

Introducing New Methods Of Leadership And Fund Management In Public Sector: The Case Of Slovenia

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Abstract

A key factor in efficient operations of public sector units, is not only the establishment of autonomous organisations, but also the promotion of autonomy, professional and financial responsibility as well as supervision in all organisational units in the public sector. It would be normal to expect the direct role of the state to become less important and greater initiative be left to organisational units. With methodical monitoring of public needs, constant evaluation of services, expert management and increasing equal access of citizens to services, the public sector operations could be made more efficient.

1. Introduction

Less than favourable economic trends during 2001 and 2002 have also been reflected in the state budget. In today's environment a reduction in public expenditure from approximately 46% GDP is a realistic option. The forecast shortfall of from 1 to 2% GDP is not high but possibilities for reducing budget expenditure and increasing revenue are somewhat limited in the short-term. Considering this, solutions involving reorganisation and efficiency in the public sector with better economic fund management are required (Urh, P., Basle, A., 2002).

Questions are posed as to what to privatise and what not and what to regulate and what to deregulate and what kind of administrative mechanisms are needed, bearing in mind a comprehensive privatisation of the public sector has not been implemented in Slovenia. It would be normal to expect the direct role of the state to become less important and greater initiative be left to organisational units.

With methodical monitoring of public needs, constant evaluation of services, expert management and increasing equal access of citizens to services, the public sector operations could be made more efficient.

Structural changes to a large extent mean reorganisation of state organisations in public service and state run companies and the establishment of smaller administrative units responsible for administrative tasks. In addition to restructuring and decentralisation of public services, their partial commercialisation is also important. Decentralisation requires new political management that includes monitoring results, elements of market economy and directing services to beneficiaries.

Significant characteristics of introducing new methods of leadership and fund management in the area of administration are:

- the introduction of budget financing monitored results,
- managing organisations on the basis of contracts and concentration on results,
- possibilities of using funds created from operational rationalisation,
- possibilities of allocating funds for stimulating efficient and successful work of employees and making the greater part of salaries dependant on results achieved.

Experience shows that it is not possible to introduce new methods of fund management without a sufficient level of decentralisation. Decentralisation will stimulate economic efficiency where the authority of managers is increased at the same time as their responsibility, leading to more long-term strategic planning, rationalisation and innovation. Operative autonomy comprises the management of revenue, human resources, internal organisation and the distribution of departments. Greater flexibility in using budget revenue at the end of the year, the possibility of consolidating various sources in a joint budget, and opportunities to create and the right to use up all or most of additional revenue are given to organisational departments. Instead of privatising operations, that has certain undesirable consequences, it is necessary to increase the share of revenue acquired under market conditions. The above opportunities place organisational managers in an essentially different position as they participate in strategic planning, determine financial capabilities, level financial reserves, anticipate risk, plan sources, provide timely control over costs and cost-benefit analyses of individual services, evaluate operations and thus improve the quality of adopted resolutions, etc.

It is, however, very important not to forget the reasons for reform of public finances in so-called crisis and the unfavourable economic climate. The central questions remain budgeting and costs – monitoring costs, the transparency of costs, comparing costs, covering costs, professional accounting at all levels and, finally, reducing costs. Political limitations and reductions precede questions of extent and quality of the public sector. Changes in organisation, the number of organisational units, their ownership, methods of management, number of employees, etc. affect the expenditure for this purpose.

The starting point for defining restructuring the public sector is the preposition that the efficiency and competitiveness of the national economy is reduced due to the “bureaucratic” nature of the public sector. Increasing competitiveness requires greater supervision over public sector operations, on the one hand, due to reducing the burden on the economy and rational use of budget revenue and greater autonomy of the public sector, on the other hand, that would increase its efficiency, success and quality.

The following characteristics define the significance of structural changes:

- Changing the role of the state in modern society welfare includes questions of co-ordination and supervision over the public sector;
- seeking a balance between structural changes and changes in management and leadership;
- seeking a balance between decentralisation and centralisation;
- selecting suitable models for public service operations.

An efficient system of operative autonomy provides organisational units with:

- Greater flexibility in using budget revenue at the end of the year that includes the right to transfer unused funds over to the following year. In this predetermined limitations and conditions are observed. Another form is the right under certain conditions to borrow funding from the following year’s budget.
- The possibility to consolidate different sources into a joint budget, enabling a topping-up of funds and their optimal use.
- The right to use a part or all savings created by the budget beneficiary by rational operation. Only this will stimulate beneficiaries to save budget funds, reduce operational costs and increase productivity. In order that lower costs does not mean less comprehensive services or a lowering in their quality, standards are needed for all operations.
- The possibility of creating and the right of use of all or most of additional revenue. The commercialisation of public sector services has, where possible and required, in addition to financial benefits also a positive influence on productivity.
- Flexibility in changing organisational structure, in employment policies and independence in employing specific persons under certain conditions.

Decentralisation comprises financial, management and organisational viewpoints. It includes determining managerial competences, firstly with respect to use and acquisition of funding, employment, rewarding employees,

organisation, etc. Employees in higher positions in the stated organisations are responsible for performing specific activities. Greater autonomy is linked to greater responsibility. Decentralisation will stimulate economic efficiency where the authority of managers is increased along with their responsibilities, leading to more long-term strategic planning, rationalisation and innovation.

2. The System Of Preparing The Budget In Slovenia

From 1994 the concept of a four-year budget has been adopted in Slovenia. Every year with the passing of the budget for the following year, a projection is made of budget revenue and expenditure for that year and the following three years. In this only the budget for the following year is allocated in detail for various items and beneficiaries.

The key documents used for budget planning are:

- Starting points for preparing the state budget – The starting points for preparing the state budget are a document based on findings on the existing state of the Slovenian economy. Certain parameters are defined that are considered when drawing up a budget memorandum and proposed budget.
- Spring report – The spring report is a professional document. The content is adjusted to the needs of several year's planned budget beneficiaries and expenditure.
- Budget memorandum – The budget memorandum is a government document. It defines the basic developmental, macroeconomic and social policies with which the government will support the realisation of its development goals in the following year, defined in economic development strategies.
- Budget proposal
- Autumn report – The autumn report informs the government of the latest movements in the Slovenian economy. In so doing it provides additional information for preparing a corrected budget proposal for the following year.

The annual budgetary cycle begins in March and lasts to the end of December, that is, 10 months.

Slovenia as yet has no documents showing long-term budgetary projections. It would be beneficial that budgetary projections are shown in a special budget document in which the picture for the following several years could be portrayed. As required the documentation for the past period would also show longer series of data. Projections for the next three years would be divided such that the document showed:

- the principle sources of revenue, the dynamics of basic economically targeted budget use: salaries, material costs, individual social transfers, subsidies, investment, etc.,
- a basic projection of financial accounts,
- the forecast allocation of funds to individual ministries according to principle targeted use.

2.1. Novelties In The Area Of Adopting The Budget During The Period 2001-2004¹

This year the Ministry of Finance has prepared a macrofiscal scenario and budgetary starting points for the period 2001-2004. The document provides the basic goals of macroeconomic policies, defines the central development tasks and shows the possible global framework of public finance for the following four year period.

The strategic public finance goal of the government in the following medium-term period is the gradual abolishment of public finance deficit. The programme-orientated approach to budgetary planning is based on the transition from supervised sources of revenue and use to the supervision of operational results and the monitoring and evaluation of implementing successful budgetary use. In accordance with this the indirect budget beneficiaries are set the task of preparing a report on results achieved and goals realised in the area of their competence (performance/result orientated budgeting).

¹ Novelties are summarised according to the Budget manual 2001-2002 issued by the Ministry of Finance

The programmed-orientated budget should provide for transparency. Up to now the Slovenian budget is based on approximately 3,000 budget items. The programme-orientated budget will enable concentration on results and goals in comparing costs and performance. This enables the transfer of authority with increased responsibility for success and efficiency at all levels of decision-making. The programme managers must constantly monitor and report on the success of supervision over efficiency and success of using budget funds. The eventual effect will be greater understanding and reviewability of the budget. Budget beneficiaries must in the new system also submit plans of developmental programmes. The state budget will then be composed of:

- a general part (balance of revenue and expenditure, accounts of financial debts and investments and a financial account);
- a special part (divided by budget beneficiaries with respect to areas of use, principle programmes and subprogrammes and items);
- development programme plans (together with procurement and building plans and employment plan).

At the end of the year budget beneficiaries must submit a report on goals and results achieved.

3. Direct (Gross Budgeting) And Indirect (Net Budgeting) Budget Beneficiaries

The principles of gross budgeting are used in Slovenia for direct budget beneficiaries such as ministries, authorities, administrative units, courts, president's office, etc. Principles of net budgeting are used for indirect budget beneficiaries such as public institutions, etc.

With the adoption of the new method of passing the budget, the negative results of gross budgeting should be removed. Direct budget beneficiaries using funds efficiently, will be rewarded such that they can direct their surpluses freely onto the next budget period, which up to now has not been possible. Unorganised monitoring of budget items has often led to direct budget beneficiaries not having permanent supervision over use of their funds. They did not have, therefore, a view over how much funding was used for individual purposes.

3.1. Gross Budgeting – The Case Of The Ministry Of Work, Family And Social Matters

There follows a presentation of the operations of the above ministry in reducing costs by reducing unemployment. Within the framework of long-term strategies in the area of the labour market for the period 2000-2006, the ministry set the following goals:

- an annual growth in employment of one percent,
- the inclusion of all unemployed persons in various programmes,
- reducing frictional unemployment and structural discrepancies,
- reducing regional discrepancies,
- reducing the amount of non-legal employment,
- raising the level of unemployed persons' education.

In 2000 the following positive results were achieved:

- percent less unemployment,
- a reduction in the numbers becoming unemployed,
- inclusion of the majority in educational programmes,
- more persons finding employment.

91.7% of planned funding was used for attaining the positive results.

Use of funding was less due to:

- acquiring additional funds from local authorities,
- positive employment trends led to a reduction in those on benefit.

The ministry was unable to use excesses from favourable trends in the area of unemployment on further employment measures but had to reduce part of the funds and part transfer to the Ministry of Internal Affairs.

**Table 1: The Ministry Of Work, Family And Social Matters
Planned And Realised Use Of Funds For 2001
(In Millions Slovenian Tolars)**

	Plan For 2001	Realisation 2001
Passive form	26,086	23,768
Active form	15,636	13,119
Education	17,387	16,873
Other	4,555	4,634
TOTAL	63,665	58,396

Source: Križan, 2002

The system and organisation of specialist offices of indirect budget beneficiaries in monitoring fund use requires mention. To now, as a rule, use of funds have not been monitored by project but only overall. There is no data, therefore for which project obtained sufficient funding, which too little or which too much.

The proposed Act on Public Service Employees allows for a system of differential salaries. It allows for additional bonuses for above-average achievement and tighter sanctions for underperformers. For the first time it allows the firing of employees in the public sector for non-qualitative work. Provisions from this act will be valid for budget beneficiaries with both net and gross budgeting.

3.2. Act On Civil Servants And Incentives

Slovenia has a system of civil servants in public administration. A special law accommodates employment, employment contracts, hiring, firing, rewarding, allocation, work performed and certain rights and obligations of employees in state authorities and local authorities. It is necessary to construct a modern mechanism of administrative management, organisation of work and personal decision-making, stimulating creativity and expertise and a mechanism for bringing public administration closer to beneficiaries and the economic management of funds.

Bringing public administration closer to its beneficiaries is the objective of changes in Slovenian public expenditure and its transformation to a European comparable system. In the framework of joining the European Union, Slovenia is bound to conform to provisions of the European Agreement on Association and EU regulations affecting civil servants. The agreement does not have hard and fast rules but a series of standards member states conform to in proving efficiency and forming a legal framework for civil servants. These standards are presented to candidates for joining the European Union through participation in SIGMA (Support for Improvement in Governance and Management in Central and Eastern European Countries).

In public administration there is to now no real separation between political functions and administrative posts. In the executive branch, administrative and specialist tasks are performed by persons formally appointed as political functionaries, and not professional civil servants. It can be said that Slovenia lacks an administrative elite and administrators as the present system does not permit their evolution. Public administration requires a certain number of well-educated and trained experts and managers that will develop through an administrative career or enter administration on the basis of professional criteria not as political functionaries.

Further to the problems outlined, the Slovenian government has proposed an Act on Civil Servants. Among its central aims are:

- to decentralise and simplify processes of decision-making in personnel matters and at the same time centralise and significantly strengthen supervisory measures and setting responsibilities and sanctions for violations,
- to introduce elements of a career system to motivate capable persons to enter public service and prevent capable staff leaving the service,

- to provide conditions for forming an administrative elite – a circle of top-flight experts and administrators. Conditions comprise of training, a system of titles and positions, a selection system and a system of rewarding.

In realising these aims various principles will be used among which is that of professionalism. This will introduce competitiveness among civil servants and encourage and force continual education and training and provide for quality handling of beneficiaries. Another principle is that of providing opportunities for further education and advancement to those proving successful in their work. There is also the principle of being held responsible for results that forces civil servants to work with greater quality, speed and efficiency.

Another of the aims is to make managers responsible for the work of their staff. Employees are informed of all the circumstances of their position. The principle of providing a career path provides for civil service careers. The principle is linked to showing excellent results not always realised for length service. This will help retain excellent and capable staff and make the career of civil servant more attractive to bright graduates.

One of the important provisions of the act is that civil servants are not provided special rights not specified by the act or collective agreement that would otherwise burden public funds. Due to this the personnel plan containing new employment and advancement as well as incentives is a compulsory constituent part of development plans on the basis of which the budget is passed.

In the area of offering incentives to civil servants, the new act anticipates various measures. The act determines the amount of funds for paying for increased amounts of work or above average burden on bodies of state administration. The government and other bodies can in accordance with financial capabilities form plans for additional retirement insurance for individual groups of civil servants.

A novelty of the incentive system is annual assessment of success, that is, working and professional quality of civil servants. In the assessment work results, independence, creativity and accuracy of work, reliability in performing work, personal capability for teamwork and organisation and other capabilities are measured. Work is marked one, three or five. Assessment is made by direct superiors each year separately. General criteria of assessment will be determined for all but each body will have the opportunity to form additional elements of assessment. Promotion will only be possible with a sufficient number of good marks. Staff with especially high marks will also be rewarded financially.

3.3. Net Budgeting

Besides funding from the budget, most public institutions in Slovenia can also obtain revenue from the market. The institution can freely dispose of this revenue. The system and area legislation are not uniform on the use of excesses from such operations. The provisions of the Act on Institutions are therefore most commonly used where what to do with the excess is determined by the institution's council with approval from the founders. Most public institutions therefore distinguish between excesses created by the operations of public service and those created by other operations. On what to do with the first, the decision is taken with approval of the founder and what to do with the second decided independently. Such an arrangement enables the public institution to obtain all the revenue it needs for salaries and most of the material costs from the budget although most employees also perform "profitable" operations. Almost all investment is financed from the budget. This incomplete arrangement has certain drawbacks both for the budget and the market (unfair competition).

For this reason the government adopted new accountancy principles (Act on Accountancy, 1999) for indirect budget beneficiaries that from 1.1.2001 must keep separate accounts of income and expenditure by type of operation. This provides separate monitoring of operations and shows the results of operating with public finance and other revenue for operating public services. So, for example, the Ministry of Health accurately defines which revenues (and therefore expenditure) are for what operations. Among additional revenue from public health institutions are (Prevolnik-Rupel, 2001):

- above-standard health services, outside of regular services, financed by private funding,
- performing services meaning additional activities for the institute (e.g. laundry service for outside users),
- all non-health care services, meaning additional operations
- analyses and studies in the area of health protection in addition to regular operations of public services,
- in pharmacies: selling merchandise, non-prescription medicines and medical aids.

Additional revenue allows budget beneficiaries financial independence in purchasing equipment, education and rewarding employees.

4. A Case Study: Higher Education In Slovenia

In the following case study, higher education in Slovenia carried out by public institutions as budgetary beneficiaries and private educational institutions is examined.

Institutions can be established by Slovenian or foreign natural and legal entities, where not otherwise determined by legislation for specific types of operation.

For the operating of public services, public institutes are founded by the state, municipality or town and other authorised public bodies. Other natural and legal entities can be co-founders of public institutions. Public institutions provide public services on the basis of concessions. A public institution operates on the market as a legal entity. Institutions are financed by the founder from payments for services and sales of goods and services on the market and other sources. Excess money can only be used for developing the operations of the institution.

In addition to public institutions of higher education the national curriculum of higher education can also be provided by independent institutions of higher education on the basis of concessions. Concessions are granted on the basis of written orders from the government of the Republic of Slovenia.

Private institutions of higher education can be financed from the budget where education is provided on the basis of concessions. Other private institutions of higher education providing valid study programmes can obtain finance through public tenders for development commissions. An institution can form a fund for managing all funding. School fees and other contributions for studies according to publicly recognised study programmes form the income of the institution.

In Slovenia there are two universities that are public institutions of higher education. The University of Ljubljana has 20 faculties, three art academies and three higher specialist schools. The University of Maribor has nine faculties and one higher specialist school. There are seven independent institutions of higher education in Slovenia of which two are faculties and five higher specialist schools. Table 2 shows data on the number of entrants for the school years 1996/97 and 2000/01 at public and private institutions of higher education.

**Table 2: Entrants To Higher Education In Slovenia 1996/97 And 2000/01
By Type Of Institution Of Higher Education.**

	1996/97		2000/01	
	Entrants	Percentage	Entrants	Percentage
Public Institutions	18,052	97.4	20,498	93.1
Private institutions	480	2.6	1,515	6.9
Total	18,532	100	22,013	100

Source: Higher education applications – office of information, 2001

From the data it can be seen that public institutions have more than a 90% share that is going down. The share of entrants to private institutions has more than doubled but still does not exceed 7%. It is therefore too early to talk about competition between the public and private sectors in the area of university education in Slovenia. Private institutions mostly offer humanity courses.

Both public and private institutions obtain funds from the budget for regular studies. Both charge school fees for irregular students. Some of the irregular students can apply for funds for school fees from the Ministry of Education, Science and Sport. Data on the numbers and percentages of places for regular and irregular studies for the selected school years are given in table 3.

**Table 3: Entrants To Higher Education In Slovenia In 1996/97 And 2000/01
By Study Method.**

Study Year	Regular Study (Budget)	Percentage Of Entrants	Irregular Study (School Fees)	Percentage Of Entrants
1996/97	13,100	70.7	5,432	29.3
2000/01	14,375	65.3	7,638	34.7

Source: Higher education applications – office of information, 2001

In spite of the number of entrants increasing both for regular study and irregular study, the percentage of students entering irregular study has increased from 29% to more than 34%. For now this trend is reflected in both public and private institutions. Both types of educational organisation are acquiring greater funding from the market from the direct payment of school fees by irregular students. In public institutions the share of regular study financed from the budget has decreased from 71% to 67% (Table 4).

**Table 4: Entrants To Higher Education In Slovenia
In 1996/97 And 2000/01 In Public Institutions
By Method Of Financing**

Study Year	Regular Study		Irregular Study		Total	
	Number	Percent	Number	Percent	Number	Percent
1996/97	12,860	71.2	5,192	28.8	18,052	100
2000/01	13,895	67.8	6,603	32.2	20,498	100

Source: Higher education applications – office of information, 2001

Public institutions are becoming more and more dependant on revenue from the market. This is confirmed by data from selected public institutions included in the University of Ljubljana in table 5.

In 2000 the public institution obtained just one fifth of all revenue from the budget. More than half its revenue came from school fees for irregular study. Consultation fees made up 10% of income with the organisation of short courses for employees. At the same time part of the cost of regular study was offset by the public institution. The only exception was labour costs, that for the most part were covered by budgetary finance (Table 6).

**Table 5: Share Of Public Institute Of Higher Education Revenue
In 1996 And 2001, By Method Of Financing (In Percent)**

Source Of Finance	1996	2001
Budget	24.5	21.5
Public institute:	75.5	78.5
school fees	53.8	55.3
consultation	11.7	12.2
Other	10.0	11.0

Source: Public institution accounts 1997, 2002

**Table 6: Shares Of Institution Of Higher Education Revenue In 1996 And 2001
With Respect To Their Coverage**

Type Of Spending	1996		2001	
	Public Institution	Budget	Public Institution	Budget
Labour costs	47.3	52.7	40.5	59.5
Material costs	90.0	10.0	92.6	7.4
Depreciation	100	0.0	95.6	4.3

Source: Public institution accounts 1997, 2002

Comparing the taxation of the public institution of higher education shows certain differences. Taxes paid by all institutions of higher education (public and private) are:

- tax on the profits of a legal entity,
- all income tax (contract work and honorarium),
- social security contributions,
- value added tax.

Public institutions and other non-profit-making institutions are relieved of paying tax on profits for non-profit-making operations. This means tax is paid on profitable operations. Public educational services provided in the framework of prescribed programmes for acquiring publicly valid education are exempt from value added tax but private institutions of higher education that do not provide publicly valid education are not. All other services provided by public or private institutions are charged VAT.

5. Conclusions

A key factor in efficient operations of public sector units, is not only the establishment of autonomous organisations, but also the promotion of autonomy, professional and financial responsibility as well as supervision in all organisational units in the public sector. With the adoption of a new method of passing the budget the negative consequences of gross budgeting should have been removed. Direct beneficiaries of the budget that are economical in their use of funding from the budget will be free to use excesses in the following budgetary period, that up to now has not been possible.


It is necessary to also improve pay and conditions for top-flight experts. The present system of workers in state bodies and local government bodies is based on centralisation of human resource management but on the other hand supervision over the compliance with regulations is not provided. There is also no system of awarding bonuses to civil servants at state or local government level. Outside of the incomes system, that is itself non-stimulating, there is no mechanism for creating satisfaction among civil servants or rewarding excellence. The present system also lacks mechanisms for providing flexible human resource management and rational operations.

In certain areas it is possible to acquire additional funds by selling services on the market. Higher education is at the forefront of this. Comparisons between public and private institutions of higher education show public institutions to have the following advantages:

- all courses are publicly recognised,
- most funding is obtained from the budget for regular study,
- lower obligations for paying tax on profits.

Advantages of independent institutions are:

- greater independence in operations as they are not bound by the statute of a university,
- greater flexibility in adopting operational conditions,
- simulative rewarding,
- free allocation of funds (profit).

In order to cover labour costs from additional sources, there is also a budgetary saving. At the same time it can be concluded there is a liberal system of using additional sources that is probably the result of the period of transition. In spite of this, however, the level of competition is relatively low and a joint presence on the same market requires that public institutions behave more market-orientated. 

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Notes