METHODS FOR IMPROVING THE EFFECTIVENESS OF THE FINANCIAL MANAGEMENT OF LOCAL GOVERNMENT UNITS IN POLAND

Anna Świrska
Siedlce University of Natural Sciences and Humanities, Poland

Abstract

The issue of public sector management, especially management of public finance, identifies as extremely important in both theoretical and practical areas. Within the context of social and economic change, its meaning becomes crucial to the smooth and efficient functioning of public institutions including local government units.

The search for optimal solutions in the sphere of local governments' financial management and the implementation of new tools causes an increase in the efficiency of financial management at local and central levels, an increase in the rational use of public resources' management, a transparency of expenditures, and above all, an improvement in the efficiency of public tasks that the state and local governments carry out for their citizens.

The aim of this paper is to present three tools that have been introduced in recent years with the aim to increase the efficiency of public financial management. They are the performance budget, the individual debt index, and the long-term financial forecast of the LGU. Also, selected survey results are presented that show the opinion of local authorities on the implementation and usefulness of the tools mentioned.

Keywords: financial management, performance budgeting, debt index, effectiveness, local government.

JEL Codes: H72.

Introduction

The rational use of public spending and effective management of public finances has been the subject of research for many years. Within the context of social and economic change, their meaning becomes even more crucial to the smooth and efficient functioning of public institutions including local government units. While efficiency in the economic sphere is a simple concept to define, in the context of public finance it takes on a different meaning. An economical approach to efficiency demands a comparison of expenditures (e.g., in manufacturing or retail) to the results obtained from those expenditures. However, when taking into account efficiency, which concerns the functioning of the public sector, an understanding of it will differ.

The search for optimal solutions in the sphere of local governments’ financial management and the implementation of newer tools causes an increase in the efficiency of financial management at local and central levels, an increase in the rational use of public resources management, a transparency in expenditures, and above all, an improvement in the efficiency of public tasks that the state and local governments carry out for their citizens. The aim of these actions is to create a structure of budgetary expenditure wherein a given income enables maximum realization of social needs. In reference to the economy, the principle of sound management is that the maximization of effectiveness in given expenditures is applicable here.

Local authorities (public authorities) that dispose of and skillfully manage public funds play a key role in achieving these objectives. In this context, the qualification, knowledge, and education of government entities become very important. Of no less importance, however, are tools such as legislation and civil initiatives.

The aim of this study is to present three tools that have been introduced in recent years and whose aim is to increase the efficiency of public financial management. They are the performance budget, the individual debt index, and the long-term financial forecast of a given LGU.

In this article, the method of research used is described and the survey results are presented. The surveys were conducted by Hermaszewski in 2011 in the Lubuskie Province and by this author in Siedlce County in 2016. The main part of the article was prepared on the basis of a critical analysis of Polish literature as the article concerns the effectiveness of tools for improvement in Polish local units. Literature analysis and the survey results helped formulate conclusions for a recommendation proposal.

Results

1. Effectiveness in Finance Management of Local Units

From the beginning it should be noted that “effectiveness” is not the same as “efficiency,” although the original Polish meaning is the same word – “efektywny.” In the area of public finance, including local government, effective or successful financial management cannot be considered only in the context of the effective spending of public money. It should also take into account the functionality of public spending and its achieved public effects.
(Sochacka-Krysiak, 2009). Thus, the study describes the effectiveness of public finance management.

Since the decentralization of public finances, there has been an increase in interest in efficiency and effectiveness at the local level, which is the result of a growing number of tasks performed and public funds spent. Guziejewska among others relates the following directions of research on the effectiveness of decentralized finance (Guziejewska, 2008; Owsiak, 2002; Kosek-Wojnar, 2005; Misiąg, 2005):
- the effectiveness and functioning of public tasks in the context of their financial sources,
- the effectiveness of the management of municipal services and local economy,
- conditions of the decentralization of public finances and the problems involved in a LGU’s financial independence,
- the search for optional sources for the funding of public tasks,
- new methods and tools for budget planning,
- and the effectiveness of tools and methods in the process of managing local finances.

In order to properly define the term “effectiveness in public finance management at the local level,” it is necessary to examine the meaning of finance management of local governments.

Financial management in local government units has many definitions which often complement each other to create a multidimensional picture of this phenomenon. This is primarily the process of financial management that results in an optimal implementation of public tasks that meets the needs of the local population. It is a measurement system regulating the management of financial resources in implementing a LGU’s financial policy, in coordinating that policy implementation, and in analyzing and controlling the LGU’s financial resources as well as the effects of those measures taken (Jastrzębska, 1998). Its essence is the financial decision-making process and the carrying out of financial decisions along with the response of local authorities to a socially and economically changing environment (Wakula, 2009).

In the construction of synthesis, the following elements combine to form the entire process of financial management in the municipality (Nogalski and Świrska, 2016):
1) Those entities responsible for financial management:
   a. local authorities along with their competency and the quality of their decisions regarding management of the municipality,
   b. the administrative staff of the municipal department that are responsible for the accounting supervision of financial management in the municipality,
   c. the local community, which can use the tool of social participation in financial planning,
2) The mechanisms used in the management of municipal finances:
   a. The budget resolution comprising the basis for the implementation of municipal financial policy,
   b. a tabular budget as well as a performance budget,
   c. a long-term financial forecast and an investment annex to the budget
3) Internal and external entities that oversee and inspect the finances of the municipality
4) The external environment and the expectations of the local community regarding the level of public services provided.

Hence, financial management of local governments is one of the most important issues concerning the functioning of those local governments. Proper management and use of funds in each local government unit determines the proper execution of tasks and ensures long-term socio-economic development in its territory. Of particular importance in this regard are the relationships between the proficiencies of the legislative body and the qualifications of the councillors who decide on specific resolutions and construct a formalized system of management (Nogalski and Kozłowski, 2013).

An awareness of the essence of financial management allows for a determination of the factors formulating its effectiveness. Its effectiveness results from the guarantee of (Nogalski and Świrska, 2016):
1) a thorough, transparent and comprehensive range of competencies and responsibilities of the organizational structure involved in the financial management of local government units,
2) easy access to current and reliable information as well as to an understandable system of managing that information,
3) an effective, clear, understandable system of accounting, reporting, analysis, and financial assessment,
4) effective systems for monitoring the activities of authorities and organizational units of local government,
5) and access to necessary training and advisory support for management and employees of local government units.

There are many factors in the effectiveness of financial management at the local government level, and the ability to skilfully identify and use them determines the efficiency of the functioning of the municipality.

Regarding mechanisms implemented in Poland to support and foster the effectiveness of public finance management at the local level, worthy of note are three major factors:
- the Performance Budget,
- the Individual Debt Index of the Municipality,
- and a Long Term Finance Forecast of the LGU.
2. Performance Budgeting – a Method for Improving Transparency and Effectiveness of Public Financial Spending

The budget as a tool for the financial management of a municipality plays a very important role as it reflects the amount of funds available to the municipality and the number of scheduled tasks it must carry out. There should be a clear source of information about municipal priorities, the collected income and the financial policy implemented by municipal authorities. Unfortunately, most current municipal budget systems are not transparent and do not provide comprehensive information on the rational and effective management of financial resources.

The budget system in its traditional structure is the most common form of budget used by local governments in Poland. This type of budgeting focuses on goods and services to be purchased. It does not ensure the proper allocation of funds, as it is not equipped with a mechanism enabling verification of the comparison between directions of expenditures and long-term assumptions in the LGU. It does not provide information needed to the municipal authorities for effective financial management and does not create incentives for innovation. Therefore, authorities of local government units must gradually implement a new financial management tool, namely the performance budget.

Basing its planning on the task oriented budget, a local government sector departs from the traditional method of recording income and expenses, to turn toward a system that puts emphasis on results and effects and on the scope of what has been achieved. Hence, the budget is the result of task analysis, identification, simplification and crystallization of specific objectives to be achieved in a given period (Brunner, 2009).

Performance budgeting in Poland was introduced at the central level in 2009, but has been in existence at the local governmental level since 1994 (Owsiak, 2002). It was introduced as a tool for New Public Management, and its goal is to increase the transparency of public spending, its rationality and the effectiveness of public finance management.

It is a type of expansion of traditional budget’s expenditures component called the task component and is the part that illuminates the purpose public spending serves and the results achieved by those public expenditures. These expenses must be assigned to appropriate tasks (Komorowski, 1997). Before the anticipated expenses will be recognized in accordance with the current budgetary classification, municipal authorities (and the directors and managers of budgetary entities) prepare in the form of budget tasks detailed materials and substantive financial plans to be implemented. The goal of this preparation of the budget task component is a better comparison of expenditures to the effects of spending that it serves (Pakoński, 2000).

As its name suggests, the performance budget is to determine (Świrska, 2014):
- the LGU’s tasks to achieve in a given financial year along with a description of the purpose and necessity for their implementation,
- the sequence and manner of execution of the investment within a specified time framework,
- the persons responsible for the execution of specified tasks,
- and a detailed estimate of intended investments including provided additional sources of financing for major projects.

Each task in the performance budget includes:
- a quantified goal,
- a forecast for carrying out the task,
- a timetable for the implementation of operations and their expenditures,
- a determination of the intended quality outcomes,
- a calculation of costs, including own abilities, acquisitions, and contracts,
- and identification of the persons responsible to accomplish the task.

As an instrument for rational LGU management, the performance budget is characterized by its own rules which state that (Owsiak, 2002):
- a) the structure of the budget must reflect the priorities set for the year and be adopted sufficiently in advance, b) the budget draft is to be based on detailed task plans developed according to the same rules for planned costs being equal to the total expenditure in budgetary classification, c) the amount and direction of disbursed funds must clearly flow from explicit and parameterized objectives, d) a calculation of the total costs must be made for all budget tasks; these tasks are also characterized by other parameters, such as the material scope, an implementation plan, a performance assessment and a schedule, e) reporting must allow for a comparison of expenditures incurred with the effects achieved within the reporting period, f) within the organizational structure of a local government unit and its bureaucracy, there must exist the possibility of delegating responsibility to those implementing individual tasks, g) the budget document must provide access to information to a wide audience and the capability to assess the resolutions adopted by policy makers, h) adopted procedures as well as tools for objectivity and rational finance management must regulate the entire budget process of local government units.

Because of performance budgeting, the following results can be achieved (Bartkowska-Nowak et al., 1998):
- linking the allocation of funds to clearly expressed expectations,

1 http://pu.wstwp.eu/wp-content/uploads/2011/03/BUD%C5%BBET-ZADANIOWY-JAKO-NOWY-MODEL-ZARZ%C4%84DZANIA-FINANSAMI-SAMORZ%C4%84DU-TERYTORIALNEGO.pdf
• establishing procedures that cause decisions about the distribution of funds to be transparent and clear,
• allocating responsibilities for particular tasks among specific individuals within local government structures and developing mechanisms and status reports to monitor the performance of tasks in relation to the expected results,
• developing mechanisms to assess results in order to monitor the effectiveness of spending in a given activity or programme.

Performance budgeting allows for the determination of which tasks are most important in order to achieve specific objectives and a measurement system that shows the extent to which they have been carried out (Lubińska, 2007). The development of indicators that show the realization of objectives becomes a key priority in the increased effectiveness of municipal finance management.

In performance budgeting, a key role is played by economic indicators which refer to efficiency and effectiveness. Efficiency indicators measure progress towards set objectives, whereas effectiveness indicators measure the relationship between the input and the achieved outcome or result. This stress on efficiency and effectiveness results in the necessity to construct additional indicators which would be directly related to a given function, task, or sub-task (Lubińska, 2009).

Generally, all indicators that may possibly be used in performance budgeting may be divided into (Skoczylas, 2011):
• product measurements (in physical or financial entities) – which reflect material products and services that the beneficiary receives in realizing tasks. They are a direct consequence of actions within the framework of implementing particular tasks over a short period of time,
• outcome measurements – which measure the results (effects) of activities carried out, an objective accomplished by means of adequate expenditures,
• impact measurements – which reflect the long-term consequences of the task. They can measure the direct consequences of the implementation of tasks and those materialized after a longer period of time,
• measurements of effectiveness – which measure the degree by which goals are obtained,
• efficiency measurements – which measure the relationship between outlay and obtained results.

Performance budgeting is considered to be a tool that enhances the transparency and efficiency of public spending because it (Pakoński, 2000):
• is focused on the achievement of planned objectives,
• provides information on the costs and economic indicators of particular services financed by the budget,
• increases the credibility of local governments in the eyes of lenders,
• improves the timely execution of tasks, because producers are earlier prepared to carry them out,
• makes better decisions and more effectively monitors progress which leads to a more effective human resources policy,
• significantly improves the form of the budget document as a communication tool with residents,
• can be used successfully implemented both in large cities and in smaller communities,
• enables the administrator to receive an initial limit of funds with which to carry out planning. Regardless of whether higher expenditures will be proposed or not, the administrator must clearly define what the result of spending will be and how expenditures will be measured,
• requires the administrator to draw up detailed task plans along with expected results, which make up the application for funding. The decision-maker after examining and accepting the budget approves a list of tasks whose outcome is quantitatively determined,
• distributes funds after an analysis and evaluation of the plans as well as expected results has been made,
• causes each task to be considered as a separate project, which means that if the plan establishes a particular purpose and lays out the performance of certain tasks, despite funding from the same budget classification scale of other tasks, resources cannot be insufficient,
• demands that rather than an account of resources there is an account of the effectiveness of tasks performed,
• requires more careful planning and better registering of the costs, but contributes to much more efficient spending.

Unfortunately, although the performance budget is a tool for improving the quality and effectiveness of public financial management, not all governments have implemented it.

According to a survey conducted by Hermaszewski in 2011, the performance budget is not recognized as a tool for increasing the effectiveness of financial management by local authorities in the Lubuskie Province. Responses to the question, “Does obligatory performance budgeting improve financial management at local level?” are presented below in figure no.1.

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Figure 1. Does Obligatory Performance Budgeting Improve Financial Management at the Local Level?
(Source: Hermaszewski (2011))

More than a half of respondents (50% - local authorities, 63.3% - main municipal accountants) answered that performance budgeting does not influence a better allocation of public money. Similarly, the survey conducted in June 2016 in municipalities of Siedlce County showed that local authorities (and main municipal accountants) do not consider performance budgeting to be a very useful tool in improving financial management (fig. 2). 50% of respondents believe that the performance budget improves financial management to a small degree. Thus, they are not interested in implementation of such a form of budget planning. None of the analysed municipalities in Siedlce County have yet introduced the performance budget. At the same time, research revealed that the transparency of budget reports fails. Almost 40% of respondents agree that citizens are not able to understand the content of budget reports.

Figure 2. How Useful is the Performance Budget in Increasing the Financial Management Effectiveness of Local Units?
(Source: Own study)

In surveys conducted by the Ministry of Finance in 2013, only 82 local government units declared use of performance budgeting, i.e., 2.8% of LGUs. Among these were 69 municipalities, 6 districts and 8 city counties. No counties confirmed the use of performance budgeting.

3. Individual Debt Index of the Municipality (IDIM) – a Tool for More Effective Debt Management

Local government indebtedness is a problem that emerged along with the formation of those local governments. It stems not only from insufficient own resources, but also from the number of tasks that the governments must implement. In recent years, the absorption by local governments of foreign funds during the period of 2007-2013 has had the most significant impact on increasing levels of debt in local governments, with the largest growth rate of this debt increase occurring from 2008-2011. Unmet needs in the fields of social and technical infrastructure meant that local governments sought external sources of funding, particularly from the EU budget, and the national contribution requirement determined decisions to acquire debt.

Up until 2014, limits on debt acquisition were uniform for all local government units and amounted to:
- 15% limit in relation to credit and loan payments and security redemptions with accrued interest and discount within the fiscal year toward the LGU revenues (art. 169 of the Act on Public Finance, 30 June 2005).
- 60% limit in relation to an LGU’s aggregate debt at the end of the fiscal year to the total revenue budget (art. 170 of the Act on Public Finance, 30 June 2005).

The above regulations incited numerous criticisms among the representatives of local governments, as well as among theorists.

Since 2014, the Individual Debt Index has been applied in local governments where it is designed to optimize LGU debt accrual as well as improve LGU debt management.
The IDIM formula:

\[
\frac{R + O}{D} \leq \frac{1}{3} \left( \frac{Db_{n-1} + Sm_{n-1} - Wb_{n-1}}{D_{n-1}} + \frac{Db_{n-2} + Sm_{n-2} - Wb_{n-2}}{D_{n-2}} + \frac{Db_{n-3} + Sm_{n-3} - Wb_{n-3}}{D_{n-3}} \right)
\]

Where:  
- \( R \) – the total amount of credit and loan payments combined with redemptions of issued securities that are planned in a given fiscal year;  
- \( O \) – interest on credits and loans, interest and discounts on securities, and payments on the amounts from warranties and guarantees that are planned in a given fiscal year;  
- \( D \) – total income of the budget in a given fiscal year;  
- \( Db \) – current revenue;  
- \( Sm \) – revenue from the sale of assets;  
- \( Wb \) – current expenditures;  
- \( n \) – the fiscal year in which accounts are related.

According to regulations, the authorities of local governments cannot adopt a budget in which the relationship resulting from the formula for IDIM is not maintained.

Liabilities expressed with the goal of calculating IDIM include a decline in payments in a given fiscal year:  
- credit and loan instalments as well as securities redemptions for the financing of the planned budget deficit of local government units,  
- incurred debt obligations from a previous issue of securities and loans and credits (i.e., debt roll over),  
- debt obligations incurred in pre-emptive financing funded from the European Union budget,  
- credit and loan instalments as well as securities redemptions for the financing of investment projects included in the long-term financial forecast.

To the total amount attributable to debt redemption (in a given fiscal year), the potential payment of amounts resulting from sureties and guarantees is also added. The construction of an index does not limit the possibilities for absorbing European funds allocated for the realization of projects covered by financing from these funds. For this purpose, no later than 90 days after the programme, project or task has ended and reimbursement has been received for debt payments not including credit and loan payments in connection with an agreement dependent on the implementation of the programme, project or financial task financed by the European Union budget or financial aid granted by EFTA states, along with interest, warranties and guarantees granted to rightful persons appointed to perform LGU tasks within the framework of programmes financed by the European Union budget or financial aid granted by the EFTA states (Korolewska, www.sejm.gov.pl).

In a larger sense, the value of the individual debt index depends on the size of income earned by the local government, on the income amount received from the sale of property, as well as on the scale of expenditures on current operations.

As demonstrated in the past, IDIM is not a favourable solution for all local governments. Critical concerns regard issues such as (Czarny, 2015):  
- calculations based on historical data, which do not reflect the current financial situation of local government units;  
- the method for calculating operating surplus to total revenue;  
- the deadline to introduce IDIM (in the first year of its existence, i.e., 2014, budgetary results calculations were obtained by local governments from 2011-2013 - during the economic slowdown)  
- the impossibility for LGU borrowing in situations where they have not reached an operating surplus;  
- creation of debt capacity at the expense of communal property sales;  
- the need to offset expenses related to the debt for the following years, the consequence of which being an increase in costs and the accumulation of fixed expenses in subsequent years;  
- dependency of the index on many variables, obstructing its planning and implementation.

The advantage of IDIM is in reference to its actual ability to repay and service the debt of local government units with the operating surplus enlarged by the income from the sale of those assets.

The legislator, by constructing a new index, aims to remove barriers that restrict local government that have considerable economic potential in a situation where incurring additional obligations would not constitute a financial threat. Thus, it is a tool that allows for a departure from "rigid" limits that do not reflect the actual credit abilities of local governments. For these LGUs, IDIM is a tool for safe, political development. On the other hand, the index should ensure that local governments with a high financial burden proceed with caution when taking on new credit and loans (Czarny, 2015).

According to a survey of the Siedlce County, the introduction and implementation of IDIM has not influenced the creditworthiness of the municipality so far. 50% of respondents among executive bodies and 40% of main accountants answered that they did not notice an improvement in this sphere of municipal finance management.
The last tool described in this study that endeavours to increase the efficiency of public financial management in a local government is the Long Term Financial Forecast of the LGU, introduced in the Public Finance Act of 2009, and made mandatory for local governments for the first time in 2011.

It allows for a look at government finances over the next few years in order to plan adequately for the socio-economic development of the local government. In addition, its role is to increase efficiency, transparency, openness and predictability in the accumulation of income, revenues and expenses and outlays incurred. The key objectives of LTFF include confronting needs and defining developmental priorities, improving credit worthiness and better preparing the LGU for requirements of the European Union (Jóźwiak et al, 2010; Owsiak, 2014).

Contemporary long-term planning is seen as a necessary condition for the proper management of public finances. Its purpose in local government units is to determine the possibilities for financing current and investment tasks from their own resources and from external sources, and the appropriate correlation between the annual budget and long-term objectives.

Long-term financial forecast in an LGU is not fully directive in nature, which is why it is called a forecast. It must be realistic, based on conditions enabling the formation of a realistic assessment of the LGU’s financial situation over the time period covered by the long-term financial forecast (Kosikowski, 2011).

Since a long-term financial forecast should be realistic, it should specify for each year of the forecast, among other things, budget parameters such as (Fojcik-Mastalska and Mastalski, 2013):
- current revenues and expenditures of the budget;
- property income (budget income and expenditures from the sale of assets);
- budget results;
- allocated surplus, alternatively a way of financing the deficit;
- revenues and expenditures of the budget, including debt accrued and planned debt accrual;
- amount of local government debt and funding payments;
- amount of current and property expenditures resulting from the spending limits for planned and implemented long-term projects.

These elements are primarily associated with a so-called long-term budget outlook, which is the first of the annexes to the resolution on long-term financial forecast. In addition, LTFF should contain a list of projects to be implemented in the following years, such as (Kołaczkowski and Ratajczak, 2010):
1) projects, programmes and tasks related to:
   - financial programmes involving non-refundable foreign funds,
   - agreements on public-private partnership;
2) agreements, the implementation of which in the fiscal year and in the following years is necessary to ensure continuity of LGU operations and from which resulting payments go beyond the financial year.
3) guarantees and warranties granted by the LGU.

In practice, the list of LTFF undertakings require multi-year current spending on social programmes implemented by local government units and long-term capital expenditures for investment projects to be implemented in the LGU. The name, purpose, organizational unit responsible for implementing or coordinating the execution of the project, implementation period and total financial outlays, as well as spending limits for each year and limit liabilities shall be outlined for each project (Dylewski, 2012).

Long-term financial forecast covers the period of the current financial year and at least three consecutive years. The period covered by this forecast cannot be shorter than the period for which the spending limits have been adopted. The values adopted in the long-term financial forecast and the budget of local government units should conform at least to the budget results and the correlating amounts of revenues, expenditures and debt of local government units.

Municipal authorities present along with the budget draft resolution a draft resolution concerning the long-term financial forecast or changes to it (Śliwa, 2011):
- approved by regionalna izba obrachunkowa (an institution that controls and audits the finances of public entities),
- entities comprising local government units.

Long-term financial forecast, and in particular long-term budget forecast de facto allows for the rationalization of government expenditures through the realistic planning of revenues and expenditures and enables optimal use of limited financial resources in the years covered by the forecast (Grad, 2014). A fairly and properly conducted LTFF also facilitates the assessment of an LGU’s financial condition and capacitates a plan for the development of local finance. LTFF also permits an estimate of the amount of external financial sources necessary for the implementation of future projects. It allows for the management of debt in a way that ensures stable, long-term development, so that an excessive, beyond-capacity financial service of debt does not limit intended investments. Thus, it becomes a very important tool to support effective financial management of local government units.

Analysing the municipal authorities’ opinions in the above mentioned issue, it is worthwhile referring to the Hermaszewski survey. He asked the respondents whether the LTFF improved the effectiveness of finance planning. Almost 60% of those surveyed answer that it did not make the planning better (fig. 4). Thus, again the local authorities have a negative opinion about the suggested tool, contrary to theoretical assumptions and enumerated advantages.

![Figure 4. Did the Introduction of LTFF Improve the Effectiveness of Finance Management of the Municipality?](source: Hermaszewski (2011))

Conclusions and Recommendations

Effective financial management is important not only in business, but also in budgetary units, especially in local government units. Due to their responsibility for tasks realization and the implementation and organization of the process of satisfying citizens’ needs, they influence and maintain the local socio-economic development.

The main conclusion resulting from the article is that opinions on the usefulness of the introduced tools for better financial management presented by academics and local managers are inconsistent. Although theorists see the described tools as very useful for the improvement of financial management, local authorities present the opinion that such measures are not necessary for more effective management. Although some of the tools have just been introduced, local authorities are still not convinced of their utility. Research shows that municipal executives have not experienced the advantages of such tools as performance budgeting, long term financial forecast and individual debt index.

In this case, it is worth asking two further research questions:
- Why are theoretical assumptions not applicable in practice?
- Why do local authorities’ opinions differ from theoretical background on tools for improving financial effectiveness?

In my opinion, the effectiveness of public finance management is difficult to achieve with or without specific tools. However, the competencies of “local managers” may be crucial in this case. Thus, instruments enumerated in the study may constitute an open set of tools that support effective finance management but their existence and utilization mean nothing without the proper education, knowledge and organizational behaviour of local authorities. Therefore, such aspects of effectiveness in finance management should be examined in further research.

As a recommendation, such suggestions may be proposed:
- Enlarge the scale of research made by the government before it introduces new tools for local financial management. Consultations with local managers should cover not only a discussion on new tools, but also the functioning of previously implemented ones;
- It is also worthwhile changing the method of research in which local authorities are asked about finance management. The use of survey questionnaire does not currently provide enough anonymity for local authorities. Fear of disclosure of certain information may adversely affect the reliability of test results. It is necessary to ensure anonymity as much as possible.
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Contact person:
Anna Świrska, Siedlce University of Natural Sciences and Humanities; ul. Żytynia 17/19, 08-110 Siedlce, Poland; e-mail: annaswirska@gmail.com