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LOCAL DEVELOPMENT II URBAN PROJECT

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**REPORT ON
PROGRAM BUDGETING**

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I. INTRODUCTION

The budget is a tool for decision making and the efficient allocation of resources. It is also the main executive tool for planning and showing the need for additional money as well as supporting the current funding levels. It accomplishes this by providing:

- o detailed financial plans developed on a realistic basis, taking into consideration scarce resources;
- o legislative approval of those plans;
- o a structure for implementation of the approved financial plans; and
- o ^{FINANCE FOR} the required services.

A properly designed budget serves the executive by providing an ability to:

- o control expenditures and monitor progress towards achieving programmatic goals;
- o manage efficiently by analyzing alternative approaches; and
- o plan for services requirements by setting specific performance measurements. ^{WHAT ARE THESE}

A Program Budgeting System (PBS) assists this process by collecting financial data in a format that makes clearer the relationship of programmatic and financial decisions. PBS has been implemented in the Qaliubia Governorate as a pilot program which represents the first application of this technique in the Arab Republic of Egypt. Program Budgeting focuses the budget on ~~what are~~ the goals of the Governorate and the means by which they will be accomplished (outputs). In other words, decisions are made on the basis of services provided by the Governorate (outputs) rather than how money is to be spent on a specific bab-item-variety. The end products/outputs of the Governorate then assume prominence in terms of the committed fiscal resources. Consequently, managers become accountable for achieving end products as resources are budgeted, as will be indicated in the following sections. It is important to note that the present format of the bab-line-item budgeting is not replaced but is augmented by Program Budgeting.

II. BUDGET FORMATS

The following chart presents the various budget formats and their key features:

PRIMARY

<u>FORMAT</u>	<u>CHARACTERISTICS</u>	<u>ORGANIZATION FEATURE</u>	<u>EMPHASIS</u>
LINE-ITEM	EXPENDITURE BY OBJECTS (SALARIES SUPPLIES, PURCHASED SERVICES, ETC.)	RESOURCES PURCHASED	CONTROL OF WHAT IS BOUGHT, PREVENT <u>THIEVERY</u> ?
PERFORMANCE	EXPENDITURE BY WORK-LOAD OR ACTIVITY. PRESENTATION OF UNIT COST BY ACTIVITY.	TASKS OR ACTIVITIES PERFORMED	MANAGEMENT EFFICIENCY, MAXIMIZE AGENCY OUT-PUT FOR <u>LEAST COST.</u>
PROGRAM	EXPENDITURES RELATED TO PUBLIC GOALS. COST DATA CROSSES ORGANIZATIONAL LINES	PROGRAM ACHIEVEMENTS (PRODUCT OR OUTPUT)	<u>PLANNING</u> ASSISTS FOCUSING ON PRIORITIES
ZERO-BASE	EXPENDITURES BY WORK-LOAD OR ACTIVITY. COST CENTERS DIFFER FROM ORGANIZATION LINES	ALTERNATIVE ACTIVITY LEVELS	USUALLY MANAGEMENT EFFICIENCY, MAXIMIZE OUTPUTS OF GOVERNMENT FOR LEAST COSTS.

III. CONSTRAINTS OF CURRENT BUDGET SYSTEM

The focus of the traditional line-item budget, which is applied in all governorates, is on the inputs to the Governorate, i.e. what will be purchased in the upcoming year. ^(No attention is given to planning for the outputs or the level of services to be provided.) ^{? LITTLE}

The main constraints of the line-item budget method are:

SEE PAGE 5 FOR PB RESPONSE.

1. Public decision making needs a meaningful measurement of the total cost of achieving a desired objective.
- 1 ** The budget is allocated among departments without specifying the required objectives or responsibilities for implementation.
- 2 ** The traditional means of allocating resources among general activities, such as: military, justice, general operations, transportation, ...etc. do not provide any information regarding the goals to be accomplished with the allocated resources. ^{? 5 yr plans, etc.}
- 3 2. Traditional budgets are developed and considered on a single year basis without consideration of what the future cost of the policy decisions made in the current budget.
3. Reasonable choice requires that alternative methods of reaching a desired objective be compared
 - ** Focus is on inputs and not outputs (required services) ✓
 - ** Follow-up and modifications are only limited to the type of expenditures, such as: positions and grades, salaries, procurement (e.g. if fuel prices increase by 25%, then a similar increase in the fuel allocations should be expected, else the level of services will be reduced. In this respect, the objective is to purchase fuel (inputs) according to the amount allocated in the budget regardless what services that are planned to be provided by the Governorate. ✓

DYNAMIC
4/0 BAK-OP.

IV. PROGRAM BUDGETING

A. Definition

A PBS format organizes proposed expenditures according to output or contribution to governmental objectives. Programs are constructed on the basis of contribution to those objectives. The focus of Program Budgeting is not on what Government buys nor on activities in the which the Government is engaged, but on, as nearly as can be defined, the outputs of Government. PBS places together organizations within a governmental unit which contribute to a similar objective so that competition for funds occurs among real alternatives.

A Program Budget defines the goals of a governmental unit and classifies organizational activities contributing to each goal. Grouping is by end product regardless of the administrative organization. A PBS focuses competition for resources among objectives and alternative means for achieving objectives. Program structure identifies agency products; it does not focus on the input used by the agency.

B. Major Components:

The four major components of Program Budgets systems which augment management accountability are:

- o Narrative statements defining organizational activities and objectives;
- o Development of historical and projected workload (i.e. services provided);
- o Measurement of efficiency by relating level of services to cost;
- o Expansion of cost information that is related in a more explicit manner to the fundamental purposes of public spending.

C. Aimed Results: (Benefits)

CITED ON PG 3; I.E.:

- SPECIFY OBJECTIVES AND RESPONSIBILITIES?
- INFO ON GOALS TO BE ACCOMPLISHED?
- FUTURE COST OF POLICY DECISIONS " ?

The benefits to the Governorate of initiating a PBS are:

- o It provides visibility in the budget process of program costs and service levels.
- o It ties policy decisions explicitly to resource allocations.
- o It establishes a relationship between a desired level or service and the funds required to achieve it.
- o It provides a basis for manager accountability related to accomplishments.
- o It provides a cost framework for more intensive analysis.
- o It encourages consideration of program alternatives.

D. Major Activities Required to Implement Program Budgeting:

The following work activities will be required to implement PBS in a Governorate.

1. The Governor approves implementing pilot Program Budgeting and conducting with TA Contractor orientation of department director(s) as to process and objectives.
2. A general orientation of department supervision (assistant directors) in program concepts and work program.
3. OMED with approval of department directors develops programs, sub-programs, and organizational matrix.
4. Department managers working with OMED develop sub-program objectives and performance indicators.

(STRONG TIE-IN w/ ORG. DEV. TRG)

5. Accounting staff assists OMED in recasting the historical budget into program matrix.
6. Personnel office assists in identifying BAB I positions and budget amounts by sub-program and organizational categories.
7. Computer software modifications are identified to provide program and MOF reports and historical information.
8. Budget monitoring (accounting data) information is formatted to monitor program budget.
9. Output indicators are identified by major activity.
10. New program budget request forms are issued to involved agencies and departments heads are trained by OMED staff.

E. Program Monitoring and Output Indicators:

There are specific indicators used to measure program efficiency; these are called "Program Output Indicators" and are related to the level of services rendered. Other indicators measure the effectiveness of each program. Such indicators are related to the "Cost of Output". The role of the budget analyst is to contribute to the improvement of said indicators by measuring both the efficiency and effectiveness of existing programs and giving an early warning signal in case any problems or bottlenecks are expected.

Following are some examples of Program Output Indicators:

<u>Activity</u>	<u>Program Input</u>	<u>Program Output Indicators</u>	<u>Cost of Output</u>
Roads & Maintenance	1. No. of Km. overlaid with asphalt 2. Tons of patch material needed to chuck holes. <i>CARBON? EQUIPT? MB?</i>	Security on roads represented by the no. of traffic accidents per Km.	LE/Km paved
General Cleanliness		The tonnage volume of garbage collected annually and destroyed at a known productivity.	LE/Ton collected

SOUNDS LIKE
FM BMS !

V. INTEGRATED FINANCIAL SYSTEMS:

Timely, and accurate financial reporting is indispensable if public funds are to be properly and efficiently managed. Manual systems can not meet this requirement in large governmental institutions due simply to the volume of financial transactions. This leads to significant delays in reporting financial data and insufficient detailed management information. This means that Governorates can not receive financial information in a timely manner on a monthly basis and at the close of the fiscal year. This delay or unavailability of critical fiscal data restricts evaluation of the current year's activities and planning for the next year. Automated systems can provide this data at the close fiscal period in a more timely manner. Secondly, some basic management information such as the current status of positions filled and unfilled is not available, or by the time it is available the data are out of date and do not reflect the current status.

Automating the accounting systems will allow the integration of receipt, obligation and disbursement information with estimated revenue and appropriation account data. Current status of the budget would be immediately known and transactions are processed against the budget availability automatically. Reallocations of unused appropriation capacity would be made safely and in a timely manner. Modern accounting systems maintain double entry general ledger systems which accurately reflect the financial condition of a governmental entity. Accounting entries would also be processed using an accrual rather than cash basis of accounting preventing manipulation of the governmental entity's financial condition.

VI. STRATEGIC PLANNING AND RESOURCE ALLOCATION:

An OMED office can provide to the Governorate / fiscal planning to assist the development of Governorate fiscal strategies. This is accomplished by performance of cost/benefit analysis, analysis of the fiscal impact of program changes, and developing alternative program choices for service delivery over a multi-year time frame. Several factors must be present before this can be realized.

- o OMED must be recognized as the fiscal planning and budget control office in the Governorate.
- o OMED must evidence the analytical ability to coordinate resource allocation decisions with policy.
- o Improved fiscal systems that report timely and accurately financial transaction must be in place.
- o The budget structure must be expanded to provide financial data in a programmatic format.
- o Budget decisions must be based on local policy as well as Central Government directions.

ANNEX

I. Program Budgeting

DEFINITION OF TERMS

1. Program Budget

A budget where financial data are collected primarily on nature and scope of work to be performed and secondarily on line items (i.e.) (BAB, Group, Item, Variety).

2. Traditional Budget

A budget of a government wherein expenditures are based entirely or primarily on objects of expenditure (i.e.) (BAB, Group, Item, Variety)

3. A Program

It is a statement describing "the nature and scope of the work to be performed" - in effect describes the organization's or unit's reason for existence. The differences, as applied to the total organization or a smaller unit within it, are primarily ones of degree. For the total organization, the program statement should include the broad identification of the type of operation for which it is responsible, its major areas of service, clientele or user groups, organizational approach, plus the philosophical basis for its operation. This statement provides a logical starting point for determining objectives and a means of testing their validity and establishing accountability for results.

4. Program Matrix

The hierarchical arrangement of programs and sub-programs that reflects the work content of the government organization emphasizing the purpose of service delivery roles.

Examples of Program Matrix

Program	Sub-Program	Responsibility/Department
Government	Legislative Policy	Popular Council
	Executive Management	Governor's Office
	General Administration	General Secretary's Office
General Security	Fire Services	Fire Brigade
	Police Services	Police Agency
	Jail Services	Jail Agency
Culture/Recreational	General Gardens	Gardens
	Museums & Art Fairs	
	Libraries	
	Mosques	
Environment	Garbage Collection	CCBA
	Control of Pollution & Noise	
	Waste Water	Waste Organization
	Water Quality	Potable Water Organization
	Agriculture	
	Cleanliness & Beautification	CCBA
Transportation	Roads & Bridges	Roads & Bridges Organization
	General Transportation	General Org. for Transportation
	Airports	Navigation Organization
Health		Ministry of Health

Educational Services **Primary/Prep. Education**
Secondary Education

Ministry of Education
Ministry of Education

Youth Services **Child Care Services**

Economic Development

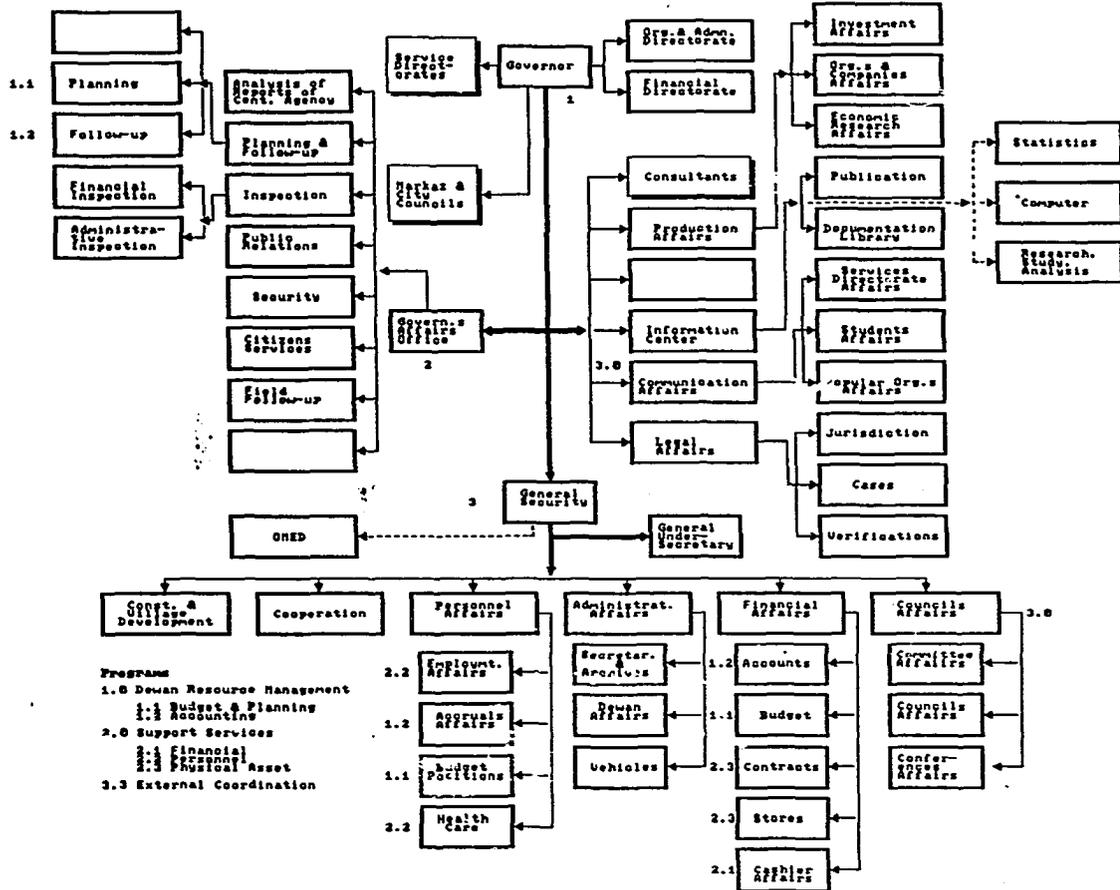
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SAMPLE OF PROGRAMS FOR THE GENERAL DEWAN

Presented hereunder is a sample of coded programs and sub-programs as related to the attached organization chart of the general dewan

Program	Sub-Program	Top Mgmt.	Department	Section
0 Diwan Resource Management	1.1 Budget & Planning	02 Governor's Office Affairs	02 Planning & Follow-up	01 Planning
		03 General Sect.	03 Personnel Affairs	03 Budget Positions
		03 General Sect.	05 Financial Affairs	02 Budget
	1.2 Accounting	02 Governor's Office Affairs	02 Planning & Follow-up	02 Follow-up
		03 General Sect.	03 Personnel Affairs	02 Accruals & Registers
		03 General Sect.	05 Financial Affairs	01 Accounts
0 Support Services	2.1 Financial	03 General Sect.	05 Financial Affairs	05 Cashier Affairs
	2.2 Personnel	03 General Sect.	03 Personnel Affairs	01 Employment Affairs 04 Health Care
	2.3 Physical Asset	03 General Sect.	05 Financial Affairs	03 Contracts 04 Stores
0 External Coordination		02 Governor's Office Affairs	04 Public Relations	
			06 Citizens Services	
			11 Communication Affairs	02 Students Affairs 03 Popular Org.s Affairs
	03 General Sect.	06 Councils Affairs	01 Committee Affairs 02 Councils Affairs 03 Conferences Affairs	

ORGANIZATION CHART OF QALIUBIA GOVERNORATE



Governorate:

Office of Management & Economic Development

Objective Statement

A) General Description

/ Section Name: _____ Head Section Name: _____

/ Department Name: _____ Head Dept Name: _____

/ Related Top Management According to the Organization Chart: _____

Number of Employees: _____

Responsibilities / Tasks Performed:

1. _____
2. _____
3. _____
4. _____
5. _____

B) Program Description:

/ Program Name: _____

Program Description:

/ Sub-program Name: _____

Sub-program Description:

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C] Objectives:

Immediate Short Run Objectives:

Long Run Objectives:

D] Signature:

Remarks (To be filled by OMED Staff)

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Governorate:

Office of Management & Economic Development

Example of an Objective Statement

A] General Description

0/1 Section Name: Accounts

0/5 Department Name: Financial Affairs

0/3 Related Top Management According to the Organization Chart: General Secretary

Number of Employees: _____

Responsibilities / Tasks Performed

1. Recording all accounts in financial books according to financial directives
2. Preparation of financial status
3. Preparation of monthly reports required by central agencies
4. Maintaining financial records.

B] Program Description:

0/1 Program Name: Diwan Resource Management

Program Description:

This is a program that ensure efficient allocation of resources across the diwan.

0/2 Sub-program Name: Accounting

This program ensures compliance with central financial rules and directives. It also keeps accurate financial data that would assist in the decision making process within the diwan. Such data serve the central inspection process as well.

C] Objectives:

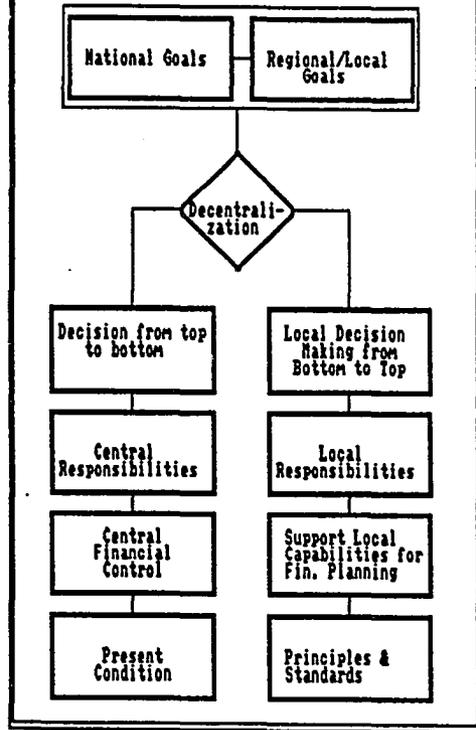
Immediate Short Run Objectives:

Follow-up on the efficient re-allocation of resources.

Long Run Objectives:

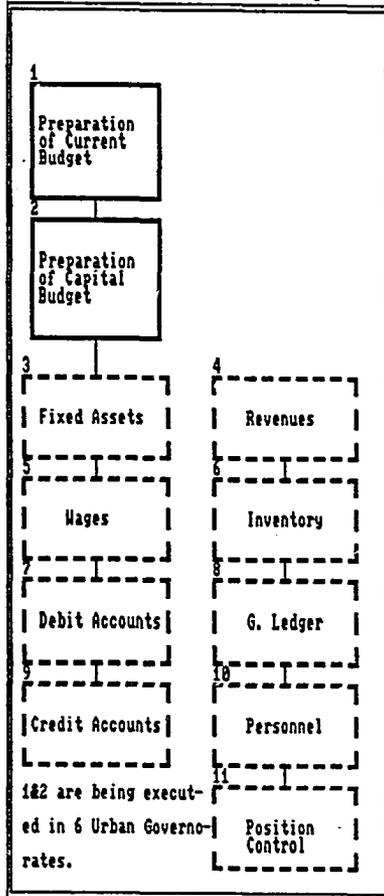
Automating and improving the existing financial systems, with the ultimate purpose of increasing the current services provided.

II. Integrated Financial Systems



Local Development II Program
 Executed Program for developing the Financial Systems and Information Centers in 6 Urban Governorates.

Second: An Integrated Financial System



- Raise the efficiency of financial & investment planning
- Decision making within investment limits & available resources
- Reduce the burden on centrals & consequently on the state general budget

Fourth: Strategy of Execution

Short Term:

Establishing a specialized org. within each governorate (ONED) under the organizational authority of the Governor to perform its activities through the General Sect. in coordination with existing dept.s, directorates & organizations.

- o Prepare Budget Request for the governorate on the basis of results of financial analysis & ec. evaluation for historical data, development indicators, services requirements, revenue estimates, setting priorities for expenditures in light of available resources
- o Use of Computers to prepare & monitor the current & capital budgets
- o Coordination between policies & procedures & results of each of the current & the capital budget to achieve the principle of budget comprehensive
- o Follow-up & evaluation of results & performance according to fixed basis & standards
- o Control of expenditure estimates in light of increase/decrease in revenues

Long Term

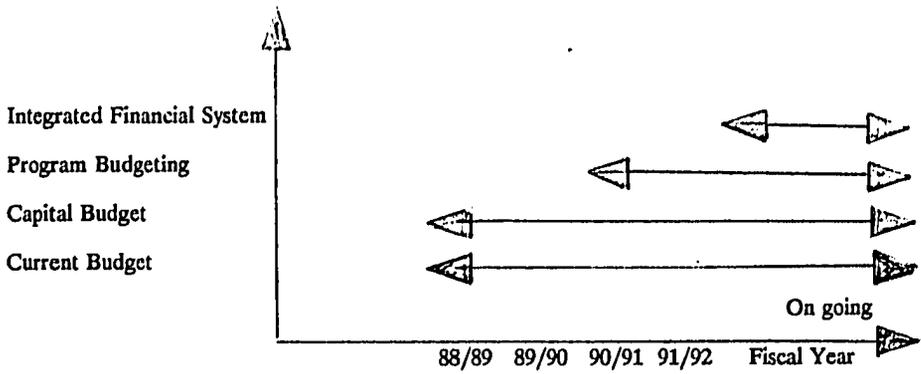
- o Allocating the funds available from M/B on more flexible basis that reduce the delay in executing projects
- o Laying the foundation for financial & ec. concepts & indicators that support the national objectives
- o Support local financial & ec. skills to prepare budget request & to negotiate it with central agencies on fixed basis
- o Achieve the max. reconcil. between the budg. request & appropriation
- o Establish a project budget syst. that relates reven. to exp. in the capital budget
- o Taking chance of available opportunity to raise local revenues (efficiency of exist. rev. collection activ.)
- o Implement & operate an integrated financial system

Fifth: Targeted Results

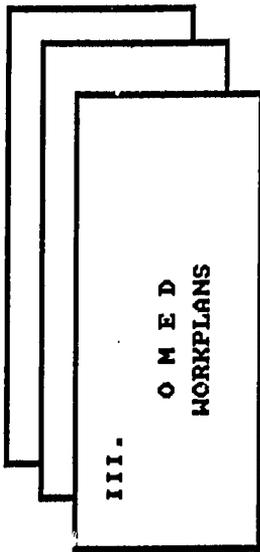
- o Securing administrative needs of personnel training
- o Improve data base for decision support
- o Performing planning & financial analysis for several years-set priorities-provide urban & provisional services to citizens

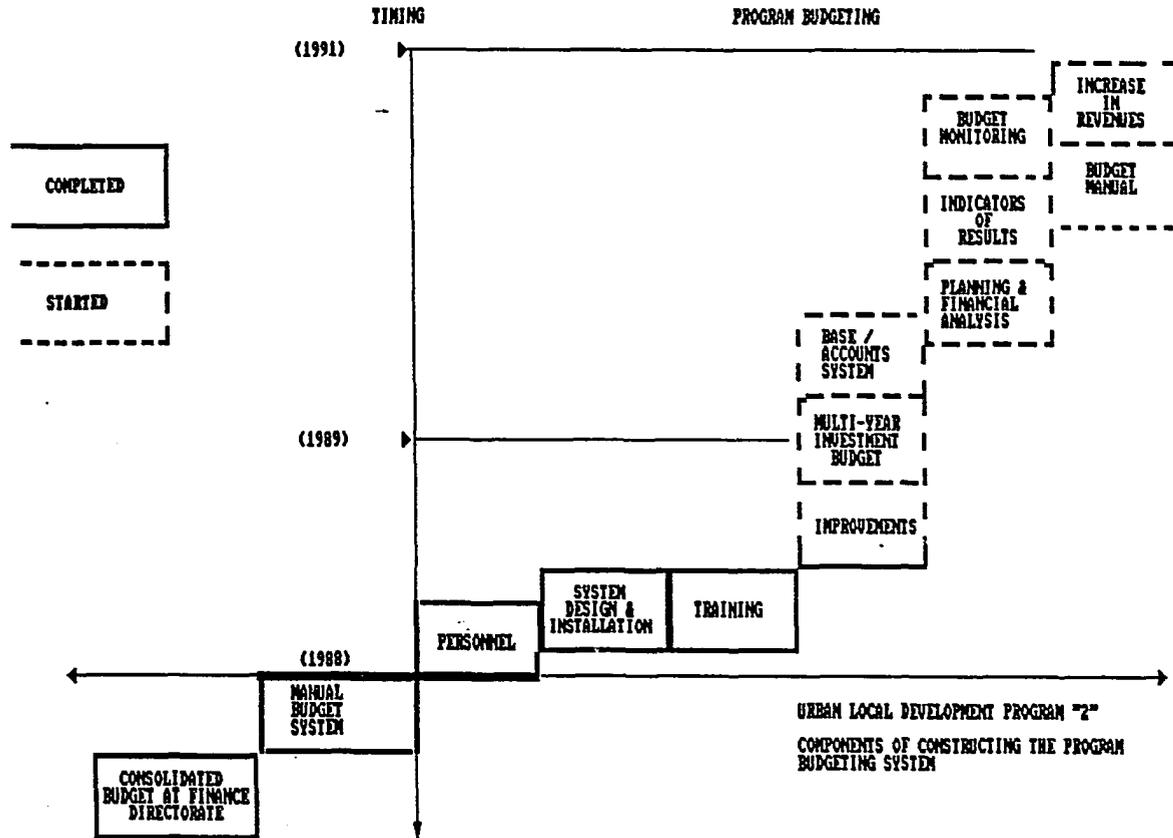
**Phases for Implementing the Integrated
Financial System**

<u>Task</u>	<u>Targeted Date</u>
1. Current Budget	1988/89
2. Capital Budget	1988/89
3. Program Budgeting	1990/91
4. Integrated Financial System	1992 onwards

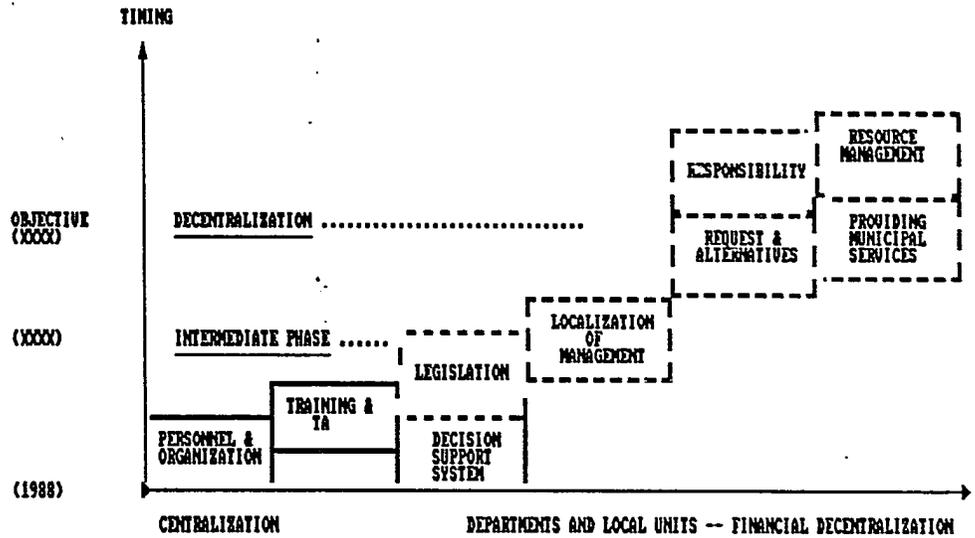


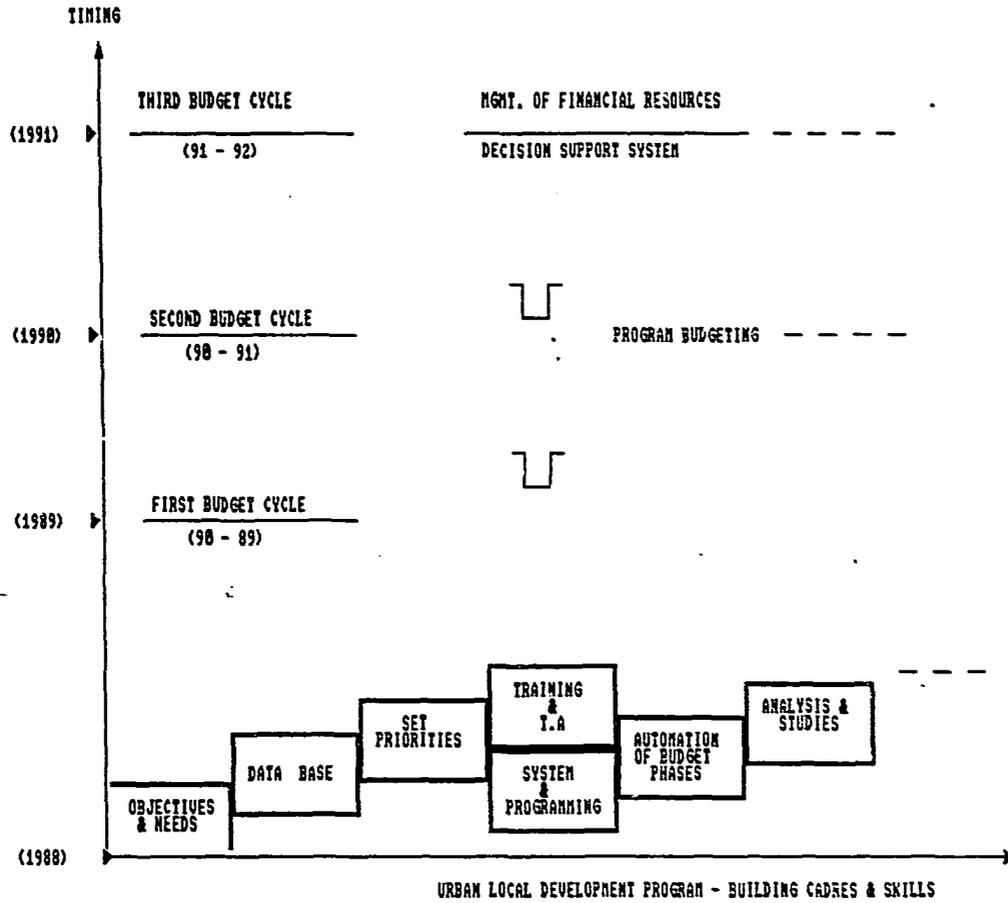
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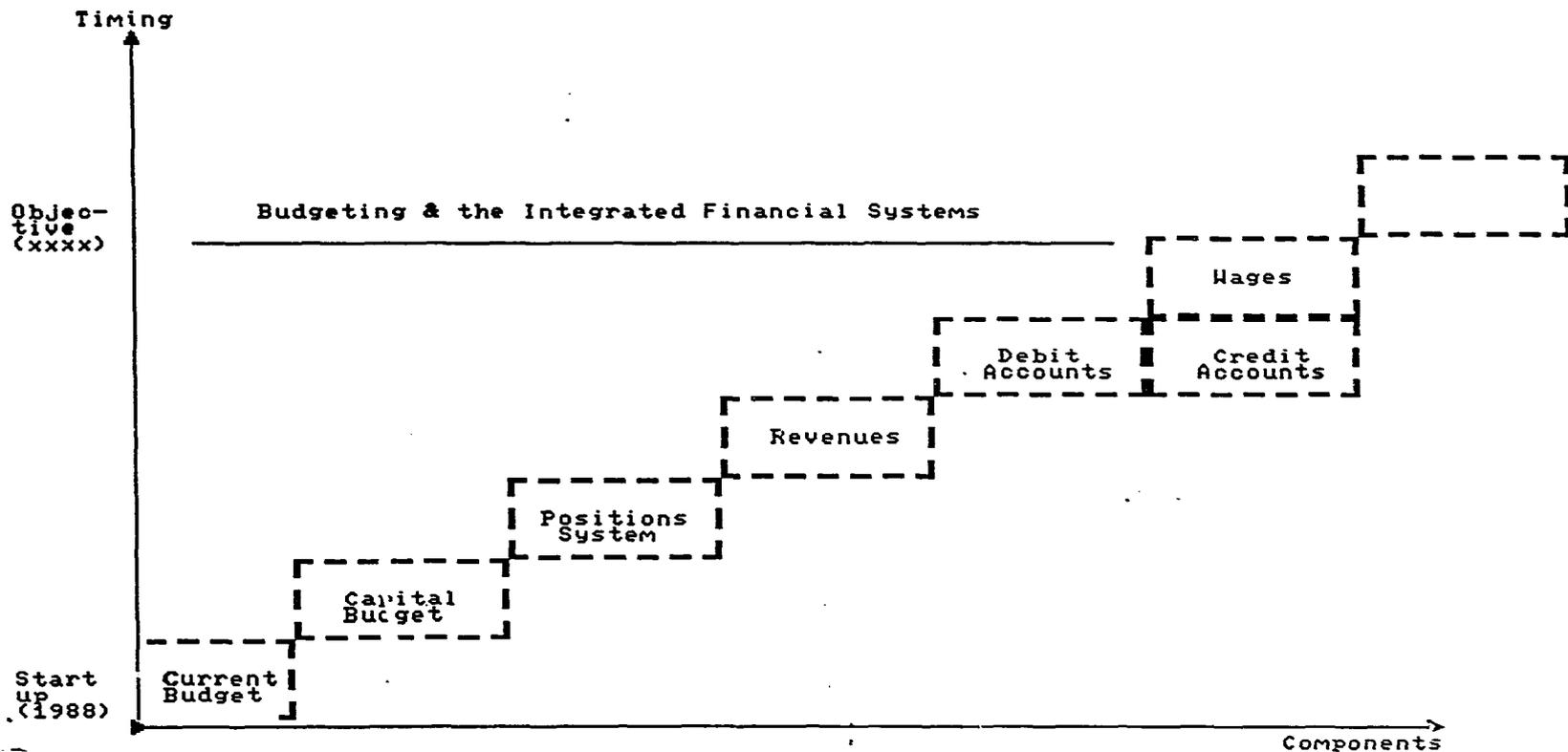


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**Schedule of OMED Work Program
For 1991/92 Budget Request Phase**

TASK

13.0 PROGRAM BUDGETING

Phase I

- 13.1 Approval from Governor/G. Secr.
on the Pilot Implementation
- 13.2 Revision of Organization Chart &
Assigning Codes
- 13.3 Orientation Meeting with Dept. Heads
- 13.4 Individual Meetings & Preparation of
"Objective Statement"
- 13.5 General Meeting to Finalize "Objective
Statement" in the presence of Governor
& Gen. Secr.

Phase II

- 13.6 Matrix Development by Bab, Item & Variety
- 13.7 Tracing Back Historical Expenditures &
Revenues
- 13.8 Entry of Codes
- 13.9 Allotment of Allocation
- 13.10 Entry of Allocations
- 13.11 Producing Turn-Around Documents &
Start-up of the New Budget Cycle