Blowing the Alphorn:
Financial Management Reforms in Switzerland

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Reforming financial management in Switzerland is like blowing the Alphorn, an old, traditional Swiss instrument which requires steady power to produce a sound. Almost as long as the Swiss have been playing the Alphorn, they have been reforming their public sector financial management systems. However, just as on each mountain, the Swiss play distinctive melodies with the Alphorn, so each regional government (Canton) has pursued its own reform project.

Traditionally, public sector financial management systems in Switzerland have been discussed in relatively narrow terms, with typical reforms often concerning refinements in accrual accounting models. So-called 'new' public financial management reform has only recently started to be applied in Switzerland, as a part of new public management initiatives at the cantonal level. A number of important financial management experiments began in 1996, seeking, among other things, to establish greater cost-transparency and cost-awareness, better monitoring of the impact and value-for-money of public services and the provision of more relevant information for decision-making, particularly with regard to the requirements of members of parliament. Such attempts to provide greater interaction of accounting systems and processes of service provision have not filtered through in any significant extent to the Swiss Federal government. Here, public management systems remain largely input-oriented.

Public Sector Financial Management in Switzerland[1] has historically been concerned with the management of inputs. This is still true for the majority of public administrations, although there seems to be a growing general understanding that the focus of such systems should be widened in order to include outputs and outcomes and that they should be combined with decentralised organisational structures and management by delegation. Buschor (1993, p. 241) argues that these new tendencies will increase the demand for new instruments and regulatory frameworks, including:

1. Cost and performance accounting.
2. Value-for-money management via performance measures and indicators.
3. Performance agreements for public services combined with a high degree of freedom in shaping organizational and personnel management policies and a range of 'marketable' performance components.
4. Comprehensive result-orientation by means of benchmarking.
5. Financial and non-financial incentive sanction mechanisms.

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While other countries have experienced dramatic changes in public sector management over the last ten years, Switzerland is only just starting with experiments with forms of 'New Public Management' in some cantons and (local) communities - following examples provided by reforms in the Netherlands ('the Tilburg Model') and New Zealand. However, financial management reforms took place long before the current movement of 'managerialism' and 'marketization' reached Switzerland. Forced by reliance on non-professional parliamentarians and (in smaller communities) part-time civil servants, Swiss public administrations have in character always been closer to the private sector than their counterparts in neighbouring countries. This can be demonstrated by the fact that professional Swiss administrators (including University Professors) are only elected for four years while their colleagues in Germany and Austria are generally elected for a lifetime.

Debate on public sector management reform in Switzerland can be traced back to the 1940's. However, the federalist system of government has never been questioned and any form of public management reform in the future will have to match well with existing principles of federalism and local democracy in Switzerland. If such integration can be achieved, in a particular Swiss fashion, there could be a positive effect on the politico-administrative system as a whole (see Mastronardi, 1995, p.16).

This chapter explores the history of financial management reform in Switzerland, both at the Federal and cantonal levels of government. The chapter first outlines the Swiss system of government and public sector organisation. It then considers the historical and contemporary form of financial management systems in both Federal and Cantonal governments, examining in turn accounting models and systems of budgeting, planning, monitoring and auditing. After a brief review of financial management systems in other state enterprises, the chapter considers in more depth the pressure for 'new' public financial management (NPFM) reform, especially the initiatives and experiments being pursued in a number of Swiss cantons. The chapter closes by highlighting a number of influential contextual factors shaping, or likely to shape future, NPFM reform processes in Switzerland.

Context and Political Structures

Switzerland lies at the heart of Europe, surrounded by member nations of the European Union. It borders on five countries and three large linguistic areas: Germany (346 km), France (572 km), Italy (734 km), Austria (165 km) and the small Principality of Liechtenstein (41 km). 7 million inhabitants populate a surface of 41,300 square kilometres, of whom approximately 20% are of foreign nationality. The density of 170 inhabitants per square kilometre exceeds the European average although vast parts of the country (i.e. the Alps) are hardly populated at all. 64% of the population speak Swiss German (a dialect with fairly high German traits), 19% speak French, 8% Italian, 1% Rhaeto-Romanic (a language of Latin origin), and 8% speak other (not official national) languages.

The Swiss Confederation was founded by the three original cantons of Uri, Schwyz and Unterwalden in 1291, who initially had to defend themselves against Austrian hegemony. The current Swiss Confederation comprises 26 cantons. The Swiss Federal government (called the Federal Council or *Bundesrat*) is a collegial authority of seven ministers.

Switzerland neither has a president nor a prime minister - the seven federal councillors constitute one single decision-making body, with all members having equal rights. A typical feature of Switzerland is its special form of concordant democracy which, in contrast to the 'competitive' or 'adversarial' democracies of Anglo-Saxon countries, incorporates all the major political parties in the national government. The latter's composition does not vary in that it always includes both the major political parties (so-called 'governing parties') and the various linguistic regions (of the seven, two are French speaking ministers, one is Italian speaking and four are German speaking). Parliament consists of two chambers with equal rights: the Council of States (*Ständerat*), comparable to the American Senate (with 46 seats) and the National Council (*Nationalrat*), comparable to the American House of Representatives (with 200 seats). These chambers reflect the diversity of the party political landscape, although the 'governing parties' occupy 74% of the seats.

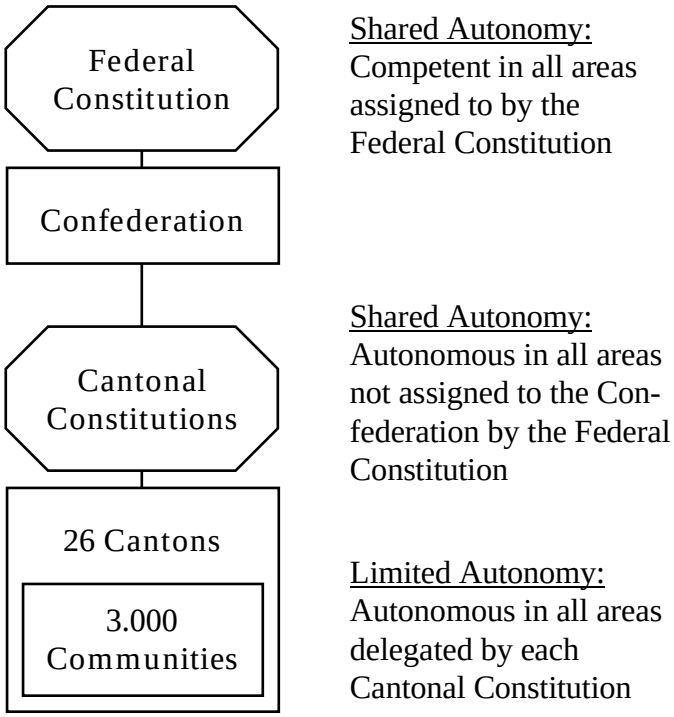


Fig. 10.1. Federal Structure and competencies in Switzerland

The Swiss Federal constitution more resembles its American rather than British counterpart in that it is comprehensively documented and quite rigid. The main reason for this is that in a federal state the division between the powers of the central authority (the Confederation) and those of the constituent member states (the cantons) is felt to have to be as explicit as possible. The federal structure of the state is a vital element in Swiss life. The Swiss State not only consists of citizens but also of member states (cantons). Cantons enjoy fairly wide autonomy and are considered to be the fundamental unit of reference for a Swiss political body. Gabriel and Schedler (1996) point out that most people feel much more related to, and rooted in, the politics and the community of the canton than to that of the Swiss nation as a whole. In this sense, the common ground of the Swiss political community is the aim of upholding federalism to preserve the strength of the cantons and to confer upon them as many (important) powers as possible. Education (including universities), health, social welfare and the police force are largely the responsibility of

each individual canton, largely financed by cantonal taxes. Cantons enact their own laws, although, in recent times federal legislation has increased its coverage.

At the local level, communities form an integrated part of each canton. They largely depend on cantonal law for their constitution, with some cantons even guaranteeing the solvency of individual communities. Germann and Weis (1995, p. 64) found that 15% of the communities are run by local parliaments; the rest formally function through full citizen assemblies. Only 5% of the communities have a full-time mayor (*Gemeinde-präsident*) and 60% have less than 1,000 inhabitants. Their autonomy is limited to areas delegated by cantonal constitutions, which also influences financial management. The latter responsibilities are defined in cantonal budget laws which date from 1929 (in St. Gallen) to 1996 (in Appenzell-Ausserrhoden).

A notable feature of Swiss government at all three levels (Confederation, Cantons and Communities) is the country's system of direct democracy. Its major instruments are the 'initiative' and the 'referendum'. An initiative (requiring 100,000 signatures) enables citizens to demand that a new constitutional article be submitted to a nationwide ballot. With 50,000 signatures, citizens can demand a nationwide referendum against an alteration of a federal statute. Democratic awareness has deep roots in Swiss political culture, and any attempts at changing democratic possibilities of intervention in favour of more efficient processes can be expected to provoke resistance among the population and its representatives. Some authors have regarded this as a significant obstacle to the introduction of reforms in Switzerland's politico-administrative system (Delley, 1995; Knoepfel, 1995).

Financial Management in Federal Government

The Federal Accounting Model

Over the last thirty years, accounting models in the Swiss federal government can be seen to have passed through three main (but somewhat overlapping) phases:

I. *A traditional phase* (prior to 1978) characterized by a cash based accounting model.

II. *A contemporary phase* (1978 - 1995) characterized by the introduction of full accrual accounting at the cantonal level and the creation of a consolidated accrual account at the federal level (additional to the existing itemised cash account) which led to a partial harmonisation with the cantonal accounting model.

III. *An Integrating Phase* (1995 -) characterized by an effort to focus on financial planning through "product service" budgets, combined with a performance measurement system allowing control over output and outcome. In this phase, the public management perspective began to catch up with the traditional public finance viewpoint.

I *The traditional phase*

In this phase Switzerland's public sector accounting bore the hallmark of the nation's federalism. Efforts to effect accounting harmonization date back to the 19th century, since when there have been persistent clashes between German cameralism and double-entry

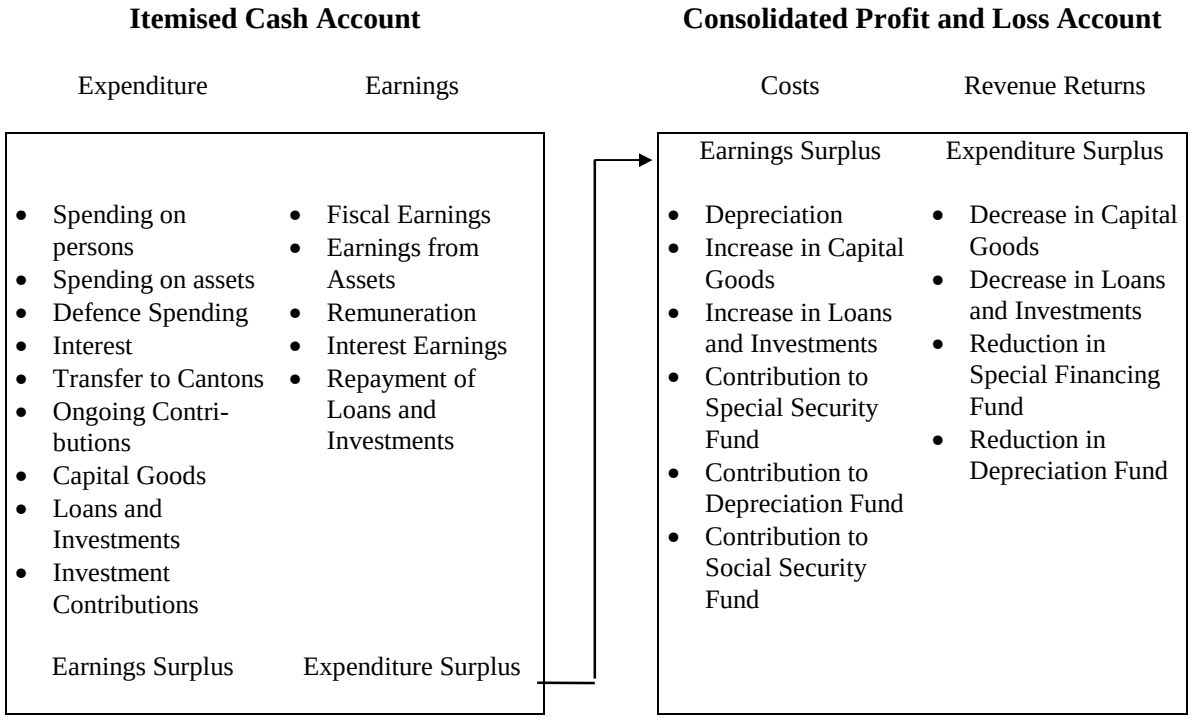
accounting. These hindered harmonization efforts - until an agreement was reached at cantonal and communal levels to introduce a system of full accrual accounting in the 1970s.

II. *The contemporary phase*

The Confederation designed a new accounting model in the late 1980's. Until then, the Federal accounting model had consisted of a Cash Account and a Change of Assets Account. Amendments to the Budget Law were enacted with effect from January 1, 1991, and satisfied some demands arising from the prior introduction of the new Cantonal Accounting Model (Official Federal Journal, 1988, III, 830ff). Key reforms included:

- the requirement for a profit and loss account to supplement the cash accounting system (see Figure 10.2).
- a virtual alignment of the Federal account structure with the existing cantonal accounting model.
- the introduction of a credit instrument - enabling the Confederation to adhere to the target time allowed for payments which span several years.
- the establishment of a central treasury management function for the Confederation, the postal and telecommunications services and the federal railways.

Figure 10.2: Federal accounting model[2]



Despite such changes, some important differences remained between the federal and cantonal models, most notably that cash accounting remained the main management control instrument at the federal level. The amendments improved the transparency of certain transactions but failed to secure the implementation of a commercially structured accounting system.

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2 Buschor, 1993, p. 226

III. *The integrating phase*

The above accounting reforms at the federal level have had a very limited impact on political debates - although there has been a persistent, narrowly defined, tug-of-war between promoters of cash accounting and promoters of accrual accounting. Ferderal accounts are submitted annually but political debate is dominated by the cash (financing) balance. However, those championing a 'new public management' have recently increased the pressure for federal accounting reform (Haldemann 1995; Buschor 1993; Schedler 1995). In 1996, an amendment to the budget law was proposed (as part of a wider reform package) to subject lump-sum budgets to the condition that accounts are maintained of public service costs and performance and that performance agreements imposed. This amendment was subject to a public referendum in 1996 and was rejected by the Swiss people due to other ingredients than the mentioned in the proposed law. A revised law with the same elements concerning NPFM at the Federal level has passed parliament in spring 1997 and is likely to be put in force in 1998.

Federal Budgeting, Planning and Monitoring

In the first half of the 20th century, the federal government's financial policy was notable for the lack of an agreed constitutional basis for the financial budget. Until 1958, most public charges levied by the Confederation were based on "urgency" legislation (with exceptions to this being tariffs, alcohol monopoly stamp duties and tobacco tax). Three attempts to re-organize the federal finance system foundered either in Parliament or in popular votes: in 1938, it was rejected by the National Council, while in 1950 and 1953, it was defeated in a referendum. It was not until 1959 that the Swiss people voted for a form of fiscal equalization[3] in the distribution of the direct federal tax, (then still labelled defence tax) to the cantons.

In line with the cash-based emphasis of federal financial accounting models, federal budgets merely report payment flows structured according to the expenditure and revenue categories of the various institutions. There is no product or function orientation. Although the profit and loss account is kept as a supplementary instrument, its degree of aggregation is so high that it only serves to help compute the overall balances for the entire federal administration. It is not used as a management and decision-making instrument.

In 1966, the Confederation introduced long-term financial planning (see Wittmann, 1976) although to date, such planning has been carried out in virtual isolation from performance planning (even though this has been required by a 1978 law specifying the need to relate financial plans to the legislative programme). Federal financial planning also remains a cash-based system (as stipulated by legislation in 1969). Buschor (1993), has argued that the current budgetary and annual accounts systems are far from being capable of satisfying the demands put on modern public sector management. The report on the parliamentary programme for the term of 1991-1995 (Official Federal Journal III/1992, 1-200) was the first report to formalize the connection between federal finances and functions by mentioning both two aspects together. Parliament takes note of this report every four years (the report also covers the agenda for the coming parliamentary term). Each functional area

[3] I n Switzerland, all three levels of government raise taxes but differences in financial capabilities cause regional disparities in public services. To avoid political stress, these disparities are equalised to a certain degree by the **fiscal equalisation** system.

is divided up into key aspects, and each of these is assigned objectives to be pursued and actions to be undertaken by the federal government. However, there are still no performance indicators to measure the degree to which objectives have been attained.

In handling the financial management of the Confederation, the Federal Assembly, the Federal Government and the administration have to ensure that funds are used economically and effectively. The Federal Finance Department (FFD) routinely considers all the budgetary requests submitted by the administrative units on such grounds. Additionally, the FFD looks occasionally at all the Confederation's own or transfer spending when corrective programmes are introduced. Under the Federal Act on financial support and allowances, the Federal Government has also to check periodically - at least once every 6 years - that the financial support and allowances paid by the Confederation are being used economically and efficiently to achieve their purpose.

In order to help the administrative units in their management efforts and facilitate the FFD's task in monitoring expenditure, plans are currently underway to introduce a management control system (called '*Controlling*') in the Federal administration. This system should make for improved political and financial planning and management - '*Controlling*' (OECD, 1995, p. 203) being defined as a work method that allows optimum management surveillance so that officials can intervene when and where it is deemed necessary. It will be possible both to highlight Federal government objectives and to establish the extent to which they have been achieved. Also, the ongoing, systematic processing of information implied by management control will make it possible both to assess any data which look essential for management purposes, and constantly to adjust available resources in line with the objectives sought.

Federal Auditing Systems (L3)

As a consequence of the Mirage affair, (which concerned irregularities in the purchase of new Mirage fighter planes) and resulting debate on the strength of the administrative system, the 1967 Financial Audit Act was passed, together with a subsequent Budget Act (in force since April 1, 1969).

The Financial Audit Act focused on two main areas of financial control: providing an ongoing monitoring of the regularity and legality of government expenditure and a periodical examination of government accounting records to be undertaken by the Federal Finance Inspectorate. A 1994 partial revision of the 1967 Financial Audit Act strengthened the legal position of the Federal Finance Inspectorate (FFI) as an independent external review body. It sought to secure the FFI's sovereignty and independence (placing it under the direct authority of the Federal and National Councils but with the latter having no right of restriction on the FFI's scope of financial supervision - see Official Federal Journal II/1994, 721-730). Another revision of the Act saw the introduction of performance audits (concerned with the economy, efficiency and effectiveness of public services management). Both these changes followed recommendations made by the Auditing Standards Committee of the International Organization of Supreme Audit Institutions (see INTOSAI, 1992, 9 - 21: guidelines 17 and 40).

Financial Management in Cantons and Local Government

Relationships between the Swiss Confederation and the cantons reflect a pronounced financial federalism. The cantons (comparable to American "states") are largely independent in financial and fiscal matters - being free to fix the type and rate of taxation levies and to select instruments of financial management. According to the *principle of subsidiarity*, the higher (federal) level of government is only allowed to become active if the lower (cantonal) level is incapable of fulfilling a specific function. In terms of financial management, there is virtually no possibility of the Swiss federal government imposing any specific instrument on the cantons - meaning that attempts at harmonization invariably depend on the canton's readiness to play ball.

The cantonal accounting model

In 1970, following a thirty year period of experimentation with various cash and accrual accounting models in cantons and communities, the Conference of Cantonal Finance Ministers set up a committee to devise a standard system. In 1977, the Conference approved a 'Public Sector Accounting Manual', which required the implementation of a new full accrual accounting model at cantonal and communal levels - to secure a greater degree of financial transparency (Stalder, 1995, pp. 311). In 1981, the manual was extended, (especially in terms of its regulations for communities) and to date 70% of communities and 85% of cantons have introduced the manual's recommended accounting model (Stadler, 1994, p. 5).

The cantonal accounting model specifies key accounting principles and standard account structures for operational and administrative units/activities (to facilitate comparisons). Accounts include both current accounts and investment accounts, structured on institutional grounds (comparable to 'cost centres') and according to functions (functional costing). The objectives of the new accounting model, however, have only been partially achieved. Cost transparency remains weak, while smaller cantons and communities complain that the detail required by the account's structure is excessive, making accounting too expensive in terms of time and money. Comparison between cantons has been made difficult by the fact that many cantons (and communities) do not use the specified depreciation charges. In good times, (e.g., in the 1980's), most cantons wrote off more than officially allowed in order to build up reserves, while in the 1990's, some opted for reduced charges in order to prevent them (or their communities) from running up deficits.

However, despite such problems, few disagree that double-entry accounting should be generally and consistently applied at this level of government in Switzerland. Its similarities with commercial, private sector accounting models means that Swiss local government should be able to benefit from private sector experience and expertise in this area - not least, through the use of private sector accounting software which is helping to further the application of the cantonal model (Buschor, 1993, p. 224).

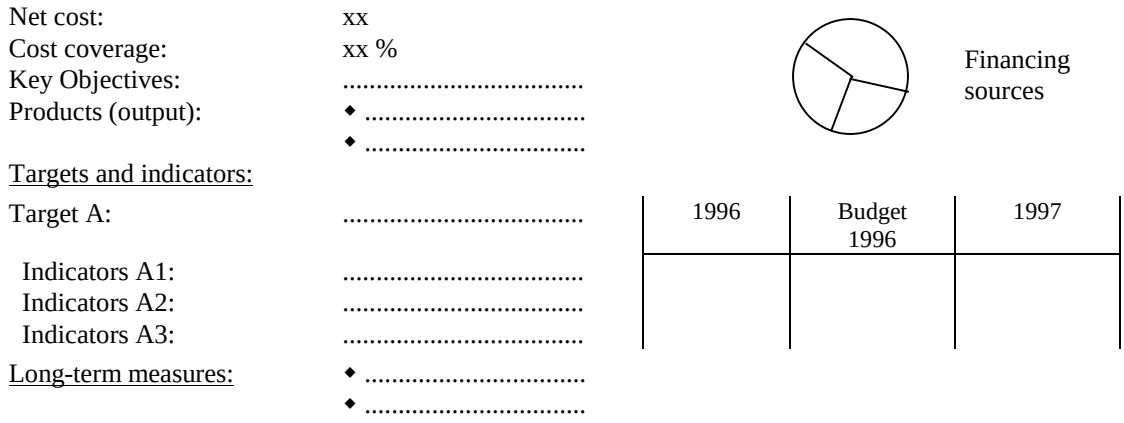
Planning, Budgeting and Monitoring at the Cantonal Level

Originally, financial planning systems were on a cash accounting basis (in those cantons using such systems) but they are now on a full accrual accounting basis - consistent with the specifications of the above mentioned Public Sector Accounting manual. Financial planning periods, however, are not uniform, with Germann and Weis (1995, p. 90) noting a planning period range of three to five years.

In sixteen cantons, financial programs are combined with government directives (in a form of functional planning) enabling a relation between performance and finance to be drawn in the medium term. The capacity to measure and criticise organisational performance is an essential part of a decentralized public sector management function (Häggroth, 1993.). The measurement of the performance of public services can be quite difficult but it is important to try and relate (financial) resources and the results obtained. The canton of Berne has just started to move from line-itemised budgets (listing general expenditure heads and associated budgetary expenditure) to new results-oriented reporting (which relates budgets directly to outputs/products through product cost allocations and performance indicators).

The following diagram shows how the new 'single-line' budgets focus on outputs and key performance indicators per output/activity, instead of the traditional line-item budget (for total wages, heat and light, administrative expenses etc).

A (New) Single-Line Budget:



Berne is now experimenting with a long term strategic planning process (lasting up to four years) and a short term budgeting and planning process (including tri-annual reporting) designed to ensure that its products and service are delivered in an efficient and effective manner.

Cantonal Auditing Systems

Auditing at the cantonal level is most often (in 18 out of 26 cantons) administratively placed in the Department of Finance. This gives it a relatively independent status. Germann and Weis (1995, p. 112) found that 6 cantonal audit institutions only work for the cantonal government, while 18 take up demands from both the cantonal government and its parliament. At present, only the canton of Berne separates the internal and external audit function into two different institutions. Here, a special (small) office works solely for the Berne parliament and is fully independent from the Berne government.

14 cantonal audit institutions are restricted to pure financial audits, while 9 include management audits in their work. This situation is likely to change in the future with the growing acceptance of the value of a comprehensive audit approach. The leading Swiss organisation representing accounting and auditing professionals ('*Schweizerische Treuhandkammer*') has recently published auditing standards for the public sector which

include different kinds of compliance audits. Value-for-money audits, however, were not included, although the fast development of different NPM-projects in several cantons is a strong indicator of a future resort to such audit philosophy. It is foreseeable that the *Treuhandkammer* will add a new chapter covering this issue to Swiss public sector auditing standards in 1997-98.

Financial Management in Other State Enterprises

The Swiss style of federalism is apparent when one examines financial management practices in state enterprises such as universities, railways and armament industries.

There is no separate law for state-owned enterprises; rather, their financial management is frequently regulated in special laws or organisational regulations, with organisational units being subject, either wholly or in part, to particular budget laws. The organisational structure or the legal form of an institution does not provide any direct indication of its financial management. The following table is purely a reflection of (ideal) types and, as such, understates the degree of variability in financial management practices.

Form of organization	Degree of decentralization (administrative circles)	Financial management
Dependent institutions under public law, e.g. federal railways, universities	Medium: decentralised in some areas	Maintain a profit and loss account but no balance sheet since they do not create any assets of their own.
Independent institutions under public law, e.g. Swiss Accident Insurance Corporation	High: centralised in some respects only	Have their own assets and endowment capital and maintain their own accounts if required by the general provisions governing public sector accounting.
State-owned enterprise under private law, e.g. federal armament industries	Very high: Fully decentralised, but still under political leadership	Financial management as in private industry.
Shareholdings in private corporations, e.g. Swissair	Very high: Fully decentralised, little political influence	Financial management as in private industry.

The Pressure for Financial Management Experimentation and Reform

The federal government decided in 1991 to introduce a philosophy of 'management control' after testing it in a few projects. Management control has been defined as a "method of work which permits management to be monitored in an optimum way, so as to help those in charge to intervene where and when necessary. Management control involves the systematic processing of information whereby it is possible to bring together and evaluate all information seen as essential for management". (OECD, 1993, p. 172)

The focus of the management control movement at the Federal level, however, was mainly on management information relating to inputs and to-date has not resulted in any significant step in financial management reform. However, the recent reform initiatives and experiments in the Swiss cantons (such as the ones referred to above in the canton of Berne) have maintained the pressure for change - encouraging a move to what is now referred to as "Results-Oriented Public Management *(Wirkungsorientierte Verwaltungsführung)* Systems". Haldemann and Schedler (1995), argue that such initiatives incorporate four main managerial platforms:

1. *New organisational structures*: New government and administrative structures are intended to enable the formation of agencies and the delegation of responsibilities. They will establish a clear separation between 'funders' and 'providers' and create internal and external markets for public service provision.

2. *New steering mechanisms*: The definition and implementation of indicators for cost, performance and organisational effectiveness is intended to improve the quality of political steering. Target and/or performance agreements, lump-sum budgets and measurable objectives are to be formulated.

3. *New political management and administrative responsibility:* The separation of political objectives (as voiced by people and parliament) from strategic management

decisions is intended to create new roles, responsibilities and controls both in politics and in administration.

4. *New product and quality orientation*: Opinion surveys are to be conducted among individual clients and among the general public. Minimum standards for the quality of public goods and services are to be established and closer attention paid to administrative performance. All these activities are intended to lead to a new quality awareness in the provision of public services.

Key technologies and managerial practices which are being suggested as useful in achieving such goals are largely drawn from the private sector and consist of some of the following developments:

1. *New human resource management:* Modern management concepts and techniques, personnel and organizational development (Jegge/Schwaar 1995), as well as remuneration and reward systems (Schedler, 1993) are intended to lay a foundation for new human resource management.

2. *New financial management:* New budgeting techniques based on decentralized management accounting systems will help to provide a greater linkage between costs and performance and facilitate operational and political decision-making.

3. *New performance management:* Cost, performance and impact indicators will be systematically provided to enhance performance monitoring and control.

4. *New process management:* Process-oriented approaches to administrative reform ('process re-engineering') are to be used to simplify activities and processes in public administration and to try and ensure that services better meet customer requirements.

Public administration in Switzerland has traditionally been organized according to the letter of the law - (similar to Germany) - and there is still a considerable reluctance to change to more flexible managerial methods (especially at the Federal level of government). As a consequence, rather than making sweeping, wide-scale reforms, use is made of experimental provisions enabling reformers to disregard particular organizational or budget laws. In this way, they are able to try out new developments and only put them into definitive operation once they have gained sufficient experience.

In various cantons, such tests commenced on January 1, 1996, and in general have displayed the following characteristics of financial management reform:

- *Flexible Budgeting:* Budgets now only contain net figures as legally binding values meaning that restrictions on transfers across budget heads have been considerably reduced. Budgeting in net figures will now make it possible to exceed planned expenditure, provided this is compensated for by corresponding revenues.

- *Cost transparency:* A complete assignment of overall costs (relevant to decision making) to product/service pricing will foster an improved cost awareness in administration. In this context, 'cost-coverage variables' are being employed to take into account direct costs, controllable costs and overall product costs in comparison to

their yields. This system is generating considerable debate about the role of administrative support units.

- *Performance transparency:* This involves the definition and recording of performance in terms of quality and quantity, although to date most attention has been devoted to outputs rather than outcomes (Schedler, 1995, p. 159).

- *Effect transparency:* Initial experiences have shown that the disclosure of performance objectives, indicators and standards will fundamentally change political debate. It has been revealed that discussions no longer concern themselves with detailed input figures (e.g. how many vacuum cleaners are to be purchased), but about the objectives of such purchasing activities and resulting standards of performance. However, there are concerns that politics will shift its attention to what is measured and debate less the objectives of public services - leading to what some have called a "dictatorship of indicators" (Knoepfel, 1995, p. 454).

- *Financial sources:* A disclosure of financing for each product group will make more transparent the government's financial commitment. Many cantons have begun to define and impose cost-coverage levels while leaving it up to administrative units to attain such levels.

- *Information to be relevant to decision-making:* Experiments have examined different forms and content of information. In this field, a great number of unknown quantities remain to be uncovered, particularly with regard to the information requirements of members of parliament. What is evident, however, is that traditional forms of information are considered to be unsatisfactory by all those involved.

One particularly interesting development to have accompanied the growing experimentation with new public financial management reforms has been the re-emergence of debate over fiscal equalisation and the level of financial transfers made by the Confederation. These transfers represent a significant proportion of total expenditure, with the Confederation making a contribution to cantons, communities and state enterprises on over forty different classification heads. Fiscal equalization seeks to eliminate regional disparities, preserve and advance regional autonomy and improve the effectiveness of the task-fulfilment.

Various attempts at fiscal harmonization at the Federal level in the 1970s[4] generated considerable debate (see, for instance, Hauser 1980), but such matters subsequently remained hidden for a lengthy period of time. Legislators at the cantonal level became more active in this field in the late 1980s (Eng et al, 1990, p. 121) and with increasing financial pressure at all three levels of government, "fiscal equalization" debates have returned to a prominent position.

Features Unique to the Swiss Context

[4] This discussion arose when the 1971 finance bill was, as is customary in Switzerland, submitted to various interested bodies for comment. It finally became legislation in 1977 in the form ofa federal act on fiscal harmonization.

Specific Cultural Features

The fact that Switzerland is characterized by a diversity of cultures and languages has presented a number of barriers for the development of New Public (Financial) Management reforms. Developments in the Netherlands and Germany have already made this issue popular in German-speaking parts of Switzerland. However, up to 1995, French-speaking Switzerland has hardly been concerned with the reform movement: for French-speaking Swiss, such administrative reforms were seen as nothing more than overhead-cost analysis and, therefore, cost-cutting. It was only with some delay - and with the help of the *Institut des Hautes Études en Administration Publique* in Lausanne (see Finger, 1995) that NPM and related financial management reforms became an issue for public debate in the '*Romandie'*. Nonetheless, some cultural differences still remain and can be classified roughly, as follows:

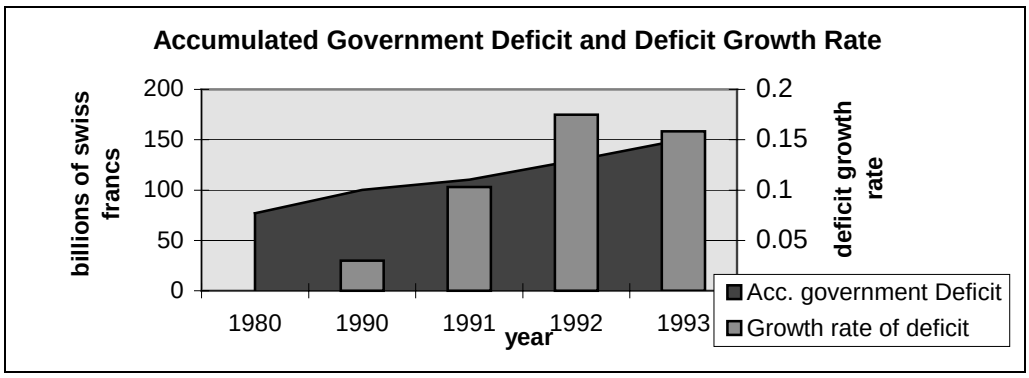
	German speaking part of Switzerland	**French speaking part of Switzerland**
Reform approach	Bottom-up	Top-down
Reform methods	Organizational development	External analysis that leads to a normative organization model
Major cultural influence	*Germany, Austria:* decentralised state structures with federalist tendencies	*France:* centralized state structure with Jacobian tradition of central control
Major technical influence (reform know-how)	New Zealand, United Kingdom, Australia, USA and the Netherlands.	USA, United Kingdom
Major reform objectives	1. Improvement of management 2. Efficiency and effectiveness	1. Cost-cutting 2. Efficiency and effectiveness
Promoting schools	University of St. Gallen (HSG)	Institut des Hautes Etudes en Administration Publique (IDHEAP), Lausanne

The above differences may explain why trade unions in French-speaking Switzerland are on a tough collision course, fighting against the on-going cantonal NPFM projects while their German-speaking colleagues have taken up a critical, yet constructive, stance towards them.

Cost-Cutting with Financial Management Reforms

Although cost-cutting is not the main concern of the reform project in German-speaking Switzerland, it still can provide an essential incentive for politicians to support the projects. Haldemann and Schedler (1995, p. 125) found that two cantonal projects out of six in existence had a cost-cutting component. The majority, however, expressly tried to distance financial management reforms from any claims concerning cost-cutting exercises. None of the projects at the community level signalled that money-saving was a major aim of the reform. Such a position reflects something special to the Swiss context in that for much of the 1980s, the public sector was well-regarded (and expanding) and there was not the same pressures as in other countries, such as Britain to reform (cut-back) 'ineffective' public sector organisations (for a discussion, see Klöti, 1996). This position has changed to some extent in the 1990s, as the scale of the accumulated government deficit has reached quite

frightening proportions for many Swiss people (Statistical Year Book of Switzerland 1996, 389).



Reform Success in the Federal Administration and the Cantons

The most frequently voiced argument for a retention of the cash accounting system at the Federal level propounds that two thirds of the payments made by the Confederation are transfer payments that can only be recorded in terms of cash payment flows and that for this reason, full accrual accounting is not suitable. This does not take into consideration, however, that the remaining third could be converted to an accrual accounting system. This results in a situation whereby 'shadow cost accounts' are kept for individual units which, with a good deal of effort, run parallel to the cash accounting system. Attempts to introduce an accrual accounting system have always been resisted by the Federal Finance ministry but there is now an increasing demand for change.

Unfortunately, the Conference of Cantonal Finance Ministers (which was responsible for the draft accounting model for cantons and communities in 1978 - see Mäeder and Schedler, 1994) has not so far been able to reach agreement on the implementation of one *cost accounting and financial reporting* system. To date, the issue has not been placed on the agenda even though administrative units are exercising a constantly increasing pressure to devise a new cost management model.

Managerialism vs marketisation

Often, a distinction is made between 'managerialism' and 'marketisation'. Managerialism stands for delegated budgets, performance indicators and targets, new monitoring mechanisms, and some emphasis on contracts (Pallot 1993; Guthrie 1993). Marketization would be more explicitly associated with contract management, the purchaser-provider split and extensive and competitive tendering.

Although the ideal model of the "new public management" being promoted by several researchers (for example, Buschor, Haldemann, Schedler, Finger and Delley) in Switzerland consists of both managerialism and marketisation elements, the former clearly dominate all projects. This is partly due to a lack of political will to confront the administration with 'free competition' but also due to a lack of information and know-how, with regard to contracting. Some of the obstacles facing the reform movement are indicated in Klöti's (1996) comments that the term 'managerialism' was simply unknown in Switzerland in the early 1980s and that by the mid-1990s there was still not a widely accepted German or French translation for the concept in Swiss public debate (p. 286).

Evaluation of reform results

Since all reform projects in Switzerland have just started or will have started by the end of 1997, there are only few official or unofficial evaluations - an exception being the canton and the city of Berne which have recently started an impact evaluation of their reforming administrative units. A striking aspect of reports from practitioners on reforms being pursued is the emphasis given to organisational cultural change (Huber, 1995). Although it is too early to judge practical implementation, it is believed that it cannot be successful without change in both ruling organizational and political culture.

In terms of the financial costs of the reforms, one can only sum up the expected cost for external consultants and, if accounted for, the internal project costs. Systematic evaluations of whether cost cuts have been made possible by using the new financial management tools are not available at present. Some examples, however, show that increasing efficiency or raising user charges for certain products has resulted in better cost-coverage and thus decreased deficits.

Public vs private

Privatization has become a debating point in Switzerland. At cantonal level, it was primarily the *de facto* bankruptcy of three cantonal banks that strengthened the focus on privatization. Switzerland possesses virtually no state-owned industries (the Confederation's armament operations is the last remaining one and is in the process of being privatized at the moment). However, there are a number of largely state-owned organizations (including Telecom, the federal railways, the universities, the cantonal banks, accident and building insurance schemes, cantonal laboratories and other services) that are being increasingly discussed as objects of public/private partnerships or even privatization). Recently, de Pury et al (1995) argued for free competition for all the telecommunication markets including the privatization of Telecom, a transition from compulsory superannuation schemes to a system of "free choice" pension schemes, an opening-up of markets and privatisations in the energy sector and the federal railways, and a deregulation of higher education.

Managerial freedom vs democratic control

Some researchers and practitioners fear a loss of democratic control if financial management reforms widen the managerial freedom of public administrators (Knoepfel, 1995, p. 454). Werder (1995, p. 9) reports that the finance committee of the parliament of the Canton of Berne inferred that New Public Management was a challenge which it needed to take up by playing an active role in the reform process. Mastronardi (1995, p. 16) argues that the due course of law and democracy are not sufficiently being taken into consideration and that their influence on public administrative activities is therefore in jeopardy.

The most important question, which cannot be answered at present, concerns the compatibility of direct democracy and the ongoing financial management reforms. At first sight, the demand for outcome-oriented steering by lump-sum budgets and performance agreements raises problems wherever the government is able to launch an initiative or a referendum which interferes with the delegated management decisions of the administration. Today, for instance initiatives can include highly detailed input restrictions which are systematically alien to the „new" Swiss public sector. Nevertheless it could be argued that the level of debate being stimulated by the financial management and

associated reforms could well signify a strengthening of democracy - with a more active political arena replacing a rather passive and traditional one.

Patterns of accountability

In traditional public administration in Switzerland, accountability is divided: managers are accountable for the correct spending of detailed budget items, but not for the performance, impacts or outcomes of their work. All these elements are part of the politician's accountability and are not systematically measured. With the implementation of New Public Management, transparency is to be introduced into the administration. This leads to an increase in the potential influence of politics, but also to a better structured accountability. Whereas today, it is unclear whether political objectives have been set correctly when the outcome of a political program is poor, this should be measurable in the future. Thus, Knoepfel (1995, p. 463) argues that Swiss politicians will never allow measurable objectives to become the centre of their work, as such criteria would limit their decision-making sovereignty.

Amazing though this may sound, parliaments in democratic Switzerland do not seem to have assumed any extensive degree of accountability. Given that parliaments are the agents of the people, their principals would, in fact, be the electorate, to whom parliament would also have to report. Since, however, the system of direct democracy invests citizens with the final right to make decisions about important issues, parliament enjoys a considerable degree of fool's privilege in that it is able to dodge responsibility. This situation is also reflected at a lower level: administrative units are used to having decisions made about them - in an extreme case, again by the people. Thus, leadership is not in demand - what is useful is political guile and perseverance.

Observing the reform process in Switzerland compared to experiences abroad, it becomes obvious that in Switzerland the major topic of reformist activities is less a re-arrangement of accountability and more a strengthening of the responsibility of administration managers. "Responsibility" in the Swiss understanding rests in its paternalistic leaning which stresses the element of "being responsible *for"* someone or something. Historically, this understanding may be traced back to the particular faith placed in the civil servant by the state, which includes the preparation of policy decisions - and sometimes even the decision itself. A dichotomy of politics and management has not existed in the traditional Swiss administration; which can potentially leave top civil servants with the view that they are responsible for things that happen within the field of public management. It remains to be seen whether this will serve to frustrate the views of those who see NPFM reform as the key to a more democratic, accountable and effective Swiss public sector - but at least an awareness of such traditions at this stage should provide a valuable sensitising to would be financial management reformers.

Conclusion

The major changes in connection with the introduction of the new public management philosophy in Switzerland (most notably at the cantonal level) can be summarized as follows:

1. There is an evolution from public finance theory to a results-oriented public management which can result in a new financial management.

2. The integration of financing by product budgets and performance measurement has just started at all three levels of government. The focus is now on the integration of outputs and inputs. The steerage over outcome and impact has yet to follow.

3. Decentralization is generating new needs in monitoring and reporting, specifically in terms of performance and effects.

4. New Public Management is just one of the elements of change. Other components of the financial reforms are fiscal equalization and a de-centralization of state levels (federalism).

The reforming initiatives discussed in this chapter tend to undermine traditional depictions of Switzerland as a country largely untouched by the NPM and NPFM movements. Such views seem to be rooted very much in the traditions and experiences of the Federal government and give scant attention to the reform initiatives that are being pursued in various cantons.

Swiss democratic traditions, preferences for piecemeal experimentation and the relatively positive views of public services represents an attractive combination - possibly allowing the public sector to work constructively towards new financial management systems designed to suit its particular needs (rather than invoking pure copies of systems implemented in other countries). There clearly remains much work to do, and problems to overcome, but the agenda for change is, in many respects, a positive one.

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Appendix 1: Table of Financial Management Reforms since 1950

Year	Federal level	Cantonal level
1958	Financial Management Law enacted	
1965		Financial planning in St.Gallen
1966	Introduction of long-term financial planning	Financial planning in Geneva, Solothurn, Schaffhausen; Accrual accounting in Appenzell-Ausserrhoden
1967		Financial planning in Zurich, Fribourg, Glarus, Obwalden
1968	Public Audit Law enacted	Financial Planning in Berne, Basel-Land, Thurgau, Uri and Nidwalden
1969	Public Budget Law enacted	
1970	Introduction of four-year political planning	Financial Planning in Basel-Stadt
1975		Financial Planning in the Grisons
1976		Financial Planning in Lucerne, Schwyz; Cantonal Accounting Model in Ticino
1978	Connection between financial and performance planning made law	Design of the Cantonal Accounting Model; introduction in Appenzell-Ausserrhoden, Neuchâtel
1979		Cantonal Accounting Model in Appenzell-Innerrhoden, Jura, Zug
1980		Cantonal Accounting Model in Nidwalden, Valais
1981		Cantonal Accounting Model in Basel-Landschaft
1982		Financial planning in the Ticino, Neuchâtel; Cantonal Accounting Model in Solothurn, Thurgau, Zurich
1983		Financial planning in the Valais
1984		Cantonal Accounting Model in Glarus, Uri
1985		Financial planning in the Vaud, Zug; Cantonal Accounting Model in Geneva
1986		Financial planning in Jura, Appenzell-Ausserrhoden; Cantonal Accounting Model in Obwalden
1987		Cantonal Accounting Model in Schwyz
1988		Cantonal Accounting Model in the Grisons, Lucerne
1989	Federal Finance Ministry launches a study on management control to explore its contribution to efficiency and effectiveness, objective-setting, and political and financial management	Financial planning in Aargau; Cantonal Accounting Model in Berne
1990	Four pilot projects in management control set up	Cantonal Accounting Model in Schaffhausen
1991	Revision of Financial Management Act; Decision to introduce management control on a large scale; new series of pilot projects started	Financial planning in Appenzell-Innerrhoden
1992	First combined financial and performance plan published	Cantonal Accounting Model in the Vaud

1994		Studies on public management reforms launched in Berne, Lucerne, the Valais; Irreversible introduction of public management reforms in parts of the Zurich administration
1995		Studies on public management reforms launched in Solothurn, Schaffhausen, Schwyz
1996	Revision of Financial Management Act	Introduction of performance budgets in Berne, Lucerne, Solothurn; partly in Zurich, St.Gallen, Aargau; Cantonal Accounting Model in Fribourg
1997	Public Management Reforms implied in three federal agencies.	Cantonal Accounting Model in St. Gallen

Sources: Germann and Weis, 1995, Official Federal Journals; Stadler 1994