Public Administration Reform for the Post-crisis Period

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The global financial and economic crisis has revealed some weaknesses in the EU public administrations that have been unexpected to a large extent. This has come at a time when the EU Member States were carrying out or completing reforms of their national administrations and the Union itself had just begun a new phase in the construction of a European Administrative Space as an essential element for the achievement of the Lisbon Strategy overarching aim to transform the EU into the most globally competitive knowledge-based economy.

In addition to the resilience and effectiveness in successfully tackling the financial aspects of the crisis that the EU and the Eurozone, in particular, have demonstrated, in its Europe 2020 Strategy and the decisions taken at the December 2010 European Council the European Union has indicated new additional dimensions that have to be built in the ongoing administrative reforms of the Member States and the Lisbon Treaty induced changes in the EU Institutions themselves and the way they are functioning.

The present research report will focus on the effects of the crisis and the new challenges it poses to the public sector and the administration of the EU Member States and the Union itself.

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The global economy is continuing to recover, and progress has become more sustained. Output and trade growth have softened since the early part of the year, as temporary growth drivers, including the boost from fiscal support measures, have faded and not yet been fully replaced by self-sustaining growth dynamics. With the normalisation of monetary, fiscal, financial and crisis- related structural measures expected to gain momentum over the next two years, and take place in an increasingly large number of countries simultaneously, domestic policies in one domain will need to take into account policy settings in others and in other countries. International cooperation, including through the G20, will be essential to boost the credibility of this policy effort. Structural policies, in addition to strengthening the economy in the longer term, can contribute to fiscal consolidation, create room for monetary policy to extend the period of accommodation by raising potential output and also help strengthen demand in the short term. In addition, certain structural reforms that are desirable on domestic grounds alone can also contribute to narrowing international imbalances, both at the global level and inside the euro area

Against this background, the policy requirements at present and in the longer term are as follows:

- Budget consolidation to bring public finances onto a sound footing should be pursued actively from 2011 onwards in almost all EU countries. The pace of withdrawal of fiscal stimulus should be commensurate with the state of the public finances, the ease at which government debt can be financed, the strength of the recovery and already-announced consolidation commitments.
- The momentum toward financial reform needs to be maintained to strengthen the stability of the global financial system. The implementation of the recently agreed global reform package for the banking sector will contribute to this end.
- Structural reforms need to be implemented to raise potential output in the long term, thus facilitating fiscal consolidation, and to help tackle some of the specific legacies of the recession, not least weakness in labour markets that threatens to have durable negative consequences. Reforms to improve public-sector productivity, remove barriers to job creation, change the tax structure and implement pollution-pricing mechanisms would all help to protect growth and

employment and facilitate fiscal consolidation. Structural reforms will also be instrumental in addressing the underlying determinants of global imbalances through their impact on saving and investment.

In the EU Member States the current economic, financial and social crisis has shown that the existing economic governance model in the Union has not worked as effectively as it was ideally envisaged. During the past years enough convergence between Member States has not occurred. In stead macro-economic and fiscal imbalances have remained and even become larger during last 11 years. The surveillance framework was too weak and the rules of the Stability and Growth Pact were not sufficiently respected, in particular as regards the preventive arm. As a result the macro-economic imbalances have remained and the public finances have become even more unsustainable.

On the eve of the December 2010 European Council the debate in the EU was centred on the need to achieve a common understanding of the effects of the crisis and the establishment of new regulatory mechanisms. The joint analytical work in the Union concluded that:

- the new enhanced economic governance should fully integrate and reinforce the EU principle of solidarity, as a prerequisite of the euro area's capacity to respond to asymmetric shocks and speculative attacks,
- the current economic crisis in the Union is a solvency crisis that initially manifested itself as a liquidity crisis which cannot be resolved in the long term by simply pouring new debt into highly indebted countries in combination with accelerated plans for fiscal consolidation,
- a permanent crisis resolution mechanism, including procedures for debt restructuring or orderly default, should be established in order to safeguard financial stability in the event of a sovereign- and private-debt crisis, while protecting the ECB's independence ('A new strategy for the single market – at the service of Europe's economy and society': Report to the President of the European Commission by Professor Mario Monti, 9 May 2010),

- the fiscal policy of many Member States has often been pro-cyclical and country-specific, the medium-term budgetary objectives have seldom been strictly enforced or implemented,
- it is essential for proper European economic governance that the internal market be completed as envisaged in the Monti Report (1),
- the unsustainable finances as well as the excessive aggregated (public and private) debt of an individual Member State have the potential to impact on the whole Union,
- the process of reducing long-term deficits must be combined with other efforts stimulating the economy, such as improved preconditions for investments and an improved and developed internal market, providing greater opportunities and increased competitiveness,
- it is necessary to establish a mechanism at national level to assess the implementation of the Europe 2020 priorities and the achievement of the relevant national targets included in the National Reform Programme in order to support the yearly evaluation by the EU institutions. In cases where there is a persistent and aggravated macroeconomic imbalance, a transparent and objective procedure should make it possible for a Member State to be placed in an “excessive imbalance position”, triggering stricter surveillance,
- it is also necessary to establish a "European semester" for comparison and assessment of draft budgets of Member States (main elements and assumptions), following discussion by the national parliaments. EU and national budgetary rules and procedures should be respected. Member States shall submit their SCPs and NRPs to the Commission in April, after due involvement by national parliaments and taking into account EU-level rules and conclusions; the European Parliament may, for its part, establish a systematic way to support a public debate and increase the awareness, visibility and accountability of these procedures and how the EU institutions have implemented the agreed rules,
- the budget and accounting process has become the operational planning tool of government and provides the architecture for accountability.

To a great extent the decisions of the December 2010 European Council reflected this analysis. (2)

Fiscal Sustainability and the Public Sector

The situation in 2010

In EU Member States' political and financial leaders have begun to emphasize the importance of fiscal consolidations in promoting sustainable European growth. They have arrived at a common understanding that:

- It is necessary to establish an enhanced analytical surveillance framework (including a scoreboard with specific trigger values for early warning) with appropriate methodological tools and transparency for an effective multilateral surveillance based on harmonised economic indicators (real and nominal), which may affect competitiveness positions and/or excessive imbalances. Further to this in-depth country specific surveillance, Member States have the responsibility to decide on national policies which aim to tackle (prevent and correct) macroeconomic imbalances, alongside the need to take into account the European Commission's specific recommendations and the Union dimension of those national policies, particularly for the States in the euro area. Adjustment must be directed to both excessive-deficit and excessive-surplus States, taking account of each country's specific circumstances, such as demographics, the level of private debt, trends in wages compared to labour productivity, employment – especially youth employment – and current-account balances.
- It is also necessary to develop common budgetary principles as regards the quality of public spending (both for national and EU budgets) and a set of common policies and instruments to support the Europe 2020 Strategy, while balancing budgetary discipline targets and enabling long-term financing of sustainable employment and investment.

Fiscal rules have been among the most widely adopted budget innovations during the past two decades. However, the fiscal crisis has revealed flaws in many of the fiscal rules in place which will impel governments to adjust them on the basis of the lessons learned.

Fiscal deficits are falling but are set to remain high

Following record highs in 2009, the Euro area-wide fiscal deficit is expected to fall to around 4% of GDP in 2011 (See Table), with reductions in almost all EU countries.

Table. Fiscal positions will improve in coming years

Per cent of GDP / Potential GDP

	2008	2009	2010	2011	2012
Euro area					
Actual balance	-2.0	-6.2	-6.3	-4.6	-3.5
Underlying balance (1)	-2.1	-4.1	-3.9	-2.8	-2.2
Underlying primary balance	0.6	-1.7	-1.4	-0.3	0.5
Gross financial liabilities (1)	79.1	90.6	96.9	100.7	102.8

Note: Actual balances and liabilities are in per cent of nominal GDP. Underlying balances are in per cent of potential GDP. The underlying primary balance is the underlying balance excluding the impact of the net debt interest payments.

(1) Fiscal balances adjusted for the cycle and for one-offs.

Source: OECD Economic Outlook 2010, Eurostat 2010

Deficit reduction

Each and every EY Member State should establish a credible deficit reduction plan that is integrated into a comprehensive economic policy.

Creditors and taxpayers seek confidence in a country's fiscal management in order to continue financing public expenditures. Facing a deteriorating fiscal position, a country should re-establish its fiscal credentials by adopting a serious deficit reduction plan; otherwise, the country cannot sustain its fiscal programme and will be punished by financial markets. And countries should not try to assuage markets by assertions that they can count on future economic growth alone to "grow out of" their problems: the fiscal problems in most countries are far too large to be solved by economic growth itself. In the 1990s, some countries pursued fiscal consolidation strategies to shift resources to the private sector and to make their economies more competitive. In particular, several European countries cut deficits in order to qualify for the new euro currency.

Deficit reduction has important benefits:

- By getting its finances in better order, a country can make sure that it can sustain its fiscal policies down the road.
- By adopting a serious plan to reduce its borrowing needs and debt service, a country can reassure creditors and taxpayers in a transparent manner that it is prudently managing its fiscal house. If a country does not have fiscal credibility, it will have much more difficulty in continuing its fiscal programme because creditors will refuse to continue lending or will demand a higher risk premium.
- By following a more sustainable fiscal path, a country can create fiscal space that can provide room to address future economic and financial shocks and to fund new priorities.

The announcement of a credible deficit reduction plan can have positive effects on consumers, businesses, and financial markets.

The announcement of a credible deficit reduction plan can lead to a shift in the expectations of key economic and financial players. This shift, in turn, can have a positive impact on the economy. If credible, the plan will help manage medium-term expectations of creditors, which will keep down financing costs by reducing risk premiums demanded in the form of higher long-term interest rates. Nevertheless, an important aspect of successful deficit reductions is to create not just a “defensive” consolidation strategy but to combine it with “offensive” elements (infrastructure, R&D) that may strengthen future economic development. The importance of expectations in successful fiscal consolidations can be seen, for example, in the cases of Denmark (1983-86) and Ireland (1987-89). **Contrary to conventional wisdom, their large adjustments (expected to be contractionary in the short run) had positive effects on the economy.** Other countries have had similar experiences. In 1996, when Sweden faced a cyclical downturn, it turned to new deficit reduction measures that had an expansionary impact on the economy through a boost in confidence. Similar effects were seen in Finland. As the Danish, Finnish, Irish, and Swedish experiences illustrate, the announcement and adoption of a credible consolidation plan can lower the risk premium on government debt instruments demanded by creditors, boost investment through lower interest rates, and/or have a positive wealth effect as lifetime tax expectations are lowered by the perception of diminished financing needs.

Eliminating a sizable deficit is a “social project”, not a normal budget exercise. A budget exercise often involves a small number of people working in relative secrecy. The purpose of eliminating a sizable deficit is to reconcile fiscal capacity with demands for funding, including funding for new government priorities. Eliminating a sizable deficit involves a realignment of the role of government in society. As such, this kind of project requires a more open and inclusive approach, one that engages the whole of government. And this approach should place an even greater emphasis on programme evaluations, value-for-money assessments, and cost/benefit analyses than occur in a normal budget processes.

However, sizable deficit reduction plans should be implemented from the centre of government and in an all-inclusive, whole-of government package. The development of savings proposals cannot be left to officials of line ministries, as it is not in their interest to identify programmatic proposals with large savings. Savings proposals should come from the centre – the Minister of Finance and/or the Prime Minister. However, since the centre has less information about policy details, special procedures – such as programme or spending reviews – are needed to provide important programmatic information about the operation of programmes to help the centre develop proposals. These reviews have been used in the Netherlands, and the United Kingdom. Related to the need to implement deficit reduction plans from the centre, such plans also should be implemented in an all-inclusive, whole-of government package. Individual ministers and beneficiaries have long been successful at insulating their programmes from cuts because the benefits to them are larger than the costs to everyone else. Cuts that affect individual programmes unleash a strong reaction on the part of beneficiaries. But the scale of the Netherlands *Program Review*, for example, helped to balance single interests with the collective interest. Public judgment about the merits of the approach hinged on the relative fairness of the proposals among regions, groups, and income levels. In general, successful consolidations can be achieved only when a package of reforms encompassing all programmes are considered together.

The most successful plans involve large, multi-year adjustments; in fact, scale can make possible reforms that alone would not be politically feasible. A sample of countries with large adjustments includes: Sweden (17% of GDP); Denmark (13.5% of GDP); Greece (12% of GDP); and Portugal (8.5% of GDP). Of the large adjustments, roughly half lasted one to two years and half lasted longer. Among the most successful were those in Denmark (four years), Sweden (seven years), and Finland (nine years).

Factors regarded as critical to the success of fiscal adjustments are:

- **the size** of adjustment (larger adjustments have had a more positive impact);
- **the duration** (particularly successful adjustments have been multiyear);

- **the composition** (spending cuts have tended to provide the most durable deficit reduction and to increase the likelihood of a positive macroeconomic impact, but tax changes have often played an important role);
- **the state of public finances** (the worse the situation, the more likely that the effects will be positive);
- **the starting levels of spending and taxation** (most plans have included both tax and spending provisions).

A crisis can make it easier to adopt a deficit reduction plan. "The worse the public finance situation, the higher the probability of implementing a lasting fiscal correction." (3). This is based on the public being more likely to see the benefits of responsible fiscal policy and support a tough programme when times are obviously precarious. **Contrary to conventional wisdom, deficit reduction can be politically advantageous in certain circumstances.** In Denmark, public support for the government's fiscal consolidation programme was galvanized by concern that Denmark's credit rating in global financial markets would be downgraded after a leading credit rating agency issued a warning. In Ireland, when the first attempt at fiscal consolidation failed, the government was thrown out. The party returned to power several years later on a fiscal austerity platform even though the economic and fiscal situation had worsened. Public support for fiscal consolidation in Finland and Sweden was related to widespread perception of a crisis and the need for a solution.

Put everything on the table. Deficit reduction is more likely to be sustained when politically sensitive areas – including transfers and subsidies – are tackled. Both, spending and revenue must be on the table to have any hope of a "grand bargain" in which all sides have an incentive to negotiate a comprehensive package of reforms. In many countries, the scope of the problem is so large that tax increases and spending cuts will have to be part of any final package. And given that transfer payments to businesses and citizens make up such a large portion of public expenditures, cuts in these areas have been an instrumental part of many deficit reduction plans. For example, important components of the consolidations in Finland and Sweden involved lasting reforms in their social security systems which were put on a sound financial basis with their financial integrity guarded by automatic triggers. Moreover, cuts to transfers and subsidies tend to increase the chances of stabilizing the debt-to-GDP ratio, perhaps because such cuts demonstrate a strong commitment to reducing expenditures.

Fiscal consolidations should be biased towards spending cuts.

Successful consolidations have typically placed about 80% of the burden on spending and 20% on tax increases. (4). This rule of thumb may not apply in all cases; important factors affecting the mix include the state of the domestic and global economies and the monetary policy stance. However, spending restraint (notably with respect to government consumption and transfers) is more likely to generate lasting fiscal consolidation and better economic performance than tax increases.

Timing is critical: a deficit reduction plan generally should be phased in, but a fiscal policy that is counter-cyclical is most important. In countries undertaking large fiscal adjustments, more gradual implementation has often led to better macroeconomic effects. A gradual phase-in usually also allows for a more orderly adjustment, which is particularly important politically and economically when the amount of the adjustment required is large. However, a gradual phase-in can induce organised resistance that grows over time. Austria, for one, has had good experience with "big bang" solutions. In current circumstances, the question of timing is especially critical. Normally, a delay in adjustment is not regarded as good policy. Simply as a financial matter, delay increases the debt – and therefore the cost to the public – through higher debt service. As a result, the fiscal adjustment eventually required will be larger. Moreover, in some circumstances, a fiscal crisis may require immediate and dramatic adjustments to restore short-term financing. Denmark, Finland, Ireland, and Sweden, for example, faced immediate pressures from the withdrawal of external credit. Under current conditions, however, withdrawing fiscal stimulus should perhaps wait until the economy is stronger and until public confidence in the viability of financial markets has been restored.

Fiscal rules and institutions can provide additional fiscal discipline, which could be particularly useful during multi-year adjustment programmes. A multi-year programme combined with clear fiscal rules that limit spending (including tax expenditures) can enhance policy credibility by being counter-cyclical and by increasing fiscal discipline, transparency, accountability, and certainty. "The strongest rules have a constitutional base with no margin for adjusting the objectives, are monitored and enforced by independent authorities, include automatic correction and sanction mechanisms in case of non compliance, and are closely monitored by the media." (5). Such a fiscal programme can also help policy makers adhere to an appropriate fiscal path. For example, in the case of Sweden, when the government's finances had improved after the adoption of a fiscal programme, a medium-term target (a surplus of 2% of GDP over the cycle) was announced to avoid repeating fiscal problems. Fiscal rules with embedded expenditure targets have tended to be associated with larger and longer adjustments, and with higher success rates.

The more involvement of the public, relevant agencies, sub-national governments, and other stakeholders, the more successful the plan will be. Creating public understanding and support for restoring fiscal sustainability through deficit reductions is hard, but not impossible. A communication strategy that emphasizes social balance and fairness – between all levels of government, government entities, income classes, and generations – should be part of the consolidation plan. Co-ordinating with sub-national governments to ensure consistency in deficit reductions is particularly relevant. Interaction with other stakeholders can also help: the creation of peer pressure through the use of fiscal sustainability watchdogs or through the co-ordination of fiscal policies with other countries can support the difficult political actions required.

Reductions in public employment

Staff reductions can be long-lasting if they are based on explicit policy decisions to undertake programmatic reductions or on credible productivity gains. The difference between staff reductions that are a result of arbitrary decisions and those based on good programmatic reasons cannot be overemphasized. Governments change what they do and government staffing can and should reflect these changes. But staffing changes not based on fundamental programmatic analysis do not last and can end up adding to future deficits. Staff cuts can also be driven by organisational performance reforms including the redefinition of missions and expected outputs (business and delivery planning), new workforce planning policies, and a move towards competency management.

Across-the-board cuts and freezes that affect programmes and services in an undifferentiated way can have perverse effects and may not help promote fiscal sustainability. Such cuts can erode the quality of public services, reduce the quantity of available services for the same level of taxpayer contribution, and affect morale in the public service. Over time, they can erode citizens' confidence in government, in the public sector, and in public organisations. Moreover, cuts done in this manner have generally not helped reduce deficits in a way to promote fiscal sustainability. The reasons for this include:

- Arbitrary staff cuts have generally been restored within five to ten years if the public's demand for services was not reduced or if no change in the operational delivery modes was undertaken. Even in the cases where there were successful cuts, the impacts have been limited, as the compensation of government employees generally represents only about a quarter of government expenditures.
- Some staff cuts are in fact the result of "hidden" institutional changes, in which government entities are transformed into other types of organisations that may have some sort of hybrid status but are still funded by government or mandatory fees, or are at best semi-private organisations.
- The best staff tends to leave first, and the public sector ends up with the least productive people. In addition, when the government starts hiring again, it has to train people and devote scarce resources to hiring procedures.
- Politically-driven staff cuts may also affect continuity in policy implementation by diminishing the professional culture of some organisations, a culture that can

provide the values, capacity, knowledge, and memory necessary for effective service delivery.

Efficiency measures may help with internal reallocations from lower to higher priorities, but they are not likely to be major contributors to eliminate a sizable deficit. There is no real substitute for making choices about the relative importance of government programmes to eliminate a large deficit. Staffing decisions can and should follow these choices, not lead them. Nevertheless, countries should not miss out on the opportunity to achieve managerial savings, including in programmatic priority areas. A deficit reduction plan provides a potential platform for a renewed focus on increasing public sector productivity and value for money – through the use of ICT investments, process re-engineering, market-type mechanisms, and shared services – and for reallocating harvested gains through the budget process. One way to create an incentive for process innovation is to share productivity dividends between public sector bodies and treasuries. While reducing the share of savings per programme, such an approach can increase buy-in and acceptance of productivity efforts and therefore the long-term sustainability of reductions. In addition, productivity efforts can include the use of market-type mechanisms to drive both internal and external incentives through a broad range of tools such as contracting out and performance pay. The ratio of staff employed at the central and sub-central levels also needs to be considered. The majority of government employees work at sub-central levels of government; in 2009, 42% of government employees in the EU worked at state, regional or local levels of government with often different employment and working conditions than their central government counterparts.

As countries come out of the economic and financial crisis with a sharp deterioration in their public finances, they need a fiscal recovery plan to reduce debt burdens before long-term pressures (especially ageing and health care) hit with full force. As the examples cited above suggest, the adoption of a fiscal consolidation plan is important – and necessary. A multi-year deficit reduction programme allows

citizens and creditors to adjust gradually and provides a disciplinary framework to achieve more sensible government finances.

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A major study on “Civil Service Systems in the EU of 27” has demonstrated that modern government still depends to a great extent on the work of the national civil services and their employees - the millions of civil servants. In fact, the quality of life in Europe depends in many ways on those who work for governments and on how government works as such. Furthermore, civil services have a democratic and ethical function; they should serve society and the law, protect the population as well as function in a sustainable manner. For all of these tasks and duties the Member States have established specific civil services. No government functions as a private company or under labour law. (6)

These are not easy times for the Public Administrations (Civil Service) of the European Union Member States and the EU institutions. They have carried out serious work to improve the effectiveness in developing and implementing Government and EU policies as well as the public services they provide and to achieve greater “client satisfaction”.

With varying degrees of success this is true also for the new EU Member States from Central and Eastern Europe and the aspiring countries from the Balkans and the wider Black Sea region. (7)

At the EU level much has been done to achieve administrative convergence and compatibility and values of the European Administrative Space.

However, there are **new challenges** to meet, namely, the higher expectation of public services, the need for greater IT connectivity, an aging population and the most pressing need to achieve more with less. After 2008 a major factor demanding reform of the Public Administrations are the new economic realities. Some of the EU Member States' administrations also face the benefits and challenges of raising diversity within the Public Administration. As for the top levels of the Public Administration the continuing challenge is the importance of delivering excellence, focusing on what matters most and leading by example when delivering challenging objectives. The Public Administration of the EU and its Member States has also to answer the call for increased transparency and accountability.

In order to fulfil its obligations to the Government and the public the Administration has to continue to abide by its **basic principles** of honesty, integrity, objectivity, and impartiality (including political impartiality defined as serving the Government, whatever its political persuasion, to the best of one's ability in a way which maintains political impartiality and is in line with the requirements of the Civil Service Code, no matter what one's own political beliefs are; acting in a way which deserves and retains the confidence of the Ministers, while at the same time ensuring that the civil servant will be able to establish the same relationship with those whom he/she may be required to serve in some future Government (8).

The Public Administration also has to develop and adapt to the new challenges. This means responding to increasing demand, complexity and diversity – all within the context of providing greater value for money.

Some of the EU Member States Governments have undertaken major initiatives to meet these challenges.

Particular interest arise the Capability Reviews **in the United Kingdom** that beginning in 2005 assessed how well the Government departments were in meeting their delivery challenges and provided targeted support to make any improvements required.

One of the interesting conclusions that were reached as a result of the Reviews was the need to have an organization, like the OECD, that would compare Government departmental capabilities across different countries along the lines of what is already taking place with regard to the development departments.

At present the **OECD** continues its valuable contribution to building and improving the modern Public Administrations not only through the continuing work of SIGMA – the joint OECD-EU Initiative in support for improvement of Public Governance and Management, but also through the Reviews of Human Resource Management in Government and the OECD Value for Money Studies. (9)

More recently in the UK it is worth noting the work of Government Skills and the National Occupational Standards for Commissioning in the Public Sector.

UK's general approach to the skills and expertise required are included in a framework that comprises: leadership, which is common to all civil servants; core skills that are common to the civil servants at the concrete grade; professional skills specific to a given profession and role; broader experience required for the senior civil servants only.

In addition to the UK Civil Service Code the Head of the Civil service Sir Gus O'Donnel formulated a vision for a Civil Service that exudes "the Four Ps":

- Pride – civil servants should take pride in the value they add and the services they deliver to the public;
- Passion – civil servants should care about their work and the people they serve. A culture that values passion will also keep attracting the most talented people to join the organization;
- Pace – the Civil Service needs to ensure it gets on with the job as quickly as possible and provides value for money;
- Professionalism – this can be achieved by constantly lifting standards and promoting a culture that valued lifelong learning. (10)

On 11 November 2010, the Civil Service provisions of the UK Constitutional Reform and Governance Act 2010 came into force placing the Civil Service values on a statutory footing and including the publication of a Civil Service Code (See 8).

In France the reform of the Public Administration is carried out on the basis of a major work – the *White Paper on the Future of the Public Administration*. (11)

It is built on the premise that the career Public Administration (*la fonction publique*) structured around a set of values serving the common interest is a public good and an essential element of the identity and the cohesion of France. (12)

On the background of a profound and sincere analysis of the present state of the French Public Administration the *White Paper* formulates 6 **strategic aims** and 40 proposals to transform the Public Services and the Public Administration into a real asset for France. They concern: the values of the Public Services and Administration that will be established in a special Code; the clarification of the objectives and the mission of the Public Services that infers the strengthening of the regulatory functions of the States; a drastic reduction in the statutory bodies of the State Administration and building an expert Public Administration; making the Public Administration more attractive to potential employees and increasing their mobility; improvement in the management of the Public Administration.

On the basis of the *White Paper* a broad public debate on the future of the Public Administration takes place. Among the more interesting ideas and conclusions that have been drawn from the debate special relevance is being given to the need to pay greater attention to the decisions taken by the legislative power and the ensuing new requirements for the formation of the civil servants exactly because of the new legislative texts that are formulated for the administrations to implement (including EU legislation). A major shift from length of work experience and career duration to available competences at the right moment for the right post is envisaged. Special attention is attributed to the recruitment and career movement of the managers, the Personnel Managers, in particular. The entry-level competitions will guarantee greater equality of access to work in the Public Administration. Special attention will be attributed to the mobility of the civil servants.

In addition, the active public debate in France on the evolution of its Public Administration is organized by the ***Decider ensemble*** (Deciding Together) National Association. Its main purpose is to put the citizens back at the heart of the Public Service. The Association aims: to bring the citizens closer to the problematic of the Public Service by carrying out polls and organising public debates on the major issues; to make the Public Service more accessible, transparent and clear; to improve the evaluation of the Public Service based on the understanding that the reform of the Public Service cannot be directed against civil servants but should aim at the improvement of the functioning of the Services; to completely detach the Public Services and the Administration from the "political factor" and move beyond the "electoral cycle"; move the Public Services closer to the citizens and pay greater attention to the local level of Administration; undertake mutualisation of the Services with the purpose to improve their cost efficiency; learn from foreign experience.

On the background of greatly decentralized Public Administration part of the debate on the evolution of the Civil Service and its functioning is dedicated to the **territorial reform** and the **redefinition of the EU Cohesion Policy**.

Typical for the modern French Public Administration is the great attention attributed to its **digitalization as a strategic approach**. The driving forces behind this process are the need to make more with less, both, in terms of human resources and budgets, the need to reduce the time frames and better organise the workflow. Based on the success in building this new "electronic administration" France intends to accelerate the **transition to personalized services** by 2012. The site <***mon.service-public.fr***> which was opened in October 2009 has already 600 000 accounts.

A major step in the evolution of the management and functioning of the Public Administration in France represents the adoption of a new decree on the renewal of the **social dialogue in the Public Administration** that will substitute the previous one from 1982.

Since 2007 the French Government is undertaking a periodic review of the Public Policies – ***Révision générale des politiques publiques***. Its final aim is, along with the budget leverage, to reduce by 2012 the burden of the public expense that takes 54% of the Gross National Product (GNP) – the highest level in the Eurozone and second largest among the developed countries. At the same time it should not lead to a worsening of the services the Administration provides. To the contrary, while reducing the level of public expenditure that has as collateral the reduction of public employment, it has to lead to a reform of the Public Administration and an improvement in the delivery of the Public Services. As in the case with the British Civil Service and the **US National Performance Review** and the **Reinventing Government** initiative the overarching aim is to do more with less.

The French Review has already managed to make the Public Administration **more attentive** to the demands of the citizens and users of its services, to more effectively use the available human and budgetary resources.

The reform has lead to **modernization** of the public policies and **improvement** of the public services though in the period 2009-2011 considerable reduction of the publicly employed personnel is ongoing, in the first place by not appointing a new public employee for every two who have retired. This will lead to a reduction of 150 000 posts in the Public Administration. (In 2005 the French Public Administration had 1, 75 million employees). In 2010 the reform has already lead to a reduction by 10% of the number of Directors in the Central Administration (going down from 190 to 168) and a considerable (3 to 5 times) reduction in the number of regional and local Public Administration entities. At the same time their missions have been redesigned. It is estimated that in 2011 that will result in a decrease of public expenditure by 7 billion euro half of which will be redistributed among the public employees in office, according to the commitment of the President of the French Republic who is presiding over the Council for Modernizing Public Policies – the main engine and implementer of the reform.

Among the other measures that are being undertaken based on the Review are: the preparation of a multi-annual State budget; the modernization of the territorial organization of the Public Administration; the simplification of the internal procedures; the modernization of Human Resources management; the improvement of the access to the Public Services; the modernization of the supporting functions of the State as payments, real estate policy, public procurement; the reduction of the "paper tax".

For the period 2011-2013 new 150 measures to improve the quality of service have already been outlined mostly by the Ministers themselves. New 100 000 posts in the Public Administration will be cut resulting in 10 billion euro of savings. Half of these savings will go back to the civil servants in employment. These reductions will be compensated by applying the already mentioned mutualisation of services and enhanced use of IT technologies that will result in savings of 1 billion euro. The French State will achieve further reductions of its expenditure by giving up more than 500 000 m² of office space and not signing new rental contracts that exceed 400 euro per year per m² which will represent a saving of another 300 million euro.

Since the end of 2010 the French Government is undertaking a **new strategic initiative** – *Investissements d'avenir* (Investments in the Future) that directs public money to projects in sectors that will bring higher return in future. Overall the amount of public expenditure and Government deficit is reduced. The priority sectors are superior education, training, research, industrial chains of production, small and medium enterprises, sustainable development, and digitalization (especially at the level of local government). The first 14 projects that were approved amount to 35 billion euro. The *Investissements d'avenir* combines investment from the private sector and the local government with State budget co-financing.

Most OECD countries have been actively reforming their public sectors for two decades. The main objectives of these reforms are to improve efficiency, reform management practices, and divest public involvement in commercial enterprises. These reforms have indeed had a major impact but they have also shown that while more efficient government is certainly desirable, efficiency alone is not a guarantee of better government.

To complicate matters, governments are now under pressure for more profound changes to meet the challenges of the post-crisis period. The earlier concern for efficiency is being supplanted by problems of economic governance and strategy development, risk management, and the need to answer the higher requirements for transparency and openness of contemporary society. To respond to this challenge, EU Member States need better tools, more adequate strategies and fast-effect measures than they have generally had to date.

OECD continues to be a valuable reference point. The USA, Canada, and Japan have their own experiences that are taken in consideration when outlining Europe's new orientations and instruments for Public Administration reform for the post-crisis period.

According to OECD, in the decade to come the systemic change and modernization of the Public Sector will most likely rely on a number of "levers":

- **Major changes to the budgeting and financial management process.** The budget and accounting process has become the operational planning tool of government and provides the architecture for accountability. The current vogue for including performance targets and measures has further strengthened the role of the budget (and finance ministries) as a lever for change.
- **Major changes to the civil service system.** During the first-generation reforms, some of the biggest impacts – not always good – occurred in those countries that put large numbers of public servants outside the rules of the core civil service

system by creating arm's-length public bodies. The other area of high impact has been major changes in selection and incentives for senior public servants.

- **Major changes to public transparency and accountability.** Over the last decade the growing prevalence of laws requiring the disclosure of official information has been a powerful force in piercing the secrecy of government, and thereby closing the power gap between officials and the public. Also, more local transparency measures such as customer charters and remedies, public score sheets and "league tables" appear to have a high impact on behaviour.
- **Changes in powers of departments.** In those countries where departments have truly been delegated managerial power over both money and staff, real change does occur – sometimes to the point where the centre wants to rein them back in after a few years.
- **The creation and closure of organisations.** This is a very powerful lever for change – and also a risky one. Confronted with an issue of public concern, a minister or senior official can create new agencies or parts of agencies. However, simply setting-up a new body does not by itself solve the problem, and may create new ones.
- **Use of market-type mechanisms.** The introduction of such measures as contracting out, vouchers, market-testing and public/private co-financing have introduced competition, and in many cases more efficiency, into public services. Problems can arise when such arrangements impact adversely on public trust in government, when private sector parties attain a position to exert leverage on public decisions, and when government ends up losing a strategically important competency.
- **Devolution of decision-making power.** Governance is about who takes decisions. The most important governance change in some OECD member countries in recent years has been the devolution of powers from central to local government. In the managerial domain however, the devolution of decision rights to the boards of arm's-length public agencies is of considerable interest. Where these boards have been advisory, they have operated very much as delegates. However, where countries have introduced boards in non-commercial public

bodies with broad decision-making powers, it has given rise to numerous political and governance problems. (13)

A recent OECD ministers meeting in Venice on 15 November 2010, under the leadership of Italian Minister Renato Brunetta responsible for public administration and innovation, concluded that **Governments must improve public sector productivity which is crucial to economic recovery**. Boosting public sector productivity and maximising returns on investment in technology will be key to restoring economic growth. Strong political commitment and leadership will be vital to reforming the public sector. Among other issues, the need to strengthen trust in government through more open and transparent engagement with citizens was discussed. This would require reforms to enable the public sector to prepare more effectively for future challenges and respond more quickly to changing needs and reduced budgets. (14)

The European Union strives to be **at the forefront of Public Sector and Public Administration reform**.

As Francisco Cardona indicates (15), public administration has always been **a domestic affair for EU Member States**. At the same time, national public administrations have to implement EU directives and recommendations in such a way that European citizens are able to enjoy the rights granted to them by the EU Treaties, irrespective of the country in which they live; a fact, which on its own could well justify the interest of the EU in **ensuring that each national administration has comparable quality and professionalism** and therefore - in the administrative capacities of their Member States.

In addition, **EU legislation has a great impact on economic and social conditions in Member States and thus on their economic competitiveness**.

As national public administrations as well as the judiciary are the guarantors for its implementation, the interest of Member States in public governance of other Member States has increased over time. This interest in the administrative capacity and the judiciary is even greater in the EU as regards to future member countries. The lack of general EC legislation applicable in the domains of public administration and governance, along with the disparate administrative arrangements of Member States, poses problems as there is no simple or unique model to follow. However, in the course of time, a relatively wide consensus on **key principles** which by now can be considered as part of the *acquis communautaire* and can be grouped into the following four categories, with the rule of law in a prominent position:

- *Rule of law*, i.e. legal certainty and predictability of administrative actions and decisions, which refers to the principle of legality as opposed to arbitrariness in public decision-making and to the need for respect of legitimate expectations of individuals;
- *Openness and transparency*, aimed at ensuring the sound scrutiny of administrative processes and outcomes and its consistency with pre-established rules;
- *Accountability* of public administration to other administrative, legislative or judicial authorities, aimed at ensuring compliance with the rule of law;
- *Efficiency* in the use of public resources and effectiveness in accomplishing the policy goals established in legislation and in enforcing legislation. (16)

These come in addition to the generally accepted **core Public Service values** of impartiality, legality, transparency, integrity/honesty, efficiency and professionalism.

Since 1999 the exchange of experience and common reflection on the challenges of Public Administration reform in the EU Member States has been carried out in the Innovative Public Services Group (IPSG) where all EU Member States are represented and which benefits from close cooperation with the European Institute of Public Administration (EIPA, created in 1981), the Brussels-based European Foundation for Quality Management (EFQM) and the German University of Administrative Sciences – Speyer.

A major effort in this direction was undertaken during the Spanish Presidency of the Union during the first half of 2010 which together with the IPSG and the European Public Administrative Network (EUPAN, founded in the 1970s) (17) updated the study "Evaluation of the added value by the Public Administration to Lisbon Strategy goals", two years after having been performed during the Slovenian Presidency of EU in 2008. (18)

Its main purpose was to identify how the modernization of public administrations is contributing to competitiveness, economic growth and the goals of the Lisbon Agenda, to be used as a basis for further activities to be included in the action plans for Public Administration system in the upcoming cycle (Lisbon Strategy after 2010: Europe 2020). This study established that most actions in the EU are oriented toward:

- improving the efficiency and productivity of Public Administration, rationalization of public expenditure and reduction of time spent in administrative procedures for a better service to citizens and enterprises;
- incorporating the Regulatory Reform through Regulatory Impact Assessment and Better Regulation;
- reducing the Administrative Burdens in procedures to enterprises and citizens to improve the work and business environment;
- strengthening competitiveness, which has shown to be one of the roots of the economic crisis in Europe;
- implementing institutional changes to restructuring public sector reducing/merging the number of Administrative units or levels, aimed at finding synergies and creating a new and more efficient structure, by means of the removal of overlapping functions;
- boosting and enabling innovation as a main support for increasing the productivity in all economic sectors;
- enhancing transparency and accountability, opening the information to the citizens in order to explain public actions, and to submit public performance to the evaluation by interested actors. (19)

Another study of the Public Administrations in the EU (6) confirmed the OECD analysis (20) that there is:

- a transition from a centralised to decentralized determination of employment condition;
- a shift from statutory to contractual or managerial governance;
- a development from career systems to post-bureaucratic (position systems);
- a delegation of responsibilities to managers;
- an alignment of pay levels with private sector practices;
- a change of special retirement schemes.

It observed however, that there are different and distinct reform paths amongst different country clusters, administrative models and civil service systems as, for example, the reform paths in Portugal and Spain, Austria and Germany or Latvia and Lithuania seem to differ widely. (21)

It also established that almost **all Member States follow the same grand reform paths**: decentralisation of Human Resource responsibilities and responsibilisation of managers, greater flexibility in recruitment and career development policies, a stronger focus on individual and organizational performance management and a general trend towards de-bureaucratisation with success being only possible if new reform instruments are shaped to the needs of the specific administration, taking the particularities of the administrative culture into account. (22)

What became clearly noticeable from that study is that the post-bureaucratic reform of the national civil services is gaining importance in all EU Member States. As a result, the current international reform process is leading to a **boost in innovation** that could also be of great interest in the respective national practice.

One year after entering into force of the Lisbon Treaty and as a follow-up to the June 2010 European Council that approved the Europe 2020 Strategy for the European Union

the European Commission is taking the lead in reform actions all across the Union in both, the Member States and the EU institutions, that will require new administrative capacity and transformation to answer the challenges of the post-crisis period.

In the first place are the **measures to improve policy coordination under the Europe 2020 Strategy and economic governance** in the Union through three integrated strands: macro-economic surveillance to ensure a stable macroeconomic environment conducive to growth and employment creation, taking full account of spill-over effects across Member States economies; monitoring of growth-enhancing reforms (thematic coordination) will focus on structural reforms in the field of innovation and R&D, resource-efficiency, business environment, employment, education and social inclusion; fiscal surveillance under the Stability and Growth Pact will be enhanced to strengthen fiscal consolidation and foster sustainable public finances that will help ensure the overall consistency of EU policy advice by identifying the fiscal constraints within which Member States' actions are to be developed.

Among the **reinforced instruments** under Europe 2020 are: the strengthening of EU strategic guidance; the Annual Growth Survey; the new role of sectoral Councils; effective reporting at Member States' level through the Stability and Convergence Programmes (SCPs) and the National Reform Programmes (NRPs); country-specific recommendations; the flagship initiatives and other EU instruments.

Under the new governance scheme, there will be one annual policy cycle for economic policy coordination, in which the instruments of Europe 2020 and the SGP will be synchronised and made fully coherent in the form of ***European Semester***.

Another major initiative of the European Commission is aimed at **better regulation** to ensure that the regulatory framework in the EU contributes to achieving growth and jobs, while continuing to take into account the social and environmental objectives and the benefits for citizens and national administrations. Launched in October 2010, the EU Better Regulation Policy aims at simplifying and improving existing regulation, to better design new regulation and to reinforce the respect and the effectiveness of the rules, all this in line with the EU proportionality principle. The Better Regulation strategy is based on: promoting the design and application of better regulation tools at the EU level, notably simplification, reduction of administrative burdens and impact assessment; working more closely with Member States to ensure that better regulation principles are applied consistently throughout the EU by all regulators; reinforcing the constructive dialogue between stakeholders and all regulators at the EU and national levels. The main purpose is to **turn better regulation into smart regulation**. (23)

The regulatory environment in which businesses operate influences their competitiveness and their ability to grow and create jobs. The European Commission committed itself to developing a better regulatory environment for businesses: one that is simple, understandable, effective and enforceable. The better regulation agenda of the Commission aims at: implementing a strategy to simplify existing legislation through a simplification rolling programme composed of about 185 initiatives in all policy areas reducing administrative burdens by 25% by 2012; placing greater emphasis on the use of impact assessments and public consultations when drafting new rules and regulations; monitoring the application of Community law.

In the context of achieving better regulation and as an important tool to improve efficiency and reduce costs the European Commission adopted an ***Action Programme for Reducing Administrative Burdens in the EU***. At the heart of it are the needs and concerns of small businesses. The efforts to reduce administrative burdens are part of the Smart Regulation Agenda. The Programme focuses on the most burdensome or irritating information obligations (IOs) in 13 priority areas: agriculture and agricultural subsidies: annual accounts / Company Law; Cohesion Policy; environment; financial services; fisheries; food safety; pharmaceutical legislation; public procurement; statistics; taxation and customs; transport; working environment / employment relations. The scope of the Programme covers 72 EU legal acts whose requirements for an estimated 80% of the administrative burden imposed by EU legislation on companies. The *Action Programme* foresees the possibility of further extension to new priority areas and new EU legal acts.

The European Commission has also established a ***High-Level Group of Independent Stakeholders on Administrative Burdens chaired*** by Edmund Stoiber, the former Minister-President of Bavaria, whose is to advise the Commission on administrative burden reduction measures, methodology and the scope of the Action Programme.

On of the practical steps in this direction was the adoption by the Council of a directive aimed at **simplifying VAT invoicing requirements**, in particular as regards electronic invoicing. With 18 billion VAT invoices annually in Europe, the switch to a fully electronic VAT invoicing system will significantly save time and money for more than 22 million taxable enterprises. This measure will remove obstacles to company's electronic billing, in particular additional requirements in the Member States to make invoices VAT compliant. The maximum mid-term reduction potential is estimated at EUR 18.4 billion if all businesses send all their invoices electronically. The directive sets out to ensure the acceptance by tax authorities of e-invoices under the same conditions as for paper invoices, and to remove legal obstacles to the transmission and storage of e-invoices. It also comprises measures to help tax authorities ensure that tax is paid so as to better tackle VAT fraud. These include establishing deadlines for the issuance of invoices, thus enabling speedier exchange of information on intra-EU supplies of goods and services.

In the same direction goes the **simplification of the reporting requirements in case of a merger or division** which has an estimated reduction potential is about EUR 172 million.

A major flagship initiative which is to be implemented as a shared priority requiring action at all levels (EU-level organisations, Member States, local and regional authorities) is the ***Digital Agenda for Europe***. It aims at delivering sustainable economic and social benefits from a Digital Single Market based on ultra fast Internet. As a result all Europeans should have access to high speed Internet by 2013. Specific Digital Agenda goals include:

- to increase the use of eGovernment services to 50% of EU citizens and 80% of EU businesses by 2015 and
- to ensure that a number of key public services are available online so that entrepreneurs can set up and run a business from anywhere within the EU independently of their original location and so that citizens can more easily study, work, reside and retire anywhere within the EU.

On 15 December 2010 the European Commission presented a five-year ***eGovernment Action Plan*** to deliver innovative online public services to citizens and businesses and increase the take-up of these services across Europe. It sets out concrete actions and priorities to make access to public services more efficient and cost effective.

The Plan aims to increase the take-up of online public services to 50% of EU citizens by 2015 (only 42% of the EU population used online public services in 2009) and to make available online a number of cross border services. It foresees actions to strengthen personal mobility in the Single Market thanks to digital services. It also aims to make public administrations more transparent for the benefit of the citizen. One objective is to provide citizens with electronic access to their personal data, in strict compliance with data protection requirements, and to enable them to follow on-line each step of the administrative procedure as well as to complete an administrative task online anywhere in the EU. All kinds of public data such as geographical, meteorological, legal, financial, economic and traffic information should be made available for innovative products such as geo-information systems for cars, on-line weather forecasts, or travel information applications which could, for instance, be downloaded on smart phones or other electronic devices.

In accordance with the *Digital Agenda for Europe* in December 2010 the European Commission adopted the **Communication "Towards interoperability for European public services".** It is an initiative to encourage public administrations across the EU to maximise the social and economic potential of information and communication technologies and looks to establish a common approach for Member State's public administrations, to help citizens and businesses to profit fully from the EU's Single Market.

Making full use of the Single Market often obliges citizens to deliver or collect information or documents they need to work, study or travel within the EU and send them to public administrations in another Member State. Businesses face a similar reality. That is why it is vital that administrations provide efficient, effective cross-border eGovernment services, as reflected in the *eGovernment Action Plan* adopted by the Commission in accordance with the *Digital Agenda for Europe*.

On this occasion, Maroš Šefčovič, Commission Vice-President, said: "The European Union is about cooperating to create an environment in which citizens and businesses can thrive. European public administrations have to lead the way in working together. This cannot happen without real, effective interoperability between public administrations at all levels." (24)

EU citizens and businesses who are making use of the European Single Market's freedoms are often obliged to contact, or even to travel to, public administrations abroad to deliver or collect information or documents they need to work, study or travel within the EU. The same applies to businesses that want to establish themselves in more than one Member State.

In order to overcome these constraints (so-called "e-barriers"), public administrations should be able to exchange the necessary information and cooperate to deliver public services across borders. That requires ensuring interoperability among public administrations. Many public administrations in the Member States are already taking steps to improve interoperability for public services at national, regional and local levels, but unless Member States and the Commission act together, interoperability at EU level will lag behind.

European public services will often be the result of aggregating existing public services provided at various levels of government within Member States. Setting up European public services will only be feasible if those public services are designed with interoperability requirements in mind.

In this context, the Commission commits itself to introduce a **European Interoperability Strategy (EIS)** and a **European Interoperability Framework (EIF)** that will ensure the interoperability among public administrations.

The direct beneficiaries of this action will be Member States' public administrations and European Commission services that will gain in efficiency when establishing European public services and will be more aware of the risk of creating new electronic barriers if they opt for public services solutions that are not interoperable at EU level. Citizens and businesses will benefit from better European public services in their daily life when they want to extend their work or leisure activities beyond the borders of their home countries.

The **European Interoperability Strategy** will help focus EU efforts through an appropriate governance organisation and common policies and initiatives to create the environment for a trusted information exchange between public administrations. It paves the way for public administrations in the EU to use a common approach by adopting guiding principles to allow genuine collaboration between public administrations, while modernising and rationalising their systems to increase in a cost-efficient way their capability to provide high quality public services.

The EU Member States are invited to work together to ensure that their different efforts to achieve the interoperability of public services are aligned and take into account the European dimension at an early stage in the development of any public service that might become part of European public services in the future. In order to facilitate this collaboration, a brand new conceptual model for European public services has been proposed. This model will allow the identification of barriers and facilitators for the deployment of such services in the future.

These initiatives, tied into the European Union's Europe 2020 Strategy for innovation, growth and jobs, also lead to achieving Open Government with greater accountability of public authorities. Together with the Transparency Initiative and the new European Citizens' Initiative under the Lisbon Treaty, they should, in the final end, lead to greater public trust in the governments and the Union itself. This, probably, will also be a most effective way to put an end to the "culture of voyeurism" epitomized by the WikiLeaks. As this relatively recent "phenomenon" has shown, there are major challenges and among them rank high the need to ensure protection of privacy and guarantee cyber security.

With the combined efforts of the Member States, the EU Institutions, the private sector and the civil society, the European Union is readying itself to face the challenges of the post-crisis period. The Public Administration is called to play a key role with dialogue, fairness and leadership.

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