

New public management and budget management in Hesse

Presentation

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by

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Agenda

1. New public management (NPM)

2. Auditing: lessons learnt and recommendations

3. Conclusions



1. New public management (NPM)

- Approach -

- > Extensive use of **business management instruments** (taking into account the special requirements of public administration)
- > **State government resolutions** of 17 January 1995 and 14 July 1998
- > Changes to the Hessian state financial regulations (LHO) on 14 December 1998
- > Realization through additional government resolutions as well as **fundamental NPM concepts** devised by the Hessian Ministry of Finance (controlling concept, budgeting concept, guidelines, definition of objectives and products etc.)



1. New public management (NPM)

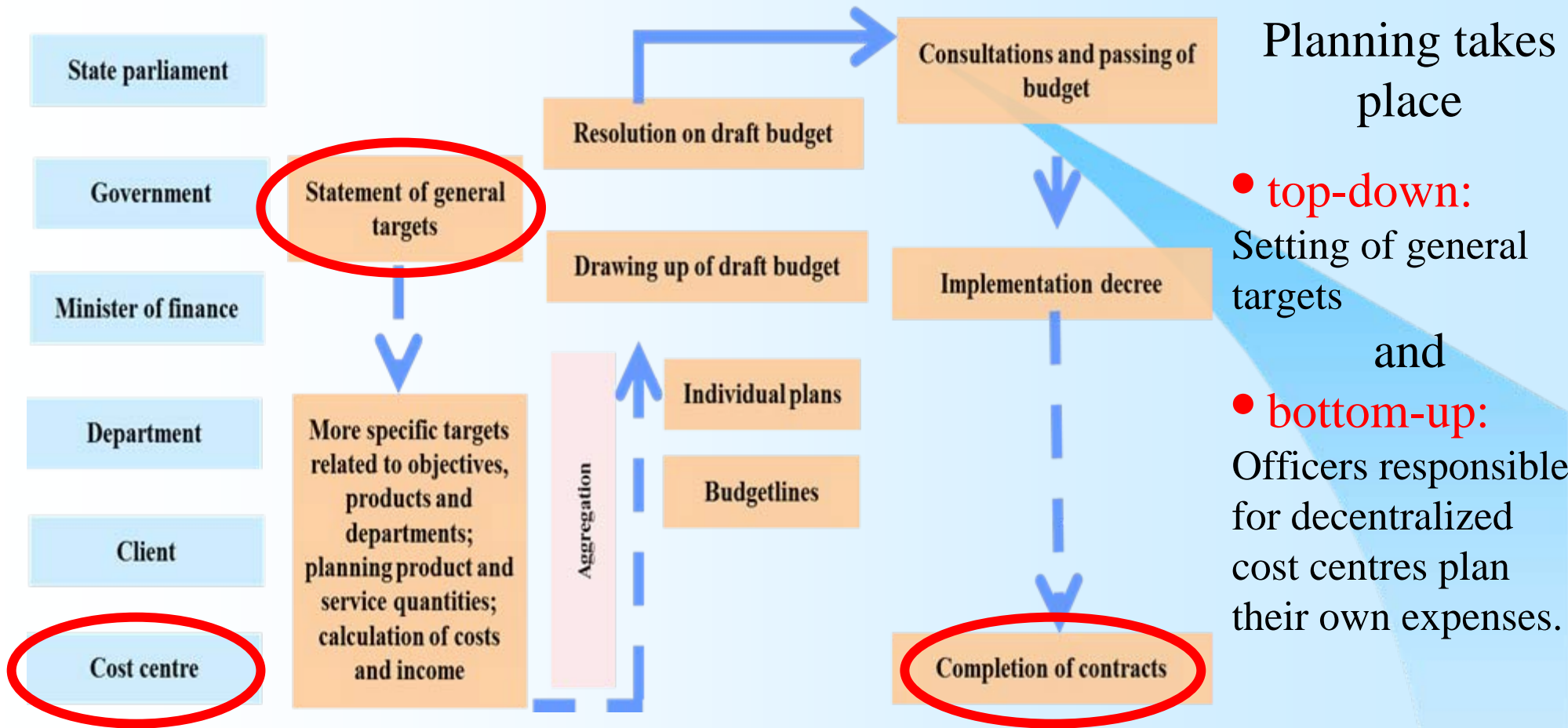
- Progress of introduction in the state administration of Hesse -

- > **before 31 December 2004:** state-wide introduction of commercial bookkeeping
- > **from January 2008:** state-wide launch of output-oriented budgeting
- > **end of 2010:** Completion of the NPM project
- > **Today:** Amendments to the state financial regulations (LHO)
Development of guidelines on cost activity accounting
Ongoing working group for optimisation of NPM



1. New public management (NPM)

- Budget planning process -



1. New public management (NPM)

- Output-oriented planning and management -

- Planning and management of services and products (quantity, quality, costs etc.)
- Decentralized responsibilities
- But: the reporting system keeps the higher administrative levels well informed about the achievement of objectives (especially discrepancies)



Economic running of administration



2. Auditing: lessons learnt and recommendations

- Decentralized responsibilities -

- Delegation of material and financial responsibilities down to the **lowest level** (cost centre). **Autonomous management**
- As a rule, officers in charge of cost centres (heads of departments) did not usually plan their own costs.



Integration of comprehensive decentralized responsibilities down to the cost centre level, in order to **exploit the full potential of decentralized management.**

2. Auditing: lessons learnt and recommendations

- Results-oriented planning -

- Under the budgeting concept, results-oriented planning should prevent the traditional “**December fever**”, because with this planning procedure the budget lines from the previous year are of no significance.
- The setting of general target values and the planned costs for the cost centres are mainly based on extrapolation of earlier values.

Recommendation

Targets should be re-examined each year afresh, so as to avoid any possible misdirected incentives.

2. Auditing: lessons learnt and recommendations

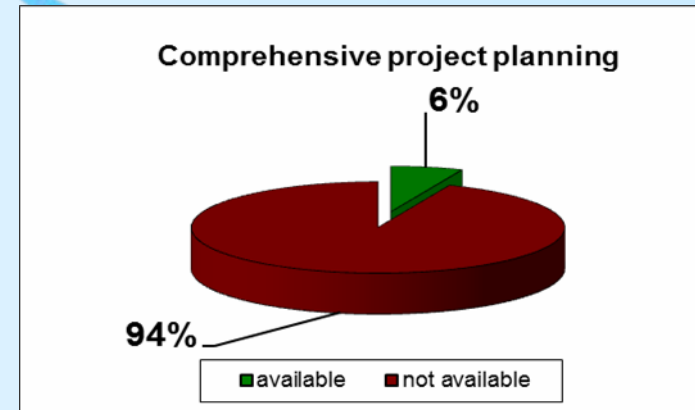
- Planning project costs -

Of 16 **projects** for introducing NPM and e-government, in 15 cases **the planning was incomplete**:

- Missing cost pools, such as personnel costs for state employees involved
- Missing costs as planning was for a one-year horizon rather than the overall project term

Recommendation

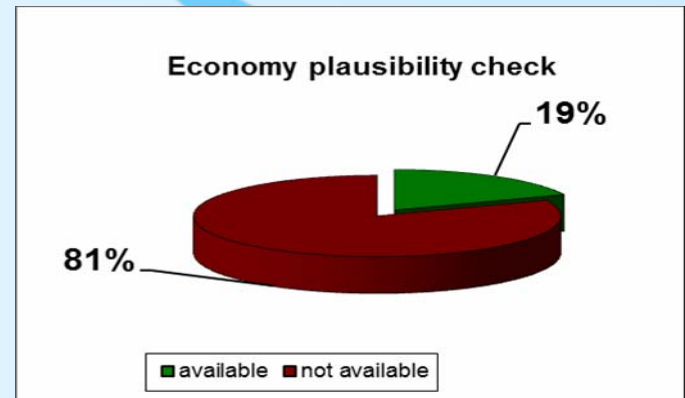
Project costs should always be **planned comprehensively** and in appropriate quality (cost components and planning horizon), in order to make later comparisons possible between the plan and the actual status.



2. Auditing: lessons learnt and recommendations

- Efficiency assessments for projects -

- Section 7 (2) LHO calls for appropriate efficiency assessments to be devised for all measures with financial relevance.
- The 16 projects generally lacked such efficiency assessments.



Economic plausibility checks should be carried out for all projects (selection criterion for project portfolio).

2. Auditing: lessons learnt and recommendations

- Controlling -

- Controlling data should establish **transparency** and provide a **basis for decision making** by the management.
-> Objective: effective and efficient public management
- Reporting often contains information (prognoses) inappropriate for those it is addressed at and irrelevant for management. **Fear of transparency**. Lack of incentives to act efficiently.

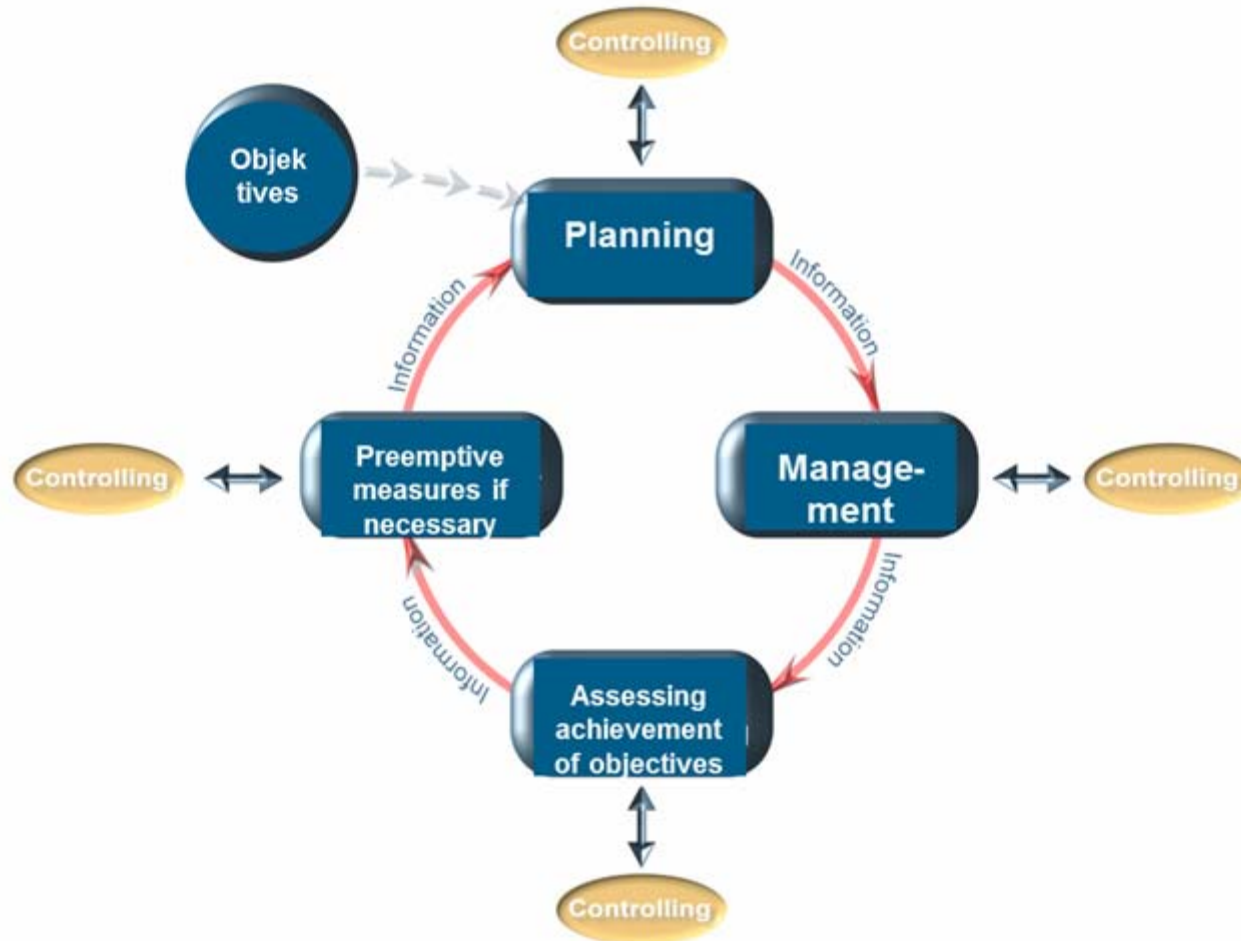


Recommendation

The information requirements of senior management should be ascertained, and dealt with accordingly. **Incentive systems** for the cost centres should be developed and tested.

3. Conclusions

Management control loop and support for controlling



3. Conclusions

1. **Delegate responsibility** for financial resources.
2. Support those responsible through **effective controlling**.
3. **“Reward”** efficient behaviour.



Thank you

