



## **5th EURORAI Congress, Barcelona**

# Administrative reform in Germany

**by**

**Norbert Hauser**

**Vice-President of the Federal Court of Audit**

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## 1 Introduction

Public administration is in global crisis. Room for financial manoeuvre is becoming increasingly tighter and staff cuts are being made. In contrast, the demands placed by the population on administration, in terms of both quantity and quality, are continually rising. We only have to think of the areas of the environment and health or the need for protection against terrorist attacks. At the same time, this public administration is seen as synonymous with inefficiency and poor value for money. It is claimed that there is no competition and therefore no pressure to perform. Compared to private companies, organisational monitoring in public administration is also said to be outdated.

In Germany, the federal government's system of accounting, namely the cameralistic system, does not reveal accrued, but not yet matured liabilities. In particular, future pension liabilities, which are very important from a financial perspective, are not shown. The federal government is securing hidden loans by requesting that pledged financial contributions be deferred. Resource consumption and the loss of value for a public sector service, a product, are not recorded or expenditure is not assigned to those who cause it.

The media complain of failure on the part of the State and support the call for remedial action. The citizen increasingly wishes to be informed of the way in which resources are employed and consumed. He feels helpless and loses faith in his State.

In order to create breathing space amid the existing financial bottlenecks, the government is selling off large parts of the 'family silver'. This only brings about improvements in the short term, while the underlying problems reappear at a later stage. *Taxes* have been raised, such as those on tobacco and hydrocarbon fuels in Germany, and as a result, so has the turnover tax relating to these taxes. Spending has been *reduced on a straight-line basis*, which often brings unexpected consequences and

increasingly places a burden on future budgets: cuts in maintenance spending will in coming years lead to high-cost replacement investments or uneconomic asset erosion. Cuts also often result in a deterioration in the range of administrative services, if administrative procedures cannot be structured more efficiently to offset this trend. In some federate states, staff numbers in financial administration are steadily being cut, while at the same time, the workload continues to grow. The results are losses in revenue running into tens of billions. People are apparently following the maxim: "If the State is doing badly, those collecting the money will be the first to go".

## 2 The start of the rethinking process – status of the reforms

In order to restore the citizen's faith in his State and to achieve a fundamentally new understanding of the State, market and competitive elements are incorporated into political-administrative management structures under the term 'New Public Management', the aim of which is to reduce the bureaucratisation of the State, as well as to simplify and speed up operational processes in the public sector, thus making them more transparent and easier to understand.

However, the introduction of business management instruments is only useful if it helps to improve the efficiency of administration and enables more effective government control.

## 3 Principles of the reform

The following model principles should be implemented rapidly into the reforms.

**Steering instead of rowing** – Performance must be guaranteed and controlled, not everything must be done by oneself.

**Results instead of rules** – Focus on results and costs instead of an emphasis on procedures and rules. The caretaker of an authority calls in a

much more expensive, private horticultural company to cut the hedge because the funds in budget subhead, from which he could have purchased a pair of hedge clippers, are all exhausted.

**Autonomy instead of hierarchy** – Clear allocation and undivided responsibility for resources. To date, the budget plans have been indicating in hundreds of places how much money administration may spend, but nowhere do they state precisely which services (products) they are supposed to generate with this money.

**Competition instead of monopoly** – Calculation of costs and qualities of public services compared to other providers.

**Motivation instead of maintenance** - A redefinition of ‘personnel as a resource’ which goes far beyond a change to service regulations.

I would now like to familiarise you a little more with some of the core areas of administrative reform in Germany.

## **4 Core areas of administrative reform**

### **4.1 *Thinking in terms of processes***

Authorities should learn to think in terms of processes. Administrative modernisation must focus on the citizen as the customer. What counts is providing him, for example, with an authorisation for production processes or finance as quickly as possible. To this end, administrative procedures need to be restructured and the boundaries of the authorities must become more permeable, both vertically within the office itself, as well as horizontally, i.e. across federal republic, federate state, administrative district and municipality. An extensive reform of public service, new forms of assessment, prospects for promotion and incentives for service-oriented behaviour are in demand. Managers and their employees must learn to think in terms of processes and in a results-oriented fashion.

## ***4.2 Introduction of cost and performance accounting***

Cost and performance accounting (CPA) creates the right conditions to supplement, over the longer term, the input-oriented view of cameralistic budget accounting with a representation which is geared more strongly towards services and products, i.e. towards output. CPA is a prerequisite for controlling. With the help of product budgets, the opportunity is, generally speaking, created for the budget legislator to clarify the priorities which he has set. The question should no longer be: "How much money is available, what do we want to do with it?" but rather: "What do I want to achieve, what resources do I need to get there?".

## ***4.3 Handling budget funds in a purposeful manner – introduction of the double-entry accounting system***

In Germany, the federate state of Hesse will introduce a resource-oriented, double-entry budgeting and accounting system by 2008 in order to bring about the desired budgetary transparency both for citizens and members of parliament. The budget should be readable and structured in a comprehensible manner in order that parliamentarians and the public can clearly recognise how much each administrative service costs.

The prime objective in terms of the cameralistic system of accounting is to prove compliance with the Budget Act and the budget. The extent to which income and expenditure balance each other out is arrived at, i.e. determination of surplus or shortfall. The cameralistic system of accounting thus amounts to a comparison of target with actual figures to check the implementation of the budget.

However, the job of commercial bookkeeping is to calculate profit by recording income and expenditure in the profit and loss account. The asset and financial situation as well as any changes thereto resulting from the balance sheet are shown on the basis of an inventory.

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As a result of a change to the accounting system, more objective financial information for political decisions, based on uniformly applied accounting principles, is made available to parliament and the taxpayer. This will result in a 'genuine cash audit' of the public sector. As a consequence, citizens will be able to more realistically assess politicians' promises or whether it is feasible to expect that their claims on the State will be met. The debates on reform are becoming more concrete.

The government is able to appraise the situation in terms of assets, finances and income with greater reliability. The contribution made by the double-entry system of accounting to well-founded management decisions should not be underestimated. The improved knowledge of financial risks means that the need to take action can be recognised earlier and better. In view of the fact that the erosion of assets is becoming more apparent, administration can manage investments in a more sustainable fashion. In the long term, only the double-entry accounting system will enable a consolidated account to be prepared in the federate states, but in particular for the federal government, as well as making benchmarking with other organisations possible.

The most important fact is that the data are processed in a professional manner and used as a basis for making decisions. Therefore, the external public-sector audit institutions should request that the data be expertly processed by the authority in question itself, which can then be examined, if necessary, by the court of audit in the respective specialist areas. In individual cases, the court of audit might issue a statement on this, which could also be made available to decision makers. If changes have recently been made to the accounting system in the administration subject to audit, it is useful to ascertain what costs have arisen as a result of the changes, whether the data are now being processed in a professional manner and, in particular, what behavioural changes this has caused. It may be that a method of best practice as to handling data can be shown on the basis of corresponding reports.

Many European countries and international organisations are changing over from the cameralistic to the double-entry system of accounting or have already done so. In this context, the International Public Sector Accounting Standards (IPSAS), drawn up especially for the area of public-sector accounting, are increasingly being applied. The IPSAS are formulated by the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC). In this respect, EUROSAI and EURORAI are to a great extent sidelined with only INTOSAI holding observer status. External public-sector audit institutions must answer the question as to whether they are prepared to leave it at the observer status on these accounting standard committees or whether it might not be preferable to actively deal with the standards which we will possibly all have to apply at some stage.

## **5 Transformation of authorities**

A new trend is also emerging in the way in which authorities work with one another, where price, quality and expertise, i.e. competitive elements, are the decisive factor with regard to which authority retains an area of responsibility or adopts a new one.

Let us take, for example, the payment of pensions. To date, this duty has – historically – been carried out by the post office. The “Bundesknappschaft” (Federal Miners’ Insurance Fund) – a legal social security body for the now almost inexistent mining industry in Germany – has for years been subject to an increase in the percentage of old people among its insured members as well as a lack of new ones. As a result, the management has looked around for new tasks to take on in order to safeguard its organisation and, in particular, in order to continue employing its staff members. It submitted an offer to carry out pension payments a lot more cheaply than the post office. Previously, it had already prevailed over the “Bundesversicherungsanstalt für Angestellte” (Federal Insurance Institution for Salaried Employees) with a more economic concept when the opportunity of taking over the so-called “Zentrale für Minijobs” (Central Office for Minijobs) arose. Involved



was the management of all minor employment contracts with a gross earnings limit of 400 euro; the work covered registrations and cancelling registrations with the Office, proof of contributions and lump-sum charges.

The issue as to how the police enforcement services will in future be divided up between the Federal Border Police, Police and Customs, is also a preliminary stage to genuine competition. In this respect, decision-makers examine who is able to work better, more efficiently and more cheaply. These are examples of the competition which is starting between individual authorities.

## **6 Privatisation of government services**

### **6.1 General information regarding privatisations**

Apart from Public Private Partnerships and applying private sector management methods to public administration, the State often resorts direct to privatisation.

Increasingly, activities from the State's core budgets are being outsourced to legally independent, public and private law entities. Since there is no sound reason for such measures, there is the suspicion that the executive intends, in this way, to evade parliamentary and possibly also external financial control. What tends to get overlooked is the fact that those actively involved in this at the same time lose part of their democratic authorisation. We shall highlight this risk early and in each individual case.

As far as the necessary reform of the budgetary law is concerned, the *budget sovereignty* of parliament is a central issue. Parliament and government are trustees for the (tax) payments made by citizens. In contrast, the managing director of a company merely represents the interests of the shareholders.

Changes therefore must always be considered from the viewpoint of whether they ensure that parliament can continue to set priorities and determine the use of resources. In this context, it is, in particular, a question of determining political objectives as precisely as possible, earmarking the use of resources, e.g. as a budget, and ensuring the necessary control.

## **6.2 So-called “improper” organisational privatisation**

In order to avoid what are seen as the hampering framework conditions involved in completing government contracts such as own service regulations of public employees, budget provisions and lengthy decision-making processes, many governments view the transfer of tasks to institutions in the private sector as a suitable approach to solving the issue. However, where this is the case, neither government nor administration relinquish their influencing and control options, nor, therefore, administrative responsibility. For us, this raises the question as to what extent such “improper” organisational privatisation is incorrect in terms of approach. Often enough costs go up: following privatisation, service provision is subject to turnover tax, a land transfer tax falls due when real estate is transferred, and it is not unusual that there is a massive increase in managers’ salaries compared with the remuneration received by previous decision-makers. External public sector audit will have to examine whether it is government enterprises that must provide this service or whether, without good cause, the State thereby exposes itself to competition with private entities which would be politically inappropriate.

## **6.3 Core competences**

Generally speaking, the question as to the *sense of government service provision* per se is raised in cases where market competition would really work. New Public Management would then not only be an administrative reform, but a redefinition of government tasks, associated with a

thorough restructuring of administration. But where is the absolute limit in the fulfilment of what were previously government tasks by private enterprises, and what are government *core competences*?

#### **6.4 External consultants**

Often, the 'slimming down' of the State means that services from private entities have to be 'bought in'. Even in core areas, the State has to resort to private external consultants in order to carry out its duties. As a result of job cuts, the expert knowledge for awarding contracts and examining the completion of contracts within the administration is, as far as many key major projects are concerned, increasingly being lost.

### **7 Implications for the activities of external public-sector audit institutions**

The changes in terms of content and structure associated with the introduction of cost and performance accounting, double-entry accounting, public private partnerships, privatisations and the awarding of contracts to external consultants, also confront external public audit bodies with new challenges.

External public sector audit is required to bring about the desirable transparency of the State for citizens and state authorities, and thus increase the citizen's trust in his State.

Parliament, government and administration, which initiate and assist the processes of reform, require sound knowledge of the problems they face. This knowledge may be provided for them by external public sector audit.

The auditors must first acquire the basic knowledge of how to use information technology, modern control instruments, personnel management and the double-entry accounting system. As far as providing advice on the implementation of administrative reform measures is concerned, the role of the public audit body can take on many of the

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characteristics of the role of an independent business consultant who is not associated with the client, and this is what is special about it. Auditors might also become 'researchers and developers' to the extent that they compare, examine and evaluate the possible applications for an efficient and effective administration and highlight the alternatives among which the politicians, who have the final say, may choose.

In the final analysis, we, as the quasi-model institution, are called upon and obliged to practise ourselves what we preach.