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THE BUDGETARY PROCESS WITH A USE OF MODERN APPROACHES IN COST MANAGEMENT

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Abstract

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State organisational units still compile their budget as incremental and as such it therefore disregards causes of the origination of costs and does not put a sufficient pressure on increase in efficiency of economy. This article aims to propose a budgetary setup for operating costs using the methods of ABC/ABM (Activity Based Costing/Activity Based Management) in state organisational units (SOU). Essence of the proposed procedure towards budgetary setup as well as cost management is specification of such cost drivers that reflect the causal link between activities of the given organisation and indirect operating costs. Through a system of linear equations there is in turn resolved parity between demands on budgetary funding of a specific activity and full costs of activities. Using a multiple regression analyses, for selected cost groups there was also tested their dependence upon criteria that may act as general cost drivers. Undertaken research has also uncovered that frequently used variable "number of workers" cannot explain the analysed cost groups. Benefit of proposed solutions is increase in efficiency of SOU economy. This way, the management receives a tool for budgeting and cost control not only within the process structure based on activities, but also within individual items of the budgetary classification.

Keywords: efficiency, ABC/ABM, budgeting, government

INTRODUCTION

The current economic reality is characterised by a pressure on the effective usage of available resources. The economic crisis in 2008 as well as subsequently the eurozone debt crisis caused changes not only in the profit-oriented sector, but also in the public sector. As a result of the global financial crisis, a collapse of public revenues occurred already in 2009 and it still remains and will further increase the imbalance of public budgets. Very small growth or stagnation of the economy will not allow the achievement of the planned state budget deficit without reducing expenditures of state organisational units. In this segment, it is still possible to find sources of cost savings resulting from a lower efficiency of the use of resources. This can be e.g. restructuring of activities, introduction of new cost management practices, more efficient use of existing resources (e.g. Ochrana, 2005) or adoption of maximally transparent public procurement methods.

The presented article mainly tasks to propose a theoretical procedure related to managerial setup and breakdown of SOU budgets using the ABC methodology. In practice, these methods of the ABC model lead to greater transparency in spending of a state organisational unit. The management also provides information on efficient allocation of financial resources. Ultimately, this may increase process efficiency of state organisational units and bring savings in their operating costs. In practical terms, the article in turn aims to determine the RCD definition as one of the cornerstones of ABC/ABM. Therefore, using the example of selected budgetary items the article also compares results of simple and multiple regression analyses of variables that may be used, or possibly are used, as RCD. In expert literature there were still not published any results of

a multiple regression model that would specify RCD based on the dependence of variables according to ABC/ABM methods. The reason is a short time period over which ABC/ABM methods were practically implemented and quite exceptionally so within the government sector. For this reason, presented results may be considered as the first attempt to describe this issue. For research was selected the example of the Customs Administration of the Czech Republic since the scope of activities of this organisation includes a wide range of activities, typically from administrative all the way up to the field, mobile and special analyses. It is one of the large-scale state organisational units and the identified specifics of ABC/ABM formation thus to a considerable extent may be applied also on most other, usually smaller and in their range of activities less demanding, SOU.

For the purpose of compilation and breakdown of the budget it is important to determine the optimal output of a given company. To determine the optimum profit-oriented companies we may use a classic market with an effective consumer demand, and thus at the intersection of the supply and demand curves it is possible to establish the optimum towards which the relevant budged is set. This optimum corresponds with the equality between the sum of marginal benefits and marginal costs (Musgrave, Musgrave, 1994). For state organisational units, like non-profit organizations, the individual and aggregate conditions have to be distinguished. It is not possible to determine an effective allocation of public goods that is similar to the market with private goods and a consequent optimum for a state organisation unit in its provision of public goods, and subsequently to set a realistic budget. For example (Ochrana, 2001), a prerequisite of an effective provision of public goods is to meet the aggregate condition when the optimal amount of public goods is such that the sum of marginal ratings of individual consumers, their marginal benefits, equal to marginal costs, and an individual condition, when we adjust the tax-price paid by an individual in such way that it equals the marginal evaluation of an individual corresponding to the quantity determined by the aggregate condition. The practical consequence is an inefficient allocation of resources and unrealistic budgets of state organisational units, since the allocation mechanism is not represented by cash votes of consumers but merely by the public choice mechanism (Stiglitz, 1997) that does not cover decision-making of consumers related to individual public goods, but only to their aggregate form defined e.g. by programme statements of political parties or subsequently in the form of legal standards.

Practical Problem and Consequence

Practices of the process approach to budgeting, as cited in the literature, are not directly applicable to state organisational units. The issue of budgeting in public administration is from the theoretical perspective pursued particularly at the level of an efficient provision of public goods. Outside the scope of interest remain ways of attainment of effective management of available budgetary resources. The main orientation remains towards incremental, accrual budgeting, as described e.g. by Wildavsky (1974) or Croley (1998). But this approach does not reflect performance (outputs) as it only deals with inputs. In response to this deficiency, there have emerged budgetary methods using programs. Such program covers a longer term and thus it is possible to set the budget for more periods. At the same time, however, there is no one able to say that these programs shall remain still desirable under the situation of a change in policy. New approaches were then based on an attainment of the result and represent performance- and target-orientated budgeting, as shown e.g. by Cheek (1977) or Ishikawa (1978), in the Czech Republic e.g. by Ochrana (2001, 2005, 2006). Nevertheless, even these methods are still not easily applicable for management of SOU operating costs. The most recent methods of budgeting are based on the process approach and causal relationship between outputs and costs. Their theoretical foundations may be traced in the pieces of work by Kaplan and Johnson (1986) or Kaplan and Cooper (1998). Budgetary resources are allocated to those processes which ensure attainment of the given objective in the most efficient manner. The vast majority of research applications of ABC focus on adoption in manufacturing, trade and logistics domains, e.g. Anderson and Young (1999). Similarly in the area of finance Gresvik and Øwre (2003) demonstrate price effects achieved by use of ABC/ABM in banking. Application of ABC/ABM within the public sector is still restricted primarily to the area of health care and education. For example Ellis-Newman, Izan and Robinson (2001) describe a study comparing the effect of personnel measures using the ABC method on expenditures of academic libraries of Australian universities and note its positive contribution. Theoretical assumptions and procedures related to the introduction of ABC in cost and budgetary management – including effects and benefits in the public sector – mention Granof, Platt and Vaysman (2000). So far only at a test level the application extends also to government organisations. As an example are mentioned the adoption of ABC/ABM methods by Staněk (2003) and Petřík (2007) within customs administrations of Australia and USA, in the US Navy, Federal Immigration Office of the USA and State Tax Administration of the USA. In other countries and other organisations of state administration these methods were not yet applied. From comparative results unequivocally follows suitability of the ABC/ABM methods also for the government sector.

An important factor influencing the budgetary process is the level of operated accounting systems and their components, cost management systems. Primary requirements on an effective cost system

include the ability to provide credible and relevant managerial information, preferably in real time. The cost system must give the management a correct information related to specific activities of the organisation at the right time and in the required structure. Various requirements of state organisation units on the variability of accounting data for the cost control purposes has recently led to an *ad hoc* expansion of accounting systems in accordance to current needs of the specific accounting entity. To eliminate these problems, into budgets were incorporated mechanisms that specify and expand the monitoring and reporting of various classes of expenditures. These include notably the programme budgeting, respectively financing, and the performance-oriented budgeting. Even these methods, however, fail to contribute towards a more efficient resource management. The first one, programme financing, assists state organisational units with an acquisition, renewal and reproduction of tangible and intangible assets. Despite expected contributions towards establishment of strategic objectives and long-term financial plans, this method is currently difficult to use because programmes do not respond to fundamental changes in disposable budgetary resources of state administrative units.

Although these funds are allocated within the approved programme documentation, real possibilities of the state budget do not allow meeting them. At the same time, however, there is no correction of the approved budgetary frameworks for financing.

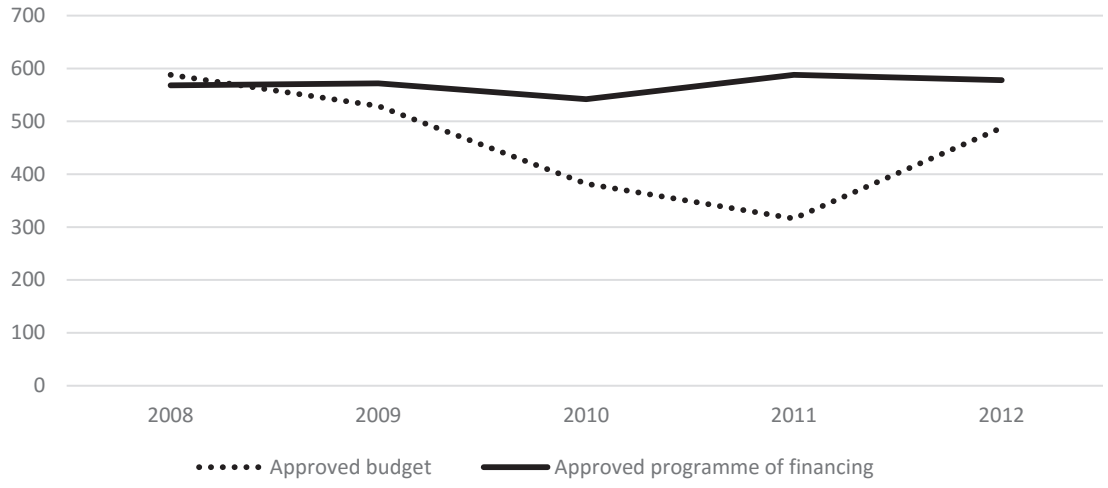
The second indicated method, performance-oriented budgeting, focuses on the managerial governance. On the theoretical level it is based on a correct idea that managerial competences in state organisational units should be supplemented with a responsibility for specific results, which is a certain modification of the situation in the commercial sphere. The difference is in the ultimate goal that does not take the form of a profit, revenues or a market share, but relates to the provision of an optimal quantity and required quality of a public service. Introduction of performance-oriented budgeting parameters, however, brought further complications to the budget structure and expenditure management. The original idea that the management gets a freedom in use of budgetary resources and a responsibility for meeting objectives of the managed organisation has not been fulfilled. The only outcome was a broadening of the range of monitored and reported data related to the budget. One of the reasons is retaining of the approval process at the level of the Ministry of Finance (MF), respectively, other central bodies of the state administration that still approve the budget measures, authorise investment projects and approve use of budgetary resources. Another factor that affects the ways budgets are compiled is the above mentioned nature of the demand within the 3 groups of state organisation units.

The primary problem represents the correct budgetary setting of a state organisational unit. At the same time the fundamental objective is to ensure that citizens receive an optimal volume of public goods for their electoral votes and that it is

I: *Comparison of the budget with programme expenditures of CA 2008–2012 (in mil. CZK)*

	2008	2009	2010	2011	2012
Approved budget	588	529	382	316	488
Approved programme of financing	568	572	542	588	578

Source: IS AVISme



1: *Comparison of the budget with programme expenditures of CA 2008–2012*
Source: IS AVISme

simultaneously furnished by state organisational units in the most efficient way. Within the financial decision-making of state organisational units this in turn relates to classical decision-making mechanisms. Although at the first glance the way of increasing the effective allocation may represent any budgetary reduction, there exists a risk that within a specific state organisational unit a "bottom" could be hit from where it will no longer be possible to perform the tasks laid down by mandatory legal standards and commitments towards the European Union. For this reason, cost control procedures similar to those adopted by the private sector are necessary to implement also within the state organisational units.

MATERIAL AND METHODS

Data

Basic indicators of the draft budget represent expenditures broken down into profiling, non-profiling, specific and cross-sectional. Furthermore, they are divided into blocks, spheres, budgetary items or paragraphs of the category and sector classification. The actual budgetary process for a particular fiscal period starts in the 2nd calendar month of the preceding year by specification of changes vis-à-vis the approved medium-term outlook. At the same time the basic parameters of the new period of the medium-term outlook in a sense of a rolling budget are being set. The next binding deadline is the 7th calendar month when a budget of binding indicators, already broken down into groupings of budgetary items, based on guiding figures of the Ministry of Finance is compiled. It serves as a basis for the draft law on the state budget for the following year, including its medium-term outlook. These two fundamental time milestones represent the time constraint from which results the requirement for a very accurate medium-term planning in state organisational units.

As follows from the summary outlined above in the Tab. II, the CA management had to significantly react in the times of crisis to the reduction of disposable budgetary resources. During the period from 2008 to 2012, there was a significant decrease in non-mandatory budgetary expenditures of the CA. For this reason, elements of ABC/ABM were gradually applied within the budget compilation and cost control. Using the method of a historical budget would mean a global reduction of all expenditures and a restriction of all activities regardless of their performance effectiveness. At the same time there was a risk of tax revenues losses, reduction of the supervision activity or a failure to meet obligations towards the European Union or to apply legislative amendments due to the lack of operating costs (energy, rentals, repair and maintenance of tangible and intangible assets, data transfers, etc.).

Methods

In response to the pressure to increase managerial efficiency of profit-oriented organisations, towards the end of the last century new procedures for analysing and managing costs were developed, commonly known as Activity Based Costing (ABC) and Activity Based Management (ABM) (Kaplan, Cooper, 1996). Thus, along with the methodology of Balanced Scorecard (BSC) (Kaplan, Norton, 1996) that constitutes a link among strategy, company management and performance, these approaches represent modern methods of complex organisational management with an emphasis on the efficiency boost of business processes, profitability of individual company segments and a success of companies in meeting their targets. Specific positive impacts of these practices evoked an interest and led to their application also in non-profit organisations and state organisational units. Impacts of the global crisis and debt crisis of the eurozone induce a need to permanently reduce budgetary resources channelled towards provision of public goods by state organisational units. At the same time, however, they provoke a pressure on the introduction of modern cost management methods with the aim to streamline the allocation of disposable financial resources of public budgets.

The basic element of ABC is, as in the case of the whole ABC/ABM concept, the causal relationship between activities and costs. For example, Staněk (2003), provides the following definition of ABC: "ABC is a methodology that measures costs and

II: *Comparison of expenditures budgeted by the CA in 2008–2012 (in mil. CZK)*

Category of budgetary expenditures	Approved budget 2008	Approved budget 2009	Share 2009 /2008	Approved budget 2010	Share 2010 /2009	Approved budget 2011	Share 2011 /2010	Approved budget 2012	Share 2012 /2011	Share 2012 /2008
PROGFIN + OVV *	**1 112**	**1 073**	**0.96**	**810**	**0.76**	**763**	**0.94**	**835**	**1.09**	**0.75**
in that: programme financing	588	529	0.90	382	0.72	316	0.83	382	1.21	**0.65**
in that: CAPEX	374	314	0.84	225	0.72	164	0.73	220	1.34	**0.59**
current expenditures	213	215	1.01	156	0.73	152	0.97	161	1.06	**0.76**
OVV excl. programmes	524	543	1.04	427	0.79	447	1.05	453	1.01	**0.87**

Where PROGFIN represents programme financing expenditures and OVV represents other operating expenditures
* including EU resources
Source: IS AVISme

performance of cost-related objects, activities and resources. Cost-related objects consume activities and activities consume resources. Costs of resources are assigned to activities based on their use of these resources and costs of activities are assigned to cost-related objects based on the proportional use of these activities by cost-related objects. The essence of ABC is a utilisation of causal relationships between activities and resources and cost-related objects and activities." (Staněk, 2003). A fundamental difference vis-à-vis current budget compilation methods (e.g. an incremental method – historical budget, compilation of a budget from scratch, budget with a financial or material limit, compilation by a qualified estimate, etc.) is the use of so-called cost drivers (Kaplan, Johnson, 1986; Staněk, 2003; Petřík, 2007). The corporate practice has settled on a split into the following two groups (Petřík, 2007)

- Causes of the consumption of resources – RCD (Resource Cost Drivers) that determine how much resources will be used on an activity that results in the outlay of costs, i.e. everything that causes a consumption of resources.
- Causes of the consumption of activities – ACD (Activity Cost Drivers) that determine how much of the particular activity is spent on servicing the cost-related object.

RCD are crucial or the draft budget compilation within state organisational units. As seen above, under unawareness of an effective demand for public goods it is not possible to determine the optimal output and to accordingly adjust the budget. Assigning costs to activities thus necessitates undertaking a managerial decision that specifies which activities consume how much cost. Subsequently there must be undertaken a comparison with the disposable resources and via administrative-technical means a response to the declining volume of budgetary resources.

In principle, compilation of a budget using the causal approach may generally be broken down as equality of budget and planned expenditures, follows

$$\Sigma rcd_{ij} \times x_i + N_k + I_t = \Sigma rcd_{ij} \times x_i + I_t + \Delta_{jt}, \quad (1)$$

where

rcd ..... resource cost drivers for activities *j*,
x_i ..... cost prices of internal activities that consume other activities,
N ..... external costs of activities,
j ..... index of activities,
Δ_t ..... balance of an outstanding budget during the reporting period *t*,
I_t ..... planned volume of capital expenditures.

Source: own, using (Žůrek, 2004)

The sought-after solution of the system of linear equations is a system of prices, i.e. the draft budget of activities. The cornerstone is the idea of balanced budgets of activities, i.e. a situation when internal as well as external costs that the given activity consumes are equal to the output of the corresponding activity. Provided that on the left hand side of the equation are assumed budgetary requirements of activities, they must also be equal to the actual output on the right hand side of the equation that managers can define through their decisions. Balance of an outstanding budget is used to cover budget over-requests that cannot be included into requested, by the ABC methodology verified, claims. These relate e.g. to impacts of legislative changes from pending legal regulations. Therefore these are generally costs that arise over the given accounting period but for which, however, the market price has not been established so far, since the public contract has not taken place yet.

An important and substantial element for a budget compilation using activities is a decomposition of processes and a division of internal organisational units according to activities. Accountability centre, represented by an internal organisational unit as assumed by the law, still remains a part of the budget compiled according to the binding rules of the Act on the state budget. In order to maintain continuity and to transform results of a budget compiled on the basis of the causal approach into the format of a draft budget based on mandatory indicators, it is necessary to supplement the system of linear equations with parameters of the category and sectoral classification of budgetary expenditures. This can be achieved by a decomposition of cost prices of internal activities. Cost prices of internal activities are made by direct labour costs and indirect external costs in the form of supplier prices. The primary segmentation is therefore made according to the formula

$$\Sigma rcd_i \times n_{ij} = \min(x_i), \quad (2)$$

where

rcd ..... resource cost drivers,
n_i ..... budgetary sub-item of a category classification,
j ..... index of the particular activity,
x ..... price of the activity.

Source: own

Capital expenditures of programme financing represent a separate area of the budget compilation. Despite being a part of the budget, these expenditures that represent investments into acquisition and restoration of long-term tangible property have their own administrative process and a life cycle that is different from the budget's parameters. They are planned with a horizon of up to 5 years and the administrative processes that precede their implementation thus exceed the horizon of the budgetary period. For this reason, they do not affect the solution of the system of linear equations. However, their role in (1) represents a free resource that can be cut short in favour of cost prices of the current period activities. This may occur in case when the management decides to postpone a planned investment project. Contrariwise, in

case of a need to implement a project that is not covered by the budget, it is possible to include it in the balance of an outstanding budget and to exert a claim in over-requests of the budget towards the administrator of the chapter of the state budget.

Deciding on capital expenditures of the programme financing, on investments, there is a separate area of decision-making on expenditures in the public sector. Programme financing, as an antithesis to institutional financing, constitutes itself a more efficient allocation of disposable resources. The essential fact represents a mandatory assessment of parameters of actions financed in this way. Evaluation may be carried based on a number of criteria, according to 3E, monetary assessment of effectiveness, quality rating, assessment of an achievement of the stated purpose, by cost-utility methods (Ochrana, 2006, 2005).

RESULTS

Customs Administration of the Czech Republic

The Customs Administration of the Czech Republic has obligations imposed by a number of legal norms. In total there were indentified approximately 500 processes. Considering such a broad sphere of activity that includes specific repressive functions of the state as well as fiscal functions or preventive functions it is very difficult to follow cost flows within the organisation through the means of classical accounting. For this reason, in the cost management and budget compilation there were utilised elements of ABC/ABM.

Compilation of a draft budget of other material expenditures and current expenditures of programme financing takes place within a cost matrix, when process owners in co-operation with consultants agree on a definition of processes and their proposed size of the budget. Already at this stage of the application of ABC/ABM elements, defining of activities, there were indentified reserves resulting from duplicate activities or inadequate costliness of some activities. Within the second step of the draft budget's compilation are expenditures divided according to indicators of the state budget into segmented expenditures of programme financing, capital expenditures and current expenses and independently other material expenditures or possibly critical budgetary items (energy, repairs, maintenance, etc.). Subsequently there are according to 2) through the RSD (Resource Cost Drivers) assigned to critical processes and activities relative portions of the budget and recalculated cost prices of the processes and activities 1), which are subsequently divided among responsible centres. Following the settlement of comments (comment procedure), the data are aggregated and a draft budget is prepared according to the rules and prescribed structure as required by the Ministry of Finance.

Most processes in the CA represent administrative or supervisory activities and these are performed by employees of CA. For the definition of the RCD the decisive RCD will be the number of employees has been chosen as the basic. To verify this assumption, a test of the hypothesis H_0 that the cause of resources' consumption in the form of current expenditures is the number of staff was performed. This hypothesis was in turn compared to the alternative hypothesis H_1 using the following tests (Hammer, 2011). The results indicated that current expenditures depend on the number of employed staff.

The results identified by a simple regression analysis confirmed the dependence of the majority selected normal operating expenses of the number of employees. The only exception is spending on maintenance and repair of real property. On the basis of these results a RCD in the form of staff or consumption of working time as FTE (full time equivalent) were introduced to the ABC model in CS. Given structure was sufficient to a quickly creating of ABC budgeting and tracking expenses

III: *Testing of hypotheses – results*

	Test of the hypothesis on the correlation coefficient		Spearman's rank correlation test		F-test	
	Test criterion	Calculated value	Critical value	Calculated value	Quantile F-distribution	Calculated value
Petty long-term tangible assets	2.042	3.753	0.352	0.565	4.17	26.656
Office material	2.042	5.892	0.352	0.732	4.17	102.869
Postal services	2.042	3.588	0.352	0.548	4.17	47.043
Telecommunication services	2.042	5.333	0.352	0.698	4.17	84.670
Rental	2.042	12.48	0.352	0.916	4.17	637.308
Purchase of other services	2.042	2.269	0.352	0.383	4.17	139.365
Maintenance and repair of immovable property	2.042	1.784	0.352	0.310	4.17	1.185
Maintenance and repair of movable property	2.042	4.643	0.352	0.647	4.17	76.126
Viaticum	2.042	3.193	0.352	0.504	4.17	86.825

Source: own

IV: *OLS results for selected costs*

y =	**Model** *rental_ost*	**Model** *maintenance and repair of immovable property*
Constant	–0.0298410 (0.01482)	–0.170705 (0.05454)
Employees		
Value of property	0.489229*** (0.08450)	
Tax revenues		
Capital expenditures		–0.219456* (0.1245)
Foreign trade with excise duties		1.05561*** (0.2645)
Inflation		
N	22	22
Koef.determ.	0.63822	0.490576
Adjust. koef. determ.	0.619179	0.433973
DWS		
F-test	1.81459	2.15544
p-value of F-test	33.52	8.667
	0.000	0.002

For each variable: * p-value < 0.1, ** p-value < 0.05, *** p-value < 0.01. In parenthesis is st. error
Source: PC Give

during the peak of the crisis. Logicaly, it can be concluded that the number of staff may not be the only factor affecting operating expenses. This is also confirmed by the findings of expenditure on maintenance and repair of real property. The number of staff does not explain the expenditure on repairs and maintenance, as these are also dependent on structural and technical condition of buildings. Similarly, it may be identified as another dependance in other operating expenses. For this reason, a further detailed analysis by multiple regression model was used (Hammer, 2015).

For example, results of OLS model for rents (in which a simple regression model predicts a strong dependence on the number of employees) and the aforementioned repairs and maintenance of the property. The rental is not dependent on the number of workers, quite logically rent depends on the type of building (in terms of its value) are shown in Tab. IV. The rental is not dependent on the number of staff confirmed, quite logically rent depends on the type of building (in terms of its value). Repairs and maintenance are dependent, among other things also on the volume of past investments in the building and it was confirmed that the number of stall does not affect these costs.

The performed analysis showed that the only the number of staff is not enough to explain the costs of the processes since the amount is influenced by other factors. The individual cost groups where the dependence on other factors have been demonstrated, should be assigned to process by a ratio of the RCD by identified a particular estimate regression equations like

$$RCD_i = (\hat{y}_i / \hat{y}), \quad (3)$$

where
RCDi .... a specific RCD for a given budget item,
$\hat{y}_i$ ..... is an estimate of a particular cost group of a particular process, calculated from the values of the explanatory variables and
$\hat{y}$..... is an estimate of total costs of the cost group for all processes.

DISCUSSION

The fundamental problem to compiling budgeted expenditures is an allocative inefficiency in the provision of public goods, resulting from the inability to determine an optimum output at the parity of marginal utilities and marginal costs. Because of that, the budget of state organisational units is not compiled primarily as a financial plan that guarantees financing of activities and obligations specified by legal standards, but instead as a numerical representation of the category (RP), sectoral (§) and programme-performance classification (actions, blocks) of expenditures of a state organisational unit. From the current classification of accounting data the amount of financial resources that can be spent on individual programmes (IT operation, purchase of special equipment, fleet renewal, etc.) or on category-defined expenditures (energy, services, materials, etc.) may be relatively accurately determined. However, it is not possible to determine how financially demanding a collection of customs, taxes or individual stages of the tax administration and other supervisory tasks entrusted by laws

or prescribed by the European Union bodies is. The standard breakdown of the budget and the related analytical decomposition does not provide sufficient information for managerial decisions within the compilation of a budget and the control of costs and efficiency.

The same problem with inefficient allocation also occurs when there are adopted incorrect RCD. In practice of state organisational units, their budget is often formulated using the number of workers in individual centres or FTE (full time equivalent). Using this figure is multiplied some average consumption of expenditures of budgetary items or, in a better case, processes in time. This, although logical, reasoning that most activities in state organisations are of an administrative nature and therefore carried out by workers, proved to be incorrect. As follows from the investigation of two volume-significant budgetary items, rent and costs related to repair/maintenance of buildings, consumption of these cost items does not at all depend on the number of workers, but rather on other factors. These factors, identified by analysis, must therefore represent the sought-after RCD through which the budget is drawn.

Operating costs (material, energy, services, etc.) are in SOU practice still budgeted using the incremental method. As stated above, this leads to allocation inefficiency and the management does not even have sufficient information on this reality. Process budgeting and cost control using the ABC/ABM methods bring into practice a completely new qualitative element. Every process or cost object is assessed at actual costs using RCD. Indirect costs which make up the majority of SOU operating costs are thus assigned using the established cost drivers to specific processes or cost objects. Volume of individual budgetary items is not determined only through an estimate of development over the next budgetary period and an increase against the previous budget. It is thus a major qualitative step in budgetary setup which has several consequences. First and foremost, the management gets information on how much resources do individual processes or cost objects actually consume and subsequently may modify resource allocation in favour of the more efficient or useful ones. Furthermore, knowledge of costs of individual processes prevents subjective budgetary allocations, which in turn lead again to higher allocation efficiency. Not least, it facilitates implementation of budgetary savings since all processes are financially transparent and there are distinct differences in resource allocation. An equally important element represents the process budget for public procurement, when it is in the interest of processes' owners to reduce costs and thereby also put up a pressure on award of a public contract. For the management and public politicians represents process budgeting also an opportunity to verify in advance any cost implications of their decisions (e.g. in the area of staff redeployment, changes in priorities among activities) and also impacts of legislative changes. Achieving these effects through existing budgetary procedures and cost management is not practically feasible without substantial increase in the workforce and volume of tracked data on budgetary expenditures. Therefore it may be concluded that this is a qualitative milestone in management and a possible path towards higher effectiveness of state administrative organisations.

CONCLUSION

Streamlining activities of state organisational units, through an increase in their activities hits political and economic limits. It is not possible to further increase the supervisory and administrative burden of other economic entities and therefore the streamlining of activities is carried via reduction of disposable resources available for the provision of public goods by these organisations. Within the segment of state organisational units, for which it is not possible to determine an optimal output and to set a corresponding budget, the usual approach includes a global reduction of the budgetary resources. Under this situation there may occur interruptions in the provision of public goods and as a solution it seems appropriate to adopt modern approaches in cost control, not to say in budget compilation. The system of state organisational units' management is complicated, generates significant costs associated with its operation and design of control mechanisms. And it is precisely the sphere of state organisations' management where it is appropriate to apply the elements of ABC/ABM. The fundamental element of the ABC is – as in the case of the entire concept of ABC/ABM – a causal relationship between activities and costs. From the methodological point of view, it is necessary to identify two kinds of causes, causes of resources' consumption and causes of activities' consumption. The next necessary condition is then an execution of the process analysis and definition of processes and activities that consume budgetary resources. Application of modern cost control methods within the entire range of activities of a specific state organisational unit allows the management to streamline activities of the given organisation. At the same time, it provides a financial perspective of an administrative demandingness of individual competences entrusted to the state organisational units and may therefore assist in identifying an optimal organisation of the state administration. Simultaneously it is possible to utilise principles of the causal relationship for the budget's compilation. Under conditions of declining budgets, the Customs Administration of the Czech Republic has already applied certain elements with a positive impact. Compilation

of a budget according to the causal principle represents in state organisational units a qualitative shift in understanding the costs and their use for provision of public goods. The methodology of ABC/ABM has a fundamental impact in the areas of cost management, in deciding on the effective use of resources, capacity utilisation, in deciding on the organisational arrangement and its modifications, budget compilation and planning, public procurement, in formation of tender documentation and determining the value of contracts and also deciding on outsourcing options.

Following the introduction of ABC/ABM into the practice of a compilation and use of budgetary resources it may be expected that there will come to a streamlining of activities and internal processes. This way, the volume of provided public goods may increase or retain at its present level for a lower unit price, resulting in a materialisation of savings and reduction of a pressure to increase or supplement the budget during the accounting period. In a situation of declining budgets, this is the only effective response to the reduction of disposable resources while maintaining the existing level of fulfilment with respect to legal obligations.

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