budget

Viewed practices of the performance budget in various countries, its working routine can be divided into the following several steps on the whole :

**3.1.1** The department proposes the medium and long-term strategic plan. The medium and long-term

strategic plan (3- 5) of the department is generally made according to the national medium and long-term strategic plan, conforming with development strategic objectives of medium or long term in the country.

**3.1.2** The department makes the annual plan according to the strategic plan.

**3.1.3** The department proposes the annual performance plan target and annual budget according to the annual plan; Annual performance plan includes performance goal and examining index of quantization, connecting the concrete work of every department with the overall development plan of the country. Generally the rolling type budget of medium or long term is adopted in annual budget.

**3.1.4** Verify and assign the annual budget.

**3.1.5** Budget enforcement, follow the performance environment at the same time, and adjust it at proper time.

**3.1.6** Evaluate real performance in the end of every year; Generally set up special performance appraisal agency which is responsible for supervising and organizing performance index formulation and assessing of the year-end performance of every department.

**3.1.7** Adjust the budget of the succeeding year according to the performance.

In the working procedure of the performance budget, the performance appraising is undoubtedly in the central position. Work planning, performance appraising and budget supplement each other, forming the intact performance budget management system organically. They serve the goal of improving benefit of expenditures together.

### 3.2 Working routine of traditional budget

**3.2.1** The financial department assigns the notice on working out department's budget and proposing planning to the department.

**3.2.2** Every department works out, gathers and reports to department's budget proposing counting according to the request of the notice.

**3.2.3** The departments with the right of distribution of budgets formulate and submit the special budget.

**3.2.4** The financial department verifies proposing quantity of department's budget, and then assigns budget amount jointing with the department that has the right to assign in budget.

**3.2.4** Every department works out the department's budget according to the budget control counting and then reports to the financial department.

**3.2.6** The financial department verifies and gathers department's budget, together with the function budget, submits to the government and reports to the

examination and approval of the National People's Congress after authorizing.

3.2.7 The financial department, according to the budget which the National People's Congress sanctions, gives a written reply to the budget to the department.

#### 4. COMPARISON OF THE FOUNDATION OF MEASURE

The accounting method of cash basis is used in the governmental accounting of the traditional budget managing. The most important difference lies in accounting foundations between cash basis and accrual basis. The former confirms income and expenses by the standard when receipts and payments taking place actually, while the latter' confirming standard is the forming and happening of the right and the obligation. Under the accounting system of cash basis, it may happen that handling annual expenditure artificially through paying the cash expenditure ahead of time or with delay. At the same time, it can't amortize the capital cost within service life either. These shortcomings make public products and cost of the service that the government offered during a specified period of time very difficult to reflect objectively and accurately. Accrual basis can offer more financial information (including assets, debts, income, expenditure, cost, etc.), especially public products and cost information of the service. Thus it can reflect the government's financial operation situations and the whole states from all sides and with more accuracy.

Performance budget emphasizes performance management in order to improve the efficiency of government operation. This needs to understand and to manage cost correctly, which requires using accrual basis in government's budget or the financial report. It is accrual basis that links all cost of resources and performance up closely. Thus it can help to emphasize the management style of the performance. In those countries of implementing the output budget (or allocating funds), it is particularly important to turn to use accrual basis. Understanding the cost of the specific output is an essential precondition, whatever confirming amount of allocating funds or guaranteeing commission' responsibility based on achievement. So we must reform the accounting system correspondingly for implementing the performance budget, which means to pursue accrual basis.

#### 5. COMPASION OF BUDGET GOALS AND APPRAISAL OF THE IMPLEMENTING EFFECT

##### 5.1 Compasion of budget management way

Under the traditional management mode of input budget, there aren't performance standards about allocating and reallocating of financial resource. This makes those organizations and projects which lack the performance can still get resources. And once resources flow into these organizations and projects, the expenditure user has a greater motivation to continue to get more resources in the budget fighting of new round while safeguarding one's own vested interest. On the macroscopic, quite a few financial resources of the country that is rare are held up in or wasted on the use of the poor benefit such as some image projects of playing for the gallery. But the projects that are more effectively and have priority in state policies goal, such as basic education and health care, are unable to obtain enough fund. Thus the government's performance is destroyed.

The performance budget makes the traditional budget management mode turn from the mode of "personnel - the function - the funds" to the mode of "the public product - public product cost - the budget". It has realized the transition of traditional budget method from being in charge of people to running affairs. It also changes the original method that only considers the government's public resource stock completely. These have reflected the tied mechanism of the budget better. It makes revenue and expenditure checking change into cost checking, melting the ideas of cost checking in the budget in term of emphasizing the public products checking and strengthening the inner mechanism of the government from system. These make public products and services can be checked and calculated at the request of law of value discipline strictly, in accordance with the law of value discipline even more.<sup>3</sup>

##### 5.2 Comparison of budget goals

The government's financial behavior must comply with the rule on one hand and must make the performance on the other hand. Obeying the rule means in keeping with laws, statutes and regulatory framework. The performance refers to producing the good benefit. What the traditional input budget emphasized is to obey the rule and that is to say whether "the making and using of budget fund accords with the regulation". It is certainly an important goal of management of the budget, but the basic goal of the public expenditure does not lie in this but lie in how to promote the maximum public interests.

<sup>3</sup> Zhou LiWen, Wang XiaoDong. Preliminary idea that the performance budget pursues in our country. Financial accounting communication, 2006, 2

So the question that needs attention is what kind of achievement is made using the public fund, while not attaching importance to the compliance of controlling introjection.

The other that must be explained in addition is the outcome said in performance budget does not equal to the output of the public fund. The output refers to goods and service produced by an activity that puts into resources - for example the number of teenagers of accepting compulsory education. And the outcome is the purpose realized by output produced; that is to say the outcome is what an activity obtained finally - for example improving teenagers' cultural dynamics and knowledge level. The difference of the outcome and output lies in: "outcome" means that ordinary people are benefited and tells us which advantages they receive through this activity. "Output" tells us which work is done in government department.

### 5.3 Comparison of the motive of the expenditure of departments

Because the budget (expenditure) being asked, examined, assessed and reported does not have contacts with performance of the expenditure in the traditional budget, each expenditure user can fight for budget input to the limit and try one's best to use up them within the fixed term of validity. While the expenditure controllers who are responsible for gross expenditure need to control this Government budget has become the stage of fighting for public resources among expenditure users and also has become the angle force of controlling and against controlling between the expenditure users and expenditure controllers. Therefore, the final result produced is: the sums of resources, which the individual expenditure person got or intended to obtain, always exceed financial ability of total value and economic ability to bear. That will destroy the government finally. This can be summarized rationally as a famous "public tragedy" in the public financial field in terms of property right theory.<sup>4</sup>

And the performance budget mode has introduced the performance contract that changes expenditure motive of the expenditure department in the course of resource distribution. The budget organization signs the performance contract with expenditure department. The budget requires that the expenditure department must have contacts with a certain achievement correlated with the government's goal. The expenditure department must realize this achievement after using the public fund, otherwise it will bear corresponding management responsibility. Under this kind of mode, expenditure organization will realize public achievement better which is implemented by public

expenditure through recombining the organization, not only pursuing the maximization of the budget.

### 5.4 Comparison of the enthusiasm of department's administrator of expenditure

In the traditional input budget management, since the input of budget resource is controlled strictly, the expenditure user lacks the independence and flexibility of management. They are only responsible to the input, not the output and outcome. What the expenditure controller needs to do is to make sure that the expenditure user obeys correlative rules in the course of the budget, but not to demand the user to accomplish the required performance, virtually the yardstick and criterion of measuring and examining the performance are not existent at all. The lack of management and independence weakens the government financial further achievement, and also makes the administrator and decision-maker feel difficult to examine and assess the expenditure organization and clerks.

In fact, the performance budget returns the executive rights to the department, after confirming the targets of achievement and budget and the department can adjust the technological route independently to achieve the targets. Thus, it enables government to control the scale of budget; on the other hand, it can arouse the enthusiasm of budget entity greatly and carry on better resource distribution. For a simple example, suppose the government department is going to finish some project target (such as urban virescence), in the extent of defined target made by government, one way is to let market strength finish the virescence and maintenance through the bid way; it also can be finished by government department itself through establishing public landscape bureau, etc. The release of the right to choose, can promote governmental behavior according to the market demands, and make the government behavior and market demand coordinate with each other. In addition, "benefit sharing", which is implemented in the new performance budget, enables every department to carry over the surplus into the next budget year. In this way, the administrator of expenditure department needn't to be afraid of losing the surplus, which previously is taken away by budget department, and needn't to be afraid that the budget will be slashed next year. The new mode helps the department to overcome the impulsive spending behavior, which happens under the traditional mode at the end of the year, and consequently economizes the fund and reduce the waste.<sup>5</sup>

<sup>4</sup> Wang YongJun. Government's budget accounting problem is studied. Economic Science Press of Beijing, 2004:165

<sup>5</sup> Ma Jun. New performance budget. The journal of central finance and economics university, 2004, (8): 1~6.

## 6. CONCLUSION

Through the comparison between the two kinds of budget management and practice, the traditional input budget management mode is unsuccessful in many aspects. With the development of government management mode under market economy system and the strengthening of public expenditure management, new performance budget mode becomes the very choice of financial fund. It is not only a kind of innovation of the method to the budget, but also a revolution of the governmental management method. The new budget mode is built on the basis of performance. It is oriented in consequence, in other words, it emphasizes the responsibility and efficiency, and strengthens the connection between budget resource distribution and governmental performance. It is helpful to promote the

efficiency of financial expenditure. For the government department, the concerns from mass about the public service quality and cost, contribute to promoting government decision procedure standardization and democratization.

The establishment of the performance goal, the execution of the performance and the publicity of estimate result, all contribute to strengthening the responsibility of the government department. The performance budget, which has entrusted larger right of execution of budget to the department, contributes to impelling the government department to distribute resources reasonably according to the efficiency principle of the cost and improves the validity of the financial fund. To the financial department, the performance budget reform helps to impel the financial management style to be innovated and improved, and to improve the validity of the financial fund.

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