Modern Budgeting
Executive Summary

The management revolution that is restructuring the public sector in the OECD community has been under way for more than a decade in some countries and is only starting in others. The duration of this revolution attests to the difficulty of uprooting old rules and habits, as well as to the staying power and determination of reformers. The task has not been completed in any of the countries that have sought to transform public administration, but in none is there serious risk of abandoning reform and reverting to the traditional command and control relationship between the centre of government and public agencies and between the centre of departments and operating units.

In the five countries examined in this report -- Australia, France, New Zealand, Sweden and the United Kingdom -- there is professed consensus within government that the centralised model no longer suits the needs and conditions of public management. Reform has been centred around accountability frameworks in which the government entrusts spending agencies with flexibility in using resources, in exchange for holding them responsible for results. The repertoire of devices for enforcing managerial accountability includes strategic and operational plans, performance measures and targets, contracts for personal and organisational performance, de-coupling service delivery from policy making, new accounting rules and annual reports, more active use of evaluation and auditing, and financial inducements and sanctions.

The five countries have different governing traditions and have approached reform differently. France has a long tradition of detailed supervision by financial controllers, and it has moved cautiously to enlarge the operational discretion of local managers. There is substantial evidence of progress as the reforms move from the experimental stage to implementation across the public sector. Sweden is at the other end of the spectrum, for it has a long history of small ministries and relatively autonomous agencies. Sweden gives managers more latitude than is found in some other countries, so that, although the innovations have been less dramatic than elsewhere, they have been effective. On the eve of reform, more than a dozen years ago, the United Kingdom had already retreated from the doctrine of Treasury Control that it had practised for more than a century. Its financial management initiative launched in 1982, the Next Steps initiative commenced half a dozen years later, and the fundamental expenditure reviews now under way have been spurred by political support at the top of the government for re-shaping the public sector. Australia entered the reform era with highly centralised controls, but in the past dozen years it has discarded many personnel and financial restrictions and adopted a variety of political and administrative arrangements to stimulate management improvement. As a small country with an open economy, New Zealand felt its future well-being threatened by powerful international forces, and it responded by creatively adapting commercial practices to public management.

The five countries face similar problems in restructuring national administration. All must establish new relationships between the centre, which is politically accountable for governmental performance, and operating units, where services are provided and most resources are spent. Defining this new relationship has been difficult because strategic controls must be devised in place of the discredited ex ante controls. In visits to the five countries, the view was sometimes put that once central intervention in administrative details has ended, spending agencies should be free to chart their own course without substantial direction from the top. This is a naive and wrong-minded view which, if not challenged, may undermine or discredit reform. The point must be made that reform does not open the door to an "anything goes" attitude to public money. But the fact that complaints about central interference persist in the face of a truly massive withdrawal of central organs from the details of expenditure highlights the difficulty of defining new roles and relationships. Most countries have had difficulty drawing a clear line between the responsibilities of central and operating institutions.

Each country faces considerable pressure on its operating budget. In fact, running costs (adjusted for inflation) and staffing levels have declined over the past decade. The trend has given spending agencies mixed messages. On the one hand, it has spurred them to actively search for efficiencies; but on the other, it has generated some apprehension that the reforms have more to do with cutting resources than with improving management. This concern emerges in conflicts over efficiency dividends (Australia), cash limits (the
All of the countries must motivate managers to take initiative and responsibility over what they spend and produce and to accept that the performance of their organisation depends on their personal performance. There has been an enormous turnover of senior and middle managers in New Zealand and the United Kingdom, as many officials discomfited by the new managerialism have left on their own accord or have been encouraged to depart. The importation of new managers appears to be inconsequential in France and Australia. Each government must determine what is acceptable risk, as operating agencies are given discretion to spend resources and take other actions that may have important political of financial ramifications. This issue is least troublesome in Sweden, where the line between ministries and agencies is well marked, and most pressing in New Zealand and the United Kingdom, where the independence of agencies has called into question the Westminster doctrine of ministerial accountability.

In all of the countries, restructuring is seen as a long-term effort to change managerial behaviour and organisational culture. The initial steps, entailing procedural changes, such as the divestiture of *ex ante* controls, have been relatively easy. With the exception of France, this stage has been largely completed. France is lagging because it started later than the others and it must overcome the strong tradition of running the country from the centre. The second part of the bargain -- getting civil servants to manage for results and transforming state agencies into performance-driven producers of public services -- is taking much more time. One may wonder whether, in the absence of market discipline, this objective will ever be fully attained. Even when a management ethic has taken hold, as it has in several of the countries reviewed here, one cannot be sure that it has been institutionalised.

Each government has devised an instrument of choice to assure that performance information influences organisational behaviour. Australia relies on a heavy dose of programme evaluation both before policies have been initiated and after they have been funded; France is emphasising responsibility centres as a means of imbuing civil servants with awareness that their actions can make a difference in the quality of service; Sweden has placed increasing reliance on annual reports that are audited for reliability of financial and performance statements; the United Kingdom looks to framework documents and performance targets to concentrate managerial attention on key objectives and results; New Zealand invests considerable resources in negotiating performance agreements for chief executives and purchase agreements for agencies. Every country faces the problem that no matter how much it generates by way of performance information, decisions may be taken and resources allocated in disregard of objectives and results.

The introduction of new methods has also aimed at invigorating the reform effort. To restructure management the government must demonstrate its continuing commitment to the task and sustain interest among senior and middle managers. Precisely because implanting a performance ethic takes more than a decade, it does not suffice for the government to announce an initiative and then let matters run their course. At frequent intervals the last steps must be renewed by new steps.

Because of the difficulty of implanting a performance culture, every country has had a spate of disappointments; none has accomplished everything it set out to do. The United Kingdom learned that FMI had produced better information, but had done little to liberate managers at operating levels; it subsequently learned that Next Steps had energised the newly established agencies but had not yet transformed the central departments. Australia has been vexed by the problem of packaging performance information into a useful format, and it has also been disappointed by the less than optimal use of the programme structure. New Zealand has made relatively little headway in measuring outcomes, and the relationship between ministers purchasing services and agencies supplying them has not been sufficiently clarified. Sweden has been disappointed by the failure of the multi-year budget frames to deepen the quality of budget work. France has found that, despite government guidelines, some important ministries have dragged their feet in devolving responsibility to local agencies. In each country there is ample scope for complaint and criticism, but the disappointments should not blind us to the enormous progress that has been made. Because the reforms have been so ambitious, they are bound to fall somewhat short of the mark.

One of the most encouraging characteristics of the reforms is that they have not been treated by public managers as just the latest in a long series of managerial fads. They welcome the reforms and relate them to the quality of their work and the satisfaction they get from the job. Support for reform has persisted at ministerial level and in senior official ranks. It would be unrealistic to expect ministers to regard management innovation as uppermost on their political agenda, but they accord it high priority in several of the countries and demonstrate interest in all.

Beyond the impressionistic evidence, there is strong reason to believe that restructuring public management has brought sizeable efficiency gains that are reflected in lower staffing levels and reductions in real operating expenditures. Many agencies are doing more with less. While hidden reductions in service levels or quality have certainly occurred, few agencies have compensated for lost
resources by cutting services. The growing practice of publishing output plans and results discourages agencies from lowering service standards when faced with resource constraints, but an even more important influence has been the spread of managerial responsibility in service agencies. It is hard to form a judgement on how the managerial changes have affected programme outcomes. While there is no reason to suspect that outcomes have been adversely affected by the reforms, neither is there a basis for claiming that they have been improved.