

**BUDGET REFORM IN
SZOLNOK, HUNGARY**

A CASE STUDY

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BUDGET REFORM IN SZOLNOK, HUNGARY A CASE STUDY

INTRODUCTION

The City of Szolnok, a city with a population of some 79,000 inhabitants located 100 kilometers east of Budapest, was desirous of improving its budgetary practices and procedures to better serve the needs of its citizens. This case study discusses the city of Szolnok's efforts to transition from traditional Hungarian budgetary practices to program budgeting.

**PROGRAM BUDGETING RELATES
REVENUES AND EXPENDITURES
TO MUNICIPAL GOALS,
OBJECTIVES, AND STRATEGIES**

It is often said that the art of budgeting in government is the allocation of limited financial resources to services and activities in a manner that will most effectively meet the needs of the populace to be served. The program budgeting approach transforms the local budget from a simple accounting, and control oriented document into a tool for promoting effective management of city resources while retaining financial accountability. Program budgeting relates revenues and expenditures to municipal goals, objectives, strategies and anticipated outcomes. It focuses on why these expenditures are made, what will be accomplished, by whom, and how. Within this context, public funds are allocated to programs and activities.

This case study is written for local governments that want to reform their budget process and document so that:

- Municipal priorities guide budgetary, financial, and operational policies.
- The budget describes the programs, activities, services and functions carried out by municipal departments and identifies the qualitative and quantitative outputs by which performance and results will be evaluated.
- Citizens, municipal officials, policymakers, investors and others understand the budgetary issues, trends, and choices addressed in the budget.

**THE ART OF BUDGETING IS
ALLOCATING LIMITED FINANCIAL
RESOURCES IN A MANNER THAT
WILL MOST EFFECTIVELY
MEET THE NEEDS OF THE
POPULACE**

BACKGROUND

The transfer of government responsibilities to municipalities gave Hungarian local governments considerable autonomy to make a variety of decisions impacting the lives of the citizens who reside within their borders. Cities were required to allocate limited financial resources to finance a diverse array of services, activities, infrastructure investments, etc. These difficult choices now rested with the mayor and local council.

Unfortunately, Hungarian cities were not given the technical skills or training to effectuate this transition smoothly and efficiently. Cities were making allocation decisions with limited information. Moreover, little attempt was made to evaluate the impact these investment decisions had on the quality, effectiveness and efficiency of the services provided, or on the overall community and its citizens.

The Szolnok budget encompasses 64 institutions (office of the mayor, education, welfare, culture, social services) that receive funding through the municipal budget. Budget preparation had a financial control orientation, emphasizing line item detail to conform to central government accounting classifications. The budget document was sparse. It emphasized city “purchases” such as wages and commodities and revenue sources. Narratives, graphs and charts, as well as year-to-year comparisons, which would enhance one’s understanding of the programs, activities or services provided by the city were lacking.

This lack of transparency was further exacerbated by the presentation of individual institutional budgets at a high level of abstraction. For example, the budget for the office of the mayor was a simple list of commodity expenditures for all city offices. There were no program details and no standard criteria to guide the submission or evaluation of expenditure requests. This made it difficult, if not impossible, to understand the purposes and planned results, for which funding was sought.

These summary budgets were submitted to the office of finance for review. Budget analysis was limited to taking the prior year’s expenditures and adding an inflation factor based on central government requirements. Once central government normative grants were determined, these amounts were added to the budget. Given the city’s limited financial resources, requests for new activities were rarely funded unless financial support was provided in the form of a central government transfer.

Budget requests were forwarded to the General Assembly Budget Committee, and the committee responsible for the particular sector, for review and approval or rejection. Once the general assembly approved the budget, institutions submitted detailed line item budgets. These budgets were not subject to scrutiny. They were merely a breakdown of how monies already allocated would be expended. In essence, the city did not know what it was buying until it was too late.



The office of finance played a coordinative role throughout the budget process. Decision making rested with the general assembly and its various committees. There was no multiyear forecasting, program or budget analysis, performance measurement or monitoring.

A Need for Change

The elections of 1994 brought a change in the body politic, and an electorate interested in the process of budgeting. There was increased demand to know how resources were being used. Newly elected officials questioned the budget. Why are expenditures made on X versus Y? What services are being provided? Who and how many will benefit? What are the anticipated and actual results? Why are certain items not included in the budget? Existing budgets and budgetary practices failed to answer these questions. Few people understood the figures contained in the budget and thus intelligent budget discussion was impossible.

The finance office staff also was uncomfortable with the budget process. There was a recognition that the status quo budget process obscured what was truly happening in the city. Limited supporting information accompanied budget requests. Are the best budget investments being made? Can the budget be used to improve municipal productivity? How can program managers be challenged to think about the most efficient and effective ways to deliver services? At what cost/benefit? How can the budget document effectively communicate financial and non financial information to citizens and policymakers? The desire to know the answers to these and many other questions moved city officials to rethink the Szolnok budget process, content and format.

A Strategy for Reform

Szolnok had developed the basic essentials of a program budget through its United States Agency for International Development (USAID) sponsored housing allowance program. The city housing office collected financial and non-financial data related to program performance and beneficiaries. It was clear to the office of finance that the availability of this data made for more informed decision making and analysis of program results. This knowledge whetted Szolnok's appetite to expand this approach to all city activities.

The city received USAID technical assistance to work with a consultant to examine the budget process and consider various reform strategies. This effort provided the knowledge, strategy and work plan for implementing budgetary reform. The city chose to adopt a program budget structure, modified to its unique needs, as the budgetary approach

of choice. The stage was now set to bring about reform. Szolnok's strategy to ensure budget reform would be both workable and politically acceptable included several key elements:

- City administrative leadership must endorse the effort.
- There must be broad based political support.
- Professional staff must gain a firm intellectual understanding of program budgeting concepts and their applicability to the real world of municipal budgeting in Szolnok.
- Implementing budget reform would be a multiyear process.
- The public would be informed on the benefits and results of reform efforts via the media and local press.

■ **Administrative Leadership.**

Implementing program budgeting requires effective administrative leadership. It requires the cooperation and endorsement of the Mayor, Notary, deputy mayors, head of the office of finance, general assembly and its budget committee. The Szolnok Mayor gave complete support to the deputy mayor and office of finance staff, who were responsible for budget preparation and oversight, to reform the budget process. All other deputy mayors were likewise involved in the reform process from the formative stage.

FIVE STRATEGIES TO REFORM:

- Administrative Leadership
- Political Support
- Training
- Multi-year Process
- Communication

■ **Political Support.** Gaining the support of the political leadership was critical to the success of Szolnok's implementation strategy. The general assembly and finance committee leadership were briefed on the reforms to take place and were provided with various materials describing program budgeting. A meeting was convened of key political party leaders to discuss their perceptions of the strengths and weaknesses of the existing budget process and budget document.

These meetings provided insights into the quality and relevance of information these community leaders were seeking compared to the existing information upon which policy and investment decisions were made. Political concerns were raised (for example, why should the city vary from Hungarian statutory requirements? Will we have to hire new people? Is it really a good idea to have a budget that reveals information?). This dialogue between the professionals, city administrators and the political leaders resulted in a unified



body of opinion that budget reform was a compelling need. The benefits accruing to the city would far outweigh any political or professional liabilities. At the conclusion of the meeting, political leaders embraced budget reform as their own.

In the Fall of 1994, the budget concept was used to formally introduce reform and program budgeting to the general assembly. The concept outlined the benefits of program budgeting and identified the city's strategy for implementing it. The city created a logo for budget reform—a glowing light bulb—to underscore that the reform process would shine a light on the darkness inherent in Szolnok's existing budget process. This logo appeared on all budget papers.

Members of the general assembly adopted the budget concept including the language relating to budget reform. Thus budget reform became a statement of Szolnok municipal policy and program budgeting its cornerstone.

**BUDGET REFORM IS A
STATEMENT OF MUNICIPAL
POLICY**

■ **Training.** Officials were aware that they knew little about the requirements for implementing budget reform (time, cost, staff skills, organizational arrangements, automated system support, for example). Program budgeting concepts were significantly at odds from traditional Szolnok budgeting practices. Since no city in Hungary had attempted such reform, there were no local examples from which lessons could be learned.

There was a need to train/educate the office of finance staff and budgetary institutions on program budgeting concepts and practices. Everyone recognized that there would be a period of "trial and error". Staff was exposed to both the literature and examples of successful municipal budget reform. Training on program budgeting skills and techniques was provided. Sample program budget documents, forms and formats were examined.

It was clear that municipal department staff also needed to be trained to effectively participate in the reform effort. Seminars on program budgeting were held for those staffs that would be responsible for crafting program budgeting in their respective institutions and departments. This early-on collaboration would prove beneficial in obtaining broad based municipal understanding of, and support for, the reform process.

■ **A Multiyear Process.** Szolnok's budget reform was defined as a multiyear process transitioning from line item budgeting to program budgeting. One sector would be selected to "test" the concepts and, if proven successful, reform would eventually embrace all municipal budgetary institutions. As noted earlier, the housing sector was the starting point. All technical facets of the budget process—data, analysis, forms, indicators, the budget document—were seen as part of this evolutionary process. With each passing year, they would grow in sophistication.

■ **Communication.** City officials used the local media effectively to garner support for its budget reform efforts. City staff established a relationship with the local press, radio, and television media to publicize the city's budget reform efforts and explain program budgeting concepts. The deputy mayor, who eventually became head of the economic department, gave regular interviews on the progress of the reform effort. Local media interviewed USAID consultants and staff, as well as visiting dignitaries from Washington, on the benefits of budget reform. General assembly meetings, which are transmitted on local television, also provided an effective media outlet to publicize the advantages of, and progress being made on program budgeting.

The Pilot Program

The initial pilot program was the city's housing sector. The finance department developed budget forms that reflected the type of information required for a program budget. The city housing department was eager to participate in this pilot. Housing staff felt the city's housing programs were exemplary and program budgeting would provide the opportunity to describe the program and its prior and anticipated accomplishments. It was felt that the existing budgetary practices concealed rather than revealed the program's achievements.

At the conclusion of the housing pilot project, the following attributes of Szolnok's housing sector were identified in the budget and reported upon during and after budget implementation:

- The program's goals and objectives.
- The activities to be carried out.
- The number of units of housing to be produced or repaired.
- The number of citizens benefiting from the program.
- Sources of revenues used to pay for the program and activities.
- The expenditures necessary to implement the program and activities.
- The number of city employees required to carry out the program.



Expanding Budget Reform

For the city administrative leadership, the pilot program proved to be a success. Its results confirmed their thinking and strengthened their conviction that budget reform was essential to Szolnok's management ethic. The notary, as well as the mayor, embraced the notion of institutionalizing program budgeting for the entire city.

The general assembly members were quick to identify the differences in the housing budget and the types of reports it generated due to the budget reform versus the rest of the Szolnok budget. Assembly members focused on the informative nature of the pilot budget with its narrative, program display and supporting charts and graphs. They wondered aloud why other departments and budgetary institutions did not do the same thing. According to the Szolnok administrative leadership, this was a critical turning point in the thinking about budget reform. Here was an actual Szolnok program budget for housing that policymakers could understand and evaluate with clarity and comfort. More informed decisions could be made based on financial and non-financial information.

The general assembly passed a resolution adopting program budgeting as Szolnok's budgetary method. In 1996, budget reform, with program budgeting as the center piece, was greatly expanded to include all departments within the office of the mayor and 10 budgetary institutions identified as good performers.

How Reform Worked

city officials knew budget reform would take considerable time and energy and a multi-year transition. However, the level of effort required to expand program budgeting after completion of the pilot effort was much greater than city officials imagined. The expanded role of those charged with budget responsibility would require new organizational arrangements. Everything took much longer to accomplish than originally thought. The program budget required more supporting data and justification than the line item budget. More intense scrutiny and analysis of budget requests were required. Monitoring actual budget performance and results became an essential component of budgeting. These demands were further exacerbated by the short time period within which to produce both a program budget and a budget that complied with Hungarian budgetary law. Szolnok budget staff came to the realization that budgeting is a year round activity requiring substantive financial and non financial data to plan, implement, monitor and evaluate the budget.

Creating the Economic Department

The finance staff's traditional budget role was limited to checking the accuracy of calculations presented in budget requests and to ensure that

**BUDGETING IS A YEAR ROUND
ACTIVITY REQUIRING
SUBSTANTIVE FINANCIAL AND
NON FINANCIAL DATA
TO PLAN, IMPLEMENT, MONITOR
AND EVALUATE THE BUDGET**

funds were appropriated to the correct accounts. Budget reform brought new challenges and expanded responsibilities so that the budget could be used as a management and program tool. Budgeting would now require staff to act as budget and management analysts, capable of analyzing budget requests in the broader context of overall city needs, performance expectations and anticipated results. Once the budget was adopted, attention focused not only on monitoring revenues and expenditures, but on performance, output and impact, and evaluation.

With the heightened political and administrative support, the office of finance went through a reorganization out of which a economic department emerged to take advantage of the opportunities presented by reform. The economic department brought together a variety of new skills (management, policy, performance measurement, sector analysis, data analysis) and blended them with the traditional strengths of the former office of finance (budget assembly and classification, accounting, reporting) to successfully implement the reform process. Administrative units within the economic department were created to focus responsibility on budget analysis and preparation, data processing, fiscal forecasting, and accounting.

The budget analysis and preparation unit took the lead in developing budget forms that reflected the type and quality of information required by budget reform. The unit was responsible for training budgetary institution on implementing reform, providing ongoing technical assistance, data analysis and monitoring and evaluating program performance.

The unit also has responsibility for assembling the budget document. This required developing a vision of what the budget document should physically look like, the information it should present and how it should be communicated. The budget analysis and preparation unit has done its job well. The Szolnok budget document has won acclaim for its innovation in presenting the municipal budget in a format that is transparent, comprehensive, informative and visually appealing. It has served as the standard for many other Hungarian local governments wishing to reform their own budget.

A data processing unit was established to develop and institutionalize, through the city's information system, a program budgeting data base, methods of data collection, analysis and reporting. This unit also was charged with the responsibility of putting the budget document on computer and developing all the supporting tables and graphs.

A new accounting unit was established and a cooperative arrangement was made with the TÁKISZ (administrative branch of the Ministry of Interior) to support the new accounting demands that program budgeting would place on the city. Financial accountability is a cornerstone of any finance department. It gives the public trust in its municipal institutions. Program budgeting does not replace this important fiduciary responsibility; rather, it builds upon the accounting framework to provide information necessary to make smart, informed decisions.



Developing a Task Plan

To organize the reform process and focus responsibility, city officials developed a task plan to guide the process. Tasks to be completed included:

**PROGRAM BUDGETING REQUIRES
NEW SKILLS**

- Formulating the Szolnok vision of program budgeting.
- Defining the program budget submission forms and format.
- Developing the parameters of the program budgeting data base and program performance indicators and actually creating the data base.
- Defining the content and substance for budgetary submissions.
- Forming criteria to review and evaluate budgetary submissions.
- Establishing the content and format for the annual budget document.
- Training economic department and budgetary institution staffs.
- Producing dual budgets: (1) a program budget; and, (2) a budget that complied with Hungarian local government budgetary law.
- Ensuring automated accounting systems were capable of recording program budgeting accounting data.
- Monitoring actual budgetary performance and productivity versus the budget plan.

Changing Budgetary Institution Thinking

The budgetary institutions' approach to budgeting had to change in keeping with the budget reform. At first, department heads were cynical of the process. They felt the new way of doing things would make them vulnerable due to the disclosure of more information. The economic department staff had to "sell" them on program budgeting and demonstrate its advantages.

By carefully selecting the budgetary institutions participating in program budget reform; providing them with technical support; and keeping the process simple by focusing on discreet sectors for which program analysis would be made, the economic department enhanced the opportunity for successful reform. Such success would demonstrate to the remaining institutions that this form of budgeting was a positive change.

For budgetary institution directors, the budget process was no longer a process of assembling expenditures related to personnel, commodities, utilities, capital items and the like, and presenting them to the economic department. They were now professionals managing programs and resources, and focusing on accomplishments. Budget requests had to be justified with substantive supporting program data. Reports had to focus on performance, outputs and outcomes, as well as accounting data. Institutional accomplishments were more transparent to both citizens and policymakers. Where problems arose, the economic department, in its new role, worked in partnership with budgetary institutions to take corrective action.

Developing Forms and Instructions

The economic department staff visited with each institution to explain the purpose, process and advantages of program budgeting. Budget instructions incorporating program budgeting guidelines and forms, were transmitted to these organizations. This had the effect of standardizing budget presentation and proved to be a valuable way to show the general assembly and budget committee members how each budget decision related to overall city goals, objectives and strategies.

Reporting on Results

The city also realized that while budget reform would provide many benefits, its implementation would still require the city to maintain a line item budget and related reporting system that would continue to satisfy the requirements of the central government. Reform required establishing a dual reporting system as the city is required to report to the central government in the traditional accounting format, and report internally on a programmatic basis.

Expanding the Circle

Budgetary institutions are free to decide which budget format (line item, program, or other) they wish to employ. However, the trend is clear. Each fiscal year more budgetary institutions have opted to develop program budgets. Presently, 15 institutions participate in the city's program budgeting reform efforts. The majority of the remaining institutions, realizing the benefits of budget reform, have adapted their own internal budgetary and management practices to the rigor, data requirements and analysis demanded by program budgeting. Importantly, all city budgetary institutions now report on a program budgeting basis.

Fine Tuning the Techniques

As the economic department staff became more confident of its program budgeting skills, it introduced new forms, formats and data requirements for both budget submission



and monitoring. For example, performance indicators were introduced as a method to evaluate institutional performance and compare similar institutions, such as schools, to each other.

An Evolving Budget Document

From 1995 to 1999, the Szolnok program budget evolved from a simple budget covering the pilot housing program to a three volume document embracing both program budget data and indicators of municipal, program and departmental performance. These documents give testimony to the progress Szolnok has made. The current budget contains one volume that is the traditional budget required under Hungarian law—a listing of revenues and expenditures by objects of revenue or expenditure. The second volume provides a program budget framework. It provides three year data that facilitate year to year comparisons, and assists the reader in judging municipal performance over time. The third volume presents financial and non-financial data for a diverse array of technical indicators relating to every aspect of city services. These indicators have been critical for decision making.

The ease of readability of the Szolnok budget document is a major strength of the reform effort. The document provides transparency. The budget is enriched with a variety of tables and charts all enhanced with color and graphic symbols that facilitate the reader's comprehension. Citizens and general assembly members alike now understand the kinds of municipal investments that are being made, how these investments relate to overall city plans, and the results that can be expected from these investments. It also gives a sense of what the city is not doing.

■ **Example.** In 1998, for the first time ever, the general assembly adopted the budget unanimously without any veto or abstentions. The very pleased economic department director asked a general assembly member who had abstained in prior years, what had prompted him to ratify the budget this year. The gentlemen responded that this was the first year the budget answered all his questions.

SZOLNOK'S VISION OF THE PROGRAM BUDGET

Early in the reform process, Szolnok officials and the USAID consultant identified the purposes that a budget can serve. These purposes are summarized below.



■ **The Budget as a Policy Document.** The budget documents the financial, operational policies, and priorities that guide Szolnok's budgetary decisions. Budgetary goals and objectives, and expenditures priorities are articulated and documented.

BUDGETS CAN SERVE MANY PURPOSES INCLUDING: A STATEMENT OF MUNICIPAL POLICY; A FINANCIAL PLAN; AN OPERATIONS GUIDE; AND, A MEANS OF COMMUNICATION.

■ **The Budget as a Financial Plan.** The budget serves as the city's financial plan by identifying revenues and expenditures. Furthermore, the assumptions and trends upon which these financial projections are made also are described. Through the use of charts and tables, the city aims at presenting financial data in a clear, concise and easy to comprehend manner.

■ **The Budget as an Operations Guide.** The budget describes the activities, services or functions to be carried out by institutions. Qualitative and quantitative measures, or outputs, by which program performance and results will be evaluated, are identified. Program beneficiaries, such as the number of citizens served, also are identified. The number of employees required to carry out each activity is specified, thus recognizing the importance of employees within the budget context. Therefore, the budget of each institution not only identifies the cost of each activity, but also the level of service to be provided, the number of citizens who will benefit from the service, and the staffing level required to carry out the activity. These data are used to provide a benchmark to make year to year comparisons. By making these comparisons, the city can assess program efficiency and effectiveness, and take appropriate corrective action.

Technical indicators have been developed to evaluate the performance of a diverse array of municipal services. For example, one institution providing a service for which it does not receive a central government subsidy was found to be inefficient when the number of users—children participating in a cultural program—were linked to program and maintenance costs. The cost per child was too high for the benefits accruing to the children, city and its citizens when compared to other institutions providing a similar service.

■ **The Budget Document as a Communication Device.** The budget document is the mechanism by which citizens, municipal officials, policymakers, potential investors and others can understand Szolnok budgetary issues, trends, and choices addressed in the budget. The document communicates the significant information contained in the budget to the reader. Charts and graphs are used, where appropriate, to highlight financial and statistical information. In addition, narratives describe the relationship between revenues, expenditures and programs. The document also presents community demographic, infrastructure and economic data.



The city publishes a budget in brief in the local newspaper and presents it on local cable television so its citizens can be informed on the budget and budgetary issues. The notary, members of the general assembly, and, if asked, the head of the economic department, participate in neighborhood citizen meetings. These municipal officials would not think of attending these meetings without their three volume budget document.

SZOLNOK TODAY

Now into its fifth year of program budgeting, the city's vision of budgeting is still emerging. Over time, the city has added all components of the Office of the mayor and 14 other budgetary institutions in its program budget. As city leadership learns more about the art and craft of program budgeting, and their demand for programmatic information increases, the type and quality of data keeps improving. Sector analysis is more sophisticated. People feel more comfortable about the decisions they make and the budget document has grown more informative.

The results of Szolnok's efforts have been most gratifying to all those involved. Quite simply, program budgeting changed the corporate culture of the city. Smarter decisions are being made. More initiative is taken to be creative managers. While central government cutbacks forced the city to think about improving municipal productivity, program budgeting provided the light to guide the way. For example, over a three year period the city's nursery school workforce was reduced by 100, activities were reorganized, and productivity increased. Without this and other similar efforts, one can only guess how the city of Szolnok would have met the challenge of doing more with less.

The city leadership uses the budget document as its management guide. One elected vice mayor can be seen carrying his copy of the budget document and technical indicators in his bag and using it to justify budget increases for his sectors. General assembly members now focus on efficiency and effectiveness and see budget information and results as an opportunity to improve in the future. Copies of the budget are always present and readily referred to during assembly meetings throughout the year.

The budget eased the transition of the newly elected Szolnok Mayor into his responsibilities. Using the information contained in the budget as a starting point, the mayor spent over 100 hours with the head of the economic department on budget issues. The focus of these meeting was not only on the forints collected and spent, but on the results produced.

One of the most compelling benefits of program budgeting cited by every Szolnok appointed and elected official is that it completely changed the thinking about the budget process. Rather than seeing the process of making municipal investments as an annual exercise of raising and spending money, investments decisions are placed in a longer term

context of what will be best for Szolnok over the coming years. Results cannot not be judged fairly based on annual increments. The long term vision of where the city wants to go, and how programs and program performance add to this vision, has become the important budget evaluation criterion.

Others are also taking note of Szolnok's accomplishments. The format of the Szolnok budget document has served as a model for other Hungarian communities. city officials are constantly sought out for advice on budgeting. The chief executive of the National Savings Bank (OTP) has a personal copy of the Szolnok budget and has been quoted as saying that he learned more about Szolnok than he thought possible simply by reading the budget. This from the chief executive of the organization that has loaned Szolnok billions of forint over the years. Szolnok officials note that the city now enjoys lower interest rates when it borrows and the cost of account maintenance has been reduced. Could there be a linkage to the budget reform?

RATHER THAN FOCUSING ON ANNUAL REVENUES AND EXPENDITURES, PROGRAM BUDGETING BRINGS A MULTIYEAR PERSPECTIVE TO BUDGETARY INVESTMENTS

Szolnok's budget today is quite different than it was 5 years ago. But the city is not content to stop the reform process. It continues to push ahead with innovation. Szolnok plans to take budget reform to the next, and more difficult, level. It plans to develop program budgets that transcend departments or sectors. For example, an inner city improvement program budget may be created. It would bring together several budgetary institutions under one program area and may lead to the evolution of an Urban Development Department.

DID BUDGET REFORM MAKE FOR BETTER DECISION MAKING?

In addition to the examples cited throughout this article, city officials cite the following examples where budget reform has lead to more informed decisions and cost savings to the city:

Social Map

During the initial phase of program budgeting, the city had to define social expenses and allowances. The Szolnok department of human services could neither identify the proposed primary program beneficiaries, the nature of problems, nor properly target subsidies. The program budget process forced the Department to develop appropriate indicators upon which subsidies could be distributed. Szolnok developed a social map of the city that contains the data upon which actual needs of those who are eligible for social allowances could be identified. Following the completion of the map, the exact assessment



of social expenses, their allocation to tasks and effective use of these funds became possible.

Szolnok Television

The Szolnok television broadcasting company was operated as a municipal budgetary institution whose primary function was to inform the city population about matters affecting them, decisions adopted by the board of elected representatives, the activities of the office and other public information. Funds required for operation were provided by the city in the form of transfers supplemented with advertisement revenues. The profitability of the company declined drastically in 1996, wherein expenses exceeded revenues by HUF 10 million in 1996 (deficit was HUF 158,000 in 1995).

Because program budgeting requires analysis of the costs and benefits of varying approaches to service provision, the city considered the possibility of privatizing the television broadcasting company. Szolnok hired a firm to determine if the station could raise its own revenue through advertisement revenue and other alternatives if it was managed by a private company versus the city. On January 1, 1997 the independent Szolnok Television Ltd. was created. The city is now a client rather than an owner. Although in 1997 the television company still depended greatly on Szolnok financial support, this support was directed toward paying for local public access programming rather than overhead support.

Closing Down a School

In 1995, Szolnok policymakers deemed it necessary to close one primary school. Performance data, upon which to determine the school to close, were limited and used by the finance staff only. Given the restricted role the office of finance played prior to budget reform, their involvement in this decision was limited. The debate as to which school to close was held in the political arena where the desires of various interest groups and lobby groups were heard.

As part of the 1997 program budget reform effort, Szolnok developed performance indicators to evaluate the effectiveness and efficiency of budgetary institutions and the various programs for which they are responsible. These indicators were used to identify schools which were either performing efficiently and effectively or poorly. The result of this analysis showed that Szolnok had closed the wrong school. The school that was deemed most inefficient and ineffective had been allowed to remain open.

This analysis gave the economic department staff a compelling argument that program budgeting performance data must be taken into account before policymakers make a decision. As noted earlier, the city now produces a separate volume to the program budget that identifies performance indicators. This volume not only describes the

measuring techniques, but also allows policymakers to understand the expected consequences of their decisions.

Costing Central Government Mandates

Central government decrees for local government responsibility often go unfunded. Through program budgeting, the economic department provided the general assembly with the costs and proposed benefits of supporting an elderly home. Policymakers were able to identify both mandated and non mandated tasks, and evaluate performance data to assess the efficiency and effectiveness of elderly home activities. Their analyses resulted in the home being allocated FT 31 million. An allocation that would not have been made without the supporting data made available through the program budget structure.

Cooperation with TÁKISZ

At beginning of budget reform, there was an obvious tension between traditional accounting and the informational needs required for the program budget. Without an adequate monitoring and reporting system, the program budgeting effort becomes meaningless. Yet, Szolnok had to comply with State mandatory accounting and reporting provisions. These provisions are at odds with the informational requirement of a program structure. The TÁKISZ, recognizing the program budget requirements, developed a computer program, in cooperation with Szolnok, to overcome this problem. There is a coding system that translates program budgeting financial data into a format to satisfy State reporting requirements. Non-financial data, such as those relating to program performance, are assembled by the economic department in cooperation with the budgetary institution. In essence, there is a manual linkage between financial and non-financial data.

CONCLUSIONS

Szolnok developed a budgeting process that consists of several crucial components: (1) a program structure; (2) statistical analysis of city revenue and expenditure trends as well as demographic trends; (3) condition statements; (4) technical indicators of program performance (5) program policies; (6) narratives built on substantive analysis that support and justify budget submissions (7) anticipated outputs and results; (8) program evaluation; and (9) enhanced management systems.

The program structure is the cornerstone of Szolnok's budget. Programs, not commodities, are identified. It is the point at which resources are both forecasted and allocated and measurable objectives established for program evaluation.



To establish priorities, the economic department concerned itself not only with identifying "what is" but also gathering information needed to make judgments concerning the critical nature of "what ought to be." Statistical data helped immensely. For Szolnok, this was no easy task. The city had to develop the statistical indices it needed, obtain the data, organize it in a way that would be useful, and analyze it to identify existing conditions and trends. Importantly, the economic department worked closely with its data processing staff and TÁKISZ to computerize these data.

The city created a data base used for budget analysis. The real benefit for the city, however, will be in future years. Year-to-year comparisons can now be made. As conditions change, the city can more readily change allocations to meet these changes. Szolnok now has a means of measuring the perceived and actual effectiveness and efficiency of city services.

The Szolnok budget process had focused on a maze of isolated funds and separate organizational units. By coupling financial analysis with program analysis under a common structure, the city is now able to view the purpose for which an activity is performed and how it relates to other similar activities. In this way, requests for new services, service expansion, or consolidation can be deliberated with an understanding of the long term financial and non financial impacts of the decision made. This not only permits fiscally responsible decision-making but also enables program tradeoffs as priorities change or forecasts are modified.

From the policymaking perspective, elected officials have a basis to make more informed decisions. The mayor and general assembly discuss policy issues, analyze services and service levels and review the data that support the recommendations made. With rising costs, continued high inflation and declining central government transfers, such approaches must be adopted if Hungarian cities are to survive as viable forms of local government in the future.

Szolnok budget reform is still in transition. The final component of this effort is the development of management systems to ensure policy decisions are implemented, monitored and evaluated. This will be the focus of the economic department's energy in the coming years. Methods and systems for collecting, quantifying and evaluating diverse performance data related to a vast array of programs and activities for sixty-four budgetary institutions must be developed. Accounting and other automated systems must provide timely, accurate and useful data that facilitate performance evaluation. The economic department and budgetary institution staffs must collaborate on this effort to ensure its success.

Szolnok has proven that Hungarian cities can bring about budgetary reform. Cities can effectively and efficiently allocate limited resources. There is now a model other Hungarian cities can use to reform their own budgets in a cost effective way. Hungarian

municipal and ministry officials, who have had the opportunity to examine the Szolnok budget, are impressed. It is a very effective, well crafted document. Szolnok municipal officials are passionate spokespersons for budget reform. They are powerful communicators for budget change among their municipal colleagues.

LESSONS LEARNED

Has Szolnok succeeded at program budgeting? By most standards, the answer would be yes. The city is proud of its accomplishments and has served as a model for other municipalities. However, Szolnok officials are quick to point out there is still much to learn and many more refinements to be made. Based on their experience to date, city officials offer the following cautions for those who wish to bring about program budgeting reform in their respective community:

- Program budgeting may be a difficult concept for people to grasp. To explain program budgeting, use examples that elected officials and professionals can understand.
- Budget reform can be a threat. It can demonstrate that specific activities are inefficient or ineffective posing a threat to program managers and others who have an interest in maintaining the status quo.
- Develop the municipal vision of what the reformed budget should look like. The budget document and data collection and reporting systems must respond to the municipality's informational "need to know". While the Szolnok budget, its forms and support systems work well for Szolnok, they may not be appropriate for another jurisdiction.
- The finance staff of the office of finance needs to devote time and energy to learning about the various budget reform methods and processes for bringing about reform. Staff skills must reflect the informational demands of program budgeting.
- The finance staff of the office of finance and municipal departments must work in partnership. Where implementation problems arise, the partners should resolve them jointly.
- Implementing reform takes significantly more time than imagined at the outset of the process. Develop a multiyear work plan that incorporates realistic expectations of what will be accomplished, and by when.



- Keep it simple. When initiating program budgeting, limit initial implementation efforts to departments that exhibit a strong management ethic and have expressed willingness to reform their budgetary practices.
- Generate reports that reflect departmental accomplishments under a program budget approach. Reports should identify both expenditures and accomplishments against predetermined performance measures.
- Involve the leadership—administrative and political—in the process from the very outset.
- Keep citizens informed on reform efforts through the media, public forums and neighborhood gatherings. Summarize the budget and budgetary issues in a clear, concise and transparent manner. Be available to respond to questions and concerns, and, importantly, actively seek citizen input on budget investment decisions and results.