

# BUDGET PLANNING IN FINANCIAL MANAGEMENT

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**Abstract.** The *purpose* of the paper is to determine the nature, targets, functions, principles and methods of budget planning and development of classifications due to its types. The essence of budget planning presented by various authors, is own interpretation (the process of developing a plan of formation, distribution and redistribution of financial funds according to budget system units during the reporting period based on budgetary purposes and targets defined by socio-economic development strategy) is proposed. *Methodology.* The following methods such as cognition, induction, deduction, analysis and synthesis have been used in the process of survey. *Results of the survey* proves that budget planning plays an essential role in the financial management. On condition business environment changing even the best management system can become obsolete. The immediate reaction to the new trends in the financial system as a whole, in the industry is possible with budget planning as well. It also allows to make appropriate adjustments to the plans. Adjustment of long-term, medium-term and short-term plans makes it possible, without changing goals, to change ways of their achievement and thus to raise the level of efficiency of budget funds formation and use. It is necessary to revise the whole system plans, including their mission and goals in the case of global changes in the external and internal environment. *Practical implications.* The proposed approach to the classification of budget planning types allows to cope with the shortcomings of modern planning in the public sector (the development of the targets according to the state budget expenditures in Ukraine remains a formality and it rarely complies with realities. *Value/originality* is specified in the proposed interpretation which differs from existing ones that provides clarification of budget planning purpose in financial management; classification of budget planning principles, which differs from previous approaches in more deep detailed elaboration; classification criteria of budget planning types by distinguishing nine properties that makes its implementation more efficiently.

**Key words:** budget, financial resources, planning, financial management, budgeting, public authorities.

**JEL Classification:** G28, G31, G32

## 1. Introduction

Budget planning takes an essential position in the budgeting. The quality of the budgeting performing and the level of socio-economic development of the country depends on the correct definition of budget targets. Performance of the state financial position analysis, advanced planning conduct, determination of objective relationships and long-term trends in the structure of financial resources and factors that define these trends development in the future are possible with the financial statements resulting from budget planning. Necessary financial proportions according to the plan of economic and social development are provided ; the amount of revenues and reserves of growth as well as expenditures and reserves to reduce them are determined; an adequate financial base of social protection is created; revenues and expenses are allocated between the individual links of the budget system material and budgetary provisions are formed in the process of budget planning [Akhlamov A. & Holynskaya O., p. 20]. Therefore, the

study of budget planning in financial management is an extremely important area of study. Among the scientists and practitioners studying theoretical and practical principles of budget planning are the following: Vasilyk O. and Pavliuk K. (2004) Hordieieva L. and Derkach N. (1995), Kuzmynchuk N., Feshchenko L., Pronoza P. (2008), Mochernyi S. (2001), Oparin V., Fedosov V. and Safanova L. (2004), Pasechnik Iu. (2003), Stoian V., Yurii S. and Mats M. (2002). However, despite the constant paying attention to the area studied by both scientists and practitioners, some issues are insufficiently known, particularly for budget planning in financial management, identification of its types.

## 2. Scientific approaches to determining the definition of “budgeting”

The synonym to the term «budgetary planning» is «budgeting». It is necessary to explore the essence of the definition for theoretical principles of budget planning summarizing. There is no definition of the term “budget planning” in the Budget Code. The leading Ukrainian

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economists give different interpretations due to studied category. Having analyzed definition of “budget planning” and having considered the peculiarities of the budget planning type we denote it as the process of developing a plan of formation, distribution and redistribution of financial resources according to budget system units formation, during the reporting period based on budgetary purposes and tasks defined with socio-economic development strategy of the country.

According to the purpose of survey, the main targets of budget planning are: determining sources completeness of cash for taxes and duties to the budgets of different levels. The total state demand in cash appears in the process of budget planning. It is necessary for the implementation of socio-economic society development. Different opportunities are taking into account, as well as practical mobilization feasibility of a newly created value of gross domestic product to the budget performed with entities. Meanwhile, in this period, when the targets of financial resources concentration to ensure basic (critical) areas of socio-economic development are set, the redistributive role of the budget process excessively increases; achievement of the highest efficiency in the allocation of budgetary resources between the budgets of regions, sectors of the economy and specific expenditures.

The budget plan must meet the purpose of socio-economic development and contribute to the efficiency growth of social production; allocation of budget resources to provide proportional and dynamic development of

society. Development of society is predominantly dynamic. However, individual economic subjects as well as entire regions develop not equally evenly; transparency and control over financial and economic activity of business entities to comply with the intended use and austerity in the use of funds and tasks completeness of income taxes and duties to the budget. State institutions financed from the State and local budgets have been taken to the financing based on estimates since 1997 for introducing effective state control over budget expenditures; formation of necessary resources. Availability of budget reserves enables to provide uninterrupted financing of the planned measures even in cases where revenues budget are not met. Budget reserves are the source of damage caused with natural forces of nature. It is difficult to avoid liquidation of imbalances arising from the budget implementation without them. Budget planning is a type of management, associated with the development budgets of different types and for different objects, forming their consolidation patterns for consolidated budgets using the combination of certain methods (Fig. 1). Methods of budget planning are the ways and techniques being applied for plans targeted to public sector entities development.

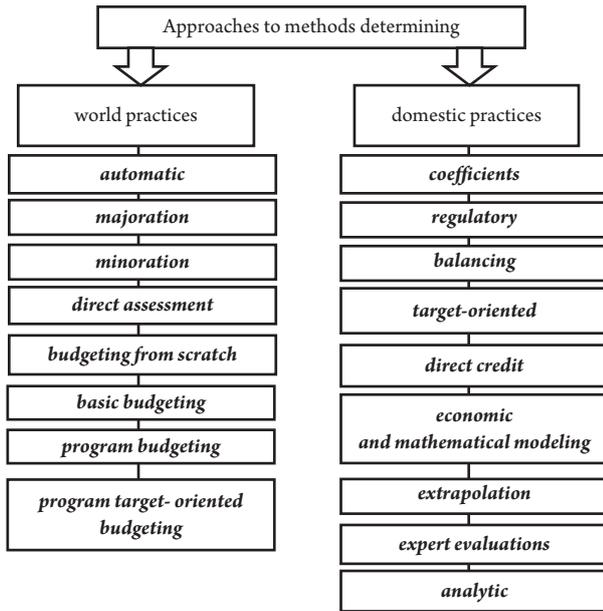
As it is shown in fig. 2 today, there are two approaches to determining the methods of budget planning. According to foreign practices eight methods of budget planning are distinguished (automatic, majoration, minoration, direct assessment, budgeting from scratch, basic budgeting, program budgeting, program target- oriented budgeting).

Table 1

**Scientific approaches to determining the definition “budgeting”**

Author	Definition
Vasylyk O. and Pavlyuk K. (2004)	a scientifically grounded process of determining the sources of formation and directions of budgetary resources using in the state's economy in order to ensure sustainable economic and social development..
Derkach M. and Hordieieva L (1995)	centralized distribution and redistribution of the gross national product and national income in the process of the budget drafting and implementation in all budget system branches and in all types of financial plans based on the State plan for socio-economic development of Ukraine.
Mochernyi S.. (2001)	budgeting process for specific objects for a short period (one year) to determine on the basis of multivariate analysis in the form of money or in the kind of expenditures and revenues, optimize their structure to achieve the goals of the organization considering the presence of certain constraints and environmental factors influence performance.
Safanova L. (2001)	the set of organizational, technical, methodical and methodological steps in determining the income and expenditure budgets during their preparation, review and approval
Mochernyi S. (2001)	process of budget drafting, review and approval for next year. It covers a series of administrative measures and methodology for calculating individual budget items.
Pasichnyk Yu (2003)	the formation of budget content indicators performed by legislative and executive bodies of a certain level for a specific period of time
Feschenko L.A, Pronoza P. and Kuzmynchuk N.(2008)	a scientifically grounded process of determining the sources of formation and directions of budgetary resources being used in the state's economy in order to ensure sustainable economic and social development.
Fedosov V. and Oparyn V (2004)	financial management tool aimed at improving the effectiveness and transparency of the public sector, with setting budget goals not only for the next (planned) year, but also for the future, including the medium-term (three years) perspective.
Yurii S., Stoian V and. Mats M (2002)	centralized distribution and redistribution of gross domestic product and national income in all levels of the budget system and in all types of financial plans on the basis of the State program of economic and social development of the country

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**Fig. 1. Methods of budget planning**

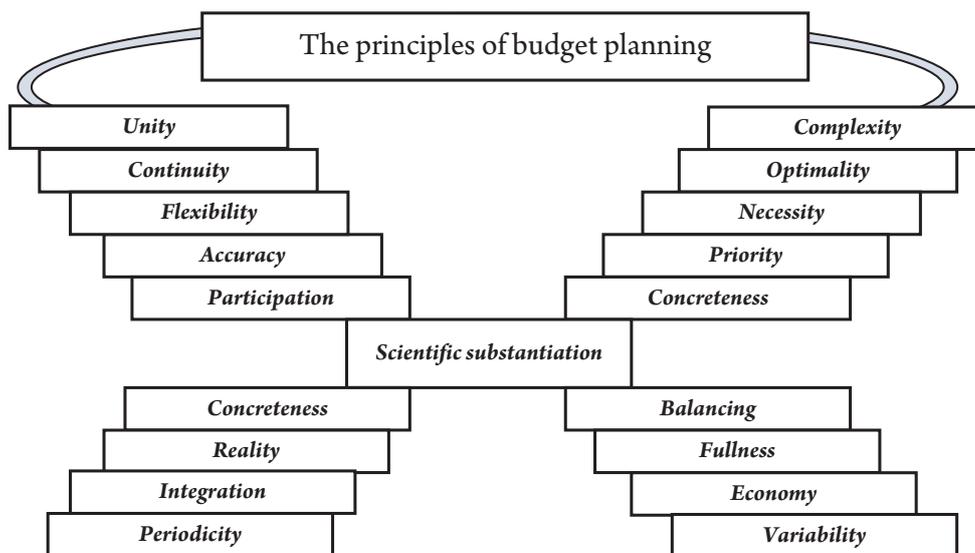
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Ukrainian scientists distinguish the following nine methods of budget planning (coefficients, regulatory, balancing, target-oriented, economic and mathematical modeling, extrapolation, expert evaluations, analytic) (Pasichnyk Yu., 2003)]. Each method can not be separated from each other in its pure form. All methods are interrelated and need complementarities. At the same time, it should be mentioned that some researchers, currently are identifying the concept of different methods of budget planning.

There is an example when the term “regulatory method” is identified with the “line-item” method. This approach is quite controversial, because “normative method” refers to the methodology of the budget development,

while the “itemized method” is not only the approach to the budgeting process and but its methodology implementation. It also concerns the following methods such as coefficients and analytical method. The important methodological system constituents of budget planning except methods are also its principles and functions. Overall, budget planning can only be effective if it is based on certain principles. The main principles of budget planning are: integrated approach to key indicators of economic and social development in close relationship with available budgets; optimal using of budgetary funds to provide the development of economy and social sphere foreground directions with prime budgetary funds; rational identification of budgetary funds sources and their redistribution through the budget system links; unity in the use of budget indicators, in the implementation of budget payments, in the application of a sole methodology of trends and directions of development forecasting; scientific substantiation of plans involving reality of forecasting calculations, their economic substantiation, using advanced methodologies, norms and standards. We believe this approach is not perfect because it does not fully characterize and reveals budget planning. Therefore, we consider it necessary to provide our own definitions of classification principles of the studied definition (Fig. 2).

The principle of unity implies that budget planning is systematic. It requires that budget planning covers all the public sector, trends, changes and feedbacks in the financial system affecting the budget. The principle of continuity is expressed in the fact that the process of budget planning should be carried continuously out as well as developed plans should consistently replace each other. The principle of flexibility is interconnected with the principle of continuity in providing the plan and the budget planning process with properties to change their targeting due



**Fig. 2. The types of budget planning principles**

*Compiled by the author*

to unforeseen circumstances. The principle of accuracy means plans compliance with internal and external factors affecting the revenue and expenditure side of the budget. Due to this purpose, it could be possible to resort to detailed specification. The principle of participation means that all those involved in the budget process become a participant of planned activities regardless of their position and what functions they perform. The principle of complexity is that all decisions regarding budget planning should be complex and provide accounting changes both in separate articles or chapters, and in the outcome of the budget process in general.

The principle of optimality focuses on the implementation of social, scientific and technological and organizational progress, as well as on full reserves implementation, the public sector financial funds using.

The principle of necessity implies understanding the mandatory plans using on receiving or using the budget financial funds. The principle of priority stipulates that plans development must be based on the priority of budget planning, its certain sections or articles. The principle of scientific substantiation involves the budgets construction on the basis of balanced, scientifically grounded indicators and calculations. The principle of concreteness requires that the plan indicators should be specific and directly related to object planning. The principle of objectivity involves the construction process of budget planning due to objective information. The principle of balance reveals in labor, material and financial resources balancing. It means that plans are developed in a way to keep the revenues and expenditures balance, sources of its formation, etc. The principle of reality comes from the necessity of dominant functions performed by the competent authorities due to budgetary resources. The principle of all transactions completeness leading to the revenue and expenditure side of the budget should be reflected. The principle of integration is predetermined with the needs of close relationship (both horizontally and vertically) between different types and levels of budgets. Implementation of this principle means when developing budgets of lower level, targets provided with the budget of higher level are taken into account. The principle of economy is reflected in the fact that compliance with all the above principles makes sense if the income and expenditure analysis shows the budget surplus. The principle of periodicity implies that budgets should be drawn to certain periods. The principle of variability is that due to budgetary planning an opportunity to consider alternatives in the area of formation, distribution and financial resources using in public sector is created, as well as to assess the cumulative effect of targets on the final result and to choose a more effective program of social development or a separate political unit. The functions of budget planning is reflected in the fact that they make it possible to ensure the state financial resources balancing as well as to determine the real source of income, budget and fiscal policy priorities in expenditure, to implement

effective management of public debt, to put a common fiscal policy at all levels of government into practice. As the researcher Azarov M.Ya. (2010) denotes its level largely depends: first of all on clarity formulation of goals and targets; secondly, it depends on information reliability being used to prepare the draft budget; thirdly, it depends on methodology of budget planning indicators. There are several functions of budget planning: reflecting the budget policy, implemented by legislative and executive power in the state; choosing the rational ways of budget support due to the predictable level of economic and social development through effective use of available resources in the society; implementation of the necessary level of budgetary resources redistribution to achieve the rates and proportions of economic development and improvement of social welfare; establishing of rational forms of budgetary resources mobilization and identifying their optimal structure on their basis. Having considered the essence of the definition “budgeting”, its goals, targets, principles, methods and functions we find it important to examine its types that will help better to understand the detailed budget planning in financial management.

In 2001 Safanova L. mentioned that it has become traditional to single out the following types of budget planning: consolidated, territorial and addressed. However we consider that other types of budget planning besides mentioned ones should be singled out. We offer our own classification of budget planning, displayed in fig.3. Depending on the period: the current budget planning is a type of budget planning, providing forecast revenues and

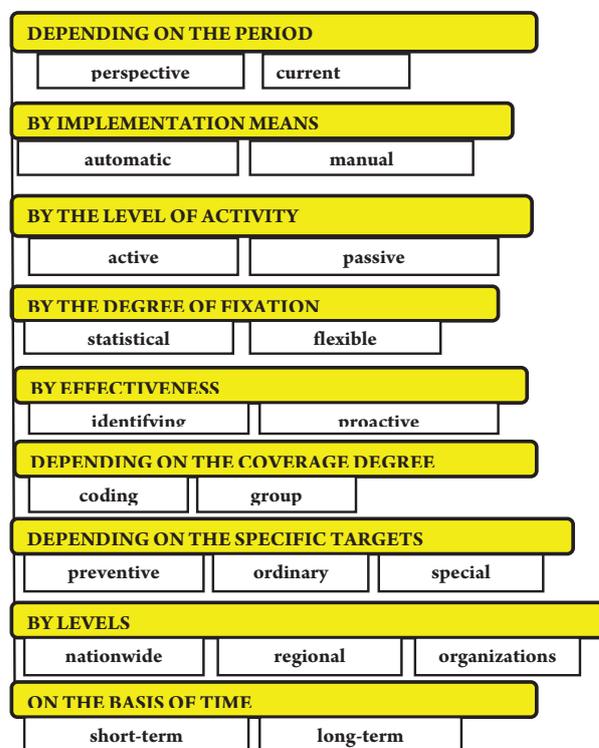


Fig. 3. The types of budget planning

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expenditures for next year, which is periodically précised towards the budget compliance with the adopted goals. The perspective budget planning is reviewed and approved by the representative body of power simultaneously with the Budget Law for the next fiscal year. In the process of perspective budget planning all the expected revenue as well as all the expected costs are considered. In these circumstances in each program the total estimated costs are calculated and distribution of expenses is set by years according to the adopted budget classification. Generalized information should include annual summary, including study data on estimated revenues and the list of planned expenditures on the basis of the commitments.

Notion implementation means: the automatic budget planning involves planning budget revenues and expenditures, with direct application of automated devices avoiding human interference. The manual budget planning is the type of planning carried out directly by the performer with a precise calculation of formation and financial resources use indicators in the public sector. This type of planning is applied in individual cases. With the level of activity: the active budget planning – involves planning directly during the budget process. The active budgetary planning using allows preventing the emergence of negative phenomena, which can adversely affect the budget funds formation and use.

The passive budget planning is the type of planning carried out just before the budget process starting in determining the direction of future results. With the degree of fixation the statistical budget planning involves planning, based on the probability theory and mathematical statistics applying. It allows to record the actual level of planning quality in the last reporting period, as well as to influence the budget process, to ensure its management. The flexible budget planning is budgeting involving constant adjustments of planned information which is analysed due to the financial resources formation and use in the public sector and due to making appropriate changes in the planning process. By the effectiveness the identifying budget planning involves planning in the budget process where data on actual results is compared to planned. Because of this budget planning negative feedback may occur the action aimed at returning the process to the originally specified direction is initiated; as well as positive feedback encouraging action aimed at eliminating deviations from plan. The proactive budget planning is the type of planning based on the results of forecast calculations. For example, if the projected costs begin to exceed the planned budget, it is necessary to implement the plan of action to avoid such deviations in the future. Depending on the coverage degree the coding budget planning is the budget planning, carried out due to each code of various classifications of income and expenditures. The group budget planning is the budget planning held immediately due to several general codes of income and expenditures of different classifications. Depending on the specific targets the preventive budget planning allows

preventing the emergence of negative phenomena, in the budget planning. The ordinary budget planning is the budget planning performed to identify and to eliminate negative phenomena arising in the budgetary planning. The special budget planning is the budget planning that is responsible for determining the specific targets of the special budget planning. With levels the national budget planning involves participation of international financial institutions, foreign consultants, scientific institutions of Ukraine, the Cabinet of Ministers of Ukraine, all ministries and departments, committees of the Verkhovna Rada of Ukraine, some MPs and NGOs. The regional budget planning involves structural subdivisions of the legislative and executive authorities, MPs, scientists and public figures. The budget planning of organizations involves experts of economic units. On the basis of time the long-term budget planning is carried out by the appropriate authorities for the long term. This type of budgeting is used when developing national programs aimed at reforming or improving the socio-economic development. The short-term budget planning is carried out in the short term (month, quarter, year). We can see in Fig 3 that in spite of existing types there is an appropriate division of the budget planning with the following classification criteria: it depends on the purpose of carrying out, execution time, the degree of coverage, specific targets and ways for implementation, methods, results, level of budget planning and some time. This classification reflects new features, which can be viewed according to different types of budget planning both short-term and long-term.

### 3. Conclusions

Thus, it has been denoted that budget planning takes an essential position in the financial management. On condition that business environment changing even the best management system can become obsolete. The immediate reaction to the new trends in the financial system as a whole, in the industry is possible with budget planning as well. It also allows to make appropriate adjustments to the plans. Adjustment of long-term, medium-term and short-term plans makes it possible, without changing goals, to change ways of their achievement and this way to raise the level of efficiency of budget funds formation and use. It is necessary to revise the whole system plans, including their mission and goals in the case of global changes in the external and internal environment. The proposed approach to the classification of budget planning types allows to cope with the shortcomings of modern planning in the public sector (the development of the targets according to the state budget expenditures in Ukraine remains a formality and it rarely complies with realities. According to art. 38 listed in Budget Code of to the Verkhovna Rada of Ukraine simultaneously with the draft law on state budget for the planning year, figures of consolidated budget of Ukraine based on the main types of revenues, expenditures and funding for the next three budget years are served. However, that work is done indeed formally. Firstly it occurs because

of the macroeconomic forecasting unreliability, frequent adjustment of tax laws, changing of previously selected priorities in budgetary expenditure under the influence of various political forces, and secondly, these forecasts are

not really used in the work of the budget formation targets for the following years), as approval of substantial budget targets and standards for several years remains essential, not just directly for the following year.

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## Наталія МЕЛЬНИЧУК

### БЮДЖЕТНОЕ ПЛАНИРОВАНИЕ В УПРАВЛЕНИИ ФИНАНСАМИ

**Аннотация.** В статье приведена сущность бюджетного планирования разными авторами, предложено собственное трактование. Обоснованы особенности осуществления бюджетного планирования в современных условиях хозяйствования. Исследованы задачи, функции, принципы и методы бюджетного планирования. Разработана классификация видов бюджетного планирования. *Целью статьи* является определение сущности, задач, функций, принципов и методов бюджетного планирования, а также разработка классификационных признаков его видов. *Предметом исследования* является совокупность финансовых отношений, которые возникают во время бюджетного планирования в системе управления финансами. *Методология исследования.* В процессе написания статьи были использованы следующие методы: познания, индукции, дедукции, анализа и синтеза. *Выводы.* Таким образом, бюджетное планирование играет чрезвычайно важное значение в управлении финансами. Ведь даже самая лучшая система управления может устареть, если изменятся условия осуществления деятельности. А с помощью бюджетного планирования возможно своевременно реагировать на новые тенденции в финансовой системе в целом, в области и вносить соответствующие коррективы в планы. Корректировка долгосрочного, среднесрочного и краткосрочного планов дает возможность, не меняя целей, менять пути их достижения следовательно, повышать уровень результативности формирования и использования средств бюджета. В случае глобальных изменений во внешней и внутренней среде, возникает необходимость пересмотреть всю систему планов, включая миссию и цели. Предложенный подход к классификации видов бюджетного планирования позволяет преодолеть недостатки современного планирования в бюджетной сфере (разработка прогнозных показателей по расходам государственного бюджета в Украине остается формальностью. В соответствии со ст. 38 Бюджетного кодекса Украины в Верховную Раду Украины вместе с проектом закона о государственном бюджете на планируемый год подаются показатели сводного бюджета Украины по основным видам доходов, расходов и финансирования на следующие три бюджетных года. В то же время на практике такая работа проводится формально, во-первых, связано с ненадежностью макроэкономического прогнозирования, частым корректировкой налогового законодательства, изменением под влиянием различных политических сил ранее выбранных приоритетов в бюджетных расходах, во-вторых, такие прогнозы на самом деле не используют в работе по формированию показателей бюджета на последующие годы), поскольку существенным представляется утверждение бюджетных целей и норм на несколько лет, а не только на непосредственно следующий год.