PUBLIC ADMINISTRATION AND THE NEW PUBLIC MANAGEMENT: A CASE STUDY OF BUDGETARY REFORM IN THE UNITED KINGDOM

Jayesh D'Souza
Metropolitan Center
Florida International University

Abstract

The 1990s have been associated with a reform movement in public administration known as New Public Management. At the core of this movement have been changes in governmental budgetary processes. Old budgetary systems have been re-constructed and new systems adopted in order to fulfill governments' goals of process efficiency and enhancing the value of its services. While budgetary reform in the United States has been paced, that in the United Kingdom has been radical. Through periodic spending reviews, a change in accounting system and a new way of measuring performance, the Government of the United Kingdom has moved closer towards its objective of enhancing fiscal responsibility.

INTRODUCTION

It is a good bet to predict that the number of public financial systems vary with the number of countries that exist globally. Broadly speaking, some countries have designed their public financial systems in accordance with the British model while others, the American. There are still some countries whose systems display similarities with the old Soviet model of central planning. Yet other financial systems exhibit nuances of the Dutch, French and Portuguese colonialist models. Accordingly, the features of these systems differ widely from each other. Take budget timetables as an example. Premchand explains that budgetary timetables that follow the British system are generally short "in that it takes about sixteen months before the start of the fiscal year for the budget to be prepared… supplementary budgets are also traditionally submitted thrice during the year. In the US-based systems, the long lead time contributes to unrealistic budget estimates." (Premchand, 1999, pp. 50, 55)

No matter what the differences among public financial systems around the world, they have been impacted by common factors. Poor public sector performance and fiscal crises caused by large budget deficits have forced governments to pay particular attention on the way they function. ‘Value-for-money’ is the new buzzword in public finance used to describe the re-alignment of government’s fiscal priorities. This has involved the re-allocation of program expenditures and enhanced cost-effectiveness in their delivery. As Campos and Pradhan put it, “Leaner budgets have meant that some program expenditures have to be cut and improved efficiency could help offset some of the cuts. Which expenditures to cut and how they can be achieved have indeed become equally pressing problems.” (Campos & Pradhan, 1997. pp. 2) This gave impetus to works like Osborne and Gaebler’s *Reinventing Government: How The Entrepreneurial Spirit is Transforming the Public Sector* (1993) and governmental programs such as the United Kingdom’s Next Steps program. (Campos & Pradhan, 1997, pp. 2)

Addressing these problems has required substantial reform in budgetary processes. This study sheds light on budgetary measures initiated by one of the countries at the forefront of the reform movement in public administration, the United Kingdom (UK). It begins by providing background information on the framework for the planning and control of public expenditure in the UK. It explains the role played by Spending Reviews within the framework, why important changes to the framework were introduced in the 1998 Comprehensive Spending Review, the different classifications of spending for budgeting purposes and why these have been adopted. Finally, it evaluates whether this public expenditure framework achieves its goal of ensuring both sound public finances and an outcome-focused approach to public expenditure.

PRINCIPLES OF THE BUDGETARY FRAMEWORK

The Government of the United Kingdom (UK) used past experience “in the design and implementation of the new public spending framework: which is based on the following principles:

- The new macroeconomic framework is based on a clear set of principles and rules designed to embed policy credibility and economic stability. A platform of low inflation and sound public finances means affordable public spending plans can be set on a firm basis for the longer-term.

- Estimates of cyclically-adjusted fiscal balances and trend growth are published regularly, allowing proper scrutiny of policy decisions.

- Cautious and prudent assumptions help ensure the Government’s fiscal rules are met and significantly reduce the chances of spending plans being derailed by unexpected events.

- This prudent approach means that public service priorities can now enjoy sustained high growth without the fear of sudden retrenchments.

- Capital spending is protected so that necessary investment in public infrastructure is not cut for short term reasons.

- Published performance targets in the Public Service Agreements focus planning on the end results which funding is supposed to deliver, and which taxpayers expect." (HMT, Planning Sustainable Public Spending)

These key principles "are reflected in reforms to the planning and control regime which were implemented in the 1998 Comprehensive Spending Review and in successive spending reviews. The 1998 Comprehensive Spending Review (CSR), published in July 1998, was a review of departmental aims and objectives alongside a zero-based analysis of each spending program to determine the best way of delivering the government's objectives. It allocated substantial additional resources to the government's key priorities, particularly education and health, for the three-year period from 1999-2000 to 2001-02." (HMT, Public Expenditure and Planning Control in the UK)

While the 1998 CSR laid the foundation for the UK's reform agenda, the 2000 Spending Review helped advance it by introducing "new features to the public expenditure planning and control framework including service delivery agreements, the implementation of the first stage of a resource budgeting system, departmental investment strategies[2], and a wide range of cross-cutting reviews[3]. This spending review also developed public service agreements (PSA) set out in the 1998 CSR by reducing the number of targets (from around 300 to 160) and including at least one target in each departmental PSA about improving efficiency or value for money. Service delivery agreements and technical notes were introduced setting out lower level input targets and milestones and explaining how performance against each PSA target will be measured." (HMT, Public Expenditure and Planning Control in the UK)

The 2002 Spending Review consolidated the UK's public finance reform program and "was the first spending review to be conducted on a full resource-budgeting basis. It allocated resources to the government's key priorities of raising productivity, extending opportunity, building strong and secure communities, and securing Britain and British interests in the world. PSAs were further refined from 160 to 130 by, for example, introducing a new cross-departmental PSA for child development programs such as Sure Start, Childcare and Early Years." (HMT, Public Expenditure and Planning Control in the UK) Further details of the changes to the UK's public financial management framework are explained below.

Fiscal Rules

The fiscal rules established by the Government of the UK are "based on its fiscal policy objectives of:

- over the medium-term, ensuring sound public finances and that spending and taxation impact fairly both within and across generations. In practice this requires that:

- o the Government meets its key taxation and spending priorities while avoiding an unsustainable and damaging rise in the burden of public debt; and

- o those generations who benefit from public spending also meet, as far as possible, the costs of the services they consume; and

- over the short-term, supporting monetary policy, where possible, by:

  - o allowing the automatic stabilizers to play their role in smoothing the path of the economy in the face of variations in demand; and

  - o where prudent and sensible, providing further support to monetary policy through changes in the fiscal stance. (HMT, Analysing UK Fiscal Policy)

Under the new public financial management order, budgets are set every two years for a three-year period. A three-year period was thought best to give departments a sufficient timeframe for future planning. Secondly, more accurate forecasts are obtained over three years than over a longer time period. Finally, departments have a fair amount of flexibility in planning strategically over a three-year period than a shorter one. Within this horizon, "it has been possible to remove unnecessary lower level controls on spending, operating instead through overall spending limits and performance targets rather than on micro-management through a detailed system of approvals.

The framework for public expenditure, then, is divided between:

- Departmental Expenditure Limit (DEL) spending which is planned and controlled on a three-year basis in biennial spending reviews; and
- Annually Managed Expenditure (AME) which is expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL. AME includes social security benefits, local authority self-financed expenditure, payments under the Common Agricultural Policy, debt interest, and net payments to EU institutions. AME is reviewed twice a year as part of the budget and pre-budget report process. " (HMT, Public Expenditure and Planning Control in the UK)

In the spending reviews, firm DEL plans are set for departments for three years. To encourage departments to plan over the medium-term and avoid wasteful year-end surges in spending, departments may carry forward unspent DEL provision from one year into the next.

The other category of public expenditure, AME, is "not subject to the same three-year expenditure limit as DEL but is still part of the overall envelope for public expenditure. Affordability is taken into account when policy decisions affecting AME are made. The government has committed not to take policy measures which are likely to have the effect of increasing social security or other elements of AME, without taking steps to ensure that the effects of those decisions can be accommodated prudently within the government's fiscal rules. These are:

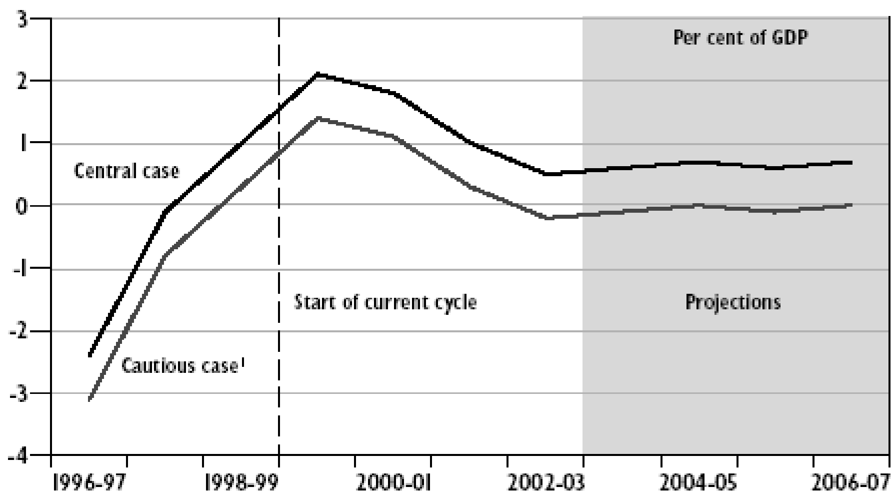
- the Golden Rule which states that over the economic cycle, the government will borrow only to invest and not to fund current spending; and

- the Sustainable Investment Rule which states that net public debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

Given an overall envelope for public spending, forecasts of AME affect the level of resources available for DEL spending. Cautious estimates and an AME reserve, the AME margin, are built into these AME forecasts and reduce the risk of overspending on AME." (HMT, Spending Review 2002, pp. 4)

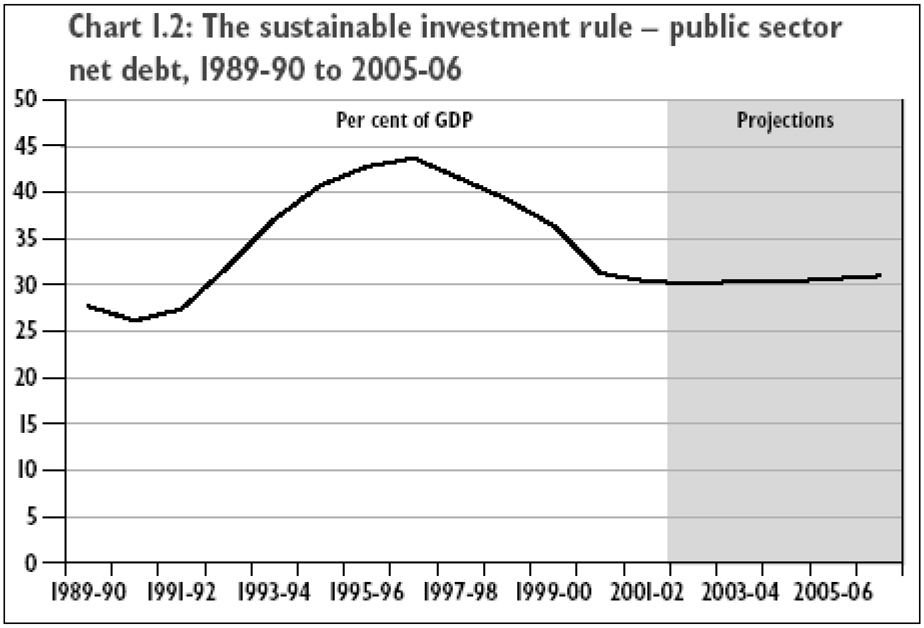
As illustrated in Charts 1.1 and 1.2, based on cautious assumptions, the budget projections upon which the spending review is based, demonstrate how the government is on track to meet both its fiscal rules over the economic cycle, including in the more cautious case.

Chart 1.1: The golden rule – cyclically-adjusted surplus on current budget, 1996-97 to 2006-07



[1] Cautious case assumes trend output 1 percentage point lower in relation to actual output than in the central case.

Source: HM Treasury Spending Review 2002



Source: HM Treasury Spending Review 2002

A final point of note with regard to the nexus between the fiscal rules and the public expenditure framework is that "the budget preceding a spending review sets an overall envelope for public spending that is consistent with the fiscal rules for the period covered by the spending review. In the spending review, the budget AME forecast for Year 1 of the spending review period is updated and AME forecasts are made for Years 2 and 3 of the spending review period. Longer term budgets have been set: five years for health (in the 2002 Budget) and ten years for transport, recognizing the need for longer term planning and stable growth in these areas. Together, DEL and AME sum to Total Managed Expenditure, the broadest measure of total public spending." (HMT, Public Expenditure and Planning Control in the UK)

The question often asked is, "How effective are the new fiscal rules in the new budgetary framework?" As stated earlier, the government is on track to meet both its fiscal rules in the near future if what has been forecast is accurate. However, "there is nothing sacrosanct about these two rules, nor are they necessarily optimal. While it is true that meeting them would mean that the public finances were kept in relatively good shape, a failure to do so would not automatically render the public finances unsustainable, and meeting them does not even necessarily imply generational fairness…Conversely, government policy can impose costs on future generations that are not reflected in current spending, the most obvious example being future pension liabilities." (Emmerson, Frayne & Love, 2001, pp. 2) In order to better account for liabilities such as pension, the UK Government adopted a new reporting system, resource accounting and budgeting (RAB).

Resource Accounting and Budgeting

A key reform to the UK's public expenditure planning and control regime has been the introduction of resource accounting and budgeting (RAB). This was necessary because the "central government [had] failed to keep pace with improvements in basic financial management in the rest of the economy. The system for authorizing, controlling and accounting for public money had changed little since the middle of the nineteenth century. This system, based almost solely on cash, gave a distorted picture of the cost of providing services, building in perverse incentives and in particular a bias against essential long term investment. Because of these weaknesses, the Government actively and vigorously pursued the introduction of RAB. Resource accounting applies best practice from commercial accounting to government finance, and resource budgeting uses this as the basis for planning and controlling expenditure." (HMT, Better Management of Public Services, 2001)

The new system "addresses the limitations of a solely cash-based regime and builds on the other significant reforms in public spending in recent years, which have been designed to foster better long term planning, a focus on outcomes rather than inputs, and an emphasis on investment for the future, underpinned by long term fiscal stability. Internationally, RAB and other changes to the management of public spending have placed the United Kingdom at the forefront of public sector reform." (HMT, Better Management of Public Services, 2001) The process which includes "the move to resource-based financial management from 2001-02 involved:

• Conducting the first resource-based public expenditure survey in the 2000 Spending Review and moving to full resource budgeting in the 2002 Spending Review.

• Presenting the first full set of resource-based Estimates for 2001-02 to Parliament in April 2001.

• Resource accounts replacing cash-based appropriation accounts in respect of 2001-02. A full set of resource accounts for 1999-00 and 2000-01 was also produced and published alongside the appropriation accounts for those financial years." (HMT, Implementing Resource Based Financial Management, 2002)

Table 1: Resource management can improve both public service delivery and efficiency

Resource Management Requirement	Benefits	
	Service delivery	*Efficiency*
Targets and objectives are clearly defined and underpin the way resources are allocated.	Resource can be directed at achieving key outcomes such as raising educational standards rather than simply putting money into an activity.	Non core activities can be identified providing opportunities to shift unproductive resources to front line delivery.
Resources can be used flexibly and expenditure is not constrained by short term annual cycles.	Expenditure can be better matched to service needs ensuring more consistent delivery throughout the year. Unspent resources are not lost but available to redeploy to other priorities.	Risks associated with the rush to spend all money at the year end are reduced such as nugatory expenditure and poor value for money because of limited time to confirm that expenditure is justified and to determine the most cost effective procurement approach.
Full cost information on an accruals basis is available and used to monitor and review performance and influence the allocation of resources.	The full cost of delivering a service is known including its consumption of assets. Costs can be assessed to determine whether they are reasonable for the level and quality of outputs delivered. Information on the consumption of assets can inform future investment.	■ Inefficient use of assets can be more easily identified and remedied. ■ High cost, inefficient processes and working practices can be eliminated. ■ Resources tied up in unproductive and inefficient activities can be more easily identified and redeployed.
Resource allocation and management are aligned throughout the service delivery chain.	If all the key organisations contributing to a service have targets which are mutually supportive and underpinned by resources that are allocated on a consistent basis the potential to deliver higher quality services is increased.	Supporting activities which involve duplication or are delivered out of sequence or late or are over or under resourced can be identified and addressed.
Performance and resource utilisation is regularly reviewed at a senior level and informs future resource allocation.	Reliable performance information allows shortfalls in service quality to be identified sufficiently early for remedial action to be taken.	Trends in the unit costs and the overheads of delivering services can be monitored and where practicable benchmarked to identify poor use of resources.

Source: National Audit Office, Managing Resources to Deliver Better Public Services, December 12, 2003

As stated above, efficiency in resource utilization is one of the benefits of RAB; to elaborate further, RAB "supports the Government's agenda by delivering:

• new incentives for the management of assets and investment, supporting the Government's plans for increased investment, to reverse the decline in the nation's infrastructure;

• a long term planning framework removing distortions and perverse incentives intrinsic in the old system, and building in new incentives to reward good management;

• better information for managers on the costs of providing public services on which to base decisions and better information for Parliament and the public with which to scrutinize the Government's performance; and

• higher quality financial management throughout Government.

The move to full resource budgeting in the 2002 Spending Review was intended to further help the Government to get the most from its assets and new investment. Under RAB, departments' accounts and budgets reflect the full cost of holding and using capital. This means a charge for depreciation – using up an asset – counts as part of the budget, as does a cost of capital charge, reflecting the fact that the Government has borrowed to fund investment and has tied up resources in assets which could have been used elsewhere. As a result of the inclusion of the costs of holding and using capital in departmental budgets, there were new incentives to drive down capital costs, to improve the quality of maintenance, to extend the useful lives of assets where it is cost-effective to do so, and to dispose of assets no longer required." (HMT, Better Management of Public Services, 2001)

Besides improved asset management, RAB offers other advantages. For example, "because of the increased sophistication of the financial data available under RAB, decision-takers have information available to allow them to view the long term consequences of their actions, not just the immediate cash consequences. And the resource budgeting system has incentives built in to reward good decision-taking, allowing resources to be redeployed into priority areas. Some examples of the other benefits for the management of public services brought about by the full introduction of resource budgeting include:

• improvements in the management of public liabilities – including early retirement costs for public servants and a range of compensation liabilities;

• better management of working capital– debtors, creditors, stock and cash;

• a new framework for managing some of the remaining publicly-owned companies, providing them with greater commercial freedoms; and
• significant improvements in the level of financial expertise within government departments." (HMT, Better Management of Public Services, 2001)

To illustrate the impact of RAB, we use the example of the Ministry of Defense (MoD) "where the numbers have changed significantly under resource budgeting. The table below shows the cash numbers for MoD for 2001-02, the baseline year for the review and compares these numbers with their treatment under resource budgeting.

Table 2 - Comparing cash and resource based DELs for MoD

£ million	**2001-02 cash**	**2001-02 resource**

Current/Resource DEL	21,441	18,072
Capital DEL	1,550	5,105
Total DEL	22,991	23,177

Source: HM Treasury Public Expenditure Statistical Analysis 2002

The conversion process from cash to resource, for both current and capital expenditure, is explained in the two tables below." (HMT, Resource Budgeting and the 2000 Spending Review, 2000) On the current side:

Table 2.1 - Current DEL cash to Resource DEL		
Note	**£ million**	**2001-02**
	Current DEL - cash starting point	21,441
a	+/- timing adjustments	134
b	+/- changes in current/capital classification	-3,467
c	+ capital charges on the civil estate	0
d	+/- full resource consumption of arms length bodies (NDPBs)	0
e	+/- full resource consumption of public corporations	-35
	= Resource DEL	18,072

Notes

a. This reflects overall movements in the level of debtors, creditors and stock consumption in the year in question.

b. National accounts treat spending on fighting equipment as current spending on the grounds that this spending does not represent an addition to the capital base. But under resource budgeting, this expenditure is treated as capital expenditure which is a better way of ensuring that what the Department spends on current expenditure and what it spends on equipment are kept separate. The change represents a switch of some £3.5 billion from the resource to the capital budget in 2001-02.

c. The MoD does not have civil estate holdings. However, for most departments this line will lead to a small increase in Resource DEL.

d. As with many departments, the net effect of this line is zero. This can happen for one of two reasons. If a Non-Departmental Public Body (NDPB) is entirely grant funded, measuring total resource consumption does not change the number. Or, as in the case of MoD NDPBs, the organizations are too small to affect the overall total. However, some NDPBs will fund consumption from cash reserves or from other sources – in this event, the Resource DEL will increase to reflect the full consumption of the body, not what has been paid to it in grants by the department.

e. Profits of public corporations score as a credit in the resource budget, and losses as a cost. Previously, the interest and dividends paid by the body scored in the department's budget. So a higher profit than was due to be paid in dividends scores as a credit, as in this case, while a loss would hit the budget.

Source: HM Treasury Public Expenditure Statistical Analysis 2002

On the capital budget side, the reconciliation works as follows:

Table 2.2 - Capital DEL cash to Capital DEL resource

Note	**£ million**	**2001-02**
	Capital DEL - cash starting point	1,550
f	+/- changes in current/capital classification	3,467
g	+/- full capital expenditure of public corporations	98
	= Capital DEL in resource terms	5,105

f. This line represents the switch from the resource to the current budget of fighting equipment, that is, the reverse of Note b.
g. This reflects the addition to the MoD budget of capital expenditure by their public corporations financed from trading or other sources of income rather than simply loans and grants from the department. Previously, this expenditure scored in the accounting adjustments in AME.

Source: HM Treasury Public Expenditure Statistical Analysis 2002

To sum it up, resources accounting and budgeting is tremendously advantageous because "intergenerational fairness is important in fiscal policy. It reflects the degree to which the government today is paying the costs of services today, as opposed to shifting costs to other periods. [RAB] provides a longer term perspective for judging the impact of policies. For example, without [RAB], decisions on pensions that create pension liabilities may not fully consider the impact of the liabilities on future budgets." (Ball, Dale, Eggers & Sacco, 1999) Needless to say, the adequacy of any accounting system would be evaluated based on the performance of the overall budgetary framework. The UK Government's effort to improve performance is discussed in the following section.

Public Service Agreements

A critical innovation introduced in the 1998 CSR was the Public Service Agreements (PSAs) which "set out the aim and objectives of every main government department together with measurable targets. The new spending regime places a strong emphasis on setting outcome targets, for example, better health and higher educational standards or service standards. The government monitors progress of departments against their respective PSA targets and reports this, in detail, in annual departmental reports (published in spring). [Departments also report publicly against their targets in autumn performance reports (introduced to enhance accountability in 2002).] This provides Parliament and the public the opportunity to monitor the progress of the departments in meeting their targets." (HMT, Spending Review 2000)

The UK Government distinguishes between performance measurement and performance management. It conducts performance measurement by periodically measuring progress against goals, against target levels of intended accomplishment and against third parties. Measures change as progress is made. Performance measures are generally based on a set of principles (Specific, Measurable, Attainable, Relevant, Timely) that departments are encouraged to keep in mind in setting targets. However, the actual metrics used for measuring progress against the targets are agreed upon and set out in Technical Notes for each target (which are published on departmental websites, in order to make clear exactly how the targets will be assessed). Specifically, "each PSA target is underpinned by a technical note, which sets out how the target is measured, how success is defined, the sources of the relevant data, and any other relevant information such as geographical or demographical coverage. In order to properly assess progress towards targets, a department's performance data should be examined in conjunction with the technical notes." (HMT, Public Services Performance Index)

There are around 130 PSA targets, an average of fewer than seven per department; departments are trained in their usage through a series of workshops.

Table 3 – Key PSA targets

Education and skills

- By 2006, significantly reduce the number of primary schools in which fewer than 65 per cent of pupils achieve level 4 or above in English and maths by age 11.
- By 2007, significantly reduce the number of secondary schools in which fewer than 60 per cent of pupils achieve level 5 in English, maths, ICT and science by age 14.
- Improve the basic skills of 1.5 million adults between the launch of Skills for Life in 2001 and 2007, with a milestone of 750,000 by 2004.

A secure start in life

- In fully operational programmes, achieve by 2005-06: an increase in the proportion of children aged 0 to five with normal levels of personal, social and emotional development for their age; a six percentage point reduction in the proportion of mothers who continue to smoke during pregnancy; an increase in the proportion of children having normal levels of communication, language and literacy at the end of the foundation stage and an increase in the proportion of young children with satisfactory speech and language development at age two years; and a 12 per cent reduction in the proportion of young children living in households where no one is working.

Employment

- Demonstrate progress by Spring 2006 on increasing the employment rate and reducing the unemployment rate over the economic cycle.
- Reduce the number of children in low-income households by at least a quarter by 2004, as a contribution towards the broader target of halving child poverty by 2010, and eradicating it by 2020.

Fairness for all

- By 2006, working with all departments, bring about measurable improvements in gender equality across a range of indicators, as part of the Government's objectives on equality and social inclusion.
- In the three years to 2006, taking account of the economic cycle, increase the employment rate and significantly reduce the difference between the overall employment rate and the employment rate of ethnic minorities.
- By 2006, working with all departments, bring about measurable improvements in race equality across a range of performance indicators, as part of the Government's objectives on equality and social exclusion.

Source: HM Treasury 2002 Spending Review: Public Service Agreements 2003-2006

Departments are set their own targets but some targets are set to be achieved collaboratively between departments. The targets reflect what the Government wants from the public service which, in turn, reflects what the citizenry wants from the Government.

Finally, the UK Government undertakes performance management to set direction using performance information to manage better, demonstrate what has been accomplished and set actions to improve. FABRIC (Focused, Appropriate, Balanced, Robust, Integrated, and Cost-effective) is a set of principles of good performance management that serve as a guide for departments to have more effective systems.

PSAs are complemented by Service Delivery Agreements (SDAs) introduced in the 2000 Spending Review which "set out lower level input targets and milestones underpinning delivery of the headline PSA performance targets." (HMT, Public Expenditure and Planning Control in the UK) The SDA "starts with a clear accountability statement of who is responsible for delivering the agreement and:

- how in broad terms the department's high level objectives will be achieved;
- how performance will be improved within the department and the bodies responsible to it;
- how the department will focus more closely on the needs of consumers of its services;
- how the department's human and IT resources will be managed to achieve change; and
- the steps in hand to improve policy-making in line with the underpinning policy in particular." (HMT, A Guide To The Service Delivery Agreements)

So how does this new focus on performance stack up? Some experts contend that "when the New Labour government of Tony Blair was elected in 1997, it embarked on a seemingly radical reform of the way in which public spending was to be decided and managed. It was almost like a revolution – government departments breaking free of the shackles of annularity for most of their spending programs and held to account by tough contract-like performance targets. Departmental managers would be able to engage in real strategic planning and management focused on delivery." (Talbot, 2001) Others explain that "there has never been a history of differentiation between performance measurement at policy, program, and operational levels. Early attempts at measurement were mainly financially based, with managers tending to produce and publish statistics as an end in itself. A much wider range of measures now exists, and there is more thought in their application." (Mawhood, 1997, pp. 136) The hard part, one gathers, is conveying to the various departments within the Government that these are changes for the better and convincing them to accept these changes.

THE AMERICAN COMPARISON

Fiscal management and budgetary reform within the British Commonwealth countries compared to that in the United States provides for an interesting study. In the US, "traditional budgeting as it evolved in the twentieth century has been characterized as focused upon a single year, relying upon line-items or objects of expenditure to provide control over appropriations, using incremental decision techniques that dealt with inputs and emphasized a concept of budget base that preserved past decisions without subjecting them to re-examination. V. O. Key, in 1940, decried the 'lack of a budgetary theory' which over-emphasized the mechanics of the budget process rather than confront how to decide how to allocate 'X dollars to activity A instead of activity B?' As governmental involvement in society grew during the New Deal and following World War II, choices became even more important…In the 1990s, considerable attention has been refocused upon performance budgeting…" (Tyler and Willand, 1997) Kamensky (2001) traces the commencement of this endeavor, in the US, to the *Chief Financial Officers Act 1990* which "required the development and reporting of systematic measures of performance for twenty-three of the larger federal agencies [and the *Government Performance and Results Act 1993* (GPRA) which linked performance plans to budgets]. (Kamensky, 2001)

Within the realm of GPRA, "the United States Government established a performance management framework which consisted of Strategic Plans, Annual Performance Plans and Annual Performance Reports. In *Strategic Plans*, which cover a period of at least six years, agencies present their mission statements and define a set of long term goals. These long term goals are mainly outcome goals and describe how an agency will carry out its mission. The *Annual Performance Plan* translates the goals of the Strategic Plan into Annual Performance Goals that will be achieved during a particular fiscal year. These performance goals are usually a combination of outcome and output goals. The Annual Performance Plan also includes information on how much money will be spent to achieve a set of performance goals. *Annual Performance Reports* compare actual performance with planned outcomes and outputs in the Annual Performance Plan. If some goals haven't been achieved, there will be an explanation of the reasons, and a schedule and steps for meeting the goal in the future. The Annual Performance Reports also include a summary of the findings and recommendations of any program evaluation completed during the fiscal year." (Kristensen, Groszky and Buhler, 2002, pp. 28-29)

However, only recently did the budgetary reform effort in the US gather impetus. Kamensky notes that "in August 2001, President (George W.) Bush released his management agenda in which one of the five key priorities described was to better integrate budget and performance. That same year, the director of the Office of Management and Budget (OMB), Mitch Daniels, met individually with key agency heads and asked them to develop performance-based budgets for fiscal year 2003 for at least two of their programs. As a result, as agencies submitted their draft budgets to OMB, nearly 100 programs were judged on a totally different basis than in the past." (Kamensky, 2001) In spite of the prolonged initiation of performance-based budgeting in the US, the practice has broadly permeated throughout US government agencies. A study conducted in 2002 by the US General Accounting Office of the first four years of agency efforts to implement the GPRA found "that agencies continue to tighten the required linkage between their performance plans and budget requests. Of the agencies reviewed over this period, all but three met the basic requirement of the act to define a linkage between their performance plans and the program activities in their budget requests, and most of the agencies in [the GAO's] review had moved beyond this basic requirement to indicate some level of funding associated with expected performance described in the plan." (GAO, 2002)

It must be noted that progress of performance-based initiatives within government could be marred by potential pitfalls. Tyer and Willand (1997) expound these by citing a 1993 study of the US Congressional Budget Office (CBO) Using Performance Measures in the Federal Budget Process which "concluded that performance measurement 'is limited in its ability to bring about substantial change'. It noted, however, that some of these limitations had nothing to do with commitment but rather with the difficulty of measuring government performance itself, and particularly that of the national government. The greatest obstacle it found was the identification of the measures, in large part because at the national level 'so many programs [are] influenced by other actors, including state and local governments, private businesses, and individuals'. In so far as performance budgeting itself is concerned, the CBO, after studying state and local government experience, concluded that performance measures did not appear to significantly influence the allocation of budgetary resources. Rather, they were used more to carry out budgets than to make decisions." (Tyer and Willand, 1997)

With all the emphasis on performance, has the reform movement in public financial management actually been worth the effort? While the performance of some public systems have shown signs of enhanced viability, it is hard to isolate the impact of other reform efforts such as structural reforms (e.g. increased privatization) from that of public finance reforms. Nonetheless, it spurs a debate on key issues that is the focus of the concluding section.

CONCLUSION

The effectiveness of financial management practices instituted under New Public Management leaves a lot of unanswered questions. Let us begin with fiscal rules and principles framed by the various jurisdictions under study. There is no guarantee that these nations will stick to these principles especially under conditions of economic or financial burden. For example, countries might not adhere to debt limit stipulations when there is a downturn in the economy during a recession. The US is one jurisdiction where its House of Representatives (Congress) recently voted to raise its debt ceiling substantially. Faced with billions of dollars of spending on war and domestic priorities like health care, and a government with a strong belief in tax cuts, the US would have been well served with spending and tax caps to maintain its level of debt. Instead, its fiscal policy included generous tax cuts with no limit on dollars flowing out of the government coffer which resulted in the need to raise the debt ceiling set earlier. It would not be wrong to assume then, that if one of its closest allies in 'the war on terror', Great Britain, faced similar fiscal pressures, would also fold and compromise its fiscal rules. This immediately raises the question, "Why would government establish a set of fiscal rules only to break them?"

A second question of doubt that public financial reform raises is, "Will accounting practices adopted from the private sector result in misuse as experienced by some private sector entities?" It is true that accrual accounting has several advantages over cash accounting but its inheritance from the private sector could possibly vilify the public sector's reputation and prestige. The energy company, Enron Corporation, is the perfect example. Accused of skullduggery, mainly manipulative accounting practices, this corporate giant fell from being one of the most respected corporations in the United States to one of the least. By following accounting procedures used by the tainted private sector, citizens' trust in government is bound to erode. The Canadian government has reeled from a 'sponsorship scandal' involving the misuse of public funds. Although this has little to do with manipulative accounting practices, it demonstrates the importance of sustaining public faith in government. The Liberal government, at the center of the scandal in Canada, lost its majority hold of Parliament as a result of the controversy and faces a difficult road ahead in regaining the confidence of the Canadian citizenry. The burning issue for the British Government now that it has adopted private sector accounting practices is, what will it do to prevent Enron-style corruption from occurring within its jurisdiction? The response is a slew of disincentives and safeguards, besides current audit procedures, but a detailed discussion of these is best saved for another study for another day.

Performance measure utilization creates its own set of questions which I addressed in an article co-authored with Dr. Howard Frank. These include: "Whom is performance measurement for – the public, bureaucracy or elected officials?"; "Can performance systems realistically be integrated with operational functions such as strategic planning, individual performance appraisals, and budgetary resource allocations?"; and "Is external benchmarking imperative for performance measurement to be effective?". Government needs to answer these fundamental questions before it conceptualizes and designs its performance management system. A lot of jurisdictions have jumped on the performance measurement bandwagon and one can't help but wonder if this is simply a result of 'follow the leader' or if these jurisdictions have done so as a result of a preliminary benefit-cost analysis where the benefits outweigh the costs. Anecdotal evidence suggests that "the most important prerequisite [to performance management implementation] may be a commitment to matching analytic method to the problem at hand." (Frank and D'Souza, 2002) In other words, understanding the causatum is a prerequisite for government action. While this might not be that easy for some jurisdictions due to organizational and monetary constraints, it certainly is a starting point that will set nations on the road to fiscal prosperity.

Notes

1. Departmental Investment Strategies set out each department's plans to deliver the scale and quality of capital stock needed to underpin its objectives. The DIS includes information about the department's existing capital stock and future plans for that stock, as well as plans for new investment. It also sets out the systems that the department has in place to ensure that it delivers its capital programs effectively.

2. The 2000 Spending Review recognized the importance of the integrated development of government policy by incorporating fifteen full cross-departmental reviews. These covered a wide range of areas including the criminal justice system, nuclear safety, crime reduction and conflict prevention in sub-Saharan Africa. These reviews resulted in a wide variety of new working arrangements including the refocusing of departmental programs and the creation of pooled budgets and management structures.

3. After this article was written, the British Government concluded Spending Review 2004 and now have a set of 110 PSA targets (though departments remain accountable for targets set in Spending Review 2002 while they remain live, in most cases to 2006).

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