

PROSPECTIVE BUDGETARY PLANNING AS A BASIC FOR REGIONAL DEVELOPMENT

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Abstract

Reorganization of the system of budget management necessitated by the crisis developments in the state and, expressly, at the level of local government and planning regions, on completion of the administrative-territorial and regional reforms in Latvia will call for additional in-depth research in the field of budgetary policy to achieve the stated objectives of regional development. In recent decades a number of EC states are witnessing regionalization of economic and social processes. Increasingly, the regulatory functions regarding the processes are transferred from the central level of the state authorities to the local ones. In view of that, the role of the regional-territorial finance is increasing and, also, the sphere of utilization of those is the broadening. Efficient management of the activity of the local governments and their inter-budget liaising at the regional level suggest different approaches to be taken in formation and implementation of the budgetary policy at the regional level. The processes occurring in the centers of population (aggregations) (demographic, social, industrial, ecological) should be closely linked to the budgetary development programs with precisely defined periods of implementation; also, they should conform to the national programs and tally with the forecasts for the economic development. Uniting the interests of all the participants of the budgetary processes both at the level of local governments and the state should become the central principle of the budgetary policy. And, primarily, this is the correspondence between the financial funds and the amount of the budgetary functions carried out. The take-off and starting point for putting into action this constructive principle could be the implementation of the tri-step mode of budgetary planning: long-term development of local government – preparation of prospective budget – preparation and implementation of annual budget, including the development budget and budget for current expenditures. The authors of the article substantiate the necessity and the possibility of altering the approaches to formation of the inter-budgetary policy at the regional level making use of the result-based technologies. The methods of purposeful program planning made use of will ensure that the interrelations between the expenditure of the self-governments and the expected results are reflected accurately and clearly.

Key words: budgetary planning; development budgets; long time and middle time plans; regional development.

Regions and the principles of the national regional policy

Regions are currently seen as the key level for the economic growth and development. A. Scott. And M. Storper point out that "cities and regions act as the essential basis in the overall process of development" [7]. Expressly, the localized territories are the places where a sufficient part of the added value of all the countries is created, with the regional condition, therefore, being crucial for the competitiveness of the manufactured goods [4].

In the advanced economies this is manifested in numerous programs and research, focused on the analysis of competitiveness of individual territories.

In the traditional understanding **the region** is a sub-system of social and economic systems of a country, its relatively independent part with a completed cycle of reproduction and the specific characteristics of the socioeconomic processes.

The recognition of the role of the spatial factors in the economic growth is a relatively new phenomenon in economics. The major fac-

tors of the territorial development are defined in "the new economic geography" founded by Paul Krugman [2]. The so-called "first nature" factors, such as availability of natural resources, geographical position, which do not depend on people, and the "second nature" factors are distinguished, such as agglomeration effect, human capital, institutionalism, linked to the activity of the state and society. The more advanced the level of development of a country is, the greater is the impact of the "second nature" factors on the regional development.

The role of the infrastructure in regional development is great. Significant external economies appear in agglomerations and regions resulting from joint use of expensive capital intensive infrastructures, such as transportation infrastructure, telecommunications, power-engineering and other kinds of infrastructure of network nature. The availability of convenient and modern infrastructure plays the key role in decision-making regarding industry locations on the territory of the region with the consequent effect of "circular causality". For this reason, on

the territory of the European Union the trans-national and cross-border cooperation make a separate program and increasingly, the new EC member states are receiving grants to build speedways, networks etc., in the first place. As the experience of the "old" EC member states and other countries proves, the general development policy of the state must comprise backing for the regional development and affiliated administrative-territorial formations as an indispensable component serving the basis of economic growth on the whole [6].

The differences across the countries are observed in the methodology used to create the conditions for sustainable regional development: some countries having successfully solved the problem of catching up with the leaders of European integration, at some of the stages of their development were based on the renowned theory of "growth poles" or its modifications (regions – "economy locomotives", "growth points", "global economics gateways"). Having completed the task of bringing the national economy to a certain level of development through purposeful concentration of resources in certain regions, the countries proceed to the crucially different stage of multiplying the success in other regions (big cities) of the country, then, at still further stages they go on to create the conditions for sustainable development of the country (such as in Sweden) across all the four constituents (intents and purposes) – social, ecological, economic and budgetary.

Currently most of the EC member states in Central and Eastern Europe hold that managing and preventing the multiplication of regional disproportions undermining the economic and social foundations of the territorial integrity of the state should be one of the protective functions of any modern state. Practically, in all of these countries the governments, to a greater or lesser extent, implements active regional policy, establish the principles, objectives and long-term priorities for regional development, adopt the strategy of regional development, lend support to the backward regions, which includes direct government grants to economic entities. The reforms in the area of regional managements are entering a new structurally-ordered stage related to strengthening of the guiding function of the state and the significance of the regional policy determined by the following essential principles:

- **the principle of decentralizations** with the rights and responsibilities in regula-

tory activity in the field of regional development delegated to local authorities of state administration and local governments;

- **the principle of priority ranking** implying concentration of the efforts to solve the major problems of the regions;
- **the principle of subsidiarity**, which stipulates the government intervention exclusively to solve the most major regional problems;
- **the principle of flexibility**, revealed in systematic analysis of the outcomes and adjustments made to the regional policy;
- **the principle of partnership**, implying liaison and collaboration among the highest bodies of state power, bodies of local authority and local governments and all the parties interested to develop and implement regional policy;
- **the principle of preventiveness**, concerned with timely state intervention into the regional development (before territorial disproportion occur);
- **the principle of permanence** as continuous and comprehensive monitoring of the processes in the regions and acting accordingly;
- **the principle of transparency** (openness) of the national regional policy.

Budgetary policy in regional development planning

Budgetary policy as the entire range of all the decisions taken in the field of local government planning and budgeting with the purpose of overall regional development, in our opinion, should conform to a tri-step scheme: local government long-term development – elaboration of projected budget – elaboration and execution of annual budget of local government, including the development budget and current expenses budget.

Functioning of such scheme of budgetary planning as regards the development-linked expenditure can be based on working out of three documents, acquiring the status of normative regulatory documents of the municipal entity: the long-term development plan; projected budget; annual development budget.

Besides, the short-term plans with respect to procedures and information should be subordinated to more urgent which will facilitate the implementation of the Development Programme

of Local Government and the Development Programme of a Planning Region, in general, as stipulated by sections 11 and 13 of Regional Development Law [3]. The said umbrella law in section 17.1 stipulates the following source of financing for planning regions:

- State budget grants for the support of planning regions and other State budget grants;
- own revenue, including revenue from paid services provided by the planning;
- grants from local government budgets in accordance with contracts entered into by a local government and a planning region;
- foreign financial aid funds;
- donations and gifts.

The proposed method to accumulate the sources of financing for regional development intensifies the role of the budgetary policy in managing the inter-budget relations at regional level, which can either significantly facilitate or hinder modernisation of local finance in post-crisis period. Therefore, it would be quite reasonable and necessary to apply a clear division between the development budget and current budget as the constituents in the general budget expenditure of local governments, as the latter, in essence, constitute two different if inter-related categories. The development budget is a separate amount of budgetary means accumulated into an independent fund, to provide on a range of grounds, the means to support innovative and investment activities. With the purpose of putting the latter into practice of local governments' budgetary planning and efficient utilization thereof, we believe the following recommendation would be in order:

- it is necessary to provide actual continuity of annual carry-over investment financing;
- medium-term projecting and annual indicators of development budget should be formalised in legislation;
- it is possible to apply in practice of development budget elaboration the principles of „rolling“ annual planning with the purpose to provide for the continuity between the medium-term and annual projecting, and for conformity of the budget to the medium-term and annual budgets;
- an integral system of development budgets should be created comprising the state fixed budget and the local govern-

ments' budgets, both in general and in the specific parts;

- it is necessary to transform all the above-mentioned scattered financial resources intended for regional development into purposefully set up **Special-Purpose Regional Planning and Development Budget**;
- the budgetary powers of regional development budget planning as stipulated by section 17 and section 18 of Regional Development Law can be given to Planning Region Co-operation Committee and Planning Region Development Council;

To return to the issue brought to discussion concerning the acceptability of setting up a tri-step scheme comprising long-term development, elaboration of a prospective budget and an exemplary budget, we trust the following should be noted: the long-term development plan of local government should relate of „financial framework“ of EC budget and the allocations from the EC structural funds expenditure intended for support and levelling off the regional development in the EC states. Long-term planning should provide for the continuity of the sources of financing and comprise forecast of economic, financial and social development of a local government for at least a 10-year period, which should correlate with the national development plan for the corresponding period across the specific types of infrastructure.

The long-term plan serves the basis for elaboration of projected budget which is annually renewed financial document. The term of the projected budget is determined taking into consideration the average duration of the investment cycles for the municipal projects and the periodicity of the composition renewal of representative and executive authorities. The projected budget should be reconsidered and approved together with the legislative budget for the fiscal year. As distinct from the long-term development plan the projected budget only comprises the programs supported by the Planning Region Development Council requiring financial participation from the local government. Besides, the projected budget should be related to the project implemented by the local government itself and yielding some profit to the budget even if there is no necessity to draw in additional resources. In other words, the projected budget should take into account not only all the expected expenses, but also all the expected incomes. Approved projected budget serves a basis to elaborate an an-

nual development budget. Development budget is the part of the budget which comprises fund allocations to finance the investment and innovative activity and represents a „cross-section“ of the projected budget for the given fiscal year with the expected outcomes of budget execution, current expenses and the suggestions made.

Result-oriented budgeting

Amplification of the regional aspects of socio-economic policy and the concurrent essential changes taking place in inter-budget relations of local governments do not exclude the necessity of cardinal alterations made to budgetary policy as the core of the system of the state control and management. The procedures of budgeting, approval of a budget, and budget execution with local governments should be re-oriented from budgetary fund management to **result-oriented** management (with planning of budgetary allocations based on the outcomes of the budget programs implementation and precisely coordinated with the functions of budgetary funds management and establishing clear priorities in expenditure assessed based on realization). The above approach broadens the independence and responsibility of the budget planning entities, managing the budgetary means, as with that, long-term carry-over allocations with annual adjustment in conformity with the medium-term financial plan are set, long-term development budget for implementation of specific programmes is created, incentives appear for the use of resources (financial, human, material – equipment, facilities etc.) to be optimized, at the same time the internal audit becomes a priority, the responsibility for decision-taking is delegated to the lower levels.

Generally speaking, the result-oriented budgeting (ROB) is a system of budget formation-implementation, reflecting the relationship between the budget expenditure planned-implemented and the results expected-achieved. The purpose of such model is to bring into balance the resources expended and the results thus achieved, to evaluate the economic and social effectiveness of various types of activities financed from the budget [9].

During the result-oriented budgeting (ROB) process the expenses of all the budget-holders are distributed across the types of activities to be undertaken to solve the problems at hand. For each type of the activity a program is elaborated comprising description of goals and objectives,

the resources needed to achieve those, as well as the measures of efficiency and performance indicators of the programme implementation and procedures to adjust the measures and indicators. Budget requests are compiled to conform to the program's goals and objectives.

The draft budget structure is noted for the following features: its first part determines the priorities, goals and objectives, comprises the description of the expected results, the target value of the indicators to be achieved are rationalised. The second part of the draft budget gives the structure of expenditures.

At the same time, one must admit that, despite the many advantages of the ROB method, launching of the practical application thereof could be time and effort-consuming, and, at times, regarding a number of aspects – ambiguous. For the lack of experience and complexity of the normative standards to be elaborated, full-scale transition to the implementation of the new practices at the level of local governments is a difficult task, requiring a detailed elaboration of the amendments to the main stages of budgeting and the entire budget policy if ROB was to be implemented.

Meanwhile, in many European countries implementation of the result-oriented budgeting is increasingly becoming one of the most significant institutional changes in the social sector of economy as an alternative to estimates-based budgeting. In the countries having made substantial progress in the process of budgeting, a lot of attention is paid to the congruence among the machinery of government restructuring, requiring special-purpose practices of selection of discrete structure alternatives (DSA) to be developed and maintained in the context of budgeting. These are the totals of planned (intended) actions possessing two properties: first, those actions are inter-coordinated and are linked to the available resources (material-tangible, human, financial, the resources of authority and organization etc.); and, secondly, if carried out in the prescribed order the totals of actions will enable to achieve some socially meaningful goal. [10]. It is reasonable to consider the introduction of budget planning and budget apportionment methods in the context of regional development referred to as „New Public Management“. The philosophy of „New Public Management“ puts emphasis on sound management, highlights well-defined objectives, external and internal systems of performance evaluation with the responsibility

for the results achieved. The relevant management technologies comprise structural organization, reorganization of budgeting, alterations to the budgetary policy, adopting the responsibility centers, the approved indicators of the efficient performance, concentration of the selected services and functions [1].

Literature on result-oriented budgeting pays a lot of attention to the issues of setting up the systems of performance evaluation, and, also to the ways the strategic decisions taken concerning the priority detection in budgetary funds allocation are validated against the relevant information. [1, 5, 8]. It should be noted, that a most general definition of ROB as a form of budgeting which determines the relation of the appropriated funds to the measurable performance parameters, in our opinion, is not comprehensive as regards the accents placed on main distinctive features of ROB. Purely technical relation between the performance indicators and the amount of appropriated funds is, as a rule, non-acceptable. Apart from performance indicators there is a lot of other relevant information to be taken into account [5].

The methods and forms of implementation of result-oriented budgeting could be seen as a more efficient alternative for budget estimate, if the risks that the budget makers would manipulate the information can be minimised, as well as the risks of lowering the efficiency of the management both at the level of central administration and at the level of local governments and regional coordination.

Therefore, special support mechanisms should take the key role, allowing removing or substantially reducing the risks involved in budgeting processes, such as [10]:

- the DSA selection mechanisms
- the control (enforcement) and incentive mechanisms
- the mechanisms of settling disputes and adoption "ex post"
- the feedback mechanisms.

The whole of the above mechanisms add up to create the indispensable conditions for ROB efficiency, while the failure to provide those, actually, suggests the imitation.

Conclusions

The necessity of regional development, as specified above, implies that the function of con-

trol over the economic and social processes is increasingly transferred from the central authorities to the local government authorities. However, in the present situation of economic uncertainty and unstable financial base, marked contradictions are observed between the regional development objectives and the insufficiency of the financial resources to meet those.

The economic disproportions in regional development are specifically harmful during the crisis development leading to sharp increase in socio-economic differences among the relatively big administrative-territorial units and other entities within the country. The reasons leading to differences in incomes are multi-layered; still the major ones are the absence of the real sector of economy and insufficient capital provision, peripheral geographical position remote from the centre, low level of general and professional skills with the population, tragically declining workforce number, especially in young people, along with unemployment growth and many other reasons. Hence, the socio-economic transformation intended to be achieved through regional development call for critical reassessment of the principles underlying the state regulation of the socio-economic processes.

One of the indispensable requirements to facilitate the feasibility of budget expenditure would be the continuity and congruence among the long-term and medium-term budget measures allowing decision taking beyond the limits of one fiscal year, and application of the approaches to financial planning from expenditure framework to the expected outcomes. We believe that outdated technologies of budget forecasting and planning constitute an important factor holding back restructuring of economy and creating an illusion that prosperity is due to arrive soon.

In conclusion, we note that efficient budgetary policy development and implementation amount to a broad range of interrelated procedures, one of the ways to perform those has been considered in this article

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