The Role of Medium-Term Expenditure Frameworks and Executive Budget's Flexibility in Implementation of Performance Budgeting

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Abstract

Performance budgeting refers to public sector funding mechanisms which use performance information to link funding to results – outputs and/or outcomes – with the aim of improving performance. The purpose of this paper is to examine the role of medium-term expenditure frameworks and executive budget's flexibility in implementation of performance budgeting. A questionnaire was used to infer the research hypotheses. This questionnaire was distributed among 70 financial and budget staff in the Isfahan municipality in 1398. To test the hypotheses, information are analyzed by the structural equation modeling. Findings show that there is a positive and significant relationship between the medium-term expenditure frameworks and performance budget and also between the budget flexibility and performance budget.

Keywords: Budget Flexibility, Medium-term Expenditure Frameworks, Performance Budget.

Introduction

Correction and improvement of decision-making on the most effective way are done to use the organization's limited resources and improving the performance by linking budget and program performance, making managers more accountable for decisions that affect budget results, better management support by linking budget results and measuring budget performance by measuring the performance of the program in the process of controlling and reporting the results and presenting the system and process in which budget decisions are made mainly based on measurable results and priority goals (Sane, 2017).

A budget is an operation plan in terms of values and for a given time. In general, budgets have two main roles; one is that

they are licensed, that is, they allow managers to account for some of the costs in their organization, and the other is that they compare current performance, such as the standard that can be used to control the current operation. These two roles are intertwined in the budget planning and control system; two tools that are vital to the survival of any organization (Khan Mohammadi & Naser Abadi, 2011).

Performance-based budgeting is considered a significant evolution in the budget system of the countries that could play an important and effective role in the development of the countries. The distinguishing feature of this system is the emphasis on the goals and results of the activities. In performance-based budgeting, in addition to separating credits into tasks, programs, activities, and plans, the volume and cost of executive operations of government and government agencies are calculated and measured according to scientific methods such as cost price accounting methods; Performance-based budgeting is based on a detailed analysis of programs and operations, and their cost price is calculated and determined based on the goals and objectives of the government organization (Eghbali, 2018). In other words, the performance budgeting system intends to link the performance and sources allocation indices. The idea behind performance budgeting is that policymakers base their financial decisions on an objective basis and efficiency and effectiveness (Ghaei, 2016).

On the other hand, the medium-term framework of expenses is a transparent process of program and budgeting codification, through which the Cabinet and the organization responsible for program and budget reach a legal understanding to allocate public resources in accordance with the priorities set by financial discipline. The medium-term expenditure framework (MTEF) is the framework for linking the medium-term program to the annual budget. This framework establishes a link between government costs and social goals, such as lower population growth rates, higher literacy rates, lower infant mortality rates, gender balance, etc., and allocates budget resources to activities and projects in a way to realize them (Janani, 2010). The MTEF is a mechanism for implementing a public expenditure-based budgeting system. This framework, in addition to increasing the efficiency of resource allocation, also promotes financial discipline and operational efficiency (Kurdbacheh, 2006). In order to implement performance-based budgeting, which is to be the basis for preparing annual budgets, given that it takes more than a year to achieve performance indicators, it is necessary to provide longer-term frameworks. These frameworks must be in line with long-term and midterm development plans and in order to achieve the goals predicted in them (Shirdeli, 2017).

The flexible budget also helps a marketing plan that helps businesses take initiatives that we inevitably have to take in response to environmental reactions. Logical and inflexible marketing budgeting will not allow companies to take initiative and change after planning. That is to say, it will somehow limit the companies for post-program changes. The use of this type of budget will require the ability to respond to current and sudden developments, as well as meet the needs and shortcomings, which are vital in a competitive market (Abdullahi, 2015). Many experts, while emphasizing the role of flexibility as one of the ways to deal with environmental uncertainty, have stated that increasing flexibility is generally associated with increased performance and ultimately organizational effectiveness (Eapen, 2010).

According to the abovementioned, it is necessary to investigate the medium-term framework of expenditures and the flexibility of the executive budget as factors influencing the implementation of performance budgeting. Therefore, this study aims to answer the main question of whether the medium-term framework of expenditures and the flexibility of the executive budget play a role in the implementation of performance budgeting. Also, due to the lack of researchers and the lack of a similar sample in the country, it is necessary to study this issue empirically in order to be able to see better decisions and planning based on the findings.

In the following, the theoretical foundations and the research background are mentioned and then the method, findings, and conclusion and discussion are explained.

Theoretical foundations and Research Background

Budgeting is seen as the process of allocating resources to unlimited needs. The total effort spent on budgeting and resource allocation is to make the most of resources that are usually insufficient and so-called economically scarce. Therefore, in order to achieve the desired goals, it is necessary to use any of the limited resources in such a way that in converting all resources into money, it can be said that maximum use has been made with minimum cost (Sane, 2017). Performance budget refers to the mechanisms for financing the public sector that use performance information to link the budget to results-output / or return with the aim of improving performance (Martí, 2019). The idea behind the performance budget is that if planners base their budget decisions objectively on efficiency and effectiveness, then both they and stakeholders can make a clearer judgment about the organization's performance (Shirdeli, 2017).

On the other hand, the inflexibility of medium-term plans can create many barriers to the implementation of annual budgets. In order to solve this problem in the developed countries of the world and some developing countries in recent years, medium-term expenditure frameworks have been used (Shirdeli, 2017). It is important to use a medium-term framework to implement a successful performance budget. Previous studies (Bleyen et al., 2016) and(Mussari et al., 2016) believe that the time horizon is a key variable for implementing a performance budget. Successful performance budget requires strategic planning (preferably at the government level) to the extent that it can make decisions to clarify evidence-based orientation for government programs. Medium-term financial planning facilitates a performance-based budget. This is because medium-term financial planning can provide a systematic approach to resource allocation, the results of which may take more than a year (Martí, 2019).

Budget flexibility is also an aspect of the medium-term expenditure framework. By using budget flexibility, it is possible to transfer unused funds for operating and investment expenses from one year to the next (Martí, 2019). Flexibility in budgeting allows costs to be made only for more lucrative uses, but it should not be overlooked that doing so is like accepting a heavy responsibility and requires great care, scrutiny, and rigor. Flexible budgets are a series of separate loops that can be increased or decreased by changing sales volume. As mentioned, the problems with most budgets are inflexible and lack of scenarios. Scenario-making means that several scenarios are defined for different conditions

(Abdullahi, 2015). Previous studies have shown that perceived freedom by general managers has a major impact on improving perceived results. (Kan'aani, 2019) concluded that having more flexibility (measured as the part that is able to change and transfer its budgetary resources to carry out a mission) leads to an increase in the use of reported performance information. Therefore, it is expected that with the increase in the flexibility of the executive budget, the use of performance information in budget negotiations will increase with budgetary authority (Martí, 2019).

In Iran, no research has been done on the variables of this study. However, an attempt has been made to conduct similar studies with the variables of the present study, for example, (Ghaei, 2016) conducted a study entitled "Identifying and ranking the barriers to the establishment of operating budget with an activity-based costing approach (ABC) (case study: Karaj metropolitan municipality)". The results of the binomial test and the descriptive statistics obtained from the study of the opinions of the employees of the financial unit of Karaj Municipality regarding the obstacles indicate that the statistical sample opinions are in line with the program and budget experts on the existence of obstacles. The first obstacle is the lack of a highly skilled and experienced upstream entity to review and approve and close the operating budget with an activity-based costing approach (ABC) and the last obstacle to accurate identification of activities in Karaj Municipality. After identifying and ranking the obstacles, the necessary solutions were provided. Also, (Eghbali, 2018) in a study entitled "The effect of ability variables, organizational factors and environmental requirements on the establishment of a performance-based budgeting system (studied: Maragheh city municipality)"

concluded that among each of the variables studied in Research such as "performance evaluation", "empowerment of human resources", "political requirements", "legal requirements", "commitment of members of the organization", "procedural justice", "sufficient resources" have a significant relationship with the establishment of a performance-based budgeting system. Therefore, all the hypotheses are confirmed. In addition, (Andrews, 2004) in a study entitled "providing a proper model for the establishment of the performance-based budgeting system (PBB) in the General Administrative of School Renovation, Development, and Equipment of Ardebil Province", concluded that implementation of the performance-based budgeting is essential and activity-based costing (ABC) is a proper tool. After investigating the possibility of the establishment of the performance-based budgeting system, if there is a possibility to establish this system, the method of its implementation matters.

Furthermore, some foreign studies can be mentioned. For example, in a study, (Andrews, 2004) showed that there is possible to implement performance-based budgeting in some states in which, there are more professional and expert capabilities for such changes, and officials have more authorization for such changes and the change acceptance is more. Also, (Holzer et al., 2016), in a study entitled "Implementation of performance-based budgeting in the states" lessons learned from New Jersey" presented recommendations and evidence to improve the strategies of the current performance budget for the state. Moreover, (Helmuth, 2010)in a study entitled "The effect of the flexible budget on the organizational flexibility and inertia", concluded that using the flexible budget that separates the negative changes resulted from the reduction of sales volume, can contribute

to the organizational inertia. However, if managers try to minimize performance reduction through the development of organizational flexibility, this can be balanced. The results also showed that the balance between the production manager and control manager that are constantly under different institutional logic is important in order to provoke the organizational flexibility, especially in the projects of constant improvement. Eventually, (Martí, 2019) in a study entitled "performance budgeting and Medium-Term Expenditure Framework (MTEF): a study in the countries of Organization for Economic Co-operation and Development), investigated the relationship between the performance budget, MTEF and budget flexibility through the sample consisting of 34 member countries of Organization for Economic Co-operation and Development. Most of the countries took the mid-term perspective in the budget process, however, the budget flexibility is limited. The results showed that the implementation of the MTEF in the past has a positive relationship with the performance budget. Countries that currently use higher performance evaluations, use more public surveillance and disclosure.

Research Hypotheses

In order to test the research hypotheses and evaluate the role of implementing the MTEF and the executive budget flexibility in the implementation of the performance budget, the same questionnaire of (Martí, 2019) and (Kigundu, 2015) was used. The research hypotheses are as follows:

First Hypothesis: there is a significant relationship between the Mid-Term Expenditure Framework and the effect of implementing the performance budget.

Second Hypothesis: there is a significant relationship between the executive budget flexibility and the effect of the implementation of the performance budget (Oyadomari et al., 2018).

Research Variables
Independent Variables

1- **Mid-term Expenditure Framework:** To measure this variable, similar to the research of (Kigundu, 2015), the operational efficiency of the mid-term expenditure framework is used. In fact, the questionnaire determines the extent to which the mid-term expenditure framework can play a role in operational efficiency through the implementation of the following aspects. The statements are as follows (respondents using the 5-points Likert scale respond to the statements: 1 = I completely disagree; 2 = I disagree; 3 = I have no idea; 4 = I agree; 5 = I completely agree):

a) The MTEF leads to an improvement in the balance sheet.

b) The MTEF leads to leads to increased matching between total expenditures and the main approved budget.

c) The MTEF leads to improved overall economic estimates (revenue, expenditure, net domestic and foreign budget deficit financing), including future budget estimates.

d) The MTEF leads to the improvement of the coherence of key budget time programs outlined in the budget calendar.

   2. Flexibility of Executive Budget: A similar survey questionnaire used by (Martí, 2019) is used to measure the flexibility of the executive budget at the municipal level. To this end, the mechanisms of flexibility in the budget include allowing the transfer of unused

funds and obtaining loans for the allocation of funds. The questionnaire statements are as follows (respondents using the 5-points Likert scale respond to the statements: 1 = I completely disagree; 2 = I disagree; 3 = I have no idea; 4 = I agree; 5 = I completely agree):

I. Loans can be taken from the government to allocate future funds (operating expenditure).

II. Loans can be taken from the government to allocate future funds (investment expenditure).

III. The unused allocated funds (operating expenditures) can be transferred from one year to another.

IV. The unused allocated funds (investment expenditures) can be transferred from one year to another.

Dependent Variable
Implementing Performance Budget:

To measure this variable, the Municipal Performance Budgeting Methods Index is used. To this end, a questionnaire similar to the (Martí, 2019) survey is used. In this study, performance budgeting systems are operated through the following variables: Existence of standard performance budgeting framework, use of performance information, and its consequences if performance is not in line with the objectives. The questionnaire statements are as follows (respondents use the 5-points Likert scale to answer the following statements: 1 = I completely disagree; 2 = I disagree; 3 = I have no opinion; 4 = I agree; 5 = I completely agree):

i. Existence of a standard framework for performance budgeting in the municipality

ii. Use of financial data in negotiations with budgetary authorities

iii. Use of operational data and performance reports in budget negotiations

iv. Using costs reviews in negotiations with budgetary authorities

v. Using statistical information in negotiations with budgetary authorities

vi. Using independent performance information in negotiations with budgetary authorities

vii. Using performance evaluation in budget negotiations with budgetary authorities

viii. Consequences of weak performance: disclosure of weak organizational performance or program for the public

ix. Consequences of weak performance: heavy surveillance on the organization or program

x. Consequences of weak performance: budget reduction

Data Analysis

Data analysis is conducted after collecting data from the community sample. In data analysis, three objectives are pursued: initial statistical description of the data (initial knowledge of the data), data fitness test, and research hypothesis test. In order to deduce the research hypotheses, a questionnaire is used, which is distributed among 70 employees of the finance and budget department of the Isfahan Municipality in 2019. In the following, descriptive analysis is performed first and then the inferential analysis is conducted.

Research Findings
Descriptive Analysis

In order to better understand the community studied in the study, it is necessary to describe the statistical data before analyzing it. Also, the statistical description of the data is a step towards recognizing the pattern governing them and the basis for explaining the relationships of the variables used in the research.

Table 1. Frequency of gender groups

Gender	Frequency	Frequency percentage
Female	28	40
Male	42	60
Total	70	100

According to (Table 1), among the respondents to the questionnaire in terms of gender, 60% are male and 40% are female (Chart 1).
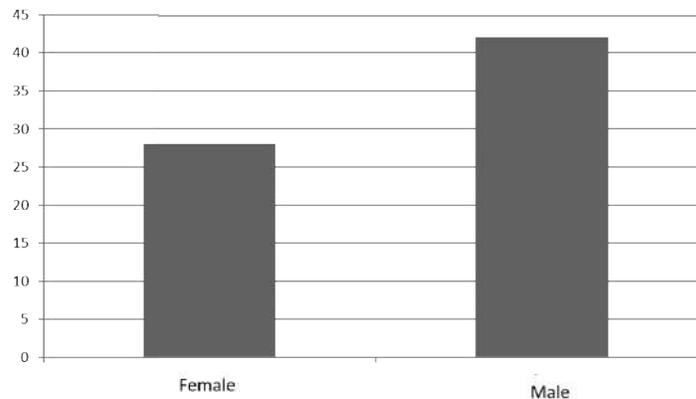

Figure1. Frequency of Gender Groups

Table 2. Frequency of Groups of Education Level

Education level	Frequency	Frequency percentage
Bachelor	30	42.9
Master of Science	33	47.1
Ph.D.	7	10.0
Total	70	100

Among the respondents to the questionnaire in terms of education level, the majority of the respondents have a master's degree (47.1%) (Table 2) and (Chart 2).
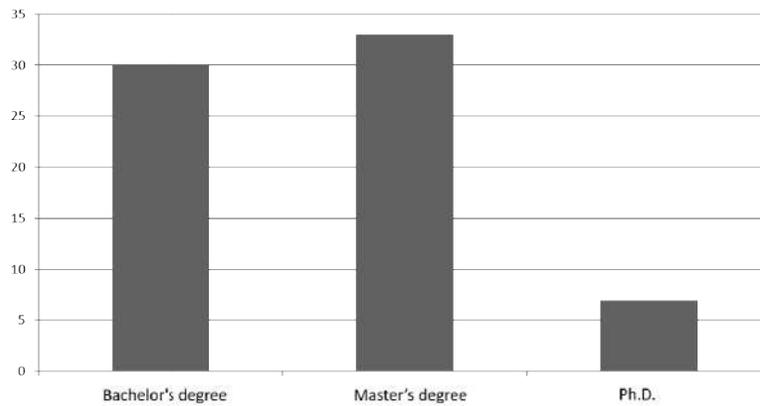
Figure2. Frequency of groups of education level

Table 3. Frequency of Age of Respondents

Age	Frequency	Frequency percentage
20-30 years old	4	5.7
30-40 years old	40	57.1
40-50 years old	19	27.1
More than 50 years old	7	10.0
Total	70	100

Among the respondents to the questionnaire in terms of age, most people were in the age group of 30-40 years old (57.1%) (Table 3) and (Chart 3).
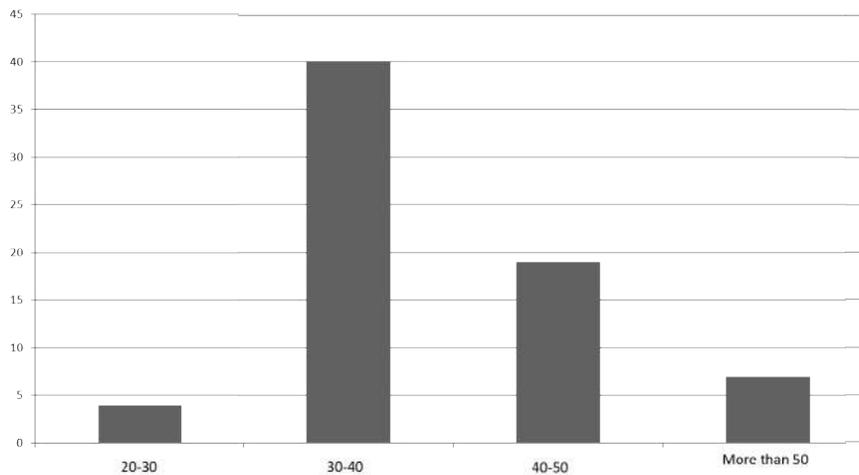

Figure 3. Age Frequency

Table 4. Years of Service of the Respondents

Years of service	Frequency	Frequency percentage
5-10 years	9	12.9
10-15 years	29	41.4
15-20 years	22	31.4
More than 20 yeas	10	14.3
Total	70	100

Among the respondents to the questionnaire in terms of years of service, the majority of the people have the 10-15 years of service (41.4%) (Table 4) and (Chart 4).
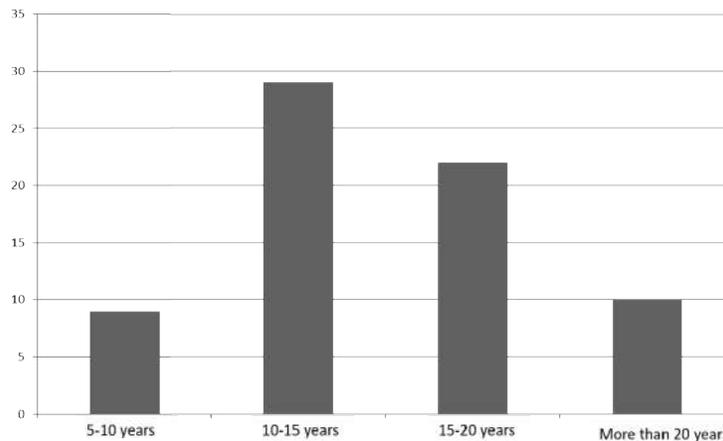

Figure 4. Frequency of years of service

Descriptive Data Analysis
In this section, descriptive statistics, average, maximum and minimum, the variance of the characteristics of sample variables are presented. Providing descriptive statistics is important because it provides a better understanding of society and its general characteristics, as well as a better analysis of the relationship between variables.

According to (Table 5), descriptive statistics of all the research variables are as follows in terms of statistical indices.

Table 5. Descriptive statistics of research variables

Variable	Sample Statistics	Minimum Statistics	Maximum Statistics	Average Statistics	Standard Deviation Statistics
Performance budgeting	70	20.0	4.10	3.435	0.580
Mid-term Expenditures Framework	70	2.00	4.25	3.639	0.511
Flexibility of executive budget	70	2.50	4.50	3.628	0.628

Inferential Analysis

Inferential statistics determine whether the patterns and processes discovered in the sample are also applied in the statistical population. Inferential statistics include all statistics and tests that test research hypotheses, in other words, estimate community parameters from sample statistics. Therefore, in the inferential statistics section, two cases should be considered simultaneously: first, what type is the hypothesis. Second, at what level are our data measured?

Confirmatory Factor Analysis of Measurement Models

Before entering the hypothesis testing phase, it is necessary to ensure the accuracy of the measurement models of the research variables. Therefore, the following are the measurement models of these variables. In this study, confirmatory factor analysis was performed using first-order factor analysis,

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second-order factor analysis, and path analysis. This analysis was performed by structural equation modeling using LISREL statistical software.

In investigating each of the models, the basic question is whether this measurement model is appropriate. To answer this question, Statistics χ^2 and other criteria for the suitability of the model fit should be considered. In this way, a model is suitable that has the following optimal states. The lower the test χ^2 is the better, because this test shows the difference between the data and the model. The GFI (Goodness of Fit Index) and AGFI (Adjusted Goodness of Fit Index) should be more than 90%. The lower the RMSR is he better, because this is a measure of the average difference between the observed data and the model data.

Testing Research Hypotheses Using Structural Equation Modeling Analysis

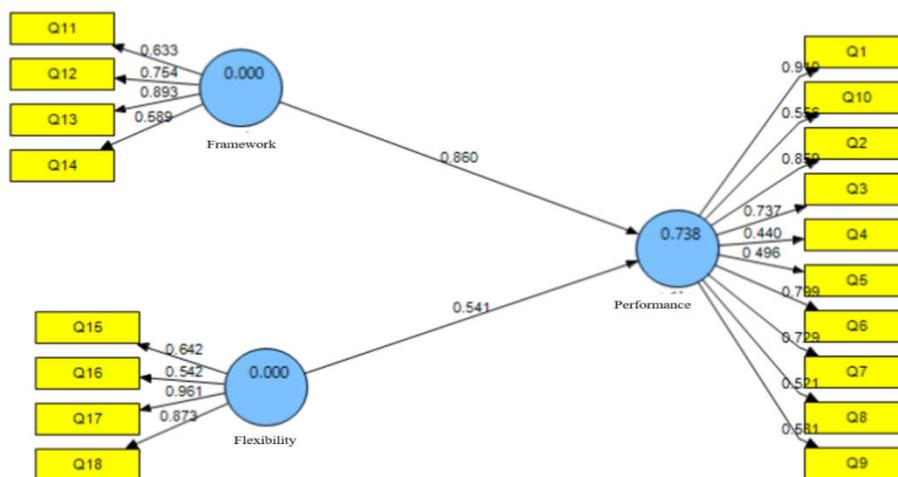In this section, the test of the research hypotheses is conducted using PLS software

Figure1. Research structural model along with the load factor coefficients
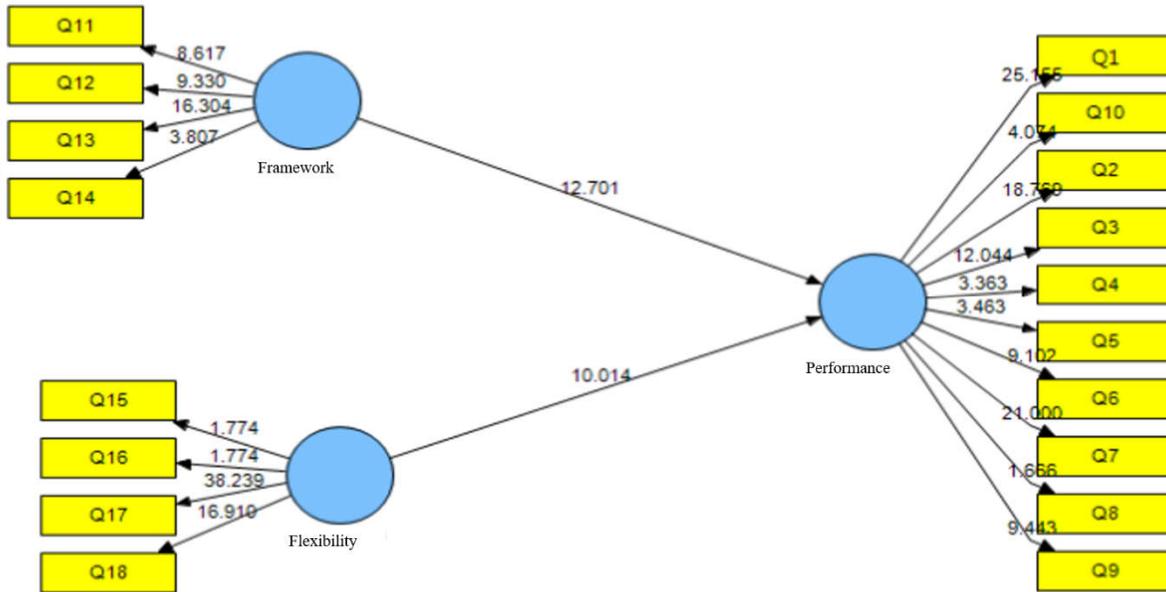
Figure 2. Research Structural Model along with significance coefficients

Model Fit

To check the fitness of the model, the fitness of the measurement model, the fitness of the structural model, and the overall fitness of the model are used.

Fitness of the measurement models:
Reliability:

To investigate the reliability of the research measurement model, the coefficients of Cronbach's alpha and the composite reliability are studied.

Cronbach's alpha, Composite Reliability

According to the data analysis algorithm in PLS, after measuring the factor loads of the questions, the Cronbach's alpha coefficients and the composite reliability are calculated and reported, the results of which are given in Table 6.

Table 6. The results of Cronbach's alpha and composite reliability of the research latent variables

Latent Variables	Coefficient of Cronbach's alpha (Alpha>0.7)	Composite Reliability Coefficient (CR>0.7)
Performance budgeting	0.817	0.855
Mid-term Expenditures Framework	0.795	0.813
Flexibility of executive budget	0.790	0.753

Considering that the proper value for the Cronbach's alpha and composite reliability is 0.7and according to the findings of Table 6, these criteria took the proper value for the latent variables, the suitability of the research reliability can be confirmed.

Convergent Validity

The second criterion for examining the fitness of measurement models is convergent validity, which examines the degree of correlation of each structure with its questions (indicators).

Table 7. Results of Convergent Reliability of Research Latent Variables

Latent Variables	Average Variances Extracted (AVE>0.5)
Performance budgeting	0.508
Mid-term Expenditures Framework	0.528
Flexibility of executive budget	0.679

Given that the appropriate value for AVE is 0.5, and according to the findings (Table 7), this criterion has adopted a suitable value for latent variables, as a result, the suitability of the convergent research validity is confirmed.

Fitness of Structural Modeling: Significance Coefficients (T-Values)

According to Figure 2, because the coefficients t for all research hypotheses are greater than 1.96. Therefore, at the 95% confidence level, their significance is confirmed.

R Squares of R^2

The second criterion for examining the fitness of a structural model in a study of R^2 coefficients is related to the endogenous latent variables within the model. R^2 is a measure of the effect of an exogenous variable on an endogenous variable, and three values of 0.19, 0.33, and 0.67 are considered as criteria for weak, moderate, and strong R^2 values. According to Figure 1, the value of R^2 is calculated for the endogenous structures of the research, which according to the three values of the criterion, it can be confirmed that the suitability of the structural model is appropriate (Table 8).

Table 8. Results of R^2 criterion for endogenous structure

Latent Variables	R^2
Performance budgeting	
Mid-term Expenditures Framework	0.738
Flexibility of executive budget	

General Fitness of Model
Goodness of Fit Criterion

To evaluate the fitness of the general model, the GOF criterion is used, which is 0.1, 0.25, and 0.36 as weak, medium, and strong values for GOF.

This criterion is calculated using the following equation.

$$GOF = \sqrt{communalit ies \times \overline{R^2}}$$

$\overline{Communalities}$ is obtained from the average of the communality values of the research latent variables (Table 9) and (Table 10).

Table 9. The value of communality and R^2 of the research variables

Latent Variables	Communality	R^2
Performance budgeting	0.508	
Mid-term Expenditures Framework	0.528	0.738
Flexibility of executive budget	0.679	

Table 10. Results of the general fitness of the model

$\overline{Communality}$	$\overline{R2}$	GOF
0.593	0.738	0.649

According to the value obtained for GOF of 0.649, a very good fit of the general model is confirmed.

Testing the First Hypothesis

H_0: There is no significant relationship between the implementation of the mid-term Expenditure framework and the effect of the implementation of the performance budget.
H_1: There is a significant relationship between the implementation of the Mid-term expenditures framework and the effect of the implementation of the performance budget.
In the hypothesis test using the structural equation model, first of all, the software output indicates the suitability of the fitted structural model for the first hypothesis test. According to Figures 1 and 2, the standardized coefficient (path coefficient) between the two variables (implementation of the mid-term expenditure framework, and the effect of implementing the performance budgeting) is 0.860. And the significance coefficient (t-statistics) between these two variables was 12.701 (more than the absolute value of 1.96) which shows that this relationship is significant. Therefore, the H_0 hypothesis is rejected and the H_1 hypothesis is confirmed, and it can be concluded that there is a significant

relationship between the implementation of the mid-term expenditure framework and the impact of the implementation of performance budgeting.

Testing the Second Hypothesis

H_0: there is a significant relationship between the flexibility of the executive budget and the effect of the implementation of the performance budget.
H_1: there is a significant relationship between the flexibility of the executive budget and the effect of the implementation of the performance budget.
According to Figures 1 and 2, it can be said that the standardized coefficient (path coefficient) between the two variables (flexibility of the executive budget and the effect of implementing the performance budgeting) is 0.541. And the significance coefficient (t-statistic) between these two variables was 10.044 (more than the absolute value of 1.96) which shows that this relationship is significant. Therefore, the H_0 hypothesis is rejected and the H_1 hypothesis is confirmed, and it can be concluded that there is a significant relationship between the flexibility of the executive budget and the effect of

implementing the performance budgeting (Table 11).

Table 11. Results of the direct relationship and the significance coefficients of the research model hypotheses

Hypothesis	Causal relationships between the research variables	Path coefficient (β)	Significance (T-Value)	Test results
1.	There is a significant relationship between the mid-term expenditures framework and the effect of the performance budgeting.	0.860	12.701	First hypothesis is confirmed.
2	There is a significant relationship between the flexibility of the executive budget and the effect of the implementation of the performance budget.	0.541	10.014	Second hypothesis is confirmed.

Conclusion

Performance budgeting is a budget allocation approach that encourages organizations to produce measurable results, therefore, it is necessary to examine the factors that lead to the successful implementation of performance budgeting. Thus, executive agencies, including municipalities, can work on implementing performance budgeting to enhance the potential for financial resource management as well as greater flexibility in the use of financial resources and the conversion of focus from input to results. Therefore, in this study, the role of the mid-term expenditures framework and the flexibility of the executive budget in implementing the performance budgeting was examined. In order to deduce the research hypotheses, a questionnaire was used, which was distributed among 70 employees of the finance and budget department of Isfahan Municipality in 2019. Directing the budgeting system to performance budgeting will lead to the optimal allocation of resources in the municipality and enable managers to make better use of the resources allocated to their organization to achieve the desired goals. Therefore, by using this budgeting system, the possibility of

accountability of managers will also increase.
In the first hypothesis, the relationship between the implementation of the mid-term expenditure framework and the impact of the implementation of performance budgeting was examined. The findings show a positive and significant relationship between the mid-term expenditure framework and performance budgeting. Using the mid-term expenditure framework allows municipalities to expand their financial policy horizons beyond the annual budget calendar. The mid-term expenditure framework usually covers all stages of presenting, implementing, and overseeing multi-year budget programs.
Considering a longer time horizon in budgeting will ensure the multi-year results of the expenditures. In other words, the mid-term expenditure framework is generally considered to be an effective tool for increasing the budgeting efficiency forecasting and optimizing resource allocation. The main objectives of the mid-term expenditure framework are to improve overall budget control and more strategic allocation of resources. Finally, municipalities need a longer-term horizon to make decisions to set goals for their programs in order to be able to have a successful performance budget. Hence, the

mid-term planning to provide the funds and allocation of the resources leads to the improvement in the performance-based budgeting. Therefore, the mid-term expenditure framework plays a positive role in the implementation of the performance budget. The results of the first hypothesis are in line with the results of the study conducted by (Martí, 2019).

In the second hypothesis, the relationship between the flexibility of the executive budget and the effect of implementing the performance budgeting was investigated. The findings suggest that the flexibility of the executive budget improves the implementation of performance budgeting. Budget flexibility is part of the mid-term expenditure framework. Municipalities can use budget flexibility to transfer unused funds for operating and investment expenses from one year to the next. Therefore, they can achieve better results when municipalities have more freedom of action. In fact, when budgetary financial resources can be shifted to achieve the goal, the use of performance information increases budget. Therefore, the flexibility of the executive budget plays a positive role in implementing performance budgeting. The results of the second hypothesis of the present study are not consistent with the results of the study of (Martí, 2019). In his study, (Martí, 2019) found no evidence that there was a relationship between executive budget flexibility and the impact of implementing performance budgeting, while the present study confirmed the existence of such a relationship.

the following recommendations are presented according to the results of the research hypotheses:

a) According to the results of the first hypothesis, the performance budget emphasizes on the performance measurement and the links the resources to the product and results through activities. The main objective is to create a mid-term expenditures framework as well as determining the realization of the predicted objectives based on the mid-term development plans (Performance). Therefore, determining whether plans are effective in terms of costs and expenses requires a longer-term framework or the same mid-term framework. Therefore, it is suggested that the mid-term expenditure framework be used in this budgeting system.

b) According to the results of the second hypothesis, in order to improve the budgeting system and implementation of the performance budgeting, using a flexible budgeting system is recommended. In fact, in order to organize the performance budgeting, the importance and necessity of using and implementation of flexible budgeting must be considered and pursued seriously by the authorities and officials.

Meanwhile, future researchers can perform similar studies like the current study in other provinces and cities or in a special area.

There were some limitations during the distribution and collection of the questionnaires the most important of which was the administrative bureaucracy and the lack of the initial cooperation of the staff that was conducted very well after the researcher's explanation and the coordination with the security section. Among the research, limitations are the improper familiarity of the staff of the financial and budget department of Isfahan Municipality with the research variables and the lack of cooperation of some of the respondents in responding to the

questionnaire's questions and giving neutral opinions.

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