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A MANUAL FOR PROGRAMME AND PERFORMANCE BUDGETING

(Revised Draft - for internal use only)

Prepared by

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of the United Nations

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PREFACE

A Manual for Programme and Performance Budgeting was originally prepared at the request of the Second Asian and Far Eastern Workshop on Budget Reclassification and Management held in Bangkok in 1957 and submitted to the Third Workshop held for that Region in 1960. The original version, after replacing the chapter on "Performance Budgeting and Accounting" by an entirely new chapter of the same title, was later submitted to the First Budget Workshop for African Countries held in Addis Ababa in 1961.

The present version contains the following changes: Chapter I is revised to take advantage of the discussions at the workshops. Chapters II, IV and V except for changes of a drafting nature are substantially the same as in the earlier versions. Chapter III, except for the change in its number--it was chapter IV in the version submitted to the meeting in Addis Ababa--is exactly the same.

CHAPTER I

Performance or Management Approach to Budgeting

1. In recent years, at least two fundamental changes have occurred in the scope and nature of public expenditure. First, it has increased vastly in scope as compared with expenditure of only five or ten years ago. The second change, perhaps less apparent, is that much of this increase goes on highly technical, scientific and engineering projects.

2. These changes in public expenditure are the product of an unprecedented increase in government activity caused primarily by the new responsibilities assumed by governments for fostering the economic and social development of their countries. Further, the basic changes in todays's government expenditure- increased volume and complexity, reflect similar changes in goverr - ment organization.

3. In the developing countries of the world, the increased size and complexity of government spending and organization have created an important need for the modernization of government budgeting. Often the need for modernization manifests itself as part of the more general problem of reorienting public administration as a whole to the new and growing tasks of economic and social planning.

4. Several countries in Asia and the Far East, Latin America and Africa have made significant progress in modernizing their budget systems by introducing into the budget process, what is generally referred to as a management or performance approach.

5. The management or performance approach can perhaps be best illustrated by referring to the long-term economic planning which has become an accepted feature in all the developing countries. While the scope and nature of planning practiced in these countries varies widely, there are certain features of interest common to the development plans being formulated and implemented.

6. First, the development plan provides the country concerned with a set of broad national goals or purposes to be attained over a period of five or six or even as many as ten years. Second, the plan defines the more concrete objectives to be achieved in the broad functional areas or sectors (such as agriculture, industry, transportation, education or health) most appropriate

for realizing the broad national goals. Third, the plan gives a list of individual projects and schemes to be carried out in each functional area for the accomplishment of the accepted functional goals. The development schemes and projects are presented in terms of their physical targets (such as miles of road to be built, acres of land to be irrigated and reclaimed, school and hospital buildings to be constructed) and their total costs.

7. Broadly, these features of a development plan, namely, identification of broad national as well as functional goals, projects and schemes for achieving these purposes, the financial costs as well as the physical results of identified schemes and projects, represent basic elements in modern approach to management. Extension and adaptation of these elements to the budget process in essence constitutes the management or performance approach to government budgeting.

Management or Performance Approach

8. Under the performance approach the budget process, like the long-term development plan, focusses attention on the purposes to be achieved and the total costs of achieving these purposes. The annual budget which may be referred to as a performance budget, is developed and presented on the basis of work to be done under identified purposes and the costs of carrying out the work. Further the proposed work, its purpose and related costs are developed as part of the long-term goals such as those contained in economic development plans.

9. The budget so formulated and presented by the executive to the legislative body, after consideration and approval by the latter, is in the nature of a contract between the legislative body and the executive authority on the one hand and within the executive between the finance ministry (central budget agency) and the agency responsible for carrying out the work.

10. In other words, the approval of the budget by the legislative body is an agreement for the work to be done or services to be provided with the funds appropriated. Such and such amounts are appropriated by the legislative authority for such and such work or service. Accordingly, the primary interest of the legislative body at the end of the budget year is in the fulfillment by the executive of the contract or the budget as approved by it originally.

11. It follows, therefore, that the executive holds itself responsible for the accomplishment of the work or service as specified in the budget approved by the legislature. This implies that, during the period of the execution of the budget, the executive authority, in order successfully to discharge its responsibility to the appropriating authority, controls its operations through a system of accounting and reporting designed to ensure the fulfillment of work or services as stated in the approved budget.

12. The objective of budgetary control is thus to ensure the achievement of the planned work or service. The reporting and accounting systems are designed to provide, at stated periods during the execution, information on the work accomplished, and on the related expenditure which are analyzed in relation to one another, and, compared with the planned work and planned expenditure for the corresponding period in the approved budget. Justifications are required, and corrective measures taken, when unavoidable deviations are indicated in actual work accomplished and actual expenditure incurred as compared with the planned work and planned expenditure. The accounting and reporting systems are thus a means of effecting a continuous check of actual performance in terms of work as well as of expenditure against the approved budget.

13. In this approach, therefore, the formulation and execution of the annual budget in terms of the work to be done or services to be rendered is basic. Accordingly a fundamental, perhaps the most important pre-requisite, is a plan of classification that enables the government agencies to develop and present their budget estimates in terms of work or service that can be related to long-term objectives. The nature and significance of such a plan of classification will be examined in the succeeding chapter in detail. Broadly the classification discussed there, divides the total effort of each government agency into three broad segments -- function, programme and activity. It is these segments that facilitate the government agencies to develop and convey an understanding of their financial needs in terms of work or service to be performed. These segments, properly identified with the organizational units responsible for carrying them out, represent the basic framework on which budgeting, accounting and reporting should be based.

14. The underlying theme in a budget based on function, programme and activity is the purpose served by each of these segments. The purpose of an activity, which may be defined as a portion of total work under a given programme, is to contribute to the accomplishment of accepted goals of that programme. For example, the purpose of elementary teachers training (which may be treated as one of the activities under a programme of elementary education) is to contribute to the accomplishment of the objectives of the related programme namely, elementary education. In turn, the purpose of elementary education programme is to contribute to the accomplishment of the goals of the related function, namely education. Further the purpose or objective of a function such as education is to contribute to the accomplishment of the goals underlying the budget as a whole.

15. Given a classification by function, programme and activity, its usefulness in facilitating the development of the budget in terms of work goals may be described as follows.

16. A government agency responsible for administering a given programme would first decide the amount of work required under each activity comprising that programme. The size of each activity would be basically related to the long-term objective of the related programme and the portion of that objective approved to be achieved during the budget year. The funds required in terms of personal services and other objects for each activity would be determined on the basis of the estimated work. In turn, the funds required for the programme as a whole can be derived by adding up the costs of individual activities. Information on the nature and amount of work under each activity shows the content of the programme in physical terms and provides a link between the detailed operations under the programme and the physical result or end-product of the programme. The costs of individual programmes (derived from activity components) in a given functional area give the total cost of the function in the budget. Information on the end-products of individual programmes provides a link between the short-term budgetary objectives and the related long-term objectives.

17. An example of the budget request illustrating performance approach is given in Appendix A at the end of this chapter. That example is taken from the United States Government's budget for the fiscal year 1962 and refers to the Internal Revenue Service which is that Government's primary revenue collecting agency. The main features of that estimate may be noted as below:

18. First, it identifies the organization unit(Internal Revenue Service) responsible for the programme and the appropriation requested for carrying out the programme (the programme title in this example is identical with the

organisation unit's title). Second, the appropriation requested for the programme is divided into activities which in fact are various types of work under the programme. The primary breakdown of the appropriation or programme in terms of activities emphasizes the type of work and the cost of each type of work. A third feature of particular significance is the narrative statement that follows the division of the appropriation in terms of activities. That narrative statement after a brief description of the purpose of the programme as a whole, presents for each activity the nature of work to be done and a measure of performance to be accomplished in terms of work-load information. The narrative statement and the related work-load information are a basic part of the budget request. They serve to explain how the appropriation requested for the programme is derived. In other words, the appropriation for the programme is built up by adding up the costs of individual activities. The cost of each activity in turn is determined in relation to the estimated work-load.

19. Finally, the narrative statement is followed by a table which divides the total appropriation into a uniform list of objects such as personal services, travel, transportation of things, etc. It will be recognized that this information represents a primary breakdown of the appropriation in conventional budgeting. It is reduced to a secondary role in this illustration which emphasizes the work performed with the appropriation rather than the things brought with it.

Usefulness of Performance Approach to Management

20. A performance budget through its function, programme and activity structure facilitates the development and flow of information to each level of management that is appropriate to its decision making role in the budget process. This broad advantage can be conveniently described under three heads - 1) formulation and review of the budget by the executive; 2) legislative review and authorization of the budget; and 3) execution of the budget.

21. In the formulation of the annual budget by the executive, decisions regarding amounts proposed to be spent on broad functions and on individual programmes within each function, are basically policy decisions which come

first. These policy decisions are often political decisions which either implement or alter the long-range plan. However, these policy decisions by the executive at higher levels are facilitated by a review of a) past and current information by functions irrespective of the organization units responsible for carrying out the total function, and b) past and current information on accomplishment and costs of programmes within each function.

22. Once these basic decisions regarding the size of functions and the size of the programmes to be carried on are taken, the financial requirements for each programme can be derived as a sum total of the costs of activities comprising the programme. The activity in a performance budget as already indicated represents a division of total programme work most useful for the management for achieving the programme goals. The requests for funds in terms of personal services and other objects can therefore be meaningfully estimated on the basis of the work-load information for each work division or activity.

23. The management at the programme level can present and justify its requdst for funds on the basis of work volume for each activity and on the need for the given volume in relation to the programme goals. Accordingly the estimate for each activity can be analyzed and reviewedasto its reasonableness and adequacy in relation to its contribution to the achievement of programme goals. The total cost of a programme, which is a sum total of the costs of individual programme components, can thus be scrutinized by the department head and the central budget office, in terms of the relative importance and effectiveness of different activities in the achievement of the programme goals. Similarly management at higher levels (department head, central budget office, cabinet) can review and judge the relative importance, size and desirability of different programmes in any functional area and as between functional areas, in relation to the current and long-term policy objectives.

24. From the standpoint of the legislative review and authorization, the performance budget submitted by the executive reveals what is being done and what will be done if the legislative body approves the budget. It is a definite and understandable plan of action, and focusses attention on questions of

public policy - the desirability, size and cost of the proposed programmes - rather than on administrative details. A sound basis for legislative review and judgements on the budget is provided by proposed programmes, the reasons given for carrying out those programmes in terms of policy objectives laid down by the legislative body, and current and past information on costs and achievements of programmes.

25. The information developed by the executive in formulating and presenting the budget also helps the management to exercise an effective control during the execution of the budget. The authorized budget is a kind of blue-print to be translated into action during the year. The accounting and reporting systems provide information on expenditures, as well as achievements in, programmes and activities, i.e., on the same basis as in the authorized budget or the blue-print. They thus make it possible to keep a continuous check on the status of programmes and activities by helping to raise and answer such questions as: Is work proceeding according to the planned rate? How does manpower utilization stand in relation to work being achieved? Thus, the reporting and accounting systems, by providing information on the current status of each programme and activity, bring to the attention of the management significant changes or problems. At the same time the reporting and accounting systems serve to accumulate information on expenditures as well as on accomplishments for the budget period as a whole, and facilitate the accountability of the executive to the legislative body, not only for expenditures but for accomplishments as well.

Adoption of Performance Approach

26. It is necessary to emphasize that the advantages of performance budget technique outlined above do not and cannot replace the many judgments that must be made in formulating and executing a budget. Neither the quantitative and qualitative information it provides on programmes and activities is a substitute for effective supervision at each level in the government organization. Its chief merit-through providing an understanding of the financial needs in terms of programmes to be conducted and the work to be performed under programmes -- lies in re-orienting the budget system to the needs and conditions of long-term economic planning.

27. The introduction of performance budgeting technique into the budget system of a country should be looked upon as an evolutionary process determined by its resources and needs. Experience of countries which have adopted this technique reveals that it can be introduced in a step-by-step process over a period of years. For instance, the establishment of functions, programmes and activities as a common classification for budgeting accounting and reporting might be considered as a first step. As part of this step, physical information on programmes and activities in terms of workload may be considered sufficient. During this stage, however, it should not be considered necessary to make any major changes in the existing administrative structure or in the basis of accounting. One important value of this step would be to familiarize the management at various levels with the nature and significance of performance budget technique in the budget process. It would thus provide a realistic basis for improvements such as more accurate physical or financial measures of programmes and activities. This might be considered as a second step and should be determined by the practical needs of management.

28. In those developing countries which have been formulating and executing long-term economic plans, perhaps a fruitful and practical start would be to apply this technique not to the budget as a whole but to those expenditures in the national plan that are implemented through the annual budget. The advantages of this are that these expenditures can be easily identified and grouped in terms of programmes and related activities. Physical measures of identified programmes and activities can also be developed with minimum difficulty and would represent meaningful information. Further the long-term objective of these programmes in physical and financial terms identified in the plan, would enable the management to look upon the annual budget as a series of stages in the execution of the plan.

Appendix A

Estimate for Internal Revenue Service, U. S. A.

INTERNAL REVENUE SERVICE

Current authorizations:

SALARIES AND EXPENSES

For necessary expenses of the Internal Revenue Service, including purchase (not to exceed [one] *two* hundred for replacement only, of which [forty] *eighty* for police-type use may exceed by $300 each the general purchase price limitation for the current fiscal year) and hire of passenger motor vehicles; and services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a), and of expert witnesses at such rates as may be determined by the Commissioner, including not to exceed [$8,500,000] *$11,200,000* for temporary employment; [$388,000,000] *$449,800,000. (5 U.S.C. 133; title 26 U.S.C.; 72 Stat. 1275; Treasury Department Appropriation Act, 1961.)*

Program and Financing (in thousands of dollars)

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
1. Rulings, technical planning, and special technical services	5,835	6,881	7,091
2. Collection of revenue	149,244	170,034	178,261
3. Audit of tax returns	128,180	146,173	166,584
4. Tax fraud and special investigations	18,504	20,796	22,029
5. Alcohol and tobacco tax regulatory work	26,781	29,410	29,943
6. Taxpayer conferences and appeals	13,776	15,977	19,079
7. Legal services	9,257	10,945	12,160
8. Inspection	4,867	5,570	5,845
9. Statistical reporting	2,593	3,038	2,877
10. Executive direction	4,387	5,079	5,931
Total program costs	363,424	413,903	449,800
11. Relation of costs to obligations: Costs financed from obligations of other years, net (−)	−37		
Total obligations	363,387	413,903	449,800
Financing:			
Unobligated balance lapsing	863		
New obligational authority	**364,250**	**413,903**	**449,800**
New obligational authority:			
Appropriation	**364,250**	**388,000**	**449,800**
Proposed supplemental due to pay increases		**25,903**	

The Internal Revenue Service is the primary revenue collecting agency of the Federal Government. Gross total collections of the Internal Revenue Service amounted to almost $92 billion in 1960.

The number of tax returns filed has increased over the past 6 years from 88.6 million to 94.4 million. While greater efficiency and the introduction of automatic equipment have enabled the Service to process this larger workload, it has not been possible to increase the more time-consuming enforcement work accordingly. As a part of a program to correct this situation and to recover part of the present annual revenue loss to the Government, the 1962 recommendation provides funds to continue the increase in enforcement personnel authorized in 1961, and to further the installation of an electronic computer system designed to maintain a consolidated master file of taxpayer accounts. These funds, which will allow significant increases in work accomplishment as indicated in the following workload tables (particularly in the collection and audit activities), constitute the second step in a long-range plan to improve the enforcement of our tax laws.

1. *Rulings, technical planning, and special technical services.*—The Service interprets statutory provisions, issues rulings, and prepares regulations and Treasury decisions. It conducts continuing research on tax loopholes, inequities, and related problems; provides special technical services; and negotiates tax treaties with foreign governments.

SELECTED WORKLOAD DATA

	1960 actual	*1961 estimate*	*1962 estimate*
Rulings, and advisory opinions	68,311	65,000	65,500
Regulations, tax forms, legislative analysis, drafting and reports	2,573	3,000	3,000
Research, analysis, and preparation of rulings for publication	2,784	3,000	3,000

2. *Collection of revenue.*—This activity includes the securing of delinquent returns and the collection of delinquent accounts; receiving returns and remittances; tax accounting; bookkeeping; arithmetic verification of tax returns; determination of tax liability in respect to form 1040A returns; preparation of bills; computation and scheduling of refunds; the filing of returns and records; and personal assistance to taxpayers on subjects related to all of these functions.

SELECTED WORKLOAD DATA

[In thousands]

	1960 actual	*1961 estimate*	*1962 estimate*
Tax returns filed—all types	94,399	97,013	98,663
Individual income tax verifications	50,156	50,612	51,291
Individual income tax refunds scheduled	35,446	36,424	36,908
Notices issued for accounts receivable	5,907	5,900	6,150
Taxpayer delinquent accounts issued	2,397	2,774	3,007
Taxpayer delinquent accounts closed	2,656	2,866	3,007
Delinquent returns secured (service total)	997	1,669	1,934

3. *Audit of tax returns.*—This activity covers the primary enforcement work of the Service. It encompasses all examinations, audits, investigations, and informal conferences for checking correctness and completeness of taxpayers' returns and claims, and for determining the correct tax liability.

SELECTED WORKLOAD DATA

[In thousands]

	1960 actual	*1961 estimate*	*1962 estimate*
Examined income, estate, and gift tax returns	2,763	2,919	3,400

4. *Tax fraud and special investigations.*—This function covers investigations of tax fraud, including making recommendations with respect to prosecution, fraud penalty, and civil liability of taxpayers. The function relating to the investigations of applicants to practice before the Treasury Department was transferred to activity 8—Inspection, during the latter part of 1960. The entire work performed in 1960 is shown in activity 8.

SELECTED WORKLOAD DATA

	1960 actual	*1961 estimate*	*1962 estimate*
Fraud and wagering cases	15,041	15,100	15,450

5. *Alcohol and tobacco tax regulatory work.*—Under the laws relating to liquor, tobacco, and firearms, tax liability is determined, the alcohol and tobacco industry operations and trade practices are regulated, and violators against such laws are detected and prosecuted.

INTERNAL REVENUE SERVICE—Continued

Current authorizations—Continued

SALARIES AND EXPENSES—Continued

SELECTED WORKLOAD DATA

	1960 actual	*1961 estimate*	*1962 estimate*
Cases made	9,937	8,000	8,000
Distilleries seized	5,495	4,900	4,900
Mash seized (wine gallons, in thousands)	4,274	3,850	3,850
Arrests	10,376	9,800	9,800
Inspections (includes dealers with Federal Alcohol Administration permits)	38,560	37,000	37,000

6. *Taxpayer conferences and appeals.*—This activity consists of formal appellate work with respect to tax liability, interest, penalties (except alcohol, tobacco, narcotics, and firearms) in protested cases, the issuance of statutory notices, consideration of claims, and consideration of appealed offers in compromise which have been rejected by district directors. There were 27,447 cases closed during 1960, a total of 27,600 estimated for 1961, and 30,230 for 1962.

7. *Legal services.*—This activity is responsible for all legal services, including the issuance of legal opinions for the guidance of officers of the Service, defense of petitions to the Tax Court of the United States, recommendations as to prosecution by the Department of Justice of civil and criminal suits and appeals to be taken, and the review of abatements, refunds, or credits of $100 thousand or over.

SELECTED WORKLOAD DATA

Cases disposed of	*1960 actual*	*1961 estimate*	*1962 estimate*
Litigation:			
Tax Court cases (including courts of appeals and Supreme Court)	6,848	7,000	7,200
District court cases	1,080	1,200	1,400
Enforcement:			
Fraud cases	1,648	1,675	1,780
Alcohol and tobacco tax cases	5,636	5,700	5,700
Claims:			
Claims against estates, bankruptcy and receivership proceedings, collections, lien cases, etc	11,190	11,000	11,250
Review of overassessments and proposed refunds in excess of $100 thousand	624	625	660
Technical rulings and opinions	807	1,000	1,000

8. *Inspection.*—This activity covers the internal audit and internal security activities servicewide. The investigation of applicants for enrollment to practice before the Treasury Department, and the investigation of charges against enrolled practitioners, was transferred from activity 4 during the latter part of 1960 (with modifications which will substantially reduce the number of investigations).

SELECTED WORKLOAD DATA

	1960 actual	*1961 estimate*	*1962 estimate*
Internal audit examinations	255	250	250
Applicant character investigations	3,292	4,700	5,850
Personnel conduct investigations	547	550	600
Special inquiry investigations	1,245	1,400	1,600
Tort claim and discrimination investigations	131	130	130
Enrollment investigations	5,251	1,300	1,300

9. *Statistical reporting.*—Statistics are prepared by processing samples of tax returns for the purpose of providing annually basic information on taxes, income, deductions, and other financial items as required by law. Functions relating to the preparation of repetitive and periodic operating reports formerly performed in this activity were transferred to the newly created Reports Division under Executive direction.

SELECTED WORKLOAD DATA

	1960 actual	*1961 estimate*	*1962 estimate*
Returns and reports transcribed and edited	706,582	898,290	904,200
Statistical reports issued (table and text pages)	4,793	800	1,000

11. *Relation of costs to obligations.*—The relationship is derived from year-end balances of selected resources and applicable adjustment as reflected in the following table (in thousands of dollars):

	1959 actual	*1960 actual*	*1961 estimate*	*1962 estimate*
Selected resources at end of year: Inventories and items on order:				
Stores (goods unconsumed by projects)	468	431	431	431
Unpaid undelivered orders (appropriation balances obligated for goods and services on order not yet received)	1,323	1,244	1,244	1,244
Total selected resources at end of year	1,791	1,675	1,675	1,675
Selected resources at start of year (−)		−1,791	−1,675	−1,675
Adjustment of selected resources reported at start of year		78	-------	-------
Costs financed from obligations of other years, net (−)		−37	-------	-------

Object Classification (in thousands of dollars)

		1960 actual	1961 estimate	1962 estimate
11	Personnel compensation:			
	Permanent positions	294,481	335,762	361,174
	Positions other than permanent	8,529	9,147	11,153
	Other personnel compensation	4,609	3,211	1,974
	Total personnel compensation	307,618	348,120	374,300
12	Personnel benefits	20,767	26,088	28,085
21	Travel and transportation of persons	9,188	11,545	13,398
22	Transportation of things	1,592	1,732	1,885
23	Rent, communications, and utilities	9,768	10,541	14,141
24	Printing and reproduction	6,370	6,347	6,488
25	Other services	2,685	3,241	3,414
26	Supplies and materials	3,509	3,836	4,404
31	Equipment	1,876	2,443	3,674
42	Insurance claims and indemnities	14	10	10
	Total obligations	363,387	413,903	449,800

Personnel Summary

	1960 actual	1961 estimate	1962 estimate
Total number of permanent positions	49,439	52,005	54,698
Full-time equivalent of other positions	2,603	2,516	3,044
Average number of all employees	50,994	53,314	57,124
Number of employees at end of year	50,183	53,000	55,700
Average GS grade	7.6	7.6	7.8
Average GS salary	$6,161	$6,668	$6,811

CHAPTER II

Performance Budget Classifications

Introductory

29. The previous chapter has indicated briefly the importance in performance budgeting of a classification based on function, programme and activity. Here, an attempt is made to describe in detail the nature of that classification and its relationship with the organization unit and objects of expenditure.

30. To serve adequately the needs of management at the various levels of government, performance budgeting requires an overall plan of classification that will group the different kinds of government work operations in terms of the national purposes those operations are intended to serve. Such a plan of classification involves the identification and establishment of (a) functions--broad divisions of total effort directed toward a major purpose of government; (b) programmes -- segments of a function that produce an end product serving the functional goal; and (c) activities--divisions of a programme into homogeneous types of work operations that are directed toward the same programme purpose. Properly identified and set forth in relation to the organizations responsible for the work, such a classification scheme enables better balanced judgments and decisions in the budget process. It facilitates the distribution of available resources in accordance with policy objectives, the formulation of budget estimates in terms of long-range goals, the review of work plans in relation to costs, and control over execution of the authorized budget.

31. To be meaningful and useful for decision-making purposes, the plan of classification for performance budgeting must be tailored to the situation in the individual country. The functions, programmes, and activities must reflect the purposes to be served by the budget plan of the government concerned. While certain functions may be common among various countries, differences in programmes, activities, and the administrative structure make uniform classifications for all governments impracticable. Appendix B provides an illustration of a performance budget plan of classification for one country -- the Philippines.

Functional Classification

32. A function may be defined as a major division of the total organized effort of government -- the purpose of which is to provide a distinct and separate public service such as national defence, education, public health, or agriculture. It represents a grouping of the programmes and activities of organizations according to the purposes they serve, each of which has significance from the standpoint of the duties and responsibilities of the government as a whole. A functional classification is useful primarily for providing general information on the nature of government services, and on the share of public expenditures devoted to each particular service. As used in the budget process, it is more informative for the general public; is of primary interest to top level legislative and executive review; and is most meaningfulfor the formulation, review, and implementation of broad policy objectives.

33. The term "purpose"-- as used in this definition -- refers to the services provided rather than to the broad, long-range policy objectives of the government. The object of the functional classification is to group government expenditures according to the immediate or short-run purposes served, which contribute to the attainment of broad policy objectives like the promotion of economic development. If such long-range purposes were used as the basis of the functional classification, it would be difficult to define significant categories that would be mutually exclusive. For example, there are few expenditures that could not be regarded as contributing in some way to economic development. A broad category of that kind would include expenditures that serve directly a whole series of short-run purposes, such as providing health or educational services.

34. The fact that most governments furnish certain common types of basic services has led to the identification of basic functional categories that can be considered for adoption and modified as required by circumstances in individual countries. For example, the Second Budget Workshop held at Bangkok in 1957 recommended [1/] the following classification as a satisfactory

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1/ See Workshop Paper No. 2. Report of The Second Workshop on Problems of Budget Reclassification and Management in the ECAFE Region (E/CN.11/BRW.3/L.2)

base for the development of a functional classification of budget expenditures by the countries of Asia and the Far East:

Basic Functional Categories

Economic Services

- Agriculture and non-mineral resources
- Fuel and power
- Other mineral resources, manufacturing and construction
- Transport, storage and communications
- Other economic services

Social Services

- Education
- Health
- Social security and welfare services
- Other social services

General Services

- General administration
- Defence
- Other general services

Unallocable Expenditure Items

A description of these categories, and a detailed discussion of the problems that are encountered in establishing a functional classification, are given in A Manual for Economic and Functional Classification of Government Transactions. [1/] That manual served as a working document at the Second ECAFE Budget Workshop held at Bangkok in 1957, at the South American Budget Workshop held at Santiago in 1959 and at one held at Addis Ababa in September 1961. The latter Workshops -- the South American and African -- also recommended a similar classification for use by the countries on their respective regions.

35. A classification of budget expenditures by functional categories gives information on the total money spent for a given service, irrespective of the organizational units responsible for providing that service. For example, the total money spent by a government in providing educational services may be divided in the budget among several organizations -- such as the department of education, which is likely to spend the bulk of it;

1/ Issued as Workshop Information Paper (United Nations Publication, Sales No. 58.XVI.2)

the department of health, for health education; and the department of agriculture, for agricultural education. In contrast, the conventional budget that is divided by departments does not give a full picture of the total effort in any one functional area. To illustrate, Appendix B shows that the Philippine Department of Public Works and Communications conducts activities classifiable in 10 of the 14 functional categories.

36. The United States budget, which is based on the performance concept, provides another illustration of a broad functional classification. The expenditures of the departments in the United States government are summarized in the budget by the following categories:

National Defence
International affairs and finance
Space research and technology
Agriculture and agricultural resources
Natural resources
Commerce and transportation
Housing and community development
Health, labor, and welfare
Education
Veterans benefits and services
Interest
General government

The President's Message that accompanies the detailed budget submitted to the Congress of the United States is prepared in terms of these major functions, reviewing past and current accomplishments, and presenting the President's plan for the budget year. In support of that presentation, financial information for each department and agency is shown by function and subfunction. Data for the United States Department of Agriculture, for instance, are reflected under the functional categories listed below:

International affairs and finance
  Economic and financial assistance
Agriculture and agricultural resources
  Farm income support and production adjustment
  Financing farm ownership and operation
  Financing rural electrification and rural telephone
  Agricultural land and water resources
  Research and other agricultural services

Natural resources
Forest resources
Health, labor, and welfare
Other welfare services

The expenditure data for such summaries are derived from a functional coding of the appropriations that present the programmes and activities carried out by the department. In this manner, financial data for each element of the work plan in the United States budget is summarized into the major services provided by the government.

37. It will be noted from this illustration that expenditures of the United States Department of Agriculture fall into four of the twelve functional categories. Like in the Philippine example, this demonstrates that the functional categories under performance budgeting will not necessarily follow organisational lines. That kind of situation does not infer that the departmental responsibilities should be changed; rather, it emphasizes the need for providing a classification of departmental expenditures according to the purposes served.

Programme Classification

38. A programme in a performance budget may be defined as a meaningful segment of the effort comprising a function--the purpose of which is to provide an end product that is part of a basic service of government. It represents a grouping of activities that is of significance from the standpoint of the responsibilities of the organization and, at the same time, is identifiable as a part of a function. As such, it furnishes a basis for reviewing progress toward the objectives in a given functional area. To illustrate, the Soil Conservation Service of the United States Department of Agriculture presents several programmes in the budget, i.e., Conservation Operations, Watershed Protection, Flood Prevention, Great Plains Conservation Programme, and Water Conservation and Utilization Projects. All of these programmes are classifiable under the Agricultural Land and Water Resources subfunction, and each one includes identified activities and work operations.

39. The programme classification thus provides a link between the broad governmental services shown in the functional categories, and the activities that reflect the work plan of the operating agencies. This provides a useful basis for top level executive and legislative decisions on the

allocation of resources among the major components of a functional area, according to their contribution to the end objectives of the total work plan.

40. A desirable characteristic of a programme is that it produces an end product that is measurable. This is more feasible for some programmes, however, than it is for others. A highway programme, for example, produces a certain mileage of road; while the end product of a medical research programme may be difficult to identify and measure. The lack of a measurable end product should not militate against the establishment of a programme that otherwise meets the criteria of providing a suitable basis for evaluating the achievement of functional objectives.

41. Differences in organization structure and in the nature and scope of operations in individual governments result in a considerable degree of variation in programme classifications. A thorough examination of the authorities, responsibilities, objectives, and organizational arrangements of a department or agency provides the basis for deriving the most appropriate classifications under the respective functions. Once the total effort of an agency is divided into programme categories, it is essential for management purposes to establish clearly the organizational responsibility for carrying out the identified programme.

42. In some agencies, it may be found that the total work plan is so limited and inter-related that a breakdown into more than one programme is undesirable. Or, programmes with the same basic purpose and end product may, for otherwise good reasons, be carried out by separate organizations. In such cases, care should be taken to identify the separate programmes in a manner that will disclose their relationship. In other agencies, a logical programme may be divided into two or more segments because of such reasons as the relative importance of some parts of the work, or the need for special methods or skills. For instance, vocational education in the Philippines is treated as a single programme. In another country, the size and nature of that programme may make it preferable to identify trade and industry education, training in home industries, etc., as separate programmes. In each application of a performance budget, therefore, the establishment of programme categories requires careful study and the exercise of sound judgment, so as to produce a classification that is the mostmeaningful for that country.

Activity or Project Classification

43. A performance budget activity or project may be defined as a division of the total effort under a programme into reasonably homogeneous types of work--the purpose of which is to contribute to accomplishment of the end product of a programme. It represents a grouping of work operations that has administrative identity within the responsible organization and provides a basis for evaluating the achievement of programme objectives.

44. As shown in Appendix B for the Philippine Government, the sub-division of a programme there is called a project. In the United States budget, although project and activity are used interchangeably in some cases, the usual practice is to refer to programme sub-division as an activity. In this manual, it is suggested that the sub-division of a current or operating programme may be called an activity and that of a capital outlay programme a project. This provides for consistent terminology and readily identifies capital outlays.[1/]

45. Activities or projects in a performance budget serve as the focal point for management, providing the basis for development and presentation of budget estimates, and for accounting and reporting in budget execution. The distinctive feature of an activity is that it represents a grouping of work effort that is useful to agency officials for management decisions and performance analysis. To be of maximum value for these purposes, it is desirable that activities be capable of some form of statistical measurement--in such terms as workload handled, employee utilization, unit costs, etc. Such measurements, however, should be developed on a practical basis in relation to the specific needs of management for evaluation of work performance under each activity. There is no standard form of measurement required for every activity in a performance budget.

46. An examination of the organizational structure, assigned responsibilities, and work processes will suggest the most appropriate subdivisions of a

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1/ However, for convenience of presentation the term activity is generally used in this Manual when reference is made to a programme sub-division.

programme. The activities selected can be broad or narrow in coverage, depending upon the nature and size of the programme, the work involved, and the needs to be met. To cite an illustration, the programme of the United States Internal Revenue Service is divided into 10 activities, while the same programme in the Philippine budget is reflected in terms of four activities:

United States Internal Revenue Service Programme by Activity

1. Rulings, technical planning and special technical services
2. Collection of revenue
3. Audit of tax returns
4. Tax fraud and special investigations
5. Alcohol and tobacco tax regulatory work
6. Tax payer conferences and appeals
7. Legal services
8. Inspection
9. Statistical reporting
10. Executive direction

Philippine Bureau of Internal Revenue Programme by Activity

1. Tax ruling and other legal services
2. Tax assessment
3. Tax collection
4. General administration

The number of activities should be kept to a minimum consistent with the need for sound appraisal of work progress under a programme. Performance analysis should not be unduly complicated by dividing a programme into numerous categories that may retard rather than facilitate effective budgeting and reporting. In all cases, however, the activities in total should cover all work done under a programme by a given organization. It is also important that where a single type of activity is common to several programmes, it should be consistently identified in each of the programmes.

47. The identification of programme sub-divisions will sometimes produce activities that do not coincide with the internal organizational units of an agency. To best serve the needs of management these two classifications--activities and organization--should be synchronized to the extent possible so that a single set of workload and financial data will satisfy control and performance evaluation needs under each classification. In the initial conversion to performance budgeting, however, this need for synchronization does not necessarily require reorganization action, nor the development of

management data both by activity and organizational unit. Activity classifications can be adapted to existing organizational arrangements as a step to meet immediate needs. Refinement action subsequently can be taken to develop more suitable activities and more accurate activity information, or to seek possible improvements in the organizational assignments. Throughout this effort, it should be recognized that the basic objective is to identify the costs of programme activities and organizational performance on the most practical basis--in a form that is suited to management requirements.

48. To cite a typical problem of this kind--in an agency with several activities, each activity may be carried out by separate headquarters organizations, but each field office may conduct investigations that involve all activities. Ideally, the work on each activity in a field office should be identified for the best programme analysis. The immediate needs in such a situation, however, could be met by a separate classification that covers all investigation work. Later the system could be refined to identify the costs of the field investigations that are applicable to each activity.

49. Similarly, the cost of work operations of an overhead or service nature, such as executive direction and general administration, ideally should be distributed among programme sub-divisions in a performance budget. This action is desirable to identify the full costs of a programme sub-division, including both direct costs and indirect costs like overhead operations. In such applications, the costs of the overhead operations should also be identifiable, together with the method and bases used for distribution to activities. However, as shown in the preceding illustration, such over-head operations can be reflected as a supporting activity--one that would require distribution among the programme activities to obtain an accurate disclosure of their total costs. Here, again, is an area of refinement that can be developed after the initial stages of installing a performance budget.

Capital Outlay

50. A basic aim of performance budgeting is to develop classifications that are appropriate for the measurement and evaluation of performance in relation to assigned responsibilities. To attain that objective in an equitable manner

it is desirable to exclude from operating programmes and activities those outlays that are of an extraordinary nature, e.g., outlays that will provide a benefit over a lengthy period--for example, more than a year. This is particularly true if the financial data are recorded on a cash or obligation basis, where the total cost of the outlay would be recorded against the programme or project in one accounting period. For example, if the cost of building a new school is charged to the operating cost of an educational programme, the cost per student enrolled in that year will not be comparable to the cost per student enrolled in the following year. In such situations, performance data on past, present, and future programmes in the same field cannot properly be analyzed in relation to each other. Similarly, the unit costs or total costs of otherwise comparable programmes and activities would have little comparative value and could not equitably be used as a basis for management decisions.

51. Another benefit that can be derived from the separation of capital outlays is that capital programmes or projects can be studied in relation to competing proposals within the total plan of work in a given functional area, and in comparison with similar outlays in other areas. Moreover, the separation of capital programmes and projects will facilitate feasibility tests on the availability of materials, labour, foreign exchange, etc., and the analyses of the future demand of the programme or project upon anticipated revenues.

52. For best results, therefore, capital outlays in a performance budget under the conditions outlined above should be separated from current outlays and treated as distinct programmes or projects, as appropriate to the nature of the work involved. Care should be taken in such cases to identify current and capital outlays that serve the same purpose by the same title, to enable proper understanding of their relationship.

53. Where a country employs a separate capital budget, problems of this kind may be resolved in part by segregations already being made, or other practices being followed under the budget procedures of a particular country. Depending on the nature of the segregation already required, for example, this problem may be of little consequence in a country that employs a separate capital account which is linked in the overall budget with a current account. On

the other hand, in a country like the United States--where capital and current accounts may be combined, and financial transactions are charged against activities on a cost basis (See Chapter III)-- a complete separation of capital outlays may not be necessary, because the benefits of the outlay are charged to the activity in terms of use. Even in such cases, however, it may be desirable to identify the amount of capital outlay involved in a given accounting period for other analysis purposes--such as an evaluation of the desirability of such outlays in either of two competing programmes.

Objects of Expenditure

54. Under the traditional form of budgeting in government, the primary classification of data generally used for review and analysis of fund requests and for control of operations is the classification by object of expenditure, i.e., the things to be purchased with appropriated funds. In performance budgeting, the emphasis in review, analysis, and control is shifted to the things to be accomplished--the planned programmes and activities. The classification by object of expenditure is still retained, however, as a secondary classification, supporting the programme and activity presentation. As such, the object categories provide a standard basis for the classification of items being purchased by all agencies, regardless of the purposes for which those objects will be used. This permits a review of the character of actual and planned purchases, and provides a basis for developing economic analyses.

55. In the United States and Philippine applications of the performance budget, the object of expenditure classifications are as follows:

United States Uniform Classification by Objects

Personal services and benefits
- Personnel compensation
- Personnel benefits
- Benefits for former personnel

Contractual services and supplies
- Travel and transportation of persons
- Transportation of things
- Rent, communications, and utilities
- Printing and reproduction
- Other services
- Supplies and materials

Acquisition of capital assets
Equipment
Lands and structures
Investments and loans
Grants and fixed charges
Grants, subsidies, and contributions
Insurance claims and indemnities
Interest and dividends
Refunds

Philippine Uniform Classification by Objects

Personal services
Travelling expenses
Communication services
Repair and maintenance of national government facilities
Transportation services
Other services
Supplies and materials
Rents
Interests
Grants, subsidies and contributions
Awards and indemnities
Loan repayments and sinking fund contributions
Losses of assets
Pension, retirement and gratuities
Land, land improvement and structure outlay
Equipment outlay
Investment outlay
Loans outlay

56. Uniform classifications such as these enable the use of different techniques that are appropriate and useful for estimating various kinds of expenditures. For example, the following techniques facilitate the determination of requirements for various objects of expenditure:

1. The cost of personal services for an activity may be estimated by multiplying the number of employees needed by the average salary of each homogeneous group of employees.
2. The cost of objects that are related to the number of employees in an activity, e.g., travel and office equipment expenses--may be estimated by multiplying the cost per employee by the average employment.

3. The cost of objects that are not related to personal services, such as objects required for the maintenance and repair of existing assets, may be estimated by using as a base past experience on the relationship of maintenance and repair costs to the original cost or value of equipment in use.
4. The cost of objects for which an average unit price can be ascertained may be estimated by multiplying the quantity needed by the average unit price.
5. Where more precise methods are not feasible, the object requirements of an activity may reasonably be estimated on the basis of the rate of change in the anticipated workload and its probable impact on costs--as indicated by past changes in workload and corresponding changes in costs.

Thus, while the itemization of activity costs by object is not--in performance budgeting--the basis for appropriating funds, the object classification is useful in developing budget estimates and can be of assistance in the management of operations.

57. In the United States budget, data by object class are required at the appropriation level, to permit review of the character of actual and planned purchases for the programmes and activities presented in the work plan. In the Philippine application, the object classification is incorporated into the fund control process, where allotments are categorized according to Personal Services, Maintenance and Other Operating Expenses, and Equipment (see Chapter III, Appendix J). In both cases, however, the object classification identifies the inputs required for the work involved in the programmes or activities. It furnishes a uniform basis for agency development of fund requirements at the various levels of review; and provides operating managers with a subsidiary basis of control--as appropriate to the programmes and activities being carried out. The application and use of the object of expenditure classification under a performance budget in individual countries vary according to the programme and financial planning and control practices employed. It will depend upon such factors as the kinds of operations involved, the delegations and assignments of responsibility, and the degree of financial control exercised at the various levels of management.

Appendix B

CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES, PHILIPPINES

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION

Department and Agency	Program and Project	Function													
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
1. CONGRESS OF THE PHILIPPINES															
(1) Senate	I. Legislative Services	x													
1 Senate Electoral Tribunal	I. Senate Electoral Tribunal	x													
(2) House of Representatives	I. Legislative Services	x													
1 House Electoral Tribunal	I. House Electoral Tribunal	x													
2. OFFICE OF THE PRESIDENT															
(1) Executive Office	I. Executive Direction, Control and Supervision			x											
	1. The President's Office														
	2. Advisory, Staff, and Secretariat Services														
	3. Maintenance and Operation of Malacañang														
	4. General Administration														
	II. Supervision of and Assistance to Local Governments														
	1. Supervision of Local Governments			x											
	2. Assistance to Local Governments							x							
	III. Scholarship Program												x		
	1. Scholarships in Foreign Countries														
	2. Scholarships for non-Christians														
(2) National Economic Council	I. National Economic Planning and Coordination														
	1. National Planning Activities											x			
	2. Foreign Aid Coordination											x			
	3. Statistical Coordination and Standards											x			
	4. General Administration			x											

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	(II. Operation and Maintenance of Existing Counterpart Projects)														
	III. Counterpart Funds—Priority Development Projects			x					x	x	x	x	x	x	
	1. Priority Development Projects														
	2. Technical Assistance														
	IV. Counterpart Funds *								x	x	x	x	x	x	x
	1. Special Account														
	2. Priority Development Projects														
(3) National Security Council	I. National Security Policy Planning				x										
	1. National Security Policy Planning														
(4) University of the Philippines	I. Advanced Instruction												x		
	1. Undergraduate and Graduate Training														
	II. Research												x		
	1. Conduct of Applied and Basic Research														
	2. Promotion of Scientific Research														
	3. Volcanological Research and Studies														
	III. General Administration												x		
	1. Infirmary Service														
	2. Library Service														
	3. Maintenance and Security of the Campus														
	4. Basilan Land Grant														
	5. General Administration														
1 Philippine General Hospital	I. Operation of Philippine General Hospital													x	
	1. Operation of Free Wards and Charity Out-Patient Service														
	2. Operation of Pay Wards and Private Out-Patient Service														
	3. Training of Student Nurses														
	4. Operation of Cancer Institute														
	5. General Administration														
2 Forest Products Research Institute	I. Administration and Execution of Research on the Utilization of Forest Products								x						
	1. Executive Direction and Administrative Services														
	2. Research														

* Capital Outlays

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION —Continued

Department and Agency	Program and Project	FUNCTION														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(5) Bureau of Civil Service	I. Public Personnel Administration (all projects except Retirement and Gratuities)			x											
	1. Recruitment, Examination and Certification														
	2. Appointments and Personnel Transactions														
	3. Retirement, Pensions and Gratuities							x							
	4. Research, Statistics and Publications														
	5. Legal Services														
	6. Personnel Services														
	7. General Administration														
1 Boards of Examiners	I. Services Related to the Regulation of Professionals												x		
	1. Examination and Registration of Professionals														
	2. Enforcement of Professional Laws and Ethics														
	3. General Administration														
(6) Budget Commission	I. Budget Administration			x											
	1. Preparation and Execution of the National Budget														
	2. Improvement of Management														
	II. Accounting Administration			x											
	1. Central Accounting Service														
	2. Field Accounting Services														
	3. Supervisory Accounting Services														
	III. Personnel Administration			x											
	1. Wage and Position Classification Administration														
	2. Personnel Appointment Processing														

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	IV. General Administration			x											
	1. General Administration														
(7) Office of the Press Secretary	I. Direction and Coordination of Government Information and Publicity Services and Activities			x											
	1. Production and Dissemination of Government Information Abroad														
	2. Press Services for the Office of the President														
	II. Operation of Radio Station DZFM									x					
	1. Promotion, Programming, and Broadcast Operation														
	2. General Administration														
(8) Peace and Amelioration Fund Commission	I. Promotion of Peace and Amelioration Activities					x									
	1. Promotion of Peace and Amelioration Activities														
	2. Grants for Dependents of Victims of Dissidents' Action														
(9) Games and Amusements Board	I. Regulation of Games and Amusements			x											
	1. Regulation of Horse Racing														
	2. Regulation of Jai Alai Games														
	3. Regulation of Boxing and Wrestling Cards														
	4. General Administration														
(10) Social Welfare Administration	I. General Administration and Staff Services														x
	1. General Administration and Staff Services														
	II. Public Assistance, Child Welfare and Vocational Rehabilitation														x
	1. Institutional Care														
	2. Rehabilitation and Training of the Physically Handicapped														
	3. Field Welfare Services														
(11) Civil Defense Administration	I. Planning and Counseling for Civil Defense				x										
	1. Planning and Counseling for Civil Defense														
(12) Social Security Commission	I. Social Security														x
	1. Actuarial Research and Survey on Social Security														

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVER NMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(13) Export Control Committee	I. Regulation of Trade									x					
	1. Implementation of the Export Control Law														
(14) Land Tenure Administration	I. Land Acquisition								x						
	1. Landed Estates Economic and Statistical Survey														
	2. Land Negotiation														
	II. Land Survey, Allocation and Disposition								x						
	1. Survey and Subdivision														
	2. Land Distribution														
	III. Land Management								x						
	1. Collection and Liquidation														
	2. General Administration														
	IV. Purchase or Expropriation of Lands *								x						
	1. Purchase or Expropriation of Lands														
(15) Gold Subsidy Board	I. Assistance to Gold Producers									x					
	1. Assistance to Gold Producers														
	2. General Administration														
(16) National Science Board	I. Promotion of Scientific Engineering and Technological Research Invention and Development											x			
	1. Research														
	2. General Administration														
(17) National Scientific and Industrial Research Institute	I. Administration and Execution of Scientific Researches and Technological Studies											x			

* Capital Outlays

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	1. General Administration														
	2. Technical Information Services														
	3. Standardization and Testing of Materials and Products														
	4. Researches and Technological Studies														
(18) Civil Service Board of Appeals	I. Civil Service Appeal Services			x											
	1. Civil Service Appeal Services														
(19) United Nations Children's Fund (UNICEF)	I. Implementation of the UNICEF Programmes of the Philippines														x
	1. Child Feeding Services														
	2. General Administration														
3. OFFICE OF THE VICE-PRESIDENT	I. Maintenance of the Vice-President's Office			x											
	1. Maintenance of the Vice-President's Office														
4. DEPARTMENT OF FOREIGN AFFAIRS	I. Conduct of Foreign Affairs			x											
	1. Policy Formulation and Direction														
	2. Diplomatic and Consular Relations with Foreign Countries														
	3. Diplomatic Relations with, and Participation in, International Organizations														
	4. General Administration														
5. DEPARTMENT OF FINANCE (1) Office of the Secretary	I. General Administration and Staff Services			x											
	1. Local Government Finance Services														
	2. Intelligence and Compliance Activities														
	3. National Finance and Technical Services														
	4. Aids to Local Governments														
	5. General Administration														
(2) Bureau of Customs	I. Enforcement of Customs Laws and Administration of Related Activities			x											
	1. Assessment and Collection of Duties, Internal Revenue Taxes, Dues and Fees														
	2. Compliance and Enforcement Activities														
	3. Marine Operations														
	4. General Administration														

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	FUNCTION													
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(3) Bureau of Internal Revenue	I. Administration and Enforcement of Internal Revenue Laws, Special Tax Laws and Regulations			x											
	1. Tax Rulings and Other Legal Services														
	2. Tax Assessment														
	3. Tax Collection														
	4. General Administration (Tobacco Inspection Fund)								x						
(4) Bureau of the Treasury	I. Treasury Management and Administration of Special Laws (except Fiscal Service)			x											
	1. Cash Receipts, Disbursements and Clearance														
	2. Bonding of Public Officials and Employees														
	3. Processing and Settlement of Backpay Claims														
	4. Public Debt, Pension and Retirement Funds and Subsidies						x	x							
	5. General Administration														
	II. Capital Investments *								x	x	x	x			x
	1. Investment														
(5) Office of the Insurance Commissioner	I. Enforcement of Laws on Insurance, Benevolent Societies, Charitable Trusts and Institutions and Adjusters of Fire Claims									x					
	1. Supervisory and Licensing Services														
	2. General Administration														
6. DEPARTMENT OF JUSTICE (1) Office of the Secretary	I. Special Services Related to the Administration of Justice		x												

* Capital Outlays

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	1. Deportation Services														
	2. Prosecution Activities														
	3. Mediation and Legal Aid in Tenancy Cases														
	II. General Administration and Staff Services	x													
	1. Legal Services														
	2. Administrative Supervision of Inferior Courts														
	3. General Administration														
(2) Office of the Solicitor General	I. Legal Services and Related Activities	x													
	1. Legal Services to Government Offices														
	2. Legal Services to Government Owned and/or Controlled Corporations														
	3. General Administration														
(3) Courts of First Instance	I. Administration of Justice	x													
	1. Adjudication of Cases														
(4) Justice of the Peace Courts	I. Administration of Justice	x													
	1. Adjudication of Cases														
(5) Land Registration Commission	I. Registration of Properties and Related Activities								x						
	1. Issuance of Decrees of Registration														
	2. Issuance of Land Titles and Registration of Deeds														
	3. Approval of Subdivision and/or Consolidation Plans of Privately-owned Registered Lands														
	4. Provide Assistance to the Court of First Instance, 4th Branch, Manila														
	5. Reconstitution of Titles and Records Lost or Destroyed														
	6. General Administration														
(6) Court of Industrial Relations	I. Adjudication of Industrial Cases	x													
	1. Adjudication of Industrial Cases														
(7) National Bureau of Investigation	I. Detection and Investigation of Crimes					x									
	1. General Investigation														
	2. Scientific Criminal Investigation Services														
	3. General Administration														

CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(8) Bureau of Immigration	I. Enforcement and Administration of Immigration and Alien Registration Laws			x											
	1. Admission, Registration, Exclusion, Deportation and/or Repatriation of Aliens														
	2. Special Inquiry														
	3. General Administration														
(9) Court of Tax Appeals	I. Adjudication of Tax, Customs and Assessment Cases		x												
	1. Adjudication of cases														
(10) Bureau of Prisons	I. Operation of Correctional Institutions			x								x			
	1. New Bilibid Prisons														
	2. Iwahig Penal Colony														
	3. Davao Penal Colony														
	4. Correctional Institution for Women														
	5. Reception and Diagnostic Center														
	6. San Ramon Prison and Penal Farm														
	7. Sablayan Penal Colony and Farm														
	II. General Administration			x											
	1. General Administration														
	2. Parole Services														
	3. Field Supervision of Parolees and Local Jails														
	III. Purchase of the Davao Penal Colony Decorticating Plant *											x			
	1. Purchase of DPC Decorticating Plant														

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(11) Code Commission	I. Codifi ation of Laws			x											
	1. Codification of Laws														
(12) Anti-Dummy Board	I. Implementation of Nationalization Laws			x											
	1. Investigation and Prosecution of Cases														
	2. General Administration														
(13) Court of Agrarian Relations	I. Adjudication of Agrarian Cases		x												
	1. Adjudication of Agrarian Cases														
(14) Juvenile and Domestic Relations Court	I. Administration of Justice		x												
	1. Adjudication of cases														
7. DEPARTMENT OF AGRICULTURE AND NATURAL RESOURCES															
(1) Office of the Secretary	I. Enforcement of Tenancy Laws								x						
	1. Implementation of the Agricultural Tenancy Law														
	II. General Administration and Staff Services								x						
	1. Dissemination of Agricultural Information														
	2. Agricultural Economics														
	3. General Administration														
(2) Bureau of Plant Industry	I. Improvement of Agricultural Crops								x						
	1. Agricultural Research														
	2. Seed and Plant Propagation and Distribution														
	3. Regulatory Work on, and Control of, Plant Pests and Diseases														
	4. General Administration														
	II. Construction of Permanent Improvements *								x						
	1. Construction of Permanent Improvements														
(3) Bureau of Animal Industry	I. Promotion and Development of Animal Industry								x						
	1. Livestock and Poultry Improvement and Development														
	2. Immunization, Quarantine and other Control Services														
	3. Research														
	4. General Administration														

* Capital Outlays

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVER NMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
	II. Construction of Permanent Improvements *								x						
	1. Construction of Permanent Improvements														
	III. Purchase of Breeding Animals *								x						
	1. Purchase of Breeding Animals														
(4) Bureau of Fisheries	I. Conservation and Development of Aquatic Resources								x						
	1. Fishery Management														
	2. Fishery Research, Experimentation and Development														
	3. General Administration														
	II. Construction of Permanent Improvements *								x						
	1. Construction of Permanent Improvements														
(5) Bureau of Mines	I. Survey, Development and Administration of Mineral Resources								x						
	1. Geological Survey														
	2. Mineral Land Survey														
	3. Mineral and Petroleum Land Management														
	4. Mining and Metallurgical Services														
	5. General Administration														
(6) Bureau of Soils	I. Soil Survey and Conservation								x						
	1. Soil Survey and Classification														
	2. Erosion Control														
	3. Research and Laboratory Services														
	4. General Administration														
	II. Construction of Permanent Improvements *								x						

* Capital Outlays

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	1. Construction of Permanent Improvements														
(7) Bureau of Agricultural Extension	I. Agricultural Extension Services								x						
	1. Dissemination of Agricultural Information in the Rural Areas														
	2. Promotion of Improved Farming, Crop Production and Agricultural Practices														
	3. Demonstration of Useful Homemaking Practices and Food Utilization														
	4. Promotion of 4-H Clubs and Other Civic Organizations														
	5. General Administration														
(8) Bureau of Lands	I. Land Surveys								x						
	1. Public Land Surveys														
	2. Cadastral Surveys														
	3. Verification of Surveys														
	4. Geodetic Control Surveys														
	5. Reconstruction of Maps and Plans														
	II. Administration and Disposition of Lands								x						
	1. Administration and Disposition of Public Lands														
	2. Administration and Disposition of Acquired Lands														
	3. Irrigation Unit														
	I.I. General Administration and Staff Services								x						
	1. Legal Services														
	2. Records Administration														
	3. Modernization Project														
	4. General Administration														
(9) Bureau of Forestry	I. Forest Protection and Management								x						
	1. Forest Management and Regulatory Services														
	2. Reforestation and Afforestation														
	3. Domain Use Classification														
	4. Research														
	5. General Administration														
	II. Construction of Permanent Improvements *								x						
	1. Construction of Permanent Improvements														

* Capital Outlays

CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(10) Parks and Wildlife Office	I. Maintenance of Parks and Conservation of Wildlife								x						
	1. Maintenance of Parks														
	2. Conservation of Wildlife														
	3. General Administration														
8. DEPARTMENT OF PUBLIC WORKS AND COMMUNICATIONS															
(1) Office of the Secretary	I. General Administration and Staff Services			x											
	1. Technical Staff Services														
	2. Subvention to Steamship Companies														
	3. General Administration														
1 Irrigation Service Unit	I. Control and Supervision over Irrigation Pump Systems								x						
	1. Installation and Supervision of Pump Units														
	2. General Administration														
2 Radio Control Division	I. Enforcement of Radio Laws and Regulation										x				
	1. Licensing of Radio Stations and Radio Operators														
	2. Inspection and Investigation of Radio Stations														
	3. Monitoring Service														
	4. General Administration														
3 National Planning Commission	I. Regional and Local Master Planning for Physical Development			x											
	1. Planning and Regulating Activities														

(2) Bureau of Public Works	I. Field Surveys and Plan Preparation														
	1. Irrigation								x						
	2. Buildings	x	x	x					x	x	x		x	x	x
	3. River Control and Drainage								x						
	4. Port Facilities										x				
	II. Operation, Maintenance and Repair Services														
	1. Irrigation								x						
	2. Buildings	x	x	x					x	x	x		x	x	x
	3. River Control and Drainage								x						
	4. Port Facilities										x				
	5. Equipment											x			
	III. General Administration			x											
	1. General Administration														
	IV. Construction *														
	1. Irrigation								x						
	2. Buildings	x	x	x					x	x	x		x	x	x
	3. River Control and Drainage								x						
	4. Port Facilities										x				
	V. Acquisition of Equipment *											x			
	1. Equipment Purchases														
(3) Bureau of Posts	I. Mail Services										x				
	1. Surface Mail														
	2. Air Mail														
	II. Money Order and Telegraphic Transfer Services									x					
	1. Money Order Service														
	2. Telegraphic Transfer Service														
	III. Postal Savings Bank Service									x					
	1. Bank Operations														
	IV. General Administration										x				
	1. General Administration														
(4) Bureau of Telecommunications	I. Operation of Government Telecommunication Services										x				
	1. Telegraph, Telephone and Radio Services														
	2. Transmission Lines														
	II. Operation of Government Telephone System										x				
	1. Government Telephone System														

* Capital Outlays

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function																
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
	III. General Administration										x				
	1. General Administration														
	IV. Extension of Government Telecommunication Services *										x				
	1. Telegraph, Telephone and Radio Services														
	2. Transmission Lines														
	V. Extension of Government Telephone System *										x				
	1. Government Telephone System														
	2. Government Telephone System (conversion of manual to automatic telephone system)														
(5) Bureau of Public Highways	I. Field Surveys and Preliminary Plan Preparation										x				
	1. National Roads and Bridges														
	2. Provincial Roads and Bridges														
	II. Maintenance and Repair Services										x				
	1. National Roads and Bridges														
	2. Provincial Roads and Bridges														
	III. Operation of Equipment Depots, Laboratories and Quarries										x				
	1. Heavy Construction Equipment and Shops														
	2. Los Baños Quarry														
	3. Research and Testing														
	IV. General Administration										x				
	1. Field Supervision														
	2. General Administration														
	3. Toll Bridges														

* Capital Outlays

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	V. Construction, Reconstruction and Improvement *										x				
	1. National Roads and Bridges														
	2. Provincial Roads and Bridges														
	3. Municipal Roads and Bridges														
	4. Toll Roads and Bridges														
	5. Equipment Shops														
	VI. Acquisition of Equipment *										x				
	1. Equipment Purchases														
(6) Bureau of Land Transportation	I. Administration of Motor Vehicles Laws										x				
	1. Recording Registrations and Licenses														
	2. Policy Guidance and Consultative Services														
	3. Compliance and Enforcement Activities														
	4. General Administration														
(7) National Waterworks and Sewerage Authority	I. Field Surveys and Preliminary Plan Preparation													x	
	1. Waterworks														
	II. Operation, Maintenance and Repair Services													x	
	1. Artesian Wells														
	III. General Administration													x	
	1. General Administration														
	IV. Construction *													x	
	1. Waterworks														
	2. Artesian Wells														
	V. Acquisition of Equipment *													x	
	1. Equipment purchases														
(8) Civil Aeronautics Administration	I. Administration of Civil Aviation										x				
	1. Maintenance and Operation of National Airports														
	2. Maintenance and Operation of Air Navigation Facilities														
	3. General Administration														
	II. Construction of Airports and Air Navigation Facilities *										x				
	1. Construction of Airports and Air Navigation Facilities														

* Capital Outlays

CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function													
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(9) Weather Bureau	I. Weather and Allied Services									x			x		
	1. Meteorological, Astronomical, Geo-physical and Related Services														
	2. General Administration														
(10) Public Utilities Commission	I. Authorization and Regulation of Public Utilities									x					
	1. Certification of Public Convenience and Necessity														
	2. Inspection of Industrial Public Utilities														
	3. General Administration														
9. DEPARTMENT OF EDUCATION (1) Office of the Secretary	I. General Administration and Staff Services												x		
	1. Study and Revision of Educational System														
	2. Adoption of Textbooks and Supplementary Readers														
	3. Preservation of Historic Antiquities														
	4. General Administration														
	II. Celebration of the First Centenary of the Birth of Jose Rizal												x		
	1. General Administration														
	2. Centenary Celebration of the Birth of Dr. Jose Rizal														
	III. Construction of Rizal Shrine												x		
	1. Administrative Services														

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1. UNESCO National Commission of the Philippines	I. Implementation of UNESCO Program												x		
	1. Implementation of UNESCO Program														
(2) Bureau of Public Schools	I. General Education												x		
	1. Elementary Education														
	2. Secondary Education														
	II. Special Education												x		
	1. Education of the Physically Handicapped														
	2. Adult Education														
	3. Philippines-Unesco National Community School Training Center														
	4. Teacher Education														
	5. Education of Indigent Children in the Welfareville Institution														
	III. Vocational Education												x		
	1. Trade and Industrial Education														
	2. Agricultural Education														
	3. Fishery Education														
	4. Philippine Nautical School														
	5. Training in Home Industries														
	IV. Medical and Dental Services													x	
	1. Medical Services														
	2. Dental Services														
	V. General Administration												x		
	1. General Administration														
	2. Planning, Guiding and Supervisory Staff Services														
	3. Baguio Teachers' Camp Mess Services														
(3) Bureau of Public Libraries	I. Library Administration												x		
	1. Library Extension Service														
	2. National Library Service														
	3. General Administration Service														
(4) Institute of National Language	I. Propagation and Development of the National Language												x		
	1. Preparation and Dissemination of the National Language Media														
	2. General Administration														

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function													
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resource	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(5) National Museum	I. Administration of the National Museum												x		
	1. Research, Collection, Maintenance and Exhibition of Museum Specimens														
	2. General Administration														
(6) Bureau of Private Schools	I. Regulation and Supervision of Private Educational Institutions												x		
	1. Supervision, Regulation and Evaluation of Private Educational Institutions														
	2. General Administration														
(7) Philippine Normal College	I. Teacher Education												x		
	1. Teacher Education														
	2. Normal Hall														
	3. General Administration														
(8) Philippine College of Commerce	I. Commercial and Business Education												x		
	1. Commercial and Business Education (Day Dept.)														
	2. Commercial and Business Education (Night Dept.)														
	3. General Administration														
(9) Central Luzon Agricultural College	I. Agricultural Education												x		
	1. Agricultural Education														
	2. General Administration														
(10) Mindanao Agricultural College	I. Agricultural Education												x		
	1. Agricultural Education														
	2. General Administration														
(11) Mindanao Institute of Technology	I. Vocational Education												x		
	1. Vocational Education														
	2. General Administration														

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(12) University of Mindanao	I. Advanced Education												x		
	1. Professional and Technical Education														
	2. General Administration														
10. DEPARTMENT OF LABOR (1) Office of the Secretary	I. General Administration														x
	1. Legal Services														
	2. Research and Statistics														
	3. International Labor Representation														
	4. General Administration														
	II. Field Services														x
	1. Compliance Inspection														
	2. Services for Workers														
	3. General Administration														
	III. Man-power Services														x
	1. Employment and Supervisory Services														
(2) Bureau of Labor Standards	I. Administration and Enforcement of Laws on Labor Standards														x
	1. Administration and Enforcement of Laws on Labor Standards														
(3) Bureau of Workmen's Compensation	I. Administration and Enforcement of Laws on Workmen's Compensation														x
	1. Policy Guidance and Consultative Services														
(4) Bureau of Labor Relations	I. Promotion and Maintenance of Industrial Peace														x
	1. Policy Guidance and Consultative and Supervisory Services														
11. DEPARTMENT OF NATIONAL DEFENSE (1) Office of the Secretary	I. Promotion of Peace and Order				x										
	1. Purchase of Firearms and Ammunition														
	2. Financial Aids and Rewards														
	3. Special Operations Service														
	4. Planning and Direction of Psychological Warfare														
	5. Rehabilitation and Resettlement of Veterans and Surrendered Dissidents														

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
	II. Military Pensions and Gratuities				x										
	1. Processing and Adjudication of Claims														
	2. Pensions and Gratuities														
	III. General Administration				x										
	1. General Administration														
1. Board on Pensions for Veterans	I. Military Pensions				x										
	1. Processing and Adjudication of Pensions														
	2. Pensions														
2. Philippine Veterans Board	I. Military Pensions and Benefits				x										
	1. Processing and Adjudication of Claims														
	2. Pensions and Other Benefits														
	3. Investigation and Field Work														
	4. General Administration														
	II. Construction of Building *				x										
	1. Construction of a Veterans Memorial Building														
3. Veterans Memorial Hospital	I. Hospitalization and Medical Care				x										
	1. Contract Hospitalization														
	2. Hospitalization, Care and Treatment														
	3. General Administration														
(2) Bureau of Coast and Geodetic Survey	I. Geodetic and Hydrographic Surveys and the Production of Charts, Maps and other Publications										x				
	1. Field Surveys, Observations and Operations														

* Capital Outlays

	2. Compilation and Production of Materials for Printing of Charts, Maps and other Publications														
	3. Production, Reproduction and Distribution of Charts, Maps other Publications														
(3) Armed Forces of the Philippines	4. General Administration														
1. General Headquarters	I. Command and Direction				x										
	1. Direction and Control														
	2. Headquarters Operation and Maintenance														
	3. Intelligence Operations														
	4. Welfare and Morale														
	II. Support of Inter-Service Activities				x										
	1. Research and Development														
	2. Medical and Dental Care														
	3. Operation of the Armed Forces of the Philippines General Depot														
	III. Special Operations				x										
	1. Administration and Payment of Claims, Pensions and Gratuities														
	2. Support to Foreign Military Missions Assigned to the Philippines														
	3. Support to SEATO and UN														
	IV. Training				x										
	1. Operation and Maintenance of the Philippine Military Academy														
	2. In-Service Training of Military Personnel														
	V. Operation and Maintenance of the Armed Forces of the Philippines Base Shop				x										
	1. Operation and Maintenance of the AFP Base Shop														
	VI. Military Public Works *				x										
	1. Acquisition of Land and Structures Outlay, Philippine Military Academy														
	2. Land Improvements and Construction at Camp Murphy, Quezon City														

* Capital Outlays

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	FUNCTION														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
2. Philippine Army	I. Army-Wide Services				x										
	1. Medical and Dental Care														
	2. Logistical Services														
	II. Ground Operations				x										
	1. Military Operations														
	III. Training and Mobilization				x										
	1. Training of Regular Troops														
	2. Reserve Training and Administration														
	IV. Army Public Works *				x										
	1. Acquisition of Training Sites														
	2. Construction Outlay														
3. Philippine Constabulary	I. Command and Direction					x									
	1. Direction and Control														
	2. Headquarters Operation and Maintenance														
	3. Welfare and Morale														
	II. Philippine Constabulary-Wide Services					x									
	1. Medical and Dental Care														
	2. Logistical Services														
	III. Law Enforcement and Maintenance of Peace and Order					x									
	1. Police Operations														
	2. Regulation and Control of Firearms														
	3. Enforcement of Traffic Laws														
	4. Psychological Warfare Activities														
	5. Operation and Maintenance of Facilities														

* Capital Outlays

	IV. Training					x									
	1. Training of Constabulary and Local Police Officials														
	V. Military Public Works *					x									
	1. Construction and Acquisition of Facilities														
4. Philippine Air Force	I. Command and Direction				x										
	1. Direction and Control														
	2. Headquarters Operation and Maintenance														
	3. Welfare and Morale														
	II. Air Force–Wide Services				x										
	1. Medical and Dental Care														
	2. Depot Operations and Maintenance														
	3. Transport Services														
	III. Air Operations				x										
	1. Air Combat Forces														
	2. Operation and Maintenance of Air Stations														
	IV. Training and Mobilization				x										
	1. Training of Regular Force														
	2. Reserve Training and Administration														
	V. PAF Public Works *				x										
	1. Acquisition of Real Estate														
5. Philippine Navy	I. Command and Direction				x										
	1. Direction and Control														
	2. Headquarters Operation and Maintenance														
	3. Welfare and Morale														
	II Navy–Wide Services				x										
	1. Medical and Dental Care														
	2. Logistical Services														
	III. Naval Operations				x										
	1. Naval Patrol and Transport Services														
	2. Maintenance and Operation of Facilities														
	IV. Special Operations										x				
	1. Lighthouse Service including Port Works and Revenue Cutter Service														

* Capital Outlays

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	FUNCTION																
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
	V. Training and Mobilization				x										
	1. Training of Regular Force														
	2. Reserve Training and Administration														
	VI. Operation and Maintenance of Naval Base Facility				x										
	1. Operation and Maintenance of Naval Base Facility														
12. Department of Health															
(1) Office of the Secretary	I. General Administration and Staff Services													x	
	1. General Administration and Consultant Services														
	II. Health Education, Personnel Training and Statistics													x	
	1. Program Management														
	2. Education and Information Services														
	3. Personnel Training														
	4. Statistics and Research														
	III. Construction*													x	
	1. Construction														
(2) Office of the Undersecretary for Health and Medical Services	I. Executive Direction, Supervision and Staff Services													x	
	1. Executive Direction, Supervision, and Staff Services														
(3) Bureau of Health Services	I. Program Planning and Consultant Services													x	
	1. Program Planning and Consultant Services														

* Capital Outlays

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(4) Bureau of Medical Services	I. Standards for Hospital Services													x	
	1. Standards for Hospital Services														
(5) Bureau of Disease Control	I. Program Planning, Evaluation and Consultant Services													x	
	1. Planning, Evaluation and Consultant Services														
(6) Office of the Undersecretary for Special Health Services	I. Executive Direction, Supervision and Staff Services													x	
	1. Executive Direction Supervision, and Staff Services														
(7) Bureau of Research and Laboratories	I. Laboratory Examination, Production and Research													x	
	1. General Management														
	2. Pathological and Microbiological Examinations														
	3. Laboratory Research														
	4. Blood Plasma Dehydration														
	5. Sanitary Chemical Analysis														
	6. Vaccine Production														
	7. Food and Drug Analysis														
	8. Nutrition Research														
(8) Bureau of Quarantine	I. Quarantine Administration													x	
	1. Quarantine Administration														
(9) Field Operations	I. General Administration													x	
	1. General Administration														
	II. Regional Health Training Centers													x	
	1. Regional Health Training Centers														
	III. Regional Laboratories													x	
	1. Laboratory Examination Services														
	IV. Field Health Services													x	
	1. Rural Health Units														
	2. Dental Services														
	3. Social Hygiene Services														
	4. Malaria Eradication Services														
	5. Tuberculosis Control Services														
	6. Environmental Sanitation														
	V. Sanitaria Services													x	
	1. Sanitaria														
	2. Skin Clinics														

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	Function													
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
	VI. Quarantine Services													x	
	1. Quarantine Services														
	VII. Hospital Services													x	
	1. General Hospitals														
	2. Special Hospitals														
	3. Schools of Nursing														
	4. School of Midwifery														
	5. Grants-in Aid														
13. DEPARTMENT OF COMMERCE AND INDUSTRY															
(1) Office of the Secretary	I. General Administration and Staff Services									x					
	1. General Administration														
	2. Legal Services														
	3. Public Information														
	4. Administrative Services														
	II. Regulation of No-Dollar Import Activities									x					
	1. Regulation of No-Dollar Import Activities														
(2) Bureau of Domestic Trade	I. Business Promotion and Regulation									x					
	1. Trade Promotion														
	2. Regulatory and Enforcement Activities														
	II. Guarantee Loan Fund *									x					
	1. Gurantee Loan Fund														
(3) Bureau of Foreign Trade	I. Business Promotion and Regulation									x					
	1. Trade Promotion														
	2. Regulatory and Enforcement Activities														

* Capital Outlays

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(4) Bureau of Industrial Promotion	I. Industrial Promotion and Assistance									x				
	1. Industrial Promotion													
(5) Bureau of Cooperatives Administration	I. Administration of Non-Agricultural Cooperatives									x				
	1. Administration of Non-Agricultural Cooperatives													
(6) Bureau of the Census and Statistics	I. Collection, Compilation and Dissemination of Statistics											x		
	1. Collection, Compilation and Dissemination of Statistical Data													
(7) Philippines Patent Office	I. Patent and Trademark Administration									x				
	1. Issuance of Patents and Registration of Trademarks and Tradenames													
(8) Securities and Exchange Commission	I. Enforcement of the Securities Act and Related Laws									x				
	1. Enforcement of the Securities Act and Related Laws													
(9) Field Services Operations	I. Field Services									x				
	1. Field Services Activities													
14. DEPARTMENT OF GENERAL SERVICES														
(1) Office of the Secretary	I. General Administration and Staff Services			x										
	1. General Administration													
	2. Legal Services													
(2) Bureau of Supply Coordination	I. Supply Administration			x										
	1. Procurement and Warehousing													
	2. Specifications and Standards													
	3. Property Utilization and Disposal													
	4. General Administration													
(3) Bureau of Building and Real Property Management	I. Building and Real Property Management			x										
	1. Planning and General Administration													
	2. Management of Real Property													
	3. Maintenance and Repair of Buildings													

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CHART OF FUNCTIONAL CLASSIFICATION OF GOVERNMENT ACTIVITIES—Continued

I. ARRANGED BY DEPARTMENT AND AGENCY, PROGRAM AND PROJECT, AND FUNCTION—Continued

Department and Agency	Program and Project	FUNCTION														
		Legislative Services	Administration of Justice	General Government	National Defense	Maintenance of Peace and Order	Debt Service	Pensions and Gratuities	Agriculture and Natural Resources	Commerce and Industry	Transportation and Communication	Other Economic Development	Education	Public Health and Medical Care	Labor and Welfare
(4) Bureau of Records Management	I. Management of Records and Archives			x											
	1. Records Management, Archival Operations, Consultative Services and General Administration														
	2. Operation of Records Storage Centers														
(5) Bureau of Printing	I. Printing Services for the National Government and Its Instrumentalities			x											
	1. General Administration														
	2. Printing Production														
(6) National Media Production Center	I. National Media Production Services			x											
	1. Production and Dissemination of Information														
15. OFFICE OF ECONOMIC COORDINATION	I. Coordination of Government-Owned or Controlled Corporation Activities											x			
	1. Legal and Technical Staff Services														
	2. General Administration														
16. GENERAL AUDITING OFFICE	I. Auditing Services			x											
	1. Modernization of Auditing														
	2. National Government Auditing Services														
	3. Local Government Auditing Services														
	4. Legal Staff Services														
	5 General Administration														

17. COMMISSION ON ELECTIONS	I. Administration and Enforcement of Election Laws			x											
	1. Holding of Elections														
	2. General Administration														
18. SUPREME COURT OF THE PHILIPPINES	I. Administration of Justice		x												
	1. Adjudication of Cases														
	2. Conduct of Bar Examinations														
	3. Publication of Decisions														
19. COURT OF APPEALS	I. Administration of Justice		x												
	1. Adjudication of Cases														
20. CONTINGENT FUND	I. Contingent Fund		x	x	x	x			x	x	x	x	x	x	x
21. SALARY STANDARDIZATION FUND	I. Salary Standardization Fund			x	x	x			x	x	x	x	x	x	x

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CHAPTER III

Performance Budgeting and Accounting

Introductory

58. Along with the growth of activities and related increased expenditures, effective financial management in the conduct of government affairs is assuming an increasing importance. The strengthening of that function constitutes a high priority need among the administrative goals of government.

59. The financial management function might be described as a continuous cycle of related operations that contribute to necessary management decisions, as illustrated in Appendix C. In relation to that cycle, the application of performance budgeting raises questions concerning the kinds of classifications needed for the various operations, the best methods for relating one operation to another; the accounting basis and the kinds of financial data to be developed, and the most appropriate financing, reporting, and control practices.

The Integrated System

60. Within the financial management cycle, the accounts are the official source of the financial information used in the budget. Such data must be developed in the accounts in a form that will support budget requests and provide for adequate control of budget execution. To do that in an efficient manner, the programming, budgeting, accounting, and reporting operations should be integrated through the use of common classifications, i.e., the primary classifications used for developing and presenting the budget should be identified in the accounting system and in the related reports. The use of such an integrated system best provides the financial data needed for management decisions.

61. Traditionally, accounting in Government has been developed as a mechanism for financial control. It has been used primarily as the means by which operating officials in the executive have met their responsibility for control of the funds provided by the legislature. In the conventional system that is operated on an integrated basis, the operating officials' accountability for budgeted funds is generally satisfied through the use of information classified in terms of the source of funds, the responsible organizations, and the objects for which funds were expended.

62. The same accountability requirements apply in performance budgeting, but more recognition is given to serving the management needs of the operating officials. That type of budgeting is a programme-oriented technique that requires additional classifications of basic financial information, appropriately developed in an integrated system. Besides the conventional budget needs for data by fund, organization, and object, a performance budget requires accurate and timely information by function, programme, and activity; and all of those data must be presented in a manner and form that will permit effective operational and fund control, and show the progress being made toward goals. While those added requirements might imply a need for more accounting facilities, the effect of conversion will vary in individual applications. The actual need for additional accounting in each case is dependent upon many factors, such as the degree to which the country's financial system has been developed and is being used as a management tool; the extent to which it has been mechanized, the relative efficiency of the existing operation, and the capacity of the accounting personnel to broaden their scope, and to adapt to the data requirements of this technique.

63. The administrative costs of performance budgeting will not necessarily be greater because of the additional management information required. If the conversion to that type of budgeting is apprcached in a spirit of modernization and improvement, with appropriate attention given to the selection and training of personnel, effective results can be obtained without additional - and possibly even less - costs. The potential benefits to be derived from performance budgeting are, of course, not merely a question of costs of financial administration, but rather refer in a larger sense to improved efficiency and greater achievements over the entire spectrum of government operations.

The Financial Plan

64. One of the paramount values of the performance budget is its management usefulness in the conduct of economic development and long range programmes. Through its function, programme, and activity project structure, the performance budget provides a programming framework for the development of detailed agency plans that can be related to long term objectives and goals. The underlying technique that gives fiscal substance to this relationship is the financial plan.

65. In the formulation of a performance budget, a financial plan reflects the substantive and work goals of the long and short range programme plans, identifies the organizations that will conduct the proposed programmes, and outlines the related financial requirements. In budgetary review, those data provide the basis for management decisions on the merits of the respective programme proposals and on the amounts of funds required. When the financial plan is amended to reflect the decisions of the legislature in granting the requested funds, it becomes an operating budget that sets the pattern for carrying out approved programmes. Properly established along fund, organizational, and programme lines, the operating budget provides the responsible officials with a set of objectives that govern operating decisions, and furnishes a basis for financial and performance reporting that enables management at the various levels of government to review the progress being made against the approved plan.

66. In addition, such an integrated system of programming, budgeting, accounting, and reporting provides a framework for more effective audit. Besides permitting determinations that the legal requirements have been met in adequate fashion, this system provides the auditor with the opportunity to evaluate how well and how efficiently operating management has carried out its assigned responsibilities. Through the performance budget technique, the auditor is enabled to conduct a systematic review that is directed toward evaluation of organizational performance.

67. In summary, much of the success of performance budgeting is dependent upon the financial management structure that is developed in relation to the function, programme and activity categories. The use of an integrated budget and accounting system that is based on common classifications is a prerequisite of good management. For effective control, such a system should incorporate a financial planning and reporting process that translates the programme and budget plans into organizational, work, and financial responsibilities, and enables management review and appraisal of the effectiveness of performance.

The Accounting Approach

68. Given an appropriate financial management structure, the application of performance budgeting directs attention to the kinds of financial information that will be most useful for management purposes. Experience in industry and

in government identifies many practices that can be used under the conditions that exist in individual countries.

69. Those practices range from a relatively simple cash basis of accounting to a refined accrual basis that produces actual costs per unit of work or programme accomplishment. The various bases of accounting are defined below, and the significance of the differences between them are identified. Performance budgeting can be installed utilizing any of these accounting approaches, as long as the budget and the accounts are maintained as part of an integrated system. Refinements in the kinds of financial data produced by the accounts subsequently can be made to the extent desired on the basis of experience.

The Accounting Basis

70. Traditionally in government, accounting has been maintained on a cash basis - one that recognizes the availability of resources upon receipt of cash, and the use of such resources at the time that payments (disbursements) are made. In its simplest form, this approach provides a minimum of the kinds of financial information that can be developed. Under this type of system, management and control information is developed in terms of disbursements - or as they are often called - in terms of expenditures. In the British government, for example, accounting for appropriations ("votes") is on a cash basis.

71. In many governments, a desire for strengthened control over the use of funds has led to recognition in the accounts of commitments, or obligations, as well as actual payments. This step is generally taken to identify the point at which the government is actually committed to the future payment of funds. In this obligation type of system, fund control information is usually developed in terms of obligations - to ensure staying within the limits of the appropriated authority; and management data can be developed in terms of obligations or disbursements. The French system includes elements of this approach, which is also utilized by the Philippine Government.

72. In industry, in government enterprises, and to some extent in government agencies financed by appropriate funds, the accrual basis of accounting is in general use. The latter is true particularly in the United States Government. This type of system may be installed in varying degrees of refinement according to the requirements of the individual installation. In addition to the obligation and disbursement information developed in the more conventional

government accounts, the accrual system provides data in terms of accrued expenditures and costs. In general, an accrual system in a government agency reflects the funds, inventories, and other resources available, the receipt of goods and services, the use of available resources in relation to work performed in a given time period, and the liabilities of the agency. It incorporates monetary property records and establishes financial controls that are consistent with assigned management responsibilities. Thus, the system provides for full disclosure, reflecting not only the availability and status of funds, but also showing all resources on hand and the actual use of such resources.

73. In considering these various approaches, it should be recognized that combinations of elements of the different systems might be used. For example, general ledger asset and liability accounts, identified above as a normal adjunct of accrual accounting, may also be developed in a cash or an obligation system. However, in those types of systems, the effect of application of the physical assets to programme objectives is not generally reflected - at the time of use - in the programme management data that are produced.

74. A general idea of the relationship of the different approaches is shown in Appendix D, in terms of a simplified set of ledger accounts. Under either of the accounting approaches, fund control in a performance budget would be maintained through the budgetary accounts. In a cash or obligation system, programme control would be exercised through detailed classifications in that same series of accounts. In an accrual system, however, programme control would be exercised through the operating cost accounts. The distinction between the systems is in the kind of data provided for management control of programmes, and in the more complete financial disclosure that is required under the accrual system.

The Significance of Financial Data

75. To determine the most suitable basis of accounting for use in given situations, consideration should be given to the nature of the different kinds of financial data, their relationship, and their significance for the purposes of performance budgeting. Basically, each complete financial transaction has four significant phases. Those phases are identified below:

Obligations represent goods and services ordered, without regard to when delivered, paid, or consumed. This is a vital point in procurement and in the control of funds.

Accrued expenditures represent goods and services received, without regard to when ordered, consumed, or paid. This is the point at which liabilities are incurred and inventory and property accounting begins.

Disbursements represent bills paid without regard to when the goods or services were ordered, delivered, or consumed. This phase is significant for determining cash requirements in relation to available receipts.

Costs represent goods and services consumed, without regard to when ordered, delivered, or paid. This is a meaningful point of programme control, since it best reflects the resources used and the financial status of work on the programme.

76. For the purposes of financial analysis, these phases have significance from the standpoint of the time period within which they occur. This is brought out through the illustration shown in Appendix E. From the illustrative timing shown in that appendix, the entire sequence was completed in calendar year 1960. However, assuming that the fiscal year ends in June, the obligation and the accrued expenditure occurred in fiscal year 1960, while the disbursement and the cost took place in the following fiscal year. Under this set of facts, if work performed is measured in terms of obligations, it would be overstated for fiscal year 1960. More accurately, measurement in terms of cost would show that the work was actually performed during fiscal year 1961.

77. Another difference in the significance of these data is shown in Appendix F, which illustrates the treatment of various transactions in accrual accounting. That exhibit brings out the degree of error that would result if a financial measure other than costs was used in relation to the programme and work classifications. For example, if obligations were used to measure performance, the progress made would be overstated by almost half a million dollars (10 per cent). On the other hand, if disbursements were used, the progress would be understated by almost a quarter of a million dollars (5 per cent).

78. A question to be considered in selecting the basis of accounting to be used centres on the significance of such differences for management purposes. Appendix G, which shows the relationship between the various financial measures,

identifies some of the factors that should be considered. For example, the determination of whether costs or obligations are a suitable measure requires an evaluation of the significance of changes that occur in the inventory on hand ("B" in Appendix G), and in the amount of goods and services that have been ordered but not yet received ("D" in Appendix G). The development of cost information has its greatest value in programmes where large inventory changes are involved, or where there is considerable time lag between the placement of an order and the delivery of the goods and services ordered.

Applicability to various programmes

79. Among the different kinds of government programmes, the reconciling factors between costs and obligations vary in significance according to the type of programme. In capital outlay and construction activities, which generally are long term in nature, those factors can be important. Such programmes usually involve contracts that are obligated in full at the beginning, and call for delivery of goods and services over some period of time. This requires sound financial planning and, at any particular point in time, a financial measure of what has taken place and what is still planned. The determination of costs in such a programme is a prime consideration. Any other financial measure would give an inaccurate picture of the status of work.

80. Cost data are also appropriate to programmes like those involving the operation of a hospital. In hospitals, the accrual approach permits the development of accurate unit cost information that is useful for comparisons and for arriving at sound management decisions. Appendix H is an example of a report used by the Veterans Administration in the United States. It is based on an accrual system that produces monthly data on the operation of individual hospitals for use at various management levels. Comparative data are shown for the cost of operation of the hospital, the personal services involved, the cost per patient day, and the dietetic costs - in total and per ration. Such indicators, provided on a continuous basis, enable more effective management of this kind of facility.

81. On the other hand, for an administrative agency where the inventory is minor, the time lag between orders and deliveries is small, and personal services might account for as much as 90-95 per cent of the total funds, there may be little management difference between the various kinds of data. Even in such agencies, however, there are some distorting factors that should be considered. For example, if obligations are recorded at the beginning of a year to cover the personal services for the full year, then costs would be the more significant financial measure since they would be recorded at the time the employees actually worked. If the agency is one in which accurate unit costs are needed, the accrual approach - under which the cost of vacation leave can be recognized as it is earned - would be desirable. If those kinds of factors are not present, either one of the accounting approaches identified above may serve adequately the management purposes of that kind of an administrative agency.

82. Thus, the adoption of performance budgeting and the establishment of an integrated financial management system is not necessarily dependent upon the use of any particular accounting basis. A performance budget can be installed using either the cash, the obligation, or the accrual approach. Regardless of the approach used, management can derive benefits from the appropriate identification of substantive classifications in relation to the accounts and the organizational responsibilities, and through the use of sound financial planning and reporting practices. It should be recognized, however, that the ultimate degree of refinement in accounting for this type of budget is the determination of accurate programme and performance costs. This can add appreciably to the benefits of the system, and has the added value of promoting a cost consciousness in the conduct of government operations.

Selected Techniques of Financial Management

83. The financial management techniques employed are an important consideration in the application of performance budgeting. In particular, the financing and control practices have a significant effect on the results achieved. The financing structure, for example, is important because it is through that structure that the substantive classifications and the related

financial data are presented in the budget in support of fund requests. The control practices, on the other hand, are of significance because they are the medium through which the management benefits of this approach are derived.

The Appropriation Technique

84. Generally, government operations are financed through appropriations of spending authority by the legislature. In performance budgeting, an appropriation essentially is a device for making funds available to responsible organizations for the accomplishment of specific programmes. As such it gives the legislature a control over the scope of programmes, establishes legal accountability, and provides a basis for reporting and auditing on the adequate discharge of that legal and administrative responsibility. Appropriations, therefore, should be in terms of programmes, and should be directly related to the manner in which the agency is organized and controls its operations.

85. To enable use of the most efficient recording, reporting, and control practices, the number of appropriations to a responsible organization should be kept to a minimum. The multiple financing of organizations should be avoided to the extent practicable, to reduce the problem of distributing financial charges for individual programmes and activities among a number of separate appropriations. Ideally, for maximum flexibility, a major organization unit should be financed through a single appropriation. With such an arrangement, the substantive categories would be identified through the programme and activity classification under that appropriation, and a single accounting system that reflected those categories would provide the necessary management information. Departures from this ideal may be necessary, however, for a variety of reasons. More than one appropriation would be required in cases where separate government funds are involved, where different periods of availability are desired, or where capital outlay, as a matter of practice, is financed separately from operating expenses. In such cases, the supporting accounts would have to establish the identity of each separate appropriation, and would have to segregate the financial transactions attributable to each one.

86. In installing a performance budget, the existing appropriation pattern should be reviewed to determine its suitability. Action should be taken to

eliminate those features of the structure that would impede or otherwise complicate attainment of the programme management objectives of this type of budgeting. The development of a simple pattern for each agency must be accomplished on an individual basis, giving attention to such factors as the programmes of the agency, the types of operations, the financing requirements, and the organization structure used for operational control.

87. Evidence of the benefits that can be obtained through this approach is provided in the example of the National Park Service, which is part of the Interior Department in the United States. Before the adoption of the performance budget in fiscal year 1951, that agency had nineteen separate financing items. They included:

1. Salaries and expenses
2. Regional parks
3. National parks
4. National monuments, historical and military areas
5. Recreational areas
6. Emergency reconstruction and fighting forest fires
7. Appomattox Court House National Historical Monument
8. Great Smoky National Park
9. Saratoga National Historical Park
10. Water rights
11. Travel division
12. Recreational demonstration areas
13. Salaries and expenses, National Capital Parks
14. River basin studies
15. Acquisition of lands
16. Independence National Historical Park
17. Parkways
18. Roads and trails
19. Physical improvements, buildings and utilities

Subsequently, in the course of installation of performance budgeting, that structure was reduced to the following four appropriations:

1. Management and protection
2. Maintenance and rehabilitation of physical facilities
3. Construction and land acquisition
4. General administrative expenses

As a result of this change, the National Park Service has been in a better position to programme and control its operations because all like items (such as the capital investment programmes) were grouped within a single appropriation. In addition, the national and the regional offices previously were financed from a number of the different appropriations; it was difficult and time consuming to determine the funds available for particular programmes, to identify the monetary value of accomplishments, and to plan work programmes for subsequent years. Through this improved structure, the work planning and control procedures

were strengthened, there was more flexibility in the use of funds, and the focus of legislative review was raised to higher programme levels.

Interagency transactions

88. Many times in government, funds appropriated to an agency are augmented by free goods and services provided from sources outside the agency. In other cases, interagency agreements result in work performed by one agency for the purposes of another - subject to a reimbursement by the ordering agency. To get an accurate picture of the total work programme of an agency in relation to its available resources, it is necessary that accounts be established in the agencies concerned to reflect such transactions in a meaningful manner and that the budget plans, presentations, and reports reflect accurately the facts in each case.

89. For full disclosure of the receipt of free goods and services, estimated values should be recorded in the accounts of the receiving agency to show the augmentation of available resources. The actual use of free goods and services should be recognized in the operating accounts at their estimated value, and reflected as part of the cost of work performed. Reports and budget presentations would include a negative adjustment to enable reconciliation to appropriated funds. Similar action, of a reverse nature, should be taken in the agency furnishing the resources. Appendix I, an appropriation presentation of the Coast Guard in the United States, illustrates the disclosure of a net receipt of free goods and services in item 9 of the schedule.

90. That exhibit also shows the Coast Guard's reimbursable programme in this account. In this case also, the monetary value of the work performed for another agency and the expected reimbursement for such services should be identified in the acccunts, reports, and budget presentations. The work to be done for the ordering agency should be reflected in the financial and work plan of the performing agency to show the full programme of work contemplated. The additional resources provided by the payment from the ordering agency should be shown as a financing item, along with the amount of the appropriation involved (see Appendix I - "Financing"). Since such reimbursements usually provide obligating and spending authority in the same way as the appropriation, the accounting treatment cutlined above is provided through the budgetary accounts.

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91. In these types of transactions, the financial management system should record and disclose the full value of the programme and activities actually carried out by the individual agencies. It is through this approach that the most equitable financial measures of work performed can be developed for review and evaluation purposes.

The Revolving Fund Technique

92. In addition to appropriations, revolving funds (sometimes called "working capital funds" or "reimbursable funds") are often used to finance certain types of programmes and operations. Such funds usually require legislative authority to retain and to use the receipts generated by the operations financed. The fund may be based on working capital originally provided through an appropriation, but thereafter it is generally expected to operate through the use of earned receipts. This technique is useful for application to operations that are similar to the activities of government enterprises but do not have all of the characteristics necessary to warrant such identification. In addition, it can be selectively applied to specific operations of individual agencies in a manner that will provide the operating officials in such agencies with many of the management benefits of accrual accounting.

93. For example, revolving funds are useful for strengthened control and management of inventories or service equipment. In such cases, the supplies or equipment on hand may be used to establish the working capital of the fund. As receipts are received from stock issues or from the rental of equipment, they are used to replenish the supply level or to operate and replace the equipment as needed. In an inventory operation, this approach generally enables more efficient management of stock and maintenance of economic supply levels, in an equipment operation, it usually enables more efficient operation and better maintenance of the service level needed for the programmes utilizing these services. These kinds of applications can be particularly useful in obtaining the benefits of accrual accounting in an agency that conducts programmes which otherwise consist primarily of personal services. The revolving fund serves to isolate items that may be difficult to charge to individual programmes at the time they are obtained. By procuring such items through the revolving fund, they can be charged to the programme served at the time of use - a primary objective of performance budgeting.

94. A similar kind of application is useful for central administrative service operations that may provide personnel, payroll, and other types of services to constituent organizations. If the central service operation, including staffing, supplies, equipment, etc., is financed through a revolving fund, charges for the services rendered to constituent organizations will replenish the working capital, and will establish the cost of the services for the recipient organizations.

95. This approach is also particularly appropriate for programmes that involve a manufacturing operation. Illustrations of such applications in the United States are the Bureau of Engraving and Printing in the Treasury Department, which manufactures currency, stamps, and other evidences of a financial character, and the Government Printing Office, which does the printing for the United States Congress, some printing for executive agencies, and sells government publications. In both of those applications, accrual accounting is used for efficient management and to determine prices that will permit continued operation.

96. Another variation of a revolving fund application is one in which use of the receipts of the fund is subject to appropriation by the legislature. In the United States, for example, revenue from the Post Office operations is placed in a Postal Fund. That Fund is available for use by the Post Office only in accordance with limitations (appropriations) that are enacted by the legislature. The accrual approach is used in this application, to provide business-type statements for the Postal Fund, and to assist in establishing rates for the postal services. In the British Post Office, different yet similar techniques are followed. Cash receipts of the Post Office go into the Exchequer, and an appropriation is made to finance the expenses of the Post Office. The accounting for the appropriation is on a cash basis, but the Post Office also maintains "commercial" accounts (the accrual approach) which are used for management of the business and to determine the rates to be charged for services.

97. In these kinds of situations, regardless of variations, the accurate determination of costs within a given time period, including depreciation, inventory use, etc., is of primary importance. This better serves management needs, and provides a basic factor for use in establishing the prices to be charged to the customers of the fund. Like in government enterprises, accrual

accounting is most appropriate for the revolving fund type of financing, since it enables the development of balance sheets and other business-type statements that permit thorough analysis of the programme involved.

Fund Control Techniques

98. In government agencies, a primary objective of financial management is to control operations within available funds. This is necessitated by the legal limitations in the appropriation acts of the legislature. Unlike private industry, where credit and financing arrangements permit the conduct of operations in accordance with more flexible financial targets, a government agency has to operate within strictly identified financial boundaries in so far as funds are concerned. This is attested to by the fact that one of the foremost interests of the government auditor is the legality of agency expenditures.

99. The need for fund control exists under any type of budgeting system. In performance budgeting, regardless of whether the accounts are maintained on a cash, an obligation, or an accrual basis, budgetary fund control accounts are needed for compliance with legal restrictions. Such control accounts may be operated in a variety of ways. The choice of methods depends on such factors as the kinds of programmes and their financing, the financial management concepts employed, the capabilities of the personnel, and the degree of flexibility that reasonably may be granted to operating management.

100. Within the limits of available funds, sound management calls for allocating the total amount into segments that identify the time period within which they may be used. The intent of this breakdown is to spread the use of the appropriation by months, quarters, or other time period, so that its objectives may be attained without additional financing. Beyond that, there may be need for allocations into smaller segments that have operational significance under the country's budget system. This secondary breakdown may be in terms of programmes, activities, organizations, types of procurement, or some combination thereof. Finally, budgetary control reports are needed to enable periodic review of the use of funds in relation to the approved allocations.

Programme and Operating Control Techniques

101. In performance budgeting, an appropriation by the legislature also serves as a control over the scope and cost of performance of executive programmes. The financial management system employed by the executive, therefore, should produce meaningful data to enable effective control along these lines. The operating control methods, directed toward attainment of approved programme goals at a minimum cost, are equal in importance to those used for fund control.

102. To satisfy adequately these operating management needs requires determinations of the kinds of financial and work information that would be most useful for control of individual programmes. Regardless of the accounting approach employed, the financial and work measures incorporated in the system must be oriented to the pattern of assigned responsibilities and the kinds of decisions to be made. There is no "right" measure for all activities, and neither the operating nor the financial personnel should consider the establishment of the necessary measures as their exclusive province. The selection of suitable measures in each agency should be a team effort that includes representatives of both the operating and the financial management areas as parties of mutual interest. This kind of a team effort is indispensable for effective results since operating management, in the decision making process, must use and interpret the data that are produced by the system. Without effective management use, the most precise and technically correct system has little value.

103. Determinations will also be needed on the degree of refinement desired in the system. Those determinations must take into account such factors as the stage of development of the existing management system, the capabilities of the personnel, the programme and operational control needs to be met, and the administrative problems involved in making the proposed changes. Properly tied into the programme activity, and organization structure, an integrated financial management system that is correlated with meaningful work measures can produce data of significance for operating control. Decisions will be required, however, on the degree to which detailed refinements will be sought in each of the types of measures employed.

104. The considerations involved in the selection of appropriate measures of programme and work were discussed in the preceding chapter. On the financial side, the use of obligations, accrued expenditures, disbursements, or actual costs as a measure cannot be considered as mutually exclusive approaches. The value of obligations as a fund control device, of accrued expenditures as a measure of resources on hand, of disbursements as an indicator of cash needs, and of costs as a programme measure have been noted. Each has its place and usefulness, and should be employed for the purposes it serves. Their respective values should be considered in relation to the management needs at the various levels of each country's government. Final determinations should be made, however, in the knowledge that the development of all of these several kinds of data in appropriate relationships will provide full disclosure of financial affairs, and will promote more efficient operations.

105. To illustrate the manner in which fund and operational controls are exercised in existing performance budget applications, there is furnished in Appendix L an outline of the control techniques in the Philippine and United States systems. That review of those two applications demonstrates the principles and concepts discussed above.

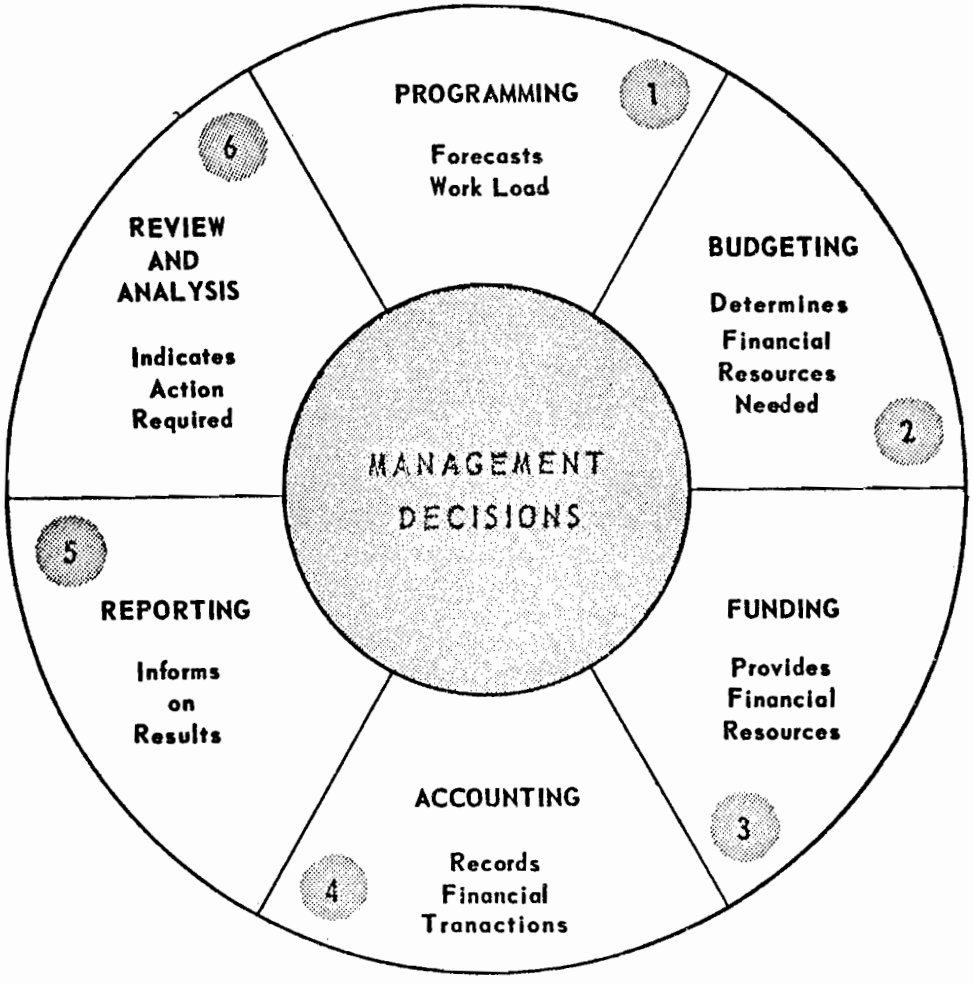
Conclusions

106. This chapter has been directed toward explaining and identifying the ways in which financial management can be exercised under performance budgeting. The illustrations and various appendices demonstrate that the basic objectives of that type of budgeting can be attained in a variety of ways. In each of the cases discussed in Appendix J, separate elements of the system have been chosen for further refinement; e.g., the emphasis on providing performance ratios in the Philippine system, and the emphasis on developing actual cost data in the United States system. In those countries, regardless of the different emphases, benefits have been derived in the better management of growing programme operations.

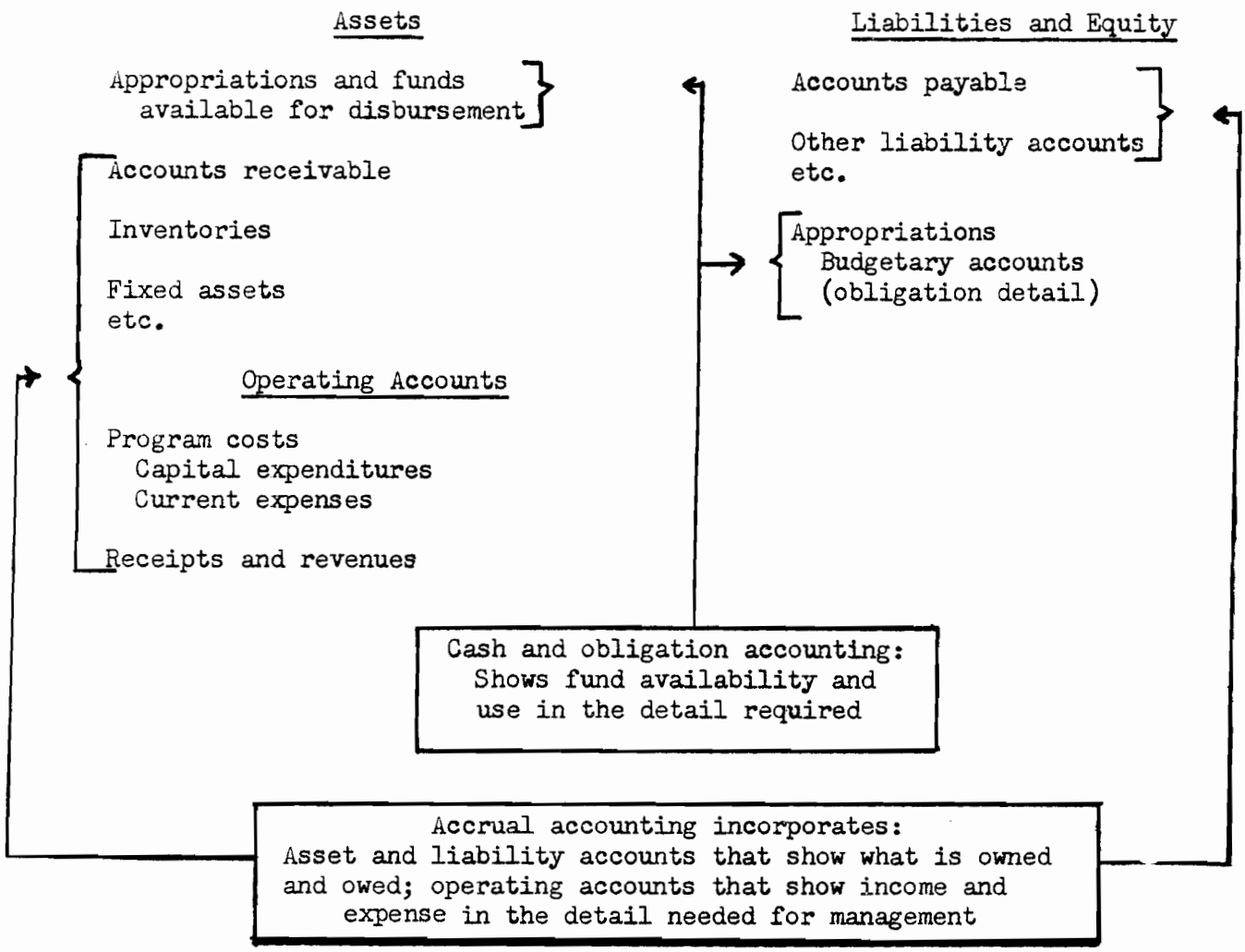
107. Those applications also demonstrate that performance budgeting can be applied even thcugh different financial measures are used in relation to programme and work accomplishments. While it is clear that the acccunting approach in use has a bearing on the accuracy of the financial measures, there has been sufficient experience in these different applications to bring cut the relative advantages of performance budgeting over previous practices. In both the Philippine and United States Governments, there is now a more informed basis for management decisions in the development and approval of programme proposals, and in the control of execution of approved programmes. This, in turn, promotes more effective and economical attainment of programme objectives in relation to long range social and economic goals.

Appendix C

THE FINANCIAL MANAGEMENT CYCLE



Appendix D
The Accounting System as a Whole



Appendix E

RECORDING A TRANSACTION ON THE ACCRUAL BASIS
(with illustrative timing)

Phases of a Transaction	Recorded in the time period in which --			
	Ordered	Received	Paid	Used
Placing an order for goods and services	As an obligation (in Mar.1960)			
Receipt of the goods and services ordered		As an accrued expenditure (in June 1960)		
Payment made			As a disbursement (in July 1960)	
Goods and services applied or consumed				As a cost of work performed (in Dec. 1960)

Appendix F

Treatment of Various Transactions in Accrual Accounting

THE DIFFERENCE BETWEEN ACCRUED COSTS, ACCRUED EXPENDITURES, OBLIGATIONS AND DISBURSEMENTS MAY BE OBSERVED BY CONSIDERING THE EFFECT OF THE FOLLOWING TYPICAL TRANSACTIONS

TRANSACTION	ACCRUED COSTS		INVENTORY OF CONSUMABLE MATERIALS	INVENTORY OF CAPITAL EQUIPMENT	DISBURSEMENTS	UNDELIVERED ORDERS	LIABILITIES AND RESERVES			OBLIGATION INCURRED	ACCRUED EXPENDITURES
	CURRENT EXPENSES	CAPITAL EXPENDITURES					ACCOUNTS PAYABLE	RESERVE FOR DEPRECIATION	RESERVE FOR LEAVE		
BEGINNING BALANCES	$-	$-	$50,000	$500,000	$-	$25,000	$50,000	$200,000	$100,000	$-	$-
(1) AGENCY PLACES ORDERS AND CONTRACTS FOR:											
PERSONAL AND CONTRACTUAL SERVICES						5,000,000				5,000,000	
CONSUMABLE MATERIALS						400,000				400,000	
CAPITAL EQUIPMENT						300,000				300,000	
(2) AGENCY RECEIVES:											
PERSONAL SERVICES	4,800,000					4,800,000(-)	4,800,000				4,800,000
CONSUMABLE MATERIALS			300,000			300,000(-)	300,000				300,000
CAPITAL EQUIPMENT		200,000				200,000(-)	200,000				200,000
CONTRACTUAL SERVICES FOR INSTALLING EQUIPMENT		25,000				25,000(-)	25,000				25,000
(3) AGENCY USES CONSUMABLE MATERIALS	100,000	25,000	125,000(-)								
(4) EMPLOYEES EARN MORE LEAVE THAN THEY TAKE	25,000								25,000		
(5) DEPRECIATION IS CHARGED FOR USE OF EQUIPMENT	50,000							50,000			
(6) AGENCY PAYS FOR PART OF PERSONAL SERVICES, ETC.					5,000,000		5,000,000(-)				
SUBTOTAL	4,975,000	250,000	225,000	500,000	5,000,000	400,000	375,000	250,000	125,000	5,700,000	5,325,000
DEDUCT BEGINNING BALANCES	-	-	50,000	500,000	-	25,000	50,000	200,000	100,000	-	-
CHANGE FOR YEAR	4,975,000	250,000	175,000	-0-	5,000,000	375,000	325,000	50,000	25,000	5,700,000	5,325,000

ACCRUED COSTS —

CURRENT EXPENSES	$4,975,000
CAPITAL EXPENDITURES	250,000
TOTAL	5,225,000

DISBURSEMENTS $5,000,000

OR

$225,000 LESS THAN ACCRUED COSTS

OBLIGATIONS $5,700,000

OR

$475,000 MORE THAN ACCRUED COSTS

ACCRUED EXPENDITURES - $5,325,000

OR

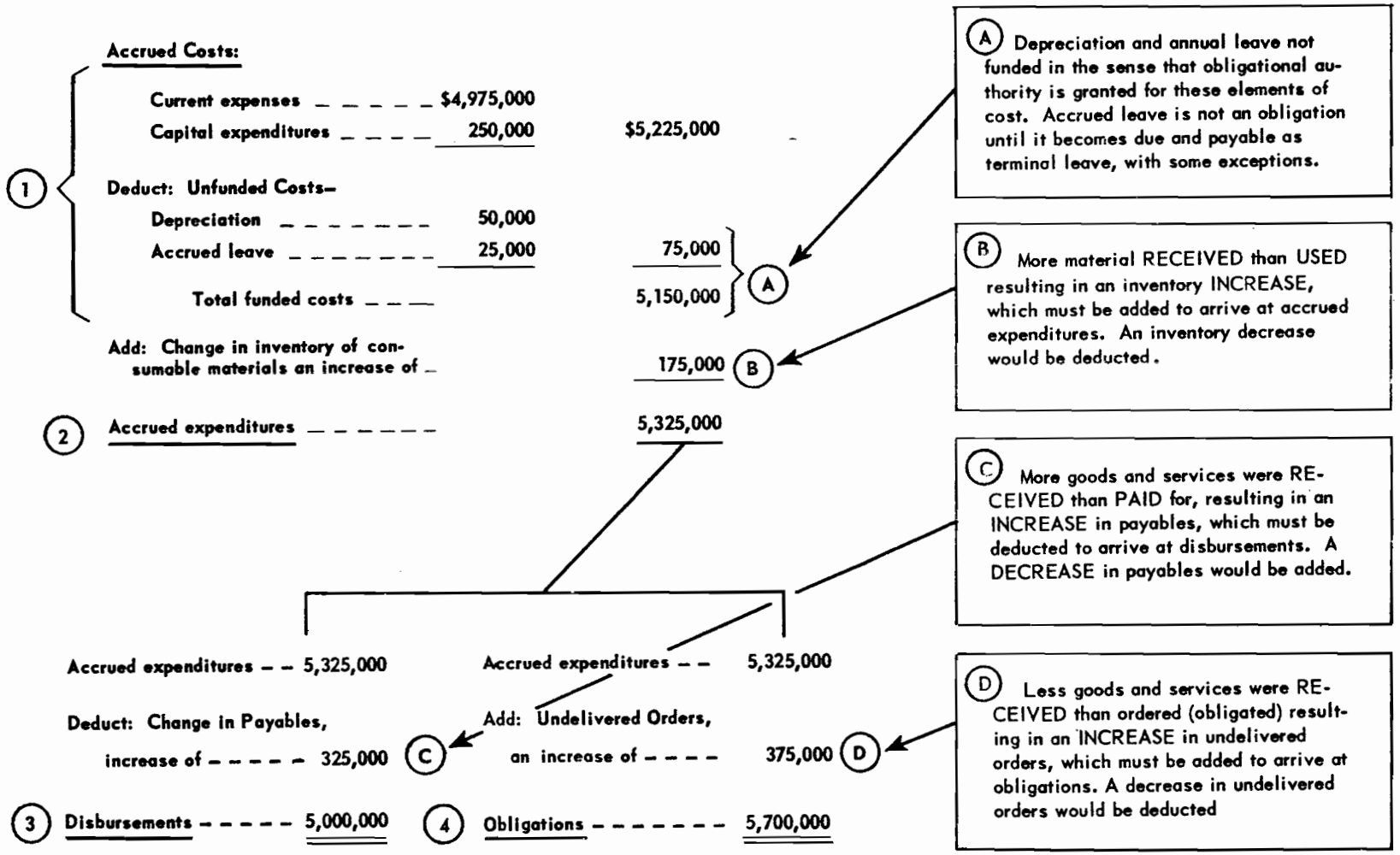
$100,000 MORE THAN ACCRUED COSTS

Appendix G

Appendix G

Significance of Various Accounting Categories for Management

The relationship between (1) ACCRUED COSTS, (2) ACCRUED EXPENDITURES, (3) DISBURSEMENTS, and (4) OBLIGATIONS is further illustrated by the following, using the same facts set forth in the preceding tabulation:



Appendix H

COST ACCOUNTING AND BUDGETARY REPORT

REPORTS CONTROL SYMBOL 10-129: 3345157

TO: Department of Medicine & Surgery
Veterans Administration
Central Office
Washington 25, D.C.
ATTN: Office of Controller
Dir., Audit & Acctg. Service

STATION NUMBER AND LOCATION: Veterans Administration Hospital #5209 Fort Wayne, Indiana

DATE REPORT PREPARED: January 12, 1960

CUMULATIVE REPORT FOR PERIOD JULY 1, 1959 THROUGH December 31, 1959

PART I -- HOSPITAL-DOMICILIARY ACTIVITY

SECTION I

MRAS NO.	LINE NO.	DESCRIPTION	SYMBOL (A)	CUMULATIVE NET INPATIENT (MEMBER) OPERATING COST (B)	CUMULATIVE NET COST PER INPATIENT (MEMBER) DAY (C)	CUMULATIVE NET BUDGETED PERSONAL SERVICE COST (D)	CUMULATIVE NET AVERAGE F.T. EQUIV. EMPLOYMENT (E)
1	1	OFFICE OF MANAGER	8 43 1.10	18,514	.542	18,229	4.0
1	2	REGISTRAR DIVISION	8 43 1.20	54,067	1.637	48,980	21.6
1	3	FISCAL DIVISION	8 43 1.30	17,181	.536	16,892	5.8
3	8	PROFESSIONAL MED. SERV.	8 43 2.20	95,038	2.954	84,965	13.3
3	9	ANCILLARY MEDICAL SERV.	8 43 2.30	67,168	2.173	44,666	13.7
4	16	CARE OF PATIENTS (MEMBERS)	8 2.00	427,392	13.461	390,110	122.1
5	17	DIETETIC SERVICE	8 3.00	105,292	3.386	72,278	34.1
0	21	TOTAL INPATIENT (MEMBER) COST	843 1-843 7	803,703	25.013	691,900	245.2
7	22	OTHER HOSPITAL (DOMICILIARY) COST	8 43 8.00	1,900			
8	23	OPERATION OF HOSPITAL (DOM.)	8 43 0.00	805,603		691,900	245.2

SECTION II

MRAS NO.	LINE NO.	DIETETIC COSTS	TOTAL COSTS		COST PER RATION	
			CUMULATIVE (A)	CURRENT MONTH (B)	CUMULATIVE (C)	CURRENT MONTH (D)
1	24	TOTAL	114,468	19,521	3.383	3,363
2	25	PROVISIONS	36,304	5,866	1.073	1.010
2	26	SALARIES	72,831	12,790	2.153	2.204
2	27	OTHER	5,333	865	.157	.149

SECTION III

MRAS	LINE	DESCRIPTION	(A)	NUMBER (B)
3	28	TOTAL RATIONS		33,827 C27

Appendix I

COAST GUARD

Current authorizations:

OPERATING EXPENSES

Program and Financing (in thousands of dollars)

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
Direct program:			
1. Vessel operations	50,975	53,241	54,444
2. Aviation operations	22,700	26,145	26,628
3. Shore stations and aids operations	53,300	57,447	62,528
4. Repair and supply facilities	4,750	5,077	4,493
5. Training and recruiting facilities	7,300	7,747	8,026
6. Administration and operational control	25,860	27,988	28,090
7. Other military personnel expense	20,490	22,833	21,304
8. Supporting programs	6,402	7,622	9,253
Total direct program costs	191,777	208,100	214,766
9. Unfunded adjustment to total direct program costs: Property or services transferred in (—) without charge, net	−10,653	−5,241	−4,679
Total direct program costs, funded	181,124	202,859	210,087
10. Relation of costs to obligations: Obligations incurred for costs of other years, net	8,113	2,591	2,413
Total direct obligations	189,237	205,450	212,500
Reimbursable program:			
11. Operation of ocean stations (Navy)	16,885	16,980	16,980
12. Miscellaneous services to other accounts	11,966	16,719	17,120
Total reimbursable program costs	28,851	33,699	34,100
13. Relation of costs to obligations: Costs financed from obligations of other years, net (—)	−434	----------	----------
Total reimbursable obligations	28,417	33,699	34,100
Total obligations	217,654	239,149	246,600
Financing:			
Advances and reimbursements from—			
Other accounts	−28,209	−33,499	−33,900
Non-Federal sources (40 U.S.C. 481(c))	−207	−200	−200
Unobligated balance lapsing	562	----------	----------
New obligational authority	**189,800**	**205,450**	**212,500**

Appendix J

An Outline of Control Techniques in Performance Budgeting

Philippine Government

In the Philippine application of performance budgeting, a selected number of the agencies receive appropriations on a programme basis, while others continue to receive appropriations on a line-item basis. However, even those agencies that receive their appropriations on a line-item basis prepare and execute their estimates on a programme and performance basis. The operations of the agencies that receive programme appropriations are controlled in the manner described below.

Fund control. Under the performance budget, the Philippine Government employs a system that is based on central fund control along organization, programme and object lines. Under the law, the system is administered by the Commissioner of the Budget, who allots funds to each agency in accordance with the planned levels of work under an appropriation. The allotments are made on a quarterly basis, by programme and project, and in three major objects - personal services, maintenance and other operating expenses, and equipment. The Budget Commissioner can withhold allotments when the income proves to be lower than budgeted, or when the funds are not needed by the agency. In addition, he can approve transfers between projects and modifications of work plans when desirable.

The quarterly allotments control the release of funds for each agency's use, based on its financial and work plan for the year. The allotments are broken down in three broad object classifications and agency heads have the discretion to transfer funds among these categories when justified and to the extent permitted by law. Within the allotment limits, the agencies establish such sub-allotments as are considered necessary for operational purposes. Agency officials are responsible for employing a system of internal control over the use of obligations and the accomplishment of planned work. Monthly reports are required to provide data that permit comparison of plans and actual results. Combined, these alloting and reporting techniques are designed to prevent deficits and waste, to provide management flexibility, and to promote efficiency and effectiveness.

Programme and operating control. A major feature of the operational control system in the Philippine Government is the financial planning process, which is based on long range plans that reflect economic and social development needs. Those long range plans project what the Government intends to accomplish over a number of years, and give rough estimates of fiscal requirements. This provides the framework for programme and policy decisions that lead to the establishment of budgetary programmes, organizational responsibilities, and administrative policies. The annual budget plans identify the nature and amount of work to be done, the work schedule, the production and quality standards, and the resources required. For fiscal year 1961, for example, the financial and work plan in the budget was developed within the context of a "Five-Year Fiscal Plan".

With the centrally prescribed fund control structure as a base, each Philippine agency develops its detailed financial and work plan, which establishes the accounting and reporting pattern used for control purposes. Thus, the allotments are directly related to the work plan. Generally, the agency sub-allotments follow the pattern of programme responsibility. This results in a breakdown by projects and sub-projects, and allocations of funds to the responsible organization units. Where necessary to meet the demand, supporting distribution or analysis accounts are used, to produce desired financial data as a by-product of the allotment accounting process. On that basis the agency head establishes an internal pattern for control of organization performance against the work plan.

The accounting approach in the Philippine Government produces obligation and disbursement data as the primary financial measures. Such data are recorded in the budgetary accounts, in the detail required by the sub-account structure established by the individual agencies. Through that structure, the financial data are related to organizations, programmes, and work in the same terms as they were set up in the budget, thus permitting an evaluation of obligation and work performance against the approved budget. Within this system, recognition is given to the possibility of developing actual cost information to the degree considered desirable by agency management. Such cost practices, however, are not prescribed, nor are such data requested in the centrally required reports.

Each agency submits an annual estimate of its monthly income, and monthly reports on income received - which permit analysis of the deviations, and necessary adjustments of the allotments. Monthly reports of operations are also prepared to show for each project the work and obligation levels achieved and any deviations from plans. Those data reflect the work units accomplished in relation to obligation data and manpower used. Analysis of these operations' reports supply information for remedial action by management. On the basis of those agency submissions, national income and operational reports are developed monthly to bring out government-wide results and the performance of departments, bureaus, and offices. The national operational report shows income and obligations related to the work plan, and identifies the percentage of work accomplished and the degree to which planned rates of production are being achieved. In addition, a summary report is prepared monthly, on the condition of income, appropriations, obligations, and cash for the General Fund.

Within this over-all reporting structure, each agency develops internal reports, in the detail required for its own purposes. Provision is made for comparative reports at the levels of the departments, bureaus, and agency control centres, following the principles incorporated in the centrally prescribed reports. Through this planning, accounting, and reporting process, the Philippine application of performance budgeting provides the various levels of government with related data on programmes, work accomplishments, manpower utilization, and financial results - in terms of income, obligations, and disbursements.

A brief but illustrative picture of the Philippine performance budget practice is provided in Exhibit 1. The subject covered by that exhibit is the Cadastral Surveys project of the Bureau of Lands in the Department of Agriculture and Natural Resources. It consists of four parts, as follows:

Part A presents the estimate for the project as it is shown in the budget. This brings out the amount of the obligation request, together with data on actual and planned work units, production rates, manpower, the cost per unit in obligation terms, and a supporting explanatory narrative.

Part B is the agency request for allotment of funds, showing the obligation authority requested under each fund for the project, in terms of the three prescribed object classifications. It also shows the time phasing for use of funds, supported by the work units and manpower provided for in the work plan.

Part C reflects the Budget Commission's allotment advice, which sets forth the financing plan approved for the project in the first quarter.

Part D is the agency's report of actual results - in terms of obligations, work, and manpower. The relationship to the plan of work and financing is not shown on this report since that is brought out at the end of each quarter.

Appendix J, Exhibit 1, Part A

Budget Estimate for Cadastral Surveys' Project, Philippines

PROJECT 2: CADASTRAL SURVEYS

	1958 Actual	1959 Estimate	1960 Estimate
TOTAL OBLIGATIONS	₱2,512,588	₱1,344,834	₱1,776,322

Cadastral Surveys are surveys made for all holders, possessors or occupants of land inside municipalities or cities to clear titles of ownership by registration as contemplated by the Cadastral Law (Act 2259). Cadastral Surveys are executed when authorized by the President of the Philippines and when public interest requires that titles to the land be settled and adjudicated.

The Director of Lands represented by the Solicitor General, institutes registration proceedings so that ownership to such lands as are occupied, held or possessed by claimants may be settled and adjudicated.

Cadastral Surveys follow the extent of the possession of the holder, possessor, or occupant. The boundaries of each lot are irregular. Hence, they are more costly than ordinary public land surveys and subdivision.

PERSONEL WORK MEASUREMENT

Unit of Work Measurement	Fiscal Year	Units of Backlog Beginning of Year	Total Work Units on Hand During the Year	Total Work Units Accomplished or Estimated	Rate of Production Per Man-Year	Man-Years		Cost per Unit of Work
						Total	Direct Operations	
Lots surveyed by administration ..	1958	.....	5,520	5,520	38	146	146	₱42.82
	1959	.....	11,532	11,532	55	208	208	34.73
	1960	.....	14,722	14,722	64	231	231	34.73
Lots surveyed by contract	1958	.....	43,289	43,289	4,328	10	10	34.73
	1959	.....	27,190	27,190	2,719	10	10	34.73
	1960	.....	24,906	24,906	2,491	10	10	34.73
Lots surveyed by photogrammetry	1958	.....	.....	.....	.....	.....	.....	.....
	1959	.....	.....	.....	.....	.....	.....	.....
	1960	.....	23,259	23,259	176	132	132	17.00
Total man-years ..	1958	.....	.....	.....	.....	156	156	.....
	1959	.....	.....	.....	.....	218	218	.....
	1960	.....	.....	.....	.....	373	373	.....

Cadastral Surveys by Administration:

In 1958, 5,520 lots were surveyed by Bureau personnel at an expenditure of ₱236,395 or at a unit cost of ₱42.82. For current year 1959, 11,532 lots are expected to be surveyed at an estimated expenditure of ₱400,500 or at a unit cost of ₱34.73 and for budget year 1960, at the same unit cost, 14,722 lots will be surveyed at a cost of ₱511,322.

Cadastral Surveys by Contract:

In 1958, 43,289 lots were actually surveyed by contract with private surveyors at an expenditure of ₱2,276,193. With an estimated obligation of ₱944,334, it is expected that only 27,190 lots will be surveyed in 1959 and in 1960, with an estimated expenditure of ₱865,000, 24,906 lots are anticipated to be surveyed.

Cadastral Survey by Aerial Photogrammetry:

This is a new method of land survey by aerial photogrammetry. For FY 1960, the amount of ₱400,000 is proposed to be spent for this work to yield 23,250 lots to be surveyed at a unit cost of ₱17.00.

Cadastral Surveys Project - Philippines

PLAN OF WORK AND REQUEST FOR ALLOTMENT

FOR FISCAL YEAR 19xx 60

BUDGET FORM 121 (Revised ....., 19.....) **SAMPLE 1**

Department: Agriculture and Natural Resources *Code:* 08

Bureau or Office: Bureau of Lands *Code:* ~~05~~ 16
I - LAND SURVEYS

Program ~~Unit~~ Cadastral Surveys *Code:* ~~x~~ 1

Republic Act No.: 5000

Page ~~1~~ 2 *of* ~~1~~ 22

Original Request	X
Request for Change in Financial Plan	☐
Request for Change in Work Plan	☐

DESCRIPTION	PROJECT CODE 2 02 : Cadastral Surveys : X PROJECT PLAN COMPLETED IN THIS SECTION. ☒ PROJECT PLAN CONTINUED IN NEXT SECTION.	PROJECT CODE 2 02 : Cadastral Surveys : ☐ PROJECT PLAN COMPLETED IN THIS SECTION. ☒ PROJECT PLAN CONTINUED IN NEXT SECTION.	PROJECT CODE 2 02 : Cadastral Surveys : ☐ PROJECT PLAN COMPLETED IN THIS SECTION. ☒ PROJECT PLAN CONTINUED IN NEXT SECTION.
	FUND: Total Cadastral Survey, Special Fund CODE: 28	FUND: General Fund CODE: 01	FUND: Cad. Surv. Fund, Act 3077 CODE: 12
FINANCIAL PLAN	ALLOCATION OF APPROPRIATION	ALLOCATION OF APPROPRIATION	ALLOCATION OF APPROPRIATION
	APPROPRIATION TOTAL	PERSONAL SERVICES CODE (1)	MAINTENANCE AND OTHER OPERATING EXPENSES CODE (2)	EQUIPMENT CODE (3)	APPROPRIATION TOTAL	PERSONAL SERVICES CODE (1)	MAINTENANCE AND OTHER OPERATING EXPENSES CODE (2)	EQUIPMENT CODE (3)	APPROPRIATION TOTAL	PERSONAL SERVICES CODE (1)	MAINTENANCE AND OTHER OPERATING EXPENSES CODE (2)	EQUIPMENT CODE (3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Appropriated Amounts	₱ 1,762,822	₱ 711,538	₱ 1,019,284	₱ 32,000	₱ 1,334,300	₱ 322,016	₱ 982,284	₱ 30,000	₱ 428,522	₱ 389,522	₱ 37,000	₱ 2,000
Deduct: Reserves and Unprogrammed *	181,430	31,439	150,000	-	153,000*	3,000	150,000	-	28,430	28,430	-	-
	₱ 1,581,392	₱ 680,108	₱ 869,284	₱ 32,000	₱ 1,181,300	₱ 319,016	₱ 832,284	₱ 30,000	₱ 400,092	₱ 361,092	₱ 37,000	₱ 2,000
	₱440,000	₱290,000	₱100,000	₱50,000								
Allotments Requested:												
First Quarter	₱ 965,123	₱ 170,027.500	₱ 763,096	₱ 32,000 25,000	₱ 863,600	₱ 79,754	₱ 753,846	₱ 30,000	₱ 101,523	₱ 90,273	₱ 9,250	₱ 2,000
Second Quarter	205,423	170,027.500	35,396	-	105,900	79,754	26,146	-	99,523	90,273	9,250	-
Third Quarter	205,423	170,027.500	35,396	-	105,900	79,754	26,146	-	99,523	90,273	9,250	-
Fourth Quarter	205,423	170,027.500	35,396	-	105,900	79,754	26,146	-	99,523	90,273	9,250	-
TOTAL ALLOTMENTS	₱ 1,581,392	₱ 680,108	₱ 869,284	₱ 32,000	₱ 1,181,300	₱ 319,016	₱ 832,284	₱ 30,000	₱ 400,092	₱ 361,092	₱ 37,000	₱ 2,000

WORK PLAN	UNIT 1: No. of lots surveyed by Adm.	UNIT 2: No. of lots surveyed by contract	UNIT 3: No. of lots surveyed by Aerial Photogrammetry	UNIT 1:	UNIT 2:	UNIT 3:	UNIT 1:	UNIT 2:	UNIT 3:
(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
Budgetary Units of Work Measurement:									
First Quarter	3,680 12,500	6,226	6,406						
Second Quarter	3,680 12,500	6,226	6,012						
Third Quarter	3,681 12,500	6,227	6,111						
Fourth Quarter	3,681 12,500	6,227	4,730						
TOTAL UNITS	14,722 50,000	24,906	23,259						
Manpower Utilization:									
First Quarter —(Man-quarters)	231 450	10	132						
Second Quarter—(Man-quarters)	231 450	10	132						
Third Quarter —(Man-quarters)	231 450	10	132						
Fourth Quarter—(Man-quarters)	231 450	10	132						
TOTAL MAN-YEARS {Divide Man-qtrs. by 4.}	231 450	10	132						

(SGD.) ZOILO CASTRILLO
Director of Lands
SUBMITTED BY: Juan de la Cruz
Director of Bureau or Chief of Office

July 30, 1959
Date: ~~June 30, 1959~~

₱ 3,000 original 5% reserve
150,000 additional 5% reserve
₱ 153,000* Total reserve

* Show separate entries for Reserves and Unprogrammed Amounts, indicating the latter by an asterisk (*).

For Budget Commission Use:

Approval Covered by Advices of Allotment (Budget Form 122)

Nos. ....., ..., ..., ...

The reduction in workload will be effected due to the 5% additional reserve on the following unit of measurement: a) 736 lots surveyed by Adm.
b) 1,643 " " " Contract
~~c) 1,163 " " " Aerial Photogrammetry~~

APPROVED: (SGD.) F. SY-CHANGCO
RECOMMENDED: Deputy Commissioner of the Budget
Budget Commissioner

Date: October 6, 1959

.../

REPUBLIC OF THE PHILIPPINES
BUDGET COMMISSION

Cadastral Surveys' Projects - ADVICE OF ALLOTMENT

ADVICE NO. 1

PAGE 1 OF 4

FOR PERIOD ENDING Sept. 30 19 59

THE FOLLOWING ALLOTMENTS OF LEGISLATIVE APPROPRIATIONS HAVE BEEN MADE AVAILABLE FOR EXPENDITURE. IT IS THE PRIMARY RESPONSIBILITY OF THE BUREAU OR AGENCY CONCERNED TO KEEP EXPENDITURES WITHIN THE LIMITS OF THE AMOUNTS ALLOTTED. NO PURCHASE REQUISITIONS, PAYROLLS OR BUDGET VOUCHERS WHICH WILL RESULT IN THE OVEREXPENDITURE OF ANY ALLOTMENT WILL BE APPROVED

AGENCY		REP. ACT NO.	FUNCTION	PROJECT	FUND	OBJECT CLASS	APPROPRIATION	RESERVE	PREVIOUS ALLOTMENT	CURRENT ALLOTMENT	TOTAL ALLOTMENTS	BALANCE OF APPROPRIATION
BUT	BUREAU											
08	16	BUREAU OF LANDS										
08	16	2300	1	01	01	1	2,809,140.00			731,945.00	731,945.00	2,196,195.00
08	16	2300	1	01	01	2	2,509,140.00	489,510.00		1,454,630.00	1,454,630.00	652,380.00
08	16	2300	1	01	01	3	48,700.00			48,700.00	48,700.00	
							5,367,020.00	489,510.00		2,235,275.00	2,235,275.00	2,668,315.00
08	16	2300	1	01	11	1	430,434.00			130,131.00	130,131.00	300,303.00
08	16	2300	1	01	11	2	732,300.00	34,000.00		44,577.00	44,577.00	133,723.00
08	16	2300	1	01	11	3	6,300.00			6,300.00	6,300.00	
							829,334.00	34,000.00		181,008.00	181,008.00	434,326.00
							5,803,146.00	443,510.00		2,386,283.00	2,386,283.00	3,090,431.00
08	16	2300	1	02	01	1	302,256.00	3,000.00		75,744.00	75,744.00	223,512.00
08	16	2300	1	02	01	2	980,350.00			903,850.00	903,850.00	76,500.00
08	16	2300	1	02	01	3	30,000.00			30,000.00	30,000.00	
							1,334,300.00	3,000.00		1,013,600.00	1,013,600.00	327,700.00
08	16	2300	1	02	12	1	389,430.00	28,430.00		90,275.00	90,275.00	270,430.00
08	16	2300	1	02	12	2	37,000.00			9,250.00	9,250.00	27,750.00
08	16	2300	1	02	12	3	2,000.00			2,000.00	2,000.00	
							428,430.00	28,430.00		101,525.00	101,525.00	298,905.00
							1,762,730.00	31,430.00		1,115,125.00	1,115,125.00	626,605.00
08	16	2300	1	03	01	1	815,436.00	7,300.00		200,436.00	200,436.00	607,700.00
08	16	2300	1	03	01	2	498,660.00	43,410.00		130,250.00	130,250.00	325,000.00
08	16	2300	1	03	01	3	35,000.00			35,000.00	35,000.00	
							1,351,110.00	50,710.00		365,686.00	365,686.00	932,700.00
08	16	2300	1	03	11	1	139,279.00			34,820.00	34,820.00	104,459.00
							139,279.00			34,820.00	34,820.00	104,459.00
08	16	2300	1	03	12	1	54,127.00			15,030.00	15,030.00	39,097.00
							54,127.00			15,030.00	15,030.00	39,097.00
							1,554,396.00	50,710.00		515,536.00	515,536.00	1,076,256.00

(SGD) TEODORO D. ATTEMA
Commissioner of the Budget

By:

A TRUE COPY
GHS

APPROVED (SGD) FIRMANDO PICAZO
Chief, Budget Examination Service

DATE 6/29/59

Appendix J, Exhibit 1, Part D

Cadastral Surveys' Project, Philippines

REPORT OF OPERATIONS

FOR THE MONTH OF AUGUST, 1959

Department: Agriculture and Natural Resources *Code:* 08

Bureau or Office: BUREAU OF LANDS *Code:* 16

Republic Act No. 2300

PROGRAM: I - LAND SURVEYES

CODE: 1

Project Title—Unit of Measurement (1)	Acct. No. (2)	Fund Code (3)	Expense Class. Code (4)	Obligations Incurred: Current Month Actual (5)	Obligations Incurred: Year to Date Actual (6)	Obligations Incurred: Year to Date * Deviation From Goal (7)	Obligations Incurred: Year to Date * Deviation From Goal % (8)	Work Performed: Current Month Actual (9)	Work Performed: Year to Date Actual (10)	Work Performed: Year to Date * Deviation From Goal Amount (11)	Work Performed: Year to Date * Deviation From Goal % (12)	Manpower Used: Current Month Actual Man-Months (13)	Manpower Used: Year to Date Actual Man-Months (14)	Manpower Used: Year to Date * Deviation From Goal Amount (15)	Manpower Used: Year to Date * Deviation From Goal % (16)
Project 02: Cadastral Surveyes	02		1	₱ 7,639.20	₱ 80,448.05										
	02		2	2,442.40	5,803.63										
Unit of Work Measurement: Lots surveyed — TOTAL	02		3	760.00	805.00										
			TOTAL	10,841.60	₱ 87,056.68			7,347	13,420			233	456		
Project 02: Continued	02	01	1	₱ 736.00	₱ 10,771.70										
	02	01	2	2,442.40	5,803.63										
Unit of Work Measurement:	02	01	3	760.00	805.00										
			TOTAL	₱ 3,938.00	₱ 17,380.33										
Project 02:	02	12	1	6,903.20	69,676.35										
	02	12	2	-	-										
Unit of Work Measurement:	02	12	3	-	-										
			TOTAL	₱ 6,903.20	₱ 69,767.35										
Project 02: Continued			1												
			2												
Unit of Work Measurement: Lots surveyed by Adm.			3												
			TOTAL					441	750						
Project 02: Continued			1												
			2												
Unit of Work Measurement: Lots surveyed by Contract			3												
			TOTAL					6,906	12,670						
Project 02: Continued			1												
			2												
Unit of Work Measurement: Lots surveyed by Aerial Photo			3												
			TOTAL					-	-						

* Columns (7), (8), (11), (12), (15), and (16) are to be completed quarterly only—September, December, March and June reports.
Shaded areas are not to be used.

OBLIGATIONS CERTIFIED CORRECT:

(SGD.) DELFIN MANDOYO
Accounting Officer

DATE: September 28, 1959

SUBMITTED: DOILO CASTRILLO
Director of Bureau or Chief of Office

By: (SGD.) ISAGANI F. SABLINANO
Budget Officer

DATE: September 28, 1959

Appendix J (continued)

United States Government

In the United States application, all agencies have adopted the performance budget approach. The operations of each agency are controlled through use of the following techniques.

Fund control. In the United States system, the number and type of allotments are determined by the operating agencies, within the limits of centrally approved apportionments. By law, the Budget Director apportions appropriated funds, which is done on the basis of the agencies' financial plans. Those apportionments are made by months, quarters, or other time periods - usually for the appropriation as a whole; or they may be made for a year by programmes, activities, or objects, or by a combination of those categories. Such limitations are designed to prevent the use of funds beyond the appropriation limits, and to achieve the most effective and economical operation. The Budget Director may also establish reserves to provide for contingencies or to effect savings where possible, and can adjust apportionments as required.

The head of each agency is required by law to prescribe a system of administrative control, subject to the approval of the Budget Director, that will restrict the use of funds to the apportionment limits and enable the fixing of responsibility for violations of established limitations. Under that system the agency head prescribes the allotment structure best suited to his fund control needs. However, in order to have a simplified system, the law directs each agency to establish allotments at the highest practicable level, and to work toward the objective of financing an operating unit from not more than one allotment from each appropriation financing that unit.

The allotment pattern in each agency, therefore, varies according to its own needs, but must conform to the apportionments of the Budget Director. Generally, most allotments are on a quarterly basis, but they may be made in terms of various categories, i.e., programmes, organization, types of procurement, etc. Emphasis is placed on broad allotments - for example, in small agencies there may be but a single allotment; in larger agencies, single allotments may be made for the national office and for each field operating unit. This provides management flexibility, since the operating manager can shift available funds between objects, subsidiary organizations, etc., as the need may arise. With such flexibility, however, goes a responsibility for

/...

ensuring adherence to established limits, since violations of allotments and apportionments are subject to penalties in the law, and are required to be reported to the President and the Congress.

Each agency submits reports - generally on a monthly basis - that reflect the actual use of funds in relation to established limitations and the financial plan. This combined apportionment and allotment system provides the type of fund control considered most appropriate to the individual agency. At the same time, it furnishes maximum flexibility to operating management in the interests of obtaining the most effective and efficient use of available funds.

Programme and operating control. The United States operational control system also is based on long range plans that are related to the annual budget plans of the agencies. The concepts of common classifications, financial plans that incorporate measures of programmes and work, and reports of actual against planned results are also provided for in the system. Generally, there is a basic similarity with Philippine practices in the structural aspects of the two systems. There are, however, at least two important differences in approach that should be highlighted.

First, the United States system does not require programme and work measures to be presented in terms of cost or manpower per unit in the same detail and to the extent required in the Philippine system. However, the need for substantive measures is stressed, and the development of cost and manpower ratios is urged upon agency management wherever such a measurement system is significant as a management tool, and the value to management justifies the costs of maintaining the system. Thus, recognition is given to the fact that not all programmes and work are as readily susceptible to a unit cost application. Work and programme measures of some type are used in all agencies, but they range from the presentation of broad programme measures in relation to total costs under an appropriation, to situations where costs are related to detailed units of work. In contrast with the Philippine application, top management use of ratios of costs or manpower to specific programme and work units is not as generally and uniformly required.

On the other hand, the United States has stressed the refinement of financial measures. Recognizing that obligations are not the most accurate measure of programme status and accomplishments, the United States is developing accrual and cost information in all agencies. Under the law and the related principles and standards, agency accounting systems are to produce accrual and cost information on a practicable basis, to the extent required by internal management - subject

to the minimum requirement that such data be available by programme and organization unit on all important reporting dates. This allows for a flexible application according to the kinds of programmes conducted by individual agencies, and also provides the accrual and cost data desired for central reporting purposes.

The system also incorporates certain concepts concerning management use of obligation and cost data. As previously noted, the law establishes the objective of exercising fund control through broad allotments. This came about because of difficulties previously experienced in obligation accounting for expanding operations, when the budgetary accounts became increasingly more detailed and complex (in terms of sub and sub-suballotments) in attempts to meet the operating needs of management. To avoid those kinds of difficulties, the governing principles now emphasize the establishment of broad allotments on an obligation basis in the budgetary accounts, which are to be used exclusively for fund control; and a co-ordinated series of operating accounts that develop more detailed information - in terms of costs - which is to be used for programme and operational control purposes.

The basic premise of this approach is that both obligation and cost data can be developed in co-ordinate fashion in an integrated system, and that this can be done so that each will serve the management purpose for which it is most appropriate. Under that approach, when goods and services are ordered, the obligation is recorded against the allotment to the procuring organization. At this point fund control is established, but there is no need as yet for identifying the programme that will use those resources. The latter can sometimes be difficult as, for example, in the case of supplies that commonly may be used in several activities or programmes. When resources on hand are actually used, their value is recorded in the operating accounts as a cost of the programme to which they are applied. At this point there is a measure of actual performance - goods or services used - and there is no problem in identifying the charge with a specific programme. In contrast with the obligation approach, this eliminates the need for recording obligations in the more detailed classifications that are used for programme control.

To ensure that operating management does not take actions that will cause an overexpenditure of funds within a given time period, the programme managers are given cost targets in terms of programmes. Unlike the strict limitations imposed by obligation allotments, those cost targets establish financial goals that permit minor deviations as may be required for the most efficient management. Both the broad obligation allotments and the more detailed cost targets are identified in the agency financial plan, providing the basis for reporting actual against planned results in both areas. Thus, operating management has more flexibility, with no sacrifice of fund control.

Besides providing for better identification of programme costs, this approach also minimizes the difficulties of utilizing appropriated funds to the fullest extent possible. In a detailed obligation system, the use of numerous allotment and suballotment accounts inevitably increases the total amount of funds that must be held as a safety factor against overexpenditure - because of the margin required for that purpose in each account. With broad fund controls and fewer balances to be maintained, the total size of that safety factor is reduced.

On the other hand, the interest of the programme manager under an obligation system in using all funds still available near the end of a fiscal year is de-emphasized. Under the accrual approach, his interest is directed toward the completion of work planned for the period within the established cost targets. The problem of full use of cash and obligations is shifted from the programme manager to the procurement official. In this shift, there is established in the procurement official the fund control responsibility, and in the programme manager the responsibility for operational control. At the same time, there is developed in the programme manager a cost consciousness that can contribute to more economical operations.

The United States system does not establish as uniform a structure in each operating agency as does the Philippine system. Nevertheless, the United States practice can be illustrated by the example of the Atomic Energy Commission, an independent agency that was in the forefront in developing the accrual approach now generally being applied. That illustration is brought out in Exhibit 2, which consists of five parts:

Part A presents a schedule for the Commission's appropriation for operating expenses that is similar to the one shown in the annual budget estimates. This brings out the accrued costs by programme, reconciled in total to obligation requirements. In the budget document, such a schedule is supported by an explanatory narrative that identifies programme objectives.

Part B is the agency approved financial plan for its New York office. It brings out the current, proposed, and approved plan, in terms of the budget programmes, and shows the cost targets by programme, the adjustments to total planned obligations, and the total obligation allotment. The latter reflects the allotment approved by the head of the agency.

Part C is the agency approved financial plan for the breakdown of the physical research programme in the New York office (which is included in the total plan shown in Part B). This shows the planned costs by programme component, which is the basis for operational control. Operating officials may revise these cost plans within the programme as necessary for the most efficient management.

Part D is the agency approved plan of timing for the physical research programme in the New York office, showing the planned distribution of costs throughout the year. This provides the basis for monthly performance reporting.

Part E is an illustration of a monthly report on operations against the approved plan for all programmes at the New York office, showing actual results against the plan in terms of cost by programme, total obligations, and reconciling items. This type of report is supported by interpretative comments, and by more detailed unit cost reports where such unit costs are developed. Together, this information provides the basis for such corrective action by management as may be required.

Appendix J, Exhibit 2, Part A

Summary of Operating Costs by Program Reconciled to Net Obligations

	Actual FY 1959	Estimate FY 1960	Estimate FY 1961
Accrued costs by program:			
Raw materials	$ 705,512,144	$ 728,646,000	$ 630,000,000
Special nuclear materials	541,303,455	563,000,000	567,700,000
Weapons	484,879,166	498,100,000	504,000,000
Reactor development	347,057,273	389,800,000	436,200,000
Physical research	114,645,885	143,344,000	163,200,000
Biology and medicine	42,007,757	49,000,000	54,200,000
Training, education and information	13,033,893	13,500,000	14,200,000
Civilian applications of isotopes and nuclear explosives	5,762,397	11,000,000	11,500,000
Community	16,509,601	14,632,000	10,204,000
Program direction and administration	49,412,165	52,000,000	54,900,000
Security investigations	6,995,176	6,097,000	5,862,000
Other costs	5,559,672	5,800,000	6,500,000
Adjustment to prior-year costs	- 3,483,142	-0-	-0-
Total accrued program costs	2,329,195,442	2,474,919,000	2,458,466,000
Changes in selected resources	18,265,361	54,058,420	28,434,000
Total obligations for operating expenses	2,347,460,803	2,528,977,420	2,486,900,000
Less revenues applied	28,079,323	26,850,000	22,600,000
Net obligations (financed by appropriated funds)	2,319,381,480	2,502,127,420	2,464,300,000

Form AEC-343a
(9-59)

Appendix Exhibit 2, Part B

U.S. ATOMIC ENERGY COMMISSION

FINANCIAL PLAN

APPROPRIATION: OPERATING EXPENSES

OPERATIONS OFFICE OR HEADQUARTERS DIVISION: New York Operations Office

FISCAL YEAR: 1960

ITEM (1)	CURRENT PLAN (2)	INCREASE OR DECREASE (—) (3)	PROPOSED PLAN (4)	APPROVED PLAN (For use by Assistant Controller for Budgets) (5)
1. PROGRAM COSTS INCURRED:				
A. Raw materials		+ 10,000	10,000	10,000
B. Special nuclear materials	1,879,000	- 20,000	1,859,000	1,859,000
C. Weapons				
D. Reactor development	18,675,000	+ 2,018,000	20,693,000	20,693,000
E. Physical research	31,969,000	+ 8,999,000	40,968,000	40,968,000
F. Biology and medicine	10,156,000	+ 249,000	10,405,000	10,405,000
G. Training, education, and information	320,000	+ 2,000	322,000	352,000
H. Isotope development	345,000	-0-	345,000	345,000
I. Civilian applications of nuclear explosives				
J. Community operations				
K. Program direction and administration	2,177,000	- 47,000	2,130,000	2,130,000
L. Security investigations				
M. Other costs	365,000	-0-	365,000	365,000
N. Total program costs	65,886,000	11,211,000	77,097,000	77,127,000
O. Less: Revenues	410,000	57,000	467,000	467,000
P. Net program costs	65,476,000	11,154,000	76,630,000	76,660,000
2. Increase or decrease in unapplied resources	-2,520,000	- 7,895,851	-10,415,851	-16,874,629
3. Appropriation reimbursement				
4. Reconciling transfers between AEC Offices	- 736,150	- 497,738	- 1,233,888	- 183,888
5. Transfer appropriation				
6. Planned obligations	62,219,850	2,760,411	64,980,261	59,601,483
7. Less: Amount not allotted				1,400,000 a/
8. Obligational authority allotted	62,219,850	2,760,411	64,980,261	58,201,483

REMARKS:

a/ AEC reserve for Army Compact Reactor (GSO).

RECOMMENDED BY DIVISION DIRECTOR OR DESIGNEE		APPROVED BY ASSISTANT CONTROLLER FOR BUDGETS	
SIGNATURE:	DATE:	SIGNATURE:	FINANCIAL PLAN NUMBER: 2
/s/ Pollock	9/1/59	/s/ F. J. McCarthy	DATE: Sep 1 1959

U.S. GOVERNMENT PRINTING OFFICE 16—70705-5

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Form AEC 343 b
(5-56)

Appendix J, Exhibit 2, Part C
U. S. ATOMIC ENERGY COMMISSION

FINANCIAL PLAN

ESTIMATE OF COSTS INCURRED BY CATEGORY AND ACTIVITY

APPROPRIATION: OPERATING EXPENSES

OPERATIONS OFFICE OR HEADQUARTERS DIVISION:	PROGRAM:	FISCAL YEAR:	FINANCIAL PLAN NO.:
New York Operations Office	5000	1960	

BUDGET AND REPORTING CLASSIFICATION NO. (1)	CURRENT PLAN (2)	INCREASE OR DECREASE (—) (3)	PROPOSED PLAN (4)	APPROVED PLAN (For use by Assistant Controller for Budgets) (5)
5200 Physics				
BNL	7,000,000	+ 1,470,000	8,470,000	8,470,000
NYU	1,100,000	+ 400,000	1,500,000	1,500,000
PPA	450,000	+ 32,000	482,000	482,000
CEA	1,100,000	+ 93,000	1,193,000	1,193,000
Total 5200	9,650,000	+ 1,995,000	11,645,000	11,645,000
5300 Chemistry				
BNL	2,800,000	+ 233,000	3,033,000	3,033,000
5400 Metallurgy				
BNL	1,120,000	+ 135,000	1,255,000	1,255,000
Sylvania	60,000	-0-	60,000	60,000
Total 5400	1,180,000	135,000	1,315,000	1,315,000
5500 Sherwood Princeton	13,279,000	+ 6,085,000	19,364,000	19,364,000
5900 Equipment				
BNL	2,900,000	+ 490,000	3,390,000	3,390,000
NYU	15,000	- 15,000	-0-	-0-
PPA	1,445,000	- 700,000	745,000	745,000
CEA	700,000	-0-	700,000	700,000
Sylvania	-0-	+ 3,000	3,000	3,000
Sherwood	-0-	+ 773,000	773,000	773,000
Total 5900	5,060,000	+ 551,000	5,611,000	5,611,000
PROGRAM TOTAL...	31,969,000	+ 8,999,000	40,968,000	40,968,000

U. S. GOVERNMENT PRINTING OFFICE 16—70801-2

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Appendix J, Exhibit 2, Part D

Form AEC-343c
(5-56)

U. S. ATOMIC ENERGY COMMISSION

FINANCIAL PLAN

Monthly Distribution of Operating Costs Incurred

APPROPRIATION: OPERATING EXPENSES (In thousands)

Operations Office or Headquarters Division: New York Operations Office

Program: 5000

Fiscal Year: 1960

Financial Plan No.: 2

Budget and Reporting Classification No. (1)	Current Year Costs (2)	First Quarter			Second Quarter			Third Quarter			Fourth Quarter		
		July (3)	August (4)	September (5)	October (6)	November (7)	December (8)	January (9)	February (10)	March (11)	April (12)	May (13)	June (14)
5210	5,539			316	384	346	416	439	442	572	594	640	720
5220	2,315			218	190	200	195	180	180	200	190	190	210
5240	2,021			88	99	94	124	115	112	132	130	143	153
5260	1,770			156	155	150	160	155	150	160	155	160	180
5310	468			44	40	35	40	40	35	40	40	45	50
5330	2,450			184	190	180	215	200	185	215	225	235	250
5360	115			10	10	10	10	10	5	10	10	10	10
5420	1,085			93	92	86	95	90	85	95	90	90	100
5430	230			9	20	15	25	20	15	25	15	20	25
5510	629			54	52	52	52	53	53	54	54	54	55
5521	14,697			1,885	1,818	1,557	1,488	1,239	1,081	921	823	710	685
5522	460			-0-	-0-	-0-	-0-	-0-	-0-	-0-	100	150	210
5523	3,578			271	300	290	290	290	280	290	290	290	290
Sub-Total	35,357			3,328	3,350	3,015	3,110	2,831	2,623	2,714	2,716	2,737	2,938
5900	5,611			150	251	348	426	497	568	636	536	682	1,329
Totals...	40,968			3,478	3,601	3,363	3,536	3,328	3,191	3,350	3,252	3,419	4,267

Recommended: Manager of Operations or Designee (*Signature*): Joseph L. Smith
~~Assistant Manager for Administration~~

Date: 10/7/59

Approved: Program Division Director or Designee (*Signature*): W. E. Hughes

Date: 10/22/59

U. S. GOVERNMENT PRINTING OFFICE 16—70802-1

Appendix J, Exhibit 2, Part E

U. S. ATOMIC ENERGY COMMISSION

OPERATIONS OFFICE New York

CONTRACTOR _____

DATE February 28, 1960

PART I OPERATIONS - FUND (in thousands)

Description	Classification Number	Current Month	Year to Date	Financial Plan Underrun (Overrun)	Financial Plan Fiscal Year 1960
Raw Materials	1000	1	6	-0-	10
Special nuclear materials	2000	43	467	232	1,859
Reactor development	4000	1,881	13,472	(1,563)	20,693
Physical research	5000	2,469	20,286	6,394	40,968
Biology & medicine	6000	819	6,649	60	10,405
Program direction	8000	177	1,402	(6)	2,130
Isotopes development	8600	22	231	(36)	345
Training, education and information	8700	36	314	(105)	352
Other costs	8900	144	892	(755)	365
Total operating costs		5,592	43,719	4,221	77,127
Revenues	10400		(1,547)		(467)
Net costs			42,172		76,660
Change in selected resources			3,211		(17,059)
AEC payments			45,383		
Change in unpaid obligations			(6,753)		
Obligations incurred			38,630		59,601

CHAPTER IV

Measurement of Performance

Introductory

103. Performance budgeting contemplates the measurement of programmes and activities and the establishment of performance ratios in a manner that will best satisfy management needs. The primary objective is to obtain physical measures of accomplishments, results, and work data that are useful for developing and presenting budget proposals, assigning personnel and allocating funds to responsible organizations for the conduct of approved plans, and reviewing progress in the attainment of policy objectives and programme goals. In addition, such measures are of assistance in replanning and reprogramming to accommodate unexpected developments, comparing the performance of similar types of operations, and evaluating the relative efficiency of individual practices and procedures.

109. In its ultimate application, performance budgeting involves the use of physical measures and performance ratios in all cases where the approach is feasible and the cost of obtaining those data does not exceed the management benefits derived. As a beginning, however, minimum measures of workload -- in significant programme areas -- may be sufficient to meet immediate needs in the initial stages of performance budgeting. Action later can be taken on the basis of experience to develop and refine the existing measurement practices to better serve budget requirements and performance analysis needs.

Kinds of Measures

110. Basically, there are at least three kinds of physical measures involved in performance budgeting. These include measures of workload, which bring out the volume of the work; measures of end products, which reflect the results of the work; and measures of accomplishment, which show the effect of the work. Illustrations of those measures are provided in the Philippine Budget Operations Manual, which defines them in the following terms:

> "Units of work volume relate to the internal actions which are taken by the agency to secure a desired result. They are concerned, for example, with the number of classes held in a school rather than the number of students trained. Units of work results relate to completed actions which are taken by an agency and which have a direct effect in attaining a desired objective. They constitute direct services to clientele served. These measures are concerned, for example, with the number of students trained rather than the classes held. Units of work accomplishment relate to programme goals of an agency which are acceptable objectives of public policy. These measures are concerned, for example, with raising the literacy rate among the population rather than with the number of classes held or the number of students trained."

In combination with data on employment, certain of those measures can be used to develop information on the staffing needed to produce a unit of work or an end product. Similarly, in combination with financial data, information can be derived in terms of unit or product costs. The measures to be used in a program or activity, and the performance ratios to be developed, depend upon the kinds of work and end products involved, the needs to be met in formulating and justifying the budget, and the operating requirements of agency management.

111. There are numerous methods that can be used to establish performance ratios. Some of the more complex include time and motion study, or the use of a stopwatch to determine time requirements for the actions that make up an operation. Those approaches generally are more widely used in industrial operations. A technique more common to government is the work measurement approach, which requires

- -- selecting a suitable level for the measurement of work (in performance budgeting, the programme, activity, or work operation);
- -- selecting the appropriate unit for measuring the work;
- -- recording and reporting the volume of work handled; and
- -- relating the volume of work to staff time required.

Similar steps are used to develop unit cost information, except that work volume is related to the costs of objects used in carrying out the work, including the staff time required.

Selecting the Unit of Work

112. The selection of a unit to measure work in a programme or activity is an important step that requires accurate review and analysis of the operation, since the adequacy of the choice will have a direct effect on the usefulness of the system. Experience in the United States and the Philippines provides the following criteria for identifying an appropriate work unit:

1. It must be countable, must express work completed, and should clearly reflect a change in the volume of the work.
2. It must be expressed in familiar terminology that will have the same meaning to those recording, reporting, and reviewing the data.
3. It must have consistency, i.e., the quality specifications of a completed unit of work and the amount of effort involved must be reasonably consistent over a period of time. In other words, the same work must be measured by the same unit, which should reflect the same degree of accomplishment.

A single unit of measurement will not always cover all work performed under a programme or activity, thus indicating a need for more than one unit of work for analysis purposes. It should be recognized, however, that adequate analyses can be made in some cases by the selection of a unit for the most important operation carried on under a programme or activity.

113. Appendix K illustrates an application of those criteria. It reflects the units of work established under ten selected programmes of the Philippine government. As a general rule, such work units have been established for all measurable activities in the Philippine budget.

Nonmeasurable Work

114. In developing a measurement system for performance budgeting, it is important to recognize that it is impracticable to measure certain categories of work in an agency. Such categories include work in which

-- the number of employees may be governed not by the volume of work, but by statutory provisions or the organizational structure such as department or bureau heads and their immediate staff;

-- the results are unpredictable, such as in certain types of research; or

-- the number of employees is related not to a specific segment of work but to the total operation of the agency -- such as an administrative or service operation.

Even in these nonmeasurable operations, however, the staff time applied to such work--and the costs involved-- should be identified. Those kinds of data can then be related to the total cost and employment of the agency for budgetary purposes. This approach is often used for reviewing requirements of an administrative or service organization. Generally, it is used in that way in the Philippine budget, as illustrated below for the Bureau of Agricultural Extension in the Department of Agriculture and Natural Resources.

	Man-Years			
Year	Total for General Administration	Total for Agency	General Administrative Employment Rates	General Administrative Expense per Man-Year
1958	137	2,064	1-15	₱ 246.24
1959	137	2,184	1-15	237.33
1960	160	2,338	1-14	244.70

Measurement Systems

115. For those operations in which physical measures are practicable, performance budgeting requires at least the use of workload information that enables the identification of work completed in a programme or activity and permits an evaluation of work completed in relation to work to be done. Such information provides a basis for reviewing work volume in relation to fund requests, against the background of past experience. An example of this type of measure is reflected in the budget of the Patent Office in the United States Department of Commerce:

	1960 Actual	1961 Estimate	1962 Estimate
Patents:			
New applications received	79,321	80,000	80,000
Applications disposed of	79,399	87,000	90,000
Patents granted	50,607	52,000	55,000
Applications pending, end of year	195,885	189,000	179,000

116. As a tool for management analysis, that kind of a physical measure can be refined and made more valuable by identifying the employment used in carrying out the work. This is often referred to as a work measurement system--a system that relates work to the staff time utilized for completion of the work. It requires selecting a unit of time for measurement purposes--one that can be verified against other records and charged with a reasonable degree of precision to work on which employee time is spent. Usually man-hours or man-days--and sometimes man-years-- are used for this purpose, representing one man working one full hour, day, or year, respectively. For the most equitable analysis of performance, the system should identify time actually spent on the job, i.e., excluding periods of vacation, sick leave, details to other operations, etc.

117. This type of system produces data, for example, on units of work per man-hour, or the reverse--man-hours of employment per unit of work. Either one serves the same purpose, providing a combined picture of the use of staff in relation to work performed. An illustration of such a measure--using man-years--is provided in the budget presentation of the United States Post Office, which includes the following data (average workload is determined by dividing volume by man-years):

	Man-years	Mail Volume (in millions)	Av. Pieces Per Man-Year
1960 actual	261,402	63,484	242,859
1961 estimate	267,705	65,600	245,046
1962 estimate	274,665	68,100	247,938

118. For more refined analyses, unit cost information can be developed to show the cost of producing a unit of work or an end product. In full application, such unit costs are developed from data recorded in the general accounting systems, through a series of cost accounts that consolidate all costs applicable to one or a series of work operations. Generally, such a system will accumulate costs on a use basis, covering items like personal services, stock issues from inventory, depreciation, and contributing services. The Bureau of Accounts in the United States Treasury Department

uses a cost accounting approach in its checkwriting and bond issuance operations. That system provides the following type of budget presentation (total fund requirements are determined by multiplying workload by the related unit cost):

	1960 Actual	1961 Estimate	1962 Estimate
Processing payments			
Workload (in thousands)	277,690	292,831	312,974
Unit costs	$0.0779	$0.0806	$0.0831
Issuance of savings bonds			
Workload (in thousands)	3,480	3,450	3,450
Unit costs	$0.0881	$0.0952	$0.0928

119. In less precise applications, a "cost-finding"system can be employed to develop unit cost information. Such a system will accumulate, possibly in subsidiary records, major costs such as personal services--without necessarily gathering all elements of cost that contribute to the work performed or the end product. A "cost-finding" system profitably can be used in those kinds of activities where it is determined that management decisions can equitably be made without regard to all types of cost.

120. A statistical sampling technique is often used in this and other kinds of performance analysis systems. That technique involves, for example, the development of total workload information through estimates that are based on an appropriate sample of the work flow. It is a more economical approach that is useful in a large volume operation, where the cost of recording all work is prohibitive in relation to the benefits derived. In applying this technique, however, care must be taken to obtain a representative sample of basic data, and to provide for a continual reappraisal of the sample in the light of current developments.

121. In these various measurement systems, basic records for accumulating the data should be centrally prescribed and maintained uniformly throughout the agency in accordance with specific instructions. A uniform recordkeeping system, properly prescribed, is more likely to provide comparable data from various offices, and helps to avoid misinterpretations concerning what is required. Such an approach provides a sound basis for computing performance ratios that permit valid comparisons.

122. To complement the basic records, provision should be made for a reporting system that will furnish a timely flow of data for action purposes. This involves efficient procedures for bringing the basic data from its source to a central point for review and analysis; and for distributing to operating officials summary tabulations and other analyses that will stimulate desirable action toward management improvement.

Uses of Measurement Systems

123. There are a number of ways in which the data developed by measurement systems may be used for management purposes. As indicated above, measures of workload performed and funds used under a programme or activity are a basic requirement. Those data can be related to proposed work and cost estimates for the purposes of deciding on budget requests and fund allocations, and for broad analyses of performance under an approved plan. Work measurement ratios that show man-hours per unit of work (or the reverse) give more precise results for those same purposes; these are particularly suited to operating programmes, because salaries for personal services are usually the largest component of the total cost of such a programme. On the other hand, a capital programme more likely will require a system that develops unit cost information--which would furnish performance ratios that reflect the resources actually consumed in carrying out the programme. Work measurement and unit cost ratios have proven to be useful management tools, providing a factual basis for such needs as budget formulation and justification, and management planning and control.

124. In budgeting, workload data related to the employee time or the costs required for its performance provide firm facts and therefore the best basis for developing estimates and justifying the amount of personnel and fund requirements. In addition to those uses, such ratios are invaluable to supervisors in scheduling work and in shifting employees in accordance with changes in the volume of work.

125. For proper management planning, the planners must know not only the work to be done, but also the capacities of the available personnel and equipment, and the time required to complete it. If a planning unit has factual data available in the form of performance ratios and does not have to depend

on rough estimates, its plans will be more realistic and result in more effective operations.

126. From the standpoint of management control, performance ratios bring out the effectiveness of operations and permit comparisons not otherwise feasible. They highlight problem situations in need of corrective action, such as:

1. Improper personnel utilization--where overstaffing may develop as a result of a gradual reduction in workload, or the overall personnel may be adequate but they are not equitably distributed so as to maintain a balanced effort.
2. Improper work distribution--where some units may be overloaded while others are coasting along with a minimum workload.
3. Inadequate procedures--where backtracking and delays in the flow of work may be reducing the efficiency of the operation.
4. Inadequate equipment operation--where the equipment is not efficiently utilized or is in a deteriorating condition.

Establishment of Standards

127. For the most effective analyses, the review of performance ratios should be made against predetermined standards. The possibilities range from engineering standards that are developed by means of a stopwatch or motion analysis, to judgmental or empirical standards that are set to arrive at desired goals of operation.

128. A simple method of setting standards is one based on experience gained under an established system. The best rate experienced in a work operation or group may be used as a standard. Or, the average--or possibly the median--rate of production in a similar group of operations may be used for comparison with actual results. Another alternative is to establish a standard rate of production that sets a goal better than at least three quarters of the rates experienced by a comparable group of operations (a third quartile rate). To do this, the actual rates of production experienced

by each of the group over a period of time should be assembled into an array that will provide the basis for selection of the standard. Care should be taken, however, to exclude from such an array any abnormal rates that might have been experienced because of conditions like those cited above. An illustration of this approach is provided below:

Array of Production Rates in Three Comparable Operations Over a Four-Month Period

	Units of Work Per Man-Hour*		Possible Standard Rate	
Operation A	1.48	———	Best rate in the group	- 1.48
B	1.47			
B	1.35	———	Third quartile rate	- 1.34
C	1.33			
A	1.20	———	Average rate	- 1.19
A	1.17	———	Median rate	- 1.16
A	1.15			
B	1.12			
C	1.10			
B	1.02			
C	.97			
C	.96			

* Determined by dividing the work completed by the man-hours expended, e.g., if 450 work units were produced by 9 employees working over a 40-hour period (360 man-hours)-- the rate of production would be 1.25 units of work per man-hour (450 divided by 360)

129. The selection of a standard rate from such an array should be made with care, consistent with the objectives of agency management in setting realistic goals, and considering the capabilities of the operation involved. For example, the best rate in the group shown above might be selected if the experience period is known to be one of relatively low productivity, and that rate is considered to be a reasonable goal for the operations covered. The best rate can be used to stimulate all operations to take the action necessary to better their previous performance, thus raising the level of productivity throughout the group. In this kind of selection, however, management must give close attention to the quality of work subsequently produced to make sure that it does not deteriorate.

130. The third quartile rate is a selected rate that has not necessarily been experienced by any of the operations. It is located in the array at a point where at least one-quarter of the experienced rates reflect a performance better than the proposed standard. It thus establishes an achievement goal that is less demanding than the best performance, and generally has more acceptance as a feasible rate of production. Because the third quartile rate has not been attained by most operations, it too can serve to stimulate improved performance that should significantly raise the productivity level of the group.

131. The average production rate is a calculated rate that reflects the arithmetical average of the group--which is determined by dividing the total completed work units of the operations in the array by the total man-hours expended in producing that workload. It can be higher or lower than the median rate, depending upon the relative work volume and production rates in the higher and lower examples in the array. The average rate sets an improvement goal for approximately half the operations concerned, and usually has a greater degree of acceptance as a realistic standard.

132. The median rate of production, like the one at the third quartile, is a selected rate. It, however, is located in the array at the mid-point where half the experienced rates show better performance. Like the average rate, it meets with better acceptance because it sets a lower achievement goal, but it serves as a stimulant toward better performance for at least half the operations in the group.

133. Under any of these approaches, the selected standard might be further adjusted for performance analysis by taking into account any anticipated changes in work operations that will affect the productivity rate. Once established, however, a standard should be used for a reasonable period of time--because constant changes tend to lessen their value. On the other hand, provision should be made for a periodic review of the applicability of an established standard in the light of subsequent developments, to keep it from becoming obsolete.

134. Once a realistic standard has been decided upon, periodic performance reports--in tabular and/or graphic form--can readily be prepared for analysis at the various levels of management review. For example, if 4,000 tax returns were processed by a group during a month and the number of man-hours used was 1,000, the rate of production experienced is four work units per man-hour. If the established standard rate was five work units per man-hour, the group under review fell short of desired performance by 20 per cent. Those data, assembled in a performance report, would give a signal to management that a review should be made to identify the reason for the deficiency as a basis for corrective action. It may be found that the standard is unreasonable; that there are cumbersome procedures; or that the employees are inadequately trained or there is a lack of competent supervision. Action should promptly be taken to improve the situation. The important thing, however, is that a regular performance reporting system such as this identifies work areas in which the performance of a group is low and needs attention, or the performance is outstanding and deserves special recognition.

135. Above all, it should be recognized that the system in and of itself will not produce desired management improvements. The system may furnish an incentive that can result in better production, but its basic product is an identification of problem areas that require review, analysis, and positive action to eliminate troublesome situations. Responsibility for such action is located in operating officials at the various levels of management in the agency.

Performance Analysis

136. In analyzing the performance ratios of operating organizations, the responsible officials should recognize various factors that may affect performance. Included among those variables are the following:

1. A difference in work volume may affect the rate of productivity in an operation.

An operation that handles a large volume of work may require fewer man-hours per work unit than a comparable operation with a low volume. Different standards would be required for equitable analyses in such situations.

Similarly, if work volume changes materially in a given operation, a different standard may be required at different times for the same operation. This occurs because of differences in the nature of the operation at various levels of volume, the amount of supervision or overhead labor required, and the ability to transfer employees as needed without delay. Increases in volume beyond a certain point can also have an adverse effect on productivity for the same kinds of reason--notably because of the lack of available trained employees, and the inadequacy of prescribed procedures for the higher volume levels. A charting of experienced production rates in relation to work volume and man-hours required will reveal the action needed to develop an appropriate basis for comparison in such situations. The trend of the performance ratios will identify the standards most suitable for the various levels of work volume.

2. The absence or presence of a backlog may affect the rate of production.

In general, a small backlog of work is a normal condition, needed to provide a continuous flow of work to the employees in the operation. The size of a desirable backlog varies, depending upon the steadiness of work flow and the amount and degree of fluctuation. The lack of available work will cause "waiting time" among the employees and a lower production rate. Conversely, a heavier than usual backlog can result in a "speed-up" and a higher productivity rate. Such a "speed-up" rate, however, will not always be feasible to maintain and can produce a lower quality end product.

3. Organizational and procedural improvements will have a direct impact on performance.

A production rate depends on many factors--including the adequacy of the organizational and procedural arrangements. For example, an organizational adjustment that changes the flow or sequence of the work will usually change the performance ratio. A mechanization of a manual operation should produce a significant increase in the rate of production. The elimination of work steps in an operation similarly should reduce the time required to complete a unit of work. In any of these adjustments, however, it should be recognized that a period of time for reorientation of the employees will be required before the most appropriate revised productivity rate can be identified.

4. The performance in similar operations may vary between geographic locations because of local conditions.

Even though the same activity may be performed in different locations, with the same degree of efficiency and the same competent supervision, the production rates may differ because of local conditions. For example, in an operation involving the processing of persons entering and leaving a country--which may be countable in the number of persons that enter and depart--the rate at which the work is processed may vary depending on whether it is at a seaport, an airport, or a land border crossing point. The degree of inspection required at each of those kinds of locations, the regularity of the flow of entries and departures, differing language requirements at various locations, etc. all are variable factors that may affect the production rate.

5. The quality of an end product may result in different rates of productivity.

Performance ratios are quantitative in character and may contain variables in quality of the end product. An operation may, for example, show a good production rate that, from a quality standpoint, is representative of poor performance. Janitorial service is a case in point. An operation may show a good rate for this service but may not produce an adequate cleaning job. Similarly, in conducting investigations, high production rates can be attained by a cursory review of the different elements of the investigation, or by not going through all the basic routines necessary to an adequate investigation. Wherever possible, quality standards should be worked into the definition of a completed unit of work, and it should be made a responsibility of the local supervisor to insure the production of an adequate end product.

An Illustrative Application

137. Measurement systems such as those discussed in this chapter have proven to be valuable tools of management in many applications. The Agricultural Stabilization and Conservation Service of the United States Department of Agriculture provides a pertinent illustration. That agency has applied a work measurement system to the operations of its eight regional

offices for more than 10 years. Those offices are involved in managing a multi-billion bushel inventory of agricultural commodities and accounting for over a million price support loans.

138. The system covers approximately 4,000 employees that are engaged in 55 measurable work operations and certain nonmeasurable operations where staffing does not vary with the volume of work. Units of work have been identified for the measurable work operations, and about 75% of the total work force distributes to those operations the man-days expended on the job. Monthly reports provide data on workload, man-days, and productivity rates--which are compared with an experience standard established at the beginning of each fiscal year. Those data are used by management to identify problem areas, and to initiate studies that develop proposals for desirable corrective action.

139. This system is used to develop budget estimates and to allocate funds. It has provided an effective method for determining manpower requirements and for communicating those requirements through the various levels of budget review. It furnishes a satisfactory basis for performance evaluation and has alerted management to problem situations. As a by-product it has served as an important incentive, because the productivity rate has more than doubled since inception of the system. While improved procedures and mechanization have had an important effect in obtaining that result, the work measurement system has provided an environment within which needed improvements could be made.

Appendix -

UNITS OF WORK MEASUREMENT IN SELECTED PROGRAMMES
THE PHILIPPINES

Function	Organization	Programme	Project	Unit of work measurement
Agriculture	Bureau of Plant Industry	Increase in Rice and Corn Production	1.Rice and Corn Research	Researches conducted
			2.Soil Analysis	Soil samples analysed
			3.Production and Distribution of certified seeds	Cavans of seeds produced
			4.Control of Rice and Corn Pests and Diseases	Hectares controlled
			5.Demonstrations of improved farm practices and farmers' education	Demonstrations conducted
	Bureau of Forestry	Forest Protection and Management	1.Forest Management and Land uses	Number of hectares managed and leased
			2.Reforestation and afforestation	Number of hectares planted
			3.Domain Use Classification	Number of hectares classified
			4.Research	Number of research projects conducted
			5.Prevention of Forest Destruction	Number of hectares protected
			6.Scaling and Lumber Grading	Number of cubic meters of logs and lumber scaled and graded
			7.General Administration	General administrative employment ratio and expense per man-year.
Education	Bureau of Public Schools	Vocational Education	1.Trade and Industrial Education	Students enrolled
			2.Agricultural Education	Students enrolled
			3.Fishery Education	Students enrolled
			4.Philippine Nautical School	Students enrolled
			5.Training in Home Industries	Trainees enrolled
	Bureau of Public Libraries	Library and Archives Administration	1.Library Extension Service	Patrons served
			2.National Library Service	a.)No. of books, etc. catalogued, classified and processed b.)Patrons served c.)Indexing entries
			3.General Administration	General administrative employment ratio and expense per man-year.

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Function	Organization	Programme	Project	Unit of work measurement
General Government	Bureau of Internal Revenue	Administration and Enforcement of Internal Revenue Laws, Special Tax Laws and Regulations	1.Tax Rulings and other legal services 2.Tax Assessment 3.Tax Collection 4.General Administration	Rulings issued a.)Tax returns processed and/or assessed b.)Tax cases processed and/or assessed c.)Tax investigations conducted Cases closed General administrative employment ratio; general administrative expense per man-year.
Health	Field Operations	Field Health Services	1.Rural Health Units 2.Dental Services 3.Social Hygiene Services 4.Malaria Eradication Services 5.Tuberculosis Control Services 6.Environmental Sanitation	Units operated Patients attended Number of cases handled a.)Persons protected b.)Research activities Persons attended Inspections conducted
		Hospital Services	1.Operation of General Hospitals 2.Operation of Special Hospitals	Number of free beds Patient days a.)Maternity b.)Children c.)Mental d.)Orthopedic e.)Communicable Diseases
			3.School of Nursing 4.School of Midwifery 5.Aid to puericulture 6.Laundry plant	Persons trained Persons trained Narrative statement of purpose of aid Number processed
	Bureau of Laboratories and Research	Laboratory Examination Production and Research	1.General Management 2.Pathological and Macrobiological Examination 3.Laboratory Research 4.Blood Plasma Dehydration 5.Sanitary Chemical Analysis 6.Vaccine Production 7.Food and Drug Analysis	Administrative employment ratio and expense per man-year. Number of examinations performed Number of research studies conducted Cubic centimeters of blood products Number of examinations performed Cubic centimeters manufactured Number of examinations performed

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Function	Organization	Programme	Project	Unit of work measurement
Public Works 1/	Bureau of Public Highways	Maintenance and Repair Service	1. National Roads and Bridges	a) Kilometers of national roads serviced b) Lineal meters of national bridges serviced
			2. Provincial Roads and Bridges	a) Kilometers of Provincial roads serviced b) Lineal meters of provincial bridges serviced
			3. Municipal Roads and Bridges	Narrative statement of the project.
			4. Toll Roads	Toll roads serviced.
	Bureau of Public Works	Construction (capital outlays)	1. Irrigation	Irrigable hectares serviced
			2. Buildings	Number of buildings
			3. River Control and Drainage	Number of projects
			4. Port facilities	Number of projects

1/ Public Works here is not a function. It refers to the Department of Public Works and Communication whose expenditures fall under several functions as can be seen from the projects under the Programme of Construction in the Table. This however does not affect the purpose which is to illustrate the unit of work selected for projects.

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CHAPTER V

Installation of a Performance Budget

Introductory

140. The preceding chapters identified three major characteristics of a performance budget system--meaningful substantive classifications; appropriate financial management practices oriented to those classifications; and suitable measures of performance under the substantive classifications to enable effective management action. It was also indicated that there is considerable flexibility as to the direction in which the conversion work might proceed, and the degree to which each of those basic elements of the system might be refined. In planning the adoption of this approach, a country should select the course of action that is most appropriate to its own conditions and environment.

Preliminary Considerations

141. In converting to a performance budget, it is important to recognize that this is not just a matter of adjusting procedures. It represents also a change in budgetary concepts that effects each level of management throughout the government. The action needed to make such a change can proceed in several ways. For example, priority emphasis can be given to full development of one or more of the basic elements of the system, or the initial steps can be limited to installing the three basic elements on a minimum basis. In the latter approach, the refinement and full development of each of those elements to its maximum usefulness can proceed thereafter in an evolutionary manner, as the employees become more familiar with and adapted to the revised concepts involved.

142. In view of the significance and implications of this undertaking, there should be full understanding and a mutual agreement between the executive and the legislature on making the change. With such a decision, it is the responsibility of the executive to lay out a programme for implementation. Since performance budgeting is a matter of concern to all levels of management, installation should be carried out in a cooperative manner with the operating departments and agencies, under central leadership and guidance. This requires

careful advance planning, effective communication of the purposes to be served and benefits to be derived, and adequate provision for training the employees concerned with operation and use of the system.

143. There is no precise order to the actions needed to install a performance budget system. While there is some sequence to the steps required, some steps overlap each other, while others should be taken concurrently. The installation process should be adapted to conditions in the individual country, and should proceed at a rate consistent with the capabilities of available staff.

Organizing for the Installation Job

144. The first major step toward installation is assignment of the responsibility for planning and carrying out conversion of the existing system. Considering the nature of the job, that responsibility logically could be given to the central budget facility of the government. That assignment, however, should be made in a manner that best demonstrates full support by the top level officials in the executive. To illustrate, the budget facility might be given the assignment if that organization is immediately responsible to the top executive; or the finance ministry might be designated, if the budget facility is located within that ministry.

145. The responsible central facility can organize for the job in a number of different ways, e.g., by delegating the assignment to the constituent organization that regularly prescribes budgetary practices; by placing primary responsibility in an assistant to the minister or director, who can draw upon staff of the facility as necessary for the job; or by designating a group of staff as an installation team, which would devote full time to the job. The last two possibilities have the desirable feature of permitting a selection of staff who have experience and qualifications in the different management specialties involved in performance budgeting. For best results, the assigned staff collectively should have a broad grasp and understanding of agency programs operations, and should have skills in planning, budgeting, accounting, reporting, and measurement practices. As one possibility, a team might be made up of staff specialists in budgeting, accounting, and management techniques; supplemented by the central budget examiner for each agency--

who would participate and provide the necessary programme understanding when the respective agencies are dealt with in the installation process.

146. Besides designating the organization and staff to do the job, a top level decision is needed on the extent to which the revised system is to be initially installed. It is preferable in most instances to proceed with comprehensive application throughout the government. If that is not feasible, the system can be initiated in certain organizations first, looking to gradual installation in the remaining units in later years. The choice of a comprehensive or a gradual changeover; and, in the latter case, the selection of the specific organizations to be converted, depend upon such factors as the size of the government, existing conditions, staff availability, and timing considerations.

147. In a gradual application, priority might be given to organizations directly involved in an economic development plan. There may be special need for budgetary reform in the agencies carrying out development programmes and activities. Or, priority might be given to organizations that spend the largest portions of the total budget. Improvement action is then concentrated in areas where the opportunity for more efficient use of funds is proportionately greater. A third alternative is to initially make the conversion in several units of each department, and then gradually extend the system in each department to full coverage. This gives all departments a measure of experience in initial installation of the new system, which may help to avoid protracted delays in application to the entire government.

Approach to the Agencies

148. With the course of installation determined and staff organized for the job, the decision for adoption of performance budgeting should be formalized in an announcement to all departments and agencies. The announcement should briefly outline the performance budget concept and identify the benefits to be gained in relation to the present day problems of government (see Chapter I). More specifically, it should point up the implications of this technique for the whole management process--including budget formulation, review and authorization, and the conduct of authorized operations.

149. This initial communication should make clear the executive-legislative

agreement on the action being taken, and the role of the organization and staff assigned to the job. It should identify the leader and the members of the central installation staff, the top level direction being given this effort, and the extent and manner in which the conversion is planned to be made. The departments and agencies should be advised of the cooperative nature of the job and the need for positive support by responsible officials. Each of those organizations should be requested to appoint a qualified representative--one that is familiar with the programmes and administrative practices of the agency--who would work with the central installation staff to facilitate the conversion in his organization.

150. Following issuance of the announcement, the central installation staff should arrange for a series of meetings with departmental and agency representatives. The size and nature of these meetings can vary--a desirable combination is one of (a) large group meetings to promote government-wide understanding of the performance budget and to stimulate interest and support for its adoption; and (b) smaller meetings of groups with mutual interests, to provide for more intimate discussion of the purposes, scope, and ramifications of the undertaking. The central installation staff should prepare thoroughly for these meetings, equipping themselves to answer specific questions on installation and operations of the system, the problems involved, and the reasons for the conversion, and developing demonstration materials that are suited to the conditions and training needs of the individual country. Such training materials were used to good effect in the Philippine and United States installations of performance budgeting.

151. It should be recognized that these meetings represent the start of a training and educational effort that is vital to the ultimate success of the system; and that such training will continue throughout the conversion process. The experience gained in that process will contribute in a very practical way to further development of the staff who will be responsible for operation and future improvement of the new budget system.

152. These meetings will also provide the central installation staff with an opportunity to exhibit their desire for close cooperation, consultation, and rapport with the department and agency representatives. While the central staff should provide leadership and firm guidance, it should be clear that they contemplate a practical approach to installation--one in which reason,

persuasion, and the exchange of views will play a prominent part.

Establishing Performance Budget Classifications

153. As brought out in Chapter II, a matter of first priority in a performance budget installation is the establishment of substantive classifications that relate agency work operations to the broad services furnished by the government. A basic need for accomplishing this is a clear statement for each department and agency that identifies

-- the statutory or other authority for creation and operation of the organization,

-- its overall and subsidiary objectives,

-- the scope and nature of its operations,

-- the organizational pattern used for carrying out authorized work, and

-- the method of financing that work.

These agency statements will require a careful review by central installation staff of the scope of agency operations in relation to statutory authorities, including a check on whether the cited authorities are complete. Questions of adequacy should be clarified or resolved at the time of review. If that is not feasible, overlapping authorities or gaps should be noted for subsequent resolution. The objective is to arrive at mutual agreements with agency representatives on the nature of the authorized programme operations in each organization, and the methods of control and financing used in the conduct of these operations.

154. Appendix L furnishes a statement showing much of this information for the Forest Service in the United States Department of Agriculture. That statement, supplemented by a functional organization chart and the pattern of financing, provides data needed for establishing the required substantive classifications. Where such statements do not exist, the necessary information will have to be developed for each of the departments and agencies in the government.

Functional classification

155. A functional classification that identifies the broad services furnished by a government is an essential feature of a performance budget (see Chapter II). If one is in use, it provides the framework for grouping the programmes

identified for each department and agency. If the government does not have a functional classification, one will have to be established by the central installation staff. This may be done by starting with the basic functional categories identified in A Manual for Economic and Functional Classification of Government Transactions [1], and modifying those categories to suit the programmes and needs of the individual government. Or an empirical approach can be used, i.e., identifying the broad services provided by the government through analysis and categorization of an array of agency programmes that previously have been defined.

156. The functional classification developed for a country will likely result from a combination of these two approaches--representing a product of experiment, adjustment, and modification of tentative conclusions. Before final adoption, the identified categories should be tested for their adequacy in grouping all identified programmes. Even after the classification is in use, it should be kept under continued surveillance and modified as required by subsequent developments.

157. The experience in the United States illustrates this point. A comprehensive classification was first used in that country for the 1948 budget. Changes have been made in that classification from time to time to accommodate specific situations--the latest in the 1963 budget, as shown in Chapter II. For purposes of comparison, the categories used in the 1951 and 1961 budgets are shown below.

1951 Classification	1961 Classification
National defense	Major national security
Veterans service and benefits	International affairs and finance
International affairs and finance	Commerce and housing
Social welfare, health and security	Agriculture and agricultural resources
Housing and community development	Natural resources
Education and general research	Labor and welfare
Agriculture and agricultural resources	Veterans services and benefits
Natural resources not primarily agricultural	Interest
Transportation and communication	General government
Finance, commerce and industry	
Labor	
General government	
Interest on the public debt	

1/ Issued as Workshop Information Paper (United Nations Publication, Sales No. 58.XVI.2).

The functional classification in that country is used to group government programmes and financial data in a reasonable number of broad subject-matter fields, to facilitate the presentation of the budget and financial reports and the analysis of programmes and policies. It is also used in connection with the handling of matters involving legislation.

158. The functional classification ultimately adopted may be unique to the particular government. The central staff may identify broad categories of importance for top level review purposes that are unlike those in other countries, e.g., the Veterans Services and Benefits function in the United States. Such determinations are entirely proper, in accordance with the objective of developing aggregate information useful to the executive, the legislature, and the public in each country.

Programme and activity or project classifications

159. Another basic requirement is the establishment of agency programmes-- which represent logical segments of government functions; and activities or projects-- which group homogeneous work operations that serve the purposes of individual programmes. As described in Chapter II, programmes identify end products of the departments and agencies and enable evaluation of the achievement of functional objectives, and activities serve as a focal point for management for the work operations that contribute to accomplishment of a programme. From the standpoint of agency management, this is the core of the performance budget approach. It requires careful analysis to enable development of an appropriate classification of the operations of the agency.

160. The agency background statements provide the information needed for joint determinations by the central installation staff and agency representatives concerning the programmes and activities for each organization. There are no exact rules for determining the groupings of work that should be set up as activities, nor the groupings of activities that merit programme status. These classifications should, however, give effect to each agency's ideas concerning the proper breakdown of its total work effort, and should reflect the pattern of management and control exercised through the organizational structure. The titles used for the classifications also should show appropriate concern for public understanding of the agency's operations.

161. As part of this effort, attention should be given to changes in the agency financing structure that might be desirable to better achieve the objectives of performance budgeting. Since that structure is the medium for presentation of requirements and financial control of the approved budget, effort should be directed toward obtaining the simplest pattern of financing possible for each agency--one that enables an effective programme presentation, and permits the most efficient practices in accounting for the funds made available to the agency. The participation of agency staff is essential for this job--either concurrently or after preliminary identification of the programmes and activities by the central installation staff. Under either approach, effective central direction and guidance is vital to provide for consistent government-wide results.

162. Specific aspects of the agency operation, such as the organizational structure, the financing pattern, the deployment of manpower, the distribution of physical facilities, and the geographic dispersion of agency operations, will be helpful in establishing a useful programme and activity pattern. In most agencies, there will be two or more groupings of activities that warrant identification as a programme. In the case of the Forest Service of the United States Department of Agriculture, for example, the following programmes are reflected in the budget:

1. Forest protection and utilization
2. Forest roads and trails
3. Acquisition of lands for national forests
4. Brush disposal
5. Access roads

These programmes vary considerably in terms of size and the nature of the operation. All of them are classifiable under the Natural Resources function, and generally they are financed by separate appropriations. Each one gives an idea of its purpose and distinguishing characteristics, the type of work involved, and the kinds of skills required for execution of the programme.

163. The first one, Forest Protection and Utilization, is the major programme of the Service. In the budget, it is broken down into three activities that reflect significant groupings of the work involved--Forest Land Management, Forest Research, and State and Private Forestry Cooperation. Because of the size and scope of the operations, these activities are further classified into

subactivities that reflect the pattern of functional control exercised in the Service. A complete listing of these categories is shown in Appendix M.

164. It should be recognized that these classifications can, and sometimes do, cut across the organizational lines within the agency in order to bring out the functional and programme nature of the operations. This is acceptable, providing available management data permit suitable analysis of performance. In this case, for example, the field organizational units of the Forest Service each perform work on several activities and programmes. Appropriate information has been developed, however, to enable effective analysis and control of the field operations. This has been accomplished through use of a work planning and scheduling system that provides the basis for financing and assigning work. In budget execution, costs are directly allocated to programmes and activities according to work assignments wherever possible. For the other costs, allocations are made on the basis of work measurement and time distribution reports, or in accordance with the proportionate spread of direct costs where that procedure is appropriate.

165. On the other hand, there will be some agencies in which the objectives and scope of operations are so narrow and circumscribed that a single programme designation is sufficient for budget presentation purposes. Government commissions charged with specific control or regulatory tasks are typical examples. The United States Farm Credit Administration is a case in point. That independent agency is charged with supervising a coordinated agricultural credit system for farmers and their cooperatives. This is reflected in the budget by a single item—Supervision and Examination of Farm Credit Banks and Associations.

166. Programmes and activities generally should reflect a grouping of work operations in substantive programme terms, as in the Forest Service example above. In some performance budget applications, however, it may be considered desirable to establish overhead or service operations--like executive direction or general administration--as a separate programme or activity. Executive direction might include such operations as the office of the minister or the top executive, programming, and policy making. General administration might include budgeting, accounting, personnel, legal, purchasing, and similar administrative operations. When these kinds of categories are employed, their content should be tailored to fit the needs of the individual country, and must be specifically identified to enable consistent application.

167. Illustrations of the content and use of general administration as a programme or activity are shown in the listing of Philippine programmes and projects in Appendix B (Chapter II). It is included among the programmes for the Bureau of Public Highways, in the Department of Public Works and Communications, as shown below:

1. Field surveys and preliminary plan preparation
2. Maintenance and repair services
3. Operation of equipment depots, laboratories, and quarries
4. General administration
5. Construction, reconstruction, and improvement
6. Acquisition of equipment

This presentation also demonstrates the separate identification of capital outlays--which is reflected in the last two programmes.

168. In this kind of application, the budget presentation does not show the full costs of each substantive programme, because these items do not include a proper share of administrative costs nor related capital outlay costs. To obtain a full cost presentation would require an allocation of the capital outlay items among the substantive programme purposes they serve, and a distribution of the costs of general administration. Such distributions of general administration might be made in terms of a designated formula, or on such bases as the proportionate distribution of direct costs or man-hours. The Philippine practice contrasts with that followed in the United States Forest Service. As shown in Appendix M, general administration and capital outlay are spread among the substantive activities under the major programme of the Service--Forest Protection and Utilization, and the total capital outlay for that programme is identified by a footnote to the programme and financing schedule in the budget presentation. Either of these approaches may be used, depending upon the needs to be served and the financial management practices employed in the individual application.

169. After the programmes and activities of an agency have been identified and titled, a final test should be made to insure full coverage. All activities should be classifiable within the identified programmes; and all work operations should be capable of classification within the identified activities. In addition, provision should be made for periodic review of each agency's programmes and activities. Those categories should be adjusted and revised as necessary to reflect the programme and administrative changes that may subsequently occur.

170. A further requirement of a performance budget system is to develop a description of the programmes and activities to meet presentation needs. This can best be done by agency representatives, subject to review by central installation staff for the purposes of government-wide consistency. Such a description should include:

1. A narrative statement that clearly and concisely presents the objectives, scope and content of the programmes and activities. The text should be purely factual, with no promotional overtones.
2. An identification of relevant measures showing workload volume and trends. Performance ratios should be included where they are available.
3. An identification of the revenues resulting from conduct of the programme or activity.

Appendix M provides an illustration of such a description for the major programme of the United States Forest Service.

Adjusting the Accounting System

171. As a matter of second priority in the installation of performance budgeting, action is needed to develop accurate and timely financial data in the accounting system in terms of the identified programmes and activities. The immediate needs to be met consist of assembling data that will adequately support budget requests, and providing operating officials with information useful for management and control of operations. Unless these needs are properly satisfied, the value of the performance budget is subject to criticism because of lack of coordination with the accounting system. It should be recognized that for the purpose of meeting these initial needs, performance budgeting can be installed whether the accounting system provides data on a cash, obligation, or accrual basis (see Chapter III). The immediate problem to be dealt with is one of further classifying available information.

172. As a first step, action should be taken to assemble available financial data by programme and activity. If the accounting system in use furnishes financial data by object class, available information for categories

like personal services and travel can be identified to organizations, programmes, and activities by the nature of the employees' assignments. Objects like printing and contractual services can be classified according to the purposes of the printed material or the contract involved. Other objects like rents and communications should similarly be directly identified with organizations, programmes, and activities wherever possible. If that is not practicable, the data can be distributed to obtain the necessary totals. Such distributions should be made on the most logical and equitable bases that can be developed in the light of available information. They might, for example, be made in accordance with the proportionate distribution of personal services costs.

173. If the existing accounts provide data by organizational unit, and the programmes and activities are consistent with the organizational structure, the required information on past transactions can be developed by translating the data for organizational units into the substantive classifications within which they fall. To the degree that the programmes and activities do not follow organizational lines, equitable methods for distribution of the organizational data should be developed. Depending upon the nature of the operations of the specific organization involved, such distributions might be made according to the purposes and volume of the work performed, or in accordance with the assignments of the personnel in the organization.

174. For subsequent transactions, action should be taken to establish an accounting procedure that will currently develop programme and activity information for agency management. A worksheet analysis of object and organizational data can be used to satisfy these needs, or a coding of transactions by programme and activity in the accounting system will regularly furnish the necessary information. Such classifications of data should be obtained by the simplest methods possible under existing accounting practices, pending a determination of the refinements to be made in further development of the accounting system.

175. For the long-range operation, Chapter III emphasizes the desirability of an integrated financial management system that utilizes common classifications for budgeting, accounting, and reporting; and a planning and reporting

process that utilizes an operating budget to place responsibility and set management goals for performance analysis. It also outlines the values and uses of each of the accounting bases for different types of programme operations. These represent advantageous refinements that can be developed after the initial changeover to the performance budget. Care should be taken to adopt a course of long-range improvement action that will most effectively and economically serve decision-making needs at the various levels of management in the government.

176. The job of further classifying available data to meet initial needs, and the longer range effort to develop the financial management system to maximum effectiveness are properly a responsibility of the staff that operate and maintain accounting systems, wherever those operations might be located in the organization pattern of the individual government. The central installation staff, however, also have major responsibilities in this area. The first involves providing clear and concise guidelines that will produce consistent and acceptable action in the accounting operations toward meeting immediate needs. The second responsibility involves the development of policies and criteria to be followed by accounting systems staff in an organized effort toward strengthening the financial management systems of the government. The central installation staff should initiate and monitor that organized improvement effort, and should provide such assistance as may be required for the resolution of problem areas.

Establishing Measures of Performance

177. The next priority in installing a performance budget is the development of physical measures that are significant for performance analysis. As indicated in Chapter IV, suitable measures for this purpose include workload information, which identifies the volume of work done and to be done; work measurement ratios that relate work completed to employment utilized for completion of the work; and unit cost information that relates work completed to the resources used in carrying it out. For each of these, appropriate units of work must be identified to provide the basis for measurement and analysis.

178. The installation of a performance budget requires, at a minimum, a basis for review of requirements under each programme and activity, preferably in terms of workload. The first job in this area, therefore, is one of determining whether the work under a programme or activity is capable of measurement. The next task is the identification of a suitable basis for review of requirements in nonmeasurable operations, and the selection of meaningful work units for each of the measurable programmes and activities. Finally, determinations are needed on the most appropriate methods of developing workload data in the measurable operations to meet immediate needs. These minimum requirements can best be met by a joint effort of central installation staff and agency representatives at the time the programme and activity classifications are established for each agency.

179. The difficulties involved in selecting units of work and developing related workload data will vary considerably among the programmes and activities. Once the work units have been selected, various methods of approximation may have to be used in assembling workload data and, in some cases, only broad estimates may be possible. In working on this phase of the installation process, it should be recognized that historical data on past operations are of particular value because they provide a more informed basis for review and analysis of budget estimates and operational performance. Accordingly, for the initial performance budget presentation, historical data should be developed from available information to the extent possible, considering the practical limitations of the time and costs involved. This work basically is the job of agency representatives, and should be done in accordance with guidelines furnished by central installation staff.

180. Here again is an area that can be refined and further developed after the initial installation of the performance budget. The long-range objective should be to improve and strengthen the workload measures initially employed, and to establish suitable work measurement and unit costs ratios to the extent possible. Because they relate work to the employment or cost involved, performance ratios have greater management value. Ultimately, therefore, such ratios should be developed wherever the programme or activity is capable of such treatment and the cost of the system does not exceed the management benefits to be derived.

181. The establishment of the most significant workload measures and performance ratios will also require the development of unified recording and reporting systems to effectively accumulate and communicate accurate measurement information. Such systems should be kept as simple as possible to permit widespread understanding of the data requirements, and to minimize the work effort required to operate the systems. They should be developed in accordance with the needs and capabilities of the staff involved, with the objective of providing timely information in the form most suitable for use at the various levels of management in the Government. The central installation staff has responsibility for providing leadership, guidelines, and criteria for obtaining these long-range improvements; and for stimulating and assisting agency representatives in developing efficient systems and measures that are significant for review and analysis purposes, and suited to management requirements.

Manuals of Instruction

182. Underlying the entire process of developing and installing a performance budget is the need for providing a clear and concise set of written instructions for use of agency personnel. Such instructions should cover the entire budgetary cycle--planning, budgeting, accounting, reporting, and control. They will play an important role in creating a better understanding of performance budgeting, and will produce more consistent agency action in formulation and execution of the budget.

183. The central installation staff has responsibility for developing instructions needed in the course of the conversion process. Even more importantly, central instructions should be established and formally maintained on a current basis for continued use thereafter, and operating agencies should be encouraged to issue written instructions of their own, to the extent determined to be needed in the various departments and agencies. Set forth in the form of manuals that are regularly amended to reflect policy changes, provide criteria, and prescribe current requirements, such instructions provide the most effective basis for maintaining a performance budget system.

Appendix L

STATEMENT OF AGENCY AUTHORITY, SCOPE, AND PURPOSE IN THE UNITED STATES

DEPARTMENT OF AGRICULTURE

Forest Service

The name "Forest Service" was first applied on February 1, 1905, in a letter from James Wilson, Secretary of Agriculture, to the Forester, stating: "Its provisions [referring to the act of February 1, 1905, which provided for the transfer of the forest reserves from the Department of the Interior to the Department of Agriculture] will be carried out through the Forest Service under your immediate supervision."

The name "Forest Service" was also provided by the Agricultural Appropriation Act of 1906, approved March 3, 1905 (33 Stat. 861), although many of the functions were carried on earlier under different organizational titles.

The Forest Service is charged with the responsibility for promoting the conservation and best use of the Nation's forest lands, aggregating approximately a third of the total land area of the United States.

NATIONAL FORESTS.—The Service administers 151 national forests, together with land utilization project lands, experimental forests, and other lands aggregating about 188,000,000 acres. The national forests, comprising over 180,000,000 acres, are located in 40 States and Puerto Rico. The Forest Service improves them, protects them from fire, insects, and disease, and manages their resources for orderly and continuous service and for the maintenance of stable economic conditions in national forest communities. National forests are managed under the twin conservation policies of multiple use and sustained yield. Technical methods of forestry are applied to the growing and harvesting of timber. Livestock grazing is scientifically regulated to obtain range conservation along with use of the annual growth of forage. Watersheds are managed for the regulation of streamflow, reduction of flood danger and soil erosion, and the protection of sources of water for power, irrigation, navigation, and municipal and domestic supply. Provision is made for popular outdoor recreation. Scientific management is applied to the development and maintenance of wildlife resources.

FOREST RESEARCH.—In 9 regional forest and range experiment stations, in research units in Alaska and Puerto Rico, and in the Forest Products Laboratory at Madison, Wis., the Forest Service conducts investigations in the entire field of forestry and wild land management, including the growth and harvesting of timber, protection of forests from fire, insects, and diseases, management of range lands, efficient and economical utilization of forest products, and research in forest economics and taxation and watershed management. It is conducting a forest survey of the United States. This is a study of the Nation's present and potential forest resources.

COOPERATION IN FORESTRY.—States and private owners of forest lands and forest industries receive cooperation from the Forest Service. Assistance is provided in the application of sound forest management practices, in the maintenance of organized protection of forest lands against fire, in forest pest control, in flood prevention and river basin programs, and in the distribution of trees for planting woodlands, windbreaks, and shelterbelts. The Service cooperates with States to stimulate development, proper administration, and management of State forests, and with communities, counties, and organizations in the development and management of community forests. It also administers the Naval Stores Conservation Program and assists in the administration of the forestry practices involved in the agricultural conservation program, and the conservation reserve phase of the Soil Bank Act.

REGIONAL OFFICES—FOREST SERVICE

Region	Address
No. 1. Montana, northeastern Washington, northern Idaho, western North Dakota, northwestern South Dakota.	Federal Building, Missoula, Mont.
No. 2. Colorado, Kansas, Nebraska, South Dakota, Wyoming.	Federal Center Building 85, Denver 2, Colo.
No. 3. Arizona, New Mexico	510 2d St., NW., Albuquerque, N. Mex.
No. 4. Utah, southern Idaho, western Wyoming, Nevada	Forest Service Building, Ogden, Utah.
No. 5. California	630 Sansome Street, San Francisco 11, Calif.
No. 6. Washington, Oregon	729 NE. Oregon St., Portland 8, Oreg.
No. 7. Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, New Jersey, Delaware, Maryland, West Virginia, Virginia, Kentucky.	6816 Market St., Upper Darby, Pa.
No. 8. Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas.	Peachtree Building, 50 7th St. NE., Atlanta 23, Ga.
No. 9. Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, North Dakota, Ohio, Wisconsin.	Carpenter Building, 710 North 6th St., Milwaukee 3, Wis.
No. 10. Alaska	Federal Building, Juneau.
Tropical Forestry Unit	P. O. Box 577, Rio Piedras, P. R.

FOREST AND RANGE EXPERIMENT STATIONS

Station	Address
Central States	Old Federal Building, Columbus 15, Ohio.
Intermountain	Forest Service Building, Ogden, Utah.
Lake States	St. Paul Campus, University of Minnesota, St. Paul 1, Minn.
Northeastern	102 Motors Avenue, Upper Darby, Pa.
Pacific Northwest	809 6th Ave., Portland 8, Oreg.
Pacific Southwest	1960 Addison Street, Berkeley 1, Calif.
Rocky Mountain	Forestry Building, Colorado A&M College, Fort Collins, Colo.
Southeastern	Federal Building, Asheville, N. C.
Southern	2026 St. Charles Ave., New Orleans 13, La.
Forests Products Laboratory	North Walnut Street, Madison 5, Wis.

Appendix M

UNITED STATES BUDGET PRESENTATION FOR FOREST PROTECTION AND UTILIZATION PROGRAM

DEPARTMENT OF AGRICULTURE

FOREST SERVICE

The Service carries on three primary functions: (a) Protection, development, and use of about 185 million acres of land in national forests and national grasslands in the United States and Puerto Rico; (b) research for all public and private forest lands and related ranges to improve protection from fire, insects, and diseases; to increase production of timber, forage, water, and other products; to improve methods for developing and managing recreation resources; to develop better utilization and marketing of forest products; and to maintain a current inventory of forest resources through a nationwide forest survey; and (c) cooperation with States and private forest landowners to obtain better fire protection on approximately 435 million acres of forest lands and better forest practices on about 345 million acres of privately owned commercial timberlands, to encourage reforestation and stimulate development and management of State, county, and community forests. These primary functions include construction and maintenance of roads and trails, control of forest pests, protection against floods, land acquisition and exchange, and a number of cooperative projects.

Current authorizations:

FOREST PROTECTION AND UTILIZATION

For expenses necessary for forest protection and utilization, as follows:

Forest land management: For necessary expenses of the Forest Service, not otherwise provided for, including the administration, improvement, development, and management of lands under Forest Service administration, fighting and preventing forest fires on or threatening such lands and for liquidation of obligations incurred in the preceding fiscal year for such purposes, control of white pine blister rust and other forest diseases and insects on Federal and non-Federal lands; [$92,159,700] *$105,517,000*, of which $5,000,000 for fighting and preventing forest fires and $1,910,000 for insect and disease control shall be apportioned for use, pursuant to section 3679 of the Revised Statutes, as amended, to the extent necessary under the then existing conditions: *Provided*, That not more than $100,000 may be used for acquisition of land under the Act of March 1, 1911, as amended (16 U.S.C. 513–519): *Provided further*, That funds appropriated for "Cooperative range improvements", pursuant to section 12 of the Act of April 24, 1950 (16 U.S.C. 580h), may be advanced to this appropriation.

Forest research: For forest research at forest and range experiment stations, the Forest Products Laboratory, or elsewhere, as authorized by law; [$17,332,000] *$20,278,000*.

State and private forestry cooperation: For cooperation with States in forest-fire prevention and suppression, in forest tree planting on non-Federal public and private lands, and in forest management and processing, and for advising timberland owners, associations, wood-using industries, and others in the application of forest management principles and processing of forest products, as authorized by law; [$12,334,800] *$14,009,000*.

[During the current fiscal year not to exceed $100,000 of the funds appropriated under this heading shall be available for the acquisition of sites authorized by the Act of March 3, 1925, as amended (16 U.S.C. 555), without regard to any other limitation on the amount available for this purpose.]

[For an additional amount for "Forest protection and utilization", as follows: "Forest land management", $750,000, and "Forest research", $500,000.] *(5 U.S.C. 511–512, 524, 565a; 7 U.S.C. 428a, 1010–1012, 1621–1627; 16 U.S.C. 471–583i, 594–1—594–5, 594a; 30 U.S.C. 601–604, 611–615; 31 U.S.C. 534; 48 U.S.C. 1181h–1181j; 36 Stat. 557; 74 Stat. 205–206, 215; Department of the Interior and Related Agencies Appropriation Act, 1961; Second Supplemental Appropriation Act, 1961.)*

Program and Financing (in thousands of dollars)

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
1. Forest land management:			
(a) National forest protection and management	71,101	84,533	92,290
(b) Fighting forest fires	24,644	4,201	5,000
(c) Insect and disease control	6,915	7,252	7,402
(d) Acquisition of lands	95	100	100
Total, forest land management	102,755	96,086	104,792
2. Forest research:			
(a) Forest and range management	7,477	8,737	8,947
(b) Forest protection	2,511	3,174	3,751
(c) Forest products utilization	3,091	3,527	4,097
(d) Forest resources	1,903	2,265	2,408
(e) Forest research construction	1,693	450	1,000
Total, forest research	16,675	18,153	20,203
3. State and private forestry cooperation:			
(a) Forest fire control	10,035	10,121	11,121
(b) Forest tree planting	509	296	296
(c) Forest management and processing	1,611	1,554	2,054
(d) General forestry assistance	386	438	538
Total, State and private forestry cooperation	12,541	12,409	14,009
Total costs for year's program	131,971	126,648	139,004
4. Repayment to "Expenses, brush disposal" of prior year advance for fighting forest fires	1,623	799	----------
Total program costs [1]	133,594	127,447	139,004
5. Relation of costs to obligations:			
Costs financed from obligations of other years, net (−)	−3,101	----------	----------
Obligations incurred for costs of other years, net	----------	1,429	1,500
Total obligations	130,493	128,876	140,504
Financing:			
Comparative transfers from (−) other accounts	−19	----------	----------
Advances and reimbursements from—			
"Cooperative range improvements"	−700	−700	−700
"Expenses, brush disposal"	−799	----------	----------
Unobligated balance lapsing	144	----------	----------
New obligational authority	**129,120**	**128,176**	**139,804**
New obligational authority:			
Appropriation	**129,120**	**123,076**	**139,804**
Proposed supplemental due to pay increases	----------	**5,100**	----------

[1] Includes capital outlay as follows: 1960, $14,595 thousand; 1961, $17,700 thousand; 1962, $22,400 thousand.

FOREST SERVICE—Continued

Current authorizations—Continued

During 1960, the Service acquired at no cost property declared excess by other Federal departments and agencies with an original acquisition cost to the Government of $3.2 million.

1. *Forest land management*—(a) *National forest protection and management.*—The 152 national forests and 14 units of national grasslands are managed under multiple use and sustained yield principles. The natural resources of outdoor recreation, range, timber, watershed, and wildlife are utilized in a planned combination that will best meet the needs of the Nation without impairing productivity of the land. These management and utilization principles were recognized in the Multiple Use-Sustained Yield Act of June 12, 1960 (Public Law 86-517, 74 Stat. 215). Work programs and budget estimates are related to the Program for the National Forests, a plan to meet the increasing demands for national forest resources during the next 10 to 15 years and beyond. Increases are provided in the budget to further attainment of these program objectives. Construction funds of $10.6 million in 1961 and $14.9 million in 1962 are budgeted, compared with $6.7 million used in 1960, for construction or rehabilitation of campground and picnic facilities and other recreation improvements, the construction of dwellings or barracks for employee housing, fire lookouts, service and storage buildings, communication facilities, and other improvements. Funds appropriated under Cooperative range improvements are merged with this appropriation for obligational purposes.

MAIN WORKLOAD FACTORS

Description	*1960 actual*	*1961 estimate*	*1962 estimate*
Area administered and protected:			
(a) National forest land (acres)	181,462,324	182,060,000	182,400,000
(b) National grasslands (acres)	3,821,527	3,821,527	3,821,527
(c) Land utilization projects (acres)	488,198	418,116	----------
Timber managed and protected (sawtimber—billion board feet)	880	880	880
Timber sales (number)	43,081	44,000	48 000
Timber harvested (billion board feet)	9.37	8.5	10.1
Grazing use permits (calendar year)	31,242	31,200	31,200
Estimated number of livestock on national forest ranges (including calves and lambs)	6,000,000	6,000,000	6,000,000
Special use permits, excluding recreation (number)	36,724	37,000	37,100
Recreation special use permits (number)	21,709	22,300	23,000
Estimated number of visitors to national forests (calendar year)	81,521,000	90,000,000	95,000,000
Tree planting and seeding (acres)	45,094	60,000	70,000
Range reseeding and removal of competing vegetation (acres)	161,767	175,000	195,000
Receipts (thousands of dollars):			
Timber sales	139,904	110,500	147,000
Grazing	3,664	3,700	3,700
Land uses	2,780	3,000	3,200
National grasslands	1,864	1,700	1,700
Total receipts	148,213	118,900	155,600

(b) *Fighting forest fires.*—This provides for employment of additional manpower and other facilities for forest fire emergencies which cannot be met by the fire control organization provided under national forest protection and management. Costs above the amounts estimated for the current and budget year are authorized to be met from advances from other Forest Service appropriations (repayments of such advances were made in 1960 and 1961 to Expenses, brush disposal). In addition, a supplemental appropriation for fighting forest fires is anticipated for 1961 under Proposed for later transmission.

	1960 actual	*1961 estimate*	*1962 estimate*
Forest fires controlled (number)	9,497	12,500	10,000
Area burned (acres)	272,561	440,000	200,000

(c) *Insect and disease control.*—Activities to suppress and control destructive insects and diseases that threaten timber areas include two types of work carried on jointly by Federal, State, and private agencies: (1) Surveys on forest lands to detect and appraise infestations of forest insects and infections of tree diseases and determination of protective measures to be taken, and (2) control operations to suppress or eradicate forest insects and diseases, including white pine blister rust.

(d) *Acquisition of lands.*—Lands are purchased to protect the watersheds of navigable streams and to increase the production of timber with the approval of the National Forest Reservation Commission. The present program is only for purchase of small tracts within the 55 approved purchase areas.

2. *Forest research.*—Research is conducted at nine regional forest experiment stations, the Forest Products Laboratory, and elsewhere.

(a) *Forest and range management.*—This research provides private and public land managers and owners with a sound basis for management of timber, forage, and watershed lands. Studies are conducted to maintain a sustained yield of products at the lowest possible costs; increase forage for domestic livestock and improve habitat for wildlife without damage to soil, watershed, or other values; assure maximum regular flow of usable water, and reduce floods and sedimentation; and improve methods for developing and managing recreation resources.

(b) *Forest protection.*—Research is conducted to develop sound measures for the protection of forests from damage by fire, insects, and diseases. Forest fire research provides improved methods of predicting fire danger, preparing for, and combating fire by combinations of ground and aerial methods. Insect and disease research develops direct controls, silvicultural measures, and biological agents to combat forest pests.

(c) *Forest products utilization.*—Studies are conducted to develop new and improved forest products, reduction and utilization of waste, and use of low-quality wood and less-desirable species. They include studies to reduce costs of logging and wood utilization, and to develop basic knowledge of wood and disseminate this to forest owners, manufacturers, fabricators, and consumers.

(d) *Forest resources.*—These investigations are conducted to inventory and appraise the condition of forest lands, volume and quality of standing timber, ownership of timber resources, annual growth and depletion, and the potential need for timber products. Studies of the economics of forest crop production and of marketing of forest products are also included.

FOREST SERVICE—Continued

Current authorizations—Continued

MAIN WORKLOAD FACTORS

[Acres in millions]

	1960 actual	1961 estimate	1962 estimate
Initial surveys (annual)	28	30	30
Initial surveys (cumulative since 1930)	577	607	637
To be surveyed (total) [1]	193	163	133
Resurveys (annual)	43	30	30

[1] Includes all of Alaska and Hawaii.

(e) *Forest research construction.*—The budget estimate provides for construction of a laboratory at Riverside, Calif., for research on forest fire control problems of the Pacific Southwest.

3. *State and private forestry cooperation.*—This program, carried on in cooperation with the States, encourages private timber management. Privately owned forest lands comprise three-fourths of the Nation's commercial forest area and produce about 85% of all timber cut.

(a) *Forest fire control.*—Assistance is furnished 48 States in preventing and suppressing forest fires on private and State owned lands by financial aid, training, procurement of equipment, and a nationwide fire prevention campaign. About 92% of the 435 million acres of non-Federal ownership is now partially covered. During 1959 the acreage burned on protected areas was 0.42% as against an estimated 4.63% on unprotected lands. Of the total expenditures under this program, 79% is contributed by States and counties, 4% by private owners, and 17% by the Federal Government.

(b) *Forest tree planting.*—To encourage woodland owners to reforest unproductive portions of their holdings, and farmers to plant wind barriers around their fields and farmsteads—a total of more than 47 million acres altogether—the States provide planting stock at less than cost. The Federal Government shares the cost of producing the stock with the State and private landowners.

(c) *Forest management and processing.*—In cooperation with State foresters, 452 projects in 2,091 counties are operated to aid small woodland owners in applying good management to their timber holdings. In 1960 these projects covered some 82,188 owners and 4.1 million acres.

(d) *General forestry assistance.*—Technical forest management assistance is provided to State, community, private, and other Federal agencies, forest industries, colleges, and landowners.

5. *Relation of costs to obligations.*—The relationship is derived from year-end balances of selected resources and applicable adjustment as reflected in the following table (in thousands of dollars):

	1959 actual	1960 actual	1961 estimate	1962 estimate
Selected resources at end of year:				
Inventories and items on order: Stores (goods unconsumed by projects)	2,219	2,344	2,500	2,500
Unpaid undelivered orders (appropriation balances obligated for goods and services on order not yet received)	7,802	4,494	5,750	7,250
Advances (payment for goods and services on order not yet received)	123	103	120	120
Total selected resources at end of year	10,144	6,941	8,370	9,870
Selected resources at start of year (−)		−10,144	−6,941	−8,370
Adjustment of selected resources reported at start of year		102		
Costs financed from obligations of other years, net (−)		−3,101		
Obligations incurred for costs of other years, net			1,429	1,500

Object Classification (in thousands of dollars)

		1960 actual	1961 estimate	1962 estimate
	FOREST SERVICE			
11	Personnel compensation:			
	Permanent positions	52,555	61,262	63,590
	Positions other than permanent	12,265	13,896	16,592
	Other personnel compensation	10,034	2,305	2,805
	Total personnel compensation	74,854	77,463	82,987
12	Personnel benefits	4,230	5,472	5,747
21	Travel and transportation of persons	4,188	4,439	4,842
22	Transportation of things	5,177	4,858	5,221
23	Rent, communications, and utilities	2,833	2,505	2,821
24	Printing and reproduction	848	1,037	1,060
25	Other services	8,069	4,945	5,536
	Services of other agencies	3,186	2,799	3,119
26	Supplies and materials	9,914	7,489	8,707
31	Equipment	2,821	2,711	3,466
32	Lands and structures	2,041	3,634	4,857
41	Grants, subsidies, and contributions	11,251	11,306	12,755
42	Insurance claims and indemnities	83	64	64
44	Refunds	1,623	799	
	Subtotal	131,119	129,521	141,982
	Deduct quarters and subsistence charges	1,206	1,180	1,238
	Total, Forest Service	129,913	128,341	139,944
	ALLOCATION TO DEPARTMENT OF THE INTERIOR			
11	Personnel compensation:			
	Permanent positions	84	84	85
	Positions other than permanent	238	222	233
	Other personnel compensation	28	27	27
	Total personnel compensation	349	333	345
12	Personnel benefits	12	13	13
21	Travel and transportation of persons	8	12	12
22	Transportation of things	1	1	1
23	Rent, communications, and utilities	8	9	9
25	Other services	106	88	94
26	Supplies and materials	73	61	69
31	Equipment	23	18	17
	Total, Department of the Interior	580	535	560
	Total obligations	130,493	128,876	140,504

Personnel Summary

	1960 actual	1961 estimate	1962 estimate
FOREST SERVICE			
Total number of permanent positions	10,141	10,990	11,424
Full-time equivalent of other positions	4,873	4,012	4,728
Average number of all employees	13,910	13,683	14,789
Number of employees at end of year	20,048	21,336	22,636
Average GS grade	6.9	7.0	7.0
Average GS salary	$5,605	$6,068	$6,069
Average salary of ungraded positions	$4,724	$4,808	$4,799
ALLOCATION TO DEPARTMENT OF THE INTERIOR			
Total number of permanent positions	14	12	12
Full-time equivalent of other positions	61	54	57
Average number of all employees	78	71	74
Number of employees at end of year	212	190	198
Average GS grade	7.0	6.8	6.8
Average GS salary	$5,442	$5,661	$5,781
Average salary of ungraded positions	$4,618	$4,618	$4,618

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Glossary of Selected Terms

Function: a broad division of the total budget expenditures whose immediate purpose is the provision of a distinct and separate public service such as education, health, agriculture, defence, and so on.

Programme: a component of a function (for example, elementary education under the function "education") significant for the evaluation of the achievement and of the broad objectives in that functional area. It results in an end-product that is in some fashion measurable and serves as a logical unit for appropriation in the budget.

Activity or Project: a division of the total work under a programme most convenient for the management in order to achieve the programme objective or goal. Serves as appropriate level of work at which work is identified and measured. Activity refers to a division of work in an operating programme while the project corresponds to a division of work in a capital programme.

Object Classification: itemization of budget expenditures notably in the United States and the Philippines in terms of the types of services, articles necessary to carry on a government activity. Examples are personal services, travel supplies and equipment. The individual items are therefore referred to as objects of expenditure.

Man-Years: The actual or equivalent employment of one person for a full year. Often used in more detailed breakdowns such as man-quarters or man-months.

Revolving Fund: a fund generally considered as self-perpetuating wherein expenses borne by the fund are met by compensating revenues primarily from within the government.