

## “Ideas on: Performance Budgeting”

For B.A., 6<sup>th</sup> Semester  
Economics ( Major)  
Paper – 6.1

Aparna Sengupta  
Associate Professor  
HOD, Department of Economics.

### Performance Budgeting: -

The resources at the disposal of the Govt. are always scarce in comparison with the services which it would like to provide to the society. Accordingly, it must try to use the resources most economically and efficiently. To this end, therefore, choice of projects should be based upon cost-benefit analysis and the chosen programmes should be subjected to the **tests of actual Performance against their expected standards.**

Performance budgeting is tests for assessing the actual performance. As the Hoover commission in the USA stated, a performance budget is based upon activities, functions and projects of the government. This type of budget is commonly used to show the link between taxpayer funds and the outcome of services provided by federal, state or local governments. The major aim of performance budgeting is to improve the efficiency of public expenditure, by linking the funding of public sector organizations to the results their deliver.

### Characteristics: -

Performance budgeting has the following characteristics. It presents the major **purpose** for which funds are allocated and sets measurable objectives. It tends to **focus** on changes in funding rather than on the base (the amount appropriate for the previous budget cycle).

### Advantages of Performance Budgeting: -

1. Performance Budgeting plays an important role to achieve efficiency.
2. In the public sector organization performance budgeting helps to increase the accountability. It evaluates the benefit accruing to the citizens and society.
3. Performance Budgeting helps in bringing the transparency in the budget formulation process.
4. Performance Budgeting improves the performance of the programmes on a continuous basis. It overcomes the limitations of traditional budgeting.
5. Performance Budgeting integrates the entire process of planning, implanting and evaluation of the results. It links programming and budgeting.

**Limitations: -**

1. Performance Budgeting is subjective in nature. It is difficult to qualify social benefits in money terms. The costs may differ from one Govt. body to another Govt. body.
2. Performance Budgeting requires a strong system of accounting. Therefore, the reporting system has to be strong for its successful implementation.
3. In Performance Budgeting, often the time period becomes a problem. It becomes difficult to measure the results of the projects in long term. Problems relating to administrative considerations, technical efficiency and many other factors come in. At the most, Performance Budgeting can be introduced only in phases.

In India Performance Budgeting was introduced in all ministries and departments in 1975-76. Without a doubt, over a period of time, Performance Budgeting became popular, though critics claim that Performance Budgeting techniques, as applied in India, are still quite poor.