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**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE  
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**Working Party of Senior Budget Officials**

**EXECUTIVE SUMMARY "BUILDING ON BASICS"  
FINAL REPORT OF THE OECD VALUE FOR MONEY STUDY**

**-- PRELIMINARY DRAFT --**

**9th Annual SBO Meeting on Performance and Results**

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*This document is the Executive Summary of the report "Building on Basics". The latter report is the final report of the OECD Value for Money Study. The report addresses current trends in the organization of central government and presents 44 reforms that have taken place in recent years in the countries that have participated in the study.*

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**EXECUTIVE SUMMARY “BUILDING ON BASICS”**  
**FINAL REPORT OF THE OECD VALUE FOR MONEY STUDY**  
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**Section 1. Introduction**

1. The OECD Value for Money project was launched in 2008 at the request of the Dutch government. The OECD Secretariat was asked to conduct a comparative study on the organisation of central government from the perspective of Value for Money. The Dutch Government was interested in both quantitative and qualitative international data as background information for the operation “Central Government Reform” that was initiated in 2007. In order to conduct the study, the OECD invited a number of countries to provide information to the project. The selection of countries took place in consultation with the Dutch Government. The countries that accepted to participate were: Australia, Canada, Denmark, Finland, Ireland, New Zealand, Sweden and the United Kingdom. These countries were invited to join an advisory committee to supervise the project. The resulting OECD report “Public Administration after ‘New Public Management’” was published in 2010.

2. In 2010 the scope of the study was extended. From then on the study has become truly international in that it was henceforth financed by five countries (Australia, Denmark, the Netherlands, Norway and Sweden). Additional countries have pledged to provide information (Austria, France, Norway, Spain) and have been invited to participate in the advisory committee. The aim of this second phase was to produce country assessments for the financing countries (Australia, Denmark, the Netherlands, Norway and Sweden) and a final report that would give an overview of all recent reforms of central government in the participating countries that are interesting from the perspective of value for money. The country assessments would focus on a specific country and provide quantitative and qualitative information that would particularly useful for the country concerned. In particular each country assessment would provide information on ten reforms that had occurred in other countries but not (yet) in the country concerned, and that could be seen as particularly relevant and inspiring for the latter country. From 2010 to 2013 country assessments have been produced for Australia, Denmark, the Netherlands, Norway and Sweden. In 2013 the final report, titled “Building on Basics”, has been completed<sup>1</sup>.

3. It should be emphasised that the final report of the Value for Money project is not specifically focused on the Netherlands. This is reflected in the Terms of Reference. This approach is in line with the aim to produce an comparative study that would be equally useful to all participating countries.

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<sup>1</sup> At the time this executive summary has been written, the statistical chapter of the final report had not yet been finalized. The current document will only mention some aspects of the chapter and will be complemented when the statistical chapter is complete.

4. It should be noted that all country assessments already drew upon the final report, in the sense that they described priority reforms for the country concerned, that were selected from the list of all reforms that are described in this report. This was possible because a provisional list of reforms to be included in the final report was already made up at the start of the second phase of the project (2010).

5. This executive summary provides information on the aims of the Value for Money project (section 2), the tools of the study (section 3), on the sources of information used in study (section 4) and on the structure of the report (section 4). The outline is concluded by a summary of the statistical data and of the reforms described in the study (section 5).

## **Section 2. Aims of the study**

6. The aim of the OECD Value for Money project is to describe recent reforms in the organisation of central government of participating countries that are interesting for other countries from the perspective of value for money.

7. The study focuses on central government. Local government reforms have been excluded, but this restriction has been interpreted with some flexibility. Decentralisation reforms that lead to savings in central government as well as in total general government (which includes local government) have been included.

8. The perspective of value for money implies that reforms must lead to better quality of services for citizens and businesses or to savings, or to both. In view of the deteriorating economic circumstances during the course of the study, the emphasis has gradually shifted towards savings, but reforms leading to improvement of quality of services that do neither lead to savings nor to additional expenditures have been included.

9. The value for money perspective has also been interpreted in a broader sense, namely as characteristic for a next phase in the development of public administration. It is well-known that in many OECD countries, and in particular in the countries participating in the Value for Money study, three periods of public administration can be distinguished since the 1980s of the previous century: those of receding government (1980-1990), New Public Management (1990-2005) and the current period (from 2005).

10. The period of receding government is commonly associated with the Reagan administration in the USA and the Thatcher cabinets in the UK, but there were many governments in other OECD countries that subscribed to similar ideas and policies. Much emphasis was put on the reduction of government tasks, particularly the tasks of central government by deregulation, privatisation, decentralisation, expenditure reduction and fiscal alleviation. The idea was that private sector growth and prosperity was hampered by too high tax and expenditure levels. Theoretical underpinnings of these ideas were partly found in supply side economics and public choice theory. Supply side economics showed that essential incentives for growth in the private sector could be impaired by too high levels of taxation. Public choice theory showed that without strong legal constraints, the incentives motivating bureaucratic and political behaviour would lead to an ever expanding public sector that would eventually overwhelm the private sector of the economy.

11. During the nineties of the previous century, the organisation of government has been profoundly affected in all countries participating in the Value for Money study by the ideas of New Public Management. These ideas have partly been proposed and promoted by governmental commissions and task forces and partly by academics in the field of public administration. The ideas of New Public Management have been described in many reports and publication with certain variations, but a fixed core. The core includes:

- Separation of policy execution from policy development;
- Loosening standards of operational management (“let managers manage”);
- Steering and control of executive agencies on the basis of outputs;
- Budgeting on the basis of outputs (performance budgeting);
- Outsourcing of intermediate production to the market;
- Stimulating competition among service providers, by allowing private suppliers to provide publicly financed services.

12. Some of the ideas of New Public Management have been successful and have been adopted in many OECD countries. However, other reforms have led to unexpected and problematic consequences, such as undesired growth of support services, core ministries and administrative executive agencies, loss of service quality for citizens and businesses, and de-motivation of professionals in service delivery (care providers, teachers, police officials, etc.).

13. Since the mid-2000s a third period of public administration can be observed in which some of the New Public Management reforms are adjusted, revised or even abolished and in which new trends come to the fore. A common feature of these trends is that the government should focus more on service delivery and less on administration, in other words: more front office, less back office, or as the Danes say: “more warm hands, less cold hands”. This implies not only shifting resources from administration to service delivery, but also building a simpler, more integrated, more compact administration, denoted in this study as a move towards “basic government”. Some of the trends that fit into this picture and that are currently discernible in the countries participating in the Value for Money study are:

- Smaller core ministries focusing on policy development and policy evaluation;
- A more logical and transparent separation of tasks between central and local government;
- Better integration of executive and professional expertise in policy making (vertical integration);
- Sharing of process units and amalgamation of executive agencies (horizontal integration);
- Integration of supervisory and regulatory units (inspectorates) and risk based supervision;
- Support service sharing;
- Concentration of standard-setting for operational management (finance, human resources and organisation, information and ICT, procurement, communication, internal audit, accommodation real estate and facilities) in one or two ministries.
- Less politicians and political advisors at the top of ministries
- Better and more professional financing of agencies focusing on the costs of required capacity (capacity budgeting)

14. All current trends can in principle lead to savings on central government expenditures. This implies that they can also be used for deficit reduction. It also implies that the global financial crisis has been a supportive factor. Although the new trends started before the global financial crisis hit, the crisis helped to carry out the reforms by lending them additional urgency. However, the justification of the reforms towards a simpler, more compact and more integrated public administration is neither dependent on the need to improve service delivery, nor on the need to reduce the deficit. These reforms are worthwhile on their own merit, since they lead to more efficiency in public administration. Political acceptance may become easier when the savings are used to improve service delivery or to reduce the deficit, but it is plausible that these reforms do not harm the quality of public services, they should also be pursued for their own sake.

15. Some of the new trends have become possible or have been accelerated by the development of ICT technology over the last few years. Yet, it would be slightly misleading to see in ICT the main characteristic of the post New Public Management era. The report makes the argument that the shift of emphasis towards service provision and its corollary that public administration has to be limited to its basic roles is the central feature of the new era in public administration.

16. In view of the broad interpretation of the value for money perspective as characteristic for a new phase in the development of public administration, the reforms described in the final report have been selected on the basis of whether they fit into the mentioned reform trends (next to the other criteria mentioned above). Reforms that run counter to the mentioned trends are omitted. It is true that reforms of the latter type gradually become rare in the countries participating in the study, but they still occur (for instance proportional across the board cuts). This way of selecting the reforms is intended to provide certain coherence to the final report that would otherwise be lacking.

### **Section 3. Tools of the study**

17. Apart from the criteria to select the reforms, the study makes use of two special tools to analyse the reforms. These tools are a common language and common taxonomy of governmental tasks and organisations.

18. Any attempt at studying the organisation of government from an international perspective must cope with the large variety of institutions prevailing in different countries and a bewildering diverse terminology to denote these institutions. The OECD member countries may be thought of as a more or less homogeneous group of countries that share certain basic features such as representative democracy, rule of law, market economy, robust social security arrangements, but the variety of institutions that have been established to safeguard these features is surprisingly large. Even among the thirteen countries that were invited to participate in the study in view of supposed similarity in institutional structure, the differences are enormous. This variety is the result of centuries of historical development, geographical circumstances, national values and political traditions.

19. Any description of a reform in a given country must necessarily refer to the prevailing institutions in that country. However, against the background of the variety of national institutions, this immediately poses the question which conceptual apparatus and vocabulary should be used to describe and denote these institutions. Any term used in a national vocabulary for public administration has another meaning or connotation in the vocabulary of another country. One can think of such elementary terms as agency, ministry, department, policy execution, regulation, inspectorate, administration, civil service, etc. Under

these circumstances the Value for Money study has opted for using existing terms, used in some country, to denote roughly comparable institutions in other countries. This will surely be at odds with the national ways of speaking about these institutions, but unless an entirely new and artificial terminology would be developed, there is no alternative. An attempt is made to use the common terminology and definitions throughout the study. The definitions are provided in a separate glossary that is provided in an annex to the report. In addition specific terminology that is used only in reforms on a certain subject are provided and explained in the chapter on that subject. The development of this conceptual apparatus is seen as an important result of the study in its own right because it provides a basis for future comparative work in the area of public administration.

20. The Value for Money study makes use of a common taxonomy of governmental tasks and organisations. This taxonomy is based on a statistical survey of administrative employment that was developed in the Netherlands in the context of the Central Government Reform initiative and that is called “snapshot of the public of the public administration”. The survey has the format of a table with four columns for tasks and three rows or organisations. Each cell of the table mentions the size of administrative employment working on each task in each organisation. The tasks distinguished in the snapshot are:

- policy development
- administrative policy execution
- supervisory and regulatory activities
- support services

The organisations are:

- core ministries
- arm’s length agencies
- independent agencies

21. All concepts are defined within the universe of central government employment as defined in the national accounts. Snapshots have been produced for 11 countries participating in the study.

22. The snapshots are based on a strict distinction between administration and service delivery. The snapshots contain exclusively administrative employment. Administrative employment contains all employment for policy development, administrative supervision and regulation, support services as well as the administrative part of policy execution (which includes for instance the tax office, the social security administrations, the units that take care of school financing, the units that pay subsidies, etc). It excludes the High Colleges of State (Parliament, President’s Office, Supreme Audit Institution, etc.), the Judicial Branch and all employment in collective and individual service delivery. Service delivery includes the military, the police, the staff of penitentiary institutions, other collective service delivery units (for instance for infrastructure construction and maintenance), all non-profit institutions classified inside central government in the national accounts and all staff of educational institutions, health providers, and other institutions providing individual service delivery in kind.

#### **Section 4. Information**

23. The report is based on three sources of empirical information:

- Information from 3 questionnaires;
- Statistical information on employment and public expenditures;
- Information collected during missions to countries participating in the study.

24. In the period November 2009 – January 2010 three questionnaires were sent to the participating countries focused on statistical information about public employment and on recent reforms. The questionnaires were answered by 11 of the 13 countries participating in the study.

25. Statistical information used in the study is taken from the OECD national accounts, from the questionnaires (snapshots of the public administration) and from the Public Finance and Employment database (PFED) of the OECD. The latter database was still in development during the drafting of the report, but could already provide a number of important data. The PFED contains data on public employment for all sub-sectors of general government (including central government) that are consistent with the national accounts and hence internationally comparable.

26. The OECD Secretariat has made missions to five countries participating in the study, namely the countries for which assessments were made (Australia, Denmark, the Netherlands, Norway and Sweden). In each mission the Secretariat interviewed officials of the Ministry of the Interior or the Ministry of Public Administration, the Ministry of Finance, some other relevant ministries (often Economic Affairs and Foreign Affairs and some line ministries) and officials of a number of executive agencies and regulatory agencies.

#### **Section 5. Structure and contents of the report**

27. The report contains 12 chapters (see the annex for an overview). The first chapter describes the aims and tools of the study and the sources of information. The second chapter provides statistical information about government employment, expenditures and revenues. All other chapters describe the selected reforms. In total the report contains 44 reforms that have occurred in one or more countries participating in the study since 2005.

28. The reforms are distributed over the chapters in accordance with the taxonomy of the snapshot. Four chapters focus on the government tasks: policy development (chapter 3), policy execution (chapter 4), administrative supervision and regulation (chapter 5) and support services (chapter 6). Four chapters focus on separate support services: finance (chapter 7), human resources (chapter 8), information and ICT (chapter 9), and internal audit (chapter 10). Two chapters focus on the organisations of government: core ministries (chapter 11) and arm's length and independent agencies (chapter 12).

29. Each chapter starts with an introduction that mentions the most important developments in the subject area of the chapter in the participating countries, introduces the reforms described in the chapter and how they fit in the current trends and introduces chapter specific terminology. Subsequently, each chapter describes 3 to 7 reforms that have occurred in one or more countries and that are relevant for the countries where it has not (yet) occurred.

30. Each reform is described in four paragraphs. The first paragraph describes the characteristics of the reform. The second paragraph mentions the country (countries) where it occurred and gives some background on the circumstances under which it occurred. The third paragraph provides an analysis of the reform. It mentions the aim of the reform, which problem it was supposed to solve, how the reform compares to alternative policy options and any empirical data on the impact of the reform in terms of costs or savings and effects on outputs and outcomes. The fourth paragraph pays attention to the feasibility of the reform in countries where it has not (yet) occurred. It mentions conditions that have to be met in order to implement the reform.

## **Section 6. Summary of the statistics and the reforms**

31. The statistical chapter provides quantitative information about the organisation of central government in the participating countries. The data concern employment, expenditures and revenues. General government employment is split in sectors (central government and social security, states, local employment). Central government employment is split in administration and service delivery. Indicators for administrative employment include a per capita rate and domestic employment rate. Administrative employment is split over core ministries, arm's length agencies and independent agencies as well as over policy development, administrative policy execution, administrative supervision and regulation and support services. General government expenditures are split in sectors (central government and social security, states, local employment). Central government expenditures are split over COFOG-special groups (making use of the PFED database of the OECD which makes distinctions between spending on collective and individual goods and between spending on goods in kind and cash transfers). General government revenues are split in sectors (central government and social security, states, local employment) and types of revenues (direct and indirect taxes, capital taxes, social contributions, current and capital transfers split in earmarked and non-earmarked transfers, and other revenues (sales and fees, property income and other subsidies on production)).

32. The other chapters describe the reforms. They are summarised in this section by their main characteristics and the country/countries where it occurred. They are described by chapter of the report.

## **Chapter 3. Policy development**

### **Reform 1. Strengthening policy development capacity**

***Characteristics of the reform:*** Strengthen the policy capacity within line ministries by:

- clarifying the mandate and role of line ministries in policy development vis-a-vis central ministries (finance, prime minister's office, etc.) and executive agencies;
- developing policy skills within the line ministries by introducing a comprehensive professional development programme for policy development staff that is designed to strengthening four key competencies: technical and analytical skills, professional expertise, executive (or delivery) experience and political sensitivity; the reform addresses recruitment and promotion criteria, staff training and development and on-going job rotation and professional exchange

***Countries where it occurred:*** Australia, Netherlands and Norway among others.

**Reform 2. Integration of executive and professional expertise in policy development**

*Characteristics of the reform:* Integrate executive and professional expertise into policy development with the aim to improve both the quality and the acceptance of reform initiatives, without reducing the authority of line ministries. Executive agencies should commit to policy proposals before they are tabled for political decision-making in Cabinet or Parliament and this can be achieved by giving a role to executive agencies in the initiation and elaboration of policy proposals and having executive agencies represented in the ministerial staff group by which all policy proposals are selected, developed and approved.

*Country where it occurred:* Sweden.

**Reform 3. Transfer of public research institutions to universities, private research establishments and consultancy firms**

*Characteristics of the reform:* Transfer government policy research institutions to the universities and private research sector. The reform aims at strengthening policy makers access to timely, relevant, independent and rigorous policy focused research. The reform is intended to increase the research budget available to policy development staff in core ministries, it should not reduce government funding for policy research.

*Country where it occurred:* Denmark.

**Reform 4. Independent fiscal forecasting institutions**

*Characteristics of the reform:* Establish an independent fiscal institution (IFI) for macroeconomic forecasting and costing of major policy proposals. Careful attention should be given to ensuring that the IFI works for the executive and legislative arms of government and for civil society organisations (possibly at a cost). The IFI should avoid duplication of forecasting and costing efforts within the central government as a whole.

*Countries where it occurred:* the UK and the Netherlands. IFI's also exist in Sweden, Australia, Canada and other countries, but not fully in accordance with the stated criteria.

**Reform 5. Whole of government standards for ex-post evaluation**

*Characteristics of the reform:* Establish whole of government standards for the conduct of policy evaluation in line with practices from Canada and the UK; ensure that line ministries hold primary responsibility for planning, conducting, or commissioning of policy evaluation.

*Countries where it occurred:* Canada and the UK.

**Reform 6. Cost-benefit analysis and regulatory impact analysis**

*Characteristics of the reform:* Ensure that cost-benefit analysis or regulatory impact analysis is conducted on all major policy or legislative proposals with large first order and second order economic effects.

*Countries where it occurred:* Australia, the UK.

## **Reform 7. More consistent task division between central and sub-national government**

*Characteristics of the reform:* Review and clarify the division of policy tasks between levels of government to ensure greater coherence and reduce unnecessary overlap within each policy area. This will strengthen policy development capacities within each policy area and provide a substantial reduction in earmarked grants and associated supervisory administration from central government. Decentralisation of tasks should not be made conditional on amalgamation of sub-national governments. This reform is contingent on existing constitutional provisions and should proceed from a review of existing arrangements in which coherence of policy areas should be a prime consideration in the attribution of tasks to levels of government.

*Countries where it occurred:* Australia, Canada, the Netherlands, the UK

## **Chapter 4. Policy execution**

### **Reform 1. Role of arm's length agencies**

*Characteristics of the reform:* Devolve all executive tasks of central government to agencies that have their own financial administration. Since the largest share of central government employment is used for the conduct of executive tasks this will lead to a reduction of employment in (core) ministries of up to 95 per cent, compared to a situation in which all executive tasks are conducted by the ministries. Apart from policy execution tasks, arm's length agencies can also be tasked with the delivery of support services for the ministry and its agencies, or, as shared service centres, for several ministries or for ministries and local governments.

*Countries where it occurred:* Sweden, the UK, the Netherlands, and several other countries.

### **Reform 2. Use of common process units**

*Characteristics of the reform:* Merge agencies and/or establish common process units in which parts of the policy execution process are shared across government ministries and agencies. Such horizontal integration is possible for the ministries and/or agencies that share similar tasks, the same clients, the same production process and/or the same geographical area. The reform seeks to deliver three key benefits:

- savings
- efficiency gains and increase in the quality of services
- greater attractiveness of the public sector as an employer

The common process units are placed under the ministry that assumes the role of economic ownership and is responsible for operational management. These units are financed on the bases of fees or lump-sum contributions paid by the client ministry to the owning ministry.

*Countries where it occurred:* Australia, Denmark, the Netherlands.

### **Reform 3. Role of independent agencies**

*Characteristics of the reform:* Protect independent agencies from government interference in their executive policies, while maintaining government supervision on the operational costs and without

excluding them from the standards of operational management that apply to (core) ministries and arm's length agencies. This implies that they should not be granted special legal status other than that of arm's length agencies and that they should be given legal personality only under strict conditions.

*Country where it occurred:* Sweden.

#### **Reform 4. Role of public non-profit institutions**

*Characteristics of the reform:* Devolve publicly financed service delivery in the area of individual services (education, health care, long term care, social services) to the private non-profit sector (sometimes called the voluntary sector). The aim of the reform is to promote competition in service delivery leading to better public services and lower costs.

*Countries where it occurred:* the Netherlands, the UK.

#### **Reform 5. Reform of the foreign service**

*Characteristics of the reform:* Increase the efficiency of the foreign service with declining resources by focusing on the core tasks and political priorities as defined by the foreign policy of the country by using technology more effectively and by adapting the organisation to changing needs (smaller and more efficient networks). Among other things the reform includes the devolution of individual service delivery in the sphere of trade promotion to other agencies and the market.

*Countries where it occurred:* Norway, the Netherlands, Sweden, the UK.

### **Chapter 5. Administrative supervision and regulation**

#### **Reform 1. Reforming economic regulation**

*Characteristics of the reform:* Move towards a greater emphasis on using economy-wide and cross-sectoral regulation as far as possible. This move reflects a new focus on ensuring consistent, best practice regulatory approaches across different industries. An inevitable accompanying trend has been toward creation or expansion of cross-sectoral regulators and towards an expansion of the power of competition authorities.

*Country where it occurred:* New Zealand.

#### **Reform 2. The use of independent regulatory agencies**

*Characteristics of the reform:* Shielding regulatory decisions from the potential for political interventions to be made in pursuit of short-term political objectives. In addition, several OECD countries have a long history of using independent regulators and arm's length agencies in fields of social regulation, while the use of these organisational forms in this context has also increased substantially. In this area too, the desire for regulatory decisions to be consistent, predictable and apolitical has led to the increasing preference for an independent status.

*Countries where it occurred:* Economic regulators: Australia, Austria, Netherlands, Spain. Social regulators: Australia.

### **Reform 3. Risk based supervision**

*Characteristics of the reform:* Move the practices of regulatory agencies away from the use of periodic inspections that do not differentiate among regulated entities and toward risk based approaches. As a corollary of this move, risk based approaches to enforcement activity, aim to ensure that sanctions adopted in particular circumstances are proportionate to the relevant risks and that a rational, programmed approach to escalation of sanctions occurs in cases of continuing non-compliance. Improving practice in these areas has the potential to improve regulatory effectiveness, to yield savings on government budgets and to reduce regulatory compliance costs.

*Country where it occurred:* the UK.

## **Chapter 6. Operational management and support services**

### **Reform 1. Acceleration of service sharing**

*Characteristics of the reform:* Pool support services and create/reinforce shared service centres that provide support services to more than one ministry (including its agencies) or sub-sectors of government (central government, state government, social security, local government). Pooling usually implies transfers of personnel to the shared service units, and staff cutbacks in the decentralised units. The benefits of shared service arrangements are:

- cost savings through concentration, process standardisation, and economies of scale;
- enhanced service quality;
- synergy and a stimulating working environment for specialists.

*Countries where it occurred:* Austria, Canada, Denmark, Finland, France, the Netherlands, Norway, Sweden.

### **Reform 2. Concentration of standard setting units for operational management**

*Characteristics of the reform:* Concentrate standard setting for operational management in one ministry, preferably the Ministry of Finance, or in a few ministries. The reform focuses on operational management in core ministries and agencies (both arm's length and independent agencies) that do administrative work. Agencies that provide services in kind (police, schools, hospitals, penitentiary services, armed forces, natural conservation agencies, infrastructure construction agencies, etc.) require special standards for operational means. Therefore government-wide standards (in so far as applicable to non-administrative work) are generally complemented by agency-specific standards that necessarily must be set by the line ministries. Apart from agency-specific standards, there may also be a need for ministerial standards for administrative work to complement government-wide standards, in view of specific circumstances of the ministry. These standards too, must necessarily be set by the line ministries.

*Countries where it occurred:* Denmark, France.

**Reform 3. Outsourcing of support services**

*Characteristics of the reform:* Outsource the support services (finance, human resources, ICT, accommodation and facilities, procurement, etc.) to private companies, or public corporations with the aim to achieve more efficiency and service quality. Efficiency and quality will be enhanced by market incentives (competition and the profit motive). Outsourcing can lead to substantial savings.

*Country where it occurred:* the UK.

**Chapter 7. Financial management****Reform 1. Program classification of the budget**

*Characteristics of the reform:* Reclassify the central government budget according to programmes (or output areas) in order to focus more on results of public expenditures. A programme – based classification allows more result-oriented decision-making process, a better assessment of trade-offs of government activities and a more calibrated stewardship of the budget towards political objectives.

*Countries where it occurred:* Australia, France, the Netherlands, Sweden, the UK, among others.

**Reform 2. Regular updating of baseline estimates**

*Characteristics of the reform:* Ensure that baseline estimates are regularly updated (several times per year). Baseline estimates are the estimates of the costs of current policies in future years. They present the implications of current policies for the most detailed expenditure groups (line-item level) in the budget year and in the two, three or four years following the budget year. The role of baseline estimates is threefold:

- They are a necessary input for multi-annual expenditure planning;
- They provide the basis for the annual budget preparation process;
- They trigger compensation measures during budget execution.

To fulfill these roles properly and provide a reliable picture of the future budgetary consequences of current laws and/or policies at any given point in time, baseline estimates must be regularly updated. The updates must be carefully checked by the Ministry of Finance and periodically reported to Parliament.

*Countries where it occurred:* Australia, the Netherlands, Norway.

**Reform 3. Medium-term expenditure framework**

*Characteristics of the reform:* Strengthen the expenditure framework as a normative constraint on the total expenditures of central or general government over the medium term. The framework can be flexible (can be changed from year to year) or fixed (cannot be changed). Countries which use a flexible framework often try to maintain their framework as much as possible from year to year, but changes are possible in the light of new macro-economic and revenue forecasts, updated base-line estimates and new political priorities.

*Countries where it occurred:* France, the Netherlands, Sweden and the UK have fixed frameworks; all other countries have flexible frameworks.

#### **Reform 4. Focusing the budget documentation on financial information**

*Characteristics of the reform:* Provide concise information in the budget documentation focusing on the expenditures on policy instruments and operational expenditures, while moving information on results to ministerial policy documents and evaluation reports. The reform can lead to better readable budget documentation of smaller size that responds better to the needs of parliamentarians and the public. The reform supposes that the budget is classified according to a programmatic classification (see reform 7.1). The budget documentation provides information on the costs of separate policy instruments, in particular if the line item of the budget consists of various policy instruments, and on the operational expenditures of the ministry, split out in expenditures of the core ministry and the various agencies, and the main components of the operational expenditures, such as salaries of civil servants and contract employees, procurement of goods and services, accommodation and facilities, and ICT.

*Country where it occurred:* the Netherlands.

#### **Reform 5. Automatic cuts of productivity dividends**

*Characteristics of the reform:* Ensure that the operational expenditures of central government are cut in the annual budget, proportional to the productivity increase in the government sector. This reform is based on the assumption that there are annual productivity gains in the public sector, similarly as in the private sector. If the productivity gains are not taken into consideration, they lead to backdoor increases in service levels. The key argument for this reform is that the conventional assumption that in the public sector productivity growth is zero, is not realistic. This reform has two essential characteristics: first, the cuts of productivity dividends are “automatic” in the sense that they are part of the regular budget process and do not require special decisions from year to year as to their application; and second, the cuts are at least applied to the operational expenditures of central government.

*Countries where it occurred:* Australia, Denmark, New Zealand, Sweden.

#### **Reform 6. Strong spending review procedure, anchored in law**

*Characteristics of the reform:* Introduce or strengthen Spending Review (SR) procedures. SR is a useful tool of financial management aiming at the evaluation of current spending programmes and the identification of savings options. SR makes room for new initiatives, hence supporting both fiscal discipline and enhanced value for money across government. The introduction of SR can provide, on the one hand, savings (a SR is aimed at development of concrete spending options varying usually from 5 to 20% of current spending) and, on the other hand, a quality improvement of public policy (a SR evaluates the efficiency and effectiveness of current programmes and puts forward options for programme improvements next to savings options). In contrast to policy evaluations by line ministries a SR has a different aim and follows different procedural rules. The three main differences are: i) SRs not only look at the effectiveness and efficiency of programmes under current funding levels but also at the consequences for policy outputs and outcomes of alternative funding levels ii) the Ministry of Finance holds final responsibility for the spending review procedure; and iii) the follow up of spending reviews is decided in the budget process, so there is a direct link between SRs and budgeting.

*Countries where it occurred:* Australia, Canada, Denmark, the Netherlands, the UK.

## **Chapter 8. Human resource management**

### **Reform 1. Human resources support service sharing**

*Characteristics of the reform:* Make optimal use of the potential for support service sharing in the area of human resource management by establishing shared service centres for recruitment, pay, training, advice on scaling, personnel administration, etc.

*Countries where it occurred:* Denmark, the Netherlands.

### **Reform 2. Human resources standard setting**

*Characteristics of the reform:* concentrate government wide standard setting authority for human resources in a single directorate and limit government wide standards to the minimum necessary to ensure that the government is a competitive, socially responsible, equal opportunity employer (rules on pay and pensions, rules on job descriptions and pay scales, rules on staff benefits, rules on special facilities for staff such as secondment, study leave, parental leave, etc., rules on recruitment processes, rules on career development and job switches, rules on appointments, rules on performance assessment, rules on retirement, rules on reorganisations). Government wide standards and ministerial standards must be carefully balanced and the total of standards in the area human resources should be balanced against discretion of managers required for a dynamic and flexible human resource policy in ministerial divisions and agencies.

*Countries where it occurred:* the Netherlands, the UK.

### **Reform 3. General government wage bargaining**

*Characteristics of the reform:* Concentrate negotiations with the trade unions about human resource standards at the level of central government in a single arm's length agency for government employers in which all government employers work together.

*Countries where it occurred:* Sweden, Denmark.

### **Reform 4. Abolition of variable pay**

*Characteristics of the reform:* reduce or abolish all forms of variable or performance dependent pay within central government.

*Country where it occurred:* Luxembourg

### **Reform 5. Top civil service appointments**

*Characteristics of the reform:* Establish procedures for the appointment of top civil servants which exclude interference by politicians without impairing the responsiveness of civil servants to the government of the day. The underlying idea of the reform is to maintain strict neutrality of the civil service in order to ensure that politicians are informed about all relevant facts and all relevant results from policy analysis while deciding on policies and executive policies and that the laws and policies are executed with strict impartiality.

*Countries where it occurred:* the Netherlands, the UK.

### **Reform 6. Sectoral career development**

*Characteristics of the reform:* Stimulate and facilitate that professional staff in positions that require academic qualifications regularly switch between jobs in the same broad policy area. From the perspective of career development, it is important that professional staff accumulates experience in policy development, as well as policy research as well as policy execution, preferably in different ministries, agencies and levels of government.

*Country where it occurred:* France

## **Chapter 9. ICT management**

### **Reform 1. ICT support service sharing**

*Characteristics of the reform:* Concentrate and rationalize the organisation of ICT support service centres, such as development units, government wide data centres, and portal and access management units.

*Countries where it occurred:* Denmark, the Netherlands.

### **Reform 2. ICT standard setting**

*Characteristics of the reform:* Ensure stronger government-wide standards in the area of ICT management. Standards lay the foundation for a sound e-Governance architecture, which should be open and technology neutral, thus ensuring vendor independence. Standards based implementation can be customized easily, thereby enabling faster deployment. Standards facilitate interoperability and enable joined up services.

*Countries where it occurred:* the UK, Denmark.

### **Reform 3. Gateway procedures**

*Characteristics of the reform:* Strengthen gateway procedures for ICT projects, defined by criteria of costs and strategic importance. Ensure that gateway procedures include independent assessment. Gateway procedures should be conducted and finalised before ICT projects are decided.

*Countries where it occurred:* Denmark, the Netherlands.

### **Reform 4. Common process units**

*Characteristics of the reform:* Ensure that common process units (that are used by various ministries or agencies), such as central registers, client administrations, judicial registers, are properly steered and financed by a single owner ministry and that other client ministries contribute on the basis of fees and lump-sum contributions to the owner ministry.

*Country where it occurred:* the Netherlands.

## **Chapter 10. Audit management**

### **Reform 1. Ensuring independence of internal audit**

*Characteristics of the reform:* Ensure the independence of internal audit in central government by regulation. The independence of internal audit and access of internal auditors to the top management of ministries and agencies are important conditions for effective risk management concerning reliability of accounts, compliance with regulations and budget laws, internal financial control and reliability of performance information.

*Countries where it occurred:* several countries to a certain extent, Canada stands out as an exemplary country.

### **Reform 2. Criteria for need and size of internal audit**

*Characteristics of the reform:* Establish internal audit units only where there is a real need in terms of risk. A shared service centre may serve ministries or agencies where there is no internal audit unit.

*Countries where it occurred:* Finland, Norway, Sweden.

### **Reform 3. Limit task of internal audit to risk management**

*Characteristics of the reform:* Concentrate internal audit units on their core task: risk management in the areas of reliability of accounts, compliance with regulations and budget laws, internal financial control and reliability of performance information. Assurance of financial accounts is not a task of internal audit units.

*Countries where it occurred:* Australia, Austria, Canada, Finland, New Zealand, Norway, Sweden.

## **Chapter 11. Machinery of government**

### **Reform 1. Contain the number of ministers**

*Characteristics of the reform:* Reduce the number of ministers. There is robust empirical evidence from several studies that a large cabinet is costly in fiscal terms. Despite differences in samples and statistical techniques, the available estimates are remarkably similar and suggest that a reduction in the number of ministers by one reduces the deficit in a given year by about one tenth of a per cent of GDP. To achieve large-scale savings, the number of ministers should be limited to no more than 15. The econometric evidence suggests that a reduction from the current average of 19 to the benchmark number of 15 would produce immediate savings worth approximately half a percentage point of GDP.

*Countries where it occurred:* Austria, the Netherlands.

### **Reform 2. Minimize the number of deputy ministers and political officials**

*Characteristics of the reform:* Reduce the number of deputy ministers and political officials to the minimum number that is required in the light of the task package of ministries. The evidence on the

number of politicians in ministerial structures, too, highlights the wide variety of practices across OECD countries. Some countries, such as Denmark, manage to run governments without any deputy ministers at all, while others, such as Canada, use complex hierarchies of ministerial appointments. There is no evidence that governments with fewer deputy ministers function any worse than those with a large number of such positions. To the contrary, there is concern that an excessive number of deputy ministers and political officials may even harm the effectiveness of government.

*Country where it occurred:* Austria.

### **Reform 3. Strictly limit the number of political advisors**

*Characteristics of the reform:* Reduce the number of political advisors to ministers. Political advisors are controversial in many countries. Public discussions of their role are often linked to accusations of media manipulation and “spin” and concerns that an increase in their numbers may “politicize” the permanent civil service. The fact that a number of countries manage to contain the number of political advisors at very low levels shows that they are not essential to running an effective administration. It is recommended to reduce or, wherever possible, to abolish political advisors, and to dismantle large political cabinets or offices attached to individual ministers.

*Countries where it occurred:* Denmark, the Netherlands.

### **Reform 4. Simplify cabinet committee structures**

*Characteristics of the reform:* Reduce the number of cabinet committees and simplify their tasks and composition. Smaller cabinets require fewer cabinet committees in order to ensure that decisions are properly coordinated.

*Country where it occurred:* Sweden.

## **Chapter 12. Steering and financing of agencies**

### **Reform 1. Output steering on the basis of permanent performance dialogue**

*Characteristics of the reform:* Set performance targets and monitor and evaluate performance realizations in a year-round performance dialogue. It is important that the officials who are responsible for steering are the same officials who develop policy for the agencies. The strong side of this arrangement is that the dialogue becomes more meaningful because both parties have good understanding of the policy area.

*Country where it occurred:* Sweden.

### **Reform 2. Financing on the basis of capacity needs**

*Characteristics of the reform:* Ensure that agencies are financed on the basis of capacity needs. Financing of agencies is a different matter than steering of agency outputs and it is important that both processes be kept apart. Budgeting of agencies should be based on robust rules for the fixed and variable costs of the agency’s required production capacity in the light of the estimated needs for its services (capacity

budgeting). Agencies should be required to provide transparent information on the input mix and the input costs that allow the owner minister to assess the capacity costs of the agency.

*Country where it occurred:* Sweden.

### **Reform 3. Building professional capacity for agency financing**

*Characteristics of the reform:* Ensure that there is sufficient capacity in the finance directorates of core ministries to monitor the efficiency of agencies, preferably in a separate agency financing unit. Ensure also that there is a sufficient capacity in the Ministry of Finance to support the agency financing units in the line ministries and to conduct horizontal research about agency efficiency.

*Country where it occurred:* the Netherlands.

**Annex**

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Annex I - Glossary

Annex II - List of reforms