

PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE  
PUBLIC GOVERNANCE COMMITTEE**Building a Government for the Future:  
Improving policy performance and managing complex challenges****Symposium discussion notes****48th session of the Public Governance Committee****12-13 November 2013  
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*These discussion notes provide background for the Committee Symposium policy discussions. They include references to the questions for discussion in each of the respective sessions. They benefited from a recent OECD Survey from Centres of Government, and draw from the work of the OECD High Level Risk Forum as well as from Senior Budgeting Officials. They also involve a selective stocktaking of recent academic and policy research in areas of policy coordination and foresight.*

*Delegates are invited to REFLECT on the attached discussion notes when preparing for their interventions for the Symposium discussions. Delegates are also invited to SUPPLEMENT additional information which will be integrated in the revised version of the discussion notes, as an analytical report to contribute supporting the OECD Agenda on Trust.*

*Delegates and participants are welcome to provide additional written comments on this note by 22 November 2013.*

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## BUILDING A GOVERNMENT FOR THE FUTURE: IMPROVING POLICY PERFORMANCE AND MANAGING COMPLEX CHALLENGES

### Why building a government for the future?

1. Today's policy challenges are increasingly complex, dynamic and inter-related, as all countries are exposed to the implications of growing globalisation and increased interdependency. At the same time, current government structures and policy tool-kits have not kept pace with this growing complexity, leaving governments ill-prepared and struggling in a new operating environment. The crisis exposed a number of gaps, leaving governments to deal with the consequences and deteriorated balance sheets. Indeed, slow and fragile recovery from the crisis demonstrates that governments may need to re-evaluate traditional policy processes and levers as well as explore out of the box approaches and behavioural insights to address some of the toughest challenges of the 21<sup>st</sup> century.

2. Despite slightly more optimistic economic forecasts, sustained recovery requires governments to plan strategically for the future and equipped themselves with the adequate tools to stay ahead of future crises. This requires increased attention to long-term policy challenges and to carving solid pathways for fiscal recovery. Building a strategic and forward-oriented state calls for mobilising a range of policy levers to manage complex challenges which can be aggravated by crises and disasters. This also requires fostering capacity for innovation in policy making, including ensuring better co-ordination and information sharing across government. This may also benefit from a whole-of-government approach to risk analysis and management and integration, with longer-term cross-government horizon scanning and foresight-into-policy exercises.

3. These challenges are often called “*wicked issues*” because they go beyond the capacity of any one organisation to understand and respond to (see box 1). These are also cases where multiple stakeholders do not always share convergent understanding of the causes of the problem or goals. Thus, the only solution for these problems is to build a joined-up approach among sectors, integrating diverse insights, experience and expertise from both within and outside government.

#### Box 1. What are wicked issues?

Today's challenges are increasingly complex, interconnected and difficult to define. These challenges are often called 'wicked problems' and include complex issues such as climate change, ageing populations, cyber-threats, social exclusion and organized international crime. The idea of wicked problems first emerged in the 1970s from the perspective of systems theory, with the understanding that problems cannot be understood and addressed in isolation:

*Every problem interacts with other problems and is therefore part of a system of interrelated problems, a system of problems . . . I choose to call such a system a mess . . . The solution to a mess can seldom be obtained by independently solving each of the problems of which it is composed . . . Efforts to deal separately with such aspects of urban life as transportation, health, crime, and education seem to aggravate the total situation (Ackoff, 1974, p. 21).*

Tackling these issues usually requires a joined-up, strategic approach which allows institutions to work in an integrated fashion.

Sources : SITRA: Strategic design: <http://www.sitra.fi/en/future/strategic-design>; Government for the Future (2013); Head and Alford (2013)

4. At the same time, perception that national governments are able to guide and minimise uncertainty in a complex and troubled economic, social and political environment has been damaged in

many countries and trust in government has been eroded. Citizens’ increasingly question whether they can trust government to guarantee well-being and economic stability. *Reliability*, outlined as one of the key institutional drivers to restore trust in government<sup>1</sup>, depends on government’s ability to act as steward of the public interest, in a consistent and predictable manner. To this end, building strategic capacity by linking a predictable, coherent and effective strategy to all parts of government could help improve factors relating to reliability.

5. These complex issues call for new policy frameworks and toolkits, which build on the strategic capacity, organisational design and management structures of the public sector. The management of complex issues has been identified as part of building an OECD Agenda for Trust, in the context of the NAEC. The days of responding to major problems with traditional top-down, or “engineering” approaches to forward policy planning are gone. In an open policy environment – with access to social media, smartphones and connected citizen – new behavioural approaches are needed, drawing from innovative pathways for consensus building and the sharing of diagnostics and policy options. While the management of complex issues requires strong co-ordination with government policy making capability and the ability to foster effective, shared strategic analysis, it may also require new approaches to policy development, information sharing and communication. This also tests governments’ capacities for leadership, and for implementing the enabling structures and processes that facilitate broader policy outcomes.

6. In an OECD context, the answers to these challenges lie with developing a vision of a **Strategic State**, calling for a redefinition of the conditions for public action, so that the State can effectively promote the public interest. As observed through the OECD Public Governance Reviews, Public governance is ultimately tested on its ability to deliver on a strategy and vision of the future.<sup>2</sup> This may require active engagement through a broad range of actors and promoting networked organisations that are geared towards achieving common strategic goals. From a public management perspective, this may also require reviewing the traditional systems and processing of the state – including budgeting, HRM, auditing, and ICTs – so that they better support integrated and relevant strategies as well as enable the move towards strategic policy outcomes.

**Questions for discussion**

- Responding to complex policy challenges requires a strategic, cross-sectoral approach. How can such an approach improve insight into policy challenges and possible solutions? Can this help to strengthen trust in government?
- What are the options for overcoming the limitations of conventional policy frameworks to tackle wicked issues, and other complex and seemingly unresolvable economic and social problems? How to draw the attention of politicians and policymakers to issues that exceed the short-term budget horizon and the electoral cycles?
- How can governments and the public sector provide integrated multi-sectoral policy responses and address long-term challenges to foster policy coherence?

**The Strategic State: building a policy framework for managing complex policy challenges**

7. Complex or wicked policy challenges exceed the conventional structure and routine processes of government. This questions the applicability of linear or top-down models, and single policy tools. Responding to such policy challenges requires a strategic, cross-sectoral approach. The question is how to

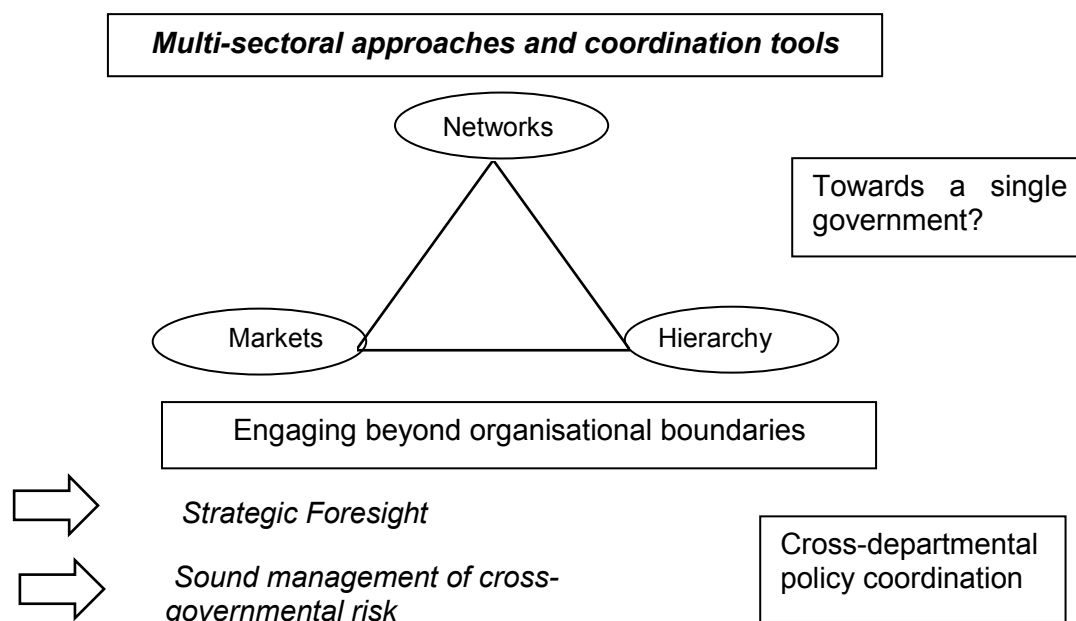
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1. See on Trust in Government: Assessing the Evidence, Understanding the Policies.  
 2. See Strategic Insights from the Public Governance Reviews: [GOV/PGC\(2013\)4](#).

develop concrete options and strategies that can rise to the challenges and effectively deliver on multi-dimensional and complex policy outcomes. This is the level of attention necessary to address seemingly unresolvable economic and social problems. A major difficulty is drawing the attention of politicians, policy makers as well as from the wider public, to issues that exceed the short-term budget horizon and electoral cycles. Addressing long term challenges in ways that are easily communicated and understood often requires departing from traditional conceptual frameworks. The public governance toolbox can offer some readily available policy tools which can help provide elements for an answer, while a more comprehensive policy toolkit would probably be required drawing on countries’ cutting edge practices.

8. A range of governance tools that can help develop broad strategies to tackle wicked problems. A first category of tools covers all the approaches ensuring multi-sectoral sharing of information, coordination mechanisms, whether these involve markets, networks or more traditional top down approaches. A second category that has seen significant progress is the management of risks, including both general risks and fiscal risks. In terms of general risks, integrated all hazard risk assessment tools can equip governments with a comprehensive approach that helps to foster improved long term outcomes. In the area of fiscal risks, recent work drawing on the implications from the recent crisis has helped to better identify options to preserve “fiscal space”, as well as to build institutional framework which in the long term will support more sustainable fiscal frameworks, with a greater role for fiscal institutions. Finally, the area of strategic foresight offers a wealth of policy initiatives that have provided innovative answers. The question is how to effectively connect these practices with policy design and implementation and integrate foresight as part of the policy making process.

**Figure 1. Developing broad strategies to tackle wicked problems**



9. Building strategic-state capacity reflects the extent to which the central government can set and **steer a national long-term vision-based strategy for the country, identify and address internal and external challenges to implementing this strategy** correctly through enhanced evidence-based decision making and **strategic foresight**, strengthen efficiencies in policy design and service delivery to meet these challenges, and mobilise actors and leverage resources across governments and society to achieve integrated, coherent policy outcomes that address these challenges effectively.

10. This was highlighted in particular in the OECD (2013) Public governance review of Poland. From a broader perspective, the following elements are key to promote a strategic vision and agility:

1. Link between ministry sectoral policies, and central strategy, including coordination
2. Identification of long term goals and Strategic planning
3. Connection between strategic planning and budget management
4. Awareness of emerging issues, risk anticipation and management

11. These various elements test the capacity of core structures of public governance to deliver on common strategic goals, including centres of government, government overall structures and co-ordination mechanisms, as well as the strategies for budget management, risk assessment, anticipation and management. These features were also highlighted in the context of the New Approaches to Economic Challenges discussion on building strategic states, emphasising that emerging from the crisis starts with recognition that capable and effective government will require a cleaner, more strategic and forward-looking state with commitment to and capacity for policy implementation and compliance (OECD 2012).

12. Centres of Government play a key role in building *capacity for strategic governance and policy making* by improving co-ordination across government and scanning and planning for future policy challenges. CoGs will need to draw from these strengths if they are to successfully navigate through an increasingly complex and uncertain environment (Governments for the Future 2013). This tests their capacity to deliver strategic leadership and fulfilling a stewardship function:

- *Centres of Government are meant to “provide strategic thrust, address coordination challenges, and promote whole-of-government approaches” (Allesandro et al. 2013a).*
- *“Although still a crucial source of hierarchical authority - especially in times of crisis - in many areas it plays an increasingly important part as a source of strategic vision, giver of directions, facilitator and guarantor of the accountability and probity of the many other public bodies” (Governments for the Future p.33).*

13. The discussion in the following sections of the paper makes an attempt to explore these various policy levers to manage complex challenges including: (1) co-ordination mechanisms to address the links between sectoral policies and the central strategy; (2) the potential of budgeting related policy levers to help improve strategic long term planning;(3)central government’s ability to set and steer a national long-term vision-based strategy for the country depending on the awareness of emerging issues, risk anticipation and management.; (4) the capacities for risk anticipation, management and strategic foresight.

### **Identifying the public governance levers?**

#### ***Devising effective coordination mechanisms***

14. The issue of policy fragmentation and the effects of silos in the public sector represents one of the greatest hurdles to policy design and implementation in the public sector. In this context countries have developed mechanisms for coordination and horizontal cooperation. However, the reforms introduced through the New Public Management, and the setting up of agencies has also had some impact in the other direction, increasing fragmentation. This has created increased impetus for governments to improve their co-ordination mechanisms further between sectors, as these are crucial to solve cross-cutting policy challenges and address “wicked issues”. These have received significant attention in the major research activity undertaken at European level (see COCOPS 2013). In fact many of the challenges governments face today are multi-dimensional: these include for example *competitiveness, ageing, gender, poverty, and environment/climate change*. They demand the involvement of multiple departments and agencies with horizontal or joined-up approaches to policy-making.

15. To this end, strengthening strategic state capacity at the Centre of Government plays a key function to ensuring co-ordination across ministerial boundaries. In this regard, strong leadership is needed to facilitate co-ordination, collaboration and co-operation across the public administration as well as to change the way in which the public administration conceives its role and to encourage widespread “buy-in” to co-operate. This is an area where countries are constantly experimenting with many on-going reform efforts. The question is to identify the mechanisms that have proven successful, and the reasons for their success. While many countries have launched initiatives to join-up government, improve horizontal co-ordination<sup>3</sup>, and strengthen strategic steering, data suggests that policy coherence and collaboration across sectors remains a challenge for many countries (Lægneid et al. 2013). New recent data from a survey of the Centres of Government (CoG) coordinated by the OECD may help to shed further light on this issue.

16. Understanding the incentives that underpin cooperative behaviours is a key aspect. The economic literature identifies a range of options to facilitate the interaction among economic agents, whether within governments or in a market context (Box 2). The question becomes: which of those mechanisms, if any, can work in the public sector, and how? The Public Sector does not present many monetary incentives, even if financial incentives can be obtained through budgetary frameworks. It also relies on the capacity to develop a vision and align the various interests within the public sector, in a context where repeated interactions are crucial. The recent Governments for the Future (2013) project notes that it is essential to present both short and long-term gains to senior public officials as incentive to co-operate, drawing on experience from Finland, Sweden, Austria, the United Kingdom and Scotland. For example, medium to long-term gains of achieving socialization of senior civil servants so that they are used to working with each other across ministry or agency boundaries should be matched with some shorter-term ‘wins’ for changing their behaviours and investing time in new practices. In this context performance reviews can also help. Elvidge (2012) promotes the concept of an ‘enabling state’ model for governments to help tackle some of the broad and complex issues, underlining the value of a return to joined-up government, and stressing the idea of government as a single entity.<sup>4</sup>

### Box 2. Implementing co-operation: securing the right incentives

Well-functioning policies depend on the interaction among people, entrepreneurs, policy makers, etc. There are many examples of skillfully designed policies which do not achieve the expected result due to the absence of co-operation amongst institutions and economic agents. A scheme designed by the central government to promote innovation requires the co-operation of local governments for its implementation. The full gains from cooperation are not always fully understood. Often individuals and organisations do not know how to co-operate or lack the necessary capacity. However even when people realise that there are benefits from co-operation and know how to implement the co-operative strategy, they still face two obstacles that may hinder their ability to co-operate:

- the *incentive to free ride*, which stems from the possibility of obtaining gains without paying the associated costs (which are incurred by the agents that decide to co-operate);

- the *strategic risk* of being the only one, or among the few that act co-operatively, in this case the agent pays the costs but obtains less than what would be feasible had the rest of the players co-operated.

These situations are addressed in the context of game theory which helps to reflect on the cases of co-operation failures as well as on the remedies that can be identified to address these failures. The second situation of the strategic risks is commonly known as the “Prisoner’s dilemma”. In which the free-riding incentives prevent parties to co-operate. From a policy perspective, it is important that the mechanisms are strong enough to offset the incentive to free ride, and that they focus in a way that addresses both the free riding issue and the strategic risk.

<sup>3</sup> COG Survey data shows that to some extent, the number of cross-governmental policy initiatives have increased between 2008 and 2012.

4. See John Elvidge (2012). The Enabling State. Carnegie Trust.  
<http://www.carnegieuktrust.org.uk/CMSPages/GetFile.aspx?guid=b90e80a4-a243-4f6b-bfb1-34b15c3cb7b3>

**Box 2. Implementing co-operation: securing the right incentives cont.**

There are many instruments that can be used to facilitate co-operation:

- *explicit* communication requires parties actively communicate to each other; as opposed to non-explicit forms of communication such as the market (Farrel and Saloner, 1988);
- *hierarchical* structures can help align strategies, but need to be supported at political level within the public sector.
- *focal points* relate to the existence of some specific strategies identified as most probable, providing a way to form beliefs on the other players' strategies (Schelling, 1960);
- *financial incentives* can help to reward co-operative action. This is likely to be sufficient to induce co-operation, as long as the gains from free riding are low. When the incentive to free ride is high, reducing the strategic risk may not be enough. Financial incentive are powerful when the strategic situation is characterised by low returns from free riding, otherwise either it is not effective or the co-operation is likely to end with the end of the financial incentive.
- *contractual arrangements* provide a set of prescriptions that inform and in some cases limit the action of the players; Contractual arrangements can convey relevant information and act as an enforcement mechanism. In order to deal with the free-riding incentives, the contract needs to focus on enforceable penalties but contracts can be hard to enforce within the public sector. .
- *repeated interactions* create the possibility to establish a reputation, and most importantly to give strong negative rewards in case of deviations from the co-operative strategy.
- *formal and informal norms* refer to the legal, social norms and public sector values in the case of government, that guide players beliefs. Trust in government and within government can also help.

These mechanism help to ensure the sharing of information and the alignment of strategies and actions. Addressing strategic risk requires an explicit policy to share information, with a platform for the parties to meet and discuss. Leadership is often key in the public sector, whereas enforcing penalties for the lack of cooperation is often more difficult. The environment in which economic agents interact also influences their willingness to cooperate, including the broader level of trust (Putnam 1993). The strategic risk is likely to be lower the higher citizens' trust because they expect joint co-operation. The incentive to free ride is not necessarily alleviated by reciprocal trust, although trust in the government may increase the credibility of enforcement mechanisms.

Source: David Bartolini (2013), "The role of Incentives in Co-operation Failures, *OECD Regional Development Working Papers*, 2013/09, OECD Publishing. <http://dx.doi.org/10.1787/5k46bj4t4nxs-en>

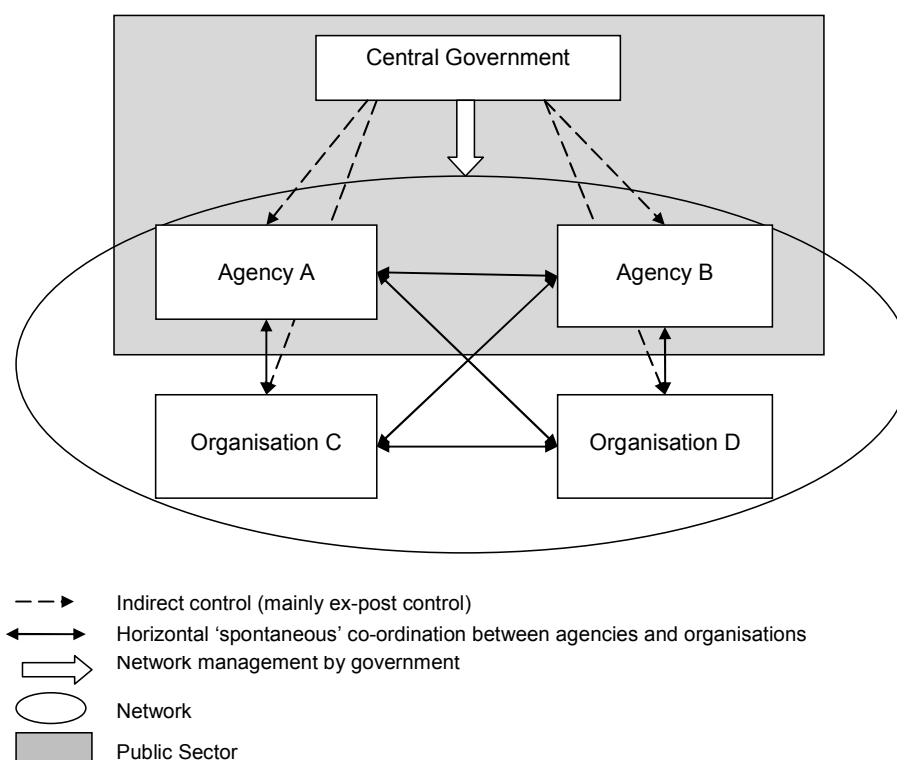
### *Forms of co-ordination*

17. In light of the difficulties identified above, the question becomes which forms of coordination and particular mechanisms have been tried and proven successful within the public sector. Centres of Government play a key role in this context. Effective coordination implies capacity for leadership, as well as the ability of the centre to work in close co-operation with other bodies. As the OECD CoG Survey demonstrates with the results presented below, some Centres of Government share the responsibility to ensure cross-governmental co-ordination with another body. Budget offices are also key as they control the possibility of implementing financial incentives.

18. From a political science perspective co-ordination can take different forms based on hierarchy, networks or markets (Bouckaert et al. 2010). Hierarchy-type co-ordination mechanisms are in some ways most familiar within the public sector, where interaction is based on authority, political dominance and government as a top-down rule maker. Market-based mechanisms promote co-ordination through exchange and competition, where governments act as creator and guardians of markets, and purchasers of goods. However, in many countries, and in an era of social media and eroded trust in government, the traditional hierarchical approaches are increasingly limited. Network approaches seem to be more fruitful, as they lend themselves to more horizontal co-operation among different organisations (figure 2 below). As opposed to hierarchy-mechanisms, the role of government can be in nurturing, managing and maintaining co-operative networks among public sector bodies, which may have different policy agendas and specific interests (Bouckaert et al. 2010 p.48).



**Figure 2. Network co-ordination = network management + indirect control + self-coordination**



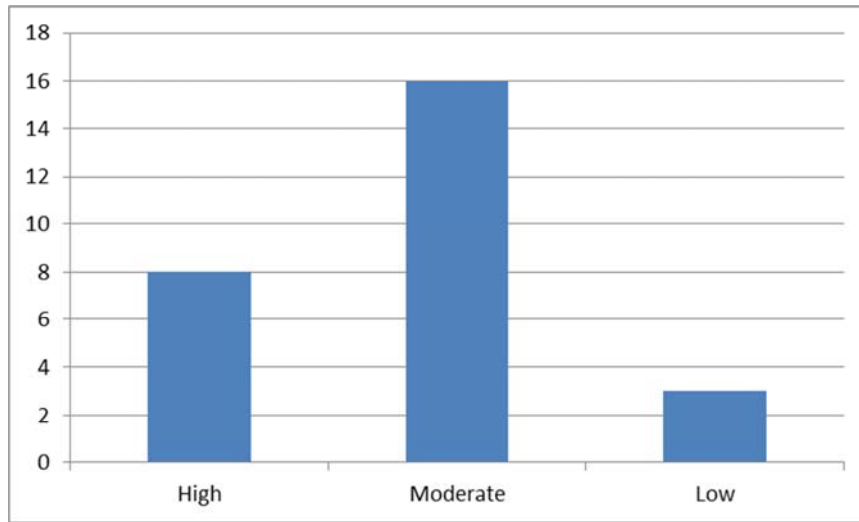
Source : Bouckaert et al. 2010 p.49

19. Co-ordination mechanisms based on horizontal networks may have greater potential to for managing complex or wicked issues, where problem definition, causes and goals are not always agreed upon. Further, networks can be seen as an organisational response to complex challenges, requiring organisational innovation to facilitate information flow of cross-cutting multi-sector policy challenges (Fuerth 2012). However, the COCOPs study (Laegreid et al. 2013a) highlights that too much reliance on network co-ordination will most likely not overcome policy silos, requiring a combination of hierarchical and network co-ordination mechanisms.

#### *The key role of centre of government in coordination*

20. Centres of Government play a key role in improving co-ordination capacity across government departments. However, less than half of respondents to the OECD Survey of Centres of Government consider that they exert a high level of influence on other departments (Figure 3). The influence of centres of government need not be hierarchical per se. However leadership of the CoG to facilitate and foster an environment conducive to co-ordination is a necessary characteristic for strategic implementation of the government programme.

**Figure 3. Influence the Centre of Government has over ministries to encourage co-operation**

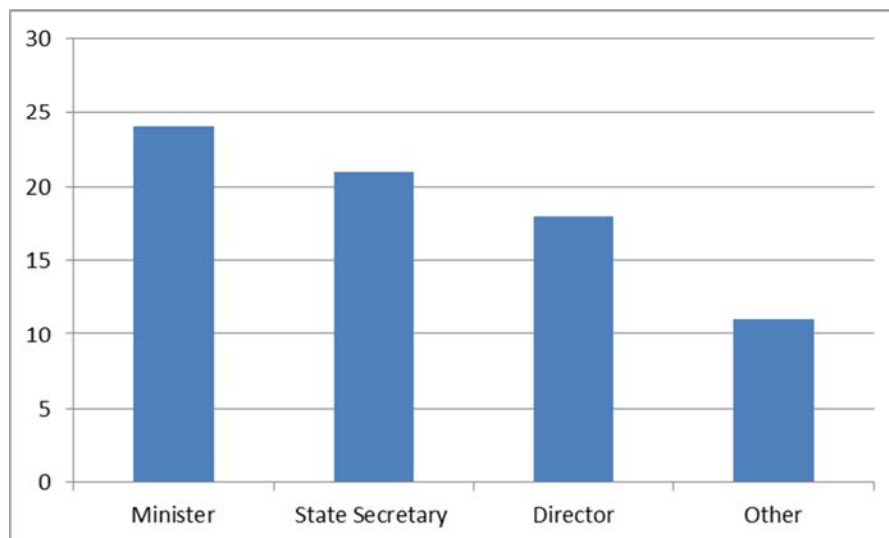


Notes: 26 country responses

Source: Data from OECD Survey of Centres of Government 2013

21. CoG co-ordination may however take a more formal role in their responsibility to organise cross-governmental policy co-ordination groups or committees. Preliminary results from the OECD CoG survey suggest most countries have ministerial policy co-ordination groups (either cabinet meetings or other inter-ministerial committees) while more than three quarters have co-ordination groups at the secretary of state level (figure 4). For example, the Deputy Prime Minister in Spain (a key CoG official) chairs the Commission of Undersecretaries and Secretaries of State, with department deputies facilitating the body’s work such as initial assessments of policy proposals and decisions on which to include in the next Cabinet meeting (Allesandro et al. 2013b). Two thirds of countries also have co-ordination groups on the Director level. Many countries however exercise co-ordination through committees at lower levels, ranging from Deputy Minister level to head of unit or expert level (CoG Survey 2013).

**Figure 4. Cross-governmental policy committees: level of co-ordination groups**



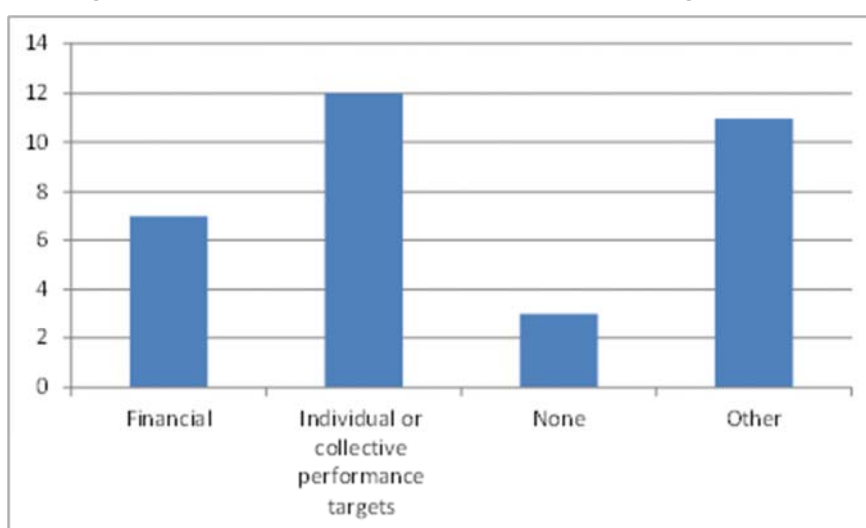
Notes: 27 country responses. Countries answered on the basis of which committees existed within government.

Source: Data from OECD Survey of Centres of Government 2013

22. In addition, other co-ordination mechanisms exist and have been highlighted in countries' experience, even if some do not fall directly under centres' of government responsibility. These include procedural guidelines for preparing government decisions which require a collaborative whole-of-government approach and networks of research directors in each ministry responsible for co-ordination of government research, foresight and evaluation. Other co-operation mechanisms may involve a range of working groups, committees, and Economic and Social Councils.

23. As highlighted through a game theory approach (Box 2), co-ordination may only be improved by effectively communicating gains and incentives to senior officials. Countries are reporting individual or collective performance targets as incentives to promote co-ordination across ministries and agencies, followed by financial mechanisms or joint or multi-category funding, linking funding to cross-cutting initiatives. Often the capacity for co-ordination or horizontal collaboration can represent a key aspect in performance reviews of chief executives of ministries and senior management.

**Figure 5. Incentives to promote co-ordination across government**

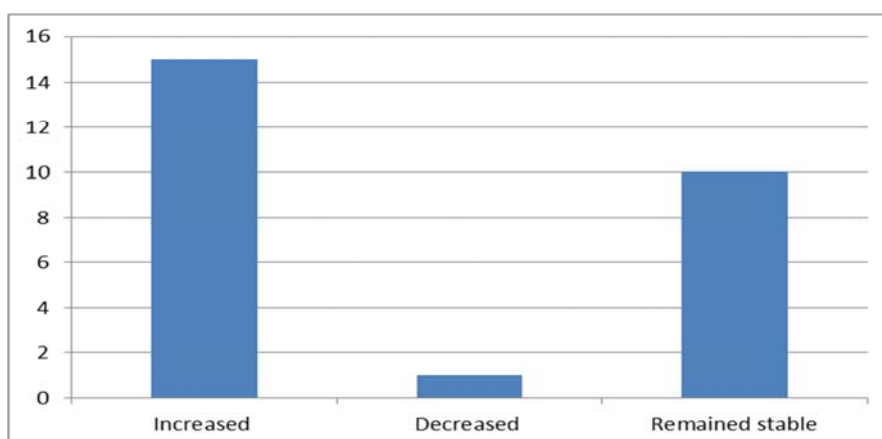


Notes: 22 country responses

Source: Data from OECD Survey of Centres of Government 2013

24. The number of cross-governmental policy initiatives increased between 2008 and 2012 (Fig. 6).

**Figure 6. Trend in the number of cross government policy initiatives**

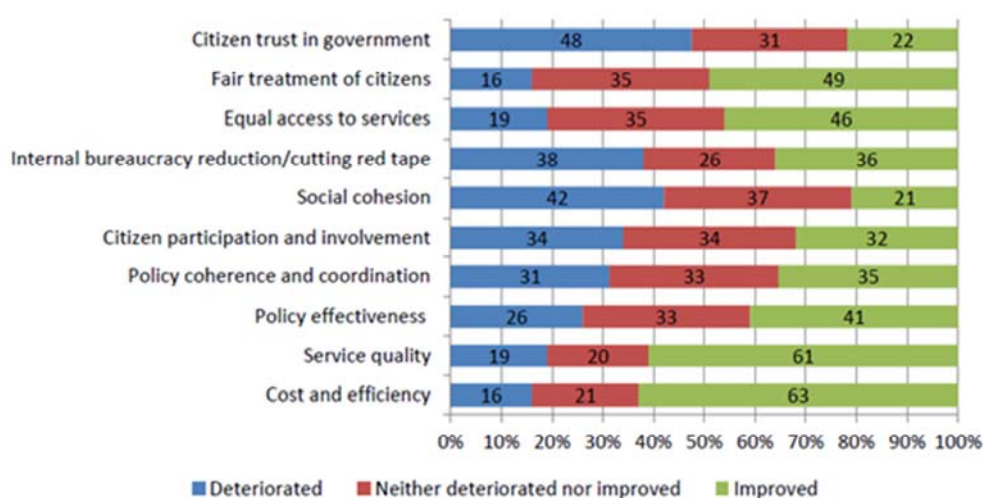


Notes: 26 country responses

Source: Data from OECD Survey of Centres of Government 2013

25. Does this imply that government is getting better at tackling complex challenges? Not necessarily, as the COCOPS survey results of senior government officials indicate that while co-ordination issues were high on the reform agenda, only one-third (35%) of the respondents found that policy coherence and co-ordination in their policy areas had improved over the last five years (Figure 7). 31% of respondents actually found that co-ordination had deteriorated. These findings matched the results of further studies analysing emerging co-ordination arrangements in Europe. The narrative seems to be that “although coordination was deemed important in different states and new instruments were introduced, their results tended to be mixed” (Lægneid et al. 2013 p.3). A lesson learned from the study was that co-ordination reforms were highly political, and demanded a high degree of agreement between politico-administrative leaders. This theme was also evident in the *Government for the Future* report (2013).

**Figure 7. Senior officials’ perceptions of public administration performance**  
*Trends in the last five years*



Notes: Data from COCOPS survey of 4780 administrative executives, from 10 European countries, in central government and outside central government in employment and health. Responses based on the question: “How do you think public administration has performed in your policy area over the last five years in the following dimensions?”

Source: Lægneid et al. (2013a) p.3

26. While the results above help to identify some of the mechanisms that have been used, much remains to be done in identifying the enabling factors and barriers in building a whole-of-government approach to deliver on policy priorities and to address complex issues. These issues are still addressed in the context of the COCOPS study at European level. In terms of the OECD work, the insight from recent public governance reviews highlight the value of collaborative networks ([GOV/PGC\(2013\)4](#)), and also discuss the institutional frameworks that are required to break silos within governments. Many of these issues also depend on the enabling role centres of government can play to improve levels of co-ordination or horizontal co-operation across government, which in turn depend on constitutional approaches, historical and cultural frameworks within public administrations, as well as the capacity for leadership of individual political leaders. Against this background, discussions among delegates in the context of the Committee may help to enrich this analysis further and share practical experiences.

**Questions for discussion**

- How can we ensure effective public sector co-ordination mechanisms for policy design and delivery? How can we assess co-ordination and horizontal co-operation and their impact?
- What is the experience in better co-ordinating policy responses in multi-sector issues (competitiveness, ageing, gender, poverty, and environment)? What particular mechanisms have proven successful?
- What are the enabling factors and barriers in building a whole-of-government approach to deliver on policy priorities and to address complex issues?
- What enabling role can centres of government play to improve levels of co-ordination or horizontal co-operation across government?

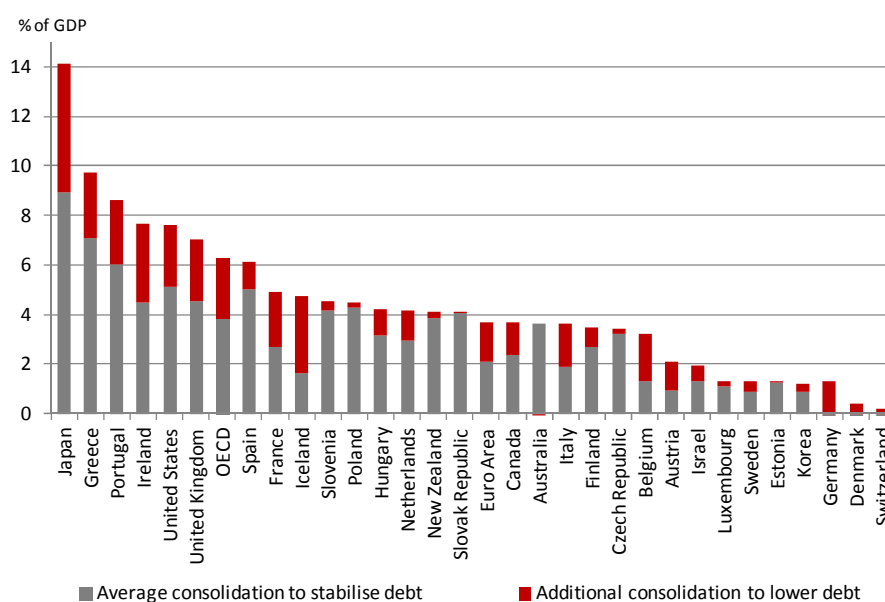
***Managing the full range of risks***

*Aligning financial incentives to address complex issues and build a forward looking government*

27. Leveraging financial incentives through budgetary frameworks is another option for governments to address complex issues and adopt forward looking approaches. While some of the long-term fiscal challenges existed before the crisis, fiscal policy management is taking place in a deeply modified context post-crisis. The financial and economic crisis of the past 6 years has highlighted some major gaps in the fiscal and budgetary architecture in OECD countries, with gaps in forward looking approaches. This has underlined a range of areas where governments need to build new capacities. In particular, there are the priorities of ensuring that the fiscal aspects of public governance are more resilient to shocks and crises, and more responsive to developing policy priorities. Under the former heading, resilience involves a stronger and sharper focus upon fiscal risks – their identification, classification, management and mitigation – and under the latter heading, there is a requirement to maximise the degree of fiscal space available to governments to shape policy initiatives, and to move beyond a purely reactive budgeting process to a more developmental, responsive and accountable process to address complex challenges.

**Fiscal Risks: Lessons from the Crisis**

28. There is a long literature on how various fiscal risks should be classified and managed. The experience of recent years suggests that the mechanisms and frameworks in place in many OECD countries are not yet sufficiently well-developed and that more effective models must be identified and instituted. The economic crisis can be analysed and interpreted from a number of perspectives – e.g. regulatory failures, insufficient understanding of complex financial instruments, failures of national and supra-national fiscal frameworks to prevent pro-cyclical and expansionary policies, failure to identify asset-price bubbles, and inherently over-optimistic budgetary and economic forecasting. One important perspective on the economic crisis is the extent to which fiscal risks – both those that had been previously identified, such as ageing, and those that had not – were realised. In particular, implicit contingent liabilities in key sectors of the economy, notably the banking sector, were crystallised and had a major impact on public finances; while over-reliance on growth in certain sectors of the economy have been exposed in other countries. In some countries, a wide range of fiscal risks have been realised at the same time, precipitated by the broader economic crisis, and this has had an acute adverse effect on the economy and on society. As a result, countries currently face significant needs for fiscal consolidation (Figure 8).

**Figure 8. Committed consolidation needed to stabilize debt, and to attain 60% debt/GDP ratio**

Source: OECD Economic Outlook No. 91

29. As part of the process of building more resilient fiscal frameworks, a range of policy options is currently being explored in the context of the Senior Budget Officials (SBO):

- Re-assessing the range of fiscal risks to which countries are exposed, taking account of the spectrum of risks that have materialised over recent years, and comparing these against the risks previously identified
- Evaluating the mechanisms for identifying, specifying and gauging fiscal risks and incorporating this information into the budgetary process
- Critically re-evaluating the range of mechanisms for managing and mitigating fiscal risks, drawing on national case studies of successful and unsuccessful practice, and supplementing this with advanced ideas and potential new approaches
- Analysing the incentives (sometimes conflicting) on the part of government and other stakeholders to identifying and acknowledging fiscal risks, and suggesting how incentives might be better aligned with the needs of prudent and resilient fiscal management
- Identifying new mechanisms for highlighting and addressing fiscal risks, including institutional factors such as the role of Independent Fiscal Institutions in drawing attention to these matters.

30. A shared international understanding of fiscal risks should contribute to more effective and credible national frameworks for their management and mitigation, leading in turn to more stable and sustainable budgeting practices.

### Generating fiscal Space

31. A key challenge to restore the capacity to project proactive policies is to restore the capacity of governments to devote resources towards policy priorities. This is a very difficult challenge at a time when most OECD economies are still in a consolidation / corrective phase, with rigorous austerity programmes in place and with clearer top-down fiscal targets to be achieved. From a budgeting perspective, this can be understood as 'Fiscal space' (Marcel 2013, [GOV/PGC/SBO\(2013\)1](#)), i.e. the degree of freedom available

to governments to devote resources towards policy priorities. This fiscal space has diminished greatly in a post crisis context (Table 1). The loss of fiscal space is expressed as a percentage of 2011 public primary spending including three future financial obligations, including the expected increase of pension expenditure, the consolidation measures required to stabilise debt to 2030, and the consolidation measures required to reach a target gross debt-to-GDP ratio of 60%. While these figures only offer an indication of the size of the challenges looming ahead, the search for greater fiscal space is one important dimension to the task of building more resilient budgets which command the trust and confidence of citizens.

32. From a budgeting perspective, several options are available to generate meaningful fiscal space, both in current and capital budgeting, and if available resources are to be used most effectively. The spectrum of activity goes beyond discretionary expenditure, which is the traditional focus of incremental budgeting, to encompass non-discretionary expenditure both within the annual framework and within a more medium-term horizon. The full range of modern budgetary tools and techniques has relevance for this agenda, including programme evaluation and reviews, performance-based budgeting, and a new focus on the fiscal sustainability of legislation. Future budgeting practices will demand a shift from *ad hoc* use of various budgetary techniques, towards a more systematic and holistic approach which ensures that limited public resources are used for better policy results.

#### Strengthening institutional frameworks for budgeting

33. In the interest of developing such a systematic, holistic approach to budgetary practice, the Senior Budget Officials (SBO) are currently developing Principles for Budgets, Budgeting and Budgetary Institutions. This work will build upon the range of accepted good practices, as identified by the SBO itself and by its Networks on Performance & Results, Accruals Budgeting, Independent Financial Institutions and PPPs, in broad consultation with expert committees. These principles will highlight the interdependence between the various aspects of budgeting (e.g. fiscal objectives, top-down budgeting, medium-term frameworks, fiscal risks and sustainability) and the interconnectedness with the other pillars of public governance, including open and transparent government, as well as government-wide planning and prioritisation.

#### Addressing the vulnerability of social institutions from a broader perspective

34. Besides budgeting frameworks, the crisis has also revealed the vulnerability of social institutions to a range of risks and shocks, some of which are identified in the discussion on fiscal risks above, but some of which go beyond. The question involves analysing both the resources for these social institutions and the extent of their vulnerability in case of an external shock: economic crisis, loss of natural resources, which may also in turn increase the pressures on social safety nets, and may expose the vulnerable groups in society to some disproportionate effects. This work is currently underway in the context of the Economic Policy Committee, with results due in the Spring. The attached box provides some details on the current work, which is also undertaken in the context of the NAEC.

**Table 1. Loss of fiscal space as percentage of non-pension primary spending**

	Non-pension primary spending (1)	Consolidation to stabilise debt (3)	Additional consolidation to reduce debt (4)	Expected increase in pensions spending (2)	Loss of fiscal space as % of non-pension primary spending (5)
Denmark	49.8	-0.2	0.4	0.6	1.6%
Iceland	39.7	1.6	3.1	-4.0	1.9%
Estonia	29.8	1.3	0.0	-0.7	1.9%
Sweden	41.9	0.9	0.4	0.5	4.3%
Germany	31.9	-0.3	1.3	1.2	7.0%
Switzerland	26.8	-0.1	0.2	1.8	7.1%
Italy	29.6	1.9	1.8	-0.8	9.5%
Czech Republic	34.0	3.2	0.2	-0.2	9.6%
Hungary	34.3	3.2	1.1	-0.8	9.9%
Korea	25.9	0.9	0.3	1.6	10.8%
Poland	29.7	4.3	0.2	-0.9	12.2%
France	39.6	2.7	2.2	0.3	13.2%
Austria	34.5	0.9	1.2	2.6	13.6%
Australia	30.8	3.7	0.0	0.7	14.1%
Netherlands	42.9	3.0	1.2	2.3	15.1%
New Zealand	40.5	3.8	0.3	2.0	15.1%
Canada	34.5	2.4	1.3	1.6	15.3%
Finland	42.3	2.7	0.8	3.5	16.6%
Slovenia	37.9	4.2	0.3	2.1	17.4%
United Kingdom	39.7	4.6	2.5	0.1	17.9%
Luxembourg	33.8	1.1	0.2	4.8	18.0%
Belgium	39.6	1.3	1.9	4.5	19.4%
Slovak Republic	28.9	4.0	0.1	1.5	19.5%
Spain	31.7	5.0	1.1	0.5	20.8%
Ireland	40.2	4.5	3.2	1.5	22.7%
United States	32.0	5.1	2.5	0.3	24.7%
Portugal	32.5	6.0	2.6	0.7	28.6%
Greece	30.0	7.1	2.6	0.5	34.2%
Japan (6)	40.8	8.9	5.2		34.6%
<b>Average (7)</b>	<b>31.1</b>	<b>3.8</b>	<b>2.0</b>	<b>0.5</b>	<b>18.2%</b>

1) Current primary spending is the 2011 general government expenditure minus the 2011 debt interest payments and 2011 public expenditure on pensions.

2) Based on the projections of public expenditure on pensions, 2007-2060.

3) Consolidation to stabilise debt is the average improvement in the underlying primary balance to 2030 (or 2040 for Japan) required to stabilise the gross government debt-to-GDP ratio, assuming consolidation in 2012-13 is consistent with the short-term projections described in Chapters 1 and 2 of the OECD Economic Outlook No. 91, and thereafter amounts to ½ percentage point of GDP per annum (1 percentage point of GDP in Japan). Fiscal consolidation projections are the consequence of applying a stylised fiscal consolidation path and should not be interpreted as a forecast.

4) Additional consolidation to reduce debt is the average improvement in the underlying primary balance to 2030 (2040 for Japan) required to reach a target gross debt-to-GDP ratio of 60%, assuming consolidation in 2012-13 is consistent with the short-term projections described in Chapters 1 and 2 and thereafter amounts to 1 percentage point of GDP per annum (1.5 percentage points in the case of Greece, Ireland, Italy, Portugal, United States, United Kingdom and Japan). Some countries have not quite achieved the 60% debt target by 2030, but with the exception of Japan, it is close enough that it is achieved within a few years after 2030 with little further consolidation. Countries with a projected debt ratio lower than 60% in 2013 are assumed to target their 2013 debt ratio. Fiscal consolidation projections are the consequence of applying a stylised fiscal consolidation path and should not be interpreted as a forecast.

5) Loss of fiscal space is expressed as the percentage of the 2011 public primary spending for each country which includes three future financial obligations: the expected increase in pensions expenditure from 2010 to 2030, the consolidation measures required to stabilise debt to 2030, and the consolidation measures required to reach a target gross debt-to-GDP ratio of 60% until 2030. Note that loss of fiscal space for Japan includes only consolidation measures but not its public expenditure on pensions nor its projections.

7) Weighted average considers all OECD countries, including those not analysed in this table.

*Source:*

- Economic Outlook No 91 - June 2012 - OECD Annual Projections.

- Economic Outlook No 91 - Series levels.

- OECD Social Expenditure Database (SOEX, [www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure)). Note: Social spending aggregates based on detailed data for 1980-2009; aggregate spending projections for 20010-2012. Pension refer to old age and survivors cash benefits.

- OECD Pensions Outlook 2012.

- OECD Economic Outlook, Volume 2012 Issue 1 - No. 91.



*Better public governance and management of risks*

35. OECD member countries have been significantly affected by disruptive shocks events over the past decades, with increasing economic impacts. Disruptive events cause serious damage to human welfare, the economy, the natural environment and national or (inter)national security. Serious damage is defined as: loss of human life; human illness or injury; damage to property or infrastructure; homelessness; business interruption; service interruption (including health, transport, water, energy, communication); disruption in the supply of money, food or fuel; and contamination or destruction of the natural environment. This is an area in which the High Level Risk Forum of the Public Governance Committee is very active, providing comparative experiences on crisis management, national risk assessment or prevention and mitigation of disruptive shocks.

36. The economic impact of such shocks can be significant and has been increasing in recent years, as illustrated through the earthquakes in New Zealand, and the Great East Japan Earthquake, in Chile, floods in a range of countries in central Europe, Australia, as well as storms in Mexico or the United States, including hurricane Sandy in New York, just to take a few. While at the aggregate level such events claim fewer lives overall than in the past, the economic costs are rising and the challenges for governments are high. Addressing critical risks across OECD member countries requires support from the highest political level, but equally an engagement for managing risk reduction across all governmental sectors and territorial levels, including local communities. This requires strategic frameworks, incorporating and coordinating strategy, capability, and governance to enable risk-informed policy making related to major disruptive events.

37. Besides natural events, governments are exposed to a wide range of risks, which can also originate from economic crises, or man made threats, including terrorist attacks and major industrial accidents. Government operations may also fail for a number of reasons, including poor co-ordination and lack of sharing critical information at the right time. The result is a wide range of human, economic, social, financial, operational or reputational risks. These require comprehensive frameworks to assess, measure or manage these types of risk in a systematic horizontal or cross-governmental approach, assigning clear responsibilities and providing for accountability.

38. Recent data was currently developed to assess the extent to which countries are integrating policy planning and risk management initiatives, drawing on information from the United Nations Integrated Strategy for Disaster Reduction (UNISDR).<sup>5</sup> For all those countries for which data is available, risk is integrated in public investment and planning decisions as well as in Sector strategies and plans. However, it is integrated to a lesser extent into the national development plan and into land-zoning and real estate development, which would be critical to ensure resilience and reduce vulnerability in the long term.

39. The recent results of the OECD survey of Centres of Government also provide complementary insights: the survey shows that while about half of countries who responded integrate risk anticipation and management into wider strategic planning at the Centre of Government, the other half treats the two distinctly. These results highlight that some countries still do not identify or assess how certain risks could directly impact government strategy, leaving some countries' strategic planning and outcomes more vulnerable to shocks. In terms of good practices, for example, Canada's Privy Council Office (PCO) links risk anticipation and management to strategic planning at the centre.<sup>6</sup> The PCO recognises that it operates in a context which can be characterized as complex, fast-paced and rapidly-changing. In order to support early identification and mitigation of risks that could affect the achievement of its strategic outcome and

<sup>5</sup>. The data have also been integrated into government at a glance 2013.

<sup>6</sup> <http://www.pco-bcp.gc.ca/index.asp?lang=eng&page=information&sub=publications&doc=rpp/2013-2014/index-eng.htm#lc>

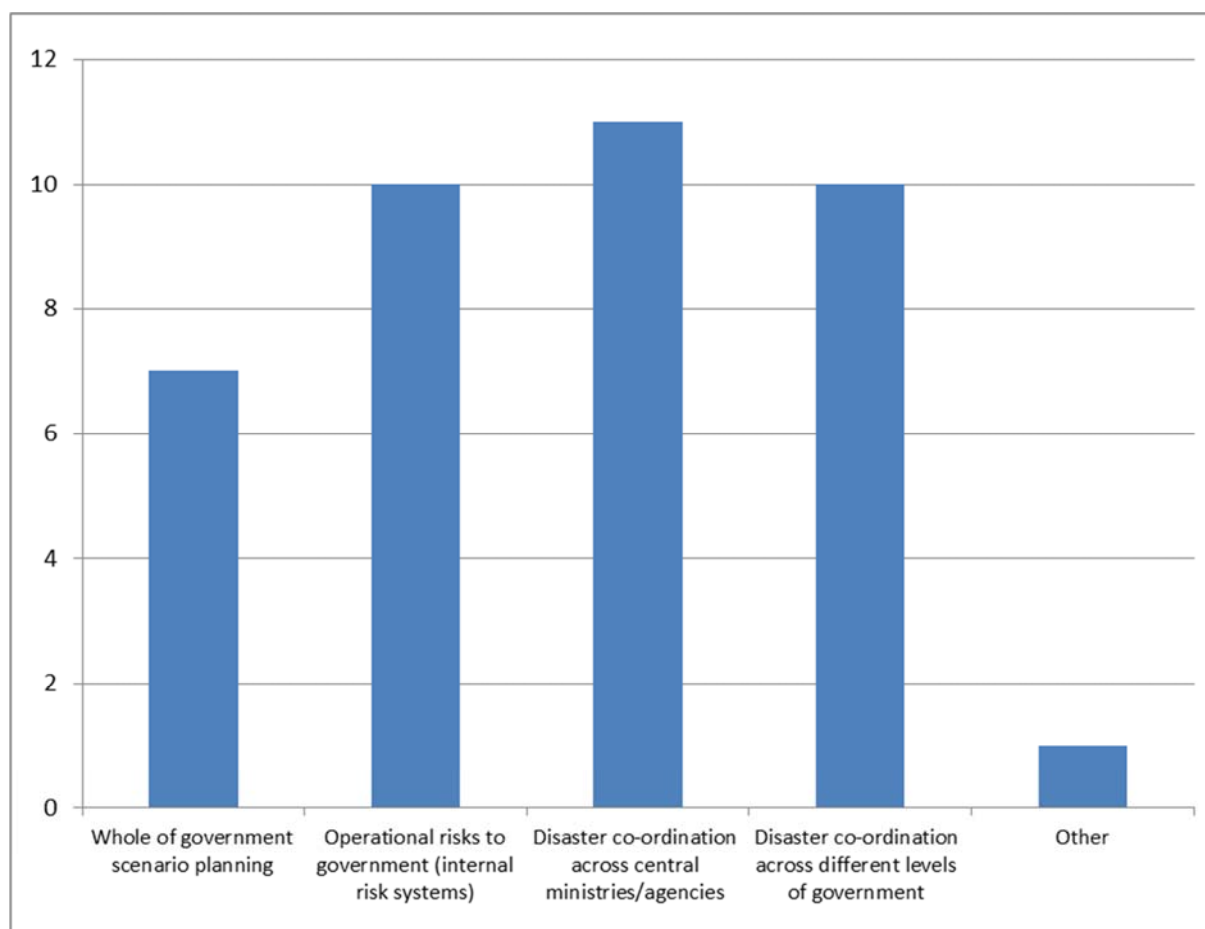
priorities, PCO actively monitors its operating environment and implements integrated risk management across departments. Some of the key risk areas identified through its integrated risk management process that PCO will monitor throughout the 2013–14 fiscal year include risks to the government’s policy and legislative agendas as well as the department’s security and emergency management capacity (e.g., cyber security controls and completing the integration of business continuity and contingency plans to minimize the risk of loss, safeguard assets, protect personnel and assure the continuity of its operations).

**Table 2. Integrated policy planning and risk management**

National Policy Planning- Risk is integrated in:					
	Public investment and planning decisions	National dvpt. plan	Sector strategies and plans	Civil defence policy, strategy and contingency planning	Land zoning and real estate dvpt.
<b>Australia</b>	●	●	●	●	●
<b>Chile</b>	●	●	●	●	●
<b>Czech</b>	●	●	●	○	○
<b>Finland</b>	●	●	●	●	●
<b>France</b>	●	○	●	●	●
<b>Germany</b>	●	○	○	○	○
<b>Greece</b>	●	●	●	●	●
<b>Hungary</b>	●	●	●	●	●
<b>Italy</b>	●	●	●	●	○
<b>Japan</b>	●	●	●	○	●
<b>Korea</b>	●	●	●	○	●
<b>Mexico</b>	●	●	●	●	●
<b>Netherlands</b>	●	○	●	●	●
<b>New</b>	●	○	●	●	●
<b>Norway</b>	●	○	●	●	●
<b>Poland</b>	●	●	●	●	○
<b>Portugal</b>	..	●	●	●	○
<b>Slovenia</b>	●	●	●	●	●
<b>Sweden</b>	●	●	●	○	●
<b>Switzerland</b>	●	●	●	●	●
<b>Turkey</b>	●	●	●	●	●
<b>UK</b>	●	○	●	●	○
<b>US</b>	●	○	●	●	●
<b>Total OECD</b>	22	16	22	18	17
<b>Brazil</b>	●	●	○	●	●
<b>China</b>	●	●	●	●	○
<b>Egypt</b>	●	○	○	●	○
<b>India</b>	●	●	●	●	●

Source: Data extracted from the HFA progress reports published on <http://www.preventionweb.net/english/hyogo/progress/?pid:3&pil:1>

40. Out of the 13 countries who treat risk management separately from strategic planning in the Centre of Government, the activities most commonly undertaken in this area include co-ordination across central ministries or agencies in the event of a crisis, followed by co-ordination across different levels of government in the event of a crisis and identifying, analysing, and planning for operational risks to government, and finally scenario planning based on national risk identification and analysis.

**Figure 9. Risk anticipation and management activities under the Centre of Government**

Notes: 13 country responses, those countries who distinguish between risk management and strategic planning activities in CoG.

Source: Data from OECD Survey of Centres of Government 2013

41. The challenge for governments is to organise integrated policy responses that address multidisciplinary challenges. In this respect, the National Risk Assessments represent an important tool, which can help build an all-hazard integrated risk management strategy, and which has received increased attention in recent years. National Risk Assessment (NRA) identifies, analyse and evaluate scenarios of natural and manmade events capable of causing significant physical damage and/ or disruption to a country's economic activities. Risk assessments are not performed for their own sake, but to improve outcomes by guiding risk management decisions such as land use prescriptions, investments in risk mitigation, emergency preparedness plans for civil contingencies, and financial strategies for disaster recovery and reconstruction. NRAs are receiving high attention in the context of the High Level Risk Forum ([GOV/PGC\(2013\)5](#)), and also were brought to the attention of the G20 as a 'G20/OECD Framework on disaster risk assessment and risk financing' was produced in coordination and consultation with national experts in 2012. While this is an area where countries are making progress, just over half of OECD member countries conduct their assessments in an integrated manner, based on an all-hazards approach, and fewer than half of OECD member countries include future probable risks in their assessments. Very few countries are also at a stage to conduct this as part of a whole of government approach (See table below).

**Table 3. Overview of National Risk Assessment**

	Risk Assessment			
	National Risk Assessment	All hazards approach	Whole of government approach	Future probable risk integrated in risk assessment
Australia	●	●	..	●
Canada	●	●	●	..
Chile	..	○	..	○
Czech	..	●	..	○
Finland	..	○	..	●
France	●	○	●	○
Germany	●	○	..	○
Greece	..	○	..	●
Hungary	●	○	●	●
Italy	..	●	..	●
Japan	..	●	..	○
Korea	..	●	..	●
Mexico	●	●	..	○
Netherland	●	●	●	●
New	●	●	..	●
Norway	●	●	○	●
Poland	..	○	..	○
Portugal	..	●	..	●
Slovenia	..	●	..	●
Sweden	●	●	●	●
Switzerlan	●	●	●	●
Turkey	●	○	..	○
UK	●	●	●	●
US States	●	●	●	●
<b>Total</b>	14	16	8	15
<b>OECD</b>				

Source: Secretariat work under the High Level Risk Forum.

42. Against this background, the discussion among delegates might elicit the extent to which these concerns with risks are identified as broad portfolios within government, and what sort of tool boxes can be developed to manage them. Delegates might wish to explore the scope for improving public governance settings to increase countries' resilience to short and long term risks, particularly in the light of recent major disasters and in the aftermath of the recent economic and financial crisis.

#### Questions for discussion

- How can governments identify their risk portfolio and develop policy toolboxes to manage them?
- How can public governance settings be improved to better enhance public sector economic and financial resilience to short and long term risks? What lessons can be learned from the recent economic and financial crisis or other major catastrophic events?
- How can governments manage uncertainty and risk factors in policy making while preserving space for innovation?

***Strategic foresight***

43. Strategic foresight activities help governments look ahead to identify future threats and opportunities as a means of prioritising and focusing government policies. An essential aim of strategic foresight in government is to ensure preparedness, in the sense that longer-term horizon scanning, along with other foresight activities, can help inform current policy choices, longer-term planning and strategic vision. Strategic foresight helps in building an agenda and vision for the future, which in turn can help restore the credibility and reliability of government as the guardian of the general interest. Strategic foresight can be performed at various levels, and from the following perspectives:

- academic or scientific research
- following a given line policy or sectoral ministry's remit
- from an integrated whole of government perspective projecting a vision ahead for the future of the country.

***Promoting whole of government approaches to foresight***

44. The challenge is in integrating these various activities in ways that are policy relevant and useful for governments (Fuerth 2012). This is also an area of evolving practice across OECD countries: while strategic foresight efforts have increased in recent years, governments are still assessing how best to perform foresight activities, join-up horizon scanning practices across government, and more specifically which government body should lead the process. Countries such as the UK (Box 3) or Finland with the Government of the Future programme, are discussing the role of horizon scanning in enabling foresight strategies and are taking policy initiatives to ensure that horizon scanning is shared across ministries and coordinated with policy priorities and policy-making processes.

**Box 3. John Day Review of Cross-government Horizon Scanning**

A recent assessment of horizon scanning across UK government (the John Day review) revealed that while horizon scanning work already existed in government departments, these efforts could be more joined up. To this end, a cross-government Horizon Scanning Programme headed by the Cabinet Secretary and its Advisory Group has been created to funnel information from an existing network of officials in various government departments, escalate emerging trends and risks, and co-ordinate work on cross-cutting themes that affect multiple parts of government. The Horizon Scanning Programme, aiming to embed better horizon scanning capabilities in the policy-making process, will:

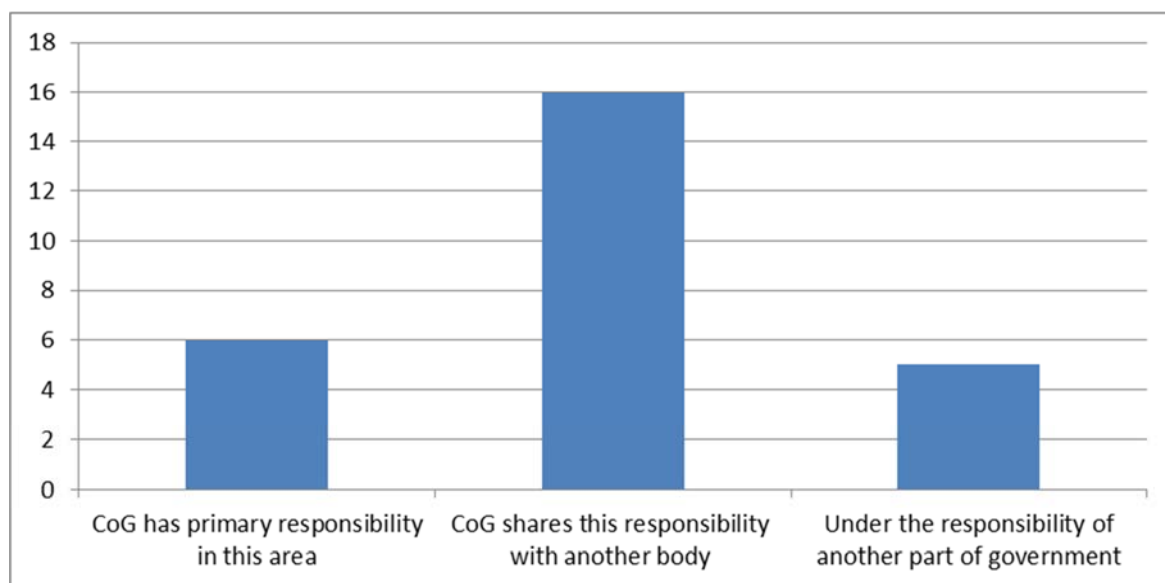
- Ensure implications for policy are highlighted at the right levels
- Establish a common baseline of understanding across government departments and organisation
- Minimise duplication
- Share best practices

The Cabinet Secretary's Advisory Group (CSAG) is supported by a small Horizon Scanning Secretariat with in the Cabinet Office's Government Innovation Group, which is working closely with the Foresight Horizon Scanning Centre in the Government Office for Science. The programmes will ensure greater co-ordination of existing resources. It also benefits from Ministerial oversight by the Minister for the Cabinet Office, the Minister for Government Policy, and the Minister of State for the Cabinet Office. Over the 2013 year, cross-departmental working will take place in "communities of interest" to deliver horizon scanning, as part of the Horizon Scanning Programme, on a series of work streams, including inter alia changing social attitudes of young people, the future of demographic change in the UK, and changing supply and demand of resources.

Source: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/79252/Horizon\\_Scanning\\_Review\\_20121003.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/79252/Horizon_Scanning_Review_20121003.pdf)

45. The recent OECD COG survey shows that in the majority of countries the centre of government shares the responsibility of conducting strategic foresight with another government body, while in 6 countries it has primary responsibility in this area. Further questions in the Survey related to long-term planning and long-term strategic vision also revealed the need to clearly distinguish between long-term strategic vision and foresight efforts, the former potentially relying on the latter for developing effective and relevant long-term strategies taking into account emerging trends.

**Figure 10. Responsibility for strategic foresight for the whole of government**



Notes: 27 country responses

Source: Data from OECD Survey of Centres of Government 2013

46. There seems to be a mix in foresight efforts between major, interdisciplinary foresight studies or commissions and on-going foresight or horizon scanning co-ordination across ministries. Some countries engage in both large Futures studies on a given combination of cross-cutting topics as well as on-going cross-governmental foresight programmes, most often based on horizon scanning (e.g. the UK).

47. Further insights are provided by a more detailed analysis of selected foresight efforts in five countries, based on the availability of recent information on major government initiatives engaging in a whole of government foresight strategy (Table 4). In these cases, the centre of government plays a clear role of leadership, with Prime Ministers and Prime Minister’s Offices taking the role of co-ordinator. For example, the Commission on the Future of Sweden was chaired by the Prime Minister while the Prime Minister’s Office in Finland leads both the government report on foresight and the government working group for the co-ordination of research, foresight and assessment activities (a body facilitating cooperation and exchange of information between the Finnish ministries). For France, the Netherlands and Sweden, these constitute or constituted one off initiatives whereas the UK and Finland regularly plan and programme major foresight reports on relevant and emerging topics into government’s work (see for example Foresight UK major projects<sup>7</sup>).

48. However after realising the benefits of carrying out an in depth foresight project, the Netherlands shifted the one off Horizon Scan Project of 2007 to a more regular programme which is now situated in the Ministry of Education, Education and Science. While the select foresight projects may differ in form or

<sup>7</sup> <http://www.bis.gov.uk/foresight/our-work/projects>

frequency, the end goals of the initiatives were similar: to identify long-term challenges and developing trends in order to help decision-makers improve preparedness, inform current policy choices and establish policies that are more likely to survive the uncertainties of the future.

**Table 4. Interdisciplinary foresight projects: overview from selected initiatives**

Country	Foresight Effort	Main Purposes	Time horizon
Finland	Government Foresight Report (Foresight 2030)	To identify likely development trends and set objectives and strategic outlines for Government work	10-20 years
France	What France in 10 years?	To show a pathway to advance the country with indicators and clearly identified benchmarks : to engage in clearly identified common choices that organise major transitions : to adapt policies and instruments in view of the desired objectives : to engage a large debate with all stakeholders	10 years
The Netherlands	Horizon Scan Report 2007	To help decision- and agenda-makers, researchers and developers think about future societal problems, threats and opportunities.	Not specified
Sweden	Commission on the Future of Sweden	To identify long-term challenges and contribute to a more future-oriented public debate, enabling government and society to improve preparedness.	40 years
UK	UK Foresight Major Projects	To assist decision makers in understanding how their decisions today might affect the future, and to help policy- makers to reach more stable decisions that are more likely to survive the uncertainties of the future.	20-80 years

Source: OECD Secretariat desk based research and interviews

Notes: Foresight project range from horizon scanning activities to Futures Commissions, and scientific or academic literature based research. The idea is to highlight the difference between country practices and draw from different country experiences.

49. A more detailed look at the governance of those efforts shows that the leadership of the project tends to come from the centre of government (in many cases the Prime Minister's Office) with involvement of a range of ministries, dependent on the foresight topic at times (Table 5). The Netherlands, however, conducted the Horizon Scan Project under an independent body composed of representatives from research, society, industry, government, and think tanks. The Commission on the Future of Sweden, although set up by a government decision and chaired by the Prime Minister, was less so a project involving cross-ministerial co-operation and more about involving multiple stakeholders and society in a broad debate over future challenges facing Sweden. To this end, the select foresight projects highlight the need for somewhat of a balance between government and multi-stakeholder involvement, in the sense that while independence of the foresight commission may be useful to ensure the work is not constrained by

internal agenda-setting, government, as consumers of such foresight analysis, must be involved to ensure the foresight-into-policy process.

**Table 5. Governance of select foresight efforts**

Country	Chair	Composition	Involvement of ministries	Involvement of civil society
Finland	The Prime Minister's Office (PMO)	A ministerial working group chaired by the most relevant ministry for the topic is supported by a steering group (government and non-government) and a project team, responsible for the futures analysis. The final report is submitted to parliament and debated in the Committee for the Future.	Ministerial working group: -Minister of Economic Affairs -Minister of Public Administration and Local Government -Minister of Finance -Minister of Education and Science - Minister of Defence -Minister of Transport -Minister of the Interior	Yes - <a href="http://www.2030.fi/en/">http://www.2030.fi/en/</a>
France	le Commissariat général à la stratégie et à la prospective (CGSP)			Yes -
The Netherlands	The Commission for Consultation of Sector Councils (COS)	The COS, a platform for sector councils (independent commissions of representatives from research, society, and government) set up a project group specifically for the Horizon Scan. COS is financed by the government.	-Ministry of Education, Culture and Science (repr. in project group) Sounding board: -Ministry of Economic Affairs, Entrepreneurship and Innovation -Ministry of Transport, Public Works and Water Management -Ministry of Agriculture, Nature and Food Quality -Ministry of Social Affairs and Employment -Ministry of Justice -Ministry of the Interior and Kingdom relations	Yes
Sweden	Chaired by the Prime Minister	Set up by government decision, the commission brought together coalition party leaders holding ministerial posts, business, academia, unions, and CSOs	Served only as "host organisations"	Yes – "open meetings" held across the country
UK	Government Office for Science, Department for Business, Innovation & Skills, (reporting to Prime Minister and Cabinet)	High-level Stakeholder Group– chaired by a minister from sponsor department comprising senior decision-makers and budget-holders from relevant departments, research councils and other organisations – oversees each project. stakeholder group is responsible for agreeing an action plan once the report has been published. The Government's Chief Scientific Adviser directs each project with a group of leading experts.	Ministerial involvement occurs in the High-level Stakeholder group, and is dependent on the report's theme.	No

Source: OECD Secretariat desk based research and interviews



*Ensuring anticipatory governance: connecting foresight and-policy making initiatives*

50. A main benefit of establishing an on-going whole-of-government foresight or horizon scanning network, as opposed to one off foresight commissions or major reports, is to ensure continuity of information sharing on cross-sectoral issues as well as better enable foresight into decision-making and policy processes (Fuerth 2012). Recent moves towards whole-of-government foresight networks have drawn heavily on horizon scanning (Habegger 2010) however other foresight methods exist (Box 4). Further, although emphasis has been placed on horizon scanning, strategic foresight involves much more than detecting, analysing and diffusing strategically relevant information.

51. The greatest challenge is ensuring information from horizon scanning or other foresight efforts into the decision-making and policy-making process. Currently there are no agreed upon mechanisms to best bring foresight regularly into the policy-making process. While whole-of-government networks are being experimented with, they still require leadership or an institution with a “brokering function” to link-up foresight results and make them “actionable” for decision-makers and the policy-making process (Fuerth 2012). The centre of government may be best placed to carry out this function however more country experience and further study is needed. Discussion among delegates at the Committee may help to share further government experience on those issues.

#### **Box 4. Range of foresight methods**

A range of foresight methods are used in business, academia and government. The three methods most often employed in government to enable strategic planning include horizon scanning, back-casting and scenarios.

**Back-casting:** a method of working backwards from a hypothetical future event (typically a desired goal) to the present by mapping pathways and envisioning the key steps, enabling factors, necessary conditions, and possible sequence of events relevant to achieving relevant to the goal. In turn, these pathways are used to identify short and medium term milestones as well as indicators for tracking progress.

**Horizon scanning:** involves a systematic monitoring and examination of current events (from a range of categories) in order to detect early signs of potential major impending developments (e.g. new trends, trend breaks, slow moving risks or emerging opportunities) and generate or update a database of trends. The John Day review of horizon scanning defined it as:

*A systematic examination of information to identify potential threats, risks, emerging issues and opportunities, beyond the Parliamentary term, allowing for better preparedness and the incorporation of mitigation and exploitation into the policy making process.*

Horizon scanning can be a one off, issue focused activity or can entail a programmatic effort consisting of parallel scanning of scholarly and public information sources. The goal of horizon scanning is to detect and analyse emerging developments so that early action can be taken.

**Scenarios:** Case studies of alternative plausible situations of the future that depict a detailed account of how events might lead from the present to an envisioned future. The scenarios should come in sets of 2 or greater and draw from qualitative and quantitative analysis on a specific topical issue (e.g. health or pensions), technological advancement, sectors (e.g. financial services) and/or geographical location or time horizon. Scenarios can act as a means to visualise outcomes of alternative courses of action, analyse their possible consequences under different assumptions, and logically link sequences of events. Scenarios are often used in National Risk Assessments (NRAs).

Other foresight methods such as Delphi Surveys, road-mapping, gaming etc. are also used. For more information see Fuerth 2012 p.80-81.

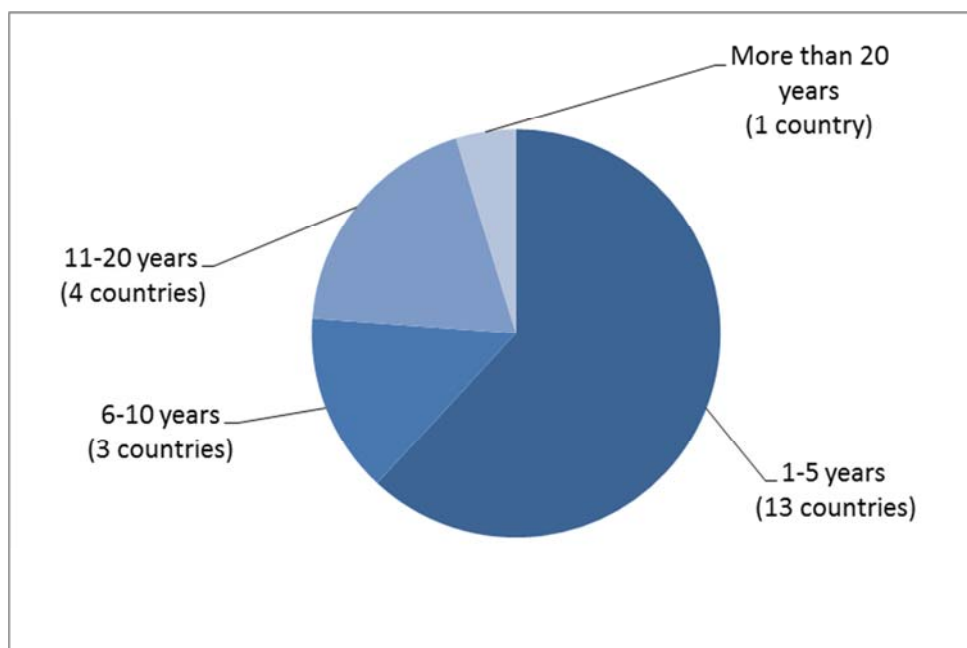
*Source:* Fuerth, L. (2012) 'Anticipatory Governance, Practical Upgrades: Equipping the Executive Branch to Cope with Increasing Speed and Complexity of Major Challenges'

*Building an agenda for the future: Long-term strategic vision*

52. Strategic foresight aims to inform strategic thinking, decision-making as well as guide governments' longer-term strategic vision and goals (Habegger 2010). Moreover, as Habegger notes, strategic foresight contributes to policy making by also acting as a “driver of reflexive mutual learning processes among policy-makers that stimulate the generation of common public policy visions”. To this ends, engaging in foresight activities should act as a means of influence current government strategies and help build a vision of the future for the country.

53. Based on the Survey of Centres of Government, more than three quarters of countries have formed a long-term strategic vision for the country. However, the majority of countries consider only one to five years in the future when drafting a strategic vision, matching closely to most countries' political cycles (Figure 11). The results of the survey may highlight the need to debate useful time horizons for strategic visions and define the notion of long-term, since most countries consider strategic vision in the medium term. Nonetheless, some countries prepare longer-term strategic visions spanning from 10 to 20 or more years. For example, Finland takes an integrated approach, producing both a Strategic Implementation Plan of the Government Programme (spanning the government's 4-year term) as well as a long-term Futures Report under the guidance of a ministerial working group with involvement of Parliament (described above). The focus of each Futures report is on a defined set of strategically significant issues that will impact the Government's key policies over the coming 10-20 years.<sup>8</sup> Based on this data, increased foresight efforts in government could encourage a longer-term perspective in countries' strategic visions.

**Figure 11. Timeframe for countries' future-oriented strategic visions**



Notes: 21 country responses Source: Data from OECD Survey of Centres of Government 2013

<sup>8</sup> <http://vnk.fi/hankkeet/tulevaisuusselonteko358587/en.jsp>

**Questions for discussion**

- How can building an agenda and vision for the future help strengthen trust in government? To which extent can governments use perspectives of the future and past to clarify present situations and identify choices and policy options?
- What is the role of central government in horizon scanning? What is the role of horizon scanning in enabling strategic foresight in policy-making? What are the challenges?
- How can governments ensure that horizon scanning is shared across ministries and co-ordinated with policy priorities and policy-making processes?

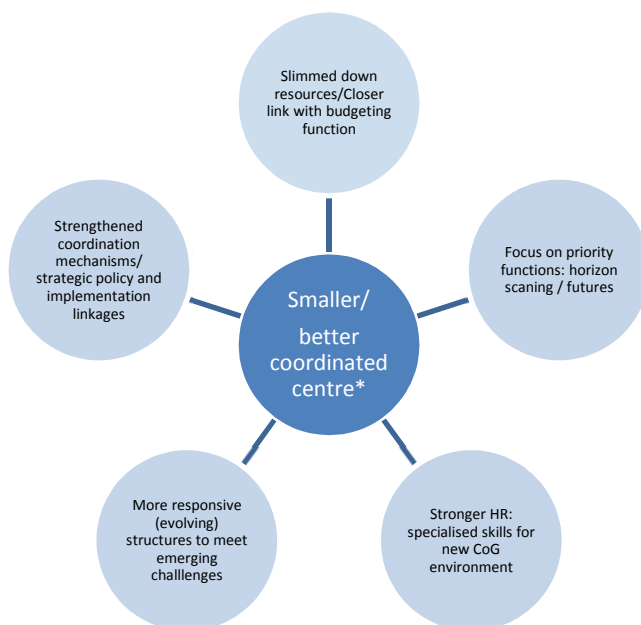
**Conclusion: Building resilient and forward looking public institutions to resolve complex challenges**

54. The above discussed policy levers are in essence part of a broader framework to build an agile, strategic, resilient and forward looking government, which is underpinning the *Strategic State* concept. Complex challenges require of governments both the capacity to build future-oriented preparedness; as well as function coherently and efficiently when co-ordinating information and policy processes across organisational boundaries. This also includes governments’ ability to co-ordinate and draw from expertise outside government. To this end, building resilient and forward looking institutions necessitates both the capacity to frame a holistic or ‘big picture’ approach, in the sense that crises and wicked problems often have fluid and inter-related causal factors underlining them, and to enable the capacity for implementation inside the government machinery. All of this should be supported by a three hundred and sixty degree approach to risk assessment.

55. This can also be supported by openness to innovation in policy design, with experimentation and more flexible approaches to managing wicked issues, rather than governance by specific rules. This has the potential to create a culture more conducive to innovation and collaboration among senior managers as well as increase their ability to “apply a broader, future-oriented strategic approach, including to whole of government issues” (Australia Public Service Commission 2007).

56. The concepts of creating strategic capacity by building a more co-ordinated, future-orientated and resilient government has already emerged in the context of previous Centres of Government meetings, as it was highlighted at the 2012 meeting held in London (figure 10). The question is how to put these elements into practice, identify those which work, and those which do not, and ensuring proper coordination between policy making, risk analysis and management and foresight.

**Figure 12. Creating Strategic Capacity at the Centre: the Views of centres of government**  
*Towards a better coordinated, more responsive and skilled centre*



*Source: responses to CoG questionnaire, October 2012. \*Except Chile – three new units created: (1) Modernisation and e-gov, (2) Presidential Delivery Unit (UPGC), and (3) regional delivery unit. Portugal: culture policy integrated into Centre and national Cyber Security Centre established, and Israel – substantially remodelled and strengthened CoG structure*

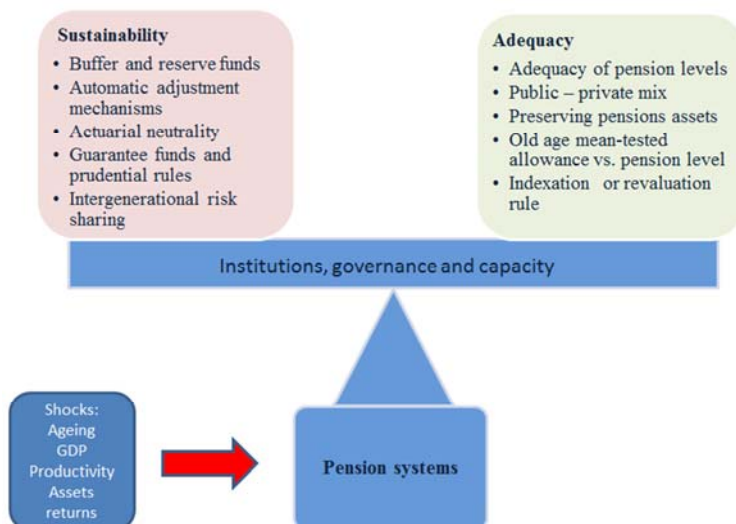
*Addressing the vulnerability of social institutions from a broad perspective*

57. The debate on managing complex issues and building resilience is also in a sense the result of the recent crises and major disasters which have shaken up a range of OECD countries. One part of the institutional apparatus has often been more vulnerable to the consequences of the crisis is social institutions. These institutions have been especially vulnerable and may deserve further thinking to improve long term reliability and resilience. Some of this discussion is related to the fiscal risks identified above, but some of it goes beyond. In fact, the crisis has often not only reduced the potential resources that could be made available for those institutions, and increased output gaps, but it has also increased the social demands and the pressures on social safety nets. The results are over exposure of vulnerable groups in society to some disproportionate effects, and a possible rise in economic inequalities that has not been yet revealed to a full extent through cross country comparative data. The OECD Economic Policy Committee, is currently pursuing research on the vulnerability of social institutions in the context of the NAEC with further results to be available in the Spring (Box).

**Box 5. The vulnerability of social institutions**

The OECD Economics Department is currently undertaking a study exploring the vulnerability of social institutions, the risk and shocks they face over the longer-term, and the effects of trade-offs between sustainability and adequacy. Preliminary results show that social spending increased in most countries during the crisis, including a large increase in unemployment benefits expenditures, while privately funded pension systems were hit hard. Public spending on health care decreased in countries hardest hit by the crisis, with low income individuals being most affected by health spending cuts. Looking mainly at pensions, unemployment and health care, the study will draw lessons from case studies on how governance capacity can balance sustainability versus adequacy of social institutions – and help to improve resilience in the face of major shocks (figure below). Early lessons show that, in terms of sustainability, automatic adjustment mechanisms (i.e. pension entitlements linked to life expectancy) could prove more effective compared to at-the-time ad hoc reforms. To the same extent, many countries may need to look towards broadening the adequacy of pension enrolment and coverage reviewing the public-private mix for instance, since projections show many gaps between mandatory pensions and average replacement rates needed.

**The example of Pension Policy**



Source: [ECO/CPE/WPI\(2013\)22](#)

58. From the Public Governance Committee perspective, the question is how to build pathways for building resilient and forward looking public institutions that can help restore trust in government. The Committee discussions will also benefit from the outcomes of the meeting of Senior Officials from Centres of Government held in Santiago in 2013. It is also important to close the policy cycle, and to assess how strategic tools such as planning functions and spending reviews can be mobilised, and how policy evaluation can help close the gaps. There is a need to develop capacities to draw lessons from major events, such as natural disasters, a major economic crisis such as the global financial crisis, or any other potential event, including malicious threats, and the case of cyber risks. The OECD can act as a clearing house collecting experiences and drawing some form of a synthesis, with policy toolkit for government to help support anticipatory governance. The example developed in Fuerth (2012) offers an example in the case of the United States, which could be expanded to other countries. Strengthening preparedness and policy scenarios to restore normal economic and social life and consolidate trust in government are core responsibilities for the public sector. This should be supported by networked approaches, strengthened capacities for budgeting and fiscal planning, better governance and management of risks, and integration of foresight activities into policy making.

**Questions for discussion**

- How can governments strengthen their capacity to deal with long term and wicked issues? What are the options for building more resilient public institutions and strengthening a strategic state?
- How can greater attention to policy coherence foster trust and ensure that the public sector is delivering on policy priorities?
- What are the options for building a “crisis proof” government?
- What is the role for cross-national sharing of experiences to help governments better equip themselves to tackle complex issues within an appropriate time frame?

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