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**TARGET COSTING AND PARTICIPATORY BUDGET
IN TERRITORIAL SELF-GOVERNMENT UNITS**

Summary: Modern concepts of the management of Local Government Units in Poland suggest that in order to improve their efficiency, local communities need to become actively involved with such activities as taking decisions about the allocation of resources and choosing the needs which will be satisfied within particular budgets. One of the most important tools in this area is participatory budgeting supported by target costing. This principle forms the basis for an assessment of the suitability of target costing for decision processes connected with the creation of Local Government Unit financial plans. These reflections lead to the conclusion that target costing proves useful for the improvement of budget preparation and execution processes. Moreover, the main advantages of target costing are both operating procedures and taking stakeholders' needs into consideration when calculating the costs of the services provided.

Keywords: participatory budget, target costing, Local Government Units (LGU), management.

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1. Introduction

Based on contemporary ideas of the management of territorial self-government units (TSGUs) in Poland, in order to improve the efficiency of the provision of public services, local communities should be engaged in the process of taking decisions regarding directions of the allocation of resources and the selection of needs to be satisfied within those organizations' budgets. The above is in line with the principle of subsidiarity being the essence of decentralization of public finances oriented towards the establishment of self-government communities. This also corresponds with the principle of placing the decision-making process as closely as possible to the customers of the products offered by the organizations regardless of the sector in which they operate, which is recognized in management concepts.

The purpose of this paper is to present the concept of target costing as an innovation supporting the development of a participatory budget of territorial self-government units and attempt to present a method of using it in decision-making processes aimed at determining the level of expense required for the realization of budget plans and the potential benefits in the area of TSGUs' financial planning.

A questionnaire was conducted among inhabitants of five communes of the Małopolskie Voivodeship participating in a project entitled "*Urząd gminy sprawny i przyjazny*" ("efficient and friendly commune office") managed by PWSZ in Oświęcim. The survey aimed at identifying features of TSGU activities that would ensure the highest level of satisfaction among self-government community members, and was answered by 100 respondents from each commune. The evaluation of the impact of individual features on the volume of costs of service components was performed using an expert method – the distinction was made by the treasurers of the communes where the survey was conducted as the persons possessing expertise, experience and skills that guarantee the quality of the required evaluation.

2. Contemporary concepts of civic participation in the process of TSGU budgeting

A basic purpose of the changes occurring in the TSGU is to increase the degree of state decentralization, strengthen the independence of self-government units and repair public finances [Kozuch 2012, p. 79]. Also the structuralization of the systems of financing tasks performed by a territorial self-government as part of European Union's funds is also important in this area. Active participation in the completion of projects financed by the EU is thus possible on condition that the appropriate funds for preparing, pre-financing and co-financing the tasks can be saved.

In that context, particular importance should be attached to the concept of New Public Management (NPM), as part of which modernization in the public sphere is proposed which is justified by the need to limit the funds paid to the TSGU budgets, the existence of new challenges faced due to the globalization of the economy, the need to engage local environments in pro-development activities in conditions of rapid economic, technological and social changes and the deteriorating rating of public administration, frequently accompanied by the low level of interest in democratic structures at local level.

NPM is thus an "interdisciplinary tool combining planning, organizing and controlling with the management of human, financial, infrastructural, information resources and policies" [Garson, Overman 1983, p. 278] whereby the following duties are vital [Osborn, Gaebler 1994, p. 46; Zalewski 2005, p. 26]:

1. engaging local environments by their authorities,
2. recognizing a mission as a basis for determining courses of action,

3. establishing co-operation with local communities and respecting customers' interests,
4. introducing competition into public services,
5. ensuring the pro-result orientation of the activities.

Good Governance (GG) is complementary to NPM and is a response to the allegation of the excessively applied rule of economic efficiency with the concurrently overlooked need to increase public value that, as observed, has been undergoing a transformation into Responsive Governance (RG) [Szomburg 2008, pp. 8-9] which is characterized by sensitivity and a fast response rate. The concept of RG thus refers to managing numerous stakeholders and conflicting values in such way so as to best realize public interest which is treated in a superior way *vis-à-vis* the interest of social groups or units being consumers of public services.

Recently an activity related to the development of enriching experiences in the area of functioning and managing contemporary public organizations has also included searching for such strategies of local authorities, whereby social activity and participation based on co-operation and network relations is emphasized [Kozuch 2012, p. 66]. Network Governance exemplifies such a concept [Hartley 2005, p. 30], i.e. efforts aimed at decentralization and passing authority from public servants to citizens and also – in different forms – the latter's participation in the activities of those organizations. Hence meeting the challenges of modern times requires that public authorities adopt an anticipatory and strategic attitude involving, for example, attaching special importance to planning, developing growth scenarios and recognizing public needs [Noworól 2009, p. 96].

System-related transformations specifically involve strengthening the position of self-governments by increasing their independence in the area of managing public funds. Financial resources – their collection and use – are deemed to be one of the most important factors conditioning the course of actual processes in the territorial self-government units.

One of the recent solutions ensuring the consistency of changes in the self-government subsector environment with the presented theories is a task-based budget which is currently implemented in Poland, covering “new, pro-market changes in the area of managing public tasks” [Lubińska (ed.) 2009, p. 17]. Its basic function is to ensure public funds for plans to be carried out in the future resulting from a development strategy in close connection to short-term goals [Kozuch 2012, p. 125]. However, based on the experiences of other states [Shah 2007; Wampler 2007] it is necessary to act in that area based on principles of openness and transparency of financial management ensuring that basic rules are followed including: [Misiąg, Niedzielski 2001] public access to information and transparency of the budgeting process and budget implementation.

These conditions are guaranteed by the task-oriented budget the essence of which lies in managing public funds and ensuring the achievement of concrete and hierarchized goals expressed as properly quantified results of the activities being

performed [Lubińska 2009, p. 41]. Pursuant to art. 2 of the Public Finances Act dated 27 August 2009 [Dziennik Ustaw 157, item 1240], this is a breakdown of the state budget spending or costs of a public finance sector unit, respectively, drawn up by state functions which stand for individual areas of budget activities and tasks (categorizing expenses by goals) and budget sub-tasks (categorizing the activities allowing the achievement of the task's goals). To ensure the budget's legibility and clarity, the task-oriented budget requires an additional description of the goals of those tasks and subtasks, as well as the base and target measures of their completion status.

The identification of the goals of the activities of a territorial self-government unit is difficult and gives rise to numerous controversies. The above in particular entails problems pertaining to determining tasks which those organizations are obligated to perform. However, regardless of the scope of the obligatory tasks required under law, a significant portion of the activities of TSGU refers to facultative tasks where special importance should be attached to civic participation.

Under such conditions, a participatory budget becomes an important supplement of the task-oriented budget, being an instrument ensuring the capability of the system of managing TSGU funds in combination with the increase of the level of the legitimization of public decisions. This is regarded as a manifestation of innovativeness in the activities of public organizations [Wampler, p. 2] and a mechanism that, by promoting the engagement of local self-governments, the private sector and the communities within the local community, helps to repair public funds.

The participatory budget is, at the same time, an instrument ensuring the participation of stakeholders in the process of deciding about the directions of public funds' spending, which allows correspondence between the effects of that process and the needs of a given community.

3. Target costing as an innovative instrument of planning a commune's budget

The evaluation of how the participatory budget functions in the city of Porto Alegre, where it had been first applied, allows us to distinguish three areas of its impact [Sintomer, Herzberg, Röcke 2008, p. 167]: the engagement of local communities, the increase of the level of social justice and the improvement of a social control system.

To apply the participatory budget in the activities of TSGU, a number of rules must be followed [Sintomer, Herzberg, Röcke 2008, p. 168], as a result of which the innovative nature of such a budget is identified by new management methods not used by the TSGU to-date. Special importance should be attached in that process to planning, mostly in regard of the resources required to render public services, their valuation allowing to determine the level of the costs of the activities being performed and, as a result, to determine the necessary expenses as part of a given budget.

The pressure put on adapting and implementing the management of instruments used and tested in the commercial sector is an element important to the concept of the participatory budget. One such tool in the area of TSGU finance management is target costing. However, one should remember that the intention of the tool's authors was to focus attention on categories of cost planning and designing (Japanese: *genka kikaku*) [Feil, York, Kim 2004, p. 10].

Target costing is, as a matter of fact, used not only to calculate costs but also – thanks to an effort at the stage of product planning and designing – a method allowing to reduce costs [Tanaka 1993, p. 4; Moden, Hamada 1991, p. 17], including reaching their level imposed by environmental conditions [Horvath, Niemand, Wolbold 1993, p. 3] or assumed by the organization's managers. Based on these features of target costing it can be viewed as particularly valuable to the activities of TSGU, where the amount of state budget funds and those obtained from other sources is a specific standard of the realization of public services. It can be used by those organizations in two areas: the first involving the determination of the level of target costing based on known or planned conditions of how the territorial self-government unit functions, and the other being related to such designing of public services and their provision processes at a given TSGU that will ensure the proper implementation of the budgeted expenses.

In the context of improving the efficiency of how territorial self-government units operate, paying attention to the needs of the stakeholders of those organizations should be regarded as the most important feature of target costing. Ensuring the utility of public services and their conformance to the needs of local communities is a basic factor preventing public funds from being wasted. That trait of target costing is at the same time a recommendation to apply the participatory budget whereby the type of services being offered, their characteristics and attributes should meet the expectations of the community's members.

In view of the participatory budgeting specificities, it can also be ascertained that the proper realization of assumptions underlying the process requires acting in compliance with target costing phases [Prewysz-Kwinto 2010, pp. 53-54]. The above in particular refers to the establishment phase that involves determining a target cost for a service being designed and the features, functions and components that determine the quality of the services being offered. A special role in that phase is ascribed to research targeted at learning needs and the preferences of customers, as well as determining the target demand for the products being offered. Based on the evaluation of TSGU activities, the related research can be conducted as part of the participatory procedures pertaining to matters important to self-government communities.

Phase two of target costing is the attainment phase, the purpose of which is to determine whether the adopted level of target costing is real and attainable. [Ansari, Bell 1997, pp. 23-24; Prewysz-Kwinto 2010, p. 53]. In the case of TSGU the above entails the need to design the service provision processes in such way that

the assumed amounts are not exceeded. In companies/enterprises this stage leads to, among other things, taking a decision to commence production. TSGU decision makers may focus their attention on maximal cost reduction, ensuring the utility of the services being rendered. Thus, frequently the performance of specific activities will be commenced and costs higher than those determined as part of phase one will be accounted for in the budget.

In the contemporary situation of TSGU, budgeting is no longer narrowly identified with planning [Walczak, Kowalczyk 2010, pp. 44-45], and it is recognized that given the two complimentary instruments, it becomes a method of determining and also implementing the plans determined beforehand [Dylewski, Filipiak, Szczypa 2010, p. 11]. Such a definition of budgeting processes at TSGU thus clearly indicates that target costing must not be treated as an alternative method to other cost calculation systems. It should be supplemented with the application of cost calculations ensuring proper records and controls of the consumption of resources and the minimization of costs in the process of budget implementation, and attempts at adjusting and implementing solutions applied by commercial sector entities focus attention on the following instruments: standard cost calculation, kaizen costing, life cycle costing, etc. A. Szychta [2003, p. 77] describes that interrelation stressing the calculation aspect in cost-orientated activities as well as the steering aspect. The former recognizes cost calculation as a method of calculating products' target cost, their function and components, while the latter is a system involving different methods and activities aimed at reaching a planned target cost.

4. The structure of costs of public services *versus* the needs of local communities

In the survey involving the inhabitants of communes closed number of features of services rendered by TSGU (Table 1) was used, including: legality, efficiency, accessibility, effectiveness, performance speed, proper setting, customized approach, equal treatment and intelligibility of procedures.

Legality was described in the survey as conformance to the applicable law which ensures that a problem will be solved once and will not require any further appeals, complaints etc. to be filed. Efficiency was understood as a quality ensuring a high number of results at a relatively low execution cost (this is to ensure that living within a given TSGU's jurisdiction will not entail excessive fiscal burdens etc.). Accessibility at a proper location and time means ensuring that all citizens have access to the services offered by a given TSGU without excessive efforts to find a related offering. Effectiveness is expressed as meeting the expectations of citizens ensuring the proper perception of the entire TSGU (this is a guarantee that the community where citizens live is being properly managed and satisfies the needs of other stakeholders). The speed of service provision ensures that the needs of

the inhabitants are satisfied without delay. Proper setting determines the standard of office furnishings and equipment. Customized approach means that services are provided with the recognition of the citizen's individual circumstances, and a willingness to help in the process. Equal treatment guarantees that services are rendered regardless of gender, age, property status or education of the stakeholder. Legibility of procedures refers to the clarity, accessibility and comprehensibility of the procedures being applied and the provision of information in non-professional jargon etc.

The task of the respondents was to subjectively rate the level of importance of the proposed features on a scale from 1 to 5. To be certain that the identified structure of costs by type will guarantee the satisfaction of the needs of at least 50% of the inhabitants, medians of the results obtained were used (Table 1).

Table 1. Median of the results of the evaluation of the level of importance in regard of the proposed features of public services

Items	Legality	Efficiency	Accessibility	Effectiveness	Speed of service provision	Proper setting	Customized approach	Equal treatment	Legibility of procedures
Brzeszcze	5	4	5	5	5	3	5	4	5
Chelmek	4	3	4	4	5	4	5	3	4
Mucharz	4	3	4	4	4	3	5	5	5
Oświęcim	5	4	4	4	5	4	5	5	5
Wieprz	4	3	4	4	5	2	4	3	4

Source: own calculations.

To supplement the research, a questionnaire was prepared which was addressed to the treasurers of the surveyed communes. Its purpose was to present the relations between individual cost components by types of consumed production factors and features of public services (Table 2). The components of the costs by type were recognized as components expressing: earnings including earnings-related components, fixed assets (including low value assets), materials, energy and fuels, third party services, taxes and fees and other cost categories showing the value of the consumption of resources by the organization. These relations reflect the impact of the components on the features of the services offered by the TSGU.

Commune treasurers were regarded as experts, hence the survey results in Table 2 are the averaged results of the questionnaires.

Table 2. Relations between features of services and costs by type according to the treasurers of the surveyed communes (in %)

Items	Earnings and earnings-related contributions	Fixed assets	Low-value assets	Materials, energy, fuel	Third party services	Taxes and fees	Other
Legality	44,0	8,0	9,0	6,0	19,0	8,0	6,0
Efficiency	30,0	17,0	15,0	11,0	6,0	13,0	8,0
Availability	25,0	24,0	14,0	15,0	10,0	6,0	6,0
Effectiveness	30,0	17,0	16,0	14,0	13,0	8,0	2,0
Speed of service provision	40,0	17,0	12,0	11,0	12,0	4,0	4,0
Proper setting	20,0	26,0	24,0	15,0	9,0	4,0	2,0
Customized approach	32,0	12,0	17,0	16,0	11,0	2,0	10,0
Equal treatment	28,0	8,0	20,0	12,0	12,0	4,0	16,0
Legibility of procedures	40,0	14,0	16,0	10,0	14,0	2,0	4,0

Source: own study.

In accordance with a target costing procedure, to determine the structure of costs by type which will guarantee the needs reported by more than 50% of commune inhabitants, a quotient of the share of a median assigned to a selected feature must be calculated in the sum total of medians of a given feature and a percentage amount of the relations between the feature and a cost component in the adopted structure of costs. Table 3 presents the structure of costs calculated in this way by type.

Table 3. The structure of costs by type in the surveyed communes (%)

Item	Earnings and earnings-related contributions	Fixed assets	Low-value assets	Materials, energy, fuel	Third party services	Taxes and fees	Other
Brzeszcze	33,0	15,4	15,4	12,1	12,1	5,7	6,4
Chelmek	32,7	15,9	15,6	12,3	12,0	5,4	6,1
Mucharz	32,6	15,2	15,8	12,2	12,1	5,3	6,8
Oświęcim	32,6	15,5	15,8	12,1	12,0	5,5	6,6
Wieprz	33,1	15,6	15,3	12,1	12,1	5,5	6,3
On average in the surveyed communes	32,8	15,5	15,6	12,2	12,0	5,5	6,4

Source: own study.

A basic assumption underlying the research is the recognition of the communes' independence and the distinctness of the needs and the features by the individual communities. For that reason the structure of costs by type was identified separately for each of the surveyed units.

An evaluation of the structure of the costs of the consumed production factors by type shows that individual components of public services are relatively permanently interrelated, showing that commune activities should be performed in conditions of a relatively high level of human capital accumulated in employees (expressed as costs of earnings and earnings-related contributions reaching a third of total costs) and furnished with fixed assets realized as the acceptance of the level of depreciation costs of approximately 30% of total costs.

Also the information regarding the level of expenses required for the planned level of the utility of public services rendered is important in the identified structure of costs by type. Costs by type are, as a matter of fact, the result of the consumption of organizational resources, however, increasing costs is not tantamount to increasing expenses. For that reason, relying on the information regarding the structure of costs of consumption by type of consumed production factors is one of the most important factors affecting financial flows at TSGU.

5. Conclusion

Based on the analyses, target costing should be recognized as one of the solutions which could facilitate the process of budgeting and the further implementation of TSGU budgets. Its major assets include both the procedures of conduct well established in the commercial sector as well as – which is particularly important in the self-government subsector – the application of stakeholders' needs in the process of planning the costs of services rendered. These costs, as part of further evaluation, allow to identify the expenses inherent in subsequent budget periods and at the same time indicate which resources of the units can be applied in their activities, without the need to involve funds.

The implementation of target costing activates communes in the process of facilitating management systems by, among other things, pressure to implement instruments allowing to become familiar with the needs of local communities, including social consultations and crowdsourcing. At the same time, the assessment of the research results also shows that the proposed mechanisms can be successfully applied in the process of solving problems pertaining to individual tasks or services rendered by territorial self-government units. From the perspective of economic practice, such a solution seems to be particularly legitimate as orientating the consumption of TSGU resources to identified social needs determines the quality of policies implemented by commune heads, mayors, district governors etc.

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RACHUNEK KOSZTÓW DOCELOWYCH A BUDŻET PARTYCYPACYJNY W JST

Streszczenie: Aktualne koncepcje zarządzania JST w Polsce sugerują, że poprawa ich sprawności wymaga aktywizacji społeczności lokalnych, w szczególności w decydowaniu o kierunkach alokacji zasobów oraz wyboru potrzeb zaspokajanych w ramach budżetów w poszczególnych latach. Jednym z najważniejszych instrumentów jest w tym obszarze budżet partycypacyjny, wspierany przez rachunek kosztów docelowych. Założenie to jest podstawą dokonanej w opracowaniu oceny przydatności tego rachunku w procesach decyzyjnych związanych z tworzeniem planu finansowego JST. Przeprowadzone rozważania potwierdziły przydatność rachunku kosztów docelowych w usprawnianiu procesu tworzenia i wykonania budżetu. Uznano również, że jego zasadniczym atutem są w tym obszarze w szczególności zarówno procedury postępowania, jak i wykorzystywanie potrzeb interesariuszy w procesie planowania kosztów świadczonych usług.

Słowa kluczowe: budżet partycypacyjny, koszty docelowe, jednostki samorządu terytorialnego (JST), zarządzanie.