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## **New measurement of the effectiveness of financial management of local government**

**Abstract.** *The purpose of the following paper is to indicate the premises for taking actions aimed at the implementation of an effectiveness measurement of local government entity's financial management, and to determine the limitations of the existing solution in terms of the barriers in effectiveness measurement in an alternative to the existing approach. The article presents the dominant approach to measuring efficiency, as well as, the dilemmas of its measurement.*

**Keywords:** *efficiency, local government units, measurement*

### **Introduction**

The notion of effectiveness measurement of self-government entity financial management is a complex problem. On one hand, there is a problem of financial management range, and on the other hand, the problem of methods, approaches or criteria involved. There is a real need to analyze the effectiveness of financial management, as it concerns effective and efficient public financial resources allocation. The existing law does not always meet these needs. Discussion in the literature exhibits various approaches towards the matter. Is it possible to define the target model or the individual approach? What factors hinder the implementation of particular solutions concerning the effectiveness measurement of financial management?

There are many questions concerning financial management measurement and many still arise. Not all of these questions can be answered precisely and some of them require in-depth analyses and decisions. The purpose of the following paper is to indicate the premises for taking actions aimed at implementation of the effectiveness measurement of self-government entities financial management and at determining the limitations of the existing solution in terms of the barriers in effectiveness measurement in an alternative to the existing approach.

## **1. Core issues in self-government entity financial management – terminology discussion in legal and economic terms**

In the literature there are various attitudes towards the notion, range and principles of financial management. The legislator has not attempted to define this notion precisely either. Apart from the wide criticism of this fact in legal and economic literature and numerous demands that have been made the principles of financial management are still regulated in various legal acts, so the matter is divided among many acts and it often undergoes numerous changes.<sup>1</sup>

In legal and financial literature and in administrative judicature and judicial decisions one can find two basic definitions of this basic notion. According to the first concept the notion of financial management should be understood quite broadly and it was defined on the basis of the discussion in the literature.

Jan Szczepański and Lech Szyszko assume that the notion of financial management comprises the activities leading to rational cash flows and their settlement.<sup>2</sup> One needs to bear in mind that each financial allocation by public authorities is connected with “freezing” financial resources. This is connected with economic events recording by the accounting system.

According to Zdzisław Fedorowicz the notion of financial management is broader than the notion of finance. He indicates that it comprises all forms of activities in the scope of financial phenomena. In this perspective financial management comprises the activities concerning<sup>3</sup>:

- preparation of all kinds of financial operations, including their planning,
- realization of these financial operations (in this part financial management comprises the notion of finance according to Z. Fedorowicz),

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<sup>1</sup> A. Drwiłło, J. Gliniecka, *Finanse gmin*, Wyd. Uniwersytetu Gdańskiego, Gdańsk 1995, s. 88; J. Głumińska-Pawlic, *Gospodarka finansowa miasta na prawach powiatu*, Kaga-Druk, Katowice 2013, p. 27.

<sup>2</sup> J. Szczepański, L. Szyszko, *Propedeutyka finansów przedsiębiorstwa*, Wyd. Wyższej Szkoły Ekonomiczno-Informatycznej w Warszawie, Warszawa 1999, p. 9.

<sup>3</sup> Z. Fedorowicz, *Podstawy teorii finansów*, Poltext, Warszawa 1993, p. 10.

– analysis of financial operations in the future in order to draw conclusions concerning further actions in this area.

Financial management is a process in which the preparation and the actual money movement are interrelated. These processes are assessed and controlled in order to increase the effectiveness of public finance management with the use of proper tools in order to satisfy collective needs of the community.

Paweł Motek takes a process approach towards financial management. According to him it is gathering and spending public financial resources and financing deficit and public debt management by self-government authorities on the basis of the approved budget. Three basic elements of financial management refer to: firstly, income, secondly, expenditure, and thirdly, income-expenditure balance.<sup>4</sup>

Action approach towards financial management is also found in the literature. According to this approach financial management comprises all the activities (connected with the recording and analysis) prior to cash flow connected with the realization of financial operations.<sup>5</sup> First group comprises the actions prior to the cash flow, including forecasting, prediction, planning and decision-making with regard to time and accompanying risk. The second group concerns the realization of the actions connected with the previously planned cash flow. The third group concerns the recording of financial operations, that is accounting records of the events that took place in the past, their settlement and analysis. The analysis stage leads to drawing conclusions concerning the causes and consequences of particular phenomena in the past and their influence onto the future. Thus, it is a series of activities streamlining the decision-making process in the material and financial sphere of self-government entity financial and material management.<sup>6</sup>

Therefore it might be stated that SGE financial management in the action approach comprises all the actions connected with the preparation, realization, recording, analysis and control of operations and financial phenomena conducted in the public sector subjects and the actions reflecting the relations and economic events between the public sector subjects and the environment. It is based on the elements of the decision-making process concerning all the action areas comprising financial phenomena and instruments used to prepare, make and realize decisions.<sup>7</sup>

<sup>4</sup> P. Motek, *Gospodarka finansowa samorządu terytorialnego w województwie wielkopolskim*, Bogucki Wydawnictwo Naukowe, Poznań 2006, p. 19.

<sup>5</sup> J. Szczepański, L. Szyszko, op. cit., p. 10.

<sup>6</sup> *Finanse przedsiębiorstwa*, ed. L. Szyszko, PWE, Warszawa 2000, p. 18.

<sup>7</sup> M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Finanse samorządowe. Narzędzia, decyzje, proces*, Wyd. Naukowe PWN, Warszawa 2006, p. 50; B. Filipiak, *Gospodarka finansowa sektora samorządowego – ujęcie metodologiczne*, "Zeszyty Naukowe Uniwersytetu Szczecińskiego. Ekonomiczne Problemy Usług" 2007, No. 9, pp. 421-436.

The mentioned above approach allows to analyze and assess each level of the economy with the use of a wide range of various research tools and procedures. Thus, this approach enables to assess all the actions within the conducted financial management and to forecast cause and effect interdependencies together with indicating the trends from the point of view of the decisions taken by self-government entity authorities.

In a narrow perspective, according to the interpretation of Regional Administrative Court in Warsaw, the notion of financial management is used with reference to actions concerning creating financial plans, income and expenses plans, financial reports and to the activities concerning realization of these plans. The notion of financial management does not concern the creation and submission of budget report.<sup>8</sup>

Legal framework for financial management conducted by SGE has been regulated in a number of legal acts, the most important of which are as follows:

- the Constitution of the Republic of Poland,
- the Public Finance Law,
- political legal acts (Commune Self-government Act, District Self-government Act, Act on Voivodship Self-government),
- legal acts defining the SGE sources of finance,
- legal acts regulating the possibility of incurring debts by SGE.

Isolating of SGE financial management has been aimed at satisfying the needs of local and regional community in a better way. One needs to bear in mind that instability of regulations, frequent changes concerning income, expenditure or the principles of conducting financial management are not only against the principles of appropriateness and economy in terms of public resources but also make the realization of sustainable growth impossible.

## **2. Dominant approach towards effectiveness measurement of SGE financial management**

The legislator presents the most classical approach towards the assessment of the effectiveness of SGE financial management. With reference to expenditure the following postulate (Art. 44, section 3 of the Public Finance Law) has been formulated. Public expenditure needs to be done:

- a) in the appropriate and economical way, respecting the principles of:
  - achieving the best results with particular outlays,
  - optimal selection of methods and means to achieve the desired objectives;
- b) in the way enabling task realization according to schedule;

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<sup>8</sup> Wyrok WSA z 26.04.2010, V SA/Wa 103/10 [Judgement of Regional Administrative Court of 26.04.2010, V SA/Wa 103/10].

c) to the extent and within the stated time limit resulting from the previously incurred liabilities.

The problem of SGE income and its effectiveness is connected with the realization of the compatibility principle. Compatibility signifies a balanced finance system of self-government whose creation is connected with the necessity of the proper distribution of financing sources between the state and different levels of the self-government. While applying the constitutional principle of compatibility a wide margin of the assessment needs to be maintained. According to Art. 216 and 217 of the Constitution financial resources for public purposes are gathered and spent in the way described in the act, and the legislator is to impose taxes and other public levies. The regulations mentioned above, on one hand limit the power of SGE in determining the income sources, and on the other hand, they confirm the legislator's competences in creating the system of public finance, which might raise doubts.<sup>9</sup> The first doubt concerns the issue of the efficiency of realized income. Did the legislator ensure not only the proper compatibility but also the efficiency of the realization of income? Bearing in mind the way in which the regulations are presented in the Constitution the answer to this question is negative. Therefore, one needs to share the opinion presented in the literature that „the legislator has introduced the regulations that result in disproportions between the SGE tasks and their income.”<sup>10</sup> As a result, effectiveness cannot be achieved despite the fact that the Constitution enforces balancing of the financial system. On the other hand, no legal act of a lower rank, when compared with the Constitution, refers to effectiveness in revenue collection.

Legally binding system of accounting and recording economic events is a significant element in assessing effectiveness. The significance of this problem results from the fact that accountancy is the process of constant identification, measurement, classification, grouping, recording and presenting information in the form of monetary units for a wide range of informative and control purposes in order to define and plan activities, resources at their disposal and the sources of financing them and preparing various kinds of reports.<sup>11</sup> The existing accounting and recording standard was based on the Accounting Act and Art. 39 and 40 of the

<sup>9</sup> J. Glumińska-Pawlic, op. cit., pp. 33-34.

<sup>10</sup> W. Nykiel, *Rola dochodów w równoważeniu budżetów lokalnych*. Wyd. Uniwersytetu Łódzkiego, Łódź 1993, p. 123; M. Mazurkiewicz, *Zakres finansów lokalnych i ich gwarancje konstytucyjne*, in: *Samorządowy poradnik budżetowy na 1997 r.*, eds. W. Miemiec, W. Cybulski, Municipium, Warszawa 1997, pp. 226-227; J. Glumińska-Pawlic, op. cit., p. 34.

<sup>11</sup> K. Winiarska, *Rachunkowość przedsiębiorstw w procesie integracji z UE*, Wyższa Szkoła Integracji Europejskiej, Szczecin 2000, p. 34; K. Sawicki, *Podstawy rachunkowości*, PWE, Warszawa 2001, p. 18; E.A. Hendriksen, M.F. van Berda, *Teoria rachunkowości*, Wyd. Naukowe PWN, Warszawa 2002, p. 1; M. Wakula, *Koszty w procesie zarządzania jednostką samorządu terytorialnego*, „Zeszyty Naukowe Uniwersytetu Szczecińskiego. Finanse, Rynki Finansowe, Ubezpieczenia” 2013, No. 61, p. 356.

Public Finance Law of 27 August 2009. That was the basis for issuing a directive by the Minister of Finance concerning particular accounting principles and charts of accounts for the state budget, self-government budgets, budget entities, state special purpose funds and state budgetary entities located beyond the borders of the Republic of Poland.<sup>12</sup> The reporting system is also based on the Public Finance Law which was stated in Art. 41 of this act. One also needs to bear in mind that the information from the accounting and reporting systems is of predominant importance in managing any organization, including SGE. This results from the fact that this information reflects work quality, that is realization of tasks at all stages of conducted activity.

Is this activity analyzed? This question is difficult to answer. Taking into consideration the superficial state of matters and the analyses performed the answer should be positive. First of all, time series are prepared on the basis of the reporting system and then published in the system of state statistics and by the Ministry of Finance and the National Council of Regional Accounting Chambers in the form of collective information on financial situation of SGE. Legally binding acts do not refer to the necessity of conducting analyses and accomplishment measurement at the level of SGE (this measurement is mandatory at the government level). However, the legally binding acts impose the obligation of preparing the following information by the executive bodies of SGE resulting from Art. 265, 266, 267, 269 of the Public Finance Law:

- report on the implementation of the SGE budget, financial report, report of financial plan implementation,
- information on SGE's assets.

The mentioned above reports are then assessed by the Audit Committee, SGE's decision making body, regional accounting chamber and finally according to the disclosure principle by the society. It needs to be emphasized that the legislator did not introduce the system of analyses into reporting. The only index is the degree of plan and guidelines execution. Self-government entities and the bodies at the aggregated level (Central Statistical Office, Regional Accounting Chambers) prepare simple analyses based on the system of making comparisons within time. Although the reporting system of SGE is widely developed, these entities do not prepare advanced analyses which would allow to assess the efficiency of the

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<sup>12</sup> Rozporządzenie Ministra Finansów z dnia 5 lipca 2010 r. w sprawie szczególnych zasad rachunkowości oraz planów kont dla budżetu państwa, budżetów jednostek samorządu terytorialnego, jednostek budżetowych, samorządowych zakładów budżetowych, państwowych funduszy celowych oraz państwowych jednostek budżetowych mających siedzibę poza granicami Rzeczypospolitej Polskiej, t.j. Dz.U. 2013, poz. 289 [Directive by the Minister of Finance concerning particular accounting principles and charts of accounts for the state budget, self-government budgets, budget entities, state special purpose funds and state budgetary entities located beyond the borders of the Republic of Poland, of 5 July, Journal of Laws 2013, item 289 (consolidated text).

undertaken actions, to determine the effectiveness of allocated resources and to make a cross section analysis of incurred costs.<sup>13</sup>

The amendment to the Public Finance Law was a step forward as it introduced internal audit and the regulations concerning management control. These elements are the foundations of creating the system of assessment of SGE's financial management effectiveness. This system is obviously far from being complete, but it definitely creates some kind of foundation. Art. 68 of the Public Finance Law indicates that the management control in the entities of the public finance sector, including the self-government level, comprises all the actions undertaken in order to achieve objectives and realize tasks according to law, in the efficient, economical and prompt manner. The legislator faced the management control with ensuring efficiency and effectiveness of undertaken actions and the efficiency and effectiveness of the information flow. Additionally, risk management was made obligatory. These recommendations are the starting point of the actions for assessing the conducted financial management. The question that needs to be asked is the question about the measurement of the effectiveness, accomplishment assessment and the efficiency. As the legislator leaves the choice of the method (however, creating certain standards), it is quite difficult to decide what is effective and what is not.

On one hand, the actions taken by the legislator should be assessed in a positive way, but on the other hand, without the prepared approach, methodology, principles of result interpretation, in-depth analyses prepared ex officio and when ordered, it is difficult to indicate the effectiveness not only of a single entity, not to mention all the entities in the way enabling comparison.

### **3. Directions of the effectiveness measurement of the SGE financial management**

Different approach towards the measurement of effectiveness was created in practice, usually by the science cooperating with the practice, taking into consideration its needs and experience. The basis for the practical approach is the measurement. The concept of measurement is constantly evolving, the approaches which have been created are developed and the existing solutions are used by means of modifications. The basic directions of suggested solutions in terms of the measurement of SGE financial management are: measurement of accomplishments, the use of financial analysis tools, mathematical modeling (especially DEA and multi-criteria analyses), and of task budgeting. Practical approach is based on the use of the criteria such as economy, productivity and efficiency. These criteria

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<sup>13</sup> Indicated by the empirical research published in: *Metodyka kompleksowej oceny gospodarki finansowej jednostki samorządu terytorialnego*, ed. B. Filipiak, Difin, Warszawa 2009; M. Wakula, op. cit., p. 356.

are usually indicated in the measurement of accomplishments, that is the approach based on the use of financial analysis tools and task budgeting. In each of the approaches task realization is assessed, that is the assessment of providing goods and public services being a particular product or result of SGE activity.

The use of the economy criterion enforces the proper approach towards estimating the expenditure. Its purpose is to eliminate the cases of irrationality. The questions concerning the creation of the system of measurement of financial management effectiveness are as follows<sup>14</sup>:

1. To what extent are the resources indispensable for performing particular tasks purchased at the most profitable price and to what extent are they the proper resources?

2. What is the proportion of real expenses towards the budget?

3. To what extent are all the resources used?

4. Is the personnel loaded with work to the maximum during the process of task realization?

5. Does a need of employment optimization arise? Can the use of material production factors (task realization) be decreased? Can the process be rationalized and the expenditure decreased?

The use of efficiency criterion is based on the assessment of to what extent the best possible results with the particular use of resources in a particular situation were achieved. This approach makes it possible to optimize the processes used in transforming resources into products (results). Here one needs to address the following questions in particular<sup>15</sup>:

1. Was it possible to realize the tasks in a different way, which would lead to lower costs/expenses?

2. Are the methods used the most rational?

3. Are there any bottlenecks which could be avoided?

4. Do the work duties of different people unnecessarily overlap?

5. Are there any incentives for the staff encouraging them to lower the costs and to work according to schedule?

The approach that uses the efficiency criterion is based on the analysis of the defined objectives concerning particular task and making them specific so that their efficiency could be assessed. It is also important to identify the group of beneficiaries (the recipients of goods and services provided by SGE) the particular task (intervention) is targeted at. It is also important to determine the following<sup>16</sup>:

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<sup>14</sup> J. Duda, A. Jeżowski, W. Misiąg, B. Nowak, J. Szlachta, J. Zaleski, *Mierzenie ilości i jakości usług publicznych jako element programu rozwoju instytucjonalnego*, Instytut Badań nad Gospodarką Rynkową, Warszawa 2004, p. 29.

<sup>15</sup> Ibidem, pp. 29-30.

<sup>16</sup> Ibidem, p. 30.

1. Was the objective achieved with the use of the reasonable costs and according to schedule?
2. Was the target group defined properly?
3. Do citizens use the product, the effects of a given task?
4. Are the citizens pleased with the information or product provided?
5. To what extent does the product satisfy the needs of the target group?

The approach that uses the efficiency principle makes it possible to attain defined results or even better and better results by means of providing the products (results) adequate to needs.

The mentioned above approaches are typical of achievement measurement, that is assessing the results of actions undertaken by the self-government. The tasks realized by the self-government can be of either financial or non-financial character. The important thing is for the entity to attain maximum efficiency in task realization and in functioning. The measurement of achievements is based on balanced and adequate set of indices concerning the entity's potential and the achieved results.<sup>17</sup> As it can be found in the literature the basis for measuring the efficiency of achievements is the use of resources,<sup>18</sup> which was slowly developed.<sup>19</sup> The current approach comprises the efficiency of outlays allocation and total technical efficiency which comprises technical efficiency and scale efficiency. The level of efficiency is influenced by economy, effectiveness and productivity.

It is propounded in the literature to use the tools of financial analysis on the basis of a complex financial report in order to measure the effectiveness of financial management of SGE. Within this approach it is possible to use one of two variants: a budgetary one (the assessment is made on the basis of SGE budget) and the complex one (the assessment is made on the basis of a complex report concerning the overall financial management). It is assumed that the analyses are prepared in such a way so as to examine these factors and events that influence the financial management in the significant way and at the introductory level the factors and events that influence the effectiveness need to be verified. Then, the detailed analysis whose aim is to lead to drawing conclusions and postulates is conducted.<sup>20</sup> Measures, similarly as in the achievement measurement, are used to formulate assessments, but the basis for their construction are measurable events

<sup>17</sup> T. Strąk, *Modele dokonań jednostek sektora finansów publicznych*, Difin, Warszawa 2012, p. 92.

<sup>18</sup> G. Debreu, *The Coefficient of Resource Utilization*, "The Econometric Society" 1951, Vol. 19, No. 3, pp. 273-292.

<sup>19</sup> M.J. Farrel, *The Measurement of Productive Efficiency*, "Journal of the Royal Statistical Society" 1953, series A, CXX, part 3, pp. 253-290; W.W. Cooper, L.M. Seiford, K. Tone, *Data Envelopment Analysis. A Comprehensive Text with Models, Applications, References and DEA-Solver Software*, Springer, New York 2007, pp. 257-259, 262-268; T. Strąk, op. cit., pp. 332-387.

<sup>20</sup> See more: *Metodyka kompleksowej oceny...*

expressed in monetary units for the measurement of which the tools of financial analysis can be used.<sup>21</sup>

Another approach in examining the effectiveness of SGE financial management is the use of mathematical modeling which is based on taxonomic methods (use of measurements of distance from the standard),<sup>22</sup> multidimensional analysis (organizing and classifying of objects characterized by multiple features, making it possible to classify them in a multicriteria manner depending on the characteristics of the objects and the variables used in the analysis).<sup>23</sup> Currently in the international comparative research on effectiveness in the public sector it is the method called Data Envelopment Analysis that is widely used. The assessment of the effectiveness in this method is connected with the notion of productivity. In the productivity analysis of the public sector entities it was assumed that every institution of this sector can be characterized on the basis of its initial resources (outlays, system input), effects (system output) and the transformation processes transforming the resources into effects. The process is characterized by higher productivity if the resources are used more effectively.<sup>24</sup>

Another approach is the implementation of task budgeting. As it is indicated while summarizing this approach „task budget is the instrument of efficient spending of public resources by SGE and it concentrates on provided goods and public services...In the task budget one needs to set objectives that need to be realized and assign tasks to these objectives... one also needs to determine the methods of task costs calculation and determine the measures describing the degree of objectives realization.”<sup>25</sup> But is this effectiveness really attained and can it be assessed by means of task budget measures?

<sup>21</sup> M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Podstawy analizy finansowej w jednostkach samorządu terytorialnego*, Fundacja na rzecz Uniwersytetu Szczecińskiego, Szczecin 2003; M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Analiza finansowa w jednostkach samorządu terytorialnego*, Municipium, Warszawa 2004; M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Metody analityczne w działalności jednostek podsektora samorządowego*, Difin, Warszawa 2010.

<sup>22</sup> W. Tarczyński, *Metodologia powiązania wskaźników i mierników budżetu zadaniowego ze zintegrowanymi miernikami SRK i KPR*, ekspertyza KPRM, Warszawa 2007.

<sup>23</sup> P. Dziekański, *Wskaźnik syntetyczny w procesie oceny gospodarki finansowej gmin wiejskich*, „Ekonomia” 2013, No. 3(24), p. 151.

<sup>24</sup> P. Chalos, J. Cherian, *An application of Data Envelopment. Analysis to public sector performance measurement and accountability*, „Journal of Accounting and Public Policy” 1995, vol. 160, No. 14, pp. 143-160; J. Odeck, *Evaluating target achievements in the public sector: An application of a rare nonparametric DEA and Malmquist indices*, „Journal of Applied Economics” 2005, vol. VIII, No. 1, pp. 171-190; J. Nazarko, K. Kuźmich, E. Szubzdą, J. Urban, *Metoda DEA w badaniu efektywności instytucji sektora publicznego na przykładzie szkół wyższych*, „Badania Operacyjne i Decyzyjne” 2008, No. 4, pp. 90-91.

<sup>25</sup> M. Jastrzębska, *Finanse jednostek samorządu terytorialnego*, Wolters Kluwer Polska, Warszawa 2012, p. 66

The reason for taking into consideration task budget is also the fact of low efficiency (extent of objectives realization) and effectiveness assessment, that is the relationship between the expenditure on task realization and the measures of attaining objectives. One of the major factors of low effectiveness of expenditure is its planning (approach, task distribution into specific types) not the logic of financing particular effects. It is also the principles of financing institutions and procedures determined in legal acts describing forms of activity of widely understood public subjects that are problematic. That is why the effectiveness of public spending, whose measure should be progress in resolving identified problems with the use of public resources, seems to be of secondary importance. It is not enough to declare the aspirations for improving effectiveness of expenditure, it is essential to create conditions which would make it possible. Without implementing the principles of task budgeting in the sphere of social policy this is not possible.<sup>26</sup>

#### **4. Obstacles to the effectiveness measurement of SGE financial management**

Unquestionable obstacle concerning the measurement of the effectiveness of SGE financial management is the lack of the recommendation concerning the valuation of task realization (cost estimation of provided goods and services). The fact that task valuation is not obligatory is a significant disadvantage of the existing system of public finance resources management. With no valuation it is impossible to implement the approach determining whether it is the extent of task realization expressed in monetary units or the quality that matters.

The second obstacle are the systems of records. The lack of guidelines concerning the complex approach towards recording of economic events in terms of the overall SGE activity hinders the measurement of effectiveness. And the changes in this area were discussed in the literature long ago.<sup>27</sup> Entrepreneurs share the described above opinion but as it has been indicated the change involves costs (for example, computer software, changes in the accounting policy, organizational changes).

It is also politicians who cyclically exhibit grave interest in the matters of the measurement of the effectiveness of SGE financial management. The period prior

<sup>26</sup> W. Misiąg, *Koncepcja i wskaźniki budżetu zadaniowego a bilans potrzeb pomocy społecznej*, p. 11, [www.google.pl/url?sa=t&rct=j&q=&esrc=s&source=web&cd=8&ved=0CEoQFjAH&url=http%3A%2F%2Ffirss.pl%2Fwp-content%2Fuploads%2F2011%2F06%2FKoncepcja\\_i\\_wskazniki\\_budzetu\\_zadaniowego\\_a\\_bilans\\_potrzeb\\_pomocy\\_spolecznej.doc&ei=4RQcVLO2OKj-ygPfjYCgCA&usg=AFQjCNHd9RB7wne1SNrITKQJ7OtOlKub9Q](http://www.google.pl/url?sa=t&rct=j&q=&esrc=s&source=web&cd=8&ved=0CEoQFjAH&url=http%3A%2F%2Ffirss.pl%2Fwp-content%2Fuploads%2F2011%2F06%2FKoncepcja_i_wskazniki_budzetu_zadaniowego_a_bilans_potrzeb_pomocy_spolecznej.doc&ei=4RQcVLO2OKj-ygPfjYCgCA&usg=AFQjCNHd9RB7wne1SNrITKQJ7OtOlKub9Q) [19.09.2014].

<sup>27</sup> See more: *Metodyka kompleksowej oceny...*

to the elections is always characterized by the low effectiveness actions. Organs of executive power concentrate then on trying to fulfill their political promises, which is not always in line with the effectiveness of the financial management. Opposition tries to enforce the change in approach and tries to assess the effectiveness of financial management in this particular period. After the elections the decisions concerning the change in the analysis of the effectiveness of SGE financial management are not usually taken. The executive organs act according to law and they do not try to change anything. A standard that could be followed by SGE might be self-government sector where the legislator by means of imposing obligatory task approach enforces effectiveness assessment by means of the system of measures. However, even here some flaws (especially in the task approach) of the measurement itself can be noticed.

The disadvantage of the described above task budgeting is the lack of regularity in terms of making analyses and publishing conclusions (concerning the future activities of public authority). This is the most difficult task that one needs to face in the concept of task budgeting as the method of measuring the effectiveness of public resources spending. The second barrier is the lack of freedom in managing public resources, which means that formal demands should be accompanied by more strict demands concerning the openness and clarity of functioning of those who have public resources at their disposal. The third limitation is the construction of the measures themselves. They should be constructed according to SMART principle, but are they really simple, measurable and can they be achieved? Moreover, the measures should be characterized by the following features: they should be “adequate for the objectives that the entity wants to achieve, they need to be clearly and unambiguously defined which makes it possible to acquire data, they need to be accurate, so that the acquired data are useful and reliable, that is precise enough and reacting to changes, comparable with previous periods or with other similar measures, subject to verification, supported with clear documentation so that the processes generating a given measure could be verified, that is discouraging undesirable and wasteful activity.”<sup>28</sup> While constructing these measures one needs to avoid oversimplified relations between the used measures as that might undermine data reliability. Another problem formulating objectives and assessments for more than one organizational unit (in case of performing the same tasks). One also needs to bear in mind that some measures cannot be used on their own by one organizational unit. Here emerges the question of data consolidation and its proper aggregation.

Both the system of gathering and recording data and the set of measures require stability. Frequent changes in the regulations make it impossible to compare data so the principle of measurability cannot be always attained, and that in turn,

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<sup>28</sup> J. Duda, A. Jeżowski, W. Misiąg, B. Nowak, J. Szlachta, J. Zaleski, *op. cit.*, p. 21.

enforces the changes in measures applied. Leaving the task of measures constructions to self-government organs (changes due to every tenure or budget) does not lead to simplicity, comparability and measurability. The possibility of achieving measures when the financing system changes is also questionable.

The crucial element is the shift in the mentality from the legalistic approach (whatever is demanded by the law needs to be performed) to the rational approach (necessity of the measurement results in better efficiency of actions and better use of financial resources). It seems that this barrier is difficult to overcome as in the public sector it is extremely difficult to implement the approach which is not authorized by law and to ensure its stability.

## **Conclusions**

The existing law did not create stable and efficient tools and approaches towards the measurement of the effectiveness of financial management. This is strengthened by the attitudes of self-government organs which are short-sighted. Although they notice the necessity to increase the effectiveness they do not undertake efficient actions aimed at implementing the measurement of the effectiveness of financial management. One also needs to bear in mind that some aspects of financial management are not easily measured. It is necessary to compromise, to combine approaches, to tailor the existing solutions to particular circumstances and to create new ones.

There is a wide availability of approaches towards the measurement. It is not the question concerning the ideal choice, but the choice that is optimal under particular circumstances for the given self-government entity. Science in cooperation with practice has prepared a wide range of approaches towards the measurement of the effectiveness of financial management. However, the existing obstacles limit the implementation of the indicated approaches.

The necessity of moving away from the present approach is not questioned. The existing solutions do not support the real assessment of the effectiveness of financial management. With this respect one needs to implement the solutions created by the cooperation of science and practice, which requires visionary, long-term and gradual actions. This could be defined as taking small steps in the right direction of change in order to achieve desired results.

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## O nowy pomiar efektywności gospodarki finansowej jednostek samorządu terytorialnego

**Streszczenie.** Celem artykułu jest wskazanie przesłanek podjęcia działań na rzecz wdrożenia pomiaru efektywności gospodarki finansowej jednostek samorządu terytorialnego (JST) oraz określenia ograniczeń istniejącego rozwiązania na tle barier dokonywania pomiaru efektywności na podstawie alternatywnych do istniejącego (ustawowego) podejść. W artykule zaprezentowano dominujące podejście do pomiaru efektywności, a także dylematy z nim związane.

**Słowa kluczowe:** efektywność, jednostki samorządu terytorialnego, pomiar