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## RATIONALISING PUBLIC EXPENDITURE

### Abstract

The pace of change in the local, national and international environment necessitates a rational approach to the management of public finance sector units so as to increase the rational management of their resources through efficient spending.

What is rationalisation of spending? How is rationalisation examined? Who shapes the measures of rationalisation? What shapes and influences perceptions of spending rationality? These are the questions that the author addresses in an attempt to establish the extent to which the concept of rationalisation is understood.

The article was prepared using the legal-dogmatic method related to the analysis of available and selected views of the doctrine, and selected interpretations of legal acts relating to the discussed issues.

**Key words:** rationalisation, efficiency principle, spending of public funds.

**JEL Classification:** K22, K32

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## 1. Introduction

The economic crisis in 2008, climate change, the COVID-19 pandemic, the European Green Deal, the war in Ukraine, changes in Polish law – that force public finance sector units to change their plans and assumptions related to the spending of public funds.

Quite often in the public discussion it is raised that rationalisation of spending is important. The pace of change in the local, national and international environment necessitates a rational approach to the management of public finance sector units, so as to increase the rational management of funds through efficient spending.

What is rationalisation of spending? How is rationalisation examined? Who shapes the measures of rationalisation? What shapes and influences perceptions of spending rationalisation? These are the questions the author addresses in an attempt to establish the extent to which the concept of rationalisation is understood.

The article has been prepared using the legal-dogmatic method associated with the analysis of available and selected views of the doctrine, and selected interpretations of legal acts relating to the issue in question.

## 2. What is rationalisation

The concept of rationalisation of expenditure has not been given a legal definition. There have been attempts in the literature to define the meaning of the concept of expenditure rationalisation, and to delineate and catalogue the criteria for rationality of the financial system. Due to the use of the concept in different contexts and issues, one can speak of problems in determining it a single scope of meaning. In the author's opinion, the notions of rationality or rationalisation should be used interchangeably,

Rationality, as defined in the Dictionary of Polish Language, means basing actions on modern, scientific methods, well planned and producing good results. A rational action is an action based on logical reasoning, reasonable, consistent with the indications of the knowledge possessed (Latin *ratio* – mind, *rationalis* – reasonable, sensible) [SJP 2024]. Rational action is a conscious, deliberate decision-making process. A rational subject is one who is guided by a hierarchy of values, preferences recognised in a given social collective [Pypeć 2004: 17]. Rationality is thus closely linked to axiology and the hierarchy

of principles. In economic terms, it is related to management and denotes human activity that is in line with the state of knowledge of the surrounding reality, which allows it to achieve the best social and economic results [Owsiak 1983: 13].

Rationalisation or rationality of public expenditure is a multidimensional issue, determined mainly by the amount of public money spent. The concept of rationalisation, although often used and employed in various publications, does not have a fixed scope of meaning.

A. Skoczylas points out that, in terms of economic theory, two types of rationality can be distinguished:

- 1) instrumental, which is linked to the entity's desire to improve the efficiency of its operations, and
- 2) teleological, means the conscious and rational shaping of the objectives of an activity or entity [Skoczylas 2011: 164].

Rationalisation in economic terms means acting consciously, efficiently. Attention is drawn to the fact that it depends on the identification and selection of tasks, which involve the least expenditures allowing for the most efficiency implementation of the adopted social and economic objectives. The indicated selection is a derivative of the adopted model of the state, while decisions related to the spending of public funds depend not only on the state of the economy, but also on the pursued socio-economic policy.

As J. Szołno-Koguc argues, "the rationality of public finance is not possible without a clear model concept of the state, its role and, consequently, the scope of the public tasks performed. After all, public finances are an instrument of exercising public authority and will not bring the expected rationalising effect of their reforms if they are not appropriately correlated with socio-economic intentions" [Szołno-Koguc 2017: 133]. Almost analogously, E. Kornberger-Sokołowska describes the rationalisation of public spending [Kornberger-Sokołowska 2005: 161].

According to L. Lipiec-Warzecha, rational spending is called making expenditures in a purposeful, economical and timely manner [Lipiec-Warzecha 2011]. In turn, according to K. Gałuszko [Gałuszko 2006: 413-422] rationalisation of public spending is a procedure of maximising the goals of the state with available resources. A. Pomorska writing about rationalisation puts emphasis

on spending in accordance with budget laws, budget resolutions, financial plans [Pomorska 2007: 321-331].

In doctrine, there is no single common definition of spending rationality. Attention is paid to its economic aspect, determined by the law in force. Rationalisation manifests itself in taking care of the appropriate structure and size of public expenditures, in achieving the best possible results with the least possible outlays and, moreover, in making optimal choices to achieve the set objectives.

Rationalisation incorporates two formulas into its theory: the efficiency formula and the savings formula. The efficiency formula envisages achieving maximum effects with fixed specified inputs. The savings formula envisages achieving specific effects while seeking to minimise the costs incurred [Matwiejczuk 2006]. Spending rationalisation is thus

- 1) planning the level and structure of costs incurred,
- 2) performing organisational activities aimed at achieving cost objectives,
- 3) motivation, consisting of providing appropriate conditions for the performance of the assigned tasks [Nita 2008].

The above considerations lead to the conclusion that rationalising expenditure does not involve cutting expenditure, but rather the conscious, optimal use of available resources, while striving to maximise the achievement of identified objectives. The action taken should be based on accepted patterns and standards, in compliance with the applicable legislation, which is important from the perspective of public finance sector units. This may sometimes be related to the aim of limiting the spending of public funds, but as a result of the application of specific legal norms, including, for example, the principle of purposefulness.

The rationality of public finances is not expressed in the size of public expenditure, as this is not the basis for conducting an assessment of the correctness of an entity's actions. It is the selection and valuation of objectives and the shaping of the structure of public expenditures designed to achieve those objectives. A unit of the public finance sector, equipped with specific tasks and powers to act, on the basis of its financial resources expressed in a specific value inscribed in its budget, sets objectives, as well as ways and tools allowing it to maximise the achievement of a given objective. All these activities must be within the financial resources of the entity.

The rationalisation of the spending of public funds is a process embedded in the applicable legislation, which consists of cost rationalisation and rationalisation of choices. This is pointed out in the doctrine [Soszyńska-Purtak 2012; Grześkiewicz, 2013: 24-32; Machelski 2011: 5-14] indicating that this division depends on the subject of the study, i.e. whether we are examining the efficiency of the implementation of a task or the efficiency of the resources involved. The analyses carried out focus on determining the positive and negative effects of each possible solution for a given situation. This implies the necessity to determine the amount of projected outlays which the unit intends to allocate for the realisation of a given task, the manner of spending these funds, applying relevant regulations of the Public Finance Act (Public Finance Act).

### 3. Criteria for rationalisation

Criteria for rationality of public spending include:

- 1) system efficiency,
- 2) internal compatibility of standards and system regulations,
- 3) simplicity of design and consistency of criteria and rules governing financial management,
- 4) The ability of the financial system to self-regulate [Fedorowicz 1984: 7].

Both efficiency and effectiveness are basic criteria for assessing the rationality of the rules governing financial management and, therefore, of the entire system constituting the financial system of the state [Kosikowski 2003: 679]. It should be noted that efficiency and effectiveness are two different concepts. Efficiency derives from economic sciences and is recognised as the ratio of effects [results] to inputs. It differs from effectiveness in that efficiency is the extent or degree to which stated objectives are achieved. Efficiency, therefore, is a measure of efficiency without being effective. An efficiency action is one that produces results and therefore leads to the intended action. The distinction between the two concepts is very important, as they are not synonymous with each other. Not every efficiency action is necessarily an effective action. There are some actions that we consider efficiency, however, not necessarily efficient. Efficiency is therefore a component of efficiency, but at the same time efficiency will be a criterion, evaluating efficiency as a measure of efficiency.

The rationality of spending must be assessed in the context of compliance and consistency of legal norms regulating the process of spending and simplicity of the legal system. Only a simple, internally coherent system allows a unit of the public finance sector to undertake actions directed not to resolving conflicts of norms, searching for appropriate solutions, but to outlining objectives and striving to achieve them.

The ability of the system to regulate itself is an important criterion for rationalising spending. It stems from the desire of a public finance sector unit to shape its own objectives, taking into account the resources at its disposal and the factual situation in which the unit finds itself.

The doctrine emphasises that every financial year is different in terms of choices and that maintaining the same spending trends does not always lead to development [Jastrzębska 2005: 89-90]. This implies the need for individual units of the public finance sector to take decisions and actions independently. Decentralisation, the independence of the units of the public finance sector in terms of decision-making, the formation of objectives and the setting of yardsticks for their monitoring is the basis for the rationalisation of spending.

Article 44(3) of the Public Finance Act stipulates that public expenditure should be made in a manner of

1. purposeful and economical, respecting the principles:
  - a) getting the best results from given inputs,
  - b) the optimal choice of methods and means to achieve the stated objectives:
2. in such a way that the tasks can be carried out in a timely manner:
3. in the amounts and on the dates arising from previous commitments.

Each expenditure incurred by a public finance sector unit must comply with the principles indicated in Article 44(3) of the Public Finance Act. This means that it must be spent in an effective, efficiency, purposeful, economical manner.

The rationalisation of elections concerns

- 1) the procedure for selecting the expenditure to be incurred [rationalisation of budgetary choices] – this is carried out at the stage of forecasting and financial planning, usually according to the criterion

of the possibility of making the expenditure and the level of public utility [Jastrzębska 2012: 140], or

- 2) procedures for choosing how to carry out the task in question.

According to M. Jastrzębska: “the rationalisation of expenditures of a local self-government unit consists in achieving the greatest possible effects [tasks] with specific financial outlays [expenditures] or in realising specific effects with the lowest outlays. The basic instruments for the rationalisation of expenditures of the local government unit are: task budget, multiannual financial forecast, development strategy of the local government unit, cost-benefit analysis, analysis of the financial situation of the local government unit, analysis of the financial liquidity of the local government unit, management control and internal audit” [Jastrzębska 2012: 141].

#### **4. Methods and tools for evaluating the rationalisation of spending**

When talking about methods of rationalising spending, attention should first be paid to their complexity. This is due to the way in which different types of algorithms are built to make an appropriate allocation of money.

The most commonly described methods of rationalising public spending are:

- 1) Planning-Programming-Budgeting System [PPBS],
- 2) Cost-Benefit Analysis,
- 3) Zero-Base Budgeting (ZBB),
- 4) Task Budgeting,
- 5) Management by Objective (MBO) [Tyniewiecki 2007: 356].

The tools of rationalisation are simple methods aimed at eliminating any mismanagement and poor organisation of expenditure activities. In the main, they are already built mechanisms shaped by appropriate legal norms. The basic tool for rationalisation is the procurement regulations [Act of 11 September 2019, Public Procurement Law, consolidated text Journal of Laws of 2023, item 1605, as amended]. When applying public procurement regulations, a public finance sector entity undertakes the process of spending funds taking into account the economic criterion [through the prism of the lowest price], but also social, innovative or green public procurement criteria. The aim of the application of the procedures set out by the regulations on public procurement is to introduce mechanisms favouring socially rational and economically efficient management of public funds. Public procurement

rules are a tool to steer the purchasing process, but also to ensure a balance between efficiency and efficiency, including economic efficiency [Panasiuk 2007: 44].

Another tool for rationalisation are the rules governing the drawing up of expenditure plans for a public finance sector unit or limiting the ability to incur liabilities. Drawing up budgets and multiannual plans is a tool that efficiency keeps a check on the commitment drive of unit managers. It is also an efficiency planning tool for defining and monitoring an entity's objectives. The system of public finance, through the axiology contained in the regulations on public finance as well as in internal acts, also becomes a tool for rationalising the spending of public funds.

Rational expenditure is influenced by a number of factors including the identification of legal, economic, organisational, social and political determinants of expenditure by a public finance sector unit. It is important to identify the scope and sequence of tasks to be performed according to defined criteria in order to best meet the needs of the community. It is essential to identify opportunities to expand the range of services and improve the level of services already provided, but also the principles of expenditure. It is important to carry out an analysis of costs by type and place of origin and to determine the level of unit cost of performing the task. The process of monitoring the incurrence of current and investment expenditures in accordance with the principles of budgetary law must not be omitted [Jastrzębska 2006].

## **5. Rationality versus efficiency in public spending**

M. Dylewski states: "even a cursory analysis of the elements of the spending policy of local government units indicates that the whole system of spending public funds is undergoing a gradual complication, which is less and less conducive to the efficiency of the public tasks implemented" [Dylewski 2014: 79].

Rationalisation is closely linked to efficiency. It is indicated as a method of improving efficiency perceived through the prism of the financial result. In entities of the public finance sector, efficiency being one of the basic principles of spending public funds, regulated by the Public Finance Act, encounters difficulties. This is a result of the imprecision of the legislator in regulating the principle of efficiency, but also of the specificity of the operation

of the public finance sector, which decides on the way of collecting funds and the directions of their allocation [Gąsiorek 2010]. Efficiency is seen through the prism of economic, sometimes social, innovative efficiency.

Spending public funds in accordance with the provisions of the Public Procurement Law and the Public Finance Act in force in Poland sets as a fundamental principle the demonstration of efficiency. At the same time, the Polish legislator, in creating the relevant regulations of the indicated provisions, does not specify the meaning of the notion of efficiency, nor does it build tools for examining the efficiency of spending public funds in a way that would force a specific type of behaviour on the ordering parties.

The legislator, in setting out the principle of efficiency in spending public funds, does not specify the criteria for the selection of objectives, the yardsticks for achieving the objective and the subsequent evaluation of efficiency. It also does not specify on what basis it can be considered that the choice of the method and means to achieve the objectives was inappropriate and thus there was a violation of the applicable legal provisions. It is also difficult to find in the relevant legislation, including public procurement legislation, an obligation to draw up an identification of the objectives, and an analysis of the choice of method and thus the means of achieving the identified objectives [Wójtowicz-Dawid 2022].

Efficiency is not solely and exclusively economic efficiency. Sometimes it has to be detached from economic issues, due to a different perception of it, as the occurrence of a positive transformation of social attitudes, so in such a situation, the study and evaluation of efficiency must be verified from the perspective of efficiency. One of the objectives that can be included in the principle of efficiency is the positive impact on the environment, the achievement of objectives outlined by the sustainable development policy. Any objective other than economic, however, requires the contracting authority to identify, specify and seek to meet its defined needs for the acquisition of goods, services or works. The rationale for this should be the generation of benefits on the part of the contracting authority, but also on the part of society and the economy. This means taking into account not only the costs of the contract itself as the purchase price, but also the costs related to the implementation of the defined additional objectives, including, for example, those related to the implementation of the sustainable development policy.

This perception of efficiency in public spending forces the public finance unit to change its perception of the spending process. Efficiency is nowadays indicated as a process integrated with changes of needs created by society, seeing its long-term perspective of influence. The process in question is a change in the perception and hierarchy not only of needs but also of the whole axiological system. The re-evaluation is linked to social, but also legal changes.

## **6. Conclusions**

The issue of the rationalisation of the expenditure of public funds has existed and, in the author's opinion, will constantly be an important and frequently raised issue. As presented above, it is an important subject, as it manifests itself in a constant striving to create new and effective methods of rationalising the expenditure process, while at the same time being a premise for the reform of public finances.

The concept of public expenditure rationalisation is characterised by complexity and subjectivity. In order to determine the scope of the meaning of the concept, it is necessary to view rationalisation on a legal, economic and sociological level. Rationalisation of public spending is not every action that has reduced the level of public spending. It is an action aimed at maximising efficiency while maintaining the level of expenditure. It is also an economical, purposeful, economical action, with the reservation that not every economical action will be a rationalisation.

Contemporary trends in advanced budgeting methods as well as in the management of public funds focus on methods based on planned results or targets. This requires an awareness on the part of public finance units of the importance of setting targets for the tasks entrusted to them, monitoring the level of their achievement and continuously improving the spending process.

Increasing the transparency and predictability of fiscal policy leads to a rationalisation of the management of public funds, resulting in a more efficient and effective functioning of the public sector, and higher social welfare, in effect demonstrating a rationalisation of public spending.

As C. Kosikowski rightly points out. Kosikowski points out, the rationality of spending public funds is the result of the adopted and consistently implemented model of the state, the tasks and duties of the public authority

in the social and economic sphere, accepted not only by political forces, but above all by the majority of democratic society [Kosikowski 2011].

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