

Modernizing Municipal Finance of the Kaliningrad Oblast



Performance-based Approach and Regional Development



ASSOCIATION «COUNCIL
OF MUNICIPALITIES
OF THE KALININGRAD
OBLAST»



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**MODERNIZING
MUNICIPAL
FINANCE
OF THE KALININGRAD OBLAST:
performance-based approach
and regional
development**

Materials of the International Project

*«Reforming Municipal Finance
of the Kaliningrad Oblast
through Performance Budgeting»*



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Key materials prepared by experts of the project «Reforming Municipal Finance of the Kaliningrad Oblast through Performance Budgeting» in 2005-2006 are presented in this collection as articles. The works characterize the problems in the management of the budget process at the local government level in the Kaliningrad Oblast and the tendencies of modernization of this process in the context of administrative and budget reforms in the Russian Federation and of the policy of the oblast authorities. The background and contemporary application of the methods of performance budgeting in Swedish municipalities are described as an example for comparison with European practices. The authors devote particular attention to the relationship between performance-based budget management and strategic regional development planning.

The publication is intended for practitioners, experts in regional studies, faculty and students of higher educational institutions and may be used in the study of the methods of municipal management, the economics of public finance and regional economic studies in the Russian Federation.

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Scientific Publication

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OF THE KALININGRAD OBLAST:
PERFORMANCE-BASED APPROACH AND REGIONAL DEVELOPMENT**

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«Reforming Municipal Finance
of the Kaliningrad Oblast through Performance Budgeting»

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INTRODUCTION

In 2005–2006 the EastWest Institute (EWI) and the Association of Municipalities of the Kaliningrad Oblast (AMOKO)¹ realized a joint project, «Reforming Municipal Finance of the Kaliningrad Oblast through Performance Budgeting». Carried out with financial support from the Swedish International Development Cooperation Agency (SIDA), the project was a contribution to the Russian national program of modernization of budget management systems at the regional and municipal level in accordance with the best world and European practices.

In the Kaliningrad Oblast EWI's assistance to regional and municipal authorities in this sphere began in 2002 in the framework of the concept of a pilot region for cooperation between Russia and the European Union and with the active participation of the Kaliningrad Regional Economic Development Agency². Continuing this work, the project pursued two principal goals:

- to specify the content and economic meaning of the new distribution of powers between municipalities and the oblast authority as part of the local government reform being pursued in Russia and help devise a well-balanced policy of intergovernmental fiscal relations within the region;

¹ In 2006 formally renamed to Association «Council of Municipalities of the Kaliningrad Oblast».

² The results of this work are reflected in the following publications: Public Finance of the Kaliningrad Oblast: a Russian-European Perspective. Moscow: MAX Press, 2004; and Support to Transforming the Kaliningrad Oblast into a Pilot Region of Russian-EU Cooperation. Kaliningrad: EastWest Institute, 2003.

- prepare municipal politicians and financiers for the practical adoption of performance-based management and, in particular, performance budgeting (PB) as an indispensable component of the strategic approach to territorial development.

Methodologically a feature of the project consisted in renouncing the imposition on the municipalities of any ready-made budget management models. The organizers had counted on an interactive approach presupposing, at the initial stage, the launching of a substantive discussion in the municipal environment, and interaction between municipal politicians and employees and regional-, federal- and international-level experts. As a result the project participants effectively drew up a well-thought-out contract for the elaboration of managerial solutions and trainings which would correspond to the specifics of the Kaliningrad Oblast and to the comprehensive understanding by the municipal community of the present-day challenges facing the region.

To comprehend the logic of the project, it has to be noted that it was being developed and implemented in the context of the entire complex of reforms pursued in the Russian Federation in 2000–2006:

- an administrative reform, consisting of the distribution of spending and payment powers between budget levels and local government reform;
- a budget reform, which is devised to ensure the distribution of powers (which presupposed discussion of the aims of a specific public mandate) and confirm them financially and which also encompasses the adoption of performance budgeting as a new approach to public finance designed to ensure a conscious use of resources;
- the strengthening of strategic planning as a tool for development;
- structural reforms in the main spheres of activity (housing policy, social benefits, and so on), which boiled down chiefly to eliminating the lingering Soviet perceptions about the role of the state.

All the above reforms were initiated from above, but as applied to the regions and municipalities a liberal approach was adopted: the Federation confirmed its own vision of reforms in the form of framework legislation, without imposing on the regions and municipalities any compulsory program of measures or reform mechanisms. Furthermore, the Federation employed such tools as National Projects, the Regional and Municipal Finance Reform Fund, and the Administrative Reform Support Fund to encourage regions and municipalities (large ones with a population of over 200,000) in the reform implementation.

The reform approach made the search for and analysis, assessment, dissemination and material encouragement of best practices vitally important.

The local government reform in the Russian Federation and the reform of the distribution of powers (Law No. 122-FZ of August 20, 2004) created good conditions for the correction of the existing budgeting practices because they brought on the necessity of reviewing the budget process procedures and the system of intergovernmental fiscal relations at the regional level and confronted the local and regional authorities with the necessity of comprehending matters of local importance and the activities of local government bodies. At the same time the attitude of the regional and local authorities to the implementation of these reforms, in particular, the local government reform, in 2004-2005 came down chiefly to carrying out some or other formal procedures prescribed by law (for example, the decision regarding the territorial organization of local government).

The start of movement towards public finance and, in the first place, a system of intergovernmental fiscal relations and a budget process in the Kaliningrad Oblast was largely due to the shortcomings in the current methods used to calculate financial assistance amounts. Those methods rested on a relative calculation of expenditures in a plan year with respect to actual performance in previous years without regard for the changes in expenditure content, which led to an overall deterioro-

ration of the financial state of the municipal budgets. By 2004, an opinion had begun to emerge among municipal officials that a description of the minimal requirements of the municipalities and their economic assessment could make a case for consideration of the interests of the municipalities in the course of the formation and distribution of the oblast budget; this would also require political proof of the importance and expedience of financing municipal expenditures as well as their comprehensible description for any outsider.

Based on this, it was conjectured that adopting that approach to methods for calculating the amounts of financial assistance from the regional budget to the budgets of municipalities could ensure the practical importance of performance budgeting for the municipalities as well as facilitate developing the public finance of the Kaliningrad Oblast in accordance with the budget process reform being pursued at the federal level, related to the adoption of performance budgeting.

The first attempts to present municipal budgets in the form of adopted decisions on service performance standards showed that in many cases the municipality was performing the function of maintaining the existing budget network and that in this situation it was difficult to speak of assessment of expedience for decisions on the targeting of an expenditure and of the priorities and importance of financing that expenditure. In addition, it became clear that in the local budgets there existed a considerable number of expenditures beyond the scope of municipal powers and actually imposed by other levels. This meant that there was a need for a gradual review of the municipal authorities' powers and, accordingly, the content of budget-financed industries from the vantage point of intelligibility and social effectiveness; that is, the main attention must be given to development programs.

The watershed moment in the project implementation was the end of 2005, when Georgy Boos became the oblast governor. At the first stage the municipal community had played the leading role in the promotion of performance budgeting. With the ascension of the new governor the regional authorities vigorously backed this approach by

embarking on its practical adoption as a tool for controlling the entire budgetary sphere of the oblast, including the activities of the municipalities. Under these conditions the subject of discussion between the local authorities and the regional government was not so much the principles of budget management as the issues of coordination of development strategies for the oblast as a whole and its constituent territorial units.

Thus, the discussion of performance budgeting, by virtue of both the changes occurring in the political life of the country and the region and the objective logic of the development of the theme itself, led to the shift of the project's focus from a purely financial, budgetary aspect to that of the objectives and content of the activities of the budget-financed industries and the directions and tools for their development.

As municipalities started mastering the performance-based approach, it became necessary for the project to integrate financial problems in the public sector into a broader context related to the choice of a regional development model as the essential starting point in planning territorial development and budget process management. For the Kaliningrad Oblast, more than for most of Russia's regions, that choice turned out to be determined by the oblast's international ties in the situation when its closest neighbors, Poland and Lithuania, joined the European Union.

The materials presented in the collection were prepared at different stages of the project and, in their totality, reflect the path traveled by its participants.

The authors are grateful to the project participants who made a significant contribution to the elaboration of the theme and the course of the discussion by sharing their expertise and knowledge:

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ABSTRACTS OF ARTICLES

Introducing Performance-based Budgeting in Russia: First Results and New Problems

This paper gives a general overview (predominantly from the federal perspective) of the introduction of performance-based budgeting (PBB) in Russia as part of a broader process aimed at increasing the efficiency of the state in line with a «new financial management» concept.

The budget reform initiated at the start of the 21st century by the Ministry of Finance of Russia in a bid to address a rather local issue – more effective use of limited budget funds – evolved going beyond purely financial objectives and requiring attention from sectoral authorities and the Government of Russia.

The budget reform served as a catalyst for completing the public administration and local government reform and the development of strategic planning and gave a boost to administrative reform that seemed to have come to a halt.

A rapid improvement of the financial situation, noticeable mainly at the federal level, made it possible to shift the focus in the budget reform from saving budget funds and increasing the effectiveness of the budget sector to socially important effects and the quality of services in the public sector and the state in general.

This paper describes changes in the PBB concept and priorities and gives recommendations on how to correct the paths of interconnected budget and administrative reforms.

**Methodological Approaches to Introduction
of Performance-based Budgeting at Municipal Level
(Exemplified by education and culture expenditures
in the Kaliningrad Oblast's municipalities)**

An interactive approach, which presupposes a substantive discussion on PBB and strategic planning (primarily in terms of objective definition) at the municipal level, was implemented in a series of seminars, roundtables, etc., organized by the Association of Municipalities of the Kaliningrad Oblast (AMOKO) to prepare municipalities in the Kaliningrad Oblast for budget and planning reforms.

One of the seminars, organized by federal, regional, and foreign experts, focused on methodological approaches to introducing performance-based budgeting in education and culture at the municipal level in the Kaliningrad Oblast. The seminar also led to several conclusions important for the PBB methodology that called for reevaluating and possibly changing current federal methodological documents on budget reform.

**Survey of the System of Financial Assistance
at the Federal Level in the Russian Federation in 1994-2005.
Its Implications on Relations between Regional and Local Budgets**

The purpose of this paper was to present the existing system of inter-governmental fiscal relations both at the regional and federal levels as a result of decisions adopted under certain circumstances to achieve certain objectives. The description was aimed, on the one hand, at challenging the habitual belief of municipal and regional politicians and specialists that existing procedures are unchangeable and thus on raising the question of changing them, and, on the other hand, on showing the gradual change, direction and logic of the development of public finance in terms of intergovernmental fiscal relations both for the sake of forecasting future changes and for finding arguments in support of such changes at the regional level.

Local Budget Expenditures as a Combined Result of Political Decisions (a case study of the Slavsky District of the Kaliningrad Oblast)

Discussions with regional authorities (mainly the oblast's financial authority) under the project showed that the expenditure needs of municipalities (in other words, the possibility to start introducing performance-based management) cannot be addressed through general statements on the insufficient financial status of local budgets but require a detailed presentation of municipal budgets as a combination of substantiated decisions, the meaning of which can be understood and found expedient for financing, which in turn will expose the actual state of affairs in budget sectors as a starting point for further result-oriented budgeting.

This paper makes an attempt to give a political interpretation of the local budget and present it in the form of in-kind expenditures incurred by a municipality. The example of a municipality in the Kaliningrad Oblast suggests that it is an administrator of state powers by 40 percent, with the rest of it consisting of two key objectives: supporting the existing network of budget institutions and subsidizing certain services (mainly housing and utilities) for the population, which also requires an administrative staff. The conversion of budgetary numbers into the volume and quality of budget services, undertaken in this paper, allows us to see the actual municipality and compare it to the requirements set forth in Law No. 131-FZ of October 6, 2003 in terms of local issues.

Local Issues and Transferable State Functions: Evolvement through Reforms

After describing current performance of municipal functions to address local issues, the next objective of the project was to understand the substance of municipal powers in accordance with Law No. 131-FZ of October 6, 2003, assess them financially, consider, separately, existing practices and elaborate positions on the performance of trans-

ferable state functions, which, starting from 2005, have been making up a considerable part of a municipality's activities and 20–40 percent of its budget.

In describing the «proper» content of local issues and the performance of relevant budget sectors, a key problem was choosing the grounds for identifying goals, objectives and measures in terms of local issues. An assumption was made that relevant norms and provisions are reflected in federal and regional legislation and need to be «taken out» and described as a comprehensive system with a subsequent financial assessment.

This paper gives a brief description of local issues reform, issues and recommendations regarding activities at the municipal and regional levels.

There are several difficulties that arose in describing the content of municipal powers and that need to be pointed out: 1) part of public spheres are subject to federal reforms and requires an understanding of their substance as well as revaluation of the whole sphere and the role of municipalities in it (for example, housing policy, city planning); 2) part of the powers are absolutely new for municipalities and therefore there is no understanding of their importance or the existing practices, which requires the development of a totally new understanding of a relevant sphere (for example, security issues); 3) some powers were reproduced uncontrollably for a long time, undergoing changes that can hardly be interpreted now as a purposeful and internally integral system. In addition, there are discrepancies both in the understanding of local issues at the municipal and regional levels, and in the legislation regulating these spheres.

**What is the «Development of a Territory»?
(Regarding the creation of a Municipal Development Fund
in the Kaliningrad Oblast)**

An attempt to describe a desirable implementation of local issues within the framework of current legislation failed to bear fruit both

because of loopholes and discrepancies in the legislation, and because requirements set forth in regulatory acts do not take into account the condition of the social sphere, administrative powers, and municipalities' resources to perform their functions. It was noted that despite the absence of public discussion on the purposes of budget sector development, some examples of such development (new practices in budget sectors) can be found within budget institutions: in some cases due to the enthusiasm of proactive persons despite scarce budget financing; in other cases due to sponsorships or financing from international/foreign funds. An assumption was made in the project that the use of the existing best practices in defining performance indicators for the development of budget sectors will move discussion from abstract debates on development goals to concrete evaluation of practical work and experience.

Since the existing system of budget financing and inter-budgetary relations used notional relative estimates and did not reflect the essence of budget sector activities, such examples of new practices and their dissemination and development could not be financed under the traditional approach to the regional budget. However, the federal budget legislation empowered regions to create municipal development funds. A municipal development fund can become an instrument of financing the development of the budget sector through development and dissemination of best practices in budget sectors. The discussion on the creation of such fund in the Kaliningrad Oblast at the time of the project added practical value to relevant studies.

These reflections led to a number of conclusions on the relevancy and substance of a regional Municipal Development Fund.

Administrative Reform in the Russian Federation

Changes in the political environment in the Kaliningrad Oblast in the fall of 2005 (change of governor and government) brought about a number of new approaches in territorial management. Regional executive agencies started using the principles and mechanisms of municipi-

pal reform and strategic management reform, developed at the federal level, which are closely intertwined with the introduction of performance-based budgeting. Municipalities faced the need to understand relevant federal reforms. To this end, a survey was prepared as part of the project, offering an overview of the main goals and stages as well as the implementation of the administrative reform in Russia.

Performance Budgeting in Sweden: Introduction and Evolution. Performance Budgeting in Practice (Swedish Municipalities)

The examination of performance budgeting in two aspects – as a planning technique and as a political process of goal definition – required an analysis not only of federal expertise and documents in Russia but also of European experience. Swedish experience of territorial development and planning appeared to be one of the most appropriate due to the important role played by local governments in Sweden and the long history of the development of territories that are not rich in resources or other natural advantages.

Two works by Swedish experts engaged by the project examine both the introduction and development of performance-based budgeting in Swedish municipalities over the past 40 years and examples of actual goals and plans in the development of budget sectors in Sweden.

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INTRODUCING PERFORMANCE-BASED BUDGETING IN RUSSIA: FIRST RESULTS AND NEW PROBLEMS

1. Budget reform in Russia: old and new paradigms of financial management in the budget sector

Prior to budget reforms in Russia, which date back to 2000, ministries and agencies¹ received budgeted financing, and the use of funds for specified purposes was tightly controlled by the federal treasury.

Budget planning in Russia was based on «the achieved» and the cost-plus method. There were no formalized mechanisms for redistributing budget resources from less effective to more effective expenditures, nor was there a clear link between budget expenditures and government policy goals.

This approach reduced financial management² in Russia's budget sector³ to the implementation of budget assignments and control over compliance with budget restrictions and the use of funds for specified purposes.

The stated aspects of financial management in the budget sector created three fundamental problems:

¹ The terms «ministries» and «ministries and agencies» are used throughout the text, except special cases, for the federal level along with the «budget planning entities (BPE)», «agencies», «services» and «oversight».

² Financial management in the public sector, as a rule, means «the activity of public servants, which includes decision making and other functions to determine the best ways of using limited financial resources for effective achievement of political goals» (see *Visser R., Erasmus P. The Management of Public Finance: A Practical Guide. Oxford University Press, 2002, p. 9*).

³ The term «budget sector» hereinafter is used as a synonym to the notion of «public (municipal) management sector».

- the impossibility of pursuing a comprehensive policy in any of the budget sectors due to stringent restrictions on the use of resources;
- the absence, at all levels of management, of interest in effective use of budget funds; and
- uncontrolled deterioration of the quality of budget services, especially along with budget financing cuts.

Budget reform, which Russia started at the beginning of the 21st century, aimed to address these three main problems.

If we analyze financial management paradigms used in Russia's budget sector (see Table 1⁴), the logic of the budget reform will become clear:

Table 1

Paradigm	Traditional financial management	«New» financial management
Spending control	Focus on expenditures; outside control over use of funds for specified purposes; accounting based on detailed budget classification; changes in budget financing targets with the approval of Finance Ministry	
Performance-based budgeting	Focus on direct results of use of funds	Focus on direct and end results of use of funds; program budget classification; information about cost and results of budget programs

⁴ The Table is based on Governance, Corruption and Public Financial Management / Ed. by *Schiavo-Campo S.*, Asian Development Bank, 1999.

Table 1(continued)

Paradigm	Traditional financial management	«New» financial management
Planning	Focus on development programs and investment projects; study of alternative options and use of quantitative methods; long-term planning horizon	Long-term and medium-term panning related to medium-term budget
Macroeconomic policy priority	Stringent budget limits; balanced budget; reduction of non-interest expenditures	
Budget reform priority	Budget sector restructuring; public service reform; privatization; benefits system reform	Recruitment of non-state organizations to provide budget services; expansion of government purchases/government contracts for budget services
Use of methods borrowed from corporate sector	Reorienting ministries/agencies/budget organizations to concrete goals; giving considerable autonomy to heads of ministries/agencies/budget organizations; creating state agencies oriented to concrete goals; bigger financing limits; focusing on consumers of budget services	Budget service quality standards; balanced system of indicators, including evaluation of satisfaction of budget service consumers; contracts with heads linked to goal achievement; encouragement of competition and application of bankruptcy proceedings to budget institutions; risk management; introduction of the post of chief financial officer (CFO) in government agencies; creation of treasury divisions in government agencies
		Integrated automatic financial management systems embracing financial planning, budget process and accounting, financial reporting

Until recently the Russian sector of public administration was dominated by approaches focusing on **control over expenditures** and, to a lesser degree, on the achievement of **macroeconomic goals**.

After the goals – prioritized by these paradigms, namely balanced budget, budget discipline, and control over payments – had been largely achieved in 2000-2003, there emerged a need to revise approaches to public financial management.

The current Concept for Budget Process Reform in the Russian Federation in 2004-2006 (hereinafter referred to as the concept)⁵ focuses on simultaneous pursuance of several new paradigms, primarily the **performance-based budgeting (PBB) paradigm, in using elements of such paradigms as methods borrowed from the corporate sector, panning, and budget reforms.**

The current Russian approach to the budget reform in the public administration sector is in essence coming close to the «new financial management» concept, the main principles of which are to be implemented⁶. The latter include⁷:

- management and responsibility decentralization;
- performance oriented to results (immediate and final);
- monitoring results through transparent accounting;
- motivation of public servants; and
- expansion of budget planning horizon (to three years).

⁵ The concept was approved by the Government of Russia on May 22, 2004, No. 249.

⁶ *Pollitt C.* Integrating financial management and performance management // OECD Journal on Budgeting. 2001. Vol. 1. No.1.

⁷ See *Premchand A.*, Public Expenditure Management. Washington, D.C. IMF, 1993.

2. The main elements of performance-based budgeting paradigm

The Government of Russia has made performance-based budgeting (PBB⁸) a key element of the budget reform. This paradigm is aimed at increasing the efficiency and effectiveness of executive agencies and their subordinated budget institutions.

According to the budget reform, after the introduction of performance-based budgeting at the federal level, its principles should be extended to the regional level and municipalities. However the participation of regions and municipalities in the budget reform is voluntary. Federal authorities encourage regions and municipalities to implement the budget reform but give them considerable freedom in deciding on the depth of reform, its sequence and instruments.

More than 20 regions are participating in the budget reform.

The transition to performance-based budgeting at the federal, regional, and municipal levels would have been impossible without compliance with some minimal requirements⁹:

1. Delimitation of powers, spending obligations and property between different levels of government and administration (federal, regional, and municipal, including different types of municipalities).
2. Treasury-based budget execution.

As a result, PBB includes **three main components (processes)**¹⁰, such as planning activities of budget organizations, medium-term fi-

⁸ MTPBB acronym, meaning medium-term performance-based budgeting, is also used quite widely.

⁹ Naturally, compliance with the Budget Code of the Russian Federation is one of such requirements. Experts disagree whether the introduction of accrual accounting in the public sector (public administration sector) or changes in the budget classification are a necessary condition for a transition to PBB.

¹⁰ Specific **instruments** and **mechanisms** are used for PBB processes, such as, for example, reports on results and main areas of activity (RRMAA), budget programs (targeted and departmental), efficiency/performance indicator system, registers of spending obligations, quality standards for budget services.

nancial planning, and enhancement of the efficiency/performance of budget organizations.

Planning budget sector operations. In the Russian environment planning has a sectoral nature, its subjects are sectoral management bodies (budget planning entities – BPE¹¹); the role of consolidated planning, whose subject at the federal level is the Government of Russia, is increasing,

The introduction of PBB requires the development of both strategic (long-term strategy, medium-term program, and strategic plan) and operational planning (annual reports on the work of sectoral administrative bodies).

Planning the work of the public administration sector includes the following functions:

1. Planning the work of the public administration sector proper, taking into account a development strategy for the country (region, municipality) and using the management-by-objectives approach.
2. Providing reports on the work of MBFMs and budget institutions.
3. Developing quality standards and a register for budget services.
4. Exercising internal control over the work of MBFMs and budget institutions as well as the quality of budget services («business process control» is organized by MBFMs and budget institutions for self-control and exercised on a permanent basis).
5. External monitoring of budget institutions and recipients of budget funds as well as the quality of budget services (organized by MBFMs

¹¹ At the federal level BPE include ministries and a number of services and agencies directly subordinated to the President and the head of the Government; in regions budget planning entities are, as a rule, the main budget funds managers (MBFM).

to control budget institutions and other recipients of budget funds¹² on a permanent basis) based on performance reports and quality standards for budget services.

6. Independent audit of the quality of budget services (organized by controlling and audit agencies and non-governmental organizations, including associations of service consumers, and targets individual services or types of services, on a regular or permanent basis) based on performance reports and quality standards for budget services.

7. Using results of internal control, external monitoring and independent audits for work planning.

Medium-term financial planning includes the following functions (elements):

1. Projecting revenue, expenditures and sources of financing in the medium term.

2. Optimizing liabilities.

3. Introducing, actualizing and using a register of spending obligations for budgeting purposes.

4. Dividing the budget into current and new liabilities.

5. Reporting by MBFM and budget institutions, using quality standards and a register of budget services for planning expenditures.

Enhancing efficiency/productivity of budget organizations includes the following functions (elements):

¹² An expansion of outsourcing for budget services, encouraged by the law on autonomous organizations, will require broader monitoring beyond the public administration sector to non-governmental organizations that receive budget funds and provide budget services.

1. Using result-oriented management methods, including:
 - a) creating an MBFM reporting and evaluation system based on balanced systems of efficiency/productivity indicators;
 - b) creating systems for motivating senior officials, public servants and other personnel in the budget sector on the basis of efficiency/productivity indicators.
2. Restructuring the budget network.
3. Making state purchases of goods and budget services on a competitive basis, using the mechanism of budget assignments.
4. Outsourcing of budget services.
5. Using per capita financing.

The introduction of PBB appears to be a complex, multi-component type of activity that requires planning and management. One of the tools for planning reforms in any sphere is relevant reform concepts.

3. A concept for budget process reform in the Russian Federation in 2004-2006: main provisions and preliminary results

Priority objectives for performance-based budgeting (PBB) were formulated in the Concept for Budget Process Reform in the Russian Federation in 2004–2006. Its underlying ideology is a transition to the distribution of budget resources among budget funds managers and budget programs they implement, taking into account, or depending on, concrete results.

The concept formulated the main objectives for a transition to performance-based budgeting as follows:

- 1) Bringing budget classification of the Russian Federation closer to international standards, introducing a plan of budget accounting, inte-

grated into budget classification and based on the accrual method and cost accounting by the function and program;

2) Streamlining budget development and review procedures through analytical separation of current spending obligations from new ones. Current obligations are to be unconditionally included in budget expenditures if no decision to cancel or suspend them has been made. New spending obligations may be introduced only if there are sufficient financial possibilities for their entire period and if their expected effectiveness is evaluated obligatorily;

3) Incorporating into the perspective financial plan the distribution of annual one-year rolling allocations among budget planning entities for three years. Introducing the practice of endorsement by the Government of the Russian Federation of a perspective financial plan.

4) Introducing departmental target programs into the budget process as a tool. A considerable portion of budget expenditures, currently made by the budgeted principle, should be redistributed between budget programs aimed at achieving certain goals characterized by measurable indicators. Traditional federal target programs will remain but should be geared to big and long-term investment, scientific and technical, and structural inter-sectoral projects with clearly formulated and quantitatively measurable performance indicators;

5) Distributing budget funds among budget funds managers and budget programs depending on the planned level of goal attainment, in line with medium-term socio-economic policy priorities and within the budget resources projected for the long-term;

6) Using more widely mechanisms of support to regional and municipal budget reform programs, selected on a competitive basis, within the framework of the Fund for the Reform of Regional and Municipal Finance that has been in the process of formation since 2005.

A number of regulatory documents were adopted in a follow-up to the concept, which legalized the use of such important tools of budget

process reform as a report on results and main areas of activity (RRMAA) and the register of spending obligations.

The concept was supposed to be implemented at the federal level by adopting a number of regulatory acts of the Government of Russia and introducing amendments to the Budget Code of the Russian Federation with regard to budget process regulation. It was believed that amendments to the Budget Code would become effective from January 1, 2006 to create a legal framework for a new system of organizing the budget process in Russia starting with the budget of 2007.

Preliminary results of the implementation of the concept at the federal level as of this article (December 2006) were as follows:

- Amendments to the Budget Code had not been passed even in the fall of 2006, which did not allow federal authorities to introduce new budgeting principles from 2007;
- Budget classification and budget accounting in Russia had been brought close to international standards. A budget accounting plan, integrated into budget classification and based on the accrual method and cost accounting by the function and program, had been introduced;
- Current and new spending obligations had not been divided in the budget process;
- A three-year financial plan was being elaborated;
- Developing target departmental programs with clearly formulated and quantitatively measurable performance indicators had become part of the budget process routine;
- No transition had been made to the distribution of budget resources among budget funds managers and budget programs depending on the planned level of goal attainment, in line with medium-term socio-

economic policy priorities and within the budget resources projected for the long-term;

- Mechanisms of support to regional and municipal budget reform programs, selected on a competitive basis, within the framework of the Fund for the Reform of Regional and Municipal Finance, which has been in the process of formation since 2005, were used successfully.

Speaking of the degree of the implementation of three main PBB elements, certain progress was reached at the first stage of budget reform at the federal level:

- **Performance planning** for the public administration sector was greatly enhanced during the preparation of sectoral RRMAAs and the Consolidated Report on the Results and Main Areas of Activity of the Government of the Russian Federation. Long-term and medium-term planning was not used as widely.
- **Medium-term financing planning** was introduced in the form of a perspective financial plan; at the same time, prospects for moving to a three-year budget are quite obscure;
- **The efficiency/productivity of ministries and budget organizations** was enhanced only in part: state purchases of goods and budget services had begun on a competitive basis, using the mechanism of budget assignments, per capita financing was introduced in some sectors, primarily education. Budget sector restructuring and the introduction of result-oriented management methods were slowed down: systems of indicators had been developed but their use to motivate public servants was delayed.

4. Reports on Results and Main Areas of Activity (RRMAA) are the main tool for introducing PBB

In accordance with the concept, annual reports on results and main areas of activity (RRMAA) submitted by budget planning entities

have become an important tool for making a transition to performance-based budgeting at the federal level. These reports contain the following:

- the main goals and objectives of a budget planning entity, their harmonization with state policy priorities;
- spending obligations in a corresponding area of activity and the assessment of federal budget funds managed by budget planning entities;
- measurable results achieved in the reporting period and planned in the medium term (up to three years), as well as budget programs aimed at attaining these results;
- distribution of budget expenditures by the goal, objective and program in the reporting and planned periods; and
- evaluation of the effectiveness of budget expenditures, substantiated measures to improve it.

Regulations on the reports on results and main areas of activity of budget planning entities were endorsed by Resolution No. 249 of the Government of Russia on May 22, 2004 along with the concept. The submission of reports by federal budget planning entities became obligatory for the consideration by the Finance Ministry of requests for budget financing in 2005. Methodological recommendations on the preparation of reports were approved by the Finance Ministry of Russia and the Ministry of Economic Development and Trade in June 2004.¹³

¹³ Resolution No. 838 of the Government of Russia of December 23, 2004 made some changes to the Regulations on the reports on results and main areas of activity of budget planning entities. In particular, in addition to indicators characterizing the achievement of tactical goals and budget target programs, new indicators were introduced to evaluate the achievement of strategic goals of budget planning entities. Additionally, a provision was introduced to require that reports should contain a brief overview of a budget planning entity's non-program activities.

The first reports of the main federal budget funds managers on results and plans (main guidelines) were presented when the budget for 2004 was being prepared. They provided the first practical experience of linking reported and planned expenditures to final measurable results.

More importance was given to reports during the preparation of the 2005 budget. While during the work on the 2004 budget they were considered only by the Finance Ministry, in 2005 they were considered, in addition to the Finance Ministry and the Ministry of Economic Development and Trade, by the government commission on the enhancement of budget expenditures, headed by Deputy Prime Minister Alexander Zhukov and created in accordance with Resolution No. 225 of the Government of Russia of April 30, 2004.

The government commission's functions included, among others, the preparation of recommendations on updating the main guidelines and results of work of budget planning entities and finalizing reports, as well as developing and implementing budget target programs. In addition, the commission was empowered to prepare a report of the Government of Russia on the goals and results of budget policy.

Four working groups were created within the commission to consider draft budget reports from industrial, social, financial and economic, and power ministries. The working groups were headed by representatives of relevant departments in the federal government's apparatus. Each group included officials from relevant ministries as well as from the Finance Ministry, the Ministry of Economic Development and Trade, the Federal Service of State Statistics, and experts from state economic research centers – the Higher School of Economics and the government's Academy of the National Economy.

Draft reports of budget planning entities were repeatedly discussed by the working groups from the second half of June to July 2004, finalized in accordance with the suggestions made and then submitted to the government commission.

Based on the results of the work on the reports of budget planning entities, a consolidated report, titled «Objectives, Tasks and Performance Indicators of Budget Planning (Federal Ministries, Federal Services, and Federal Agencies Managed by the Government of the Russian Federation)»¹⁴, was prepared for a government meeting on August 12, 2004.

The draft Consolidated Report was posted on the Internet and evoked active debates among experts and in the State Duma from September through December¹⁵. In addition, reports of budget planning entities were examined by independent experts as part of international technical assistance projects. One of the purposes of the examination was to combine all commentaries and formulate concrete proposals on how to improve ministries' reports.

The quality of draft budget reports was improved considerably due to the participation of several federal executive agencies in a budget experiment aimed at introducing performance-based budgeting methods. The experiment envisaged the allocation of funds, subject to competitive distribution among federal executive agencies, based on the results of formalized evaluation of submitted requests. Each request included a report on results and main areas of activity, as well as a plan of action to enhance the effectiveness of budget expenditures.

The main condition for participation in the experiment was to be the submission of a draft report on results and main areas of activity of a budget planning entity (or an individual federal executive body, service or agency), as much consistent with the methodological recommendations developed by the Finance Ministry and the Ministry of Economic Development and Trade as possible. It should be noted that reports presented by executive bodies in July 2004 did not fully comply with the recommendations. A formalized point-based evaluation

¹⁴ Refers to the initial version of the Consolidated Report. For more information about the Consolidate Report see Section 6.2.

¹⁵ No target indicators for future periods were set in the published version of the Consolidated Report.

methodology for verifying reports' consistency with the requirements was developed for a contest as part of the experiment. If a report received less than 65 percent of points, the request was rejected.

The testers also had to present a plan of action on how to enhance the effectiveness of budget expenditures, which envisaged, among other things, the restructuring of the subordinated network of budget institutions, increasing the effectiveness of acquisitions, the development of management-by-objectives mechanisms, and the implementation of measures to ensure compliance with budget legislation.

The winners, i.e. executive bodies entitled to budget funds as part of the experiment, had to submit progress reports on the improvement of budget expenditures to the commission on the enhancement of budget expenditures, the Finance Ministry and the Ministry of Economic Development and Trade on a quarterly basis, not later than one month after the end of the reporting quarter. The federal budget provided 180 million rubles (20 million rubles per participant but no more than 300 million rubles) to reward the winners. This money was distributed as follows:

- 65 percent of the funds were distributed proportionately to spending limits set for relevant budget planning entities (federal services/agencies) in 2005;
- 35 percent of the funds were distributed proportionately to the results of the evaluation of requests from relevant budget planning entities (federal services/agencies).

Budget reports finalized during the experiment were submitted to the Finance Ministry by September 30. Nine federal executive bodies took part in the experiment, of which six became the winners (including the Transport Ministry, the Ministry of Agriculture, the Ministry of Economic Development and Trade, and the Federal Employment Service).

The next version of reports of budget planning entities, which drew on experts' recommendations, and a draft program of social and economic

development of the Russian Federation in the medium term (2005–2008) had been submitted by federal executive bodies to the government commission by December 20, 2004. The government commission on the enhancement of budget expenditures discussed reports of budget planning entities again in February and March 2005. Conclusions made by the Ministry of Economic Development and Trade for each report were considered. New versions of the reports for the next budget cycle (2006–2008) submitted by budget planning entities drew on the suggestions made by the commission by April 1, 2005.

5. RRMAA experience: results and problems

The first stage of the work on reports on results and main areas of activity of budget planning entities created a number of prerequisites for a transition to actual performance-based budgeting. In particular, the main portion of expenditures was presented in the form of departmental target programs. Their development and endorsement requirements are set forth in government Resolution No. 239 of April 19, 2005.

The Regulations on reports used a broader definition of departmental target programs (DTP) (for example, a ‘set of measures identified for analytical purposes and aimed at solving one tactical task’¹⁶ could be meant as DTPs). This made it possible to distribute a considerable part of expenditures, earlier regarded as off-program ones, among such DTPs.

The formalization of goals and objectives of budget planning entities and their performance indicators represented a significant step forward and created prerequisites for more effective and rational distribution of expenditures of budget planning entities among budget target programs.

¹⁶ In accordance with the Regulations on reports, endorsed by government Resolution No. 249 of May 22, 2004, a departmental target program is a set of measures (guidelines for using budget funds), endorsed (to be endorsed) by a budget planning entity or identified by it for analytical purposes and connected with the resolution of one concrete tactical task (including the implementation of effective federal laws or other regulatory acts).

At the same time, the work on budget reports exposed a number of problems that were not effectively solved at this stage.

1. In terms of incorporating RRMAA in the budget process:

- a) The RRMAA development schedule is not dovetailed to the budget process;
- b) Reports envisage only one scenario of financing for the projected period, i.e. no provisions were made for different levels of achieving the set goals and objectives with different levels of financing.

2. In terms of developing and monitoring budget planning entities' performance indicators:

- a) The government's Consolidated Report, prepared in August 2004, failed to identify inter-departmental goals and objectives the achievement of which would have required coordination among departmental target programs¹⁷ and did not offer a clear-cut approach to separating performance indicators for certain federal executive agencies from indicators that depend on the government in general or federal executive bodies in particular;
- b) No single methodological approach was elaborated for determining the degree to which certain socio-economic development trends depend on the activities of federal executive bodies or objective factors. For example, it is not clear to what extent economic growth in Russia in recent years was generated by the government's activities;
- c) Attempts failed to find a clear methodological approach to incorporating the results of the work of regional and local authorities within federal ministries' jurisdiction into performance indicators for federal

¹⁷ The existing institution of federal target programs, designed to ensure the financing of measures aimed at addressing inter-departmental issues, does not cover the entire range of inter-departmental objectives.

executive authorities. For example, it was not determined whether efficiency indicators in primary and secondary education, financed solely from territorial budgets, could be included in the indicators of the federal Ministry of Education and Science that is responsible for the education policy in the country as a whole. The same was true of the Ministry of Health and Social Development and some others.

d) Budget reports did not pay enough attention to interaction between indicators describing the volume (structure) of expenditures and results of the work of budget planning entities, as well as to the creation of a system of regular assessment of risks of non-achievement of goals under the chosen scenario of development, based on result monitoring;

e) A considerable number of indicators included in the reports require the development of a calculation methodology and organization of monitoring that is currently non-existent. The functions of the Federal Service of State Statistics and statistics units of sectoral executive bodies are not delimited in terms of gathering information upon which many performance indicators formulated in the budget reports are based;

f) There are no verified methodological approaches to developing target indicators. Reports presented by budget planning entities failed to substantiate target performance indicators, which complicated their independent evaluation;

g) There is no mechanism for coordinating (a code of) performance indicators for budget planning entities managed by the President of Russia. The classified nature of reports on results and main areas of activity of the majority of federal executive bodies is not justified or consistent with international standards;

h) The types of expenditures that may be included in off-program ones remains an unsolved question. Some agencies included payroll and administrative expenditures in budget target programs, while others included them in off-program expenditures. It is necessary to elaborate unified approaches in this field;

i) No methodological differences were identified in planning the work of executive agencies that arrange for the provision of state services and ministries that perform mainly regulatory, controlling and supervisory functions; no methodology was elaborated for evaluating the effectiveness of regulatory, controlling and supervisory functions of executive agencies;

j) No methodology was offered for the section of reports focusing on evaluation and measures to increase the effectiveness of budget expenditures. It's noteworthy that practically no report prepared by budget planning entities and considered by the government commission mentioned current or projected indicators for energy and water consumption or effectiveness of state acquisition procedures (for example, stakes in public tenders), even though these indicators are vital for the effectiveness of budget expenditures;

k) No information support to indicators was provided. It is not clear to what extent current statistics can be used. In a situation where indicators are used for evaluating performance and determining volumes of financing, special measures are required to ensure their credibility; and

l) The system of indicators is slanted towards indicators measuring resources, processes and immediate results. There are practically no indicators for final results, personnel management, property management, and technology and innovation enhancement.

3. In terms of introducing PBB mechanisms at the departmental level.

All innovations in the field of budget planning described above have so far been employed at the level of main budget funds managers and do not affect the main part of the budget network, i.e. lower-tier managers and recipients of budget funds. It would be logical to evaluate the activity of a considerable number of budget planning entities – primarily those that arrange for the provision of state services – by the

performance of subordinated budget network. This requires the development of a budget process reform concept at the departmental level, including mechanisms for transforming goals and objectives of budget planning entities into goals and objectives of the recipients of budget funds.

The concept for reforming the budget process at the departmental level should determine the following:

- the terms and procedure for developing and implementing departmental target programs, including with the participation of budget institutions in their implementation;
- a methodology for assessing costs and benefits from the implementation of budget target programs (including budget efficiency);
- procedures for budget planning, distribution of appropriations among subordinated ministries, federal services, and agencies, and budget institutions, based on the results of their performance;
- a system of monitoring and overseeing efficiency of structural units of ministries, their subordinated executive bodies, and budget institutions;
- budget spending standards per result for ministries and agencies in each area of activity;
- norms requiring more effective acquisition of goods, works, and services at the departmental level;
- objectives for developing the departmental system of financial management, improving the timeliness and effectiveness of financial reporting of agencies and the performance reporting system that is being created;
- asset management system requirements;

- energy and resource efficiency requirements;
- information technology supply requirements;
- personnel (human resources) management system requirements;
- risk management system requirements; and
- internal departmental financial control (internal audit) requirements.

The majority of measures aimed at improving the effectiveness of budget expenditures should be carried out by federal executive authorities that have won the contest for introducing performance-based budgeting methods. At the same time, the Finance Ministry and the Ministry of Economic Development and Trade had not provided methodological recommendations in this regard as of December 2006.

The absence of methodological approaches linking performance-based budgeting to administrative reform is a separate problem. For example, the following issues remain unsolved:

- creating a system of motivation for public servants by using performance indicators in individual contracts with key employees and in job regulations;
- developing «project management» mechanisms and skills, i.e. devising a comprehensive set of interconnected measures aimed at achieving final results; and
- creating outsourcing mechanisms for federal executive bodies, i.e. transferring part of functions, including those related to the provision of services to citizens and organizations, particularly analytical work, etc., to outside organizations on a contractual basis. Excessive functions in federal executive agencies still need to be eliminated. The government commission on administrative reform, created by government Resolution No. 451 of July 31, 2003, studied more than 5,000

functions performed by federal executive authorities. Only a small part of them, which were formalized by federal government acts or agency regulations, was eliminated. Most of the excessive functions provided for in federal laws, presidential decrees and Russian Government¹⁸ resolutions still remain.

6. Perspective directions for the development of performance-based budgeting mechanisms

Key perspective directions for the development of performance-based budgeting mechanisms include the following:

- improving the preparation and use of RRMAA in the budget process;
- furthering the practice of Combined Report on Results and Main Areas of the Activity of the Government of the Russian Federation;
- aligning with administrative reform measures in terms of performance management;
- improving motivations for public servants, including the development of public service contracts that introduce performance indicators for public servants and link labor remuneration to performance¹⁹.

The listed directions for improving performance-based budgeting are explored below.

¹⁸ More than 300 laws, dozens of decrees of the President of Russia and hundreds of resolutions of the Government of Russia and departmental acts.

¹⁹ Also, the development of PBB mechanisms requires additional measures, including: (1) statistical and sociological surveys to effectively monitor the efficiency of executive authorities and their budget programs, and (2) creation of mechanisms to stimulate federal executive authorities, regions, and municipalities to start using PBB, as well as educational and methodological support of the process.

6.1. Improving the preparation and use of RRMAA in the budget process requires the following changes:

1. RRMAA should reflect the following: new budget service technologies (budget financing of services rendered by non-profit organizations, etc.); quality standards and evaluation; organizational changes, measures to train personnel and introduce innovations with matching indicators.

2. RRMAA should contain instructions regarding inter-agency coordination and risk management.

3. It would be expedient to divide the preparation of RRMAA into two stages:

- The first part of reports for the period under review (reports on the implementation of measures included in RRMAA) should be submitted at the end of the first quarter along with a report on budget performance and used for evaluating the performance of ministries and agencies in the reporting period;

- The full text of a report containing proposals on performance and the justification of financing should be included in the budget process when the budget is drafted.

4. Spending limits (target figures) should be communicated by the Finance Ministry to other ministries and agencies in two versions — conservative and optimistic — so that ministries and agencies could ensure that their budget requests justify expenditures in two ways: based on current obligations and based on new obligations.

5. It is necessary to develop a procedure and identify agencies responsible for preparing (Finance Ministry and the Ministry of Economic Development and Trade) and carrying out (Government Commission) the evaluation of BPE performance on the basis of the first part of RRMAA.

6. It is necessary to determine mandatory requirements to the terms and form of accounting for the performance of ministries and agencies.

7. It would be expedient to determine mandatory requirements to the terms and form of control over compliance with quality standards for budget services provided by ministries and agencies, as well as subordinated budget institutions.

8. It is necessary to determine mandatory requirements to internal departmental monitoring of the performance and internal control of processes within ministries and agencies.

9. It is necessary to endorse updated and harmonized terms and deadlines for the submission of reports on the performance of ministries and agencies (as two parts of RRMAA) and reports on the execution of the budget in terms of expenditures.

6.2. Furthering the practice of Combined Report on Results and Main Areas of the Activity of the Government of the Russian Federation

Ensuring effective implementation of state policy, including in the field of expenditures, requires effective inter-agency coordination, particularly in terms of implementing target budget programs. At the same time, existing budget planning mechanisms in Russia do not secure effective inter-agency coordination of budget expenditures aimed at achieving a single (outside federal target programs).

In accordance with the Concept of Budget Process Reform in the Russian Federation in 2004-2006, the number of federal target programs should be reduced substantially, including by converting them into departmental target programs.

The Combined Report on Results and Main Areas of the Activity of the Government of the Russian Federation, which was formally intro-

duced by Russian Federation Government Resolution No. 259 of April 27, 2005, should provide an effective tool for coordinating the work of departmental target programs. The first version of the Combined Report, prepared in August 2004, failed to ensure such coordination because it only listed the main indicators for the Government's performance, goals, objectives and indicators for the performance of budget planning entities, and did not describe inter-departmental tasks.

Government Resolution No. 259 determined the structure of the Combined Report (see Box 1).

Box 1. The structure of the Combined Report on Results and Main Areas of the Activity of the Government of the Russian Federation

Section One – «Results of the achievement of the goals of the Government of the Russian Federation and budget planning entities in the reporting period» – analyzes results for each goal by the following groups:

- a) improving the quality of life of the population;
- b) strengthening national security;
- c) ensuring high and sustainable economic growth; and
- d) creating conditions for long-term socio-economic development.

If there is a deviation in the actual performance of the Government of the Russian Federation or budget planning entities from the targets, the causes of such deviation are to be studied.

Section Two – «The goals of the Government of the Russian Federation and budget planning entities in the planning period» – gives a brief description of the goals and projected indicators for the goals of the Government of the Russian Federation and budget planning entities in the current year and in each year of the planning period, as well as determines the responsibility of budget planning entities.

Section Three – «A set of measures to achieve the goals of the Government of the Russian Federation and budget planning entities» – describes

measures carried out by budget planning entities, scheduled reforms, development projects, and key inter-departmental objectives in the planning period and distributes resources necessary for their implementation.

The said section includes:

- a description of the activity of budget planning entities in the current year and in the planning period, aimed at achieving the goals of the Government of the Russian Federation;
- an assessment of expenditures incurred by the achievement of the goals of budget planning entities, including within the framework of budget target programs and other measures outside such programs;
- a definition of the main quantitative and qualitative parameters of scheduled reforms and development projects, as well as their expected results, financial and economic effects from their impact on the performance of the Government of the Russian Federation in the planning period and future periods.

Section Four -- «Regional aspects of the goals of the Government of the Russian Federation» -- should give projected indicators for each goal in regions of the Russian Federation that describe the performance of the Government of the Russian Federation and budget planning entities.

Section Five – «The main scenarios of the functioning of the Russian economy in the planning period» – should contain the following:

- a) an assessment of external and internal factors, as well as the terms of socio-economic development in the Russian Federation;
- b) an inertial and an innovative-active scenarios, which include key indicators for economic and social development in the planning period;
- b) resource restrictions on economic and social development in the planning period (labor, investment, finance, etc.).

On the whole, the approval of the proposed terms for preparing the Combined Report will improve the quality of this document by speci-

fying requirements to its content, including in terms of risk assessment, separation of inter-departmental tasks and issues related to interaction with Russian Federation entities.

6.3. Implementing Administrative Reform Concept

International experience shows that a critical condition for a successful transition to performance-based budgeting is the alignment of this process with the public administration reform.

Russian Federation Government Resolution No. 1789 of October 25, 2005 endorsed the Concept for Administrative Reform in the Russian Federation in 2006–2008, which provides for a number of measures aimed at:

- introducing performance management principles and procedures in executive agencies;
- developing and introducing standards for public services rendered by executive authorities, as well as administrative regulations in executive agencies;
- optimizing the operation of executive agencies and introducing mechanisms for countering corruption in the areas where executive agencies carry out their of activities;
- increasing the effectiveness of interaction between executive authorities and civil society, as well as increasing the transparency of executive agencies; and
- modernizing the system of information support of executive agencies.

Box 2. The main guidelines for the implementation of the Administrative Reform Concept to develop performance management mechanisms

The following is to be done as part of the «Performance management» aspect of the Administrative Reform Concept:

- create and introduce a comprehensive system of departmental and inter-departmental planning and project management by objectives and results, competitive distribution of resources among agencies and control over their performance;
- develop key measurable indicators for the efficiency and productivity of executive authorities in the main areas of their activities, in line with strategic goals of the state;
- introduce goal definition technologies and procedures that will link goals to concrete persons, develop indicators that can adequately assess the degree of goal achievement and performance to achieve goals;
- develop and introduce management accounting for the distribution of resources for the set tasks, monitor performance and determine personal responsibility of senior executives and officials for the resolution of these tasks;
- develop and introduce a system of internal audit in order to evaluate the efficiency of divisions and officials in charge of resolving the set tasks, as well as assess the effectiveness of budget expenditures;
- introduce a system of regular assessment of risks that obstruct the achievement of set goals;
- introduce mechanisms for managing organizations subordinated to executive agencies.

With a view to introducing performance management and project management procedures in Russian Federation regions, it is necessary to create a model regulatory and methodological framework for Russian regions, subject to subsequent testing.

Measures to introduce a performance management system should be aligned with the following steps being taken in accordance with the Concept for Budget Process Reform in the Russian Federation in 2004–2006 and the federal target program «E-Russia (2002 – 2010):

- create a system of efficiency indicators for executive agencies and budget programs, which will include current and end result and the use of resources;
- create mechanisms for competitive distribution of resources in agencies, i.e. mechanisms for distributing funds from a relevant budget to ensure the functioning of executive agencies, which will contain procedures for choosing between two or more options of spending a given budget sum for public functions and public services;
- introduce management accounting elements that will help to obtain credible information about costs incurred by the work of executive agencies;
- introduce a system of internal audit for budget spending effectiveness;
- create a single state information system for planning and monitoring the effectiveness of government agencies in order to ensure the achievement of key socio-economic development indicators, including through development, integration and accessibility of state statistics and introduction in executive agencies of modern information support systems for project management and departmental management reporting;
- create a system of motivation for public servants, based on efficiency indicators, job regulations, and urgent contracts with leading employees.

All these tasks have to be implemented, first, with regard to executive authorities, and, second, with regard to their subordinated organizations.

As far as conditions for a successful transition to performance-based budgeting are concerned, a big role in this process will be played by the creation of effective systems for monitoring the performance of executive authorities and their subordinated agencies. A permanent mechanism is to be created as part of the Administrative Reform Concept to monitor the performance of executive authorities and local executive authorities as an obligatory requirement for their use of performance management methods and improving their current efficiency.

The following tasks are to be resolved in the process:

- create a system of efficiency indicators for executive authorities and budget programs;
- organize current monitoring of the efficiency of executive agencies, which will ensure targeted collection of information that is necessary for a correct understanding of progress in the achievement of set goals, objectives and implementation of plans;
- organize prompt analysis of incoming information in order to timely detect a deviation from the planned implementation of projects (programs);
- create a single state information system that will provide for automatic collection, processing, analysis and provision of relevant information about the entire system of public administration.

In addition, the development of a regulatory and methodological framework and introduction of mechanisms for making government and municipal agencies more transparent as well as the improvement of interaction between executive authorities and society would also be vital for devising effective mechanisms for determining target indicators as provided for in the Administrative Reform Concept.

The concept calls for creating effective mechanisms for civil society (citizens, organizations, business community) to influence decisions of executive authorities that affect their rights and legitimate interests. The following mechanisms have to be devised and put in place:

- disclosing information about the activity of government agencies and local authorities;
- organizing public discussions of decisions in the making;
- conducting a public examination of socially important decisions of executive authorities.

On the whole, the Administrative Reform Concept should secure necessary support for the utilization of the performance management mechanisms.

6.4. Performance-based budgeting at the level of divisions of federal executive agencies as part of the drive to improve labor remuneration for public servants

The positive experience of preparing reports on the results and main areas of activities led to a gradual extension of such mechanisms (including formalized performance evaluation indicators) to divisions of federal executive agencies. The Finance Ministry and the Ministry of Economic Development and Trade have begun preparing reports on the results and main areas of activities of their departments.

In accordance with Article 24 of Federal Law No. 79-FZ «On Civil Service in the Russian Federation» of July 27, 2004, which became effective on February 1, 2005, a service contract of a public servant may contain performance indicators and related labor remuneration terms. The list of the public servant's rights has been amended to include the right to study the criteria that are used to evaluate the efficiency of his work, performance indicators and the terms of career growth (currently this right is rather declaratory since evaluation criteria have not been formalized yet).

The Russian president's Decree No. 159 of February 16, 2005 approved a tentative form of a service contract for civil service in the Russian Federation. One of the three labor remuneration options offered to public servants is «a special payment procedure» in accordance with Article 50, paragraph 14, of the Federal Law «On Civil Service in the Russian Federation», which provides for monthly payments, if the efficiency and performance indicators set forth in a service contract have been achieved.

In accordance with paragraph 2 of the decree, the heads of government agencies have been given three months to revise labor contracts

signed with public servants earlier. All this creates conditions for creating an effective mechanism of incentives for public servants and integrating it into the system of performance-based budgeting.

7. Conclusion

The introduction of performance-based budgeting (PBB) in Russia is an element of a larger process of increasing the efficiency of the state in line with the «new» financial management concept.

The budget reform, initiated at the beginning of the century by the Finance Ministry of Russia to address a rather specific task – more effective use of limited budget resources, started to develop and go beyond purely financial tasks, requiring more attention from sectoral authorities and eventually from the Government of Russia. Having begun at the federal level, the budget reform spread on to the regional and municipal levels.

So the budget reform spurred the completion of the public administration and local government reform, and the development of strategic planning, and breathed a new life into the shriveling administrative reform.

The rapid improvement of the financial situation, most obvious at the federal level, shifted the focus in the budget reform from saving budget funds and increasing the economic effectiveness of the budget sector to socially important end results, the quality of the budget sector and the state in general.

These changes, in turn, are altering the performance-based budgeting concept and priorities.

*Leonid Bogdanov,
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**METHODOLOGICAL APPROACHES TO INTRODUCTION
OF PERFORMANCE-BASED BUDGETING
AT MUNICIPAL LEVEL
(Exemplified by education and culture expenditures
in the Kaliningrad Oblast)**

1. Introduction

Introducing performance-based budgeting (PBB) is an important component of the current budget reform in Russia and, in a broader context, of the public administration reform¹. Having started in 2003–2004 at the federal level, the reform spread on to regions. Its purpose is to introduce PBB principles at all levels of government. This is why many municipalities have already started preparing for the inevitable introduction of this system in their work.

The current approach to extending reforms, initiated by federal authorities, to regions and municipalities can be described as decentralized and characteristic of federative states. The point is that federal authorities formulate conceptual approaches to reform in each area, create a legal framework and develop quality standards for strategic² services.

¹ The introduction of PBB (Performance-based Budgeting or Performance Oriented Budgeting (POB)), being part of the **budget reform**, provides for parallel reforms in other sectors: (1) completing the delimitation of powers as part of the **public administration and local government reform**; (2) making a transition to strategic planning for the development of regions and municipalities (**planning reform**); (3) using elements of **administrative reform** –performance management (PM), quality standards and budget service regulations, contracts with non-government suppliers of budget services (municipal orders for services based on outsourcing) or contracts with the heads of budget institutions.

² Federal quality standards for budget services are developed in Russia only for those services that are guaranteed by the constitution. The authors regard all services paid for from the budget, including public (municipal) services rendered by relevant authorities and administrative bodies as budget services.

Regions and municipalities are empowered to show initiative in determining the pace, scale, and technology of reforms.

Of 88 Russian regions, about 20 have volunteered to reform their strategic planning and budget processes by introducing PBB principles; a number of municipalities are also implementing similar programs.

It should be noted that in some regions (Tatarstan, Mordovia) strategic planning reform and the introduction of PBB principles have boiled down to a return to planned economy, a big share of the state-owned sector in the regional economy, and intensive interference of the state in economic entities' operations.

Most regions have simply copied (with some changes) federal approaches to strategic planning and budget reform. The Republic of Karelia, Rostov, Vologda, Kaluga, Tver, and Voronezh oblasts, and the Republic of Chuvashia have made particularly notable progress in this regard.

On the whole, the experience of these regions bears out the fruitfulness of the federal approach, primarily in terms of using sectoral reports as a tool for linking strategic planning to the budget process.

With all advantages of the decentralized approach to reform, and given a large number of entities to be reformed (about 25,000 regions and municipalities), still it is fraught with ineffective use of limited resources. This can be avoided by coordinating activities, primarily at the municipal level, as well as summarizing, analyzing and disseminating the best reform practices in regions; associations of municipalities can play a leading role in these processes. In this regard, the efforts of the Association of Municipalities of the Kaliningrad Oblast (AMOKO) to prepare municipalities in the Kaliningrad Oblast for the budget and planning reform by organizing a series of seminars, roundtables, etc., deserve praise.

Usually, local governments recruit external experts, both Russian and foreign, in order to accelerate innovations. Experts can contribute in

different ways – from giving general lectures and reports, organizing interactive seminars and business games, to direct participation in the preparation of documents on the basis of PBB principles. But while lectures and reports can give municipal officials only a general idea of PBB, and direct counseling of all municipalities is technically impossible (and not all of them can afford it for financial reasons), interactive methods can teach municipal personnel on a large scale at minimal costs, by addressing practical issues facing sectoral specialists who try to introduce PBB. One of the advantages of a broader use of interactive methods in introducing PBB at the municipal level is that such methods give experts broad feedback, thus allowing for the use of a multitude of expertise to improve general approaches and federal methodologies.

This article is based on the experience of conducting an interactive seminar with municipal personnel in the Kaliningrad Oblast on the introduction of PBB in education and culture financed from the local budgets. These two budget sectors draw a great deal of interest from municipalities, as they account for a considerable portion of their expenditures. At the same time, they are least explored in terms of PBB methodology – goal definition is traditionally complicated and even distorted in them, and practical work is geared to providing «support to a network of institutions», rather than to ultimate socially important results. The «problemness» of these sectors is vividly illustrated by the fact that the quality of goal definition and efficiency indicators at the federal level also leaves much to be desired. To some extent, the experience of defining goals, objectives and indicators at the local level can help to improve the use of PBB at higher levels of public government in Russia.

2. A brief overview of PBB principles and the problem of goal definition

In general, performance-based budgeting (PBB) is a system of budget planning (in a broader sense, of organizing the budget process), which links expenditures to the expected ultimate socially important results.

Clearly, one of the most important elements of PBB is the determination of these «ultimate socially important results» or, in other words, goal definition and subsequent monitoring of the achievement of results. Another important component of PBB is the budget process proper, including budget planning, execution, and control. The budget process should be reformed and linked to strategic planning. The experience of the countries that are introducing PBB shows that this process may take years and decades. In some countries, for example Sweden, many municipalities have failed to link it to the budget process but actively evaluate the achievement of results for performance management.

Traditionally, goal definition in strategic planning and management has been described as a hierarchy or «goal tree». At the top, each lower-tier level corresponds to sub-goals the achievement of which is necessary (and sufficient) for attaining higher-tier goals. As they move downwards, goals acquire the properties of «means», i.e. concrete actions that are needed for achieving higher-tier goals.

The approach currently adopted at the federal level for PBB envisages a four-level «goal tree»:

- strategic goals;
- tactical objectives;
- budget programs;
- events.

Unfortunately, the adopted militarized terminology slightly distorts the meaning. In reality, this refers to «ultimate goals» (and therefore **ultimate** results) set by the state as a result of political process, and «interim goals» (and therefore **immediate** results) that «technically» have to be achieved in order to obtain ultimate results. Another difference of «interim goals» (or «tactical objectives» in the adopted termi-

nology) is that, as a rule, they are set in the process of administrative bargaining, i.e. the difference between them lies in the essence of the defining procedure, not in the «scale» (assumed in militarized terminology).

It should be noted that sectoral authorities, by virtue of department interests, would like to minimize their ultimate goals (for example, improving the quality of general education evaluated by results demonstrated by Russian schoolchildren at international competitions) imposed by politicians (i.e. indirectly by society) and replace them with interim goals (introduction of uniform state examination) or simply with events, preferably resource-intensive, such as the purchase of computers or the installation of security systems in schools.

At any level of the «goal tree» it is necessary to achieve the ultimate set of indicators by which to judge whether the set goals have been attained or not. As a rule, such indicators should be (a) quantitative; (b) measurable at reasonable cost; (c) aligned with relevant goals; and (d) their system should be complete³.

We will apply the term «goal definition» (in the narrow meaning) to the process of building the «goal tree» and defining indicators corresponding to the nodes of this «tree». Budget reform experience in Russia shows that this component of PBB raises big problems and difficulties. This may be connected with the fact that Russia's budget system at all levels has traditionally been geared to costs (keeping a network of institutions, personnel, their salaries, utilities, etc.) rather than results.

Due to natural time limits a seminar, described below, was confined only to goal definition. However, we believe that it brought about considerable progress and results that are of interest not only to municipi-

³ See «The Balanced System of Indicators: From Strategy to Action», Moscow, JSC Olimp-Biznes, 2003, for more information about a balanced system.

palities in the Kaliningrad Oblast but also to the budget process at all other levels.

3. Seminar and its methodology

The target audience of the seminar, held in the city of Svetlogorsk, Kaliningrad Oblast, on June 7, 2006, consisted mainly of sectoral specialists: the heads of departments or municipal cultural and educational institutions, as well as representatives of financial and economic municipal agencies from the Kaliningrad Oblast; in addition, there were officials from executive agencies (Finance Ministry, the Ministry of Economics, the Ministry of Regional Development) and the legislative branch of the Kaliningrad Oblast.

The purpose of the seminar was to teach municipal politicians, economists and financier the basic principles of strategic planning and performance-based budgeting (PBB), lead them to an understanding that strategic planning and PBB are closely intertwined.

The following objectives have to be addressed in order to achieve the set goal:

- Brief the participants on the current state of and prospects for the development of strategic planning and performance-based budgeting (PBB) in the Russian Federation at the federal and regional levels;
- Tell the participants about possible uses of strategic planning and performance-based budgeting in municipal practices;
- Discuss the possibilities and problems connected with the use of planning and budgeting methods that are new to municipal politicians, economists and financiers; and
- Give recommendations on the sequence and mechanisms of introducing new forms of planning and budgeting.

Basically, the participants in the seminar built a model of strategic planning for regional and municipal development, aided by sectoral specialists, as well as municipal politicians, economists and financiers in the Kaliningrad Oblast.

To bring it closer to the real environment, AMOKO experts conducted a poll among municipal officials to select two sectors of the biggest interest to municipalities – education and culture.

At the initial stage of the PBB introduction debate, the participants in the seminar focused on goal definition, which is not only an inalienable part of PBB but also a starting point in the budget process under this methodology. The organizers of the seminar believe it would be counterproductive to raise the question of budgeting as such, i.e. distribution of budget resources between competing goals, objectives and programs, in the absence of well prepared and aligned hierarchical goal definition mechanisms at the sectoral level.

The following had to be done during the seminar:

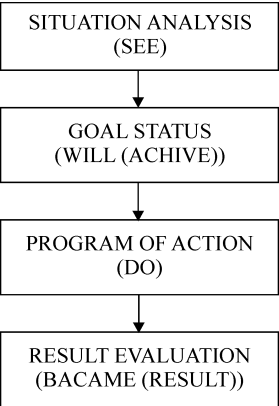
- Determine the limits and formulate a single conceptual understanding of the principles underlying the development of education and culture; agree on the terms;
- Provide the participants with information about the functioning of the goal definition system in the social sphere at the federal and regional levels;
- Give the participants information about service effectiveness and quality management in different social spheres (using as an example the technology of defining goals and developing a system of effectiveness indicators for budget expenditures on education and culture, which is employed at the federal level and in some regions);
- Using the interactive seminar (see below) to determine, jointly with municipal politicians, economists and financiers, strategic goals in the

field of education and culture for municipalities in the Kaliningrad Oblast, as well as to develop a system of indicators for the effectiveness of budget expenditures; and

- Give recommendations on the sequence and mechanisms of introducing new planning and budgeting methods.

The experts, who conducted the seminar, determined the limits for education and culture and formulated conceptual approaches to the development of education and culture at the municipal level, as well as proposals on how to use terminology. The experts then briefed the participants in the seminar on the main features of the PBB system being introduced at the federal level and on the format of relevant departmental and government documents; discussed goals and objectives, as well as relevant indicators formulated by federal ministries: the Ministry of Education and Science and the Ministry of Culture. The general conclusion was that the wording of most of the goals and indicators proposed by federal ministries are not quite consistent with PBB criteria, but are a legacy of the costly budgeting system.

This point was made by Swedish municipal administration experts Sven-Ingvar Carlsson, SALA IDA (Swedish Association of Local Authorities) and Anders Haglund of PricewaterhouseCoopers. They spoke briefly about strategic planning techniques used by Swedish municipalities and their strategic planning algorithm:



After a short discussion, the participants in the seminar came to a conclusion that the algorithm offered by the Swedish specialists could be employed in the Kaliningrad Oblast's municipalities, but it is only necessary to institutionalize its use. Moreover, it was noted that the recommended federal PBB methodology lacks an element that describes and assesses the current situation (See); the methodology is sort of based on absolute plasticity of social reality, where any social goal can be achieved without meeting resistance. In using PBB at the local level, there is a risk that planning may not match a municipality's financial possibilities. So, the discussion at the seminar with the participation of local, federal, and foreign specialists exposed a serious drawback in the federal methodology.

A great deal of time at the seminar was given to the formulation of goals, objectives and indicators for PBB in the field of healthcare and education at the municipal level. In order to embrace all opinions and spur discussion, an interactive methodology was used.

At first, the participants who represented the Kaliningrad Oblast's were asked to write down one or more key goals for the sector (education and culture) on a separate card. The participants were also asked to state their personal opinion about a key goal. To this end, they had to (a) formulate, and (б) rate possible goals.

Then the seminar moderators (federal experts) organized a collective discussion of the proposed wording of the goals in order to categorize them. The discussion produced a short list of goals that could be used in PBB practice. The purpose of the debate was to reach a consensus both on the list and the wording of some of the goals.

At the next stage, two most interesting goals were selected from the list and two groups were set up, each of which had to (a) divide the goals into objectives, and (b) propose performance indicators for each objective. This work was completed only for education because of limited time.

4. Education

It should be said that the discussion on both sectors (education and culture) showed that their categorization as budget sectors is to a large extent relative and based rather on traditions and institutions, not the logic of purposeful work. For example, the existing perception of culture by municipalities in the Kaliningrad Oblast and existing relevant sectoral administrative agencies, which receive funding from the budget, are not always cultural institutions in the strict sense of this word. For example, music schools, which are included in the sphere of culture, are rather educational institutions in terms of their functions. Likewise, the sphere of education performs a number of functions that rather fall under the notion of culture, healthcare and social protection. For example, a school in a rural area, where it is a center of culture and useful knowledge, takes care of children while their parents are at work, watches their health, etc.

So, goal definition requires that goals and objectives for the budget sector be formulated more specifically, and that the budget sector's functions be brought in line with the powers of municipalities.

The interactive part of the seminar allowed the participants, with the assistance of the moderators, to formulate, discuss and approve the following list of strategic goals for municipalities in the Kaliningrad Oblast in the field of education:

1. Ensure the accessibility of education.
2. Ensure the quality of education as an instrument for the development of an area.
3. Engage children in leisure-time activities.
4. Lead (children) into the world of knowledge.
5. Create conditions for education.

6. Build an effective system of education.

7. Create a single (within the Kaliningrad Oblast and Russia) educational space.

The participants voted for two strategic goals that evoked the biggest interest (the top two in the list above) and, having split into groups, aligned them with objectives and relevant systems of indicators.

For **goal 1**, «Making education accessible», the following objectives and indicators were proposed:

Objective 1.1. Creating an optimal network of institutions (variability).

Indicators for Objective 1.1:

- availability of necessary types of institutions⁴ in each school district (the proportion of children living within a standard accessibility range);
- a sufficient number of seats in preschool institutions, including special services (proportion of children covered by preschool institutions);
- a sufficient number of seats in additional education institutions (proportion of children covered by additional education institutions).

Objective 1.2. Organizing transport logistics.

Indicator for Objective 1.2:

- travel time should not be more than 30–40 minutes (proportion of children whose travel time does not exceed 30–40 minutes.).

For **goal 2**, «Ensuring the quality of education as an instrument for the development of an area», the following objectives and indicators were proposed:

⁴ General, auxiliary, and additional education institutions.

Objective 2.1. Create a perfect material base.

Indicators for Objective 2.1:

– provision for students (the size of teaching premises, the amount of accessories, computers, etc. per student).

Objective 2.2. Select and train personnel.

Indicators for Objective 2.2:

– recruit personnel, including of highest qualification (number of diplomas, results of certification, grade, retraining for teachers, etc.);

– evaluation of quality by service consumers (parents) through polls.

Objective 2.3. Teaching programs and methodologies.

Indicators for Objective 2.3:

– availability and frequency of use of author's methods.

Objective 2.4. Expand the network of additional education.

Indicators for Objective 2.4:

– proportion of children covered by additional education institutions

In addition to indicators for individual objectives, two indicators for effectiveness of education expenditures (in general) were offered:

– the proportion of school graduates who successfully passed the uniform state examination;

– the number of medal winners.

Based on the results of the interactive part of the seminar the following conclusions can be made regarding education:

(1) The use of the interactive method revealed a wide range of ultimate socially important goals for financing education at the municipal level. In this regard, the work can be considered a success.

(2) At the same time, the traditional costly approach to goal definition still has a strong impact. For example, the proposed indicators for objectives related to goal 2, «Ensuring the quality of education as an instrument for the development of an area», are mainly indicators that characterize costs or network maintenance (except parents' polls). This example clearly exposes the most serious problem in the introduction of PBB, namely a lack of skills for thinking in terms of results rather than costs.

(3) The discussion showed that the existing division of spending and administrative powers between regional and municipal levels seriously complicates goal definition and goal-oriented policy at the level of local governments. Formally, municipalities are financially responsible only for creating conditions for the teaching process (which basically boils down to maintaining school buildings and meeting utilities costs), while salaries are paid to teachers by regional authorities. However the discussion showed that even in such a distorted system of incentives and responsibilities municipalities can set realistic political goals and achieve them.

5. Culture

Experience shows that culture is the most challenging sector for PBB, not only at the sub-federal but also at the federal level. The reason for this is that «costly» stereotypes are as strong in this sector as nowhere else. People who run this sphere view themselves as some sort of «servants», who cannot set any socially important goals and can only account for the expenditures they make.

At the beginning of the interactive part of the seminar on culture, one of the experts spoke about the relative newness of the notion of culture, the history of culture as a separate phenomenon and its role in the

development of national states in Europe. Initially, the functions of cultural policy were to be a tool for consolidating and legitimizing power in a European state of new times (sponsor state) and sustaining patriotism (culture as a tool of national identification)⁵. In Soviet times, cultural policy was regarded primarily as a tool for introducing state ideology, at first an internationalist-socialist one, and then a social-imperial one. After the collapse of the Soviet Union and the emergence of a «de-ideologized» state, this «driving belt» became unnecessary. This caused a crisis of self-identification among culture people and bosses and exposed a lack of understanding of the functions of culture as a budget sector, including among the ruling elite.

This is why in defining goals for budget financing of culture, it is necessary not just to state and formalize obvious goals (as in education), but recreate «from scratch» the very substance of this aspect of state and municipal policy. We think the results of the seminar became a serious step forward toward doing this.

The interactive discussion produced the following list of goals for municipalities in the Kaliningrad Oblast in the field of culture:

1. Building a stable local community.
2. Creating a single competitive cultural environment in the oblast.
- 3 Filling the free time of the local population (possibility: creating conditions for creative self-realization).
4. Preserving the cultural heritage of the Kaliningrad Oblast.
5. Developing a harmonious personality.

These goals need some comments.

⁵ See.: van *Crevelde M.*, *The Rise and Decline of the State*. Cambridge: Cambridge University Press, 1999. P. 4.

Goal 1 is worded quite well. Once it was announced, the participants came up with a number of more specific but barely operationalized related goals. We think such wording should undoubtedly be present, one way or another, at all levels of public authority, including the federal one.

As far as the wording of goal 4 is concerned, it should be said that while discussing geographical, ethnographical and time limits to the safeguarded heritage, the participants agreed that the heritage of all people who lived in the oblast is to be conserved, studied and promoted. The preservation of this heritage will at the same time confirm the legitimacy of the current status of the oblast and testify to the commonness of the Russian and European cultural environment.

In addition to the abovementioned goals, the participants also discussed some other issues, including the contemporary role of sponsorship (authorities as a sponsor of artworks) and the role of art in the region's marketing policy, but they were not found topical as cultural policy goals in the Kaliningrad Oblast at this point in its development.

It should be noted that the system of goals for PBB in the field of culture at the municipal level was formulated quite well and is consistent with PBB methodology requirements. The main point is to eliminate the costly approach. This is what gives this system of goal definition an advantage over the one proposed by the federal Ministry of Culture.

The question of developing objectives and indicators matching the goals was raised during the discussion. The participants agreed that the existing system of indicators is oriented to the system of institutions, the capacities of cultural institutions (seating capacity of concert halls), attendance (number of visitors at museums, music school graduates) and is not adequate to the PBB methodology and contemporary cultural policy in general. The system should be geared to the number of cultural service consumers and desirable changes in the behavior of these consumers. Such system of indicators should to a large extent be based on representative public opinion polls.

Unfortunately, the audience could not formulate a more detailed list of indicators because of limited time.

6. Conclusions on PBB methodology

The seminar led to a number of conclusions that are important for the PBB methodology, need to be thought over, and may require changes to existing methodologies:

(1) The participants made an important observation about the absence of the «Situation analysis» component (See) in the documents on PBB proposed by the federal methodology. As a result, these documents (in particular, departmental reports) have happened to be in limbo. They look like purely voluntaristic attempts to impose arbitrarily set goals of ostensibly completely plastic social reality. But one of the basic principles of strategic planning requires a close linkage to reality and consideration of existing restrictions in it.

(2) The seminar, like many other such events at all levels of public authority, showed that existing stereotypes of «costly» approaches to budgeting are still very strong. Apparently, it would be advisable to work out a set of training methods aimed at overcoming these stereotypes among officials of all levels of public administration. Using the best practices, both Russian and foreign, could be helpful there. However citing experience all by itself is not enough. It is necessary to develop special approaches.

(3) In some budget sectors, such as culture, where the crisis of self-identification is obvious, the introduction of PBB should be preceded by a broad public discussion on the essence of this sector, both within the professional community and in a broader context. Otherwise, the introduction of PBB will lead to manipulations with a set of cost indicators, i.e. will become a meaningless formality.

7. Conclusions on the training methodology for municipal officials

The seminar showed that an actual transition to planning and budget process reform will require a stronger interactive component so that regional/municipal officials could, under the guidance of experts, learn techniques used in all stages of strategic planning:

- Analyze the initial situation;
- Describe a desirable situation (result);
- Program achievement of results;
- Evaluate (audit) the results.

The seminar showed that its participants have a differing understanding of the initial situation. Sectoral specialists tend to speak, in the first stage of work, about «sector problems», referring to actual problems facing existing budget institutions and their personnel (thus neglecting problems in the sectors that are solved, for example, by the private sector that pays for services or partly at the expense of the budget, as in paid education or concerts and tours).

This is why the participation of financiers and economists (including from other sectors) was so valuable, for it provided an insight into exploring actual sectoral problems and eventually the problems connected with the public result (effect) from education and culture for society in general, as well as into groups that consume relevant services, etc.

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**SURVEY OF THE SYSTEM OF FINANCIAL ASSISTANCE
AT THE FEDERAL LEVEL IN THE RUSSIAN FEDERATION
IN 1994-2005. ITS IMPLICATIONS ON RELATIONS
BETWEEN REGIONAL AND LOCAL BUDGETS**

Intergovernmental fiscal relations at the federal and regional levels have been developing separately from each other in terms of approaches to and methods of transfer calculation.

The 1993 Constitution of Russia formalized three levels of government, including the division of state governance into the federal and the regional authority, with the latter vested with sufficient political and financial independence. However, the uneven development of the territories of Russia's constituent subjects and the well-developed social infrastructure, most of which burdened the regional and local budgets, from the start conditioned financial shortages in the regional budgets. The financial relations between the federal budget and the budgets of the regions began to shape up with a view to evening out the region's situation way back in 1991, but they only existed at the level of individual understandings. The formal system of intergovernmental fiscal relations of the federal and regional levels was established in 1993. Law No. 9-FZ On the 1994 Federal Budget of June 1, 1994, formed the Federal Fund of Financial Support for the RF Subjects (FFPR), whose resources were disbursed in accordance with a uniform methodology approved by the RF Government. Entitlements to transfers from the budget were granted to those regions whose per capita incomes under the previous annual budget were below the average for Russia, and also to those whose current revenues and additional receipts from the federal budget were not enough to finance current expenditures.

Since 1994 the RF Government has annually approved the methodology for distributing subsidies from the Federal Fund of Financial Sup-

port for the RF Subjects as a base for calculating appropriate transfers for the next financial year.

*Reference*¹ Total federal budget expenditures in 1994 amounted to 194,495 billion rubles, including

Financial assistance to RF subjects – 20,500 billion rubles, or 10.5 percent of budget expenditures,

Including

FFPR – 11,866 billion rubles (58 percent of total financial assistance);

Transfers to Moscow – 2,774 billion rubles;

Subsidies to budgets of restricted-access communities – 583.2 billion rubles;

Expenditures on the maintenance of housing and utilities turned over to local authorities and on federal regional development programs – 5,275 billion rubles.

The system of intergovernmental fiscal relations was further developed in 1998, in Resolution No. 862 of the RF Government of June 30, 1998, On the Concept of Reform of Intergovernmental Fiscal Relations in the Russian Federation in 1999-2001, which announced the establishment of the Federal Regional Development Fund (FRR) and the Federal Regional Finance Development Fund (FRRF) in addition to the already existing FFPR.

The purpose of the FRR was selective investment support for the regions; it was an aggregate of components of federal targeted and other programs, individual activities, etc., aimed at developing a social infrastructure on Russia's territory, and it started functioning in 2000. In fact, it brought together and formalized the earlier federal budget expenditures on regional development (both federal programs and indi-

¹ Federal Law No. 9-FZ of July 1, 1994, On the 1994 Federal Budget, Article 16.

vidual activities). The FRRF was formed for the period of 2001-2004 to encourage budget process reforms in RF subjects, began to function in 2000 and was financed out of a loan and project of the IBRD.

*Reference*² Total federal budget expenditures in 2000 amounted to 855,073 million rubles, including

Financial assistance to budgets of other levels – 69,128.6 million rubles, or 8 percent of budget expenditures,

Including

FFPR – 57,350.9 million rubles (83 percent of total financial assistance);

FRR – 5,542.5 million rubles (4 percent);

FRRF – 1,920 million rubles (3 percent);

Subsidies and transfers (restricted-access communities,

Sochi, Baikonur) – 7,315 million rubles (10 percent).

In addition to establishing new funds, the Concept introduced changes in the system of balancing out the FFPR: it declared the intention to go over from indicators calculated on the basis of reported data for the previous year and agreed with the respective RF subjects to the standard-based assessment of the tax potential and budget expenditures index (on the basis of objective parameters making it possible to reduce RF subjects' budget revenues and expenditures to comparable values) as the basis for calculating the transfers. As a result, FFPR transfer entitlements were granted to those RF subjects whose assessed potential tax revenues with due regard for their specific expenditures did not exceed the tax revenue average for the Rus-

² Federal Law No. 227-FZ of December 31, 1999, On the 2000 Federal Budget, Supplement 21.

sian Federation. The new mechanism of disbursing FFPR funds became effective in 2001.

In 2001 one more fund — the Federal Compensation Fund (FK) — was established with the purpose of financing the public mandates instituted by federal laws, usually social subsidies and benefits to the population. The need for establishing this fund was caused by the fact that regional budgets were performing more and more government mandates of a social nature, often without appropriate financing from the federal budget. At the same time a federal policy aimed at discharging government obligations to citizens began to be implemented in practice. The FK formalized and segregated as a separate section the federal budget expenditures on financing federal mandates, first and foremost under the laws On Veterans and On Government Subsidies to Citizens with Children. Later on the fund was used to finance expenditures on other social obligations under federal laws (such as benefits to servicemen on the payment of housing rents and utility bills and benefits to radiation victims (Chernobyl, Mayak, Semipalatinsk).

*Reference*³: Total federal budget expenditures in 2001 amounted to 1,193,482 million rubles, including

Financial assistance to budgets of other levels – 186,597.5 million rubles, or 16 percent of budget expenditures,

Including

Support for road infrastructure – 20,300 million rubles (11 percent of total financial assistance);

FFPR – 100,353.7 million rubles (54 percent of total financial assistance);

Subsidies and transfers (restricted-access communities, Sochi, Baikonur, «science cities», Chechen Republic) – 24,627 million rubles (13 percent);

³ Federal Law No. 150-FZ of December 27, 2000, On the 2001 Federal Budget, Supplement 9.

Expenditures on implementation of Law on Veterans – 4,000 million rubles (2 percent);

FRR – 3,335 million rubles (1.7 percent);

FRRF – 600 million rubles (0.3 percent);

FK – 33,381.6 million rubles (18 percent)

The intergovernmental fiscal relations were reformed anew in 2001, when Resolution No. 584 of the RF Government of August 15, 2001 (in the wording of Resolution No. 51 of the RF Government of February 6, 2004) approved a Program for Reforming Budget Federalism in the RF till 2005. Under the Program amendments and new provisions were eventually introduced to the budget and tax codes and laws on local government (Law No. 131-FZ of October 6, 2003) and on the executive government authorities (Law No. 95-FZ of June 7, 2003).

The Program provided for the distribution of tax powers and revenue sources, the distribution of expenditure obligations and the correction of the system of intergovernmental fiscal relations between budget levels.

The establishment of the Federal Fund for Co-Financing Social Expenditures (FSSR), which began functioning in 2002, became a new departure in intergovernmental fiscal relations; its purpose was to encourage RF subjects to support the provision of basic public services at a certain level. The FSSR funds are to be disbursed to all the RF subjects without exception for co-financing priority socially meaningful expenditures (primarily expenditures on education, health care, culture, social security and social aid to the population) depending on compliance with certain conditions. As a matter of fact, the fund was primarily aimed at co-financing those social expenditures which were introduced by federal decisions, but were to be financed out of re-

gional budgets (for example, subsidies on the payment of housing rents and utility bills and pay raises to budget sphere workers).

No substantial modifications were introduced to the calculation of financial assistance out of the existing funds (including the FFPR).

*Reference*⁴ Total federal budget expenditures in 2002 amounted to 1,947,386.4 million rubles, including

Financial assistance to budgets of other levels – 265,406.6 million rubles, or 14 percent of budget expenditures,

Including

FSSR – 18,732 million rubles
(7 percent of total financial assistance);

FFPR – 147,490.9 million rubles
(55.5 percent);

Subsidies and transfers – 31,059 million rubles
(12 percent);

FRRF – 1,200 million rubles
(0.5 percent);

FK – 40,757.6 million rubles
(15 percent);

FRR – 17,491.7 million rubles
(7 percent);

Regional development activities – 8,675 million rubles
(3 percent)

The latest modifications of the system of intergovernmental fiscal relations in the RF were associated with amendments to the Budget Code (No. 120-FZ of August 20, 2004), in particular, to its Chapter

⁴ Federal Law No. 194-FZ of December 30, 2001, On the 2002 Federal Budget, Supplement 19.

16, which regulates interbudgetary transfers. These amendments changed the methods of disbursing subsidies out of the FFPR, but not the substance of the calculations: only their form was changed to fit the concept of «budget sufficiency» introduced by the amendments to the Budget Code. The corrected methods were used to calculate transfers to the budgets of RF subjects out of the federal budget in 2005.

Simultaneously the principles and procedures for the drawing up and financing of federal target programs began to be revised in order to increase their efficiency. The number of programs has been cut back considerably.

Reference. See the Supplement for data on financial assistance to RF subjects in 2003-2005.

Throughout that period (1994–2004) the development of intergovernmental fiscal relations between regional and local budgets in the Kaliningrad Oblast has been following its course, with the methodology of calculating financial assistance amounts introduced in 2000 and subsequently developed.

In 2003–2004 the Budget Code and Law No. 131-FZ of October 6, 2003 de facto endorsed the application of the principles of intergovernmental fiscal relations in effect between the federal and regional levels to financial assistance from regional to local budgets. In particular, the Law said that «financial assistance from the budget of the RF subject to a local budget may be rendered... [in the form of] financial assistance from the funds of financial support for municipalities of the RF subjects... for evening out the minimum budget sufficiency levels of municipalities» and that «for purposes of granting subsidies to local budgets for co-financing investment programs and the social infrastructure development projects of municipalities a municipal development fund can be formed as part of the budget expenditures of the RF subject... . A social expenditures co-financing fund may be established as part of the budget expenditures of the RF subject for pur-

poses of granting subsidies to the budgets of municipalities for co-financing priority socially significant expenditures out of the budgets of municipalities.»

The provisions related to intergovernmental fiscal relations at the regional level will take full effect on January 1, 2006.

For RF subjects, including the Kaliningrad Oblast, this means the need to introduce a new system of intergovernmental fiscal relations with new approaches, forms and calculation procedures and new primary data, which is further compounded by the emergence of another municipal level (urban and rural settlements) and which requires regulatory formalization.

The RF finance ministry issued methodological recommendations for RF subjects and municipalities on regulating intergovernmental fiscal relations (Decree No. 243 of the RF Finance Ministry of August 27, 2004).

In order to appreciate all the above changes and their implications for the financial status of local budgets in the Kaliningrad Oblast and to work out an optimum system of intergovernmental fiscal relations for the Kaliningrad Oblast, it is necessary to analyze both these recommendations and the existing system of federal-level financial assistance with a breakdown by funds.

With all that, the introduction of certain principles of the federal financial assistance system may help strengthen the financial status of municipalities. For example, the formation of the regional compensation fund will make it possible to single out subsidies and transfers for the performance of government powers while the establishment of the municipal development fund will require the introduction of a system of indicators to select targeted programs and shape up a formal base for the participation of municipalities in development budgets.

Supplement

Table. Analysis of the composition, amounts and dynamics of interbudgetary transfers from the federal budget to regional budgets by subdivisions in comparable composition (for comparison's sake all the targeted programs have been grouped together without specification of categories).

Analysis of financial assistance from the federal budget to other budget system levels

№	Transfer category and sub-category	2003 * <i>thous. rubles</i>	Share of total budget	2004 ** <i>thous. rubles.</i>	Share of total budget	2005 *** <i>thous. Rubles</i>	Share of total budget	2004 to 2003 dynamics, %	2005 to 2004 dynamics, %
1	Federal budget expenditures	2,345,641,398.0		2,659,447,000.0		3,047,929,300.0		113.38%	114.61%
2	Financial assistance to other budgets (minus transfers to off-budget funds), including:								
		297,718,338.8	12.69%	314,399,603.6	11.82%	367,694,077.9	12.06%	105.60%	116.95%
3	Financial assistance to budgets of other levels	258,384,319.0	86.79%	272,441,823.3	86.65%	291,803,800.3	79.36%	105.44%	107.11%
4	International cooperation					4,304,160.0	1.17%		
5	Water management activities					670,000.0	0.18%		
6	Social expenditures co-financing fund	5 000 000,0	1,68%	3,300,000.0	1.05%	7,997,732.0	2.18%	66.00%	242.36%

7	Federal fund of financial support for RF subjects	173,167,526.0	58.16%	175,810,866.0	55.92%	189,875,736.0	51.64%	101.53%	108.00%
8	Subsidies and transfers	31,905,218.0	10.72%	42,170,117.3	13.41%	55,247,582.3	15.03%	132.17%	131.01%
9	Fund for re-forming regional finances	1,300,400.0	0.44%	1,215,600.0	0.39%	600,000.0	0.16%	93.48%	49.36%
10	Compensation fund	47,011,175.0	15.79%	49,910,240.0	15.87%	33,108,590.0	9.00%	106.17%	66.34%
11	Other expenditures			35,000.0	0.01%		0.00%		0.00%
12	Federal targeted program for regional development	39,334,019.8	13.21%	41,957,780.3	13.35%	75,890,277.6	20.64%	106.67%	180.87%

* Data of Federal Law No. 176-FZ of December 24, 2002, On the 2003 Federal Budget.

** Data of Federal Law No. 186-FZ of December 23, 2003, On the 2004 Federal Budget.

*** Data of Draft Federal Law No. 86859-4, On the 2005 Federal Budget.

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LOCAL BUDGET EXPENDITURES AS A COMBINED RESULT OF POLITICAL DECISIONS

(A case study of the Slavsky District, Kaliningrad Oblast¹)

Introduction

The right to take decisions on matters of local importance (those under the jurisdiction of local government) and to execute them with available revenues is one of the main characteristics of the municipality. The development of the economy and social sphere of the municipality depends on what political decisions are taken and how they are implemented.

Since the implementation of decisions requires financing, the local budget can be considered the vehicle of the municipality's policy. In fact, the municipality is what it does, both with its own revenues and with transfers from budgets of other levels.

Even when acting independently, the municipality is engaged in various relationships, both political and financial, with other decision-makers,² which often determine the conditions for the operation of local government. These stakeholders' attitudes and decisions regarding the local level depend on their vision and understanding of the municipality and its possibilities. These decisions can relate to the transfer of certain powers to the municipality, the amounts of transfers

¹ The situation described in the article characterizes the 2005 realities, but is still relevant.

² Such decision-makers on the territory of the municipality include federal and regional government authorities (which will be the primary subject of this article), and also other stakeholders, among them civic organizations and corporate structures. The latter can wield a decisive influence in a municipality.

for evening out budget sufficiency, the establishment of certain operating procedures in individual spheres (through such tools as legislation, adoption of standards, licensing, etc.) and so on. Moreover, the actual municipality and its perception by other stakeholders (such as the regional authorities) may not coincide. In such cases decisions related to the municipality will relay on the perception, but they will be implemented in reality. If there is a wide gap between the perception and de facto situation, disharmony and problems in relations between the municipality and other stakeholders are inevitable.

The criticism of the existing perceptions of municipalities that is occasionally addressed to regional authorities by local government structures show that this is just the situation obtaining in the Kaliningrad Oblast. An inadequate perception of what the actual municipality is about has its reasons. The key ones among them seem to be as follows:

- 1) specifics of the existing system of intergovernmental fiscal relations: the relative system of calculation of subsidy amounts that does not envision any discussion of municipalities' policies (de facto priorities and activities funded from local budgets), but relies on the relative calculation of expenditures in the plan year versus de facto execution in previous years minus individual items and changes in expenditures;
- 2) inability of the municipalities themselves to describe their activities clearly and in a substantiated manner for the outside consumer and to formulate the policy that is the target of such activities.

Today virtually the only source of a systematic vision of the municipality's activities and policies is its budget, which shows both the targets and the amounts of expenditures.³ But even this source does not answer the question what the actual municipality is about. In order to understand how limited the budget information is it is necessary to

³ Medium- and long-term socio-economic development plans are rather draft documents, which are little related to the current situation.

bear in mind the following two substantial facts: the budget is inertial, and its present shape reflects policies over several previous years; apart from that, financial resources are always limited, which means that the budget reflects the policy pursued under the existing financial constraints.

The budgeting practice and the existing budget presentation procedure⁴ are such that it is impossible to see tangible expenditure targets behind expenditures broken down by items, divisions and subdivisions or understand the material equivalent of budget amounts. As a result, what is revealed to an outsider is abstract amounts, which cannot be appreciated from the point of view of feasibility or efficiency of expenditure or discussed in any other terms than «more – less» without any possibility of evaluating the implications of an increase or decrease in such amounts and, therefore, taking responsible decisions. As a result, for example, the calculation of financial assistance implies one thing, while something very different happens in municipalities, or municipalities get burdened with missions that are not commensurate with their financial or organizational capabilities. Municipalities have to make up on their own for the shortcoming of calculations at the level of disbursement of local budget funds, which means that the existing practices worsen the financial status of municipal budgets and cause misunderstandings between the local and regional levels.

- The local government and intergovernmental fiscal relations reforms can further aggravate the situation because they make it possible to exclude any considerations of expenditures from financial assistance discussion and only use revenue forecasts in calculations (in accordance with one of the approaches suggested by the RF Finance Ministry to the organization of regional funds of financial support for municipal budgets).

⁴ The introduction of performance budgeting (PB) presumes that the budget will include quantitative indicators of the accomplishment of strategic objectives and tactical goals, and also program implementation.

- The formation of new municipalities (at the level of settlements and municipal districts) presupposes the redistribution of powers, cash flows and property objects; all this will create an entirely new reality, to which local government is not prepared either financially, or organizationally, or in HR terms.

Advocacy of municipal interests requires political proof of the importance and feasibility of financing of municipal expenditures and their coherent description for any outsider. This can be accomplished in several ways:

- 1) through a description and economic evaluation of municipalities' certain **standard**⁵ requirements (in practice these are often the existing financing levels);
- 2) through compilation of **register** and economic evaluation of **the existing budget** (expenditure) **obligations**.
- 3) through description of the **minimum** requirements of municipalities and their economic assessment.

Each of the above approaches has certain merits and shortcomings.

1) The first option makes it possible to substantiate financing at an acceptable level, but the essence of the standard-based approach requires the legislative formalization of financing standards, and also makes it difficult to differentiate standards between regions and municipalities. In earlier years of acute budget shortages the federal finance ministry strongly opposed the standard-based approach because it is fraught with the formation of an extremely inertial and loss-making system, which makes it impossible to promptly modify (especially reduce) financing. In recent years the financial situation in the country has been greatly improving, and as a consequence the finance

⁵ What is meant here is financial standards – standards of financing specific types of activities.

ministry has agreed to the application of per capital financing mechanisms, which actually are a modification of financial standards.

Another version of the standard-based approach, which conforms to the ideology of federal budget reforms, is the introduction of the quality standards⁶ of budget services used as substantiation in upholding expenditure amounts. The problem today is the need to draw up quality standards for hundreds, if not thousands of budget services (depending on the optimum breakdown, which varies from sector to sector) falling under the jurisdiction of federal, regional or municipal authorities.

Budget service standards only begin to be developed at the federal level while some regions have started to design such standards independently in individual spheres (the Vologda and Voronezh oblasts in health care, the Saratov Oblast in education, the Leningrad and Tomsk oblasts in social protection, and so on); municipalities are yet to begin this work.

2) The second approach conforms to the guidelines for the federal-level budget reform; in particular, it is being developed by Resolution No. 440 of the RF Government of July 16, 2005, On Procedures for Keeping the Register of Expenditure Obligations of the Russian Federation.

The register of expenditure obligations makes it possible to rigorously substantiate the planned expenditures with references to laws, presidential decrees, RF government resolutions and international agreements (for the federal-level authorities). However, at the stage of economic (financial) evaluation of the «cost» of laws and other regulations the streamlined methodology begins to falter because most of the laws and regulations do not specify concrete financing amounts.

The application of this approach to municipal budgets seems all the more problematic since they do not have such detailed legal support as

⁶ Similar government service standards are being drawn up for the so-called public services, that is, the part of the budget-financed services provided by government authorities.

the federal budget, especially in view of the recent redistribution of powers which has not yet been put on a well-developed legal and regulatory basis.

3) Due to the above the application of the third approach, oriented to minimum requirements, becomes understandable.

It should be noted that as the minimum requirements for financing local expenditures were assessed, due to the character of the tasks in hand we ignored certain areas of budget reforms that make it possible to save budget funds, such as the optimization of the existing network of budget institutions or the outsourcing of certain budget services to non-government institutions (with budget financing).

The standard-based approach is viewed as the more adequate one because it makes it possible to focus discussion on the very substance of municipalities' activities. The formation of standard-based expenditures will require, among other things, a general regional concerted decision on the goals and priorities of regional development (including municipalities) and a corresponding interpretation of powers.

In order to formulate a municipal position on the needed expenditure requirements it is first necessary to describe the municipality in question and its original status, that is, to present it as a totality of formal and informal decision on expenditure targets and areas and on financed/purchased properties, goods and services with due regard for prices and tariffs. Once this has been accomplished, it will be possible with regard to such decisions, which are actually being implemented, to make qualitative assessments and judgments as to their feasibility, required adjustments, etc. in disputes with other decision-makers and stakeholders.

Methodological Approach

The Slavsky District was chosen for the case study of a municipality's activities and the restructuring of its policy. The choice was based, on

the one hand, by the municipality's readiness to open its decisions and budget and, on the other, by the relatively small amounts of expenditures and number of decisions, which simplifies the overall mission. When the methodology of the analysis of the municipal budget as a totality of the political decisions represented as the financed/purchased properties, goods and services with due regard for prices and tariffs has been streamlined, a number of municipalities will be analyzed in a similar way with identification of identical and divergent decisions.

The municipality was described on the basis of the following model. The decision-making processes and mechanisms of financing the implementation of decisions were taken as the basis. The municipality was assumed to have a set of operational priorities (either adopted deliberately or reproduced by inertia), which in fact constitute the totality of the adopted political decisions. These priorities are converted from general statements into arrangements for their implementation, including the network and size of institutions, the number of employees, equipment, expendables and other things required for such activities. All of these have certain costs, which add up to the total amount of expenditures in the given area. This amount is presented as a budget item (not necessarily as an independent expenditure area because the budget item often is a generalized indicator of a number of priorities commonly grouped in one sphere of activities).

Since the purpose of this paper was to go from the municipal budget figures back to decision, that is, to backtrack, the following methodology was applied. Every expenditure item of the Slavsky District budget according to the functional classification is considered from the point of view of expenditure type (wages and payroll taxes, heating, water and power supply, repairs, fuel and lubricants, office goods, operational expenses, assets acquisition, business trips, communications, payments under contracts, etc.). The amount by every expenditure type is converted from cash into the quantity of funded units of goods and services on the basis of de facto data on the condition of the budget sphere (number of institutions, employees, etc.) and economic assessment. The economic assessment method is used here to create a

system of prompt re-calculation of budget figures into financed objects, which makes it possible to understand budget amounts not through actual expenditures, but through the creation of a general model for calculating expenditures on the bases of common sense and certain initial data. The funded units of goods/services by the given type of expenditures are subsequently viewed as organizational support for a political decision and, accordingly, are interpreted as such decision. As a result, we obtain a total of decisions, and the decisions themselves can be categorized as follows:

- municipalities' own decision;
- decisions related to the administration of transfers, i.e., individual government powers delegated to municipalities;
- decisions related to the execution of the powers delegated by one level of local government to another (e.g., by a community to an okrug).

Municipality as Sum Total of Political Decisions Types of Decisions

In order to present the municipal budget as a sum total of political decisions, it is necessary first and foremost to identify three principal groups depending on the actual decision-maker:

1. Targeted expenditures are transfers and subsidies from the oblast budget; the municipality administers the relevant funds, but by and large it acts in accordance with the spending procedures and follows the expenditure calculation principles laid down by the oblast-level authorities.
2. Expenditures nominally categorized as the own expenditures and powers of the local budget, but actually regulated, in one way or another (more often through legislative standards), by authorities of other levels, with the municipality not entirely free in determining spending amounts or procedures.

3. The municipality's own expenditures, on which it is free to take any decisions as regards amounts and spending procedures.

In the case of the Slavsky District the above three groups of decisions represent the following financing amounts, with the total expenditures being 142,541,000 rubles⁷:

targeted expenditures – 54,096,000 rubles, or 38 percent of the budget expenditures;

regulated expenditures – 9,419,000 rubles, or 7 percent of the budget expenditures;

de facto own expenditures – 79,026,000 rubles, or 55 percent of the budget expenditures.

Let us take a look at the expenditures in each group. Since our primary interest is the municipality's own policy, we will focus on the substance and political interpretation of the third group of expenditures, while listing the areas of expenditures and their functional designation for the first two groups.

Targeted expenditures:

- informatization program for government authorities;
- housing and utility subsidies to the population;
- regional bonuses on budget workers' wages;
- transfers to support government general education standards;
- school meals;
- targeted assistance to the population;

⁷ Data on the 2005 budget implementation are used here and hereafter.

- baby food (for one– and two-year old children);
- transfers to provide for social support institutions under the spending powers of the RF subject;
- transfers to provide social support to large families;
- transfers to provide social support to low-income groups;
- transfers to provide social support to labor veterans and veteran war-time workers in the rear.

Regulated expenditures:

- expenditures on traffic police;
- wages to precinct policeman;
- meals at the foster home;
- adoption subsidies and wages to adoptive parents.

De facto own expenditures. It can be said, in general, that the municipality's work in this area boils down to the following:

- support of the network of existing institutions and types of activity at the minimum level in order to at least preserve the present infrastructure and opportunity to provide appropriate budget services in the future, if not ensure a certain quality of various services. The maintenance of the infrastructure consists in financing the wages to employees at the level of 2,000-3,000 rubles per month, payment of communal services and minimum operational expenses (replacement of electrical bulbs, compliance with sanitary requirements), current repairs («painting up something, patching up something else»), expenditures on the work of an institution (one or two public events, phone bills and occasional trips to the district center for employees), and benefits to rural workers. This applies to such budget spheres and preschool

education, general education, extra-curricular education, health care, culture, physical culture and sport and the foster home;

– support for business activity and the municipality's own business and investment operations. This stands for drawing up titles to municipal property, preparation of documents under the privatization program, preparation of documents for participation in investment programs, and support for far producers and small businesses;

– support for civic organization in order to maintain civic activities in the municipality at least at some level;

– youth policy, which is perceived as provision of summer-time employment for teenagers and support for youth movements, and also payment of educational fees for children from low-income families;

– the municipality's own social policy, which includes targeted assistance, social hospital beds, co-financing of acquisition of housing for orphaned children and burial of unclaimed bodies;

– the municipality's policy on subsidizing individual (socially significant) services to the population (housing and utility services, public baths, transport, district newspaper);

– expenditures on civil defense and early warning of/response to consequences of emergencies;

– administrative expenses, including, in addition to current expenses, outlays on elections and bonuses on municipal workers' pensions. Overall the current expenses and staffing levels correspond to the functions performed by the municipality;

– «forced (imputed) expenses», such as partial financing of the expenses of law enforcement authorities unrelated to the municipal sphere and preparations from the celebration of the 60th anniversary of victory in the Great Patriotic War;

– debt servicing.

The shares of expenditure areas in the municipality's own expenditures (79,026,000 rubles) are specified below.

Table 1

No.	Expenditure area	Amount, thous. rubles	Share, %
1	Supporting the network of existing institutions	47,414	60
2	Supporting economic activity	1,012	1.3
3	Supporting civic organizations	90	0.1
4	Youth policy	422	0.5
5	Own social policy	750	0.9
6	Subsidizing individual services to the population	10,941	13.8
7	Civil defense and emergency response expenditures	200	0.3
8	Administrative expenses	17,123	21.7
9	«Forced expenses»	639	0.8
10	Debt servicing	435	0.6
	TOTAL	79.026	100

The analysis of the 2005 budget⁸ makes it possible to present the municipality's policy in the following way:

- it can be said that opportunities for pursuing independent policies are severely constrained by the fact that the municipality is the administrator of government powers with regard to 40 percent of the budget;
- as for the other 60 percent of municipal expenditures, the municipality performs two principal functions: support for the existing network of budget institutions and provision of subsidies for individual services (mostly housing and utilities) to the population. The maintenance of administrative staff is financed for purposes of accomplishing these missions.

⁸ An analysis of the Slavsky District's budgets for previous years shows that it is largely inertial, which indicates a certain stability of the restructured policy.

Municipality's Functions: Expenditure Areas and Breakdowns

1. Elections:

Total – 60,000 rubles. Elections of the head of one rural district.

Including:

Wages – 38,000 rubles to about 9 persons over two months, or 1,675 rubles per person per month;

Printing – 2,500 rubles, or 8,333 A4 newspaper pages (printing of a 8-page newspaper costs 2.4 rubles per copy);

Transportation costs – 3,000 rubles, or 50 trips to the district center (3,000 rubles/30 rubles (average, one way) x 2);

Telephone – 1,000 rubles, or rent payments for 3 phone lines (1,000 rubles/160 rubles/2 months);

Office supplies – 1,000 rubles, or 8 packs of paper (1,000 rubles/120 rubles);

Travel expenses – 500 rubles, or 2.5 trips to the regional center (500 rubles/200 rubles);

Office maintenance – 1,000 rubles, or purchase of fuel to heat a 25 sq. m room over two months (0.03 gig calorie per sq. m per month, or 0.75 gig calorie for a 25 sq. m room; 265 kg of coal to generate 0.75 gig calorie; one ton of coal costs about 2,000 rubles);

Work of district electoral commissions – 12,000 rubles;

Expenses related to gubernatorial election campaign – 1,000 rubles.

2. Debt servicing: payment of interest on the loan drawn to cover the budget deficit.

Total – 100,000 rubles.

3. Reserve funds: targeted assistance by the criteria established in the municipality, response to local emergencies (fallen trees, a fire).

Total – 600,000 rubles.

Including:

Contingency expenses — 400,000 rubles. Mostly targeted assistance: help to newcomers in drawing up documents, assistance in paying for costly medical treatment. Other expenses, such as support for children's summer recreational facilities or charging of fire extinguishers (2004). On average 10,000-30,000 rubles are set aside to pay for medical treatment, which is enough to help 15-30 patient. Or a new fire extinguisher costs 1,200 rubles, and this money is enough to buy 333 extinguishers, or 3 per institution (there are a total of 112 municipal institutions).

Civil defense and emergencies — 200,000 rubles; the money is used to respond to fires, floods, hurricanes. For example, it costs about 100,000 rubles to repair a fire-damaged flat.

4. General government issues: support for summer employment for young people, support for civic organizations, drawing up titles to municipal property and participation in the oblast-level investment program.

Total – 1,106,000 rubles

Including:

Public works – 172,000 rubles. Payment for summer public works by young people, co-financed by the employment fund. At most 720 rubles per persons per month, which means roughly 80 people (172,000 rubles/720 rubles/3 months);

Support for civic organizations – 60,000 rubles. Support for veterans' society and invalids' society. Payment of housing and utility bills and organization of activities. 30,000 rubles per society per year mean 2,500 rubles per month. This money is enough to meet the following needs: 700 rubles per month for coal (0.03 gig calorie per sq. m per month, or one gig calorie per month for a 33 sq. m room; 350 kg of coal to generate one gig calorie; coal costs about 2,000 rubles per ton), and wages to one person of about 1,500 rubles per month or organization of activities within this amount;

Drawing up titles to municipal property – 200,000 rubles. Drawing up documents under the privatization program. It costs about 20,000 rubles to draw up one set of documents, which means that this money is enough to draw up titles to 10 properties (such as shops, community centers, recreational centers, etc.);

Support for the beekeepers society – 30,000 rubles. Financing of conferences and purchase of specialized literature;

Construction documents – 112,000 rubles. Development of construction documents for a 18-unit block of flats (municipal housing) under the oblast investment program. The entire set of documents costs 360,000 rubles;

Informatization program for government authorities (targeted funds) – 400,000 rubles;

Preparations for the celebration of the 60th anniversary of victory in the Great Patriotic War – 42,000 rubles. Improvement of common graves (fence repairs and painting, etc.) in every rural district, or about 7,000 rubles per rural district.

5. Law enforcement: co-financing of fuel bills, upkeep (wages) of one precinct policeman and repairs to the precinct building.

Total – 820,000 rubles.

Including:

Precinct building – 680,000 rubles, including roof repairs – 310,000 rubles, wages to precinct policeman (sanitary inspector) – 83,000 rubles, or 5,490 rubles per month; 67,000 rubles to buy coal (11,166 rubles per month, or heating for 21 rooms (three per rural district) of 25 sq. m = 0.03 gig calorie per sq. m per month, 350 kg of coal to generate one gig calorie; coal costs about 2,000 rubles per ton, then heating costs 21 rubles per sq. m); 220,000 rubles for gas for ten cars, or possibility to drive from Slavsk to a remote community six times a day ($220,000 \text{ rubles} / 365 \text{ days} / 15 \text{ rubles} = 40 \text{ liters per day}$, or 4 liters per car);

Traffic police – 140,000 rubles for gas and spares for 6 cars (or 4 liters of gas per car = $140,000 \text{ rubles} / 365 \text{ days} / 6 \text{ cars} / 15 \text{ rubles}$) as percent of deductions from fines for traffic rules violations.

6. Agriculture and fisheries: expenditures on land improvement (maintenance of farm networks and cleaning of canals), subsidizing interest on loans to farm producers, financing of land cadastre assessment.

Total – 685,000 rubles.

Including:

Payment for land improvement works – 160,000 rubles (under contracts and work performance statements; land improvement works cost on average 400,000-600,000 rubles);

Subsidizing interest rates on loans to farm producers — 200,000 rubles. Part of the refinance rate is covered by subsidies; producers are selected and subsidies granted according to established procedures. On average 5-6 producers per year receive subsidies totaling about 2.5 million rubles (subsidy from the local budget covers 1/6 of the interest rate; if we take an interest rate of 10 percent, 200,000 rubles/5x6x10);

Repayment of loan for the maintenance of a childcare center (ZAO Po-bedinskoye) – 175,000 rubles;

Land cadastre assessment (to delimit land sites) – 150,000 rubles.

7. Transport: subsidies to the municipal company.

Total – 1,000,000 rubles.

30 percent of the company's budget.

8. Other national economic issues: drawing up documents for privatization of municipal property and support for the administrative okrug.

Total – 350,000 rubles.

Including:

Drawing up land titles under the privatization program – 250,000 rubles. The set of documents per land site costs about 9,000-10,000 rubles, which means drawing up documents for about 25 land sites;

Other (competitions and other activities to support the administrative entity – 100,000 rubles. One activity costs on average 3,000 rubles. Accordingly, the money is enough to organize 33 activities per year.

9. Housing: subsidies to the population and to the housing management authority to cover the gap in tariffs.

Total – 2,680,000 rubles.

Including:

Subsidies to the population (targeted funds) – 1,040,000 rubles;

Subsidies to the housing management authority (the tariff gap is 20 percent) – 1,640,000 rubles.

10. Utilities: subsidies to the population and to the utilities company.

Total – 8,094,000 rubles.

Including:

Subsidies to the population (targeted funds) – 1,558,000 rubles;

Heating (subsidy to the company) – 4,240,000 rubles;

Water consumption (subsidy to the company) – 496,000 rubles;

Community improvement – 1,800,000 rubles. This includes: garbage disposal, street cleaning, tree cutting and the maintenance costs of different services.

11. Other housing and utilities costs.

Total – 1,341,000 rubles.

Subsidies to public baths (total of 10) to pay utility bills and wages, on average 11,175 rubles per bath house per month.

12. Preschool education: supporting the network of institutions (wages, maintenance of premises and essential operational expenses).

Network: 10 institutions (448 children, 77,000 child-days).

Staff: 168, including 49 teaching personnel and 119 administrative and maintenance staff.

Total – 10,242,000 rubles,

Including:

Wages – 5,530,000 rubles, or an average wage of 2,177 rubles per month;

Regional bonus (targeted funds) – 670,000 rubles;

Transfer – 267,000 rubles;

Utility bills (benefits to rural workers) – 334,000 rubles;

Books and other printed matter – 76,000 rubles, or 7,600 rubles per institution, or 76 books, journals, etc. per year;

Heating, lighting and water supply – 1,846,000 rubles. Enough to cover 80 percent of the established rates;

Meals – 1,185,000 rubles. Together with parents' contributions (943,000 rubles) the total is 27 rubles per child per day;

Medicines – 20,000 rubles, or 2,000 rubles per year per institution, or 166 rubles per month. For reference, a bandage costs about 10 rubles, and a bottle of iodine – two rubles;

Other (usually office supplies) – 25,000 rubles, or 2,500 per institution per year, which means a possibility to buy 1.5-2 packs of paper per month;

Telephones – 36,000 rubles, or a possibility to pay rent for 1-2 phone lines per institution;

Current repairs – 111,000 rubles

Other services – 50,000 rubles, or 5,000 rubles per institution per year. This covers payments under contracts, Sberbank's commission fees, and activities;

Acquisition of fixed assets – 37,000 rubles, or 3,700 rubles per institution per year. For reference: one cot bed costs about 5,000 rubles, i.e., this money is enough to buy a total of 8 beds per year, and if financing under this item continues at the same level, beds in all the kindergartens can be replaced in 57 years;

Transportation (travel) expenses – 55,000 rubles, or a possibility for employees of one institution to go 7 times per month (for all) to the district center or two times to the oblast center.

13. General education: supporting the network (maintenance of premises and some operational expenses) and municipal bonuses to teachers.

Network: 16 institutions (2,556 children, 170 classes), including seven small (multigrade) schools.

Staff – 626, including 340 teaching personnel and 286 administrative and maintenance personnel.

Total – 39,532,000 rubles,

Including:

Wages (targeted funds: transfers for maintenance of general educational institutions and regional bonuses) – 29,552,000 rubles;

Municipal bonuses on wages – 888,000 rubles, or 217 rubles per teacher per month;

Heating, lighting, water supply – 2,133,000 rubles. Enough to cover 80 percent of the established rates;

Fuel and lubricants – 840,000 rubles, or about 20 liters of gas per school per day;

Medicines – 37,000 rubles, or 192 rubles per school per month, or 14.5 rubles per student per year. For reference: bandage costs about 10 rubles and a bottle of iodine – two rubles;

Meals (targeted funds) – 1,324,000 rubles;

Maintenance expenses and other (targeted funds) – 2,123,000 rubles;

Utilities (benefits to rural workers) – 1,900,000 rubles;

Current repairs and equipment acquisition – 225,000 rubles (liability);

Capital repairs – 200,000 rubles (purchase of boiler);

Transportation (travel) expenses – 206,000 rubles, or a possibility for every institution (except the urban school) to make 19 trips per month to the district center or 5 trips to the oblast center;

Telephones – 104,000 rubles, or rent payments for three phone lines per school.

14. Extracurricular education: support for the network of institutions (maintenance of premises, wages and some operational expenses).

Network: 5 institutions (three music schools), one sport school and one arts center.

Staff: 132

Total – 6,325,000 rubles.

Including:

Wages – 5,547,000 rubles, or an average monthly wage of 2,778 rubles per month;

Utilities (benefits to rural workers) – 117,000 rubles;

Books and other printed matter – 51,000 rubles, or 10,200 rubles per school per year. With the average book price of 150 rubles, it is about 5-6 books per school per month;

Telephones – 27,000 rubles, or rent payments for 14 phone lines, or about three per school (27,000 rubles/160 rubles per month/12 months);

Transportation (travel) expenses – 33,000 rubles, or 2-3 trips to the oblast center per school per month (33,000 rubles/100 ruble fare x 2/5 schools/12 months);

Other services – 26,000 rubles;

Current repairs and equipment – 157,000 rubles;

Heating, lighting and water supply – 280,000 rubles. Enough to cover 80 percent of the established rates;

Operational expenses – 87,000 rubles, or 1,450 rubles per school per month. For reference: one liter of detergent costs about 50 rubles, one bulb – 5-10 rubles; a pack of paper – 120 rubles, which means that this money is enough to buy 12 packs of paper per month.

15. Foster home: maintenance with provision for basic needs and rated standards.

One institution (62 children).

Staff: 91, including 36 caregivers and 55 administrative and maintenance personnel.

Total – 7,366,000 rubles,

Including:

Wages – 4,902,000 rubles, or an average monthly wage of 3,562 rubles;

Heating, lighting and water supply – 1,029,000 rubles. Enough to cover 80 percent of the established rates;

Meals – 1,190,000 rubles, or 52 rubles per child per day, or 13 rubles per meal with four meals per day;

Acquisition of fixed assets – 57,000 rubles;

Repairs – 164,000 rubles was allocated in 2005 for windows installation (since one modern double-glazed unit costs about 6,000 rubles, this money will buy 27 windows);

Telephones – 7,000 rubles, or rent payments for three phone lines (7,000 rubles/160 rubles per month/12 months);

Transportation (travel) expenses – 17,000 rubles, or a possibility of 7 trips to the oblast center per month.

16. School administration authority: wages of the district school department.

Total – 1,045,000 rubles, including

Wages and payroll taxes – 683,000 rubles, or 16 employees with an average monthly wage of 2,845 rubles;

Other expenditures – 362,000 rubles.

17. Guardianship and custodial care: wages to adoptive parents and custodial care as prescribed by the law.

Total – 8,006,000 rubles,

Including:

Custodial care benefit – 6,424,000 rubles, or 2,862 rubles per child in custodial care per month (under the oblast decree). A total of 160 children plus expected rise in the number of children to about 190 people;

Wages to adoptive parents – 1,582,000 rubles, or about 3,192 rubles per month (according to the single tariffs schedule). Altogether 33 families.

18. Culture: maintenance of a network of culture and recreational centers, clubs and libraries (an average of 6 per rural district).

Network: 13 culture and recreational centers and clubs, 24 libraries and youth center.

Staff: 94 employees of centers and clubs, 62 library staff. The average rural center or library has two employees.

Total – 8,530,000 rubles,

Including:

Wages and payroll taxes – 6,297,000 rubles, or an average monthly wage of 2,690 rubles per month;

Heating, lighting and water supply – 758,000 rubles. Enough to cover 80 percent of the established rates;

Operational expenses – 80,000 rubles, or an average of 1,670 rubles per institution per year. For reference: one liter of detergent costs about 50 rubles and one bulb – 5-10 rubles, which means that this money is enough to buy two bottles of detergent per month, replace 13 bulbs per month or buy a pack of paper per month (1,670 rubles/120 rubles/12 months)'

Utilities (benefits to rural workers) – 490,000 rubles;

Activities – 125,000 rubles, or 2,604 rubles per institution per year. One activity costs an average of 3,000 rubles;

Transportation (travel) expenses – 75,000 rubles, or two trips to the district center per institution per month (75,000/30 rubles average fare x 2/48 institutions/12 months);

Current repairs – 327,000 rubles, including 212,000 rubles to repair the township library and 115,000 for other institutions, or 2,447 rubles per institution per year. For reference: a roll of wallpaper costs an average of 70 rubles, which means that every year a recreational center or library can refresh five 20 sq. m rooms if employees do repairs themselves free of charge;

Fixed assets – 137,000 rubles, including 50,000 rubles – library fund, or 12-13 books per library per year (50,000 rubles/150 rubles average per book/24 libraries). If a library has 3,000 books, it will take it 250 years to fully replace its fund;

Telephones – 76,000 rubles, or rent payments for one phone line each for 40 of the existing 48 institutions (76,000 rubles/160 rubles per month/12 months);

Other (payments under contracts) – 164,000 rubles. Periodicals (newspapers and magazines) for 24 libraries, or 569 rubles per library per month, or 6 monthlies like Geo or Around the World or three dailies.

19. Social services to the population: transfer from the oblast budget for targeted assistance to the population.

Total (targeted funds) – 4,218,000 rubles.

20. Social security: benefits on pensions of retired municipal workers.

Total – 400,000 rubles;

A total of 27 persons entitled to benefits totaling 1,234 rubles per month.

21. Periodical press: subsidy to the publishing company.

Total – 424,000 rubles.

It costs 2.4 rubles to print one newspaper copy (8 A4 pages). If the district paper is a weekly, the money is enough to print 3,400 copies per week.

22. Youth policy and health-building activities: support for youth movements and organization of activities.

Total – 200,000 rubles.

Support for youth movements (about 10,000 rubles per movement per year) and financing of activities (1,000-3,000 rubles per activity).

23. Physical culture and sport: financing of sports activities and competitions.

Total – 150,000 rubles: financing of activities, acquisition of jerseys and gear and prizes.

24. Health care: maintenance of a network of primary aid and midwife stations, hospitals and first-aid stations, including wages of about 1,500 rubles per month, payment of housing and utility bills and operational expenses (minimum of medicines, gas for first-aid ambulances, phones and occasional trips for employees to the district center).

Network: three hospitals, 21 primary aid and midwife stations, first-aid stations (altogether 10 ambulances, with 6 daily and 4 nighttime shifts).

Staff: a total of 314 people, including 71 senior and middle-level medical personnel in hospitals and 50 – in primary aid and midwife stations.

Total – 11,276,000 rubles,

Including:

Wages – 5,432,000 rubles, or an average monthly wage of 1,153 rubles per month;

Utilities (benefits to rural workers) – 840,000 rubles;

Heating, lighting and water supply – 2,164,000 rubles. Enough to cover 80 percent of the established rates;

General administrative expenses – 770,000 rubles, or 2,670 rubles per institution per month;

Meals for one- and two-year-old children (targeted funds) – 881,000 rubles;

Medicines – 350,000 rubles, or 1,215 rubles per institution per month. For reference: a bandage costs about 10 rubles;

Fuel and lubricants – 433,000 rubles, or about five visits in response to calls per 24 hours (433,000 rubles/15 rubles per liter of gas/365 days = 79 liters per day, or 790 km since the average round trip is 150 km);

Communications – 211,000 rubles, or payment rent for 109 telephone lines, or about four lines per institution (211,000 rubles/160 rubles per month/12 months);

Transportation (travel) expenses – 64,000 rubles, or 3-4 trips to the district center per institution per month (64,000 rubles/30 rubles average fare x 2/24 institutions/12 months);

Other – 131,000 rubles, including travel expenses, fuel delivery, third-party liability insurance, freight handling.

25. Other social policy issues: targeted expenditures out of the oblast and federal budgets, and also small municipal programs and expenditures (social hospital beds, housing for orphaned children, payment of tuition fees for children from low-income families).

Total: 12,463,000 rubles,

Including:

Subsidies to provide social support for low-income citizens (targeted funds) – 3,106,000 rubles;

Transfers to provide for the functioning of institutions under the spending obligations of the budgets of RF subjects (targeted funds) – 3,891,000 rubles;

Transfers to provide social support for large families (targeted funds) – 2,912,000 rubles;

Transfer to provide social support for labor veterans and veteran wartime workers in the rear – 2,154,000 rubles;

Burial of unclaimed bodies – 100,000 rubles;

Social hospital beds (5) – 150,000 rubles, or 2,500 rubles per bed per month, including wages, medicines and general and administrative expenses;

Co-financing of acquisition of housing for orphaned children – 100,000 rubles, or two flats per year considering that one flat costs 150,000 rubles and is 30 percent co-financed out of the local budget;

Personnel training program (education of children from low-income families) – 50,000 rubles, or a possibility to pay for tuition at a specialized secondary school for 3-4 children (at the rate of about 1,600 rubles per month).

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LOCAL ISSUES AND TRANSFERABLE STATE FUNCTIONS: EVOLVEMENT THROUGH REFORMS

Law No. 131-FZ «On the General Principles of the Organization of Local Government in the Russian Federation» defined local issues for municipalities from January 1, 2006. Reforms evolving in parallel to local government reform in such areas as education, housing policy, and city planning, introduce completely new approaches that require a revision of the policy and structure of some municipal functions. Some functions are brand new, and there are no established positions on what their performance actually means. Another distinction is that some local issues are inherent to the local level, while other issues are separated functions of public systems created at the federal and regional levels.

In addition to their own tasks, municipalities also perform certain state functions. Developing a state function transfer mechanism requires the level that transfers such functions to clearly determine the policy, objectives and sources of financing.

The Association of Municipalities of the Kaliningrad Oblast, together with the East-West Institute, has carried out a series of working group meetings to discuss local issues as part of the «Performance-based budgeting as a tool of reforming municipal finance in the Kaliningrad Oblast» project.

The Association's overall approach to preparing proposals and positions for further work with functions is that it is necessary to develop a pan-regional stance on local issues and transferable state functions.

Below is a brief description of the local issue reform, questions and suggestions regarding activities at the municipal and regional levels.

The status of reform with regard to certain local issues

1. Local issues in the field of education

In accordance with Law No. 131-FZ, municipalities are charged with the following functions in the field of education: organizing generally accessible and free primary general, basic general, secondary (complete) general education under the main educational programs, except the financing of the educational process, which is a function of regional authorities; organizing additional education and generally accessible free preschool education, as well as organizing recreation for children during vacations.

Since 2004, the educational process has been financed by subventions provided to municipalities from the regional budget. These subventions are calculated for a municipality, depending on the number of students in general education schools and normative expenditures incurred by the implementation of state general education standards per student.

Norms are established separately for urban and rural general education institutions. They include expenditures for teachers' salaries and so-called educational expenditures.

The execution of municipal budgets in the Kaliningrad Oblast in 2005 shows that subventions do not match actual expenditures sustained by local budgets in financing the educational process. It's hard to make a judgment on the causes of underfinancing because the regional budget does not specify how exactly the norms are calculated. It seems that regional norms for implementing state general educational standards were calculated in such a way that, on the one hand, they should not be smaller than the federal norms (5,220 rubles in 2004), and, on the other hand, they should be based on the possibilities of the regional budget.

In terms of salaries, the norms were calculated based on a standard staffing table for general education institutions as of 1989. However over the past 15 years staffing tables have increased, partly due to new

positions (sociologist, psychologist, valeologist, additional education teachers, etc.) introduced by the Russian Ministry of Education. In addition, the norms are based on an 18-hour working week for the teacher, with a class of 25 pupils¹ and do not take into account special cases of workload and salaries for teachers:

- teaching disabled children²;
- individual teaching of children undergoing medical treatment in hospitals³;
- teaching of persons in prisons (50% extra pay to teachers)⁴;
- individual teaching³.

The introduction of norms for the standard number of pupils results in staffing table cuts and failures to implement federal decisions regarding the recommended number of personnel, and therefore has a negative impact on the quality of education.

Under the existing system of normative financing of the educational process in general education institutions, main rural schools with

¹ If a week is 36 class hours, then there are two teachers (36 hours/18 hours) per class (25 pupils). A subvention of 11,106 rubles (5,331 rubles × 25 pupils / 12 months) is provided monthly for salaries per class of 25 pupils in an urban school, (including accruals and taxes. On average, there are 3.6-6 salaries of general education institution personnel per class (teachers, administrative personnel, technical personnel). So, one salary on average is 2,221 rubles (11,106 rubles / 5 salaries).

² In the case of disabled children, there can be three pupils in a class. This means that one salary on average equals 266.5 rubles a month (5,331 rubles × 3 pupils / 12 months / 5 salaries).

³ Individual teaching means that there is one pupil per teacher. Therefore with full workload, a teacher's salary will be 222 rubles per month (5,331 rubles / 12 months / 2 teachers).

⁴ Under other circumstances equal to the work of a teacher in a general education school, one salary (without additional pays) will be 1,480.6 rubles. (2,221 rubles × 100% / 150%).

fewer than 150 pupils (9 classes of 16 pupils) cannot survive⁵. It would be desirable to preserve schools where 100 to 150 pupils study because these schools, on the one hand, play a social role in rural areas, and on the other hand, can be needed if the demographic situation improves.

The following options are possible for schools with fewer than 100 pupils:

- closure;
- reorganization into cultural and educational centers or consolidation with other institutions (libraries, kindergartens);
- consolidation of schools with kindergartens;
- downgrading the status;
- conversion into a branch of another school; and
- consolidation of several schools.

Due to school restructuring, municipalities have to provide for the transportation of pupils. Bus maintenance and fuel require big expenditures. In addition, municipalities cannot use school buses for the needs of the local population after classes.

Preliminary estimates of inter-budgetary relations in the Kaliningrad Oblast in 2006 do not take into account municipal expenditures for school and additional education.

The work of district educational boards (RONO) in municipalities is a separate issue. While providing for the educational process, RONO

⁵ Financing norms for compliance with state general education standards for rural schools are calculated for a class of 16 pupils and from this point of view can meet educational expenditures for a school that fits into this standard.

happens to have closer ties with regional education authorities. Given subventions, municipalities have almost no possibility to influence the quality of the educational process, and some municipalities think that the financing of RONO should be transferred to the regional level. However RONO should be kept at the municipal level and their positions strengthened because they provide expertise on the system of education and its trends as well as assist municipal political authorities in making decisions on education.

In a situation where funds for education come from several sources, RONO's functions are subordinated more to regional education authorities, and this raises a question of how municipalities can and should influence the quality of the educational process. On the one hand, municipal authorities are interested in a high quality of education in order to tap the potential of their municipalities, on the other hand, they have no effective tools to manage the process.

Considering the foregoing, it is necessary to:

- accelerate the adoption by the regional administration of a resolution on the normative financing of state general education standards, specifying expenditures to be included in subventions and the grounds for calculating them to ensure that municipalities spend subventions effectively and could make plans for the next year;
- preserve schools with fewer than 150 pupils by increasing financing norms for them;
- introduce differentiated norms and calculate them for 2006, based on standard staffing table that existed in 2005 and special cases of workload for teachers;
- incorporate expenditures incurred by the transportation of pupils into educational expenditures;
- introduce a single method of calculating municipal expenditures for the maintenance of educational institutions; municipalities may pro-

vide their own calculations and align them with those made at the regional level; and

– inter-budgetary relations in 2006 have to provide for expenditures for additional and free preschool education as well as for the recreation of children during vacations.

2. Guardianship

Guardianship has long been regarded as part of educational functions. Municipal politicians did not explore questions of guardianship deeply, and its financing was discussed only as part of financing education in general. However this is a separate function that has to be considered separately. This will make it possible to discuss goal definition in this field and the possibility to defend these goals in a dispute between different budget sectors. Guardianship is financed under the «Social support» section, and Federal Law No. 122-FZ included guardianship in the list of municipal functions in the field of education. Its specific feature is that if the subject of guardianship is not a child, it is then a social function that is referred to the regional level.

Some of the guardianship functions have been delegated to education, some to healthcare, and some to welfare agencies in municipalities. From 2006, guardianship functions should be handed over to local authorities. This should be formalized in a municipality's charter. Some municipalities have no such agencies or their functions are not stated clearly enough.

A peculiarity of the guardianship system in the Kaliningrad Oblast is that it was financed in 2000-2004 through subventions from the regional budget to municipalities.

This situation raises the following questions: how should a municipality organize its guardianship work, how should it determine the terms and size of financing, who makes guardianship policy at the regional level, what is the influence of regional financial authorities on the financing of

guardianship, what is the role of guardianship in the political structure of a municipality, and how does a municipality actually work with children? Only after these questions have been answered can it be possible to discuss the effectiveness of this sector in the entirety of municipal powers and develop a municipal guardianship policy.

Considering the abovementioned, it is necessary:

- to identify the categories of citizens who are under the guardianship of municipalities (only children under the age of 18, or children and incapable or partly incapable citizens of all ages);
- to make decisions on which municipal agency is in charge of guardianship and what is the system of its relations with regional and federal authorities; and
- to determine who controls the orphanages.

3. Local issues in the field of healthcare

In accordance with Law No. 131-FZ, municipalities have been given the following functions in the field of healthcare: organizing urgent medical help (except sanitary aviation), primary medical and sanitary help in inpatient clinics and hospitals, as well as medical help to women during pregnancy, during and after childbirth.

Federal authorities are amending the law on the mandatory health insurance fund and changing the system of state guarantees. New mechanisms are being introduced for state contracts and new organizational forms of medical help are being put in place. The Health Ministry is preparing regulatory documents on the division of the healthcare system between different levels.

The purpose of the federal policy is to preserve «strong» health institutions and develop the primary health system as much as possible. A system of accreditation and licensing will be introduced. Under this

system, health institutions will be allowed to provide the kind of medical services for which they have the accreditation. The municipal administration as the founder of a district hospital will conclude contracts with other municipalities for health services that are not provided in the hospital. These contracts will have to address such issues as payment for utilities, etc., not only healthcare expenditures. No such official contracts have been signed so far. But provisions have been made for broader inter-municipal cooperation in the field of healthcare. However in order to fully compensate for the expenditures of other medical and preventive treatment facilities (MPTF), it will be necessary to introduce per capita financing in all municipal MPTFs.

It is planned that polyclinics will be the main holders of assets and funds and will act as clients for inpatient medical facilities. Another possibility would be for the mandatory health insurance fund to be the sole source of financing, including payments for housing and utilities. This raises the following question: what compensation will municipalities get in the field of healthcare?

The payroll system for healthcare workers was changed by Law No. 122-FZ and Order No. 377. Legislation does not create a complete payroll system, which is why municipalities have to adopt regulatory documents to provide for incentives and other payments. Since January 1, 2005, if a salary is not paid in accordance with payroll resolutions, it has been regarded as a misuse of funds.

The question of dividing healthcare jurisdictions between municipal and regional authorities is being addressed at the federal and regional levels. The Russian Health Ministry is preparing a decision on MPTFs, envisaging a division by levels. It says in particular that infectious units, blood transfusion stations and maternity hospitals will operate at both municipal and regional MPTFs.

But there are no regulatory documents addressing this issue. However an agreement has been reached at all-Russia conferences that primary health services include: paramedic-midwife stations, outpatient cli-

tics, polyclinics at central district hospitals, prenatal clinics, children's polyclinics, emergency aid, local hospitals, settlement hospitals, central district hospitals (including inpatient departments).

In a central district hospital, primary health service units are: surgery, pediatrics, therapy, maternity department (pathology cases are handled by regional MPTFs).

Some municipalities still have infectious departments, but they have to be handed over to the regional level.

Specialized institutions to be handed over to the regional level: phthiology, psychiatry, oncology, skin and venereal diseases, neuropathology, drug abuse, etc. If a municipal MPTF has one of these or a doctor who deals with these diseases, it is referred to primary care.

In municipalities that have only one MPTF, the chief doctors act in fact as healthcare system managers. If the chief doctor takes care of the municipal population's health (including inter-departmental interaction, prevention, promotion of healthy lifestyles) and does not focus entirely on administrative functions, his status may be raised.

In some municipalities, MPTFs form a separate system. MPTFs should be regarded as part of outpatient clinics (including in inter-budgetary relations).

Many municipal hospitals continue to support social beds. This is a function that is financed out of the local budget, it had to be adopted by municipalities and is not provided for in inter-budgetary relations. The healthcare system has to be «cleansed» of social support functions.

In order to defend the interests of the healthcare system in a dispute between budget sectors, it is necessary to complete the redistribution of powers, rid the system of alien functions, and describe the current economic situation in the system in order to determine the minimal necessary financing in inter-budgetary relations. In so doing it is nec-

essary to ensure that the financing of one level of healthcare does not increase at the expense of another. In the future, it will be necessary to identify politically motivated objectives in the region's healthcare system. Healthcare problems have to be discussed on the regional scale. For example, municipalities are not empowered to close hospitals without the consent of regional authorities.

Therefore the main issue for municipalities is the division of healthcare jurisdictions between regional and municipal levels.

Considering the foregoing, the following suggestions are offered to municipal and regional levels:

- social beds can be preserved as they are an important part of social support to the population, but they have to be removed from the healthcare system and transferred to the social welfare system at the municipal level as a state function;
- it is important to prevent a decrease in the financing of healthcare at one level at the expense of another;
- to adopt a regional regulatory act determining the jurisdictions of different levels in the healthcare system, defining in particular primary care, and clarifying issues pertaining to infections units, blood transfusion stations, and maternity homes, which will be preserved within both municipal and regional MPTFs; as well as the financing of specialized care in municipal polyclinics;
- it is necessary to continue working on the definition of pan-regional, politically formalized objectives for the healthcare system;

4. Local issues in the field of housing and public utility services

In accordance with Law No. 131-FZ, municipalities have been given the following functions in the field of housing: providing lower-income citizens who need to improve their living conditions with

housing; organizing the construction and maintenance of municipal housing; creating conditions for housing construction.

By the beginning of the 2000s, the state was basically unable to fulfill its housing obligations. The rights of citizens to housing and the obligations of the state to provide housing were declared but there were no funds to realize them in full. As for municipalities, they automatically took over the functions of lower-tier levels in the former Soviet system for providing people with housing. In real life it all stopped at the stage where the waiting list was drawn up, but the problem was not solved both due to a lack of funds in local budgets and because municipalities had not made a sound political decision to take on this function.

A group of initiators at the federal level came up with the following approach to this problem: the state cannot and should not assume responsibility for providing all Russian citizens with housing, meaning that municipalities can assess housing needs better.

In accordance with this approach, the following position was formulated; it provided the basis for housing reform and was translated later into a package of 27 laws on affordable housing:

1. There are citizens who can solve their housing problems on their own, and the state should only create conditions and opportunities for them.
2. There is a separate category of citizens who have low incomes and who should be helped by the state in solving their housing problems.
3. There are separate categories of citizens who are provided with different types of specialized housing.
4. In addition, the state can use its housing stocks for the resolution of its problems (for example, provide housing to civil servants or other categories of citizens).

The following measures were offered and formalized in terms of creating conditions and opportunities for citizens to solve their own housing problems:

1. Stimulate demand for housing. It was proposed to do this by introducing housing mortgage credits and participatory construction.

2. Stimulate supply by streamlining the work of municipalities with developers. This means lowering administrative barriers, auctioning prepared plots of land («prepared» means available utilities), and having a zoning plan. Plots of land should be prepared at the expense of local budgets (by introducing markups to housing and communal tariffs, which will cover the cost of utility infrastructure development). Relevant norms were included in the City Planning Code. For the first time the authors of laws can discuss how they view the role of municipalities and their functions. They respond to a situation where a municipality provides a plot of land, compelling a developer to build an infrastructure, and gets part of the flats in exchange for land. This situation was interpreted by lawmakers as a failure by municipalities to perform their functions in terms of providing gas, water, and heat supplies, while getting dividends for local budgets. At the same time, the authors of the law have a standard perception of a municipality as a local community that is interested in a joint and concerted resolution of local issues, which the lawmakers insist also include the development of utility infrastructures. Their proposals look very simple: since the developer shifts his infrastructure expenditures to the population by selling flats, the municipality should pay for the preparation of plots of land by referring these costs to the population through increased tariffs. The reverse side of this perception resulted in the introduction of City Planning Code provisions on public discussions to allow the people to decide whether their money should be used for the development of infrastructure or new development projects should be undertaken, etc.

In terms of providing lower-income citizens with housing, federal authorities were charged with the task of determining grounds upon which

a citizen can be regarded a lower-income one, regions were empowered to devise a mechanism for determining whether a citizen has a low income, and local authorities were tasked with providing housing to lower-income citizens from municipal housing stocks on the basis of their own housing norms. This is the second place in housing laws where their authors see a role for municipalities in carrying out their reforms. Municipalities are viewed as a place where the problems of the «weak» categories of people will be solved. One of the arguments is that «municipalities know the situation and people better...».

In general, the authors of the law view municipalities as a place to which problems can be handed over and which have enough money to solve them. Basically, municipalities have dampen mistakes and drawbacks of the transitional period (from Soviet system to the Russian Federation), and now lawmakers call for a new order through these changes.

In both cases when municipalities are burdened with housing functions, it should be said that the development of laws was not connected with the assessment of funds needed for the performance of these functions. For example, it is not known whether a provision was made for this in the Russian Finance Ministry's calculations regarding revenue and spending obligations of different levels of government, and therefore in the distribution of powers. In general, the federal level seeks to distribute powers among different levels of government, but does not discuss the financial aspect of these powers.

Municipalities did not take part in the development of this package of laws for different reasons, including because of their passivity (for example, they did not respond to a request from the Russian Congress of Municipalities to send in their comments on the draft laws). As a result, the interests of municipalities were «swept under the carpet» and they were confronted with adopted laws that they have to implement. In this process, like in making decisions on the tax powers of municipalities, the federal level does not view municipalities as entities that influence decision making or that have to be reckoned with.

As of now, municipalities are responsible for all multiple-dwelling houses (and single-dwelling houses only if they belong to municipalities). In accordance with the Russian Housing Code, control of dwelling houses, including common places, is to be transferred to housing owners for management from March 1, 2006. Only municipal housing will remain in municipal ownership and on the municipalities' books. To complete this work, it is necessary to take an inventory of all housing in the territory of a municipality and facilitate the creation of housing owners' partnerships (HOP) in every house or a group of houses. In addition, it is necessary to conduct land surveying for each house, and issue technical passports for houses and land. The creation of HOPs and a transition to the management of multiple-dwelling houses by the population will require intensive information support and a public awareness campaign because housing owners have a right to manage their houses themselves. If the owners of a dwelling house do not make a decision before March 1, 2006 on how their house will be managed, municipal authorities have to select a management company for each house on a competitive basis.

Municipalities are also responsible for providing lower-income citizens with housing. The Russian Housing Code requires municipalities to determine the current level of municipal housing availability, introduce the terms on which citizens are put on the housing waiting list, and set housing provision norms. This is a new political task for municipalities, which was previously addressed by federal and regional authorities.

Setting norms is a political decision on the part of municipalities. This means that the federal level transfers the power of solving problems facing socially disadvantaged sections of the population to municipalities.

This creates some problems for municipalities as they have to determine the grounds for setting norms that will allow them to decide who should be given housing and how much.

In determining the norms, municipalities use the current level of housing availability. The working group, jointly with Moscow's Institute of Urban Economics, which had also contributed to the development of the Russian Housing Code, suggested determining the achieved level as a ratio of the size of municipal residential premises to the number of people living on these premises under social lease agreements. This level should be higher than the norm or match it. The housing provision norm should be bigger than the norm for deeming a person to be in need of housing.

In making decisions on norms, it will be necessary to take into account municipalities' possibilities to provide for housing and related political risks:

- if the norm is set too high, the housing waiting list will be too long, and since municipalities depend heavily on subsidies and will not have financial possibilities to provide housing to those on the waiting list, this list will be mainly a declaratory document;
- municipalities have differing possibilities in terms of housing provision and their decisions can be influenced by different political goals in the region, there will be no uniform method of selecting those who need to improve their living conditions. An inter-budgetary decision could be adopted to introduce average norms for calculating financial aid.

Providing housing to citizens who were put on the waiting list before the Russian Housing Code became effective is a separate issue. The categories of citizens entitled to new housing before the Russian Housing Code entered into force were determined at the federal level (for example, war veterans, Chernobyl victims, judges, prosecutors, etc.), and, in line with the redistribution of powers, a municipality should not assume financial obligations for a political decision it did not make.

The current situation in the provision of housing to lower-income citizens is that no necessary regulatory acts have been adopted at the regional level for the implementation of the Russian Housing Code.

This makes it impossible for municipalities to adopt regulatory acts or provide housing and therefore violates constitutional rights of citizens.

In accordance with Law No. 131-FZ, municipalities are also responsible for the following issues in the housing and communal sector: organizing electricity, heat, gas, water, fuel supplies to the population, wastewater disposal; collection, transportation and recycling of household and industrial waste; street lighting and installation of street name and house number plates; beautification and planting of greenery.

There is no understanding at the municipal level of how to «organize» the system of housing and communal services in accordance with the law. The absence of private companies prepared to work with HOPs is another factor.

The system of tariffs is changing. Under this system, tariffs will be set only for municipal housing.

Of special concern is the payment of subventions for subsidies to lower-income citizens to compensate for housing and communal costs. Given the existing subsidy mechanism, subventions are not used in full.

Based on the abovementioned, the following aspects of work with the Housing Code and objectives can be identified:

- correct the implementation of the Housing Code in terms of financial coverage of these functions: it is necessary to develop a concerted position within the region on how to solve the problem of housing and account for relevant funds in inter-budgetary settlements (subsidies or target funds);
- create more possibilities for promoting the interests of municipalities at the regional and federal levels to avoid situations where municipalities are burdened with additional functions without matching funding;
- adopt a political decision in municipalities on the provision of the local population with sufficient housing of certain quality;

- secure regional financial, organizational and information support for housing reform;
- it would be advisable to issue, at the regional level, methodological recommendations for municipalities regarding new functions;
- obligations for the provision of housing to citizens who were put on the waiting list before the new Housing Code became effective should be transferred to the state level;
- it is necessary to accelerate the adoption of regulatory acts at the regional level;
- adopt a decision on average norms required for lower-income citizens to be put on the housing waiting list and provided with housing in the Kaliningrad Oblast in order to calculate the volume of financial aid to municipalities;
- in accordance with Article 159 of the Housing Code, regional authorities should approve a methodology of calculating subventions for subsidies. In calculating subventions it is necessary to provide for municipalities' organizational expenditures incurred by the payment of subsidies.

5. Local issues in the field of city planning

In accordance with Law No. 131-FZ, municipalities have been vested with the following functions in the field of city planning: endorsing general development plans, rules of land use and development, endorsing land planning documents prepared on the basis of general development plans, endorsing local city planning norms, introducing an information system for city planning, reserving and expropriating, including through purchase, plots of land for municipal needs, overseeing the use of land.

These local issues are regulated by the new City Planning Code. By having adopted the City Planning Code, legislators basically re-

introduced a city-planning function. The City Planning Code requires obligatory preparation of documents for territorial planning and zoning.

An analytical note on the introduction of the City Planning Code, its organizational and financial support is cited in Annexes 1, 2, and 3.

It has been impossible to allot plots of land for housing construction from October 1, 2005 under the Code due to the absence of land use and development rules. Territorial planning schemes and general development plans have to be prepared before January 1, 2006. Otherwise, it will be impossible to pass city planning decisions (including the allocation of land for construction) by state and local authorities (Article 9, part 3, of the City Planning Code, Article 3 of the Federal Law «On the Enactment of the City Planning Code»). In accordance with Article 51, part 3, of the City Planning Code, no permits may be issued from January 1, 2010 for construction if there are no land use and development rules. These three deadlines contradict each other.

It would be advisable for municipalities to set up a special agency that will oversee territorial planning. But such agency cannot be set up without political and financial support.

In most municipalities, there are either no city planning documents or they have to be corrected. This will require serious one-off expenditures in 2005 in the following areas:

1. Financing the development of territorial planning schemes for municipal districts.
2. Financing the preparation of general development plans for urban district, rural and urban settlements.
3. Financing the elaboration of land use and development rules.

Therefore it is necessary to correct the sums of inter-budgetary relations in 2005 or adopt a special targeted program.

The contradiction in the deadlines for the enactment of certain provisions of the City Planning Code can be resolved either at the federal level or at the regional level by introducing relevant provisions to the regional City Planning Code.

In terms of the information aspect of city planning, the transfer of functions regarding information support for city planning to urban and municipal districts is connected with the need to finance the creation of municipal systems of information support for city planning, a system of information exchanges between municipalities and the regional level, and methodological support for the process, as well as upgrading the skills of personnel in this field.

6. Local security issues

In accordance with Law No. 131-FZ, municipalities are responsible for the following local issues: participating in emergency response operations; creating, maintaining and organizing the work of emergencies and rescue services and (or) emergencies and rescue teams; organizing and carrying out civil defense events, protecting the population and territory from natural and industrial emergencies, including maintaining public warning systems and civil defense facilities in a state of permanent readiness for use; creating and maintaining, for civil defense purposes, logistical, food, medical and other stocks; organizing and carrying out mobilization preparation of municipal enterprises and institutions; ensuring the security of people on water, protecting their life and health; organizing public order protection by municipal police; ensuring primary fire safety measures.

This group of issues has one peculiarity: municipalities perform certain functions in the system created by political decisions adopted at the federal and regional levels and are often not viewed as their own.

The wording of the issue of «participation in emergency response operations» in Law No. 131-FZ makes it impossible to determine how specifically the system of municipal participation in emergency response operations should be organized.

Law No. 68-FZ gives a broader interpretation of municipalities' powers in case of emergency. For example, it says that municipalities finance the protection of the population and territories from emergencies; organize and carry out rescue and emergencies and other urgent operations; seek the assistance of regional executive authorities if there are not enough capacities and funds. This list of functions suggests that in December 2004, amidst increased attention to security issues, Law No. 68-FZ was amended with regard to municipal emergencies issues that are not separate functions but expand Paragraph 8 «Participation in the Prevention of Emergencies and Elimination of Their Consequences», namely: «Protecting the population and territory from natural and industrial emergencies and creating, maintaining and organizing the work of rescue and emergencies services and (or) emergencies and rescue teams.»

In order to plan municipalities' emergencies response work in accordance with the above laws and determine the volume of financing, it is necessary to define the tasks of municipalities and the structure of management, decide which services or units should be created in each municipality, and determine the type and volume of logistical support to these services. For these issues to be solved at the regional level, it would be logical to define the area of responsibility for municipalities (in particular, specify which emergencies fall within the jurisdiction of municipalities, interpret the term «organizing and carrying out events», and decide which of the following – «creating, maintaining and organizing the work of rescue and emergencies services» or «organizing and carrying out rescue, emergencies, and other urgent operations» – is a municipal task). This will allow financiers to estimate the amount of funds needed for this purpose and take it into account while determining the volume of financial aid.

The local issue of «organizing public order protection by municipal police».

It is necessary to work out a common position with the regional level on the protection of public order, pending a law on municipal police.

The local issue of «ensuring primary fire safety measures».

Primary fire safety measures mean the implementation of the adopted norms and rules regarding the prevention of fires, protection of people and property from fires, as part of a set of fire fighting measures.

It is necessary to determine the responsibility of municipalities in the field of fire fighting as part of a set of regional measures.

Despite uncertain objectives, municipalities have to meet fire safety expenditures. The main of them is incurred by the treatment of school buildings with special anti-ignition solutions (currently about 300 million rubles are allocated for this work in municipalities) and installation of fire alarms.

A decision must be adopted to include these expenditures in inter-budgetary settlements or in the Kaliningrad Oblast's investment program.

The local issue of «organizing and carrying out civil defense events, protecting the population and territory from natural and industrial emergencies, including maintaining public warning systems and civil defense facilities in a state of permanent readiness for use; creating and maintaining, for civil defense purposes, logistical, food, medical and other stocks.»

No policy addressing this issue has been adopted at the federal level, which makes it impossible to describe municipal tasks.

The local issue of «organizing and carrying out mobilization preparation of municipal enterprises and institutions.»

The wording of Law No. 131-FZ does not make it possible to understand which measures municipalities have to carry out and at what cost. The federal law «On Mobilization Preparation» says that this issue is referred to the spending powers of the federal level. Therefore

municipalities carry out these measures under the guidance of federal authorities and at their expense, and have no right to detract their own funds for this purpose.

The local issue of «ensuring the security of people on water, protecting their life and health.»

In order to plan actions and financing in this field, it is necessary to decide, together with regional authorities, whether municipalities should ensure the safety of people in water reservoirs that are federal property. In addition, it is not clear what specifically these measures are like.

It could be recommended that segregated water reservoirs deemed municipal be referred to the responsibility of municipalities.

If the population of a municipality uses regional or federal water reservoirs, responsibility may mean organizing recreational places.

7. Local issues in the field of environmental protection

Local issues of «organizing environmental protection measures» and «organizing and exercising environmental control at industrial and social facilities, except for facilities where environmental control is exercised by federal authorities» have not been considered so far. However, judging from the suggestions made by municipalities, we can say that municipalities' transferable functions in the field of environmental control are not backed up by real mechanisms for influencing the situation.

8. Local issues related to road construction, transport, communications, trade, and everyday services

Local issues of «maintaining and building general motor roads, bridges and other transport facilities, except general motor roads, bridges and other transport facilities of federal and regional impor-

tance» have not been considered and require, among other things, concerted positions on the volume of financing for this function per year.

Local issues of «creating conditions for the provision of transportation services to the population and organizing transportation services for the population,» «creating conditions for providing citizens with communication, public catering, trade, and everyday services» are unofficially interpreted as a system of regulatory documents and measures aimed at developing these services.

9. Creating, developing and protecting therapeutic territories and local resorts

Municipalities' current work in this field boils down mainly to supporting summer camps for children. The system includes former trade union camps, which now belong either to municipalities or agencies. Camps are financed from the social insurance fund, federal and regional budgets, partly from the municipal budget, and payments made by parents. Decision making involves the regional administration's social welfare department, which gathers information about people wishing to get tickets to the camps and the capacities of the camps, as well as ensures an even distribution of orders across the area.

There are problems with the financing of camps: there is no money to prepare them for the summer period. Property tax benefits will be abolished from January 1, 2006 for enterprises, and communal service benefits may also be scrapped, which will entail additional expenditures. No decision has so far been made on the financing of children's summer recreation. As a result, only those camps may survive that are already competitive and offer paid services.

This local issue is most important for municipalities in the coastal area where beautification expenditures are quite big.

It is also necessary to determine the powers of municipalities in terms of building relations with the federal level.

Existing practice of transferring and performing certain state functions transferred from the regional level to the municipal level

(exemplified by social welfare, general education and commissions on minors)

1. The purpose of function transfer. The situation in 2005.

In connection with the reform of power distribution among different levels of government, some of the functions, which were performed by municipalities on their own and at their own risk until 2005, were transferred to the regional level.

Until 2005, municipalities were empowered to determine the volume of financing, how and where to use funds and how to exercise their powers. This formed a certain practice of function performance that was consistent with the municipalities' understanding of their objectives in this field. This practice differed from municipality to municipality but on the whole developed in one direction. The performance of this function was closely linked to the territory, and municipalities could promptly adjust their work, responding to changes in the situation, thus aligning the practice with general objectives.

The transfer of functions to the regional level meant that starting from 2005 (and in the case of education, from 2004) regional authorities were to determine the volume of financing, how and where to use funds and how to exercise their powers. In many cases these functions were handed back to municipalities in the form of certain state functions, backed up by subventions and with a legislatively prescribed manner of performance.

This created a situation in 2005 where municipalities continued to handle certain issues which they consider to be traditionally theirs, but could no longer change financing and the method of dealing with these issues; in many cases they face discrepancies between the established municipal practice of performing this function and the practice

required by regional legislation that regulates the transfer of certain state functions.

It is different for functions that were transferred to the local level for the first time. In this case, municipalities often lack an understanding of the tasks and of the existing practice of resolving them. As a result, they face problems in rational adoption and subsequent performance of such functions, including cost estimation.

2. Establishment by regional authorities of the procedure for the performance of a transferred function

Responding to the reforms' demand for function redistribution, regional authorities faced the need to introduce their own procedure for performing functions that were transferred to them and that they handed over back to municipalities. There was a deadline for the introduction of such a procedure, which meant that solutions could not be looked for and discussed for ever, and that a decision would be adopted at some point irrespective of the degree of its readiness.

As a rule, sectoral departments in the regional administration prepared their suggestions for the performance of certain state functions. The two key sources of such suggestions were federal legislation and the existing practice (including municipal) of handling issues related to certain functions.

Both of these sources have their good and bad sides. A federal law can easily be transformed into a regional one, thus providing for adopting an urgent decision. But at the same time, it is too general and does not give a clear idea of how performance should be organized, especially without taking into account the specific features of territories and existing practices. Perhaps, the best solution would be formalizing the existing practice of performing certain functions. But municipal practices are, first, too diversified, and therefore have to be unified; and second, they are often not described by municipalities and therefore cannot be used directly in communication with the regional level.

The situation was further complicated by poorly organized, and sometimes nonexistent, communication and coordination between municipalities and regional authorities on transferred state functions. Where problems and misunderstandings were resolved, decisions were often adopted by regional authorities autonomously with the existing level of understanding and data provided by municipalities, even though sometimes requests for these data were not clearly formulated by one side or were not clearly understood by the other side.

As a result, a certain decision was made for each function and its performance procedure.

3. Establishment by regional authorities of financial support for a transferred function

The financing of certain state functions transferred from the regional to the local level is carried out in the form of subventions.

A decision on the financing of certain state functions was adopted within the following limits:

- the financing of a transferred function in the amount sufficient for exercising the proposed performance procedure. This is consistent with federal legislation and the interests of sectoral departments in the regional administration since they are responsible for their respective sectors and are interested in their proper financing;
- the possibilities of the oblast's consolidated budget and the need to align the interest of different budget-financed sectors with limited financial resources. In 2005 this was complicated by the fact that the regional budget had assumed about 1,200 million rubles in new obligations.

Since there is no coordination between sectoral departments at the regional level, estimates made by sectoral departments were corrected by the financial department, and financial logic (allocating minimal

funds) was prevailing. Although the situation differed from one department to another, some of them have sufficient lobbying power to defend and promote the interests of their respective sectors during the passage of the budget. The priority of financial logic was also borne out by the fact that almost in all cases selecting a method of calculating subventions was referred to the regional financial department (which runs counter to federal legislation that requires that such methods be introduced by regional laws). This empowers it to correct expenditures for a certain subvention promptly and on its own.

In order to determine sources for the financing of subventions, in some cases necessary sums were taken from subsidies provided for adjustments in local budgets. This solves the problems of the regional budget but creates more problems for municipal budgets.

A separate problem related to the financing of the performance of certain state functions transferred from the regional to the local level was that regional laws granting such powers to municipalities, including financing decisions, were adopted during a fiscal year. This basically changes the financial terms of municipalities' work during the year and makes them amend local budgets and revise budget parameters, which does not add to transparency and certainty of their functions.

4. Legislative consolidation of the transfer of certain state functions from the regional to local level

Vesting local authorities with certain state functions is regulated by a regional law, which determines the volume of financing, areas and terms of use of funds, and the procedure for performing the functions identified earlier by the regional administration's departments.

As a rule, municipalities are confronted with an adopted law and the decision to vest them with certain functions. Draft laws are not disseminated and are not agreed with municipalities or are agreed formally.

A lack of attention to certain functions on the part of municipalities is often caused by the fact that municipal services responsible for these issues do not communicate them to municipal politicians (heads or councils) but prefer to solve questions together with regional departments, acting traditionally along the lines of departmental centralization even though it is they that have to raise concern and draw the attention of municipalities to certain issues, including negative effects of certain draft laws.

5. Performance by municipalities of certain state functions

As municipalities are vested with certain state functions, there is no clear procedure for them to assume or terminate these functions, including documents confirming that municipalities have assumed obligations to perform transferred functions.

A law vesting with functions is the only document to which a municipality refers. Municipalities immediately assume obligations for the performance of the law, without contacting the authors and legislators to specify what exactly their obligations are, rather than interpret the law on their own. This creates misunderstandings and gives supervisory agencies a pretext for viewing municipalities' actions as contradicting legislation.

This practice is generated among other things by imperfect legislation that does not give clear answers but contain many things that are «implied» by the author but are not known to those who implement laws. The practice of transferring state functions is new, and regional legislators are in fact establishing it from scratch, which gives them a fair amount of freedom in determining necessary and sufficient provisions of a law, but with mistakes and a search for possible forms of work. At the same time, the passive role of those who implement laws, including municipalities, creates a situation where there are no stimuli for legislators to perfect the lawmaking process and make regulatory acts more and more specific and transparent.

6. Correction of negative effects of the performance of certain state functions by municipalities

Faced with negative effects while performing transferred state functions, municipalities begin to correct them on their own and at the expense of the municipal budget.

These effects are most often reflected in the need to change (as a rule, reduce) the established practice and in ineffective use of funds since it is impossible to provide for particulars and details in a general law.

One of the side effects of such performance of functions as prescribed by regional authorities is that sometimes subventions are not used in full. This happens because there is a law but it is not quite clear how to work in some cases and part of the measures are not carried out. At the same time, sometimes the procedure established by regional authorities fails to solve the issues it was supposed to address in relation to the volume and terms of financing of certain events. In seeking to fulfill the objectives of a certain function, municipalities begin to build their own parallel mechanism for solving issues referred to this state function and allocate funds from the local budget, while not utilizing poorly planned subventions.

Indeed, this creates two parallel systems for achieving the same goals.

7. Possible positions of municipalities on solving issues related to the transfer of certain state functions to them

When confronted with problems related to the performance of certain transferred state functions, the first reaction of municipalities is not to perform these functions at all and to hand them over to the regional level, along with responsibility for their performance and consequences for the territory and the population.

There can be another position, though: since a municipality cares about its territory and population and feels responsible one way or another,

even if a function is not in its direct jurisdiction, it prefers to keep its influence on the mechanism of performing and financing these functions in order to retain influence on the socio-economic situation in the region. This position means assuming an obligation to perform certain state functions in the form of subventions, while influencing decisions related to these functions, adopted at the regional level.

Each of these positions has its positive and negative aspects. A complete transfer of functions to the regional level will allow municipalities to get rid of current problems connected with the performance of functions financed from subventions. At the same time, municipalities will lose influence on these issues and the ability to control, and with it their importance, including in political terms. By retaining certain state functions in the form of subventions, municipalities will retain their influence on the situation but will have to further build and develop their interaction with the regional level and enhance their own understanding and handling of functions. In addition, it seems preferable for a budget-financed sector to receive subventions, which make it one of the main priorities during the preparation of the regional budget (because legislation requires full financial support to transferred functions), but if this sector is fully transferred to the regional level, it will have no advantages over other sectors.

8. Ensuring municipalities' influence on decisions related to the transfer of certain state functions

(general suggestions for the program of action)

If a municipality makes a decision to assume certain state functions and start influencing related decisions at the regional level, the next provisions will enable it to influence the volume of financing, the terms of using funds, and the procedure for performing relevant functions.

1. Interaction with sectoral departments in the regional administration.

Each of the state functions transferred to municipalities is «supervised» by a relevant sectoral department, which, to be more precise,

whose representative is the author of suggestions regarding the procedure for performing a function and initial calculation of necessary funding.

It is preferable to harmonize the understanding of function performance while preparing suggestions before they go into a draft law. This will make it possible to take into account different opinions, visualize the consequences of a certain scenario and correct the positions of participants during the discussion, because debates on a draft law submitted to the Duma often turns into a struggle for positions which are hard to reconcile.

In order to do this, it is necessary to find key initiators/leaders for the development of the budget sector in the relevant sectoral department, establish and maintain contact with them on the future of the sector. This should result in a concerted position on how to sustain and finance a transferred function. This contact can be fostered with the help of the Association of Municipalities (or its section) because it is harder for a municipality to deal with the regional level on its own than when there is a common position of all or the majority of municipalities.

2. Correcting the established procedure for performing a transferred function.

As the function performance practice evolves, there may arise a need for correcting the established performance procedure.

Such correction can be made either by gradually specifying legislation or by introducing a practice for empowering municipalities to use part of a subvention as they see fit to promptly address issues within the framework of this function.

In the former case, corrections will always be late and come as a response to negative consequences of function performance. At the same time, this will help to make legislation more specific and fit for

direct application, and provide for the introduction of transparent rules that are clear to all. Changes to legislation can be initiated directly by municipalities as subjects of legislative initiative or through sectoral departments of the regional administration, if interaction with them has been fostered and concerted positions have been worked out.

The second way of making corrections is convenient because it allows for prompt response to arising problems but can hardly be a long-term instrument, for in this case the regional level has to transfer part of its decision making powers to a municipality.

And a mixed solution is possible, when part of a subvention is reserved for operational management by municipalities but cases that were resolved with these funds will subsequently be described and included in a law introducing a mechanism for performing this function.

3. Getting positions through the regional administration's financial department.

The common position of municipalities and sectoral departments on the performance of certain state functions should pass through the regional administration's financial department so that a financial decision is adequate to the proposed mechanism for the performance of this function. This means that suggestions and calculations made by municipalities/sectoral departments for the size of subventions should be substantiated but should also take into account the possibilities of the consolidated budget.

Passing legislation that formalizes a mechanism for calculating subventions is a separate issue. This is necessary for all parties to the process to understand the principles of calculations and the terms of financing.

In addition, it is necessary to introduce a practice for making decisions on subventions before the beginning of a new fiscal year.

4. Establishing a mechanism for assuming and terminating of certain state functions by municipalities.

It is necessary to introduce mechanisms for formal assumption and termination of certain state functions by municipalities. This will actualize municipalities' responsibilities for the performance of these functions and provide stimuli for municipalities to clarify their rights and obligations while assuming such functions. This should gradually lead to a situation where the role of each party to the transfer of certain state functions will be clearly defined and described.

5. Municipalities' participation in the legislative process.

In addition to sectoral departments, there can be other initiators of changes to work with certain functions. In terms of influence on decisions concerning municipalities, it would be desirable to keep track of the legislative process in order to notice new draft laws in time and join in their discussion and adoption.

This can be done by fostering interaction with the regional Duma to get the texts of laws disseminated and introduce so-called «zero reading» for draft laws.

In addition, communication and exchange of views on legislative initiatives and problems should be promoted within municipalities.

6. Development of municipal services responsible for particular functions.

Municipal services responsible for the budget sector, within which a certain transferable state function exist, can play a role of intermediaries between municipalities and the regional level, on the one hand (because they are connected with sectoral departments, know of and participate in the preparation of decisions at the regional level), or of a guide for municipal influence in their respective fields, on the other hand.

In this case, personnel policy with regard to the heads of these services will be crucial because these should be people who understand their objective not only and not so much as ensuring compliance with regional prescriptions but as ensuring proper, from the municipalities' point of view, performance of these functions. They can be both a source of problems for municipalities and a lobbying force that will get the approval and consent of the regional level.

Supplement 1

**The situation of the enactment of the new Town Planning Code
of the Russian Federation**

Town planning, or urban arrangement, is the philosophy of life of a community, the projection of urban development processes in time. It consists of determining the parameters for development and of writing them down in town planning documents. Town planning activities appeared in the USSR in the 1930s owing to the need for centralized designing of cities on a mass scale. The units of town planning are a mission and a strategic development plan. Town planning documents specify the rules for work with projects.

While the old Town Planning Code did not contain any strategic goal directives, it was a description of the system of work within a chosen strategy, in the role of which the state ideology acted. At the start of the 1990s grounds for strategic planning became abolished along with the collapse of the USSR itself. Town planning participants began independently to shape their strategies which ceased to be dovetailed with those still lingering in the master plans. Consequently, the link between master plan objectives and those actually in place have been severed. Now these strategies must be a part of the elaboration of drafts of territorial planning, urban construction zoning and layouting documents. It has to be noted that elaboration of these documents, including adjustments of the existing settlement master plans, requires considerable financial expenditure.

In this situation two action options are possible: to make the work of correcting master plans transparent and easy so that the planning tool meets its goals in the part of reflecting the actual housing development in progress, or try and embark on new (non-Soviet) strategic planning schemes. In the second case there should be in the federal documents regulating city building activities a uniform understanding of urban development and strategic assumptions (terrain setting and exclusion of nonproductive space organization, but this is lacking in the new Town Planning Code. Actually the new Code just proposes a system of town planning activities and prescribes, for municipalities among others, the necessity to be concerned with them. And the population takes a direct part in town planning activities through participation in public hearings.

The code provides for three main processes of town planning activity divided according to the levels of management:

the 1st – territorial planning. It embraces territorial planning schemes with the designation of functional zones, settlement master plans and master plans of city districts;

the 2nd – urban construction zoning. It consists of zoning of the territories of municipalities for the purpose of determining territorial zones, with the town planning regulations setting types and functions of the zones. The rules are devised here for land use and housing development with reference to all the territories of settlements and city districts (establish the procedure for zoning of territories and town planning regulations – types of permitted use of lands);

3rd – area layout (city districts and settlements). It consists of area layout designs, boundary surveying plans, and urban development plans for land plots.

It has to be noted that in accordance with the Town Planning Code «territorial planning documents» are obligatory for government bodies and local authorities in their decision making and execution process.

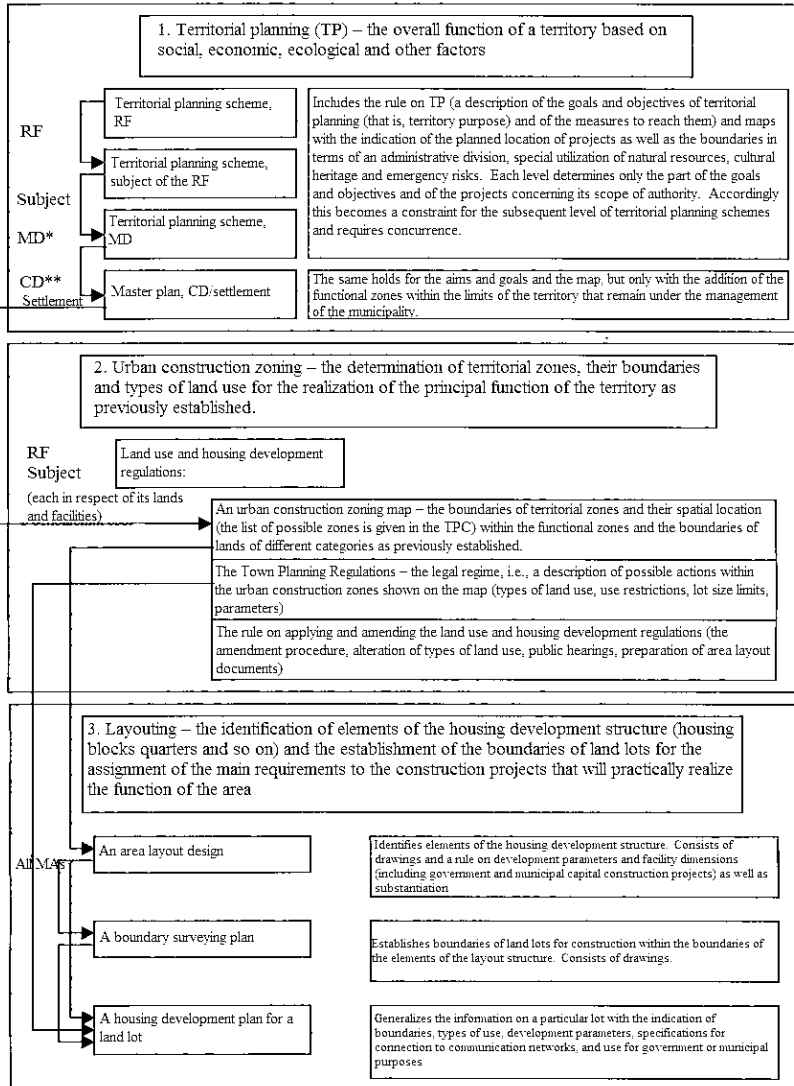
No decisions on land reserving, on confiscation, inter alia via buyouts, of sites for government or municipal purposes, and on the transfer of land lots from one category to another in the absence of territorial planning documents may be made by government and local bodies, with the exception of cases contemplated by federal laws (Art. 9).

The system of territorial planning in the RF under the Town Planning Code (hereafter, TPC) can be presented in the form of a hierarchical system of description of a territory (to be more precise, its purpose) in town planning documents. Each subsequent level of documentation is connected with greater detailing, as regards the scope of examining the territory and in terms of the description of its functional purpose. And the levels themselves may be presented in the form of the three basic processes of town planning activity: territorial planning, urban construction zoning and area layouting.

It should be noted that the TPC does not indicate precisely the link between documentation levels and this link is most often described by reference to the need to have this or that document in the elaboration of the following.

Actually town planning activity in some municipalities boils down to providing land lots. The legislator, by introducing the Town Planning Code, sought to reintroduce a town planning function in the part of the planning of territory. The Code prescribes elaboration of territorial planning, urban construction zoning and layouting documents. One cannot expect that the architecture bodies which at this moment exist in the municipalities, with powers in the field of town planning, will fulfill this function, since architecture is only a part of town planning activities. Consequently the municipalities need a special body with responsibility for territorial planning. Without political support, that body cannot be set up. It is difficult for executive bodies to report to the politicians about conceptual changes being made in town planning and not all the municipal politicians can grasp the significance of this. In addition, the new town planning legislation fails to clearly settle the question of relations between government bodies and bodies of local self-government.

Territorial planning structure diagram, RF



* MD – municipal district

** CT – city district

*** MA – municipal association

**Provisions of the Russian Federation Town Planning Code concerning actions of government bodies
and local authorities in the area of town planning activities**

Level	Normative document	Main content	Body of power	Functions of body of power	Concurrence procedure	Time of performance
Chapter 3. Territorial Planning*						
RF	Territorial planning scheme	Maps (diagrams) of planned location of capital construction projects of federal importance; Territorial planning provisions; Materials substantiating draft TP schemes in text form and as maps (diagrams)	Government of the RF	Approves	With local bodies (LB) In some cases with top executive body of subject of the Russian Federation	Since passage of TPC
Subject of the RF	Territorial planning scheme	Planned development and location maps (diagrams) of regionally important natural areas of preferential protection, agricultural-purpose	Top executive body, subject of the RF	Approves	In some cases: with authorized federal executive body with top	Since passage of TPC

* The territorial planning schemes and the master plans must be drawn up before 1 January 2006. Decision making on town planning activity matters (particularly the provision of construction sites) by government bodies and local authorities (Art. 9, part 3, of the TPC and Art. 3 of the Federal TPC Enactment Law) will otherwise prove impossible.

		land boundary changes and changes of boundaries of natural assets within agricultural-purpose lands. Functions as well as maps (diagrams) of planned capital construction projects of regional importance; territorial planning provisions; materials substantiating draft TP schemes			executive bodies of subjects of the RF having a common boundary with the subject of the RF; with interested local bodies	
Municipal district	Territorial planning scheme	Maps (diagrams) of planned location of capital construction projects of local importance;	Representative body of municipal Representative body of municipal district	Approves	With RF the procedure is set by RF Government, in some cases:	Since passage of TPC
		territorial planning provisions and relevant maps (diagrams); materials substantiating draft scheme			with top executive body of subject of the RF; with interested LBs of municipalities	

Level	Normative document	Main content	Body of power	Functions of body of power	Concurrence procedure	Time of performance
Settlement	Master plan	Maps (diagrams) of planned location of capital construction projects of local importance; Territorial planning provisions and relevant maps (diagrams); materials substantiating draft master plans in text form	Head of administration Representative body of MD	Takes a decision on preparation Approves	With RF the procedure is set by RF Government, in some cases: with top executive body of subject of the RF; with interested LBs; public hearings	Since passage of TPC
City district	Master plan	Maps (diagrams) of planned location of capital construction projects of local importance;	Head of administration	Takes a decision on preparation Approves	With RF the procedure is set by RF Government, in some cases:	
		Territorial planning provisions and relevant maps (diagrams); Materials substantiating draft master plans in text form	Representative body of MD		with top executive body of subject of the RF; with interested LBs; public hearings	

Chapter 4. Urban construction zoning**

Settlement, city district	Land use and housing development rules including:	Rule on applying and amending the aforesaid rules; urban construction zoning map; town planning regulations	Head of administration Representative body of MD	Takes a decision on preparation Approves	Submitted for public hearings	Since passage of TPC
	Rule on applying and amending the rules	Includes provisions on: 1) regulation of land use and housing development by local bodies; 2) alteration of types of permitted use of land lots and capital construction projects on the part of individuals and entities; 3) preparation of territorial planning documents by local bodies;				

** Issuance of building permits in the absence of the Land Use and Housing Development Regulations is allowable from 1 January 2010 (TPC Enactment Law, part 4 of Art. 2). But in accordance with Art. 18 of the Enactment Law the amendments to the Land Code introduced by the very same law (Art. 16) enter into force from 1 October 2005. In accordance with these changes the allocation of land lots for housing construction is done without prior concurrence. And in accordance with Art. 30, para 11, of the Land Code the allocation of sites without prior approval of the place of location of a facility is possible only with town planning documents on housing development and land use regulations. Hence the conclusion: the absence of the Land Use and Housing Development Regulations makes the allocation of land lots for housing construction from 1 October 2005 impossible.

Level	Normative document	Main content	Body of power	Functions of body of power	Concurrence procedure	Time of performance
	Urban construction zoning map; Town planning regulations (determine the legal regime for land lots, just as for everything that lies over and under the surface of the	4) public hearings on land use and housing development issues; 5) amending the land use and housing development regulations; 6) regulation of other matters concerning land use and housing development				
		Establish the boundaries of territorial zones				

	land lots and is used in the course of their development	1) types of permitted land use and capital construction projects; 2) marginal (minimal and/or maximal) sizes of land lots and the parameter limits for permitted construction and reconstruction of capital construction facilities;				
	and subsequent operation of capital construction projects)	3) restrictions on the use of land lots and capital construction facilities are set in accordance with the legislation of the Russian Federation				
Chapter 5. Layouting***						
All levels	Area layout design (to identify elements of the layout structure and set parameters for planned development of layout structure elements)	Major part subject to approval, and related substantiation	Authorized federal executive bodies	Ensure preparation of TP documents on the basis of federal documents of territorial planning, if such documents envisage location of capital construction projects of federal importance	Verification by authorized government bodies and local authorities	Since passage of TPC

*** Restrictions same as in the first note.

Supplement 2 (continued)

Level	Normative document	Main content	Body of power	Functions of body of power	Concurrence procedure	Time of performance
			<p>Executive bodies of a subject of the RF</p> <p>Local bodies of municipal district</p>	<p>Ensure preparation of TP documents on the basis of territorial planning documents of a subject of the RF if such documents envisage location of capital construction projects of regional importance</p> <p>Take a decision on preparing and ensure the preparation of TP documents on the basis of territorial planning documents</p>		<p>P. 6 Art. 45 since 1 January 2006</p>

			Settlement and municipal district authorities	of municipal district if such documents provide for location of capital construction projects of local importance or capital construction projects on inter-settlement areas as well as on the basis of land use and	Public hearings	
				housing development regulations for inter-settlement areas Ensure preparation of TP documents on the basis of settlement or city district master plan and land use and housing development regulations		

Level	Normative document	Main content	Body of power	Functions of body of power	Concurrence procedure	Time of performance
Chapter 6. Architectural and construction planning, and construction and reconstruction of capital construction facilities****						
Where lot situated	Issuance of a building permit	Document corroborating match of design documents with requirements of development plan of land lot and giving developer right to carry out construction or reconstruction of capital construction facilities or their major repairs	As a rule, local bodies In some cases federal bodies or those of subjects of the RF	Issue permits		Since 1 January 2010 (p 3, Art. 51)
	Commissioning permit	Documentary proof of completion of construction, reconstruction, major repair of a capital construction facility in accordance with the building permit, and match	Issuing authority of the building permit	Issue permits		

**** In accordance with Art. 51, part 3, of the TPC, from 1 January 2010 no building permits shall be permitted to be issued in the absence of the Land Use and Housing Development Regulations. The time allowed for issuing building permits in the absence of these comes into conflict with the TPC provision on the obligatory availability of territorial planning documents and with the provision on the required presence of land use and housing development regulations when allocating lots for housing construction without prior approval of the place of location of a facility (see notes 1 and 2).

		of the built, reconstructed or repaired capital construction facility with the land development plan and design documents				
Chapter 7. Information support of town planning activities *****						
Municipal district, city district	Information systems for town planning activities	Materials in text form and as maps (diagrams).	Local bodies	Collection, documenting, actualization, processing, systematization, accounting and keeping of data necessary for carrying out town planning activities		1 July 2006

***** The transfer of town planning activities information support authorities to the city district and municipal district level engenders, as a minimum, three problems:

- necessity of financing for the setting up of municipal information systems for information support of town planning activities;
- necessity of creating a system of information exchanges between municipalities and the Kaliningrad Region;
- necessity of methodological provision for the creation of town planning activities information support and of improving the qualifications of the personnel engaged in this sphere.

Proposals for financial assessment of the powers of the bodies of local self-government in the sphere of town planning

(in accordance with the provisions of the Town Planning Code of the Russian Federation)

The enactment of the Town Planning Code (TPC) alters the content of municipal powers in the sphere of town planning, which are now in fact reduced to architectural activity and control over it. The TPC induces municipalities to return the part of their powers that is linked to town planning activities proper (territorial planning).

Financial assessment of the town planning powers of municipalities has to be examined twice:

the first time in respect of the urgent measures due to the directives of the TPC;

the second time in respect of the reproduction of municipalities' town planning activity itself.

In order to assess urgent measures, each of the processes of town planning activity is examined from the viewpoint of necessary work and products, i.e., town planning documents. Accordingly subsequent financial expenditure must be made for enactment of the TPC at the local level:

1. Financing for the elaboration of territorial planning schemes of municipal districts.

An approximate estimate of the cost of the work on the elaboration of a territorial planning scheme of a municipal district – _____ million rubles.

Total schemes required – 3.

The total expenses: _____ million rubles.

2. Financing for the elaboration of master plans of city districts and rural and urban-type settlements.

An approximate estimate of the cost of the work on the elaboration of a master plan for one settlement – _____ million rubles.

Total schemes required – _____ .

The total expenses: _____ million rubles.

3. Financing for the elaboration of land use and housing development regulations.

An approximate estimate of the cost of the work on the elaboration of land use and housing development regulations for one municipality – _____ million rubles.

Total regulations required – _____ .

The total expenses: _____ million rubles.

Thus, the total sum of outlays to ensure only minimally required TPC enactment measures is equal to _____ million rubles.

These outlays may be envisaged:

a) in the calculations of a subsidy to adjust the 2006 budget provision level;

b) in the investment program, because investments may be not only capital construction projects.

A separate question is that this work has to be done before 1 January 2006. Accordingly, first, the search of financial resources is urgent,

and secondly, it is necessary to assess the labor costs involved and compare them with the available resources.

For the financial assessment of reproduction of town planning activity in municipalities each TPC process is presented in the form of current municipality work. Accordingly, costs of the current performance of the powers of the municipalities in the sphere of town planning come down to the following:

1. In the part of territorial planning – only in the part of a possible correction of the territorial planning schemes and master plans. The costs may be met using existing resources (local bodies responsible for town planning).

2. In the part of urban construction zoning – only in the part of a possible correction of the land use and housing development and area zoning regulations. The costs may be met using existing resources (local bodies responsible for town planning).

3. In the part of layouting – elaboration of layout designs, boundary surveying plans and housing development plans for land lots. So far it is impossible to assess the costs. One of the way outs: do financing at developers' expense.

4. Architectural and construction planning – the issuance of building and commissioning permits. Expenditure may be made using existing resources (local bodies responsible for urban development).

5. Information support of town planning activities – maintenance and updating of information systems. Assessment needed for the required:

human resources;

hardware;

software.

TOTAL: _____ million rubles.

Thus, in the part of the current performance of municipal powers in the sphere of town planning it is necessary in the calculations of inter-budgetary relations for 2006 in the part of the adjustment subsidy to take into account as a minimum the expenditure of the municipalities on information support of town planning activities, considering that the rest is accounted for in the administrative expenses.

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**WHAT IS «THE DEVELOPMENT OF A TERRITORY»?
(Regarding the creation of the Municipal Development Fund
in the Kaliningrad Oblast)**

1. Overview of the regional development perception in 1991-2005

The 1991–2000 period in Russia was marked by a budget crisis at all levels (federal, regional, municipal) due to a shortfall in revenue and a lack of funds to sustain the current level of expenditures, especially at the local level. This necessitated budget spending cuts, «secured expenditures», etc.

In parallel, attempts were undertaken to introduce the notion of «development budget» as a counterbalance to extremely limited current financing. «Development» was construed as practically all expenditures a region or a municipality could afford on a permanent basis. Since the period of underfinancing, even in the budget sector, lasted quite a long time, development was interpreted as expenditures that in essence were to secure current activities, such as roof and road repairs, etc.

Since a lack of financing affected material infrastructure the most, the perception of development naturally began to shrink to construction and reconstruction of buildings occupied by budget institutions and engineering networks.

The goals and objectives of budget institutions were not discussed in terms of public interests, and financing was provided either by the «it's better to finance than not to finance» principle or was a result of lobbying, including that of the interests of individuals who made decisions.

Development programs at that time were made as federal, regional or municipal targeted programs.

In the absence of perceived objectives and priorities of territorial¹ development, financiers, using financial and management instruments (in particular by restricting and controlling financial possibilities as well as by observing a high degree of secrecy in decision making), regulated the «useless» waste of resources, giving priority to leveling and formalized approaches to the distribution of funds.

In 2000–2005, the situation changed drastically. A federal budget surplus and redistribution of tax revenues² gradually created a situation where the federal budget and to some extent regional budgets could afford to start thinking not only about minimal necessary financing, but also about new perspectives and a new quality of expenditures. For example, this reflected in a revision of federal programs, the introduction of the PBB concept, and the adoption of national projects.

The Budget Code was amended, as part of the budget and inter-budgetary relations reform, to provide for the creation of a Municipal Development Fund in the region.

It must be noted that although there has been no public discussion on the purpose of the development of the budget sector, some examples of such development (new practices in budget sectors) exist within budget institutions, sometimes solely due to the enthusiasm of their active leaders and despite scarce budget funds, and sometimes due to sponsorship or financing from international/foreign funds. Since the existing system of budget financing and inter-budgetary relations used abstract relative calculations and did not reflect the substance of the budget sector's activities, such examples of new practice were not available to financiers, were not provided for in budgets, and did not have organizational or political support from authorities. Moreover, since the development of the new practice was supposed to lead to

¹ «Territory» in this case means both the Russian Federation on the whole and its regions and municipalities.

² The abolition of a considerable part of unfunded mandates proved highly instrumental for the improvement of the financial status of municipalities.

increased expenditures, municipal politicians, being in a situation of heavy dependence on subsidies, had to limit the development of budget sectors because the calculation of subsidies did not allow the very possibility of supporting development.

2. A review of the main provisions of legal acts regulating the formation and distribution of municipal development funds in some of Russian regions

While carrying out the reform of inter-budgetary relations, regions started to include provisions regarding municipal development funds in regional legislation starting from 2004. The Budget Code of Russia, Law No. 131-FZ, and the Finance Ministry's Order No. 243 of August 27, 2004 provided a regulatory framework for regional municipal development funds.

Regulatory acts regulating municipal development funds were adopted in particular in the Vladimir, Irkutsk, Ulyanovsk, Amur, and Rostov oblasts, the Republic of Komi, and the Chukot Autonomous Area. On the whole, those regulatory acts were based on the Russian Finance Ministry's recommendations.

A serious drawback of those regulatory acts was that all of them interpreted development as construction and reconstruction of engineering infrastructure and the preparation of design estimates. Municipal development funds are, to a large extent, converted regional investment programs targeting municipal facilities.

The laws of the abovementioned regions differed by the degree of transparency and customization of provisions (a separate law or within a law on inter-budgetary relations; decisions of the administration/its division or commission, including with the participation of municipalities); second, by the method used to determine the size of the fund (as a percentage of budget revenues or without limits to size); third, by the set of project selection criteria (including an assessment of the need for engineering infrastructure facilities); and fourth, by the rate of co-financing.

3. A review of the Kaliningrad Oblast Finance Ministry's regulations on the municipal development fund

According to the Kaliningrad Oblast Finance Ministry's regulations on the municipal development fund, it will finance municipal investment projects. Projects will be selected on a competitive basis by criteria reflecting the solvency of the municipal budget and the quality of municipal finance management, as well as by their ranking based on the integral indicator of socio-economic effect from a project. These criteria and the indicator are similar to those recommended in the Russian Finance Ministry's Order No. 243, which suggested forming them on the basis of a comprehensive assessment of solvency and the quality of financial management in regions and municipalities.

The Russian Finance Ministry's methodology of assessing solvency and the quality of financial management is based on indicators that bar most municipalities from participation in the municipal development fund (for example, criteria like the budget's dependence on financial aide, compliance with the recommended level of payments by citizens for housing and utility services, an active official website (or a section of a website) of a financial agency, the ratio of budget revenue to expenditures growth in the last three years). But the article does not specify what is meant by solvency and the quality of financial management criteria and the socio-economic effect indicator.

The author of the draft law suggests specifying the terms and procedure for project selection in a document on competitive selection of municipal investment projects, approved by the oblast's executive authorities.

The draft contains a limited list of events that can be financed out of the Municipal Development Fund. It's hard to say whether this list reflects all possible and necessary events. This is why it would be advisable to leave the list open-ended and apply no restrictions to it.

The proposed procedure for co-financing investment projects from the municipal development fund may create a situation where the sug-

gested volume of co-financing in monetary terms will be too big for municipalities with low budget revenues, and too small for municipalities with big budget revenues. It would be advisable not to link the share of co-financing rigidly to budget revenues, but to note that a decision on co-financing should take it into account.

Restrictions on the size of subsidies (5 million rubles), project implementation period (1 year), and overall size of the fund (50-70 million rubles), selected by the author, lead to a conclusion that while formally responding to the demand to create the fund, the author in fact applies the notion of the fund to the existing «hole patch-up» practice and support of municipalities' local expenditures from the regional budget. The proposed mechanism of creating the fund (as a percentage of the projected local budget revenues or of corporate property tax revenues) is surprising because, if the size of the fund should be represented as a percentage of a certain sum, it would be more logical to determine the size of the fund as a percentage of the consolidated regional budget or the regional budget.

On the whole, the proposed terms of fund operation can hardly be conducive to setting and fulfilling municipal development goals in the oblast.

4. A proposal regarding a new development concept for a territory and the municipal development fund as a financing instrument

Going back to the issue of what the development of a territory means, three development concepts can be formulated:

- 1) «patching up holes»;
- 2) budget investments in the development of the taxable base of a territory or budget cost cuts; and
- 3) increasing the qualitative effectiveness of budget expenditures by selecting, introducing and disseminating new standards for the delivery of budget services («the best practice»).

The first and second concepts are quite common.

The third option needs some comments.

It must be recognized that the budget sector has one or another current practice of operation, the actual state of sectors/quality of budget services, and the actual performance standard. At the same time, it should be acknowledged that certain places (institutions, etc.) have examples of a different practice, which, while recognized as the best one, can be disseminated in the professional community and serve as an instrument for spurring development or bringing the current state/quality of budget sector/service to the desirable level.

This raises the question of formulating the desirable state of sectors, describing and selecting examples of the best practices as a step toward such desirable state. For example, an «unorthodox» practice, if described objectively, can be incorporated into the political procedure and be accepted within it as a desirable state/standard. This model provides for setting the goal of bringing the actual state to the desirable one.

At the same time, this implies certain requirements to the quality of the political environment both in terms of organizing the political process and professionalism and ethics. The role of politicians is to make a responsible choice of the direction in which a territory will develop and the desirable state of the budget sector, while assuming all risks related to this choice. The most general requirements to the best practice and its description are: 1) objectivity (supporting not a personality but his/her work that can be understood by outsiders, evaluated and copied); 2) competitiveness of this practice in the world (its cultural conformity and relation to global trends); 3) feasibility. Selecting a practice as a desirable state will define future requirements to personnel and logistical support in a relevant budget sector. In sectors that do not have good practices, existing «unacceptable» budget service standards are financed.

An important aspect is the orientation to existing examples of best practices because they can lead the discussion from an abstract talk on the development goals to debating current and recognized work and experience. In this case, the following key principles are to be observed in selecting examples of best practices: 1) personal interest and the desire of the practice owner to develop his business; 2) building up one's own knowledge and practice instead of copying other people's experience; 3) correlating oneself and one's practice with norms and performance standards existing within the culture; 4) compliance of the concept model with global trends.

Such model for the development of the budget sector offers a different view on approaches to financing, within which three budget flows have to be singled out:

- financing the current state of the sectors;
- financing the reorganization (introducing best practice) of the sectors;
- financing further development of best practice examples³.

Since after promulgation the best practice becomes a standard (including criteria connected with the description of the goals of a service and ways to deliver it), and its economic description provides the basis for spending and current budgeting norms, current financing should also be dynamic and allow a change of standard. If the budget that finances the adopted desirable state of a sector is not autonomous but receives financing from a higher-tier budget, decisions on the introduction of the best practice, its promulgation and financing during dissemination

³ Currently the entire budget process is geared to achieving the first goal – financing the current state. National projects, with all their shortcomings, are aimed at creating financial stimuli for reforms and the introduction of the best practice that has been recognized (although without open professional discussion) as the best. The tools for financing the best practice (apparently on the basis of grants) are being developed.

and reproduction should be agreed upon, region-wide or nationwide. The latter applies both to transferable state functions and subventions, and municipal spending obligations in terms of subsidies.

A municipal development fund may provide a tool for financing the development of the budget sector through development and dissemination of best practices in budget sectors. In this case regulations on the fund should contain a provision requiring a presentation/description of best practices, the principles of selecting best practices within one sector, the sum of priority sectors, and the terms of financing, including the possibility to finance not only capital but also «soft» expenditures. Such approach ensures both the feasibility and effectiveness of development projects, prioritization of fund expenditures and the elaboration of a long-term development program, taking into account the financial possibility of the region and its development potential.

The fund should operate in conjunction with leveling funds that serve as a means of financing the current state of the budget sector. This means that 1) as soon as the best practice spreads and becomes a generally recognized standard, it should be integrated into current financing. This, however, creates certain requirements to leveling funds. In particular, subsidy calculation methods should then reflect the actual budget expenditures, rather than «account for them» through ratios and indices; 2) a lack of best practices in any of the sectors does not mean that this sector is not financed but means that it should be financed at the existing municipal level.

4. Institutionalization of territorial development in the Kaliningrad Oblast, including the municipal development fund

It is very important to separate development objectives from current financing objectives, including institutionalization, because the commencement of development activities is a complex task. Putting development objectives into a separate category is consistent *inter alia*

with federal trends (creating a ministry of regional development, introducing PBB, developing a new regional policy of «focused» (targeted) development). The oblast's Ministry for the Development of Territories and Interaction with Local Authorities, in cooperation with other ministries, could develop project selection criteria, make a preliminary assessment of and select projects, and submit them to the oblast's government.

5. Proposals regarding regulatory formalization of the municipal development fund

A document that regulates the work of the Municipal Development Fund should contain the following:

- 1) the goal of the fund as increasing the qualitative effectiveness of budget expenditures by selecting, introducing and disseminating new standards for the delivery of budget services (best practice);
- 2) the size of the fund set as a percentage of tax and non-tax revenues in the consolidated budget of the oblast (for example, from 0.5 to 5%);
- 3) set no deadlines for the implementation of projects but provide for stage-by-stage financing of events for up to three years, including those commenced earlier;
- 4) set no maximum proportion of project co-financing but account for the proportion of co-financing from the municipal budget in competitive selection criteria.

It would be advisable to formalize the work of the fund (including regulations on the fund, the competitive selection of projects, and the expert group for project evaluation and selection) in a separate regional law.

ADMINISTRATIVE REFORM IN THE RUSSIAN FEDERATION

The first administrative reform concept in Russia was developed in 1997. Its main objectives were:

- Delimiting powers and fixing responsibility;
- Dividing governmental authorities into federal executive authorities and state executive institutions;
- Introducing public examination, etc., but the government did not approve this administrative reform concept.

The president of Russia has been emphasizing the need for administrative reform in his Addresses to the Federal Assembly since 2000. The Ministry of Economic Development and Trade and the Finance Ministry started preparing reform documents.

Administrative reform in 2001 resulted in the adoption of a budget federalism development program. It aimed to address the following issues:

adopting legislation introducing requirements and principles for delimitation of spending powers;

reducing decentralized regulation of expenditures financed from territorial budgets;

liquidating «unfunded federal mandates»;

assigning long-term deductions from federal taxes to each level of the budget system (in the Budget Code of the Russian Federation); and ensuring sufficient autonomy of regional and local authorities in reforming local revenues at the expense of relevant taxes.

The next step was taken by the power delimitation commission headed by Dmitry Kozak.

Federal laws «On Changes and Amendments to the Federal Law ‘On the General Principles of the Organization of Legislative (Representative) and Executive Bodies of State Power in the Constituent Entities of the Russian Federation’» and «On the General Principles of the Organization of Local Government in the Russian Federation» were prepared in line with the abovementioned program. The laws were also supposed to contain principles for dividing powers between different levels of government and ensuring that revenues match expenditures.

The latter task has so far not been resolved because an assessment of spending powers and necessary tax revenues did not correspond to the actual state of affairs. In addition, when spending powers and sources of revenues were distributed, the regional lobby succeeded in getting the transport tax handed over to the regional level without any compensation to the local level.

On October 6, 2003, Law No. 131-FZ «On the General Principles of the Organization of Local Government in the Russian Federation» was adopted. It advocated an idea of two-level local government and introduced a unified system of local government across the country (prior to that, different regions had formed their own local government systems, ranging from community and district ones to no local government at all). The two-level system of local government was necessary because the community level was given life-support and betterment functions (to bring it closer to people), and the district level was created to address inter-community issues and as a level capable of assuming state functions.

At the end of the 2004 and in 2005, Law No. 131-FZ was amended to include additional local issues, but the structure of sources of revenue was not changed.

The Russian president's Decree No. 824 «On Measures to Carry out Administrative Reform in 2003-2004» of July 23, 2003, identified administrative reform priorities as follows:

- limiting the state's interference in business activities, including terminating excessive state regulation;
- eliminating duplication of functions and powers of federal executive authorities;
- developing a system of self-regulation organizations in the oblast's economy;
- separating regulation of economic activities, supervision and control, state property management, and provision by state organizations of services to individuals and legal entities; and
- completing the delimitation of powers between federal and regional executive authorities, optimizing the work of territorial divisions of federal executive authorities.

Reforms were commenced in the following areas simultaneously with administrative reform:

- tax system;
- budget process and inter-budgetary relations;
- property relations, including land relations;
- territorial organization, including city planning regulation;
- social sphere; and
- housing and utilities sector.

In particular, a law amending Russian legislative acts (amended 1,453 federal laws and cancelled 41 federal laws) and a package of 27 laws, referred to as «The Affordable Housing Market Package», were adopted.

By 2004, a transition to a three-level administrative system in the federal government (ministries, agencies, services) had been completed.

However, as First Deputy Minister of Economics Mikhail Dmitriyev said, excessive functions had not been eliminated by the beginning of 2005. The system of interaction between authorities, their internal activities, and the decision-making mechanism did not change. Administrative reform did not touch the regional level, where more than 90% of bureaucracy is concentrated, including territorial divisions of federal authorities. The anti-corruption aspect was neglected. No standards had been worked out for the quality and accessibility of state services as well as administrative regulations for the performance of state functions and provision of state services.

In the fall of 2004, specialists from the Commission on Administrative Reform, the Ministry of Economic Development and Trade and Higher School of Economics, and experts from the Center of Strategic Studies started working on a federal targeted program titled «Administrative Reform». Its purpose was to enlarge the agenda of administrative reform and extend it not only to the federal but also to the regional level. The program called for devising an effective mechanism for achieving the set goals. The program was based on international experience of similar reforms in Great Britain, the United States, Brazil, and other countries in 1996-2004, as well as historical traditions of managing major projects in Russia (for example, the Soviet space program).

By the fall of 2005, the «Administrative Reform» draft program had transformed (mainly because of the Finance Ministry's criticism) into a concept for administrative reform in Russia in 2006–2008.

The concept set the following goals for administrative reform: improving the quality and accessibility of state services, limiting the state's interference in business activities, including terminating excessive state regulation, as well as increasing the efficiency of executive authorities.

In order to achieve these goals, it was proposed to introduce performance management principles and procedures in executive agencies; develop and introduce standards for state services provided by executive agencies, as well as administrative regulations in executive agencies; introduce mechanisms for countering corruption in executive agencies and make their work more transparent.

The government of Russia also proposed to modernize the system of information support to ministries and agencies.

The year 2006 should see the development of regulatory and methodological documents for administrative reform, including standards for state services and administrative regulations, the development of a mechanism for pre-trial appeal of decisions made by executive authorities and officials. The system of information support to executive authorities will be modernized; standards for mass socially important state services will be developed and introduced at the federal and regional levels.

It is also planned that regulatory acts will be prepared and adopted in 2006 to abolish excessive and duplicating functions of executive agencies. This should make it possible for some of the state functions to be handed over to self-regulation organizations. It is planned to adopt laws and develop methodological documents for the perfection of the existing system of control and supervision and procurements for state needs, the mechanism of outsourcing for administrative and management processes. Plans also include creating a mechanism for countering corruption in the fields where executive agencies operate, and a system of administrative reform monitoring.

Model administrative reform programs and model anti-corruption programs will be developed for federal and regional executive agencies, as well as departmental anti-corruption programs. Anti-corruption examination of legislation will be introduced. Administrative reform programs are to be commenced in regions.

Excessive functions of federal executive agencies will continue to be scrapped in 2007; the development of a regulatory framework and the introduction of procedures for performance management will be completed at the federal level.

It is planned to introduce priority standards for state services, administrative regulations and electronic administrative regulations, as well as a mechanism for pre-trial appeal of decisions made by executive authorities and officials. Pilot mechanisms of outsourcing for administrative and management processes, and mechanisms for countering corruption are to be introduced and tested. Anti-corruption programs will be developed; anti-corruption examination of draft laws and regulatory acts will be introduced.

The development and introduction of a system to monitor the efficiency of executive agencies, the quality and accessibility of state services, corruption and anti-corruption measures, information openness, procurements for state needs, and the effectiveness of administrative reform will be completed.

Plans for 2008 include the development and introduction of the main standards for state services and administrative regulations in executive agencies; elimination of their excessive functions; introduction of a system of outsourcing for administrative and management processes; broad introduction of successful state administration experience at the regional level. The regulatory framework will be adjusted to reflect the accumulated experience of reforms.

Overall coordination of Concept implementation will be carried out by Russia's Ministry of Economic Development and Trade.

According to the Concept, administrative reform events, carried out by federal executive authorities, are financed within the limits provided for in the federal budget for the maintenance of respective federal executive agencies.

The government of Russia needs to determine the procedure for motivating the introduction of standards for state services, administrative regulations, and other administrative reform events to be carried out by federal executive agencies and regions.

Administrative reform events carried out in regions are financed in accordance with regional legislation.

*Sven-Ingvar Carlsson
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PERFORMANCE BUDGETING IN SWEDEN: INTRODUCTION AND EVOLUTION

Background

Performance budgeting is a rather extensive concept that does not have a very clear definition and it comprises several different methods. The names or terms used for these methods are a bit confusing and often the methods are very similar though given somewhat different names. However, the common features of the models are to link financial resources to results that are measurable, to achieve a better government or management and to increase efficiency. Several forms of performance budgeting have been used in Swedish municipalities for the last 40 years. The models used are the same as have been used in many other countries in the public sector. However, all Swedish municipalities have not used the same model at the same time. Some municipalities have been more active, testing new models more frequently; other municipalities have had a more awaiting attitude. The purpose of this paper is to show the development of performance budgeting, and related management models, in Swedish municipalities in general. Probably, no Swedish municipality has developed its budgeting model in the order it is presented here and all municipalities have not used all models. However, politicians and staff at management level, engaged in finance and budgeting for the last decades in Swedish municipalities, will recognize the development of budgeting, problems involved and experiences achieved.

Program Budgeting

The first steps towards performance budgeting were taken at the middle of the 1960s when the Swedish municipalities gradually introduced the concept of (performance based) program budgeting. The meaning of the concept is the activities with close connection to each

other, should be put together in «programs» and «sub-programs» and the program should be given a description of what to be achieved – i.e. a description of objectives. The introduction of program budgeting should be seen in the perspective of great criticism of the existing budget models at that time. Those models were considered to be too fiscal in character with great lack of follow-up of allocated funds. At the mid 60s, a new code-plan was made by the Swedish Association of Local Authorities. The code-plan was rapidly introduced in all municipalities and probably the new code-plan facilitated the introduction of the program budgeting model. Despite high ambitions, program budgeting seldom reached all expectations and it was more difficult than expected to find a clear link between the budget means and achieved results. A great part of the problem was to find relevant ways to describe the objectives in quantities as well as in quality terms. A clear answer to the question of efficiency was still to be found. Program budgeting as a name of the method was not rooted too well in the municipalities and disappeared after some time although the way of budgeting remained the same. However, a great advantage with the program budgeting was that it forced management and politicians to describe more precisely the objectives of different activities and in that way became the basis of future forms of performance budgeting, as management by objectives and balanced scorecards.

Management by objectives

The idea of management by objectives is to define clear and measurable objectives (aims) at all levels of activities, analyze the result and estimate what should be the next step to come closer to the objectives. The model was introduced in many Swedish municipalities during the 1980s and could be seen as a further development of the program budgeting method. Mainly the difference is that management of objectives as a method focuses even more on aims that are measurable and on the importance of follow-up. The model of management by objectives is also, and to a higher extent than program budgeting, an expression of an ideal separation of tasks between politicians and staff;

for the politicians to define the aims and allocate the resources; for the staff to choose the most efficient means based on their professionalism. The model has in that way a democratic dimension as it underlines the task of politicians to govern management. Another aspect of the model is that activities should be managed and developed on basis of achieved results. It is exactly the same thoughts as in program budgeting but more stressed. At the beginning Swedish municipalities sometimes made the model too complicated as different activities were broken down into too many and too detailed objectives and sub-objectives. The experience gradually showed that description of objective at too low levels rather became means or methods to be used – not objectives. It also meant that the separation of tasks between politicians and staff was not made as clear as expected. Additionally, with a great number of descriptions of objectives and sub-objectives, the budget volume became very extensive and difficult to get a general view of. Gradually, the municipalities have found their own ways of simplifying the model and at present probably all Swedish municipalities use some kind of management by objectives as the main budget model, though the name of the model could be something else or have no particular name at all. Also in the central government sector in Sweden, management by objectives is used as the budget- and management model, formally decided by the Parliament in the late 1980s and inspired by examples mainly from New Zealand, Australia and the United Kingdom. Obviously there are some problems with the model of management by objectives, partly similar to the problems of program budgeting. One of the greatest problems is considered to be the lack of interest from the politicians. To a great extent management by objectives has become a model mainly handled by the management with often quite low interest from politicians, both in central and local governments. From time to time politicians make political items out of questions at quite low level that have become politically interesting for some reason. Probably, such a political behavior is a natural part of the political life and it is hard to believe that things improve if political initiatives are subordinated to an administrative routine. However, regardless the difficulties and problems associated to program budget-

ing as well as management by objectives, the application of these two models has greatly improved the budget performance at municipal level for the last 40 years.

Zero-base budgeting

To make effects and consequences of different cost-levels of budget very clear and in order to increase efficiency and find budget savings, a number of Swedish municipalities tested zero-base budgeting around the mid 1980s. The idea behind zero-based budgeting is to describe the (municipal) activities in so called packages, often 3-5 for each activity. As an example could an activity (i.e. primary education, library services, road maintenance etc.) be described at four levels by answering the following questions:

1. What will be the consequences if the budget is decreased by 100%? (Zero-Base)
2. What will be the consequences if the budget is decreased by 10%
3. What will be the consequences if the budget remains unchanged?
4. What will be the consequences if the budget is increased by 10%

The method makes the consequences of increasing and decreasing budget funds very clear and all activities must be clearly justified, regardless the history. These are the great advantages. The disadvantages are mainly related to the heavy administrative work involved. The method tends to generate a big amount of documents, which could be very hard to take in for the decision-makers. Mostly, zero-base budgeting has only been used occasionally for one or two budget years as the great effects of the model are achieved during the first year. There is usually no reason to question and justify different activities each year. For the last 10-15 years the method has hardly been used by Swedish municipalities.

Per unit budgeting

Per unit budgeting is a quite different type of performance budgeting. The model is since the mid 1990s gradually in use in a number of municipalities and county councils in Sweden, particularly in the fields of child care, education, medical and dental care. In dental care the model has existed for much longer time but the model was not given any name until it was extended into other activities. A most important reason for the introduction of the model was to increase the freedom of choice within the public sector and by that make the activities more costumers orientated. Thus, the model is a kind of a market model, contains a strong element of competition and strives for increased freedom of choice and for increased efficiency and quality. The model works, somewhat simplified, in the following way with child care as an example: Every child care center, both private and municipal, get a fixed amount of money per child and month. The fixed amount is decided by the municipality. The parents have the right to choose any child care center and can whenever they want move the child to an other child care center (if a place is available). By moving the child, the fixed amount of money will be transferred to the new child care center. One idea behind the model is that the total cost for the municipal child care is decided in advance (number of children x yearly amount per child), while efficiency and quality will be increased by the competition between the different child care centers. Child care centers not reaching the level of quality the parents expect will get less children and hence less money and might have to close down if this process continues. However, for the model to work well some important preconditions must be fulfilled. Still using child care as an example, there must be a real possibility to change child care center, without any complicated formal or bureaucratic obstacles. Also the supply of places in child care centers should at least slightly exceed the demand in order to facilitate changes and by that achieve high competition. It should also be possible to establish private child care centers, without too many formalities, having the same fixed amount of money per child as the public centers. However, it is quite possible to use the

model with only public child care centers but probably the pressure of competition will be lower. It should be possible to lower the size of staff fairly fast, if children are leaving, without too high costs. The model is best suited for densely populated areas as, of course, the number of alternatives will be less and distances longer in sparsely populated areas. Finally, for introducing the model, a lot of questions at detail level must be solved as handling of the costs for premises and forms for reporting, supervision and control. In general the model seems to have worked in a satisfactory way. The objections against the model are mainly ideological and are found at the political level. However, the model is used both by right-wing and left-wing municipalities.

Contracting

Contracting could also be seen as a form of performance budgeting where the level of quality is decided by the purchaser (the municipality) and where the contractors compete with the price, mainly. Contracting has always been used by municipalities in Sweden but previously almost exclusively within the technical sphere of activities, for instance for garbage collection. In the 1990s a lot of municipalities introduced contracting for activities which traditionally had been run only by the municipalities themselves, elderly care as an example. In the technical sphere, contracting has also become more common in the 1990s. The idea behind using more contracting has been to lower cost and raise quality by competition but also to bring in new, alternative ideas. In several cases the municipalities have used a model where the municipality itself is one of the tenderer. In such cases the municipal unit involved has got a more autonomous position in the municipal organization and been treated as an external tenderer. It is difficult to form an opinion about the effects of the increased use of contracting. Probably and in general, the efficiency has improved to some extent, lowering the costs for the municipalities. The number of alternative providers has increased as well, with better possibilities for the citizens to make their own choice. At the same time there has been some criticism. Partly the

criticism means that the financial benefits in reality have been achieved just by lower quality, partly the criticism focus on the on the lack of continuity. In many cases the contracts have been rather short, 2-4 years. If a new contractor is brought in with a new management and new ideas, it sometimes causes a lot of concern among all involved, especially in activities as elderly care and care for disables.

Balanced Scorecard

The method of balanced scorecard was developed in the USA in the beginning of the 1990s and has gradually been spread all over the world, both in the private and the public sector. In Sweden, several municipalities and county councils use the model, sometimes for the whole organization, sometimes for one or a few departments or units. The idea behind balanced scorecard is to pay attention also to other perspectives than pure financial. To recognize an activity as efficient, it is required that the activity is «balanced» in such a way that, for instance, the perspective of the customer is considered. Other examples of perspectives to be considered are the ability to develop the activity, and the ability to develop the methods or processes that are used in the activity. Another aspect of balanced scorecard is the structure or systematic used. The structure or systematic partly give the preconditions to over-view the objectives of each perspective, partly to give preconditions for decentralized management.

The logic is as follows:

1. Four perspectives are identified, usually the following:

- a) Customer perspective
- b) Business process perspective
- c) Learning and growth perspective
- d) Financial perspective

2. Vision, objectives, methods of measurement are formulated for each perspective.

3. Reporting during the year according to the structure and content of the scorecard.

All this is summarized in a so called scorecard. In a big organization, a scorecard at central level is developed, focusing on the vision and the general objectives of the organization. This central scorecard is then broken down by all units of the organization, creating their own scorecards. However, it is important that all unit scorecards are based on the content of the central scorecard in a way that links the management of the whole organization together. Reporting is done monthly, quarterly or yearly according to the structure and content of the scorecard. As balanced scorecard could be seen as a further development of program budgeting and management by objectives, some of the experiences are similar. On the positive side, balanced scorecard gives a good structure management and budgeting. On the negative side there could be the same problem as other several other models by creating too much documents, making it hard for decision makers to take in. And, as for all kinds of administrative models, it is often difficult to bring about a political interest.

**PERFORMANCE BUDGETING IN PRACTICE
(SWEDISH MUNICIPALITIES)**

1. Introduction

The development of performance budgeting in Swedish municipalities has been presented in a document dated 26.01.2006. The purpose of the present document is to demonstrate some real examples of performance budgeting and to present an example of introducing performance budgeting in a municipality. It should be noted that the concept of performance budgeting is not very clear and contains several models and variations. Also the terminology varies a lot. For those reasons, presentations of performance budgeting could be somewhat different. This description is mainly based on present applications in Swedish municipalities.

Concepts as performance budgeting, management by objectives, balanced scorecards and similar, could sometimes be seen as sophisticated and complex tools. However, in practice the applications are mostly used in a simple and uncomplicated way. Nevertheless, performance budgeting could provide a significant stability in budgeting and in activity planning by clearly focusing on what to be achieved.

2. Basic idea

2.1 Formulation of objectives (aims)

Regardless of model and terminology, the basic idea behind performance budgeting is to link financial resources to results that are measurable. The ultimate purpose is of course to increase efficiency. This could be achieved at different levels of an organization by clearly defining measurable objectives, making follow-ups of results and estimate what actions to be taken for further improvements. Thus, per-

formance budgeting is a way to govern activities by giving greater freedom of action within certain frames of objectives. Performance budgeting, seen as a management philosophy, mostly appears hand in hand with the organizational philosophy of decentralization. In fact, it is probably difficult to apply performance budgeting in a strongly centralized organization.

The ways objectives (aims) are formulated are fundamental to systematic performance budgeting. However, experience has shown it being difficult in many cases to formulate relevant objectives in the day-to-day work. Sometimes it is not very obvious whether an objective is superior or subordinate to other objectives. In other cases it could be difficult to make a difference between objectives and means. The hardship to formulate the objectives, however, could in the same time be regarded as an advantage of the model, making it necessary to have a clear standpoint on the purpose and relevance of each activity.

First of all, an objective must fulfill certain criteria to be useable:

- The objective should have a firm link with reality and be reasonable
- The objective should be clearly formulated
- The objective should be concrete and measurable (subordinate objectives)

In addition, the differences between objectives, the types, must be defined

- Superior or strategic objective
- Sub-ordinate objective
- Measurable indicator

A superior (strategic) objective should be formulated in a plain way and be easy to understand. It should indicate a basic view or philoso-

phy and not be limited in time, i.e. not indicating that something should be achieved within a certain time limit. A superior objective could well have a qualitative and not quantitative character and could for that reason be difficult to measure. However, it must be formulated in a way making it at least possible to estimate if the fulfillment of the superior objective is increasing or decreasing. Though it is often difficult to find good criteria for the follow-up of qualitative objectives, none the less, those objectives could be highly interesting. As a matter of fact, to the public, the qualitative objectives often are the most interesting.

A sub-objective should possibly be formulated in the way that it quantifies the superior objective and sets a time-limit when to be achieved. Also, it is important to stress that sub-projects could be different for different parts of an organization, though the parts are at the same organizational level. For instance, different schools in a municipality could have different sub-objectives due to specific conditions.

A measurable indicator is a specific objective at a lower level of the organization. It could for instance be an aim for production, i.e. to produce at least a certain amount of something during a certain period of time. A measurable indicator should be as concrete and as measurable as possible.

2.2 Definition of objectives at different levels

Three types of objectives have been defined above, i.e. superior objectives, sub-objectives and measurable indicators. Of course, it is possible to go further and define types at still lower levels. On the other hand it is also quite possible to restrict the model to have only two types of objectives. In fact, to use many types could make the model unnecessarily complicated and confusing. In a big organization, the question of objectives at different levels could be solved in the way that a sub-objective for level 1 will be the superior objective for level 2 and the sub-objective for level 2 will be the superior objective for level 3 etc. Thus, it is quite possible to work with only two types of

objectives in performance budgeting and the further down in the organization, i.e. the further down in the chain of objectives, the more concrete and measurable the objectives.

2.3 Balanced scorecards

A few words should be said about balanced scorecards in this context, as the model is widely used and in a way more developed than other models. The idea behind balanced scorecards is to pay attention to more perspectives (dimensions) than pure financial. According to the idea, an activity could be considered as efficient or not only when all perspectives (usually four) are observed. This means that superior objectives, sub-objectives and possible measurable indicators are formulated for all perspectives. The written materials will for that reason be more extensive but on the other hand describe the objectives more expressively.

3. Examples of Performance Budgeting

3.1 Municipality of Nybro, education

The first example comes from the Municipality of Nybro, 20 000 inhabitants, in Kalmar County in south Sweden and is about the Child– and Education Committee of the municipality. As education contains several qualitative values, it is an example of formulation of more complex objectives. However, to some extent we have shortened the descriptions (details) of the objectives, not making the text too heavy.

Performance budgeting appears in a lot of variants and the tendency is that each organization finds its own way reflecting local conditions. In the case of Nybro, there is a locally adopted vision (ideal situation) for the Child– and Education Committee that makes up the basis for all its activities and for the performance budgeting as well. Additionally, Nybro had chosen to characterize the objectives in six different main aspects.

The vision

The schools in Nybro should be characterized by cooperation, respect and quality, where all pupils' equal value, right to knowledge and progress come first.

1. Values and confidence

Superior objectives	Sub-objectives for the current year
No insulting, such as harassing, prejudiced attitudes based on gender, racism etc. will occur in the schools.	Investigation and documentation of any complain shall be started and assistance and support given within a week.

2. Influence and participation

Superior objectives	Sub-objectives for the current year
Pupils and their parents shall feel they have a real influence over the day-to-day activities in the schools.	At least 80% of the pupils shall feel they have a real influence over day-to-day activities.

3. Children and pupils in need of special support

Superior objectives	Sub-objectives for the current year
Every pupil that needs special support in learning and in progress shall be offered such support at an early stage.	A special action-plan shall be adopted to all pupils failing in test (mathematics and Swedish language)

4. Knowledge (facts, understanding, well informed)

Superior objectives	Sub-objectives for the current year
The education shall be carried out in such a way that the national educational objectives will be fulfilled.	At least 90% of the pupils shall pass the national tests.

5. Cooperation

Superior objectives	Sub-objectives for the current year
Cooperation with other departments in the municipality and with other relevant external institutions shall be developed in order to ensure new competence, knowledge and experiences.	At least two projects shall be initiated in order to develop cooperation with other departments.

6. School and working life

Superior objectives	Sub-objectives for the current year
All pupils shall be offered contacts with representatives of the working life.	All pupils shall, at least two times a term, make a study-visit at a working place or be visited by a representative from the working life.

All sub-objectives, at all schools, are regularly followed-up at the meetings of the Child- and Education Committee. Actions could be taken if the development does not correspond to the expectations. The results are also stated in the annual report and form a basis for the coming budget process.

3.2 Municipality of Gotland

The second example comes from the Municipality of Gotland (the island in the Baltic Sea), with 58 000 inhabitants, and illustrates performance budgeting with the help of balanced scorecards. The example consists of two parts. At first there are common objectives for the whole municipality, secondly there are objectives for the Child- and Education Committee. As in the case of Nybro the descriptions are somewhat shortened. Also, the number of perspectives is restricted to four. In reality Gotland uses five («community» has been left out). Gotland has adopted an overall vision for the municipality, also being the basis for the performance budgeting.

The vision:

Gotland should be an attractive area with a high quality of living by:

- *The society is characterized by security, good health and a good environment for living*
- *The society is characterized by a good climate for development*
- *The best for children and youth will characterize all municipal services*

3.2.1 Municipality of Gotland; common objectives

Superior objectives

Citizens/Customers The citizens receive services of good quality; they are participating and treated with respect.	Finance The finance is sustainable and in balance in a generation perspective.
Staff and Managers The Municipality is an attractive employer.	Processes The Municipality has good cooperate internal processes and an on-going ambition of improvements.

Sub-objectives for the current year

Citizens/Customers 1. To learn and to understand the preferences of the citizens 2. Give the citizens possibilities to influence 3. Fulfill the expectations of the citizens	Finance 1. Create a realistic budget with a surplus of 2% of net costs 2. Amortize the loan burden 3. Secure future pension obligations
Staff and Managers 1. «Good reputation» 2. Close leadership 3. Good working environment	Processes 1. Efficient processes 2. Improvement of present processes 3. Clear interface between different service-lines

Measurable indicators

<p style="text-align: center;">Citizens/Customers</p> <ol style="list-style-type: none"> 1. Continuous realizing of citizens-surveys 2. Increased accessibility in all service lines 	<p style="text-align: center;">Finance</p> <ol style="list-style-type: none"> 1. A surplus of 15 million crowns 2. Maximum 4,7% increase of net-costs 3. Amortizing payments of 3 % of total liabilities
<p style="text-align: center;">Staff and Managers</p> <ol style="list-style-type: none"> 1. 50% of staff have an individual competence-plan 2. 80% of staff are satisfied with their job-conditions 3. Decrease in sick-leave by 1 %-unit 	<p style="text-align: center;">Processes</p> <ol style="list-style-type: none"> 1. Increased efficiency 2. All interfacing processes between departments are identified

3.2.2 Municipality of Gotland; objectives of the Child- and Education Committee

It should be noted that the superior objectives of the Child- and Education Committee are the same as the common superior objectives for the whole municipality.

Superior objectives

<p style="text-align: center;">Citizens/Customers</p> <p>The citizens receive services of good quality; they are participating and treated with respect.</p>	<p style="text-align: center;">Finance</p> <p>The finance is sustainable and in balance in a generation perspective.</p>
<p style="text-align: center;">Staff and Managers</p> <p>The Municipality is an attractive employer.</p>	<p style="text-align: center;">Processes</p> <p>The Municipality has good cooperative internal processes and an ongoing ambition of improvements.</p>

Sub-objectives for the current year

<p style="text-align: center;">Citizens/Customers</p> <ol style="list-style-type: none"> 1. A Systematic assessment of quality and treatment 2. Create participation of parents and pupils 3. Create a good physical and psychosocial environment 	<p style="text-align: center;">Finance</p> <ol style="list-style-type: none"> 1. Create a sound financial situation 2. Continuous follow-up routines 3. Continuous bench-marking
<p style="text-align: center;">Staff and Managers</p> <ol style="list-style-type: none"> 1. A systematic, long-term competence plan. 2. Create a close and distinct leadership. 3. Create a good physical and psychosocial environment 	<p style="text-align: center;">Processes</p> <ol style="list-style-type: none"> 1. Deliver services according to national objectives 2. Create schools that stimulate learning 3. Take initiative to cooperation, internally and externally

Measurable indicators

<p style="text-align: center;">Citizens/Customers</p> <p>The rate of satisfied pupils and parents should exceed 80%.</p>	<p style="text-align: center;">Finance</p> <ol style="list-style-type: none"> 1. The finance shall be in line with the budget on an annual basis. 2. The rate of service-quality indicators in line with or above national average. 3. Sureness in forecasts.
<p style="text-align: center;">Staff and Managers</p> <ol style="list-style-type: none"> 1. Developing a long-range competence plan for all staff 2. Make job-descriptions for all staff 	<p style="text-align: center;">Processes</p> <ol style="list-style-type: none"> 1. The rate of pupils passed in the core-subjects shall be in line with or exceed the rate of last year. 2. The rate of pupils continuing to university studies shall, at least, be in line with the national average.

The objectives (scorecards) are followed up at least three times a year in the Municipality of Gotland. Actions could be taken if the development does not correspond to the expectations. The results are also

stated in the annual reports and form a basis for the coming budget process.

4. Example of Implementing Performance Budgeting

An introduction of performance budgeting could be a troublesome process and it is important to inform politicians and staff closely before going ahead. It is important to understand that the roles of politicians will partly change. The political task will be more emphasized on deciding on objectives and allocating resources and less on making decisions in detail matters. For performance budgeting to be successful, it is crucial that the political leadership and the leading management are positive to the introduction. Also, there must be a realistic link between the objectives decided and the financial realities.

There could be several reasons for introducing performance budgeting and in many cases it is introduced gradually. Probably, a gradual introduction is almost always to prefer. In the municipality of Gotland, the background is to be found at management level of the Department of Finance some ten years ago, after several years of budget deficits in the municipality. Also, there was an ongoing discussion among the politicians, as well as among the professionals, that the budget managing system had to be improved. The system was at that time too much focused on pure financial conditions. Hence, financial conditions and financial management were discussed separately, aside of the service management. The consequences for the services provided after budget cut-downs, were not regarded enough. The financial performance was measured separately from the performance in the service-lines. The links between the services provided and the resources needed were unclear.

In Gotland the following steps has been taking, so far, to implement the performance budgeting in the form of balanced scorecard.

- 1996 The concept of balanced scorecard was regarded as a possible and useable tool to solve some of the problems described above. The interest for the model was initially raised by the Chief Finance Officer.

- 1997-2001 Balanced scorecard was implemented in the Administrative Service Department in 1997. The initiative was taken by the Chief Finance Officer. The ambition at this stage was just to implement the model in this specific department as a tool to improve the budget management of the department itself. The implementation process was prepared by seminars and work-shops within the department. All senior staff-members participated in the seminars and work-shops. During the period of 1997– 2001, the system was continuously improved. The experiences of using the system got better and better and managers of other departments also learned to know about the good experiences.
- 2002 The good experiences from the Administrative Service Department had been spread to other departments and to the politicians, with the Chief Finance Officer as the leading advocate. The managing group consisting of all the head of departments in the municipality decided to initiate a project with the ambition to implement the concept as a common model for the municipality. The politicians in the Executive Committee decided to start a project, with the aim to implement balanced scorecard as the common managing system of the municipality.

To be able to realize the project a project organization was settled. The organization was design as follows:

- A political steering-group: The Executive Committee
- A professional steering-group, consisting of the heads of departments with the Chief Finance Officer as the chairman and overall responsible for the project.
- Project-leader and a project-group (working-group)

Reference group with representatives from all departments.

The project started with several seminars and work-shops with politicians and the professionals as participants.

- 2003 The concept of balanced scorecard was implemented in all departments organized directly under the Executive Committee. The aim with this limited expansion of the concept was to test and get more experiences.
- 2004 The concept of balanced scorecard is implemented to be used in the overall managing system of the municipality (but so far not all committees / departments). The three year plan, 2005-2007, as well as the annual budget 2005, were structured according to the logics of balanced scorecard.
- 2005 The periodical reports, the Interim report and the Annual report were structured according to logics of the balance scorecard.
- 2006 The concept of balanced scorecard is implemented to be the common internal managing system within all committees and their departments, units etc. This step of the project is also carried out through the same the project organization as mentioned above.

The process of implementing the concept of balanced scorecard in the municipality is, more or less, a voluntary process for the committees. The committees formally have the power to decide by themselves, if they want to adopt the concept as their own managing system. Anyhow, all committees have decided to join the process. An essential part of the priorities of the project-group has for that reason been to launch «marketing» activities towards the Committees, departments and units.