

PERFORMANCE INFORMATION – THE CRITICAL ISSUE OF PUBLIC FINANCE LEGAL REGULATION

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The subject. The paper is focused on the study of the role of performance information in the decision-making process on public finance with particular accent on the legal aspects of the issue.

The purpose. We aim to show that the performance results have a little impact on the public finance allocation in the next management cycle. Nowadays the financial resolutions are taken not on the basis of the results, but apart from them. The problem can be identified in many countries and currently discussed on the international level. We make an attempt to identify the main reasons for this. The research is elaborating the possible solutions for the problem and presenting possible amendments to the legislation.

The methodology. The multidisciplinary approach is employed in this research as the problem is covered by different social sciences like law, economics and politics. The methods of analysis and synthesis are relevant for this paper. The examples and illustrations from different countries all over the world constitute the empirical part of the article.

The main results and conclusions. The key reason for the omission or misuse of performance results in public finance is the passive role of the user of the performance information. There is a lack of legal incentives for using the performance results for those who take the financial decisions. Those who take the decisions in public finance governance should have an obligation to assess the performance information and use it for the further resolutions.

Scope of the research outcome application. This research shall have substantial impact on the development of adequate legal model for the performance information use in public finance allocation. If the legal obligation to use the performance information is introduced it will have positive impact on the legal regulation of public finance in Russia. This can be relevant for the international studies of the issue and for the legal regulation of financial governance in other countries as well.

1. Introduction.

The process of strategic management is cyclical, which determines the special importance of the stage connecting neighboring management cycles – feedback. It is within the framework of feedback that the results achieved are analyzed and experience is accumulated to adjust management decisions in the future. Feedback is both the final and initial stage of the management cycle. All the more important is this stage, which extends its significance to the past and future periods.

This article is intended to demonstrate the severity of the problem of feedback for public finance management, to show the difficulties encountered in different countries, to analyze what causes of inefficiency of feedback in public finance management are identified today. In conclusion, the outlined options for solving this problem for Russia will be considered. We can expect that the proposals will be relevant not only for the Russian, but also for foreign law enforcement agencies.

It seems that the problem of feedback is of a complex interdisciplinary nature and can be formulated and then solved on the basis of a systematic method and an interdisciplinary approach. The problem of feedback is not unique to Russia, so it is justified to turn to empirical research and make comparisons and analogies in the process of research.

The modern formulation of the problem of feedback in public finance management originates in discussions about the evaluation of public programs. In the United States, the problem has been discussed for sixty years, in Europe – relatively recently. The international discussion began with the publication in 2003 of the collection "Evaluating Public Sector Reforms: Approaches and Practices from an international perspective" [1] and continued within international organizations: in 2007, the Organization for Economic Cooperation and Development (OECD) issued a report on results-based budgets [3]. In Russia, in 2005, the collection "Measuring efficiency and Evaluation in Public Administration: international experience" was published, which included the materials of the seminar, the results of the development of the institute of evaluation in public administration

were also considered [2].

In Russia today, much attention is paid to improving the efficiency of public finance management, but the feedback stage remains out of the focus of scientists and practitioners. Direct legislative changes that would allow the introduction of feedback in the practice of financial management are rarely discussed, and this article is intended to partially fill this gap.

2. The importance of the feedback stage and its implementation in public finance management.

Management science asserts that every subject-object management system includes a direct and feedback relationship between them. Direct communication consists of the transfer of directive information from the managing entity to the address of the management object. Feedback consists of a flow of reports on the execution of decisions, which moves in the opposite direction.

Feedback includes cybernetic and communication components. In the mechanism of communication, feedback is an element of the relationship and interaction of communication subjects. In the cybernetic approach, subjects are not important, direct and feedback form a system by themselves, and the elements of the system are considered as "black boxes" in which only input and output information is available to the researcher.

For our research, the following typification of administrative and legal management is also important [4]:

1. Direct administrative and legal management as an ordered type.
2. Administrative and legal management as a type of management that includes feedback elements.
3. Model system of administrative and legal management as an adaptive type.
4. Reflexive type of administrative and legal management.

In the ordered type of management according to this classification, there is no feedback, in all other cases, the feedback is present in one form or another. Feedback always involves the separation of management, control and supervision functions, whereas in the framework of an ordered type of management, these functions are merged together, and any deviations from the expected

result are stopped immediately by means of strict measures. Accordingly, feedback is always the presence of a controlling entity with special powers of control and supervision.

A pattern is important: in the absence of specific impact goals, control with feedback elements automatically switches to the command type. Conversion to the order type occurs because in the absence of established goals, management is formed for the sake of the management process itself. A closed loop disappears, where the closure point is the matching of goals with results. There are no clear externally articulated goals that are understandable for the controlling entity, there is no criterion for evaluating the results.

Thus, the existence of feedback is supported by the separation of control functions that provide managerial impact and feedback functions.

Both the cybernetic and informational value of feedback is currently not taken into account in financial management to the proper extent. As well as there is no consistent implementation of the division of functions in Russian legislation. The publications provide examples that demonstrate that the first type of order management occurs in Russian regions without any feedback. Based on the legislation of the subject of the federation on strategic planning, all functions, including the function of external control, can be concentrated in the government of the subject of the federation [5], which in fact completely excludes the existence of feedback.

In relation to the management of public finances, the first ordered type corresponded to the management of costs, the second corresponds to the management of results. Cost management is characterized by the absence of actual feedback, since it does not have clearly defined goals, and only controls the legality and targeted nature of the use of funds. Results management, on the contrary, shifts the focus to the correspondence of goals and results and makes it possible to assess the ratio of expenditures with the specified parameters of socio-economic development [6].

In the absence of feedback, it becomes impossible to make a sound assessment of the impact of budget expenditures on macroeconomic indicators of socio-economic development, which

leads to the inability to assess the implementation of budgets based on the real macroeconomic situation [7].

The current budget legislation provides for an annual assessment of state programs. Based on the results of such an annual assessment, the Government of the Russian Federation, the supreme executive body of state power of a subject of the Russian Federation, the local administration of a municipality may decide to terminate or change, starting from the next financial year, the corresponding state (municipal) program. a decision may also be made to change the amount of budget allocations for the financial support of the state (municipal) program.

The results of the assessment programmes are published but are not mandatory. here it is necessary to put a very important problem both from the point of view of theory and practice, which practically eliminates the positive effects of the implementation of program budgets - the problem of passivity of the user of information in relation to the results. The problem can be posed even more broadly – as the problem of the significance of the results of financial control and monitoring in the context of feedback. The purpose of monitoring is to improve the efficiency of the entire strategic planning system based on a comprehensive analysis of key socio-economic and financial indicators specified in the same strategic planning documents [8]. Monitoring is designed to improve the efficiency of financial management in order to achieve the planned indicators within the established time frame.

In modern conditions, the range of users of information on the results of monitoring and control over the expenditure of budget funds is expanding due to information technologies and the publication of all information in open sources. However, this approach not only does not solve, but also aggravates the situation: this extensive and extremely open information can remain unanalyzed and unused by those who make decisions and to whom it is addressed. Based on surveys in several countries, it turned out that even members of specialized budget committees often do not read the results reports at all, citing a variety of reasons – lack of time in the tight schedule of the budget process, lack of personnel, the volume and complexity of

documents, and so on [10].

The general optimism about the implementation of the results management system is replaced by skepticism and somewhat helpless statements that not all states were ready to implement results-based budgeting, and not everywhere there is a sufficient level of culture of evaluating results [10]. By 2014, the question was raised: why, despite a lot of effort spent on presenting and measuring the results of programs, results-based budgeting does not lead to more efficient spending of funds. Studies show that the results in such budgeting are, at best, considered as an informative component that does not affect the next budget cycle [6][9].

It is necessary to emphasize the danger of total formalization of systems for evaluating the effectiveness of expenditures. Over time, results are transformed into the art of presenting results, and information about them becomes unusable in the decision-making process in the new management cycle.

As it turns out, in practice different States more or less streamlined the process of gathering information about the results of spending, and even measuring results has ceased to be a pressing issue, but the feedback is not properly included in the management process is missing the required impact of the results on decision-making in the new budget cycle.

3. The practice of implementing feedback in the financial management of foreign states and interstate associations.

By the beginning of 2000, many states had already introduced various feedback mechanisms in the form of reports on the results of spending public funds (public spending reviews) [11], [12]. For example, in the UK, reports on public spending have been published since 1998 [13]. In Ireland, in 1997, a Guide for generating Expenditure Reports was developed and adopted [14].

Since the 2007 OECD report mentioned above, a new wave of improvements in programme budgets has begun and attempts have been made to introduce a feedback stage in budgeting, which has generally not been successful.

In Spain, a special Law on fiscal stability and financial sustainability was adopted in 2012, but

the evaluation of state programs is poorly implemented in it, and the results of the evaluation are not integrated into the budget process [15]. The failure was attributed to cultural peculiarities - the lack of a culture of evaluation in "Latin" countries. However, such references are unfair. In Germany, feedback in the budget process is also not implemented at the federal level [16]. In Germany, the law gives the land the right to choose the rules for reflecting the results, respectively, the comparability and consolidation of these data has become a separate political and legal problem. Therefore, by 2014, the issue of introducing federal reports on the results of spending funds was bogged down in discussions [16].

The European Union, in general, imposes only requirements for the convergence of key national budget indicators on the participating countries [17]. In the EU, the report "Quality of public finance: reports on the results of spending in optimizing the distribution of finance in the Euro area" was released. It stated that reports on the results of spending are an incentive to increase responsibility for the distribution of public funds, but noted that such reports are not fully implemented and are not mandatory for the next budget cycle. The principle of the obligation to take into account the assessment of the results achieved when making subsequent decisions is rarely implemented in the legislation of the EU Member States [18].

At the supranational level in the EU, it was only in 2012 that the Annual management and performance report for EU budget (AMPR), which became part of the EU's annual financial statements, was presented for the first time. On the basis of article 30 of the financial instruction on the all-union budget, all programs and decisions involving significant expenditures are subject to preliminary and subsequent evaluation, and the results of this evaluation are submitted to the European Parliament and the European Council [19]. However, users of this information dispose of it at their own discretion, so it was not possible to link the distribution of funds with the results achieved earlier. Note here that this negative experience of the European Union, taking into account the deepening of economic integration and macroeconomic coordination [20], should be taken into account in the Eurasian Economic Union and in

the process of establishing other supranational institutions.

Feedback issues are given much more attention in the US than in Europe, partly because of the more pronounced political component. Budget planning in the United States is associated with a tough political confrontation between the representative and executive branches.

In 2001-2009, the Program Assessment Rating Tool (PART) was introduced and operated in the United States. PART was a questionnaire for evaluating the structure, planning, management, results, and reporting of federal programs. The ultimate goal is to determine whether the program is effective and to provide recommendations for improving the program's results. Programs for evaluation purposes were divided into seven categories: Direct federal (Direct Federal), competitive grants (competitive grant), settlement grants (block/formula grant), regulatory programs (regulatory), programs for the acquisition of assets and services (capital assets and service acquisition), credit programs (credit), programs for advanced development (research and development). Each program was evaluated on a questionnaire based on the program category. Each questionnaire contained questions common to all programs and special questions by category. The questionnaire consisted of 25-30 questions divided into four sections: 1) Goals and objectives (20%), 2) Strategic planning (10%) 3) Management (20 %). 4) Results (50%) [21].

After the departure of President Bush, PART was deemed politically biased. [21]. The system was considered completely controlled by the Administrative and Budgetary Department, that is, the executive branch, and ineffective. As we mentioned above, from the point of view of implementing feedback, the separation of control functions is key, and the rejection of the PART system due to an unjustified concentration of powers is a vivid illustration of this.

Among the non-political reasons for the termination of PART is the unjustified prevalence of this tool over others in strategic planning and financial management, which introduced an imbalance in the public administration system as a whole. In addition, over time, the ministries and departments responsible for the programs have

learned to "pass the test" and not actually improve, but only better represent the results of the programs [23; 24].

It should be noted here that when discussing the PART system, there were statements that performance should not be the only factor determining the decision to continue or terminate funding. Setting priorities, including priorities in financing, involves competition between different values and interests, which are sometimes not comparable [21].

Since 2009, the Program Rating System has not been used in the United States. The emphasis is shifted towards transparency of state programs, a public information portal has been created, which presents and stores information on the results of spending public funds, as defined in the Act on Restoration and Reinvestment of 2009. All information is published, reports on the results of spending funds are extremely open, but the problem of aggravating the passivity of those who should make decisions based on the published information will again arise.

4. Conclusions and suggestions

Feedback is a fundamentally important element of strategic financial management. It can be effective only if it is considered as a full-fledged and mandatory part of the management cycle, and is also really taken into account when making subsequent decisions. The management cycle should be looped.

As it turns out, the problem of lack of feedback is a common problem in the world of financial management. For many programs (sectoral, territorial), there is a question of how they are implemented, and the stated results are achieved, as well as how these results are real, and do not reflect the mastery of the art of presenting them.

The revealed violations of financial legislation and inefficient use of budget funds, which should also be attributed to the results, do not affect the new financial projections of the next budget cycle today.

This problem is indicated by the specific results of the Russian follow-up control in the financial sector, the effectiveness of which is extremely low.

Along with the financial control system, which is already sufficiently organized in the

legislation of states, including Russia, it is necessary to create effective and unconditional mechanisms for accounting and implementing results in subsequent management cycles. In most States that have switched to program budgets, there is a problem of the real impact of information about results on subsequent decision-making. The problem of user passivity cannot be overcome yet.

Currently, Russian legislation is designed in such a way that the use of the results of external control depends on the discretion of the legislative and executive authorities, which can accept or ignore them; and the results of internal control can, in principle, be taken into account and evaluated solely by a higher manager. Based on the documents on the implementation of expenditure reviews in budget practice, this approach will not change, which in the future will negatively affect the efficiency of the budget process. Obviously, the legislation lacks clarity and certainty in regulating the implementation of the results of the activities of control bodies.

In Russia it is necessary to amend the Regulations of the State Duma and the Federation Council of the Federal Assembly of the Russian Federation, Federal law "On status of Deputy of the State Duma and a member of the Council of Federation of the Federal Assembly of the Russian Federation", Federal law "On parliamentary control", which will give the opportunity to stakeholders to ensure that information on budget results obtained within the framework of implementation of state programs at least considered.

The resulting documents of the control body, depending on the object of control (branch or territorial), must necessarily become the subject of consideration in the relevant committees of the State Duma and the Federation Council of the Russian Federation or by deputies and senators from the respective regions. Direct and obvious disregard for information about the results should be made public with the adoption of measures of a political and legal nature.

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