

The Progressive Standardization of The Budgetary Framework of States

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Abstract

Globalisation shapes budgets and tends to gradually standardize the budgetary framework of States. In most countries, management methods are harmonized around a budgetary framework that is mainly oriented towards the pursuit of performance. In this sense, there is broad agreement on the need to build public budgets around a project logic. This consensus is supported by a requirement for efficiency in the implementation of public spending. Spending better, to collect less, has become the leitmotiv of all public leaders. As a logical consequence of performance-based management, the year is no longer an appropriate framework for achieving productivity gains. Public management must be thought of with a horizon that extends beyond the year. The logic of the "virtuous chain" between the initial budget and the return of accounts requires us to go beyond the traditional temporal conception of budgeting. However, the annual framework remains necessary to have a complete overview of the results of the budget year. Having reliable and sincere accounts becomes an obligation due to considerations of transparency, readability and good management. Accounting thus becomes an essential management and steering tool. It

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must go beyond simply checking the regularity of past performance. In doing so, we are witnessing a major change in the organization of public financial systems around the world.

Keywords: Budget, State, public administration, public accounting, performance

Introduction

Reflecting on an international standard of public management may seem provocative. The diversity and specificity of States, peoples, cultures and situations of public authorities are so different that the idea of the existence of a common budgetary framework seems surprising. The standardization of public management even seems undesirable. It is far from the idea of seeking performance, a central element of any public management. In a performance-based approach, the diversification of methods and instruments, the place given to initiatives and experiments are decisive elements for the success of the objectives pursued ¹. Overly restrictive regulations and systematic generalisations of techniques must therefore be rejected. There are probably as many performance approaches as there are communities because of the specificities related to the skills, territory and population of each community. It may not be useful in the name of public performance to impose a single model of public management. No one can reasonably claim such a model.

However, the time has come for global financial regulation. In all countries, the constraints on public finances require coordination of the different levels of public management. The "necessary overall vision of public finances,[should not] be confused with the uniformity of public decision making and management". Coordination does not require harmonisation. However, it leads to a rapprochement. For a better

¹ S. Goldsmith, W. D. Eggers, *Governing by Network : The New Shape of the Public Sector*, Washington, DC : Brookings Institution Press, 2004.

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performance of public action, public authorities are inspired by the best rules followed in the States, in a form of "competition by comparison"². Therefore, if the responses of public managers are not unique, a common general framework emerges. It is a form of harmonization of the principles of "good" public management. A shared model of public management is gradually being created with different cultures and varying levels of depth. This model reflects a consensus around key management principles. The law reflects this evolution.

From this perspective, the public management of the State and the public management of sub-State authorities are not independent of each other. It evolves according to similar standards. Due to the economic unity of public finances and transfers from the State to local authorities, a minimum of coordination and harmonisation is required. This unification is imposed, claimed or simply desired. It is verified in practice. It is carried out in a general consensus and according to principles that seem obvious today³. This study does not claim to be exhaustive on a subject of such considerable scope. She would simply like to point out that many countries are using broad management principles to reform their administration and make their services to the public more effective. These principles are common to both the private (companies) and public (administrations) sectors⁴.

² L. Guihéry, *Gestion budgétaire au Canada et en France, l'océan atlantique entre le « vice » français et la « vertu » canadienne ?*, CNRS, 2007.

³ G. Braun, *Etude comparative portant sur la réforme de l'Etat à l'étranger*, Rapport Sénat, n° 348, 2001.

⁴ M.-C. Esclassan, *Un phénomène international : l'adaptation des contrôles financiers publics à la nouvelle gestion publique*, *Revue française de finances publiques*, n° 101, 2008, p. 29.

I/ A budgetary framework mainly oriented towards the search for performance

There is broad agreement across the public structures of OECD countries on the need to design a budgetary framework built around a project-based approach. This consensus is supported by a requirement for efficiency in the implementation of expenditure⁵.

A/ The generalization of a project logic

The performance approach is now used as a common philosophy by most public authorities. It is characterised by a logic of projects with objectives, indicators and evaluated results. Within OECD countries, public management approaches are all based on a scheme that implements the triptych "objective/result/evaluation" in a project-based approach. This is a considerable development for some public actors such as the French State. With the 2001 Organic Law on Finance Laws (LOLF), the State adopted the management principles that French local authorities and companies have long been experimenting with⁶. Building "programmes" with explicit objectives and evaluation procedures has long been known in companies. This is a strategic segmentation of budgets.

This conversion of public entities to a corporate culture leads to a focus on economic imperatives and the capacity for technical expertise. It leads to a modification of the architecture and tree structure of public

⁵ A. Farazmand, *Public administration in a Global Context*, Routledge, 2015.

⁶ G. Marcou, *Quelques observations en conclusion sur la LOLF et les collectivités territoriales*, RFFP, n° 107, p. 227.

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policies in a functional logic in which performance indicators and the distribution of responsibilities are privileged⁷.

Of course, public authorities adopt very different organisations despite common principles of results-based management. However, there is a generalisation of the indicator approach with the construction of public policies in the form of "programmes", with explicit objectives and evaluation procedures. This movement, which is not recent, is nevertheless unprecedented. It encourages each public body to rethink its action and to think in terms of economy, efficiency and financial rationality in order to improve public management.

This evolution is not free of excesses. This is the case, for example, for public officials who modify their action to provide information on many indicators that are out of step with the realities on the ground. The spirit of programme management, however, is to impose the "what to do" but not the "how to do". This is why project management should not lead to the completion of indicators at the expense of the result. Administrations should therefore focus on the expertise and analysis capacity of agents to carry out projects. In this system, knowledge and creativity are essential because the means are limited. Administrations must therefore be able to attract skills and know-how. Human potential is thus a key element of good public management everywhere. Faced with the challenge of complexity, being reactive to understand phenomena and inventive to quickly design solutions is essential. This need requires investment in "intelligence". These data are well known

⁷ S. Z. Theodoulou, R. K. Roy, *Public Administration*, Oxford University Press, 2016, p. 93.

to companies. They must be fully integrated by all administrations. Like companies, they are required to constantly adapt to changes in the economic and social context. This is why improving management efficiency requires efficient information systems to guide public policies.

B/ The shared requirement for efficiency

The efficiency of administrations (or productivity in a business logic) is unanimously sought in all OECD countries. It is necessary because of the resources available, the need to satisfy the general interest and the respect due to taxpayers and future generations.

Doing more and better with the same or even decreasing resources is now a permanent concern of all public officials. This logic applies to all activities carried out by public entities, whether competitive or non-competitive. There are currently no activities outside such a requirement.

In the European Union and particularly in the euro area, the requirements for qualification for the single currency have made a significant contribution to enhancing the value of performance-based management. This evolution has been favoured by the experiences of different States (United States, Canada, Great Britain) and by the evolution of the meaning of public action : the desire to limit the weight of the State. Everywhere, the desire to change public management has resulted in the introduction of a budgetary logic centred on the search for performance. In the Public Service Agreement in Great Britain, or in the Reports on Plans and Priorities in Canada, annual performance plans have been built around departmental or interdepartmental

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programs with which a series of indicators have been associated. These are the basic elements of management through the pursuit of efficiency, performance management⁸.

The search for efficiency is not contradictory with the quality of the service provided to users. Nor does it presuppose a choice about the functioning of the administration and the relationships within it. It sometimes leads to a major effort of explanation and training to show that this objective is not contrary to that of service quality⁹.

The search for efficiency is part of the broader search for effective public spending. Effectiveness, i.e. providing a public policy with the expected contribution of a service, is another fundamental pillar of public management, inseparable from the pursuit of efficiency. It requires that the "results chain" be clearly established through the information provided by all actors. It also requires the organisation of a continuous evaluation of public policies and internal financial control. Efficiency also implies an evolution of management methods. The obvious consequence of the logic of efficiency is the end of "Taylorian" management ("I think and decide upwards, I execute downwards"). On the contrary, the efficiency of public management implies greater accountability of public officials by delegating means to promote social innovation and action performance.

In all OECD countries, managerial autonomy and, in return, staff responsibility have been the basis for the renewal of administrations. A

⁸ H. Guillaume, « Introduction de la gestion de la performance : huit exemples étrangers », *Revue française de finances publiques*, n° 73, 2001, p. 130.

⁹ S. Z. Theodoulou, R. K. Roy, *Public Administration*, Oxford University Press, 2016, p. 93.

culture of trust where the administration makes the best use of the capacities of its agents and where the spirit of inter-administration cooperation prevails must be favoured. The excessive accumulation of rules and controls, the excessive vertical concentration of powers are no longer the guarantee of an efficient administration. The overall effectiveness of public power depends increasingly on multiple forms of cooperation, both internal and external, in an increasingly complex society. This need for cooperation should lead to the decompartmentalization and simplification of structures.

Everywhere in the name of the logic of efficiency, the market is taking an increasingly important place in meeting collective needs. Companies are entrusted with the construction, operation, management or financing of public works or missions. The control of public action is also sometimes delegated to private operators, when the administration no longer has the internal means to do so.

These changes sometimes lead to value conflicts because the search for efficiency can lead to reductions in credits and changes in operating methods. By encouraging agents to give priority to actions that can enhance their personal merits, individual responsibility can run counter to collective motivation. Similarly, outsourcing tasks as a short-term cost improvement factor sometimes leads to higher costs and higher risks in the long term¹⁰. Therefore, in any efficiency system, there is a need to clearly share the values that guide action and then assume the various responsibilities.

¹⁰ F. Linditch, La réforme de l'Etat et l'externalisation contractuelle, in J.-J. Pardini, C. Deves (Dir.), La réforme de l'Etat, Bruylant, 2005, p. 229.

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II/ A budgetary framework marked by a new temporality

As a logical consequence of performance-based management, the year is no longer an appropriate framework for achieving productivity gains. However, the annual framework remains necessary to have a complete overview of the results of the budget year.

A. Exceeding the annuality by multiannual programmes

Budgetary annuality is probably becoming the most important obstacle to optimal public management. There is broad agreement on the need to think about management with a horizon that extends beyond the year. The logic of the "virtuous chain" between the initial budget and the return of accounts requires us to go beyond the traditional conception of budgeting. The discussion of budgets obviously remains subject to strict deadlines within an annual framework. However, the performance logic requires a rethinking of "budget time" with multi-year commitments that correspond to "time to implement public policies". In this sense, the "project approach" requires the preparation, discussion and voting of multiannual programmes. This new temporality is essential to improve public action in a logic of continuous adaptation of action through evaluation. The value of defining multi-year commitments, with specific objectives, is to go beyond financial or productivity performance alone. The multi-year perspective makes it possible to understand the effectiveness of public policies in their multiple dimensions: from the point of view of the citizen; from the point of view of the taxpayer; from the point of view of the user. As the temporalities of these points of view are not the same, the multi-year approach makes it possible to carry out a cross-fertilized and objective

evaluation of public action. Therefore, the budget for the year must be integrated into a multiannual programme. The "finance laws of the year" must be integrated into "multiannual programming laws". This temporality must concern both investment and operation.

The difficulty lies in the fact that in many States the primacy of multiannual laws over annual financial laws is not recognised. The "framework laws for public finance programming" do not exceed the "annual financial laws". There is a problem of hierarchy between these two types of laws. However, it is possible to imagine a system in which, for each of the years of the multiannual programming period, the legislator could only increase the expenditure ceiling or reduce the revenue floor provided for in the multiannual programming law if it increased revenue at least as much or reduced expenditure at least as much. This fungibility between expenditure ceilings and new revenue measures would make it possible to preserve the framework set by the multiannual framework law while giving the legislator a certain freedom over the year in terms of both expenditure and revenue. The advantage of this system would be to help anchor the need to control public debt as a fundamental principle of public management. The solemn scope of multiannual framework laws ensures that they are amended only in exceptional circumstances of an economic, security, social, health or environmental nature. The risk of budgetary rigidity of the multiannual framework laws is the sacrifice that the current generation must make for future generations. This risk is the price to pay to control public spending and debt. This is the price to pay for the lasting loss of independence from the financial markets in the event of

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a drift in public finances. The aim is to strengthen the framework for public deficits and debts while respecting the generally accepted ratios of good public management, which will ensure the ability of future generations to act.

B. Faster account return for better credit management

There is a consensus on the need for a more complete presentation of public accounts. Having reliable and sincere accounts becomes an obligation due to considerations of transparency, readability and good management. It is indeed verified that an exhaustive result for year n-1 makes it possible to better manage year n. It also allows for a better budget forecast for year n+1. To define strategic management tools and improve management, any public structure must therefore have a precise knowledge of its actions and assets. Accounting thus becomes an essential management tool. It must go beyond simply checking the regularity of past performance. The budget accounts must be enriched with cost accounting. This is a key element in improving performance. Cost accounting makes it possible to identify the scope for improvement in management and the risks involved. It is the natural complement to management control and performance approach. It is thanks to it that "cost standards" can be defined to optimize public spending. It is also thanks to accounting that the risks incurred by public structures can be understood. This knowledge is essential in a system focused on optimizing spending.

In line with this logic, the deadlines for returning the closing accounts for the budget year must be reduced. Rapid reporting is indeed essential to measure results and make the adjustments necessary to improve

management. The reduction in the time taken to submit the accounts makes it possible to know, at the appropriate time, the results of the past management and to take into account, as quickly as possible in the new budget cycle, the results of the previous financial year. This reduction in the time required to submit the accounts, and therefore the results, must also be accompanied by a global and consolidated presentation of the accounts. It is a question of taking into consideration all the structures linked to public authorities. This comprehensive approach must make it possible to integrate the risks associated with the "satellites" of public entities. It is also a question of giving a fair and accurate picture of the financial situation of the administrations. This comprehensive approach is also necessary for the certification of public accounts. The certification is an external audit of the accounts. It consists of expressing an opinion on the conformity of the accounts with accounting standards. This opinion is not limited to the regularity of the accounts. It also leads to a decision on their sincerity. This is not a simple verification. The certification of public accounts gives parliamentary assemblies and ministries additional assurance that they have reliable general accounts.

This faster and more complete presentation of the accounts requires the implementation of internal accounting and budgetary control. This control must be focused on the financial risks involved¹¹. More broadly, the faster and more complete presentation of accounts and the search for efficiency encourage the adoption of a logic of public policy

¹¹ R. O'Leary, D. Van Slyke, S. Kim, *The Future of Public Administration Around the World : the Minnowbrook Perspective*, Georgetown University Press, 2011.

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evaluation. Evaluation is a well-known technique in the European Union's public finances, particularly in the management of the Structural Funds¹². Since 1988, the European Community has been concerned to measure the effectiveness of its interventions in relation to the objectives adopted under its structural policy. In this respect, the Court of Auditors of the European Communities has worked to develop a genuine model for assessing revenue and expenditure¹³. The European Commission has, for its part, developed a vade-mecum on the evaluation of the Structural Funds and public policies¹⁴. In this dissemination of the evaluation at the European level, the Netherlands and Great Britain have played a leading role. The euro has also facilitated the spread of a performance culture by requiring a search for the performance of public spending. Thus, monitoring and evaluation have become instruments for optimizing public management.

Conclusion :

Public finances have been the driving force behind the great changes in societies at all times and in all places. All over the world, public finances are driving or supporting state reforms. They guide public action. This situation can be explained in particular by the intertwining of financial power with political power. As globalization impacts the power and sovereignty of States, globalization also impacts public

¹² J.-P. Duprat, M. Simmony, M. Tubul, *Les fonds structurels européens en région*, Librairie Générale de Droit et de Jurisprudence (LGDJ).-Dexia Editions, 2003.

¹³ J.-P. Chevalier, « Un avertissement aux collectivités locales gestionnaires de crédits structurels : la promotion par la Cour des comptes des Communautés européennes de la méthodologie d'évaluation des politiques publiques », *Contributions de droit économique européen*, Cahiers de l'IREDE, n° 1, P.U. Sciences sociales de Toulouse, 2000, p. 219.

¹⁴ « Evaluer les programmes socio-économiques », Collection Means, <http://europa-eu-int-comm/budget/evaluation/fr/indx/htm>.

finance law. Globalisation shapes budgets and tends to standardize the management methods and principles that apply to state administrations. The lack of resources publics and economic difficulties are a major factor in this development.

With this slow and gradual standardization movement, we are witnessing a major change in the organization of public financial systems around the world. All countries, developed and developing, are facing public finance reform. These reforms interact, they have repercussions from country to country. This is how we can see a progressive approximation of the main principles of national public finance law.

At the same time, this evolution of public finances reveals a major change in the size of the States. Financial reforms are not, in fact, simple technical adjustments. It is a new form of governance that is emerging through reforms of budgetary law. These forms of governance are modelled on those of companies to achieve an objective : the control of public finances.

The reality is that the control of public finances has become a global fact that engages the responsibility of international decision-makers and those of national and local decision-makers. This situation results in a necessary harmonization of public management practices and coordination of financial sovereignty.

The coordination of financial sovereignty concerns the internal budgetary policies of States and the production of financial standards. Fiscal policies are increasingly outside the absolute sovereignty of states due to the interaction of financial systems that influences state

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decisions. Financial sovereignty can no longer be conceived solely within the national framework, as it becomes relative for each actor. Financial sovereignty is nowadays the product of a network logic. It is an international network. From a political point of view, this new exercise of sovereignty is problematic because it is difficult to determine its centre. Thus, it seems necessary to clearly identify the forms of this new sovereignty and to structure and regulate this new financial sovereignty. The difficulty is that in the field of public finance, we are dealing with particularly tangled processes. A very wide variety of factors at both the national and international levels are involved. We are dealing with a complex whole, difficult to manage. The question then arises as to how to regulate this complex set of rules and with what kind of standards, established by whom ?

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