

## PUBLIC SECTOR AND PUBLIC FUNDS. CONCEPTUAL APPROACH AND LEGISLATION

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### **Abstract**

*Over the past two decades, the economy and its fiscal policy have not been sufficiently consistent, they have not been able to overburden the budget, but the structural weaknesses which are causing the problems of efficiency and competitiveness also need to be phased out gradually, leading to the emergence of public finances and, without reforming its modernization, it is unthinkable. Public resources are the source of public tasks in all circumstances. In public finances, we regulate the regulation of public power, define the subsystems of public finances, regulate the elaboration, adoption, implementation and control of the subsystem budget, and control the control of state assets and control of the management. In order to be verifiable, the tasks prescribed by the law are really fulfilled, as a precondition for switching from institutional funding to task-based financing, program-based budget. This should be achieved by the new Public Finance Act, which will allow it to be verified that the available resources are actually spent for the purpose for which they were designed.*

**Key words:** public sector; public finance; public funds; general government; public finance management.

**JEL:** E60, G28.

### **1. INTRODUCTION**

From the second half of the seventies it came to a crisis stage with crisis symptoms, the pace of economic growth was broken, the fundamentals of development became uncertain, it became apparent that the economic performance of the economy had fallen, and the functioning of the welfare state had serious functional disruption. This stagnant, sometimes declining economic performance has led to a decline in public services, and a fall in state intervention, which has been a failure.

State involvement was based on continuous technical development and economic growth, which resulted in a steady increase in the number of public tasks, services and levels of service to be provided. In addition to this role increase, its content has also changed and widened (Barr, 1987).

With the advance of time, this balance became more and more disturbed and more and more disturbances came about. Thus, in the last decade, it is becoming increasingly urgent that reforms need to be made to restore balance, and action on the development and implementation of reforms has begun.

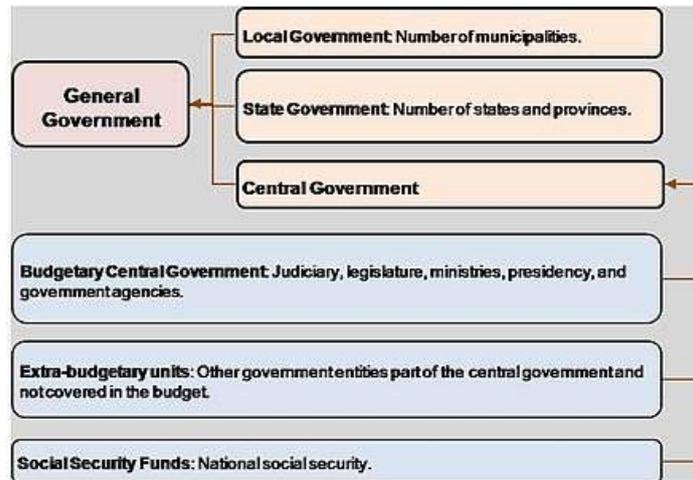
### **2. THE GENERAL GOVERNMENT**

The general government sector defined as the group of entities capable of implementing public policy through the provision of primarily non market goods and services and the redistribution of income and wealth, with both activities supported

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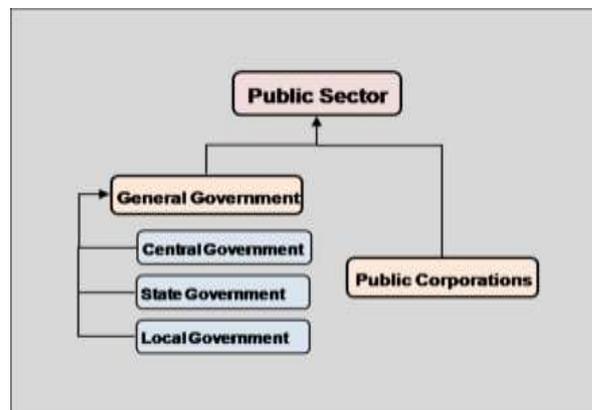
mainly by compulsory levies on other sectors. The general government is disaggregated into subsectors: central government, state government, and local government (See Figure 1).



**FIGURE 1 General Government**

Source: IMF *Government Finance Statistics Manual 2001* (Washington, 2001) pp.13

The concept of general government does not include public corporations. The general government plus the public corporations comprise the public sector (See Figure 2).



**FIGURE 2 Public Sector**

Source: IMF *Government Finance Statistics Manual 2001*, Washington, 2001, pp.15

The general government sector of a nation includes all non-private sector institutions, organizations and activities. The general government sector, by convention, includes all the public corporations that are not able to cover at least 50% of their costs by sales, and, therefore, are considered non-market producers. In the European System of Accounts, the sector general government has been defined as containing: “All institutional units which are other non-market producers whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth” (Eurostat).

In the second half of 2008, both in the real economy and in the financial system, there was a huge shrinkage in the world economy. Our country was not able to extract itself from the impact of the process of substantial loss of property, bankruptcy and unemployment. In this situation, there is a great need to restore the credibility of fiscal policy. In addition to short-term fiscal adjustment measures, a well-predictable decision-making framework would be needed to encourage economic players and the government to strict budgetary discipline.

In addition to equilibrium issues, transparency in accountability of public funds and accountability of the fight against corruption are becoming more and more focused on today. Transparency means a clear definition of how resources should be used and how they have actually been used.

Accountability is to ensure that expenditure matches the number of plans and the outcomes contribute to the government's objectives. The current practice basically serves not to reconcile the resources needed to carry out the tasks and the tasks, but starts from the re-orientation of the available or missing resources, i.e., what tasks and how much of the available resources can be achieved.

However, no independent, comprehensive and comprehensive program, development strategy was developed. Shorter-term, revenue-raising and mitigation measures to stabilize and consolidate have mixed with reform-like measures.

Going beyond the consolidation, the job of sustainable growth is not made easier by the clarification of the organizing principles of one of the most important fundamental questions, such as the delimitation of the content and scope of the public tasks that can be undertaken by the state.

The most important tasks for public services are: the modernization of institutional management, the establishment of public finance management, the prioritization of tasks, the application of the state-of-the-art methods of performance measurement and output financing.

### **3. PUBLIC SECTOR AND PUBLIC FUNDS, CONCEPTUAL APPROACH AND LEGISLATION**

In the modern world, the public sector is called a subsystem for the production of collective goods whose functions are closely related to the current system of objectives and tools of public policy. Within the public sector, we can create groupings according to a variety of organizing principles. Thus, for example, by way of management, we can talk about public finance, utility, non-profit and cooperative market systems. In present-day literature, there is a wide variety of wording and approaches to public goods, public wealth, public finances and similar concepts.

For the operation of the public sector, we can distinguish between public and public assets. Public money, as a concept, involves both public revenue and public spending, to say one and the other. In the economy, the "*public*" and "*private*" delimitation actually goes beyond the government sector as public and public property must include all state organizations operating in the enterprise, in which the state's ownership and role- ie the use of taxpayers' money for such purposes is systematically dependent on the organization's performance, wealth and income position (Csonka-Lehmann, 2000). They distribute income withdrawn from economic operators by governmental constraints usage fees paid by economic operators for the use and use of public goods, the use of exclusive and partial state / municipal property, donations and public sector actors can be considered as money from loans borrowed by the company.

In conjunction with the economic and social impacts of government revenues and expenditures, economic theories and practice often lead to contradictory conclusions, and the need for reform is usually based on effectiveness, and issues of social justice are far behind (Csillag, 2001). The new regulation must address two key issues. On the one hand, the right and responsibility of the elected political bodies must be restored on the one hand, and on the other hand, the institutional guarantees of the financial sustainability of the budget must be ensured.

Long-term budget planning assumes and demands the operation of a macroeconomic financial planning system tailored to the nature of a market economy, but more fully than today. Clearly defined tasks, transparent planning, budget based on goal and performance requirements, and ethical consistency make performance more measurable, improving the effectiveness of accountability, analysis and evaluation, correction - and, last but not least, control possibilities too.

The modernization of public finance presupposes the establishment of a set of rules, the establishment of an institutional system, and the finding of technical solutions that make the management of public finances more transparent, predictable and efficient at both the national economy, the local governments and the institutions, and takes into account the risks involved. (Báger - Pulay, 2008).

The ultimate goal, however, is to improve the external and internal conditions of competitiveness and sustainable development through better functioning of the public finance system, financial equilibrium and confidence.

The laws that govern the operation of the public sector, namely the planning, collection and utilization of public funds, need to be thoroughly revised in the early 1990s and need to be thoroughly upgraded. The principles of statutory and regulatory regulation are unclear, and there are many contradictions between public sector rules.

Legislators and legislators have been trying to adapt to changing requirements by constantly changing their laws and implementing regulations, but because of the many modifications, they have become more and more unclear to law enforcers. In many cases, it is not even clear what questions should be taken in law and which issues should be regulated in the regulation. It cannot be assumed that accounting laws other than accounting law on budgetary institutions are not drafted in law. The basic provisions on public accounting for public decisions on the use of public funds would require legislation at a legislative level.

The public sector as a whole, but within this, the regulatory system of public funds should be transposed into the developed democratic states and the best principles and practices that have been recognized in international organizations. Really beneficial international recommendations can only be made if they are in the domestic professional, political and social consensus. Creating a new regulation the principle of popular representation and limited mandate should be applied on a substantive basis, in which a fundamental principle should be to ensure broad public transparency and full compliance with the principle of verifiability. In budget planning and management, the true application of the principle of completeness and detail should also be enforced.

The enforcement of the publicity principle is an important operational feature of the rule of law. In addition to the political bodies empowered by the electorate in the elections, the public creates the greatest deterrent force against all irresponsible management and political manipulation and helps to avoid the crimes.

If the state does not decide clearly on which goods and services it intends to provide, public funding becomes opaque and unbundled. Therefore, there is a need for a clear separation of governmental levels of performance. Declaring the public

function should be a legal act, however, the order of assignment should be very vigilant.

When establishing a new legal regulation, it is appropriate to examine whether and how it can be it is advisable to fix the public tasks at a statutory level: Against and against this proposal we can list many arguments. Instead, it means that knowledge of this would greatly help both economic and social stability, and that there is a high degree of variability, so it is only possible to review and clarify the medium term over a medium-term period.

The current system of budget management budget planning is basically based on existing revenue and expenditure appropriations and hence funding is based on this. The process and its outcome clearly shows how rigid the financing structure is. Although the importance of priorities is emphasized on a regular basis, it is clear that appropriations and changes in key areas are practically only following the change in inflation.

The two levels and four subsystems of the state budget today are too fragmented, and the responsibilities are not clearly clarified among them, so it would be sufficient to separate the central and local levels in the new public finance regulation.

The separation of the two levels would make it possible to apply more consistently to the actors of public finances and to the regulations that apply to the levels to the present situation. An important element of the special rules is the solution resulting from the constitutional position of the local governments and the connections to the central level.

In reality, the constitutional autonomy of local governments is greatly restricted by the sectoral and professional laws that are maximally restrictive, sometimes inconceivable, and the constitutional autonomy of local governments is hampered, and their rational management is impeded by the statutory titles, allocations its mechanisms and the real value change to the current fiscal targets subordinated.

Thus, a more predictable and transparent way of regulating the financial relations between the central and the local level, the various techniques of which are possible. All the advantages of the state contributions must be significantly reduced, and it should be prevented from being broken down into sectoral parts. It is also necessary to apply state aid to some macroeconomic changes (fixing), thus ensuring predictability and fiscal policy latitude.



**FIGURE 3 Financing Sustainable Infrastructure**

Source: <https://newclimateeconomy.report/2016/a-roadmap-for-financing-sustainableinfrastructure/>

Sustainable development is only a necessary but not a sufficient condition for public finances. In the medium term, budgetary imbalances can not be ensured through overdrafts or withdrawals that jeopardize basic state tasks. The competitiveness of the economy, neither on the expenditure side nor on the revenue side, should not jeopardize the pursuit of the budgetary equilibrium. Budgetary rules often do not formulate themselves as part of a comprehensive economic package whose form can be varied. Obviously, budgetary rules are most effective when they are fixed by high-level legislation. Experience shows, however, that the rules laid down in the Constitution and in the law are too simplified, rigid and difficult to change.

Transparency is of paramount importance to public finance systems. The realization of this is an important means of building public trust that contributes to reducing the losses caused by various irregularities and improves financial discipline. Creating the requirement of transparency can significantly reduce the management costs of public debt. Organizations belonging to the non-governmental sector are becoming increasingly important in the field of public service provision. In order for the public-private partnership to be fruitful for the "public", it is essential that all users of public funds be accountable. To properly ensure transparency, a properly organized information system is needed, as well as processes and decisions are public. The information should be available in sufficient quantities and in depth with the content indicated in international standards. It follows from the transparency that it should be known to the general public as a whole risks inherent in the system. Risk Presentation it is important that the state account should also show the changes in the financial position of the sector, the risks of the so-called out-of-balance-sheet performance. An important requirement is the transparency of the financial legal system, which requires both legislation on the revenue and expenditure side to be stable, or changes in them, to make clear the changes.

Publicity is also a guarantee that political competition can play a significant role in the elections. Disclosure of data on the management of public assets should not

be restricted by the protection of business secrets, but it is necessary to review what is and should be disclosed in order to prevent the publication of data in advance position.

A good area of application of program-based budget planning is the local government system, where pilot projects were already in the mid-1990s. At the same time, the introduction of new planning methods also requires a differentiated approach for local governments and sometimes longer time.

After the planning, the performance orientation can be exercised in the management by assigning performance indicators to the use of each budget appropriation and monitoring their performance at organizational, sectoral and governmental level.

An important task of the regulation to be renewed is that this area, which today's legislation is also neglected, is to settle in accordance with its importance and international standards. The new regulation should include the concept and importance of internal governance mechanisms. It must be stated that the elements and structure of the internal governance systems to be set up at institutional level are in line with international standards. The essential requirements relating to the independent internal audit function forming part of the internal management system should be laid down at the statutory level and the current regulation at the regulatory level should be abolished.

#### **4. BUDGET PLANNING AND MANAGEMENT**

The public sector as a whole, but within this, the regulatory system of public funds should be transposed into the developed democratic states and the best principles and practices that have been recognized in international organizations. Indeed, beneficial effects can only be made by international recommendations if they are strengthened by domestic professional, political and social consensus. When designing the new regulation, the principle of popular representation and limited mandate should be applied substantively, in which a fundamental principle should be to ensure broad public transparency and full compliance with the principle of verifiability. In budget planning and management, the true application of the principle of completeness and detail should also be enforced. The enforcement of the publicity principle is an important operational feature of the rule of law. The current system of budget management budget planning is basically based on existing revenue and expenditure appropriations and hence funding is based on this. The process and its outcome clearly shows how rigid the financing structure is. Although the importance of priorities is emphasized on a regular basis, it is clear that appropriations and changes in key areas are practically only following the change in inflation.

The two levels and four subsystems of the state budget today are too fragmented, and the responsibilities are not clearly clarified among them, so it would be sufficient to separate the central and local levels in the new public finance regulation. The separation of the two levels would make it possible to apply more consistently to the actors of public finances and to the regulations that apply to the levels to the present situation. An important element of the special rules is the solution resulting from the constitutional position of the local governments and the connections to the central level. In reality, the constitutional autonomy of local self-governments is significantly constrained by the sectoral-professional laws that maximally enforce the requirements, and the constitutional autonomy of local governments is hampered, and the rational management of the state contributions, the

allocation mechanisms and the real value of governmental contributions related to compulsory tasks, subordinated.

Public finance rules generally govern the management of public finances, in particular the rules of management of the general government and the status of actors in the public sector.

According to foreign experience, in case of appropriate political intentions, an effective solution to the so-called introduction of a rule-based budget and / or the involvement of independent institutions. The convergence program and the euro area regulations set balance requirements for the public sector as a whole. In order to address the risks posed by the balance, adequate planning should be made during planning and penalties should be applied when appropriations are exceeded. In the medium term, budgetary imbalances can not be overcome by overcrowding or the withdrawal. The competitiveness of the economy, neither on the expenditure side nor on the revenue side, should not jeopardize the pursuit of the budgetary equilibrium.

Transparency is of paramount importance to public finance systems. The realization of this is an important means of building public trust that contributes to reducing the losses caused by various irregularities and improves financial discipline. Creating the requirement of transparency can significantly reduce government debt management costs. Organizations belonging to the non-governmental sector are becoming increasingly important in the field of public service provision. In order for the public-private partnership to be fruitful for the "public", it is essential that all users of public funds be accountable.

The framework for the rational and economical management of each budget organization is essentially governed by the legislation on the status of these institutions. The regulation of the legal status of organizations operating budget management within the framework of the public finance system and the special regulation of public service organizations is one of the issues where several options can be considered. It is important that accountability, transparency and performance requirements are used when using public funds.

The internal governance system of public finances encompasses the objectives, guidelines, operating procedures and rules established by the organization's management. The operation of this control mechanism is necessary for the organization to ensure that its mission and its various aspirations are economically, efficiently and effectively fulfilled, in accordance with the law and internal rules, protect the assets and information of the organization, the quality of the accounting system, timely preparation, avoidance and detection of errors and fraud. An important task of the regulation to be renewed is that this area, which today's legislation is also neglected, is to settle in accordance with its importance and international standards.

When regulating public finances, the requirement of stability is of paramount importance. There is a need for the state's behavior to be economically viable for long-term, accepted by society and public confidence in new solutions. Stability also means that the public finance system avoids frequent changes to legislation, as opposed to today's practice.

Accurate and prudent preparation of legislation is also a prerequisite for predictability and stability establishing the consistency of certain legal blocks, setting a date for the entry into force of legislation that will allow time to prepare for the application. There is a whole new approach, methods, and techniques in the planning and reporting and accounting, auditing and financial management systems to create

the proposed public finance regulation, as opposed to domestic practice. All this requires that the new rules be introduced and put into practice gradually. The length of time it takes to prepare for the application of a law is not and can not be determined by law in the formulation of each law, its nature, quantity and quality.

With regard to the importance of the central budget, it stands out from the general government system, and therefore some special rules would apply. Thus, above all, the requirement that the public and statutory duties and other obligations contained in the Constitution and the law be covered in the budget. The budget must be set up in such a way that the implementation of this provision can be established. Ensuring the sustainability of the balance of public finances is important to prevent the growth of the indebtedness of the state. Only this principle may be in exceptional circumstances. The detailed rules must be in law (Borsa, 2008).

It is especially important to enforce the principle of performance orientation during planning, as this aspect of farming decides most on the other processes of farming. When designing appropriations the purpose of the proposed expenditure, the way in which it is to be achieved, the justification for the proposed resources and the amount of expenditure should be presented. Performance indicators need to be widely applied to marking and tracking targets. In case of change of appropriations, the same requirement should be applied. Domestic fiscal planning practice needs to be revised comprehensively and in detail. Current base-based design is unsuitable both to enforce performance requirements and to lay down the necessary structural changes.

It provides performance orientation to introduce or prescribe program-based budgeting for specific spending areas, monitor budget implementation, and measure performance and institutionalize performance audits.

## **5. CONCLUSIONS AND RECOMMENDATIONS**

The long-term economic interests of the country are regularly prevented by short-term interests and measures, and this practice greatly increases the uncertainty of economic players and blocks the country's catching up.

There is no definition of what tasks mandatory by the state, such as the state, to be able to reconcile between the tasks and the resources needed to carry them out. The serious problems of public finances and of the national economy would probably not be so serious if, within a reasonable period of time, a consensus would be decided on the definition of the scope, content and scope of the public tasks to be undertaken and funded by the state.

It cannot be postponed further transforming the public sector as a whole, modernizing the system and regulation of institutional management, prioritizing tasks, introducing performance measurement, and applying state-of-the-art methods of output financing (task financing).

In order to improve the situation, we have opportunities, both at macro and micro level, in particular in the field of public funds, including task definition, planning, regulation, management, control and registration.

Since there are a number of gaps and problems in the system's operation, the current system is outdated in many areas, it cannot be achieved by refilling it, with half-solutions, and the reformation of the system cannot be delayed.

In the absence of transparent and consistent management of public funds, clarification of theoretical foundations and the necessary decisions, the coordination of the tasks and the resources needed to perform these tasks cannot be achieved.

It is necessary to eliminate the practice of short-term political cycles interests to be prevented and long-term ones, and to exclude the so-called choice budget.

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