

## **PERFORMANCE BUDGETING**

**Meaning:** The term ‘Performance Budgeting’ is known by different names. Earlier it was called ‘functional budgeting’ or ‘activity budgeting’. The most popular and extensively used term is ‘programme budgeting’. The meaning of the performance budgeting becomes clear from the following definitions:

- i. The Indian Administrative Reforms Commission defines a performance budget as, “a technique for presenting government operation in terms of functions, programmes, activities and projects.”
- ii. The meaning of performance budgeting becomes very clear from the definition of Burkhead. He says, “performance budgeting can be most appropriately associated with a budget classification that emphasis the things which Government does, rather than the things which government buys. Performance budgeting shifts the emphasis from the means of accomplishment to the accomplishment itself.”
- iii. The Hoover Commission of the USA also explains the concept lucidly in the words as, “the whole budgetary concept should be refashioned by the adoption of budget based on functions, activities and projects, this we designate as a performance budget.”

Thus, as analysis of the above definition reveals that performance budgeting is a process that seeks the implementation and control of programmes through budget allocation. It starts by analyzing the objectives of an organisation and deciding under what generally heading its expenditure can best be analysed functionally.

**Objective of Performance Budgeting:** the Working Group of the ARC of India stated the following primary objectives of the performance budgeting.

- a. To co-relate the physical and financial aspects of every programme or activity;
- b. To improve budget formulation, review and decision making at all levels of management in the government machinery;
- c. To facilitate better appreciation and review by the legislature;
- d. To make possible more effective performance audit;
- e. To measure progress towards long term objectives as envisaged in the plan;
- f. To bring annual budget and development plans closely together through a common language; and
- g. To pave the way generally for an overall efficient financial management in the government.

**Important characteristics:** Following are some of the important characteristics of performance budget:

- i. It represents the major purpose for which funds are allocated and sets measurable objectives.
- ii. Performance budgeting tends to focus on changes in funding rather than on the amount appropriated for the previous budget cycle.
- iii. Performance budgeting mainly on the results to be accomplished.
- iv. Performance budget presents greater managerial suppleness by providing the program or department manager a fixed lump sum distribution that may be used for various needs in order to accomplish the agreed upon results in service delivery.
- v. It identifies programs and agencies that are seeking similar outcomes, thereby drawing such inter-relationship to the legislature's attention.
- vi. Performance budgeting tries to resolve issues related to decision making problems.
- vii. Another characteristic of the performance budget procedure is the identification of the objectives of the budget management to be incorporated with overall responsibility, so that good budgetary performance is compensated and impose sanctions for poor performance.

#### **Performance Budget & Line-Item Budget: Differences**

A Performance Budget sharply differs from the traditional budget i.e, Line-Item-Budget. Two major points of distinctions between them are-

- i. A performance budget presents public expenditure in terms of functions, programmes and activities and thus stands out from the line-item-budget which only emphasis staff, furniture and equipments.
- ii. A line-item-budget is prepared with an eye on the objects of expenditure. But a performance budget undertakes allocation of expenditure by reference to particular objectives and functions.

#### **Merits (Advantages) of Performance Budgeting:**

A Performance budget becomes a very sensitive tool of planning control management. The most important advantages of performance budgeting is as follows:

1. It can be judged from a performance budget what was done in the previous year and what cost both unit wise and programme wise.
2. Performance budgeting renders performance audit more purposeful and effective. Performance budget helps a better understanding and better review of the budget by the legislature.
3. It makes control and policy-making more meaningful and makes budget more informative and understandable to the tax payer.
4. By performance budgeting, we can fix the responsibility very precisely. From this budget one knows very clearly who is responsible for what.

5. A performance budget provides a clear and true picture of spending and revenue alternatives.
6. A performance budget presents more clearly the purpose and objectives for which the funds are sought.
7. Performance budgeting serve as a covenant tool of management. Because it helps administrators to prepare their budget on the basis of what they hope to accomplish.
8. Performance budgeting is an excellent instrument for translating long-term programmes and plans into reality.
9. It is a better means to exercise control over financial administration.

### **Disadvantages or Drawbacks of Performance Budgeting:**

According to ARC, the performance budgeting has some limitations or demerits. They are-

1. Performance budgeting enables only a quantitative and financial evaluation of programmes and activities. It fails to facilitate qualitative evaluation.
2. The usefulness of the measuring technique of performance budget is somewhat limited in respect of activities that are not measurable in any precise manner such as research, law and order, defense etc,
3. The success of performance budgeting depends upon well organised departments and agencies identified with programmes and activities. However, precise categories of functions and corresponding to organizational units are rather difficult to achieve.
4. Performance budget provides no remedy for the administrative deficiency in the budget process. It has no panacea for administrative and organizational short-budgeting.
5. Performance budgeting has limitations particularly in the context of developing countries where there is no co-relation between inputs and outputs, setting of targets and measuring of performance is not very rational.

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