

1

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Performance-Based Budgeting for Improving Allocative and Operational Effectiveness - The German Approach -

Table of Contents

1. Overview

1.1 Introduction

1.2 Performance Measurement

1.3 Performance-Based Management

1.4 Performance-Based Budgeting

1.5 Performance Reporting

2. German Approach

2.1 Philosophy

2.2 Budgeting

2.2.1 Overview

2.2.2 Budget Structure

2.3 Accounting

3. Conclusion

1. Overview

1.1 Introduction

1.2 Performance
Measurement

1.3 Performance-
Based Management

1.4 Performance-
Based Budgeting

1.5 Performance
Reporting

2. German Approach

2.1 Philosophy

2.2 Budgeting

2.2.1 Overview

2.2.2 Budget Structure

2.3 Accounting

3. Conclusion

Past:

- Planning-Programming-Budgeting-System (PPBS)
- Zero-Based-Budgeting (ZBB)

Nowadays:

- New Public Management Budgeting
(NPM-Budgeting)

1. Overview

1.1 Introduction

1.2 Performance
Measurement

1.3 Performance-
Based Management

1.4 Performance-
Based Budgeting

1.5 Performance
Reporting

2. German Approach

2.1 Philosophy

2.2 Budgeting

2.2.1 Overview

2.2.2 Budget Structure

2.3 Accounting

3. Conclusion

NPM Basis:

→ Institutional Economics:

Transaction-Cost Theory

Principal-Agent Theory

Public-Choice Theory

→ Management Gap

NPM-Budgeting Components:

→ Performance Measurement (PM)

→ Performance-Based Management (PBM)

→ Performance-Based Budgeting (PBB)

→ Performance Reporting (PR)

- 1. Overview
- 1.1 Introduction
- 1.2 Performance Measurement**
- 1.3 Performance-Based Management
- 1.4 Performance-Based Budgeting
- 1.5 Performance Reporting
- 2. German Approach
- 2.1 Philosophy
- 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
- 2.3 Accounting
- 3. Conclusion

Types of Key Figures

- Input
- Output
- Outcome, resp. Impact
- Customer Satisfaction
- Efficiency and Productivity
- Explanatory
- Benchmarks

Problems

Implementaion very expensive

Performance Benefits > Performance Costs ?

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management**
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting
- 3. Conclusion

Preconditions

- Political Support and Analytical Competency
 - but often fear of transparency
- Strategic Planning and Budgeting System
 - Vision, Mission and Philosophy
 - Strategic Themes
 - Statewide Strategic Goals and Benchmarks (Strategy Map)
 - External and Internal Assessment
 - Particular Unit Goals and Objectives with Outcome Measures
 - Strategies with Output, Efficiency and Explanatory Measures
 - Targets for the Budget

Risk Management necessary!

Attention: Beyond-Budgeting-Movement

- 1. Overview
- 1.1 Introduction
- 1.2 Performance Measurement
- 1.3 Performance-Based Management
- 1.4 Performance-Based Budgeting**
- 1.5 Performance Reporting
- 2. German Approach
- 2.1 Philosophy
- 2.2 Budgeting
- 2.2.1 Overview
- 2.2.2 Budget Structure
- 2.3 Accounting
- 3. Conclusion

No incrementalism → Connection between Performance Measures and Planning of Budget Resources

PBB Goals

→ Improvement of allocative Effectiveness

(needs budgetary liberation of the management)

→ Improvement of operational Effectiveness

Nowadays operational Effectiveness is dominant

Type of connection:

Output-Purchase Budgeting on the basis of Activity-Based Budgeting (ABB)

Activity-Based Budgeting is Activity-Based Costing (ABC) performed in reverse



- 1. Overview
- 1.1 Introduction
- 1.2 Performance Measurement
- 1.3 Performance-Based Management
- 1.4 Performance-Based Budgeting**
- 1.5 Performance Reporting
- 2. German Approach
- 2.1 Philosophy
- 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
- 2.3 Accounting
- 3. Conclusion

Traditional Service Costing

vs

Activity-Based Costing

Costs

Costs

*Consumed By**Consumed By*

Services

Activities

Consumed By

Services

Problem Possibility of
MissallocationTracing costs based on cause and effect
(Using Resource and Activity Drivers)

1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting**
2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting
3. Conclusion

Fostering communication to politicians, management, staff and citizens

Problems:

- Comprehensibility (esp. with regard to citizens)
- Free Access (Internet-Portal)

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy**
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting
- 3. Conclusion

Reinventing Budgeting and Accounting

„Neues kommunales Finanzmanagement“ – New local Government Financial Management

Global Performance for the community as a whole

- (1) Gaining and Maintenance of financial performance
- (2) Avoidance of accounting insolvency (Maintenance of positive Equity)
- (3) Gaining and Maintenance of intergenerationell Justice:

The present generation must care for revenues for the annual budget to cover all expenses from the production and public services caused by the present generation

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy**
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting
- 3. Conclusion

All expenses means full cost of service:

- current expenses for the public services
- depreciation and amortisation used for the public services
- provisions or accruals for contingencies, for outstanding losses, for risk and claims and for pensions

Key figures measuring global performance:

- Goal 1: Cash Flow (balance between cash receipts and cash payments)
- Goal 2: Equity
- Goal 3: balance between revenues and expenses

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview**
 - 2.2.2 Budget Structure
 - 2.3 Accounting
- 3. Conclusion

The german history of Budgeting-Systems after the 2nd world war:

1. System: cash based, structure splitted between an ordinary and extraordinary budget, balancing the ordinary budget
2. Sytem: cash based, structure splitted between an operating budget and capital budget, balancing the operating budget

No performance capable systems

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure**
 - 2.3 Accounting
- 3. Conclusion

Substantial change in German government finance

- Double-entry bookkeeping replacing the “Kameralistik”
- Resource-oriented Budget in addition to the Cash-Budget
- Output-oriented budgeting
- Financial reporting including balance sheet and profit and loss statement

The new annual budget consists of an accrual-based budget and a cash-based budget.

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure**
 - 2.3 Accounting
- 3. Conclusion

Income Budget:

	Extraordinary revenues
-	Extraordinary expenses
=	Extraordinary income statement
	Ordinary income statement
+	Extraordinary income statement
=	Income statement for the fiscal year

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure**
 - 2.3 Accounting
- 3. Conclusion

Income Budget:

	Ordinary revenues from ongoing activities
-	Ordinary expenses for ongoing activities
=	Income statement for ongoing activities

	Financial revenues
-	Interest and related expenses
=	Financial income statement

	Income statement for ongoing activities
+	Financial income statement
=	Ordinary income statement



- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure**
 - 2.3 Accounting
- 3. Conclusion

Income Budget (Accrual Basis)

Revenues

- **Taxes (anticipated cash receipts)**
- **Fees**
- **Fines**
- **Rents**
- **Investment income**
- **Grants (for operating expenses)**

Expenses

- **Operations and maintenance**
- **Payroll**
- **Interest**
- **Full depreciation**
- **Accruals for pending claims, pension system contributions etc.**
- **Internal service charges**

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure**
 - 2.3 Accounting
- 3. Conclusion

Cash Budget:

	Cash receipts from ongoing activities
-	Cash outlays for ongoing activities
=	Cash flow from ongoing activities

	Cash flow from ongoing activities
+	Cash flow from capital projects and investment activities
=	Financial fund surplus / deficit

	Financial fund surplus / deficit
+	Cash flow from financing activities
=	Inventory change of financial funds



- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure**
 - 2.3 Accounting
- 3. Conclusion

Cash Budget (Cash Basis)

Cash Receipts:

- Taxes (anticipated cash receipts)
- Fees
- Fines
- Rents
- Investment income
- Grants (for operating expenses)
- Debt proceeds
- Transfer from common reserve
- Grants (for capital projects)
- Sales of assets

Payments:

- Operations and maintenance
- Payroll
- Interest
- Capital outlays
- Principal
- Transfer to common reserve

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure**
 - 2.3 Accounting
- 3. Conclusion

Both Budgets are divided into Products/Programs (= political and strategic themes).

Products represent the central performance objects (performance in detail).

The product system is formed as a hierarchy.

- 1. Overview
- 1.1 Introduction
- 1.2 Performance Measurement
- 1.3 Performance-Based Management
- 1.4 Performance-Based Budgeting
- 1.5 Performance Reporting
- 2. German Approach
- 2.1 Philosophy
- 2.2 Budgeting
- 2.2.1 Overview
- 2.2.2 Budget Structure**
- 2.3 Accounting
- 3. Conclusion

Structure of Income Budget and Cash Budget (Example):

<i>product area</i>	environmental design
<i>product groups within this area</i>	land use planning and development building and habitation utilities and waste disposal traffic areas and public transport nature protection and landscape conservation environment protection economy and tourism
<i>individual products within building and habitation</i>	building regulation and land regulation social housing support monument conservation and preservation
<i>individual products within traffic areas and public transport</i>	in-town streets county roads countryside highways (transit and beltways) street-cleaning parking sites and parking garages public transport

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting**
- 3. Conclusion

In local jurisdictions and partially of the state level the double-entry bookkeeping system used in private sector had replaced the traditional „Kameralistik“ system.

The basis for the NKF budgeting and accounting is a chart of accounts. It is organized into the following account classes:

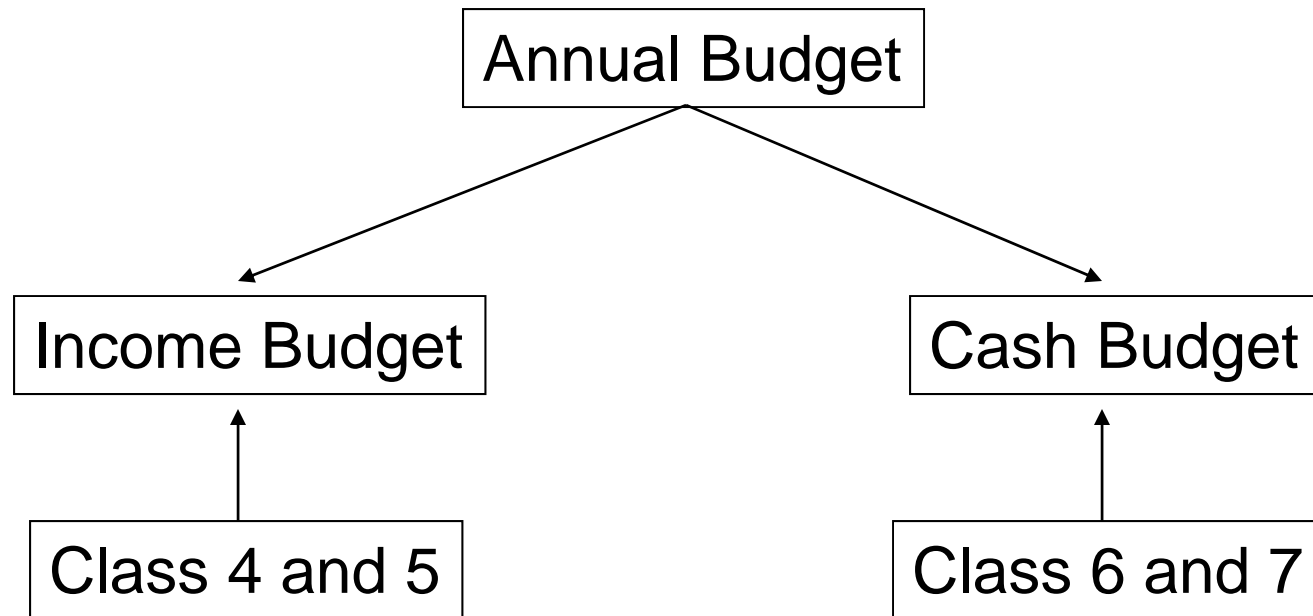
- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting**
- 3. Conclusion

Chart of Accounts:

Class	Designation	Contents (examples)
0	Fixed Assets	land, buildings, machinery, equipment etc.
1	Financial Assets	investments, stocks, securities etc.
2	Current Assets	inventories, accounts receivable, down payments for assets under construction etc.
3	Equity, Reserves and Liabilities	reserves for pending claims or for impending losses or future capital outlay, accounts payable, credits, capital leases payable etc.
4	Operating Revenues:	taxes, grants, fees, charges for sales and services (external), charges for services (from internal activity allocation), interest revenue, donations etc.
5	Operating Expenses	payroll, costs of sales and services (external), cost of services (from internal activity allocation), interest depreciation etc.
6	Cash received	cash received from customers, from citizens or from other jurisdictions, from sales of fixed assets or investments, from given loans, from credits etc.
7	Cash outlays	cash paid to employees, to suppliers or to other jurisdictions, cash paid for purchase of fixed assets, for investments, amortization etc.
8	Accounts for closing	
9	Cost Accounting	specific accounts for secondary cost elements. This account class will be used only for integrating the cost accounting with the financial accounting, and for settlement and cost allocation purposes.



1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
- 2.3 Accounting**
3. Conclusion



- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting**
- 3. Conclusion

Contents of annual reporting:

→ Product-based financial statement only comprising the administration units

→ consolidated financial statement including the independent companies belonging to the local jurisdiction (balance sheet, income statement, cash flow and management report)

- 1. Overview
 - 1.1 Introduction
 - 1.2 Performance Measurement
 - 1.3 Performance-Based Management
 - 1.4 Performance-Based Budgeting
 - 1.5 Performance Reporting
- 2. German Approach
 - 2.1 Philosophy
 - 2.2 Budgeting
 - 2.2.1 Overview
 - 2.2.2 Budget Structure
 - 2.3 Accounting
- 3. Conclusion

Income-Budget and Cash-Budget are performance capable.

Further steps:

→ Integration of the Performance-Based-Budgeting into the strategic planning

→ Performance Measurement on the level of products and connected departments (detailed performance)

The Performance-Project can only be successful, if politicians, management and staff agree with this project.

**Can it help to gain allocative and operational effectiveness?
We must believe in it and try it!**

26

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THANK YOU FOR YOUR ATTENTION !