

Central and Eastern Europe Local Government and Housing Privatization

Prepared for the Office of Housing and Urban Programs
Agency for International Development



ICMA
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**TECHNICAL BUDGETING ASSISTANCE TO
LUBLIN, POLAND:**

IMPROVING THE CAPACITY TO BUDGET

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Prepared for the Office of Housing and Urban Programs
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ABSTRACT

An ICMA project team spent two weeks in Fall 1993 providing technical budgeting assistance to the City of Lublin, Poland. The principal objective was to improve budgeting capacity in terms of budget process and alternative budgeting formats both of which need to be reoriented to meet the demands of the city council to budget for policy and management objectives established by the council. ICMA team members extensively interviewed the city treasurer and her budget staff and discussed alternative procedures and document formats to reorient the city budget to meet the council's management and policy objectives. The ICMA team conducted extensive interviews with administrators of the housing, public transit, and preschool enterprises to increase understanding of current budgeting practices, determine process and document problems, and suggest improvements to be implemented at the department and central budget office levels. The site visit included two seminars, on budget formats and capital budgeting, which were presented to council members and administrators from several departments, including the city treasurer and her budget staff. Several follow-up visits are recommended to enhance Lublin's ability to use the budget as a policy and management document, in addition to its accounting purpose.

EXECUTIVE SUMMARY

The objective of the Fall, 1993 technical assistance mission to Lublin was to assist the city with its efforts to improve its budgeting capacity. The Lublin city council had indicated a desire to make the budget more than an accounting document, and the city president and treasurer were interested in responding to the council's changing expectations of the budget process. The goals for the ICMA team were both recommendations for immediate changes possible in the 1994 budget process, and recommendations that could be implemented in the 1995 budget document and budget process. The scope of work included both the operating and capital investment budgets.

The ICMA team conducted extensive interviews with the city president, city treasurer and her budget staff, and departmental budgeting staff from the public transit enterprise, the public housing enterprise and the preschool program. The team also had a conference with members of the city council's budget and economy committee. These meetings identified current budgeting practices and thinking, and areas for improvement in line with the changing expectations for the budget that had been expressed by the city council. This phase of the mission culminated in the findings and a set of recommendations. The major findings are that the current practice treats the budget document as an accounting tool, and that the process injects little information on which to base management and policy decisions.

Recommendations include instituting a decision item format for departmental requests, incorporating multi-year expenditure and revenue tables with departmental requests and analyses, and implementing a distinct, multi-year capital budget plan that is still fully integrated with the operating budget. The recommendations for capital budgeting incorporated information gleaned from ICMA's municipal credit market project (based in Krakow). Implementing the recommendations of the ICMA team will necessitate having the support of the new city council (to be elected in May) and changing many long standing practices. However, the president and city treasurer said that they would try to implement as many of the recommendations as possible.

The second phase of the mission comprised two seminars presented to the treasurer and her budget staff, and the budgeting personnel from several departments (namely public transportation, preschool and tourism), and a member of the city council. One seminar was devoted to the findings and recommendations presented to the president and treasurer. The second seminar was devoted to capital investment budgeting. Both seminars involved formal presentations and lengthy discussions with participants. The alternative budget document format for departments is included as Appendix A. The city has indicated a desire to begin implementing the recommendations with the preparations of the 1995 city budget. Some of the changes may even be implemented in the presentation of the 1994 budget to the city council (e.g., specifying decision items for departmental budgets).

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I. INTRODUCTION

This report outlines the findings and recommendations of the ICMA team provided to Lublin city officials for technical assistance on the Lublin city budget and budget process. The ICMA team consisted of Dr. Kurt Thurmaier, University of Kansas assistant professor of Public Administration and Russian and East European Studies, and Mr. Roger Kroh, Director of Management and Budget for Johnson County, Kansas. The team worked with city officials from 25 October to 4 November 1993.

A. Site Visit Objectives

The objective of the October-November 1993 mission to Lublin was to assist the City of Lublin in improving its capacity to budget for management and policy objectives. The team was directed to focus on short-term improvements that could be implemented in the budget documents, and to also consider longer term improvements to the city's budget process. The city president also requested that the team analyze the budget documents and procedures of three important city departments (housing, public transit, and preschools) to recommend improvements.

The Lublin project is designed to complement the financial management project in Krakow, which focuses on improving local government accounting practices and integrating accounting and budgeting procedures. The ICMA team also tried to integrate considerations of future long-term debt financing requirements into the discussions and seminars presented in Lublin; the debt requirements are being identified by the ICMA team working on this aspect of local government finance in Krakow.

The analysis and improvements recommended for the Lublin city budget can also be considered by other Polish cities who wish to reorient their budgeting documents and procedures to enhance the managerial and policy aspects of the city budget. The integration of the operating and capital budgets will be especially important to other Polish cities who will seek long-term debt financing for capital investments.

The ICMA team evaluates budgets based on the criteria specified by the US Government Finance Officers Association (GFOA). The GFOA criteria treat budgets as documents that serve several purposes. The budget is:

- a financial tool,
- a policy tool,
- a management tool, and
- a communications device.

We have applied these criteria to the Lublin budget. The report addresses these four principal purposes of public budgets within each of the sections on the budget and the budget process.

B. Current Budgeting Issues in Lublin

The 1993 city budget planned for expenditures of about 510 trillion zlotys. This was increased in October 1993 by about 117 billion zlotys, including an investment subsidy of 96 billion. About 40 billion of that was reimbursement for residential construction in previous years, and another 56 billion resulted from an agreement between the *woiwoda* and city president to increase the city's housing stock. Investment expenditures represent about 38% of Lublin's budget, about 80 percent more than a typical US city.

Lublin budgeters face three major obstacles in preparing and executing budgets. First, rapid economic and political changes have produced a major decentralization reform in Poland. This reform is responsible for recreating the independent local governments (*gmina*¹) in the country. The reform period of the last three years has been one of extensive and intensive experimentation in:

- transferring powers from the central to local self-governments -- changing the thinking about government and the role of governments in society;
- shaping and reshaping the legal forms for *gmina* organizational units, including budgetary units and communal enterprises;
- experiments in decentralizing administration within these units.

The result is a very complex structure that requires much communication and coordination across units. Unfortunately, that coordination and communication has been difficult to achieve.

Secondly, *gminas* have to deal with a great many mandates from Warsaw. These mandates include rent controls on public housing, maximum charges for heating and utilities, mandatory salary increases for teachers, maximum tax rates for local government taxes, and central taxes on non-profit local government activities.

Many of these requirements are similar to those faced by municipalities in the United States. Local governments in the United States operate under maximum local tax rates established by their respective states. They also face increasing requirements from the states and the national government to carry out activities for which they receive no grants or subsidies (from the states or national governments). This is especially true in the environmental area.

¹The *gmina* is the independent local government unit in Poland. They are commonly referred to as "local self-governments" to designate that they are based on elected city councils. The other units of local government are the *woiwod*, or provinces, headed by a *woiwoda*. These are administrative arms of the central government which are responsible for local activities, such as major roads. They had a much larger scope of activities before the 1989 changes. The *woiwoda* is appointed by the central government. *Gmina* is often translated as "borough," but can also be defined as a municipality. The Polish municipality usually includes a major city and several surrounding villages. There are about 2500 *gminas* in Poland.

Thirdly, gmina budgeters in Poland face problems in planning, due especially to the high and rapidly changing rates of inflation during the transformation. However, inflation rates keep falling, (from 670% to 35% in three years) and they are approaching western rates.

Polish gminas are now at a crossroads. In the rapidly changing circumstances that have characterized the first phase of this historic transformation, they have survived--and even flourished--despite the adversities. Now they are poised to enter phase two of the transformation: consolidation and management (coordination) of a newly energized level of government. The mandates from Warsaw, the legal structures and forms for gmina governmental units, and public finance structure are stabilizing as experimentation slows. Moreover, correctly forecasting the rate of inflation is more important than the rate itself, because budget calculations are possible if the numbers are known. It doesn't make the difficult allocation decisions easier, but they are possible.

The principal aim of our technical assistance was to respond to initiatives of the city council, president, and treasurer to use the budget as more than a financial tool. The council has established budgetary priorities and listed management objectives for the 1994 budget. Successfully implementing these initiatives will require changes in both the budget document and the budget process. We discuss our findings and recommendations in each of these areas in the remainder of this report.

II. THE BUDGET PROCESS

The ICMA team focused its investigation on two key components of the budget process: the budget instructions; and the budget requests. The recommendations are made to provide better information and more time for the budget staff to analyze the requests and prepare recommendations. Revisions in the time schedule will also provide the city council with more time to deliberate and approve the budget. The capital budget process is treated as an integral part of the total budget and budget process.

A. The Principal Budget Actors

The principal budget actors in Polish cities are the city treasurer, the city president (akin to a city manager in the American council-manager form of local government)², and the city executive board (*zarzad*). The city executive board serves at the pleasure of the city council (*rada*) and is composed of the city president (who serves as its head), vice-presidents of the city, and usually one or two council members (Art. 26 (2), Dz.U. nr16 z 1990 r., poz.94).

Departmental³ budget requests are usually prepared by the department's fiscal officer and department head. The treasurer and her budget staff analyze the departmental requests as directed by the city executive board. The executive board must submit a proposed budget to the council by 15 November. The principal council analysis is conducted by its budget committee (formally the Budget and Economy Committee in Lublin). The council must pass the budget by December 31, which is the end of the fiscal year for Polish local governments.

B. Operating Budget

1. Findings

The current process permits several inefficient activities. First, requests are allowed for any amount and for any purpose. This may reflect the ultimate needs of the organizational unit, but wastes valuable time in the agency, the budget office, the executive board, and the city council.

Secondly, departments often lack information about essential cost factors, including general inflation, energy and heating price increase schedules, and scheduled salary increases.

We believe that the financial analysis of the budget request is competently conducted by the city treasurer's office, and the current budget process schedule allows reasonable time for the financial analysis of the budget requests. However, financial analysis can be improved in several ways, and other changes are necessary to fashion the budget into a policy and management document.

²In smaller gminas, the municipal manager is called a *burmistrz*, and in the smallest villages a *wojt*.

³ "Department" is used here to include both the semi-autonomous "common enterprises and the more traditional "budgetary enterprises."

2. Recommendations

The budget process should begin earlier in the year to accommodate the increased workload for preparation and analysis of budget requests. The city should decide the budget policy and objectives in the month prior to preparation of the budget instructions. The city may wish to consider a schedule in which budget instructions are distributed by August 15, requests are received by September 15, analysis is completed by November 1, and the budget request receives city council approval by December 15.

Budget instructions should limit departmental requests to an amount equal to preliminary revenue estimates, based on current fee levels and tax rates. The departments may submit a request in excess of budgetary guidelines only if it contains exceptional needs, additional self-generated revenues or grants, or when additional expenditure authority is needed to meet a city council priority.

Budget instructions should contain some specific guidelines on the preliminary levels of salary and benefit increases, recognizing that salary levels may differ between professions, or may be mandated by the central government. Final salaries will be set in the budget process.

The instructions should specify the assumptions to be used in the preparation of budget requests whenever possible, including inflation estimates, mandated price increases, and other factors. The budget instructions should require complete justification for expenditure requests, including comments on how requested funds will be used to meet department and city council priorities.

Departments should prioritize any supplemental requests which exceed the limits specified in the budget instructions. Departments should enumerate the specific spending and revenue decisions that comprise the total department budget. For example, the salaries budgeted for preschools is comprised of two distinct decisions: [1] base salaries (which may be mandated by the central government), and [2] the size of the merit salary pool (which the city may elect to increase above the minimum size mandated by the central government). The level of fees paid by parents for care and meals are also two distinct charges and thus two distinct budgetary decisions.

Finally, we recommend the communications role of the budget process be enhanced by a public hearing held to discuss the executive board's recommendations to the city council. Individual council committees may also wish to hold public hearings on specific sections of the budget.

C. The Role of the Budget Office

The Lublin budget office is located within the office of the city treasurer. A budget staff of three accountants is supervised by an assistant treasurer. The budget staff monitors revenues and expenditures throughout the fiscal year, and reviews departmental budget requests for accurate calculations and appropriate assumptions. This is only one function within the treasurer's office; the bulk of the treasurer's staff administers revenue collections, personnel, and payroll.

1. Findings

The role of the budget office will need to evolve in tandem with the evolution of the budget from a financial analysis tool to a policy and management tool. The budget staff will need to evolve into the role of budget and management analysts, capable of asking management questions and analyzing requests for compatibility with overall priorities and objectives established by the city council. This will require a year-round dialogue between the treasurer's budget staff and managers.

2. Recommendations

We recommend the implementation of computer analysis in the budget office to enhance the ability of the budget staff to analyze budget requests and prepare the budget document with graphical and tabular formatting. This will require the purchase and installation of desktop computers for the budget analysts and the installation of spreadsheet and graphics software such as Microsoft Excel 4.0 which is available in the Microsoft Windows operating system. Such software will enable the analysts to analyze multi-year expenditures and revenues, and to analyze capital budget planning under different assumptions of inflation and other factors.

D. Capital (Investment) Budget Process

1. Findings

With the exception of a loan from the national environmental development fund, Lublin finances all of its capital investments from the operating budget. Investments accounted for about 38% of the 1993 budget. Without a functioning municipal credit market, it will be difficult for Lublin to use debt financing to reduce the burden on its operating budget. Although operating demands far exceed available revenues, Lublin is commended for devoting a high proportion of its budget to capital investments.

2. Recommendations

As capital investments is of such a high priority in Lublin, the ICMA team sees a multi-year capital investment budget as a logical management tool for planning, coordinating and measuring the financial impact of future investments. Economic uncertainty and high interest rates are a few of the problems which currently prohibit a municipal credit market in Poland. Despite these difficulties, it is recommended that Lublin prepare and implement a multi-year capital investment program. While the five year time frame is typical in the United States, the economic situation in Poland may limit the planning horizon to three years. Still, planning capital improvements in a multi-year framework will help identify capital improvement priorities for the next operating budget and the following two or three operating budgets. The project priorities will be continually re-evaluated, but the council will be able to see how the projects proposed for the next fiscal year will be related to projects in the ensuing years. The multi-year investment program should include both capital and operating costs associated with the projects.

Capital planning requires special analyses (benefit-cost analysis and technical reviews), but cannot be separated from the operating budget. Many capital projects have impacts on the operating budgets when they are completed and implemented (e.g. housing flats and water treatment plants). Furthermore, implementing a multi-year capital planning budget now will provide Lublin with a credible capital improvement program that can be presented to lenders when a municipal credit market is created in the near-future.

III. THE BUDGET DOCUMENT

A. The Budget as a Financial Tool

1. Findings

The Lublin city budget is currently used exclusively as a financial tool. The document is relatively brief. It outlines total revenues and expenditures, by source and by function. The budget is organized on broad functional categories (accounts), according to the national budget classification law. Within the functional categories there are sub-accounts which roughly correspond to programmatic areas. Generally, we observed that the financial aspects of the budget are competently administered by the city treasurer, her assistants, and the department accountants.

However, we note several deficiencies that require attention. There is minimal explanation of the budget numbers associated with specific accounts and sub-accounts. For example, the preschool sub-account might indicate what portion of the total allocation is for salaries, but may not specify what portion is the salary pool for merit increases and how much is for base salaries. Generally, narrative provided by the departments is inconsistent and almost nonexistent for some allocations.

Year to year comparisons of expenditures and revenues are not presented in the current budget document. The treasurer's office has to look at two different reports for a given organizational unit in order to do an historical analysis. Appendix A presents an alternative departmental budget request format that follows the recommendations made below. It is based loosely on the 1994 budget request by MPK (public transit enterprise) and was presented in one of the seminars delivered during the site visit. The English version is followed by the Polish version.

2. Recommendations

The budget summary should include tables to present multi-year changes in revenues and expenditures and graphs to show the functional allocations. Tables and graphs should also be used throughout the budget to make more transparent trends and changes in functional areas by organizational unit. Examples are provided in Appendix B.

The city should consider developing a consistent narrative that describes the principal features of the budget allocation for a given sub-account or program (rozdzial). This may include itemization of costs for personnel (grouping all related paragraphs), commodities and services, capital outlay, and capital investments.

The city should consider developing a columnar format that specifies program allocations for the previous year (actual), current year (expected actual), and proposed for the next budget year. After the city council has approved the final budget, the approved amounts will be substituted for the proposed amounts.

B. The Budget as a Policy Tool

The president and executive board have indicated a desire to use the budget and budget process as a management and policy tool. This change in the nature of city budgeting will require several changes, both in the presentation of documents and the budget process itself.

1. Findings

The city has taken two important first steps in treating the budget as a policy tool. First, it has adopted a policy setting forth the process to be followed in preparing the annual budget and a list of items to be included in the document. In addition, the city council in 1993 approved a list of "principal aims" and objectives to provide policy direction for the preparation of the 1994 budget.

The city council believes that the most significant policy issues facing Lublin are the subsidy levels being granted to various public enterprises. These subsidy levels must be approached carefully, and with due debate, based on the best available information. The analysis and discussion required to make policy decisions on specific subsidy levels is beyond the scope of work of this technical assistance mission. However, in establishing policies on subsidies the gmina may wish to investigate subsidies to similar enterprises in comparable cities. This would include examining user fee rates and revenues, collection levels, scopes of services and expenditure levels.

Another issue facing Lublin is the need for a policy establishing a three to five year plan for investments (such as capital improvements and major capital equipment). Currently, the city's practice is to fund investments from annual operating revenues. The plan is not a multi-year plan, although it shows current projects which will overlap into the subsequent years. It does not show investments in advance of the year approved.

The treasurer and director responsible for planning of investments both concur with the need to plan investments into the future. However, the ICMA team has been informed that to date Lublin has not planned investments for more than one year because of the scarcity of resources and high and changing inflation rates. Our recommendations regarding the capital budget are presented in section one of this report.

2. Recommendations

The gmina should expand upon the budget policy and objectives developed in 1993 by placing more emphasis on using the months prior to budget preparation for policy analysis. This is the ideal time for examining policies such as subsidy levels, capital investment priorities, and user fees. Two ways which the city council may wish to receive citizen input on policy decisions would include public hearings or citizen surveys perhaps in cooperation with the local universities.

The policy decisions made in anticipation of the budget should be expressed in the budget instructions and reflected in the departmental narratives as they apply.

C. The Budget as an Operating Guide and Management Tool

1. Findings

The budget requests currently have very limited narrative as to how funds are being used to meet both departmental objectives and policies and priorities set by the city council at the beginning of the process. Also, the treasurer's office has never been given the direction or authority to use the budget as a management tool.

2. Recommendations

The budget should show how recommended funding meets both city council and departmental objectives and priorities. For example, city officials have discussed the possibility of requiring metering for water and heating in new residences. Comprehensive metering of these city services would permit a more economically rational pricing structure for services, as people who use more would pay more. The housing agency could incorporate the cost of metering for water and heating in their request for rehabilitating communal flats. The council can see how the subsidy for housing is being used to accomplish a goal, and the housing enterprise can incorporate city goals into its continuing efforts to improve communal housing.

The city should consider expanding the scope of the treasurer's office to include management analysis in the context of budget requests. This is a role often seen in budget offices in the United States.

D. The Budget as a Communications Device

The budget should serve as an important device for communicating departmental activities to the city council and city residents. Financial transparency -- the clear explanation of how funds are allocated and why -- is essential if citizens are to retain control of their local government. In addition, Lublin's future ability to obtain credit for capital projects will depend on the ability of municipal creditors to understand the financial activities and policies of the gmina.

1. Findings

The current budget document contains the amounts allocated to the various accounts and sub accounts in a fairly easy to understand fashion. However, like many budgets from other Polish cities, it does not explain how funds are to be used to provide city services, nor does it provide a comparison of revenues and expenditures of prior, current and upcoming years. There is little summary information such that the average citizen could comprehend the budget across functional areas.

2. Recommendations

Provide a clear, narrative explanation of numerical data, in simple language, understandable by the average citizen. Summary information should be presented within the budget for total expenditures and revenues, and by sources and uses, to provide an overview of budget issues, trends, and choices. Information should be provided for each department, including sources and uses of funds. In addition, summary information should be available to the media and public.

The budget should contain an explanation of the planning processes (i.e., goal setting and investment plans) and the regular budget process

IV. ENTERPRISES

The ICMA team was asked to analyze the budgets and budget process within selected organizational units. The thrust of this portion of the mission concerned how to provide a proper level of input and control over enterprises which have recently come under the purview of the gmina. We interviewed staff from the MPK (public transit enterprise), the MZBM (public housing enterprise), and the przedszkola (preschool program), which account for about 10%, 9%, and 14.5%, respectively, of total 1993 budgeted expenditures.

Governments in the United States frequently make policy decisions as to how much control to have over an enterprise. One option is to keep the enterprise at arms length and exert control only through the budget. A second option is to treat the enterprise as any other organizational unit by requiring certain operational decisions to be cleared by the gmina president or appropriate vice-president. This is a decision that the city council will have to make after having fully discussed both approaches. We present below our general findings and recommendations concerning the agencies which we reviewed.

A. The Public Transit Enterprise (MPK)

The MPK, Lublin's public transit enterprise, like the other gmina organizational units, has implemented many efficiencies since 1990. Directors have reduced staff from 2100 to 1645 positions, cut management positions from 60 to 30 positions, and contracted many services formerly provided by the MPK with private companies and individuals.

Two challenges which make it difficult for the MPK to become more efficient are 1) the difficulty in replacing buses on a timely basis, and 2) a loss of revenues to private bus companies now in operation.

1. Recommendations

With its limited resources it does not appear that the MPK will be able to substantially increase the number of buses that it replaces each year. The current approach of acquiring used buses is a good interim step and should be included in a multi-year capital investment plan. However,

once the economy has stabilized and debt financing is available, loans are one tool which could be used to replace the backlog of aging buses which have passed their retirement date.

It appears that a major step which can either increase revenues or decrease operating costs is to bid out specific routes to private transit companies and possibly even the MPK. Presently, private companies take customers and potential revenue from the MPK by operating on profitable routes during busy periods. As the private companies choose not to operate on the unprofitable routes during off hours, the MPK must still serve all routes at all times.

B. The Public Housing Enterprise (MZBM)

The public housing enterprise is a prominent part of the expenditure budget for the Lublin gmina, and has recently received increasing attention from city council members. Improving housing is the first priority of the city council, according to the budget priority resolution for the 1994 budget.

The enterprise budget is severely restricted by rent levels and price controls for central heating mandated by the central government. A large portion of the MZBM budget is dedicated to subsidizing the costs of housing maintenance and central heating. The MZBM has reduced its workforce to gain efficiencies, and is planning further reductions in 1994. The 1994 budget request was very limited in explanation, with the MZBM arguing that there was no information available on which to base their budget calculations.

1. Recommendations

Requiring departments to use assumptions specified in the treasurer's budgeting instructions will permit the MZBM to provide a more detailed request in the future. Even if assumptions are revised later in the process, enterprise will still be able to show the explicit cost decisions that accumulate to the total requested subsidy. It was not possible in the short time available to estimate potential efficiencies from further personnel reductions. This avenue should be investigated more thoroughly.

C. The Preschool Program (Przedszkola)

The preschool program is also restricted by central government mandates at this time. Children are guaranteed five hours of free preschool daily, regardless of whether their parents are able to pay for it. The preschool program offers both the minimum 5 hour program without meals, and a full day (10 hour) program inclusive of meals. The budget request submitted by the program included calculations for the mandatory salary increases stipulated in a central government agreement with the national teachers' union. It did not distinguish other decisions which also accumulate to a total requested subsidy.

1. Recommendations

The preschool program budget will be integrated with the new primary school budget when a new department of education is created on 1 January 1994. Specification of decision items and clear justification of cost components in both the preschool and primary school budgets will provide the city council with the best available information on which to base a budget decision.

V. CONCLUSIONS

Lublin is between two phases of budgetary development. The first stage has been characterized by rapid changes in both economic and legal structures, dramatic but falling inflation rates, and extensive privatization which has created an extensive organizational structure. Budgeting has been difficult in light of these extensive changes. The president and executive board are working to coordinate and manage the gmina organizational units and their services.

We believe that if the new city council is committed to implementing the recommended changes, future work on this project will include four components. The activities envisaged for the first half of 1994 originate in Lublin, while the other two activities (for the second half of 1994) would require two technical training missions to Lublin (in July-August and September-October).

The first component for improving budgeting capacity is computer acquisitions and computer spreadsheet training of the central budget staff in Lublin's treasurer's office. The budget process sections of this report includes recommendations for the city to improve its financial analysis of budget requests with the purchase of computers and installation of spreadsheet and graphics software in 1994. The missions to Lublin in 1994 would focus on using these computer spreadsheets for analysis and graphic presentations of requests and proposals. Such training is probably available from local vendors in Lublin. Pawel Swianiewicz, an ICMA consultant, has technical expertise in computer analysis of data, and might be able to provide the technical computer training we have recommended.

The successful implementation of our recommendations will depend in part on the ability of key actors to understand the managerial and policy contexts of the budget and budget process. Therefore, we recommend that Ms. Szumlak, City Treasurer be invited to observe how a US local government budget office functions during the budget preparation cycle. Roger Kroh is willing and interested in showing her how the Johnson County, Kansas budget and budget process works. There are several other budget offices in the Kansas City area that could also be observed. President Bobrzyk recently visited Kansas City, MO on his recent tour of US cities. The University of Kansas has an ample supply of public administration alumni (including many city managers) in neighboring communities and also has a supply of translators who could work on the project.

Two follow-up missions to Lublin are necessary in 1994. First, in late July or early August, there should be a technical training mission, of approximately one week, composed of two types of training sessions. One group of sessions, for the treasurer and her staff, would focus on how to prepare budget instructions and departmental request forms. A second group of sessions would train departmental budget staffs on how to prepare department budget requests in the new format.

The second technical training mission would occur in mid-September or October and focus on training the central budget staff in analyzing budget requests and preparing the composite budget proposal for the executive board and city council. The nature of this training would amount to

tutorials on budget analysis, using the actual requests from selected agencies.

Together, these four activities will provide Lublin with the tools needed to increase its capacity to budget its scarce resources. These activities address both technical limitations, staff skills, and changes in the analytical processes for both the operating and capital budgets.

APPENDIX A:

**An Alternative Budget Document Format:
The 1994 MPK Budget Request as an Example**

English and Polish Versions

Request Summary: MPK 1994 Budget (in millions of zlotys)

	1992 Actual	1993 Budget	1993 Estimate	1994 Request
Beginning Balance	8,000	8,500	8,500	7,300
Services Income	168,500	238,000	215,600	265,000
Budget Subsidy	39,500	50,000	50,000	64,700
Revenues	208,000	288,000	265,600	329,700
Personnel	117,000	153,000	153,000	194,000
Contractual Services	8,000	21,500	11,800	12,000
Commodities	77,000	115,000	96,000	108,000
Investitures	5,500	7,000	6,000	23,000
Expenditures	207,500	296,500	266,800	337,000
Ending Balance	8,500	0	7,300	0
FTE	1,845	1,645	1,645	1,645

Decision Items:

1. Personnel

MPK requests an additional 41 billion zl to increase salaries for drivers and other personnel by 26.8%. This is within the salary guidelines specified in the budget instructions.

cost: 194,000mzl

2. Contractual Services

To comply with the budgetary limits specified in the treasurer's budgetary guidelines of August 15, 1993, MPK requests a 200 million increase in contractual services. This amount grossly underfunds contractual services needs, but other obligations in the agency budget consumed the allowable increase in the total MPK budget. In fact, this amounts to a decrease in funding when taking inflation into account.

Moreover, MPK has increasingly relied on contracts for services with vendors to operate more efficiently. Critical vendors (such as engine repair shops) have indicated that they will increase prices by 30% in 1994. Consequently, MPK is including a supplemental request for additional funding of contractual services (see supplemental request #1).

cost: 12,000mzl

3. Commodities

MPK requests an increase of 12 billion zl for commodities (12.5%). This amount is inadequate for maintaining current levels of service, but is requested in compliance with budgetary guidelines.

cost: 108,000mzl

The true needs for commodities funding is specified in supplemental request #2.

4. Investments

MPK requests an additional 17 billion zlotys to purchase approximately 26 used busses. The replacement of existing rolling stock is imperative. Without replacement we will not be able to maintain existing levels of service due to busses and trolleys being out of service for repairs.

cost: 23,000mzl

5. Ticket Prices

MPK is requesting a 50% increase in individual ticket prices for 1994. The executive board gave preliminary approval for this in March 1993, effective September 1993. However, the increase was suspended and MPK now recommends it be implemented in January 1994. Monthly passes are not scheduled for an increase at this time. This will yield increased revenues of 50 billion zl. Total revenues will increase 23%.

cost: 265,000mzl

6. Private Competition

MPK is losing revenues due to increasing private competition during rush hours. MPK cannot estimate the amount of lost revenues at this time, but the losses may become significant in the future. We recommend that the city council study the impact of competition on MPK revenues and adopt a policy specifying the competitive conditions for public transit in Lublin.

SUPPLEMENTAL REQUESTS FOR MPK BUDGET 1994

1. Contractual Services

MPK requests 11 billion in additional funding to support increasing use of contractors for equipment repairs. MPK rolling stock is aging quickly, and we have not received sufficient

investment funding to replace existing busses and trolleys. Consequently, the existing fleet is requiring more frequent repairs. Unfortunately, our in-house maintenance department cannot keep up with the growing demands, and we must increasingly rely on private repair shops for equipment repairs.

The consequence of not adding the 11 billion is a greater share of busses and trolleys out of service, leading to deteriorating service for Lublin citizens.

supplemental cost: 11 billion zł

2. Commodities

MPK purchases large quantities of fuel for vehicles, and large quantities of standard vehicle maintenance parts. These commodities are likely to rise by at least the 1994 inflation rate, specified in the city treasurer's budget instructions at 27.7%.

MPK therefore requests an additional 20 billion zlotys to fully fund expected inflation costs of purchasing these commodities. MPK also requests an additional 10 billion zlotys to fully fund expected cost increases due to the 22% VAT.

supplemental cost: 30 billion zł

Streszczenie Prosby: Budzet MPK 1994

(w milionach złotych)

	1992 Wyk.	1993 Plan	1993 Prog.	1994 Prop.
Bilans początkowy	8,500	8,500	8,500	7,300
wplywy z uslug	168,500	238,000	215,600	265,000
dotacja	39,500	50,000	50,000	64,700
Dochody	208,000	288,000	265,600	329,700
koszty osobowe	117,000	153,000	153,000	194,000
uslugi	8,000	21,500	11,800	12,000
paliwa, materialy	77,000	115,000	96,000	108,000
inwestycje	5,500	7,000	6,000	23,000
Wydatki	207,500	296,500	266,800	337,000
Bilans koncowy	8,500	0	7,300	0
Etaty	1,845	1,645	1,645	1,645

Decyzje:

1. Zatrudnienie

MPK występuje o dodatkowe 41 mld. zł, co umożliwi wzrost wynagrodzenia kierowców i pozostałych pracowników MPK o 26.8%. Wzrost ten mieści się w granicach wytycznych ustalonych przez "instrukcje budżetowa"

koszt: 194.000 mln zł

2. Usługi zlecane na zewnątrz

Aby zmieścić się w ramach limitów budżetowych wyznaczonych przez wytyczne z 15 sierpnia 1993, MPK występuje o dodatkowe 200 milionów zł. Wzrost ten jest zdecydowanie niższy od rzeczywistych potrzeb, ale inne pilne zobowiązania wyczerpały możliwości wzrostu budżetu MPK w ramach wytycznych. Biorąc pod uwagę wskaźnik inflacji oznacza to drastyczne zmniejszenie wydatków na usługi zewnętrzne.

Należy dodać, że efektywność usług świadczonych przez MPK w coraz większym stopniu zależy

od zewnętrznych kontraktów na usługi pomocnicze. Tymczasem najważniejsi kontrahenci (np. warsztaty naprawiające autobusy) planują podwyżkę cen swych usług w 1994 na ok. 30%. W związku z tym, MPK załącza dodatkowy wniosek z prośbą o zwiększenie środków (patrz załącznik 1).

koszt: 12.000 mln zł

3. Paliwo, energia elektryczna, zaopatrzenie

MPK wnosi o zwiększenie wydatków o 12 mld zł (12.5%). Wzrost ten jest niewystarczający dla utrzymania poziomu usług, ale jest wymuszony przez otrzymane wytyczne.

koszt: 108.000 mln zł

Rzeczywiste potrzeby są przedstawione w załączniku nr 2.

4. Inwestycje

MPK występuje o dodatkowe (w porównaniu z budżetem tegorocznym) 17 miliardów na zakup ok. 26 używanych autobusów produkcji zachodniej. Wymiana obecnie używanego taboru jest niezbędna. Bez tego MPK nie będzie w stanie utrzymać obecnego poziomu usług w związku ze zwiększoną awaryjnością autobusów i trolejbusów.

koszt: 23.000 mln zł

5. Cena biletów

MPK proponuje 50% wzrost ceny biletów w 1994 roku. W marcu zarząd wyraził wstępna zgodę na podwyżkę cen od września br. Podwyżka została jednak wstrzymana i MPK proponuje wprowadzić ją od 1 stycznia 1994. Nie planuje się podwyżki cen biletów miesięcznych. Podwyżka powinna przynieść dodatkowe 50 miliardów złotych. Dochody ze sprzedaży biletów wzrosną więc o 23%.

koszt: -265.000 mln zł

6. Konkurencja prywatna

MPK traci dochody w związku z wzrastającą konkurencją prywatnych przewoźników w godzinach szczytu. MPK nie jest w stanie dokładnie oszacować strat z tego tytułu, ale są one znaczące i mogą ulec dalszemu wzrostowi. Proponujemy by Rada dokonała oceny wpływu konkurencji na dochody MPK i przyjęła uchwałę umożliwiającą zachowanie konkurencyjności usług MPK.

ZALACZNIKI - WNIOSKI DODATKOWE DOTYCZACE BUDZETU MPK NA 1994

1. Usługi zlecane na zewnątrz

MPK występuje o dodatkowe 11 mld zł na naprawy. Używany tabor starzeje się szybko, nie ma szans na szybką wymianę autobusów i trolejbusów. W rezultacie naprawy będą coraz częstsze. Nasz zakład budżetowy nie może wykonywać wszystkich napraw i w coraz większym stopniu będziemy zależni od kontraktów zleczanych na zewnątrz.

Konsekwencją nie przyznania dodatkowych 11 miliardów byłoby zmniejszenie się ilości autobusów i trolejbusów wyjeżdżających na trasy, a więc obniżenie się poziomu usług dla mieszkańców Lublina.

koszt dodatkowy: 11 miliardów zł

2. Paliwo, energia, zaopatrzenie.

MPK kupuje znaczne ilości paliwa i znaczną ilość części zamiennych i innych materiałów. W 1994 roku ceny na te produkty wzrosną co najmniej o 27,7% (wskaznik przewidywanej inflacji).

W związku z tym MPK występuje o dodatkowe 20 miliardów. MPK potrzebuje także dodatkowych 10 miliardów w związku z wzrostem kosztów w wyniku wprowadzenia podatku VAT.

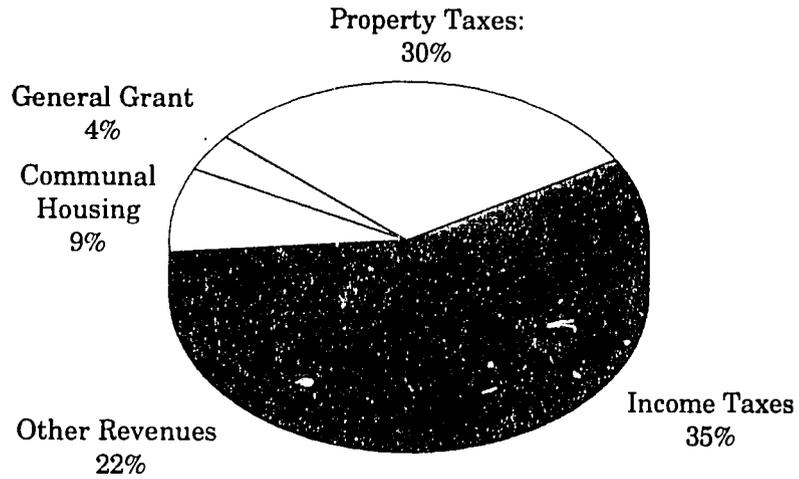
dodatkowy koszt: 30 miliardów zł

APPENDIX B:
Composition of Lublin Revenues, 1992-1993

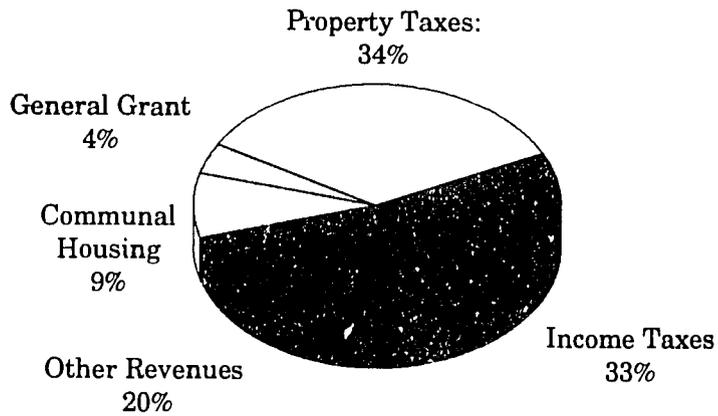
APPENDIX B.

Composition of Lublin Revenues, 1992-1993

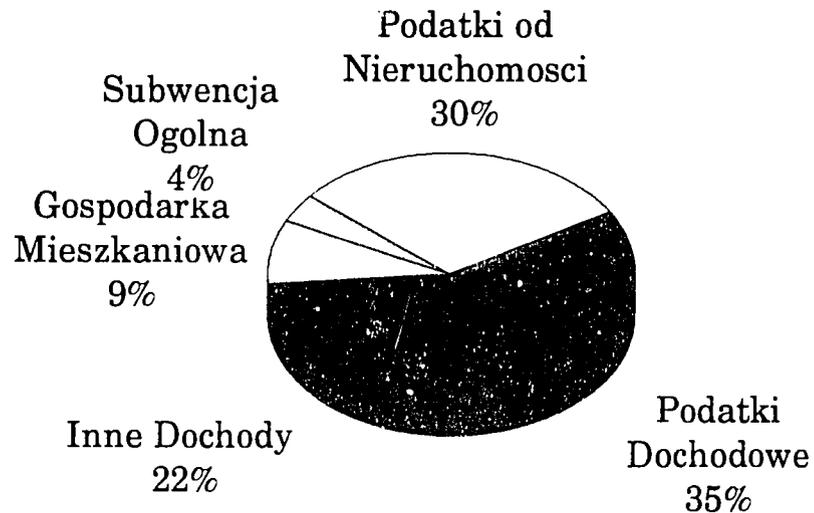
Lublin Budget Revenues, Plan 1992



Lublin Budget Revenues: Plan 1993



Przychody Budżet m. Lublina , Plan 1992



Przychody Budżet m. Lublina , Plan 1993

