

## Features of Normative Method of State Services Financial Provision

*Olga Alexandrovna Pirogova*

Federal State-Funded Educational Institution of Higher Professional Education  
"Financial University under the Government of the Russian Federation", Moscow, Russia

---

**Abstract:** The article describes the specific features of a normative method of financial provision of state services. The article also presents a comparison of a normative method with other methods of financial provision of state services, highlights the advantages and disadvantages of each method. The article gives international experience of developing normative financial provision of state services, the basic situation. In the present article, the method of analysis of the characteristics of the contract financial security of public services as a promising alternative method of financial provision of public services. In this article there are the analysis of contractual method of state services financial provision as a promising alternative method of financial provision of state services and analysis of budget method of state services financial provision. The article presents a generally accepted algorithm of calculating of cost standard for state service rendering.

**Key words:** Normative method of state services financial provision • Contractual method of state services financial provision • Budget method of state services financial provision • Standard of state services financial provision • Cost standard for state service rendering

---

### INTRODUCTION

The organization of state services financial provision is very important and difficult task the financial departments at all levels are faced with: federal, regional and local. In what way and with the help of what tools to plan and to finance the expenses for service rendering is the issue of current importance.

In Russia there are number of problems associated with the organization of state services financial provision:

- Terminological differences in definition of the state service;
- Lack of the registration of expenses for a certain public services;
- Lack of accumulated practice on the planning organizations' expenses for state service rendering and lack of the financing of such expenses;
- The established practice of financing expenses (in the form of institution maintenance), but not the results (in the form of state services of the certain range and quality).

In order to solve these problems the normative method of state services financial provision was introduced. The normative method of state services financial provision is characterized by the expenses defrayal of service provider at the expense of budget basing on the norm of the certain service financing type per a recipient. In such a way the financing of a service, not the organization maintenance, is carried out that creates incentives to expenses reduction and to budget economy. The rest expenses are funded from off-budget sources. In foreign practice the development of the state service financial provision is based on the following regulations:

- State service should be available to the consumer and be competitive both at national and ideally, the international levels. In this case the state service financing standard is an assured financial norm of realization of definite quality standard of a certain service.
- The population of all territorial units has equal access to all state services as well as guarantees that recipients wishes are taken into account;

---

**Corresponding Author:** Pirogova, Federal State-Funded Educational Institution of Higher Professional Education  
"Financial University under the Government of the Russian Federation", Leningradsky avenue,  
49, 125993, Moscow, Russia.

- People of one state have the same rights and responsibilities in relation to existing state services;
- Local governments can count on governmental support in particular on providing the same set of high-quality state services on the whole territory under their jurisdiction. The advantage of the normative method of financial provision for a service recipient is a guaranteed equal pay for state service at the expense of budget funds regardless of recipient's social and financial situation. In the countries with the developed market economy such mechanism of state services financial provision is often used in the social sphere, especially in education, health care, culture and sports. However, in the conditions of active use in foreign countries of the budgetary financing focused on target, productive activity indicators for the budgetary fund recipient (or the budgeting focused on result), in practice the mechanism of standard financing is used in combination with the mechanism of contract financing of the state services at the expense of budgets means of the budgetary system [1].

The method of contract financing of the state services provides that the state represented by governmental authorized body (local government) signs medium-term and long-term contracts with the manufacturing organizations of the corresponding services. And at the same time the contract assumes not only obligations of the organization for providing the state services of a certain quantity or for a certain contingent of persons, but also is supplemented with system of parameters for an assessment of results of organization activity on rendering services. The contract is often concluded in competition conditions for access to budgetary fund. In this case the mechanism of contract financing of the state services assumes carrying out a competition on provision of a service of a certain type and rate and also allocation of budgetary fund to the winner organization. The placement of budgetary fund on a competitive basis is urged to stimulate quality growth of provided services and focused on results management. In this case the result is the achievement of a concrete purpose for which budgetary fund were allocated [2].

In the context of this model budgetary fund is allocated by total amount in the form of a target subsidy and further is independently distributed and used by the organization recipient of budgetary fund. The organizations also can raise extra budgetary fund in any legislatively allowed form within the implementation of authorized activity. This model is used in France, Sweden, Austria and Finland.

Summarizing the foreign experience of financial provision of the state services, it is necessary to emphasize a number of the moments to which it is necessary to pay attention of the Russian state authorities (local governments) during reforming of public sector and methods of financial provision of the state services:

- In the conditions of market economy the state produces and finances that volume of the public benefits and the state services which is really demanded by the society. Initiatives concerning the volume and the structure of the necessary public benefits and state services have to proceed as "from above" - from the government and other authorized bodies of the government (local governments) and "from below" - from society in the person of citizens, businessmen, organizations. Any surplus of the state services conducts to an inefficient budgetary fund expenditure and corruption growth [3];
- The success of reform is possible only in the presence of carefully developed, scientifically reasonable strategy of its realization which has to be supported with open information on the current results in reformed branch, in a field of activity. Without providing the reporting information on results of short-term work, the reform won't get support both from state authorities (local governments) and from public opinion and as a result it won't be realized;
- In order to achieve the maximum effect from introduction of the new state services mechanisms, service have to be not only approved by state authorities (local governments), but also be completely ready for realization as soon as their financial security will begin;
- Successful introduction of a method of state services financial provision by their direct consumers at the prevalence of off-budget sources of financial provision is possible only in condition of existence in the society of a wide population segment with high level income;
- At partial replacement of the budget financial provision with off-budget sources of financial provision of providing the state services the efficiency increases and big transparency in an expenditure of fund is provided with the organizations service providers as the private investor is always interested in careful control of target use of the given money;

- While choosing the organizations service providers and determining of volumes of state services financial provision at the expense of budget fund, it's necessary to make the analysis of results of organizations activity on providing the state services and qualities of the provided services [4];
- According to standard and contract methods the choice of the recipient of the budget subsidy of the state services financial provision has to be carried out with a preliminary estimation of expected economic and social effect of a certain type of a service. Foreign experience provides subsidizing both as service supplier and as service recipient. In the first case the budget subsidy is provided directly to the service producer (supplier) who is chosen by the authorized body of the government (local government) on a competitive basis. Thereby the state stimulates the development of the relevant organizations (legal entities). In the second case, the service recipient, having the state financial obligations (in the form of certificates, coupons, vouchers, nominal financial obligations and so forth), independently in the market of services chooses the state service supplier organization of the corresponding type, thereby strengthening the competition between producers of the same services [4];
- Reforming of state services sector and the financial mechanism of its implementation should be carried out under active management of reforming process from the government and authorized bodies of the government (local governments).

So, nowadays the standard method of state service financial provision is the most objective and transparent method for calculation of necessary volume of institution budget financing in connection with the volume of services rendered by these institutions. The difference between the standard method of financial provision and the method of expenses indexation is that the standard of financial provision calculates on each state service and work while the method of expenses indexation is focused, first of all, on financing an institution as a whole.

The budget method of financial provision means financing the institution "for the fact of its existence" - without a connection to the set of services rendered by this institution, its volume and quality. The method of indexing of expenses of the previous periods in combination with a method of budget financing of institutions leads to a considerable dissonance between the volume and the quality of services of concrete institution and the volumes of its budget financing.

The shift from a budget method of financial provision of the budget institution network to financing according to standards can be carried out in the different ways (from the point of view of complexity and investment).

The integrated approach to the shift from financing of the budgetary network to financing of services and the works rendered by state institutions, assumes the realization of the following measures:

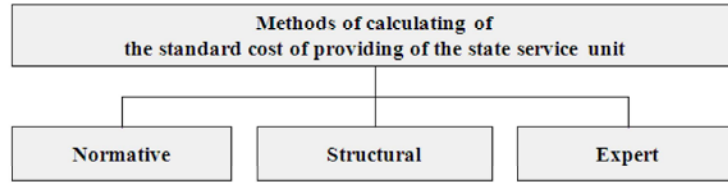
- The inventory check and the financial and economic analysis of a state institution network from the perspective of performance of duties of an appropriate level of the state power, an assessment of the amounts of financing of activity and property of institutions, differentiations of per capita cost of identical services in different institutions and conditions of its material base;
- Definition of level of the state guarantees of providing the state services and providing conditions for rendering these services (existence of the necessary area, equipment, etc.);
- Formation of the quality standards of the state services containing accurate quantitative parameters of the content of services and calculation of standard expenses on rendering services according to requirements of standards;
- The approval of the target program aimed at "pulling up" the conditions of rendering services in separate state institutions to the level, fixed in the quality standards of the corresponding services.

The purpose of application of a standard method of financial provision of services is the shift from the financing based on the actual expenses, to financing of institutions depending on volume and quality of rendered services and performed works.

Basis of scoping of the budget financing of a state institution according to the described model is the cost of the state services (works) determined by mixed, settlement and standard way.

In order to define the settlement and standard cost of the services rendered by state institutions within the state tasks, it is necessary to take the following measures.

**Definition of Fixed (Standardized) Expenses:** On all services (works) rendered (carried out) by state institutions within tasks, natural standards of consumption of working hours and material resources are formed. The specified natural standards of the state services (works) include norms of consumption on the following main aggregated units of expenses:



Scheme 1: Methods of calculating of the standard cost of providing of the state service unit [5].

- The resource of working hours of the employees who have been directly occupied in the course of rendering services (performance of work);
- The materials consumed in the course of providing service (work performance);
- Soft, economic and other necessary stock;
- Food (in case the providing service includes catering services for clients).

It's necessary to note that the above-stated list can't be considered as closed – other blocks of expenses can be included into it according to specifics of activity of concrete institutions.

$$P_{ry}^i = N_{fy}^i * k_i,$$

where

$N_{fy}^i$  – standard unit cost of providing state services in the fiscal year;  $k_i$  – number of units providing a state service in the fiscal year.

At that, components specified in blocks of expenses of consumption norm can be considerably differentiated not only according to the services of institutions of various branches, but also in separate services within the branch.

For example, in the sphere of preschool education fullness of groups in kindergartens and the number of lessons depend on the fact if there are children with deviations in the physical and mental development, healthy they are or, vice versa, they often ill ; according to the time regime group can be divided into long-term and short-term and so forth.

In the healthcare sphere expenses standards for services of an emergency medical service are divided according to the specialization of crews of an emergency medical service - medical assistant's, linear, specialized; expenses standards for services of healthcare stationary institution are divided according to the department specialization of a hospital - cardiological, neurologic, pulmonologichesky, etc.

**Definition of Overhead Expenses:** The expenses of the institutions which aren't directly connected with services, for example, with utilities, communication services, administrative staff, are defined by a settlement way because it is impossible to establish its consumption norms correctly.

At that specified types of the expenses which are, in fact, the sum of overhead costs in costs of services (works), performed by the institution, can be divided into two types:

- Expenses which are regularly carried out while rendering the services by the institution– such as payment of utilities, communication services;
- Expenses without accurately established frequency – for example, acquisition of the new equipment, repair of buildings and rooms, etc.

**Distribution of Direct Expenses on Services:** Within the described approach of calculation of financial provision of execution of the state tasks the direct expenses regularly made while rendering services and works, relate to the cost of the services (works) provided within a task – according to the established proportion of their distribution on services (works).

Most often direct expenses are distributed on services (works) in proportion to fund of compensation of the main stuff (the workers who are directly participating in rendering services or work).

Total amount of constant expenses is distributed between all the staff of institution in proportion to level of payment of their work according to the following formula [6]:

$$K_i = K \times \text{WageF}_{\text{key staff } i} / \text{WageF}_{\text{key staff}}$$

where

- $K_i$  - Overhead costs attributable to the i-service;
- $K$  – total overheads;
- $\text{Wage F}_{\text{key staff } i}$  - wage fund of key staff engaged in the provision of I-service;

WageF<sub>key staff</sub> – wage fund of key staff.

Expenses which are made irregularly, "occasionally" - depending on existence of financial resources in the relevant budgets have to be financed behind the limits of financial provision of the state tasks. Special tools have to be applied to financing of the specified "irregular" expenses – long-term and (or) departmental target programs or target subsidies.

**The Definition of Subsidy for the Institution:** The cost of the state services and works calculated by standard and expensive way is a basis for determination of the size of a subsidy to the budgetary or autonomous institution on execution of the state task taking into account maintenance costs of real estate and especially valuable personal estate and also on payment of taxes, as object of the taxation on which the corresponding property admits.

The described model of financial provision of the state task is universal and isn't attached to a certain branch or concrete types of service and works.

The expenses determined by standards on rendering concrete service with "extra charge" in the form constant expenses form an overall cost of the state service (work) provided by institution within performance of the state task. The overall cost of all services (works), rendered (carried out) within the state task according to the main authorized kinds of activity of autonomous or budgetary institutions, determines the subsidy size on task execution.

The described approach to financial security of performance of the state tasks the budgetary and autonomous institutions allows not only adequately and objectively determine subsidy size to autonomous institutions or the budget volume of the institution, but also gives information on an overall cost of services and the works provided within a task, on a share of "direct" (constant) expenses in the cost of services and works and on service for a one consumer. Such information is a basis for adoption of the weighed administrative decisions connected with rendering to consumers of the state services and works.

Settlement and standard approach to financial provision of the state tasks execution has many advantages from the point of view of the organization of providing the state services (works) and control of their granting. In particular, parameters of natural standards of the state services (works) - the consolidated norms of consumption of resources on the aggregated blocks of expenses - are, in fact, way of quality management of provided services (works).

Changing norms of consumption of working hours and resources at service in connection with parameters of service quality (fixed in the quality standards), it is possible to establish the direct dependence between costs of services and results (quantitative and qualitative) of its execution. Also it is the shortest and most effective way to the introduction of the budget principles focused on result in the budgetary process at regional and state levels [7].

At an integrated approach concrete ("calculating") standards of rendering the corresponding services are necessary for calculation of standard costs on the state services. The "calculating" standard of service has to act as a basis for development of the standard of expenses for its granting and, therefore, it's must be possible to "transfer" its content "to money".

In this regard, before starting calculation of the standard costs connected with rendering the state services (works), it is necessary to carry out the inventory and the financial and economic analysis budgetary (and autonomous) institutions for an assessment of differentiation level of cost of identical services in different institutions, level of insufficient funding of activity and property, a condition of material base of institutions.

As in lack of the "calculating" quality standards of the state services it isn't possible to determine the cost of services through natural norms in all respects, making each service, for calculation of standard costs it is necessary to use data on the actual expenses of institutions.

In order to determine the settlement and standard cost of the services (works), rendered (carried out) by the budget institutions within the state tasks, it is necessary to take the following measures [8]:

- To detail the list of the state services (works), rendered (carried out) by institutions, for calculation of standard costs. To define services (works) units;
- To prepare the information database about the actual expenses of institutions on the basis of which calculations of standard costs on services and works will be made further;
- To classify costs of institutions into straight (directly connected with rendering services and works) and indirect (which don't treat directly rendering services and work) taking into account the nature of services and types of the institutions grouped according to the activity specifics;

- To choose methods of distribution of indirect expenses on services and works taking into account specifics of services, works on which the calculation of standard costs is made;
- To execute calculations of the standard costs connected with rendering services (works) by institutions of each allocated group.

Further each of the listed measures is described in more details.

**Specification of the List of the State Services (Works) and Definition of the Payment Units of Services (Works):**

Often the list of the state services (works) isn't suitable for the purposes of calculation of standard costs on rendering the corresponding services (works). As a rule, services are allocated in order to calculate objective standards. For example, standard costs on works connected with the concrete exhibition can't be calculated for any other exhibition. For definition the objective standards it is necessary to make a certain typology of exhibition events according to its format and as a result to its cost.

Except the tipologization of services and works depending on conditions of its provision and cost difference, it is necessary to define also payment units of services and works on the base of which then standard costs will be calculated. Often consumers directly act as payment units of services and works, however depending on nature of services other payment units also can be applied. For example, for library service the process of checkout can be considered as the payment unit because the same consumer can take and hand over several times books from the library during the day [9].

**Collecting Necessary Data on Actual Expenses of the Institutions:**

At this stage the detail request is developed and filled by the institutions for which standard costs on services and works will be calculated. It includes necessary data on the actual expenses of institutions for the previous periods and also necessary information for the subsequent distribution of indirect (not connected directly with rendering, execution of works) expenses on services, works.

**Classification of Institutions' Expenses:** At classification of institutions' expenses in order to calculate the standard costs on services and works it is necessary to exclude all expenses having single, irregular character. The specified irregular expenses have to be financed separately from financing of the primary, current activity of institution on

rendering services and performance of work - by means of granting subsidies to the institution for other purposes or the budget investments [10].

For calculation of the standard costs connected with rendering the state services (performance of work) it is used the following classification of institutions' expenses of establishments:

- the expenses which are directly connected with rendering services, works (expenses on services);
- expenses which aren't connected with service, works, but are necessary for providing the status of an institution - on management and operation of the building of an institution, transport and communication services, the maintenance of property (status expenses).

The choice of methods of distribution of indirect expenses on services, works of state institution taking into account specifics of services and works on the base of which the calculation of standard costs is set. After the actual expenses of institution are divided into expenses on services and status expenses, it is possible to start definition of the standard costs connected with rendering the state services, performance of work. This process reminds designing of the full standard (including both expenses on service and part of expenses on providing the status of an institution) from components.

Expenses on services, works is the first element and the basis of "design" of standard costs on each corresponding service, work (classified by different options of rendering and cost).

Status expenses of an institution are distributed on services, works according to the chosen way of such distribution. Most often status expenses (maintenance costs of not used property) are distributed on services (works) in proportion:

- To labor costs of the main stuff (the workers who are directly participating in process of rendering services or performance of work);
- To fund of pay of the main stuff;
- The areas of used buildings, constructions, the land plots (for example, concerning utility costs and maintenance costs of buildings, constructions, the land plots).

The sum of the expenses which are directly carried on service (work) and the corresponding share of status expenses of an institution, defined by the chosen method of distribution, form the size of the standard costs connected with rendering the state service. The sums of standard costs on the services multiplied by volumes of

rendering the corresponding services and works by the budget institution according to a task of the founder, form subsidy size to establishment on performance of the state task.

Besides a subsidy for execution of a task of the founder, budget (as well as autonomous) institution can get subsidies for other purposes and the budget investments provided on financing of irregular, "single" expenses which are not connected with the current activities of an institution for rendering services (work) within a task of the founder.

The essential weak point of the described simplified approach to the calculation of standard costs is that execution of calculations on the basis of the actual expenses of an institute doesn't allow establishing objectively necessary volume of expenses on service or work for its granting at high quality.

The way of the solution of this problem is gradual formation of the "calculating" quality standards of the services containing necessary qualitative parameters of their granting, along with calculation of standard costs "from the actual expenses of institutions" and subsequent "pulling up" of standards to the calculated cost of the services corresponding to standards.

In such a way, even when using the simplified approach to change of a method of financial provision of the state services it is necessary to apply elements of an integrated approach. In author's opinion the most effective is a combination of a standard and contract methods of financial provision of the state services.

## REFERENCES

1. Bikas, C.S., 2005. International Perspectives of school finance. *Financing Education*, 5: 14-21.
2. [www.economy.gov.ru](http://www.economy.gov.ru)
3. Becker, G., 2013. *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*. Chicago: University of Chicago Press, pp: 1-132.
4. Cullis, J. and P. Jones, 1998. *Public Finance and Public Choice*. Oxford: Oxford University Press, pp: 31-37.
5. Myles, G.D., 1995. *Public Economics*. N. Y: Cambridge University Press, pp: 1-245.
6. Musgrave, R.A., 1959. *The Theory of Public Finance*. N. Y: McGraw-Hill., pp: 1-204.
7. Sachs, J.D., 2005. *The End of Poverty: Economic Possibilities for Our Time*. N. Y: Penguin Books, pp: 1-189.
8. Spence, M., 1973. Job Market Signaling. *The Quarterly Journal of Economics*, 87(3): 355-374.
9. Weisbrod, B.A., 1964. *External Benefits of Public Education: An Economic Analysis*. Princeton, NJ: Industrial Relations Section, Dept. of Economics, Princeton University, pp: 1-284.
10. HELB Review Financing Higher Education Issue. 2 (February), 2002