Value for Money in Government

THE NETHERLANDS 2010



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Value for Money in Government: The Netherlands

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Foreword

This report is the first country assessment to be produced as part of the OECD study on value for money in government. This study, launched in 2008 on the initiative of the Dutch government, aims to identify new developments in the organisation of central government that are leading to better value for money: better services at lower costs for taxpayers. The first report in the *Value for Money* series was published in July 2010 under the title *Public Administration after "New Public Management"*.

During the course of 2010, the scope of the study was extended. In Phase II, the study has become truly international in that it is now financed by five countries and other countries are considering contributing. At the time of writing, the countries financing the project are Australia, Austria, Denmark, the Netherlands and Sweden. Countries that have pledged to provide information to the study by responding to questionnaires include Canada, Finland, France, Ireland, New Zealand, Norway, Spain and the United Kingdom.

The Netherlands country assessment is the second report in the *Value for Money* series. It was prepared by an OECD team consisting of Dirk Kraan (lead), Ian Hawkesworth (both of the OECD Secretariat), Gwen Carpenter (consultant) and Joanne Kelly (consultant, professor at the Australia/New Zealand School of Government). Important contributions to the report were further provided by Joop Vrolijk, Colin Forthun and Emmanuel Job (all of the OECD Secretariat).

The OECD team undertook a mission to the Netherlands from 18 to 22 January 2010. The team met with numerous senior Dutch officials with tasks in the sphere of policy development, policy execution, support services, and supervision and regulation. The team expresses its gratitude for the time these interlocutors made available to answer questions and for their frank and open contributions to the ensuing discussions. The nature of this report is for a large part determined by the insights gained during the mission to The Hague.

The team wishes to thank in particular Peter van der Gaast, Principal Administrator at the Ministry of the Interior and Kingdom Relations, who organised the mission.

The team would also like to thank Barry Anderson, former Head of the Budgeting and Public Expenditures Division at the OECD, who acts as supervisor of the study. Barry provided useful and inspiring comments on the draft report.

The Dutch country assessment was discussed during a meeting of the advisory committee of the OECD Value for Money study that took place on 7 July 2010 under the chairmanship of Roel Bekker, former Secretary General for Central Government Reform in the Netherlands. All countries that provide information to the project are represented in the advisory committee. The views and comments expressed during the meeting by the Dutch delegates as well as by delegates of some other countries have been integrated into the final version of this report.

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Executive Summary

The *Value for Money in Government* series

This report presents the results of an assessment regarding the organisation of the central government of the Netherlands. This report is part of the *Value for Money in Government* series. The series reports on a multi-annual study that aims to identify reforms currently undertaken or planned in OECD member countries that are interesting from the point of view of value for money. The study looks at reforms aimed to improve the quality of services (more value) and efficiency (less money) in central government.

This assessment is based on the inventory of some 70 reforms and reform trends concerning the organisation of central government currently undertaken or planned in OECD member countries. These reforms and reform trends will be presented in the final report of the *Value for Money in Government* series.

Information for the OECD Value for Money study has been provided by 13 OECD member countries taking part in the project. These countries are: Australia, Austria, Canada, Denmark, Finland, France, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and the United Kingdom.

Benchmarks for the Netherlands

The size of central government employment excluding health and education is surprisingly similar among the countries participating in the Value for Money study (4-5% of domestic employment). The size of general employment (including subnational government and social security) is more diverse. The size of general government excluding health and education is relatively large in the Netherlands (10.9% of domestic employment).

The Netherlands ranks in an intermediate position as far as the centralisation of employment is concerned, and among the more decentralised countries as far as expenditures are concerned (due to large earmarked and non-earmarked grants to subnational government).

Within central government, the Netherlands has relatively large employment in the core ministries (as opposed to arm's-length and independent agencies) mainly due to the fact that the Tax Service does not have agency status (but is part of the core Ministry of Finance). The Netherlands has relatively low employment in policy development and regulatory/supervisory activities and relatively large employment in administrative policy execution. Employment in support services is about average. Within the support services, employment in human resources and organisation, internal audit and communication is relatively high, and relatively low in finance, information and ICT and accommodation, real estate and facilities.

The Netherlands has relatively high expenditure in labour-intensive policy areas such as governance services (including the Tax Service, the Foreign Service and the High Colleges of State), public order and safety (including the police and the penitentiary institutions), and service regulation (including most policy development in the areas of social services, health, education, market subsidies and culture) which is an important explanatory factor for the relatively large size of general government employment.

Own tax revenue of subnational government is the lowest of all of the countries participating in the Value for Money study (10.7% of subnational revenue) largely due to the fact that national taxes are not shared (no tax sharing).

Previous reforms in the Netherlands

Since the 1980s three periods of reform can be distinguished in the Netherlands, as is also the case in many OECD member countries. The 1980s were years of "receding government". Policies in these years were inspired by the theory of supply-side economics that emphasised the burden of large government on society and the adverse effects of high tax levels on economic growth. These were the years of the Reagan administration in the United States, of the Thatcher government in the United Kingdom, and of the "no-nonsense" cabinets of Prime Minister Lubbers in the Netherlands. In this period the spending review procedure was developed and the "grand operations" (see Chapter 3) had a far-reaching impact on the size and structure of government.

The 1990s and much of the first decade of the current century were the years of New Public Management. During this period, arm's-length agencies were established in the Netherlands. This reform was inspired by the "Next Steps" agencies in the United Kingdom. Furthermore, the operation "From Policy Budget to Policy Accounts" (*Van Beleidsbegroting tot Beleidsverantwoording*, VBTB) was launched, which led to far-reaching reforms of the budget classification and presentation. Major reforms of programme expenditures were also undertaken during this time, particularly in the sphere of social security, but these reforms are not the focus of the present study which is mainly concerned with the organisation of government.

In the last few years, a certain swing back from the New Public Management reforms can be observed, and simultaneously new ideas have come to the fore. In this period, "Central Government Reform" was launched. New trends are also apparent in the latest round of spending review reports.

Current trends in public administration

In many OECD member countries, new trends have arisen, partly to rebalance New Public Management reforms and partly driven by other developments, for instance in ICT. Current trends aimed at better quality of services and cost savings include:

- a more consistent division of tasks between levels of government;
- vertical integration: a better use of executive and professional expertise in policy development;
- horizontal integration: process sharing among executive agencies and merging of executive agencies; sharing of support services;
- stricter standards of operational management;
- separation of financing of agencies from steering and control of outputs.

In this light, the OECD Secretariat has formulated recommendations for the Dutch government based on reforms that are being pursued in the most advanced countries in each area of reform. The recommendations apply mainly to the broad reform trends mentioned above. One recommendation (independent supervisors/regulators) aims to respond to a Dutch discussion of the last few years in the light of international practice. The recommendations are the following.

A more consistent division of tasks between levels of government

- Although the Netherlands is not a very centralised country, there is still room for decentralisation along the road of a more logical division of tasks as spelled out in the Spending Review 2010 "Public Administration". Coherence of policy areas should be a prime consideration in the attribution of tasks to the levels of government. This will allow a substantial reduction in earmarked grants from central government. Decentralisation of tasks should not be made conditional on amalgamation.
- The Dutch government has an exceptional position among OECD member countries in that local governments are for a large part financed by general purpose grants instead of tax sharing. The Dutch government may consider a substantial increase in municipal own tax revenue, to be realised through the introduction of tax sharing rather than through expansion of local tax competencies.

Vertical integration

- The Dutch government may consider developing a more ambitious programme of career development for civil servants aimed at fostering variety in experience.
- Variety in experience should focus on job rotation between executive units (both administrative and service delivery), research institutions or consultancy bureaux and core ministries in the same policy area, not on shifts between policy areas.
- The Civil Service Authority may put more emphasis on variety of experience within the same policy area in its advisory role for appointments in senior positions in policy development, next to general management skills.
- The Dutch government may reconsider the assignment of executive tasks. In principle, all executive tasks inside central government should be attributed to arm's-length agencies. Required proximity of executive officials to the policy development process is not a valid criterion for withholding agency status, since executive expertise should be integrated in the policy development process in any case. Independent agency status should only be accorded to agencies in cases where independence from government intervention other than through legislation is essential for appropriate task performance in view of the specific role of the agency, for instance: the courts, the Central Bureau of Statistics, the forecasting bureaux, the institutions

for examinations and assays, supervisory/regulatory agencies, and the Electoral Council.

- The Dutch government may consider involving agencies in all policy initiatives from the start. Agencies should be encouraged to present reform proposals on their own initiative. Arm's-length agencies could also be asked to contribute to the elaboration of policy proposals. The directors of all arm's-length agencies should have a seat on the management board of the ministry (but not the directors of independent agencies).
- The Dutch government should make sure that non-profit institutions, inside and outside central government, that deliver collectively funded services are represented in advisory councils. The councils should meet regularly with the minister and have the opportunity to advise on new policy initiatives. However, the councils should not be given a similar role in policy development as public executive agencies.

Horizontal integration

- In the Dutch central government, there is potential for quality improvement and savings through horizontal integration of policy execution by way of e-government projects based on common portals and through merging of executive agencies and ministerial divisions.
- The Dutch government should make sure that every proposal for establishing shared process units is based on a thorough business case analysis.
- In view of the ministerial responsibility for executive policy (apart from independent agencies), the Dutch government should make sure that client ministry involvement in executive policy is enhanced before any new shared process unit is set up.
- The Dutch government may consider focusing efforts aimed at horizontal integration of executive agencies on agencies that are now already owned by the same ministry, or that will be owned by the same ministry after task transfer between ministries or after the merger of ministries that may be desirable for other reasons as well.

Independent supervisors/regulators

- The Dutch government may consider organising all economic and social supervisory/regulatory authorities in the form of independent agencies.

Stricter standards of operational management

- The Dutch government may consider a further concentration of standard setting for operational management and develop, together with the OECD, yardsticks for weighing the pros and cons for such a reorganisation. If it is concluded that human resource standards should indeed belong to the package of standards for operational management, it should be kept in mind that standard setting in this area cannot be separated from pay-setting responsibilities, as the dialogue structures connected to pay setting are the major tools for implementing human resource standards.
- The Dutch government may consider moving in the direction of the Nordic model for pay setting (see also OECD, 2007, that contained a similar recommendation). This would mean a two-level bargaining model in which certain matters considered essential from a whole-of-government perspective would be negotiated at the state level, and matters more connected to the business needs of separate agencies and organisations at a de-central level. Pay-setting authority at the central level could be assigned to an Agency for Government Employers at arm's-length distance under the Directorate General for State Organisation and Operational Management. The agency would not only be responsible for facilitating central pay-setting agreements but would also provide support and advice to all de-central pay setters. A reform in this direction would strengthen coherence, better respond to business case requirements of organisations and agencies, and strengthen the firewalls between budgeting and pay setting. In addition, it could lead to considerable savings as the current sectoral pay-setting divisions, with largely overlapping areas of expertise, could be merged into the new agency.
- For the short and medium term, there is no need for concentration of shared support service centres in a single ministry, nor for transfer of the current shared service centre from the Ministry of the Interior and Kingdom Relations to the Ministry of Finance.
- The Dutch government may consider introducing a government-wide annual productivity cut on current operational

expenditures of 1-2%. The cut percentage can be integrated into the extrapolation definition that is applied annually to calculate the last out-year of the multi-annual estimates (the Danish procedure).

- The Dutch government may consider formulating the duty of line ministries to provide information to the Ministry of Finance in the Budget Code more broadly than is currently the case, in such a way that it explicitly includes the duty to provide information on savings options that can be used in spending reviews initiated by the Ministry of Finance.
- The Dutch government may consider moving to a quadrennial procedure of spending review, connected to the establishment of the expenditure framework along the British lines.
- The Dutch government may consider abolishing the statutory assurance task of the internal audit divisions and transferring this task to the Court of Accounts.

Separation of financing of agencies from steering and control of outputs

- The Dutch government may consider separating more clearly the steering and control of outputs of executive agencies from the budget process. Budgeting should take place on the basis of robust financing rules, partly based on need indicators (capacity budgeting). Agencies should be required to provide transparent information on the input mix and the input costs that allow the minister to assess cost per output. The Ministry of Finance should play a leading role in the improvement of cost information about the agencies and be represented in budget negotiations with agencies. An agency efficiency centre could be established in the Ministry of Finance that would provide the line ministries with information and analysis about the costs of agencies that could be used in budget negotiations.
- Steering and control of the performance of arm's-length agencies is essential, but performance targets and performance realisations should be set, monitored and evaluated in a performance dialogue running throughout the year. This task should be fulfilled by the line minister who is responsible for executive policy of the agencies.
- The Dutch government may consider abolishing exemptions from government-wide standards for operational management that are currently enjoyed by arm's-length agencies. Independent agencies that are tasked with administrative activities can also be brought

under the government-wide rules for operational management (not independent agencies tasked with service delivery).

Survey of the reforms

Table 0.1 provides an overview of quality improvement and potential savings of the ten priority reforms discussed in this report. Savings are characterised in relation to current operational costs of the units concerned. Savings could not be quantified by the OECD Secretariat but are estimated as moderate or large in the light of available information. A moderate saving (less than 20%) of a large unit can be larger than a large saving (more than 20%) of a small unit.

Table 0.1. **Overview of quality improvement and potential savings of reforms**

	Reform	Quality improvement in administration	Quality improvement in service delivery	Savings
Reform 1	Consistent division of policy-making competencies across levels of government	X	X	Large (for the tasks to be transferred)
Reform 2	Sectoral career development	X		
Reform 3	Better use of executive and professional expertise in policy development	X	X	
Reform 4	Process sharing among executive units and merging of executive units	X	X	Moderate (for the units involved)
Reform 5	Independent supervisors/regulators		X	
Reform 6	Concentration of standard setting for operational management	X		Moderate (for the total of administrative expenditure)
Reform 7	Automatic productivity cuts			Moderate (for the total of administrative expenditure)
Reform 8	Strengthening the spending review procedure	X		
Reform 9	Focus on risk control in internal audit; strict separation from external audit			Large (for the total of internal audit divisions)
Reform 10	Separation of budgeting from output steering and control for arm's-length and independent agencies		X	Unknown, but potentially large

Chapter 1

Introduction: Value for money in government

The study on value for money in government

This report presents the results of an assessment regarding the organisation of the central government of the Netherlands. This report is part of the OECD *Value for Money in Government* series. The series reports on a multi-annual study that aims to identify reforms and plans for reform currently undertaken or planned in OECD member countries that are interesting from the point of view of value for money. The study looks at reforms aimed to improve the quality of services (more value) and efficiency (less money) in central government.

This assessment is based on the inventory of some 70 reforms and reform trends concerning the central government currently undertaken or planned in OECD member countries. These reforms and reform trends will be presented in the final report of the Value for Money study, *Building on Basics* (OECD, forthcoming).

Sources of information

In order to collect information, the OECD Secretariat has carried out fact-finding missions to the countries for which country assessments will be produced. Thus far, these countries include: Australia, Austria, Denmark, the Netherlands and Sweden. Furthermore, three questionnaires have been sent to eight additional countries that offered to provide information to the Value for Money study. These countries are: Canada, Finland, France, Ireland, New Zealand, Norway, Spain and the United Kingdom. Furthermore, use has been made of OECD databases and those of other international organisations.

Quantitative data on employment are drawn from the *Public Finance and Employment Database* (PFED) of the OECD. Thus far, this database covers 16 European countries. As far as the countries participating in the Value for Money study are concerned, the PFED does not cover Australia, Canada, France, Ireland or New Zealand.[1] In addition, data have been provided to the OECD about administrative employment (the snapshots of the public administration) by most countries participating in the Value for Money study.[2]

Variety of institutions, common language

In spite of common features, such as representative democracy, rule of law, market economy and broad public social security arrangements, the variety of public administration institutions in OECD member countries is large. This variety is the result of centuries of historical development, geographical circumstances, national values and political traditions. As a consequence, the national vocabulary that is used for describing the administrative institutions differs between countries. Any term in one national vocabulary will have a different meaning or connotation in the vocabulary of another country. Some examples include elementary terms such as agency, ministry, service delivery, administration, civil service, etc.

In this context, a comparative description can only begin after a common language has been established. Such a common language will surely be at odds with the national ways of speaking about institutional arrangements. The Value for Money study has opted for using existing terms but giving them new meanings, while alerting the readers that these meanings do not coincide with those of the national vocabulary. The terminology is explained, when necessary, in the text. In addition, it is summarised in the glossary in Annex A.

Building on basics

During the 1980s and 1990s, the organisation of government was profoundly influenced in all countries participating in the Value for Money study by the ideas of New Public Management. Some countries went further than others in reforming their governments along these lines. Among the ones that went the furthest are Australia, New Zealand and the United Kingdom. The Netherlands also went rather far. It has since become clear in all countries concerned that these reforms led to some unexpected results, such as the undesired growth of support services and administrative executive agencies, the accumulation of public funds in independent agencies outside the control of government, and the loss of control at the centre of government (in the Prime Minister's Office and in the ministries responsible for finance and operational management). Critics say that New Public Management has also led to a decline of service quality for citizens and businesses in many areas of public service delivery and has demotivated professionals in service delivery (care providers, teachers, police officials, etc.). The difficulties with the New Public Management reforms will be further analysed in a forthcoming Value for Money report, *Building on Basics*. For the present report, it is sufficient to observe that, in a number

of the countries that have provided information to this project, a distinct swing back from the New Public Management reforms can be observed. A swing back is particularly noticeable in the countries that the OECD Secretariat visited on fact-finding missions (Australia, Denmark, the Netherlands and Sweden).

However, new trends cannot simply be described as "back to basics". There are also distinctly new trends that build on basics, including:

- a more consistent division of tasks between levels of government;
- vertical integration: better use of executive and professional expertise in policy development;
- horizontal integration: process sharing among executive agencies and merging of agencies; sharing of support services;
- stricter standards of operational management;
- separation of financing of agencies from steering and control of outputs.

Some of these trends are connected with the development of ICT, which provides new opportunities for improving service quality and ease of communication with the government, and with more tailor-made service provision to citizens and businesses. In this light, current developments in public administration can be characterised as building on basics rather than back to basics.

Contents of the assessment

Chapter 2 will provide facts and quantitative benchmarks on the Dutch central government compared to other countries. Chapter 3 will briefly review the reforms concerning the organisation of central government that have been undertaken in last decades in the Netherlands. Chapter 4 will focus on ten areas of reform that are interesting for the Netherlands in view of what other countries have achieved or are envisaging to achieve. The ten reforms selected are by no means the only reforms identified in the Value for Money study that are relevant for the Netherlands. The present country assessment has selected the ten reforms that were considered the most interesting for the particular case of the Netherlands. For each area of reform, recommendations will be provided specifically tailored for the Netherlands. Chapter 4 will conclude with a survey of the effects on the quality of services and the potential savings. Since the size of the savings is dependent on factors that the OECD Secretariat cannot estimate, the size of the savings will be characterised in qualitative terms.

Notes

1. The PFED is based on other international databases, in particular the *Laborsta database* of the ILO (International Labour Organisation) and the *Eurostat database* of the EU (European Union). Eurostat does not collect data for non-European countries (Australia, Canada, New Zealand) and, for some European countries, the Eurostat data are not complete or not yet released (France, Ireland).

2. Data have not yet been provided by France, Ireland, New Zealand, Sweden or the United Kingdom. A questionnaire was used in 2008 to develop the snapshots that were published in *Value for Money in Government: Public Administration after "New Public Management"* (OECD, 2010a). These data have been updated in the present report following a new questionnaire in January 2010.

Chapter 2

Benchmarks for the Dutch central government

Basic features

The Netherlands is a country of small size in terms of territory and intermediate size in terms of population and GDP. Its constitutional structure characterises it as a parliamentary democracy. Parliament is elected on the basis of proportional representation. Cabinets are based on coalitions between two or three major parties. Basic statistics about the Netherlands are provided in Table 2.1.

General government employment

The size of employment in central government and in general government (including local government) for the Netherlands is about average.[1] However, this observation is strongly affected by the organisation of the education and health sectors in all the countries concerned. In the Nordic countries, Spain and the United Kingdom, health is entirely inside the government sector; in the Netherlands, it is entirely in the corporate sector. Similarly, in the Nordic countries, Spain and the United Kingdom, private education is entirely outside the government sector. In the Netherlands, all education is in the government sector, including educational establishments owned by private institutions (*bijzonder onderwijs*) which constitute about two-thirds of primary and secondary education.[2] In this light, a sensible comparison can only be made by leaving health and education aside. Figure 2.1 presents central and general government employment excluding health and education per 1 000 inhabitants and as a percentage of domestic employment. Total government employment includes both administrative activities and service delivery. The sub-sector of social security has been merged with the central government in this figure as well as in all of the following tables of this chapter.[3]

It appears from Figure 2.1 that, without health and education, the size of general government employment is still in an intermediate position. The size of central government is surprisingly similar between the countries (4 or 5% of domestic employment; 14-22 government employees per 1 000 inhabitants). The Netherlands and Norway have 5% employment in general government, compared to 4% in all other countries. As far as general government is concerned, the Netherlands is in an intermediate position, with larger government employment relative to domestic employment than Spain and the United Kingdom, but lower than the Nordic countries.

Table 2.1. **Basic statistics of the Netherlands (2009)**

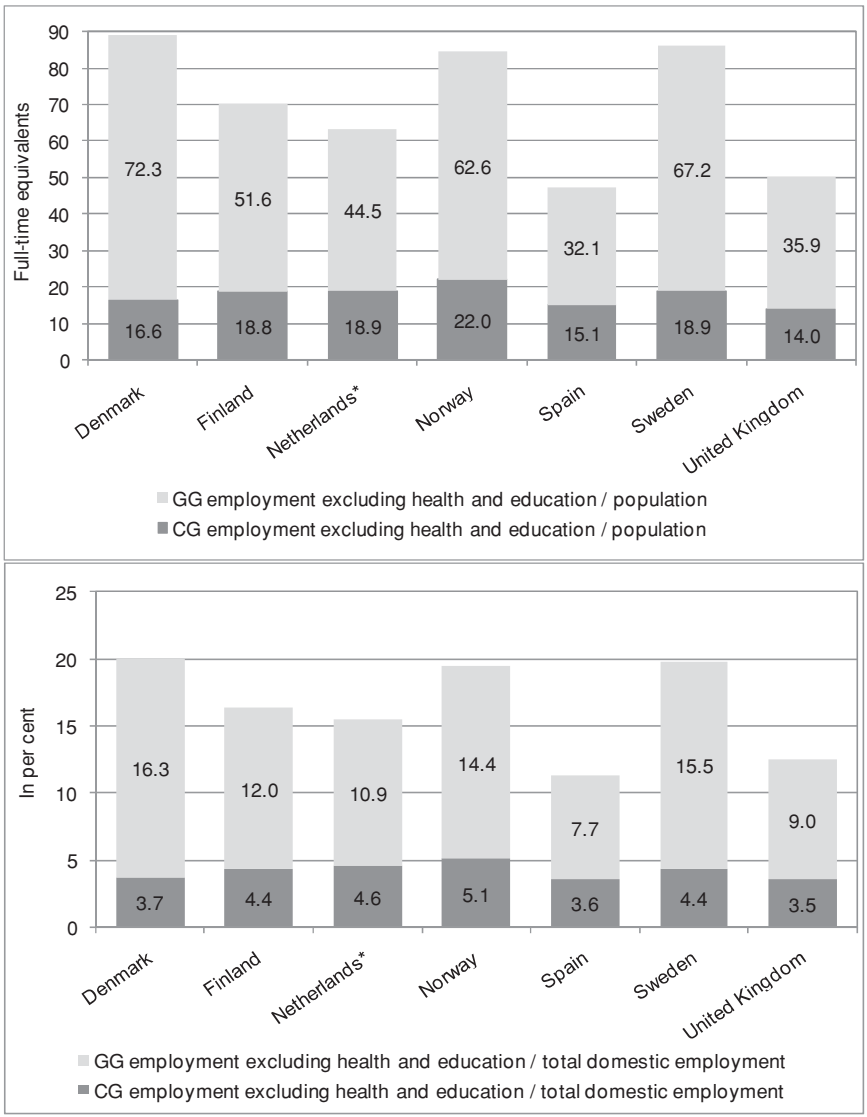
Land and population	
Area (1 000 km^2)	42
Population (x 1 000)	16 417.7
Inhabitants (per km^2)	489
Employment (full-time equivalent x 1 000)	8 638.5
of which: agriculture	222.3
industry and construction	1 549.1
other	6 867.1
Production	
Gross domestic product (EUR billions)	570.2
Gross domestic product per head (EUR thousands)	34.7
General government	
Total expenditures (% GDP)	48.9
Total revenues (% GDP)	46
Deficit (ESA95*) (% GDP)	5.2
Public debt (% GDP)	60.8
Central government	
Total expenditures (% GDP)	30.8
Total revenues (% GDP)	27.4
Deficit (ESA95*) (% GDP)	3.4
Public debt (% GDP)	49.9
Politics	
Composition of parliament (elections 2007)	150
of which: Christian Democrat Appeal (CDA)	41
Labour Party (PvdA)	32
Socialist Party	26
Popular Party for Freedom and Democracy (VVD)	22
Others	29

* ESA95 is the *European System of Accounts* (see Eurostat, 1996).

Source: OECD, *OECD National Accounts*; *OECD Labour Force Statistics,* OECD Publishing, Paris.

Figure 2.1. **Employment in general and central government excluding health and education relative to population and domestic employment**

Full-time equivalents (FTE) per 1 000 inhabitants and % of domestic employment in FTE (2006)



* Data from the Netherlands are for 2004.

Source: OECD Public Finance and Employment Database (PFED).

The centralisation rate of the Netherlands is 42.5, which is rather high, but lower than Spain (see Table 2.2). It is important in this respect to remember that the police is counted in the national accounts as central government employment although the police corps are in fact controlled by the mayors of the larger cities. Another caveat concerning Table 2.2 is that the Nordic countries are much more decentralised than the OECD average and somewhat overrepresented in this table. Among OECD member countries, the Netherlands is in an intermediate range together with the United Kingdom, between the more centralised countries such as Spain and the more decentralised ones such as Denmark and Sweden.

Table 2.2. **Employment in general government excluding health and education by level of government**

Per cent of total general government in full-time equivalents (2006)

	Denmark	Finland	Netherlands[1]	Norway	Spain	Sweden	United Kingdom	Average
Central government	23.0	36.5	42.5	35.2	47.1	28.2	39.1	36.9
State government					15.0			2.1 (15.0)[2]
Local government	77.0	63.5	57.4	64.8	37.8	71.8	60.9	60.1
General government	100	100	100	100	100	100	100	100

1. Data for the Netherlands are for 2004.

2. For the calculation of the averages, employment in state government was considered to be 0 for the unitary countries. The number in parentheses is the true average of the federal countries (in this case, only Spain).

Source: OECD Public Finance and Employment Database (PFED).

More information about the distribution of employment over public organisations is available from the snapshots of the public service provided by participating countries. Snapshots have been submitted by 7 of the 13 countries participating in the Value for Money project. The snapshots only contain information about administrative employment, not service delivery. Administrative employment excludes: the military, the police, staff of penitentiary institutions, other collective service delivery (for instance, units for construction or management of transport infrastructure), all non-profit institutions classified inside central government in the national accounts, all educational institutions, health providers, and other institutions involved in individual service delivery (cultural services, social services, etc.).[4] The snapshots make it possible to distinguish between employment in core

ministries, in arm's-length agencies and in independent agencies. An agency is defined as a unit of a ministry with a separate financial administration. An arm's-length agency is defined as an agency for which the minister is responsible as far as executive policy is concerned (not necessarily for handling individual cases). An independent agency is an agency for which the minister is not responsible as far as policy execution is concerned (neither for handling individual cases nor for executive policy). Table 2.3 shows the distribution of central government employment among these three kinds of organisations. The difference between the totals of administrative employment as shown in Table 2.3 and the totals of central government employment excluding health and education shown in Table 2.2 are due to service delivery employment (including service delivery in education and health).[5]

In spite of the arm's-length agency reform of the 1990s, it turns out that the Netherlands still has relatively large employment in the core ministries compared to all other countries. However, this picture is strongly affected by the fact that the Tax Service is still part of a core ministry. If the Tax Service were to be transformed into an arm's-length agency, the share of core ministries in Dutch central government employment would fall to 20.8% (still larger than in the Nordic countries, but substantially lower than in Australia, Austria and Spain) and the share of arm's-length agencies would rise to 42%.

Table 2.3. **Central government administrative employment by type of organisation**

Per cent of total administrative central government employment in full-time equivalents (2009)

	Australia	Austria	Denmark	Finland	Netherlands	Norway	Spain	Average
Core ministries	42.0	29.7	6.2	10.4	43.2	8.7	36.1	25.2
Arm's-length agencies	58.0	47.3	80.5	80.8	21.7	86.8	63.3	62.6
Independent agencies	0	23.0	13.3	8.7	35.1	4.5	0.6	12.2
Total	100	100	100	100	100	100	100	100

Source: Country responses to the questionnaire of January 2010 (see note 2 in Chapter 1).

The snapshots also allow comparisons of the division of employment over the four activities of government (policy development, administrative policy execution, supervisory/regulatory activities and support services). Table 2.4 shows the resulting picture. It should be emphasised that, in spite of detailed guidelines, countries reported difficulties in completing the

snapshots and particularly in the distribution of employment over the four activities of government.

Although the data in Table 2.4 must be taken with a grain of salt, it appears that the Netherlands has relatively small employment in the area of policy development, similar to the Nordic countries. Supervisory/regulatory activities and support service units also seem to be very moderate in size. It should be said, though, that the quality of the Danish snapshot seems to be the best of all countries (in the sense that employment has been split out at a very low level in the organisation) and, in comparison to Denmark, the Netherlands has relatively high levels of policy development, supervisory/regulatory activities and support services.

Table 2.4. **Central government administrative employment by type of activity**

Per cent of total central government in full-time equivalents (2009)

	Australia	Austria	Canada	Denmark	Finland	Netherlands	Norway	Spain	Average*
Policy development	18.5	15.0	n.a.	5.1	8.5	8.2	9.0	18.9	10.4 (11.9)
Administrative policy execution	31.5	48.7	n.a.	88.9	68.5	78.7	57.4	70.5	55.5 (63.5)
Regulatory/supervisory activities	17.0	13.8	9.1	4.9	7.0	6.0	27.5	0.5	10.7
Support services	33.0	22.5	18.3	1.1	16.1	7.0	6.1	10.0	14.3
Total	100	100	100	100	100	100	100	100	100

* Averages are calculated using 0 for unavailable data. The number in parentheses is the true average for the countries for which data are available.

Source: Country responses to the questionnaire of January 2010 (see note 2 in Chapter 1).

Countries also provided information on support service employment by kind of support service. The resulting picture is provided in Table 2.5.

Table 2.5. **Central government employment in support services**

Absolute and per cent of total central government support services in full-time equivalents (2009)

	Australia		Austria		Canada		Denmark		Finland		Netherlands[1]		Norway		Spain		Average[2] (%)
	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	
Finance	7 706	22.5	1 082	16.5	4 700	9.4	350	48.5	1 720	20.1	993.0	12.0	364	12.2	4 402	16.8	19.8
HR and organisation	5 071	14.8	1 118	17.1	9 800	19.5	111	15.4	1 810	21.2	2 738.8	33.2	75	2.5	4 013	15.3	17.4
Information and ICT	10 674	31.1	1 834	28.0	19 700	39.2	171	23.7	2 080	24.3	1 190.8	14.4	1 264	42.4	6 384	24.3	28.5
Internal audit	n.a.	n.a.	142	2.2	700	1.4	n.a.	n.a.	60	0.7	853.6	10.3	n.a.	n.a.	n.a.	n.a.	18 (3.7)
Procurement	n.a.	n.a.	204	3.1	3 200	6.4	n.a.	n.a.	280	3.3	0.0	0.0	58	1.9	n.a.	n.a.	18 (2.9)
Communication	n.a.	n.a.	261	4.0	3 600	7.2	n.a.	n.a.	1 000	11.7	965.6	11.7	225	7.6	n.a.	n.a.	5.3 (8.4)
Accomodation, real estate and facilities	n.a.	n.a.	1 900	29.0	8 000	15.9	90	12.5	1 600	18.7	1 508.1	18.3	992	33.3	11 425	43.6	21.4 (24.5)
Other corporate	10 850	31.6	n.a.	n.a.	500	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.1 (16.3)
Total	34 301	100	6 541	100	50 200	100	722	100	8 550	100	8 250	100	2 978	100	26 224	100	100

1. Data for the Netherlands are for 2006.
2. Averages are calculated using 0 for unavailable data. The number in parentheses is the true average for the countries for which data are available.

Source: Country responses to the questionnaire of January 2010 (see note 2 in Chapter 1).

Table 2.5 must also be taken with a grain of salt, in view of lacking data and sometimes poor quality data, but nevertheless it is interesting to note that the Netherlands spends a relatively large amount on the support services of human resources and organisation, internal audit (three times the average) and communication, and relatively little on the support services of finance, information and ICT (half of the average), and accommodation, real estate and facilities.

General government expenditures

Obviously, employment is not the only indicator of the size of government. Expenditures are equally important. Expenditures include all operational expenditure (including compensation of employment) as well as all programme expenditure (social benefits, transfers to subnational government, public contributions and subsidies to the corporate sector, and most investment). Table 2.6 presents general government expenditures per sub-sector and for general government as a whole, as a percentage of general government expenditure. Note that the sum of the sub-sectors exceeds general government expenditure as a consequence of transfers between sub-sectors.

Table 2.6. **General government expenditures by level of government**

Per cent of general government expenditure (2007)

	Austria	Denmark	Finland	France	Ireland	Netherlands	New Zealand	Norway	Spain	Sweden	United Kingdom	Average
Central government	88.0	75.8	80.8	87.9	91.4	95.2	89.3	79.2	67.7	65.3	91.5	82.9
State government	17.8								38.0			5.1* (27.9)
Local government	15.3	63.1	40.7	21.5	19.7	34.1	10.7	32.5	16.9	46.6	29.1	30.0
General government	100	100	100	100	100	100	100	100	100	100	100	100

* There are two federal countries (Austria and Spain). For the calculation of the averages, employment in state government was considered to be 0 for the other countries. The true average for the federal countries is provided in parentheses.

Source: OECD Public Finance and Employment Database (PFED).

It turns out that, by expenditures, the Netherlands is less centralised than the average (34.1% local government expenditures versus 30.0% average). It is true that the rate of central spending is very high (95.2%) but this includes all transfers to the provinces and the municipalities (which are counted again as subnational spending). Using this measure, Austria, France, New Zealand, Spain and the United Kingdom are more centralised and the Nordic countries are more decentralised. This confirms the picture that the Netherlands is in the intermediate range and, by expenditures, closer to the decentralised Nordic countries than to the centralised large European countries such as France, Spain and the United Kingdom.

Patterns of central government spending vary considerably between the countries participating in the Value for Money study. This is mostly due to different policies concerning privatisation and decentralisation. Some countries leave more tasks to the market sector of the economy than others. Similarly, some countries decentralise more tasks to local and/or state government. In federal states, the tasks of state government are often determined by the federal constitution. Table 2.7 provides an overview of spending patterns over policy areas in the central government of the countries participating in the Value for Money study.

The Netherlands spends above average on general governance services (Tax Service, Foreign Service, High Colleges of State, etc.), basic research, public order and safety, service regulation, interest, health, education and social services (almost twice the average percentage). In terms of kinds of spending, the Netherlands spends less than average on collective goods and more than average on individual goods, particularly on individual services in kind (not so much on social cash benefits).

Patterns of spending have an impact on government employment, mostly via two channels. The first is the rate of outsourcing, which reduces government employment. The second is the labour intensity of outputs. A higher priority for labour-intensive outputs leads to higher government employment. An analysis of both transmission channels between expenditure patterns and employment can be found in *Value for Money in Government: Public Administration after "New Public Management"* (OECD, 2010a). It turns out that, in the Netherlands, the rate of outsourcing (the share of intermediate consumption in total expenditure) is about average. However, the Netherlands spends relatively a lot on labour-intensive policy areas such as general governance services (which includes the Tax Service, the Foreign Service and High Colleges of State), public order and safety (which includes the police and the penitentiary institutions) and service regulation (which includes most policy development in the areas of social services, health, education, market subsidies and culture).

Table 2.7. **Central government expenditures by policy area**

Per cent of central government expenditure (2007)

	AUT	DNK	FIN	FRA	IRL	NLD[1]	NOR	ESP	SWE	GBR	Ave[2]
General governance services	1.6	n.a.	2.3	0.0	0.1	4.6	2.6	1.5	3.4	1.8	1.8 (2.0)
Basic research	0.7	n.a.	1.2	0.0	n.a.	1.8	0.3	0.8	2.0	0.0	0.7 (0.8)
Defence	2.0	n.a.	n.a.	3.9	1.5	3.3	5.0	3.9	4.6	5.9	3.0 (3.7)
Public order and safety	2.9	n.a.	2.6	2.0	3.8	3.8	2.4	4.0	3.3	4.5	2.9 (3.3)
Infrastructure and network services	3.6	n.a.	n.a.	n.a.	n.a.	3.7	4.8	5.0	5.4	3.8	2.6 (4.4)
Environmental, development and community services	1.4	n.a.	n.a.	n.a.	n.a.	0.6	0.4	0.4	0.4	2.4	0.6 (0.9)
Service regulation	2.6	n.a.	n.a.	n.a.	n.a.	3.3	2.0	1.4	2.8	1.2	1.3 (2.2)
Total collective services in kind	14.9	n.a.	n.a.	n.a.	n.a.	21.1	17.4	17.0	22.0	19.5	11.2 (18.7)
Foreign economic aid	0.1	2.6	0.8	n.a.	n.a.	1.6	2.5	0.7	2.1	0.6	1.1 (1.4)
General purpose and block grants	3.8	n.a.	4.9	0.6	0.0	7.0	9.6	28.2	10.9	8.5	7.3 (8.2)
Interest	6.4	n.a.	3.6	0.0	0.0	4.4	2.5	5.0	4.5	5.4	3.2 (3.5)
Total cash transfers	10.3	n.a.	9.2	0.6	0.0	13.1	14.7	33.8	17.5	14.5	11.4 (12.6)
Total collective services and transfers	25.2	n.a.	n.a.	n.a.	n.a.	34.2	32.1	50.8	39.6	34.1	21.6 (36.0)
Health	13.6	n.a.	6.9	16.6	n.a.	12.4	16.2	1.5	3.8	17.9	8.9 (11.1)
Non-market recreation, culture and religion	1.0	n.a.	n.a.	n.a.	n.a.	0.6	1.0	1.2	0.8	1.4	0.6 (1.0)
Education	7.8	n.a.	n.a.	n.a.	13.7	10.0	5.7	0.6	5.3	12.3	5.6 (7.9)
Social services	12.0	n.a.	11.6	6.7	1.4	11.3	6.1	1.2	6.4	5.6	6.2 (6.9)
Market subsidies	2.6	n.a.	2.9	1.2	1.7	1.5	3.8	2.2	2.2	1.0	1.9 (2.1)
Total individual services in kind	36.9	n.a.	n.a.	n.a.	n.a.	35.8	32.9	6.7	18.6	38.1	16.9 (28.2)
Social cash transfers	37.9	n.a.	37.5	38.3	28.3	30.0	35.0	42.4	41.8	27.8	31.9 (35.5)
Total individual services and transfers	74.8	n.a.	n.a.	n.a.	n.a.	65.8	67.9	49.2	60.4	65.9	38.4 (64.0)
Total central government	100	100	100	100	100	100	100	100	100	100	100

1. Data from the Netherlands are for 2006.

2. Averages are calculated using 0 for unavailable data. The number in parentheses is the true average for the countries for which data are available.

Source: OECD Public Finance and Employment Database (PFED).

General government revenues

An important feature of local government in the Netherlands is its small tax base and own tax revenue. Almost 90% of local government revenue comes from central government transfers, about equally divided over earmarked transfers and general purpose and block grants. Table 2.8 gives an overview of own tax revenue as a share of total revenue in the sub-sectors of general government.

As appears from Table 2.8, the own tax share in total revenue of local government is the lowest in the Netherlands (11%). Other countries with low local tax revenue are Ireland and the United Kingdom. All other countries have local tax shares above 30%. Apart from transfers, the non-tax revenues are sales, fees, property income and subsidies.

Table 2.8. **Own tax revenue as share of total revenue by sub-sector of general government**

Per cent of total revenue (2008)

	Austria	Canada	Denmark	Finland	France	Ireland	Netherlands	New Zealand*	Norway	Spain	Sweden	United Kingdom	Average
Central government	83.8	91.2	85.3	75.1	92.6	93.2	84.9	84.6	72.2	91.7	85.2	94.8	86.2
State government	42.8	58.0								52.3			12.8 (51.1)
Local government	66.0	39.5	37.5	47.0	45.8	13.5	10.7	53.4	41.8	49.5	66.9	14.9	40.5

* Data for New Zealand are for 2007.

Source: OECD Public Finance and Employment Database (PFED).

Notes

1. An extensive analysis of the size of Dutch public employment was provided in OECD, 2010a.
2. These institutions are supposed to be controlled by government and hence attributed to the government sector in the national accounts.
3. Countries outside the EU can opt to merge the social security sector with the central government in the national accounts (SNA83; see United Nations *et al*., 1993). According to the ESA95 (Eurostat, 1996), EU countries are required to present separate accounts for social security. In order to secure comparability between countries, the social security sector has been merged with the central government in this chapter for all countries (including EU countries).
4. Administrative employment also excludes the parliament and its staff, the head of state and her/his staff, the supreme audit institution and its staff, and the judicial branch and its staff (public prosecutors and their staff are not part of the judicial branch and are thus included in the snapshots).
5. In addition, the differences are due to some administrative employment in health and education that are also excluded from Table 2.2.

Chapter 3

Overview of previous Dutch reforms

Three periods of reform

Since the 1980s, three periods of reform can be distinguished in the Netherlands, as is also the case in many OECD member countries. The 1980s were years of "receding government". Policies in these years were inspired by the theory of supply-side economics that emphasised the burden of large government on society and the adverse effects of high tax levels on economic growth. These were the years of the Reagan administration in the United States, of the Thatcher government in the United Kingdom, and of the "no-nonsense" cabinets of Prime Minister Lubbers in the Netherlands. In this period, the spending review procedure was developed and the "grand operations" (see below) had a far-reaching impact on the size and structure of government.

The 1990s and much of the first decade of the current century were the years of "New Public Management". Arm's-length agencies were established in the Netherlands. This reform was inspired by the "Next Steps" agencies in the United Kingdom. Furthermore, the operation "From Policy Budget to Policy Accounts" (*Van Beleidsbegroting tot Beleidsverantwoording*, VBTB) was launched, which led to far-reaching reforms of the budget classification and presentation. Major reforms of programme expenditures were also carried out during these years, particularly in the sphere of social security, but these reforms are not the focus of the present study which is mainly concerned with the organisation of government.

In the last few years, a certain swing back from the New Public Management reforms can be observed, and simultaneously new ideas have come to the fore. In this period, the "Central Government Reform" was launched.

Spending review

The spending review procedure was introduced in the Netherlands in 1981. At that time, the country was facing a severe fiscal crisis. The cash deficit had reached a level of 8% as a consequence of a fallback in gas revenues that had been used in previous years to fund ordinary expenditures (Dutch disease) in combination with an abundant development of real wages (affecting social security benefits and public sector salaries) and a downturn of GDP. In view of the basic asymmetry of the regular budget process (which produces good options for new spending but no good options for new savings), the outgoing Cabinet decided to introduce a new procedure to

generate proposals for savings co-ordinated by the Ministry of Finance. In the first two years of its existence, the procedure yielded some 70 reports. In subsequent years until the beginning of the new century, the number of annual reports stabilised at 5 to 15 reports annually. There was always a mixture of reports focused on specific policy areas and "horizontal" reports (44 horizontal reports out of 243 total reports in the period 1981-2006). The procedure has weakened considerably in recent years, and the number of annual reports in certain years dropped to below five. In 2009, the procedure was revived as a consequence of the financial crisis. In 2010, 20 reports were produced, covering 80% of central government expenditures.

In terms of savings, the procedure was quite effective. The 70 reports of the first two years were used in the Cabinet formation of 1982 and led to savings of some NLG 7 billion (EUR 3.2 billion) in the government programme of that year and subsequently implemented in the annual budget process. In the period between 1984 and 1997, savings of some NLG 9 billion (EUR 4.1 billion) were decided in Cabinet programmes and the annual budget process. The savings options in the reports were of course much higher than the savings. On average, the realised savings amounted to about 25% of the savings options (based on results over the period 1981-91).

Grand operations

The 1980s were the years of the "grand operations" in the Netherlands. These included: *i)* decentralisation; *ii)* deregulation; *iii)* privatisation; *iv)* personnel reduction; and *v)* re-organisation of central government. The first three of these originated in spending review reports in 1982 and 1983 (spending review was therefore called the "mother of the grand operations"). These operations were also organised along similar lines as the spending review procedure: working parties of civil servants and external experts for separate policy areas chaired by prominent persons who did not bear responsibility for current policies; the secretariat of all working groups in a central ministry (Interior and Kingdom Relations for decentralisation, Justice and Economic Affairs for deregulation; Finance for privatisation); and supervision by a committee of high-ranking civil servants of central ministries.

The grand operations led to mixed results. The privatisation operation and the personnel reduction operation were relatively successful; the other operations less so. Successive Cabinets in this period followed a policy of sustained deficit reduction. From 1981 to 1990, the central government cash deficit was reduced from 8% to less than 3%. Fiscal policy supported the grand operations because it provided the necessary incentives to achieve the often controversial reforms.

Arm's-length agencies

The first arm's-length agencies were introduced in the Netherlands in 1994 on the basis of the Spending Review 1991 "Rules for Operational Management" and the revision in 1995[1] of the Budget Code of 1976. An important consideration for introducing arm's-length agency status was that, in the 1980s, independent agencies were created with the main purpose of escaping the standards for operational management that applied to central government but not to independent agencies. Arm's-length agencies were given a separate financial administration, split off from the core ministry. They were allowed more freedom for carrying over resources to the next budget year and operational management mainly in the sphere of accommodation, real estate and facilities and, since 1997, based on accruals accounting. Conditions for the establishment of arm's-length agencies included: *i)* outputs should be measurable; *ii)* there should be potential for more efficient performance; and *iii)* there should be a financial administration that allows the agency to control outputs and costs. Compliance with these conditions would be checked by the Ministry of Finance and the Ministry of the Interior and Kingdom Relations and assured by a declaration from an independent accountant. An important inspiration for the establishment of the arm's-length agency status was the "Next Steps" agencies introduced in the United Kingdom.

The number of arm's-length agencies was gradually expanded from 4 in 1994 to 43 currently. This development did not always proceed smoothly. In particular, the parliament and the Court of Accounts were concerned about the potential loss of control and undertook many initiatives to obtain better guarantees in this respect. In 1999, a borrowing facility was created for arm's-length agencies. At the same time, carry-over and savings facilities were restricted (henceforth saving was only allowed to provide a buffer function in case of volatile expenditures, but no longer for investment).

Currently, 37.4% of central government employees work in arm's-length agencies. However, the process of agency formation remains incomplete. Some major executive units remain inside core ministries and some executive units that became independent agencies before 1994 for the wrong reasons (to acquire agency facilities before the status of arm's-length agencies was created) have not been converted into arm's-length agencies.

"From Policy Budget to Policy Accounts"

In 1998, on the basis of various reports concerning aspects of budget presentation and documentation, the Cabinet launched the reform called "From Policy Budget to Policy Accounts" (*Van Beleidsbegroting to Beleidsverantwoording*, VBTB). This amounted to a complete revision of the budget presentation and documentation as well as of financial reporting. The reform was applied to all budgetary and financial reporting documents from 2002. The essence of this reform was that both the budget and the financial reports should focus on the link between policy, performance and resources.

In order to emphasise the link between policy, performance and resources in both the budget and the financial reports, three questions should be answered (the so-called WWW questions):

- In the budget:
  - What do we want to achieve?
  - What are we going to do for that purpose?
  - What is the maximal cost?
- In the financial reports:
  - Did we attain what we wanted to achieve?
  - Did we do what we wanted to do for that purpose?
  - Did the cost remain within the amount planned?

In order to achieve a better budget presentation and documentation along these lines, the contents and the structure of the budget documents were entirely overhauled. Henceforth, the budget documentation for each budget chapter (mostly a ministry) had to be uniform for all chapters (mostly ministries) and had to contain, among other things:

- a budget table (expenditures and revenues per chapter in one table); this part has legal status in that it authorises expenditures and revenue collection; the number of articles is around 10 per chapter, defined on the basis of policy areas or programmes (140 in total);
- a policy agenda which formulates the main priorities of the ministry;

- a "budgetary consequences of policy" table which divides each article of the budget into sub-areas mainly according to types of outputs ("operational targets");
- policy articles, each specifying outcome targets, output targets and resources; outcomes and outputs quantified as much as possible.

The financial reports had to be structured in exactly the same way as the budget on the understanding that all components will be looking back to the previous year instead of forward to the next year. The financial reports had to be presented on the third Wednesday of May and debated by parliament in the same way as the budget is presented and debated on the third Tuesday of September and subsequent days. Whereas the main focus of the VBTB operation was the presentation of the budget and the financial reports, a second aim of the operation became more important in later years: more evidence-based policy making.

In 2004, the VBTB operation was evaluated. The evaluation looked both at the presentation of the budget and the financial reports and at more evidence-based policy making. The evaluation was based on interviews with users (mostly members of the Second Chamber). The contents of the budget and the financial reports were analysed by independent experts. The tenor of the evaluation was remarkably critical (see Second Chamber, 2004-05). In December 2004, the Minister of Finance sent this evaluation to the Second Chamber and simultaneously announced a number of changes to the VBTB approach. He stated, among other things, that the VBTB structure of the budget and the financial reports would be continued "but that performance measurement should only be included if sensible and relevant". For the latter purpose, a number of regulations concerning such data would be relaxed or abolished. Furthermore, the budget and the financial reports should be comprehensive and readable documents. Policy information should mainly be given in the policy documents of line ministers, not in the budget documentation. The budget annex with technical information would be abolished. The programming of evaluations would be focused on priority areas of reform. Information on budget execution would be made available on the Internet and continuously updated. These reforms were then implemented.

No major changes have been proposed in the presentation of the budget and the financial reports since 2004. However, the size of the documents has become smaller and smaller, and information on outcomes and outputs has been reduced from year to year without, however, a fundamental decision to remove such information entirely from the budget and the financial reports or to transfer such information to the policy documents of the line ministries.

"Central Government Reform"

Since the Cabinet formation of 2007, the Dutch government seems to have entered a new era. As was already clear from the evaluation of the operation "From Policy Budget to Policy Accounts", there are clearly new initiatives and trends that do not fit in the framework of New Public Management.

In 2006, the College of Secretaries General[2] produced the report "Beyond Compartmentalisation" in support of the preparation of the government programme 2007-11 (College of Secretaries General, 2006). This report stated that a better and smaller government was feasible if a number of conditions were met: less legislation (primary and secondary), simpler policy execution, less supervision/regulation, more investment in innovation and accompanying social policy. On the basis of this report, the Cabinet decided in the government programme to launch a far-reaching downsizing operation, leading to a 20% reduction of personnel in policy making, 25% in support services, 20% in supervisory/regulatory activities and 10% in (administrative) policy execution. (The armed forces and service delivery in non-state institutions and non-profit institutions inside central government were exempted: police, educational institutions and water authorities; care providers are not in the government sector in the Netherlands.)[3]

The Cabinet appointed a Secretary General for Central Government Reform, who was to lead the reform programme that would implement the personnel reduction.

In September 2007, shortly after the start of the Cabinet period, the Cabinet published a memorandum "Central Government Reform" that specified the reforms that would be taken in connection with the personnel reduction operation (Ministry of the Interior and Kingdom Relations, 2007). As far as policy making is concerned, these reforms applied to the tasks of the forecasting bureaux, the advisory councils, the legal divisions, the planning and control cycle, and the support service of communication. The report put a large emphasis on the simplification of legislation, which would lead to savings in both policy making and policy execution and simultaneously decrease the administrative burdens of the corporate sector, local governments and citizens. As far as support services are concerned, the report emphasised the importance of service sharing and the use of ICT, which could lead to large efficiency gains across the board.

In the beginning of 2010, ten reports were published as part of the "Central Government Reform" operation, looking among other things at future trends and developments facing the central government, political advisors, job mobility and new ways of working in the civil service (Ministry of the Interior and Kingdom Relations, 2010). The general tendency of these reports was that the era of New Public Management had ended. New tendencies were highlighted: more job mobility, horizontal co-ordination and integration, better steering of agencies and more focus on the specific characteristics of the government that distinguishes it from the market sector.

Notes

1. Sixth revision of the Budget Code of 1976, enacted in 1995 with retrospective force as from 1 January 1991.
2. In the Netherlands, the secretary general is the highest permanent (not politically appointed) official of a ministry. The College of Secretaries General is a committee of all secretaries general that meets regularly to discuss subjects of common interest. It does not take decisions.
3. In addition, the Royal Household, the High Colleges of State (parliament, Court of Accounts, etc.) and the courts were exempted.

Chapter 4

Reforming the Dutch central government: Recommendations

Ten priorities for reform

This chapter presents the ten reforms or reform trends from the list of 70 to be presented in *Building on Basics* (OECD, forthcoming) that, in the view of the OECD Secretariat, are particularly interesting for the Netherlands. Each section will conclude with recommendations to the Dutch government. Indications of potential quality improvements and savings will be provided in the final section.

As in *Building on Basics* (OECD, forthcoming), the reforms are organised by type of activity and type of organisation (the taxonomy underlying the snapshot of the public administration).[1] Nine of the ten reforms focus on the various types of government activity:

- Policy development:
  - consistent division of policy-making competencies across levels of government;
  - sectoral career development;
  - better use of executive and professional expertise in policy development.
- Policy execution:
  - process sharing among executive units and merging of executive units.
- Supervisory/regulatory activities:
  - independent supervisors/regulators.
- Support services:
  - concentration of standard setting for operational management;
  - automatic productivity cuts;
  - strengthening the spending review procedure;
  - focus on risk control in internal audit; strict separation from external audit.
- And one reform focuses on types of organisations:
  - separation of budgeting from output steering and control for arm's-length and independent agencies.

The following sections of this chapter focus on each separate reform.

Reform 1: Consistent division of policy-making competencies across levels of government

Features of Dutch decentralisation

In terms of expenditures and government employment, the Netherlands is in the intermediate range of centralisation among the countries participating in the Value for Money study. This was illustrated in Tables 2.2 and 2.6.

In addition, Dutch financial relations across levels of government are characterised by the following features:

- a large number of earmarked grants;
- low own tax revenues;
- strong equalisation, embedded in the non-earmarked general purpose and block grants.[2]

The large number of earmarked grants (59 in total of which 29 flowing from the Economic Structure Fund [FES], which is an investment fund largely fed by natural gas resources) is the consequence of the Dutch tradition of "co-governance" (*medebewind*). Co-governance basically amounts to policy setting by the central government and execution (administrative and/or service delivery) by local government. Central policies can be set in law (including secondary law), but not necessarily. They can also be set in the conditions of the grant, so-called golden strings (*gouden koorden*). Co-governance in this sense has always existed in the Netherlands but has exploded since World War II. There have been periodic attempts to clean up the number of earmarked grants, the latest one being the report of the Brinkman Commission (2005), but not always with a lasting effect.[3] In 2005, the Brinkman Commission proposed to drastically diminish the number of earmarked grants and simultaneously decrease the bureaucracy around the accountability for spending from earmarked grants. Based on this proposal, the government programme of the current Cabinet envisaged a decrease of the number of earmarked grants by 50%. This has mostly been realised (largely by merging grants), but in the meantime a number of new earmarked grants have arisen.

Dutch provinces and municipalities have small own tax revenues (see Table 2.8). This is not the consequence of a lack of tax competencies, but rather of the fact that there is no tax-sharing system in place in the Netherlands. In most OECD member countries, local governments receive a large share of their tax revenues from tax sharing – that is to say, from their

share in taxes that are levied at the national level. These tax shares are counted as own tax revenues in the national accounts.[4] In principle, the increase of the own tax share of subnational revenue can be realised in two different ways: *i)* by increasing the tax competencies of subnational government; and *ii)* by introducing or increasing the subnational share in national tax revenue. The choice between these two options is partly a question of how the merits of various tax bases are estimated. Subnational taxes are sometimes seen as more distortive (inferior from the allocational point of view) than national taxes. This is even true for the property tax in spite of the fact that it is in principle impossible to avoid (but the incidence is mostly on corporations and property-owning families, regardless of profits or income). In addition, there is a strong political aspect because local taxes are often highly visible, particularly the property tax. In the Netherlands, the discussion in the past has mostly focused on the expansion of the tax competencies of local government[5] not on the introduction of tax sharing as a way to increase the own tax revenues of subnational government.

Non-earmarked general purpose and block grants amount to 70% of local revenue in the Netherlands. This is exceptionally high, but mostly determined by the fact that the Netherlands uses a general purpose transfer rather than tax sharing to finance local government. In only two out of 20 OECD member countries for which data are available, the share of general purpose grants in the total revenue of local government is larger than the share of own taxes, including tax sharing (Korea and the Netherlands) (Bergvall *et al*., 2006). The differences are not very large. Both ways of financing local government usually include strong equalisation components for differences in local tax capacity and local needs.[6] Both ways of financing require periodical negotiations about the sharing formula with and among the local governments. Nevertheless, there are differences, which may be larger or smaller depending on the modality of the sharing arrangement. The most important differences are:

- Some components of the sharing formula may relate the local yields to income and profits earned within the boundaries of the jurisdiction, which may create a positive effect on economic growth.
- Some countries allow local governments discretion within a certain band over the rate of certain shared taxes, which may add to a sense of ownership and a more prudent use of the revenues collected.
- Tax sharing implies (by definition) risk sharing (for tax setbacks). On the other hand, general purpose grants may be proportional to expenditures (which is the case in the Netherlands). If expenditures are determined by a fixed multi-annual framework (also the case in the Netherlands), then general purpose grants are a more stable

source of local income than tax sharing. In addition, if the golden rule (currently prevailing in the Dutch case for local finance) were to be maintained under tax sharing, then local finance would become pro-cyclical and automatic stabilisation in the economy as a whole would be reduced. This could of course be avoided by abolishing the golden rule, but this would lead to a whole range of other problems.

In view of the previous considerations, the OECD Secretariat recommends undertaking a study on tax sharing as an alternative for financing local government. The OECD Secretariat does not, at this stage, recommend substituting general purpose grants for tax sharing. It is too early for such a conclusion. Without a doubt, a reform of this nature will lead to many complications, partly connected to the particularities of the Dutch situation (both on the tax side and the expenditure side of the central government budget). On the other hand, tax sharing has received relatively little interest in the Netherlands and, in light of the prevalence of this way of financing local government in most OECD member countries, it could be worthwhile for the Dutch government to undertake a study in this area.

Two roads toward decentralisation

Decentralisation can follow two roads:

- A more logical distribution of competencies among levels of government, accompanied by a strong clean-up operation in the area of earmarked grants in policy areas where more government levels are now involved.
- Task transfer from central to local government in areas that are now exclusively the domain of the central government.

The first road was recommended by the Working Group on Public Administration in a 2010 spending review. The working group adopted the recommendations of the de Grave Commission's report "It is Your Business or Not" (De Grave Commission, 2008). In this view, the tasks (including policy making) in the areas of social services, enduring care (as opposed to cure, which remains a central task) and youth care should be transferred to local government. Tasks in the areas of spatial and economic policy could be concentrated at the provincial level. Large successes have been achieved on this road in recent years by the decentralisation of social assistance (social security benefits for unemployed people who are not eligible for other social security benefits), leading to savings in the order of 25% of the costs, and by the decentralisation of the Law on Social Development (social work) and parts of the General Law on Special Care Costs. Further

decentralisation along this line was proposed by the Spending Review 2010 "Long-Term Care".

The second road has always been recognised as a logical consequence of the subsidiarity principle, but recently no major proposals for this road have been forthcoming. The subsidiarity principle says that tasks should be attributed to the lowest possible level. This is the level closest to citizens and, in view of varying preference patterns, the optimum level for allocation. There is a strong feeling in the Ministries of Internal Affairs and Finance in the Netherlands that, because of the small size of the country and the density of the population in a large part of the country, there is not much room left for decentralisation along this road.

Decentralisation conditional on amalgamation?

The economic theory of fiscal federalism recognises three counter-indications against decentralisation: external effects, economies of scale and policy coherence (Netherlands Bureau for Economic Policy Analysis, 2006, and Spending Review 2010 "Public Administration"). If local governments are small (particularly in geographical size), citizens and businesses may shop around to neighbouring jurisdictions to get better services at no costs to them. Similarly, small governments may not be able to realise economies of scale in service delivery, which may also affect service quality. Lastly, one policy area may have such close connections to other policy areas that they should be kept together (this argument is closely connected to the motive for the first road concerning a more logical division of tasks). Furthermore, apart from economic theory, it has been recognised in the Dutch discussion that decentralisation may lead to differences in service levels between local governments. The question of whether this is acceptable is seen as a political decision that ought to be taken by the central government. In this assessment, the focus will be on the first road. The second road will be explored in a comparative context (the division of tasks over levels of government) in *Building on Basics* (OECD, forthcoming).

In view of potential welfare losses from external effects and non-optimal scale, there is a strong feeling in the Netherlands that decentralisation is conditional on reducing the number of provinces and municipalities. Some provinces are thought to lack the right scale to fulfil the tasks in the area of spatial/economic policy. Many municipalities are considered too small to fulfil the tasks in the domains of social services and care that could potentially be decentralised.

From an international perspective, it can be observed that, among OECD member countries, there are different political cultures regarding amalgamation. In some countries, the basic attitude is that it is up to the citizens and their existing local councils to decide about amalgamation. This is the prevailing attitude in Mediterranean countries such as France, Italy and Spain. These countries are often characterised by a lively local democracy and directly elected mayors or governors. In federal countries, the domain of competence of the states is constitutionally anchored. In the United States, amalgamation of sub-state jurisdictions in many states requires approval by these jurisdictions themselves or by referendum. In northern Europe, decisions on amalgamation of local government are seen more as a concern of the central government. In Denmark, a far-reaching government-led amalgamation operation for municipalities was successfully completed in 2007. This operation reduced the number of municipalities from 271 to 91 and the number of regions from 13 to 5. In the Netherlands, there are currently proposals on the table to reduce the number of municipalities from 430 to 100-150 or even to 25-30, and the number of provinces from 12 to 5-8 or even to 0 (Spending Review 2010 "Public Administration"). Some scepticism about these proposals seems justified. Since 1947, some 50 official government reports have proposed far-reaching amalgamation operations, none of which has ever succeeded. Some creeping amalgamation has gone on during this entire period, but always on a case-by-case basis and often pushed through in the face of strong local resistance. The Netherlands seems to be located somewhere in between the Nordic culture and the Mediterranean culture as far as amalgamation is concerned. The Nordic culture prevails in The Hague; the Mediterranean culture prevails in much of the rest of the country.

The subsidiarity principle and the counter-indications against decentralisation are interconnected. If citizens and businesses go shopping for free services in neighbouring jurisdictions, these jurisdictions suffer. This may lead to political support for centralisation or amalgamation, particularly among the citizens of metropolitan jurisdictions. However, if both suburban and metropolitan jurisdictions resist centralisation and amalgamation, it is hard to argue for such policies on the basis of external effects. Similarly, a sub-optimal scale of service delivery makes citizens and businesses suffer (from high taxes, or savings on other services). Again, if citizens nevertheless resist centralisation and amalgamation, it is hard to argue for such policies on the basis of economies of scale. Apparently citizens are willing to pay a price for decentralisation and the maintenance of their existing jurisdictions and particularly for keeping them small and relatively responsive to citizens' concerns. Coherence of tasks is obviously important, yet it is not only a counter-indication against decentralisation but can also be an argument in favour of decentralisation along the first road

mentioned above. Finally, as far as the political argument is concerned, it is not straightforward that the acceptability of differentiation in service levels should be exclusively decided by the central government, particularly if subnational governments and their representative associations are in favour of decentralisation.

To what extent do the arguments from fiscal federalism constitute valid counter-indications against decentralisation in the Netherlands? In the view of the OECD Secretariat, the conditionality of decentralisation on amalgamation is not as strict as is often assumed in the Netherlands. If small municipalities or historical provinces cannot fulfil decentralised tasks as efficiently or as well as larger units do, the drive for amalgamation will automatically come from below. Jurisdictions will seek regional co-operation or will decide to amalgamate on their own initiative. Alternatively, they will accept to pay for a sub-optimal scale or accept a lower service level. The fact that some municipalities and some provinces are not believed to have the right scale for being entrusted with tasks now performed at the national level is not always a good reason to refrain from decentralisation. What matters is whether provinces and municipalities are themselves in favour of decentralisation. If that is the case, it is hard to use the scale argument or the external effects argument as an excuse to halt it.

Recommendations

1. Although the Netherlands is not a very centralised country, there is still room for decentralisation along the road of a more logical division of tasks as spelled out in the Spending Review 2010 "Public Administration". Coherence of policy areas should be a prime consideration in the attribution of tasks to levels of government. This will allow a substantial reduction in earmarked grants from central government. Decentralisation of tasks should not be made conditional on amalgamation.
2. The Dutch government has an exceptional position among OECD member countries in that local governments are for a large part financed by general purpose grants instead of local tax revenue. The reason is that little use is made of tax sharing as a source of local revenue. The Dutch government may consider undertaking a study on tax sharing as an alternative to general purpose grants as a source of local revenue.

Reform 2: Sectoral career development

Quality of the policy development staff

In the area of human resource management, governments in many OECD member countries have undertaken reforms to regularly change civil servants' jobs (career development). It is generally recognised as important that civil servants move regularly to new positions in the course of their career. This leads to a variety of experiences and is seen as an important determining factor of the quality of the civil service (OECD, 2008). There are often arrangements in place that facilitate job rotation. In many cases, managers encourage their staff to seek new jobs after a period of five to ten years in their current position and help them to do so. In addition, special arrangements exist in some countries for the top civil service (the highest layer of the civil service), or for the level just below, that facilitate job rotation among managers. These reforms have often been successful in that job turnover has increased considerably compared to 10 or 20 years ago. To a certain extent, the reforms have also led to more job traffic between ministries and in this way have contributed to the sense of unity of the civil service and the quenching of interministerial tribal wars that sometimes raged in the past. However, there has also been a loss of expertise in separate policy areas.

Various countries have policies or plans in place to diversify experience (Australia, Canada). However, the OECD Secretariat is not aware of any country that has formulated aims for specific job routes that civil service personnel are supposed to follow in the course of their career, nor of any country that collects systematic data on job routes that are actually followed. This is also true for the Netherlands. However, a number of countries are aware of the problem and have placed a certain emphasis on the need to create better career perspectives for "specialists". This can be seen as a first step towards an enhanced career development policy, but it is not enough.

Requirements for policy development staff

The requirements for policy development staff (including managers) in ministries are threefold:

- expertise in the policy area and awareness of the results and relevance of applied research in the policy area;
- awareness of the potential support for policy reform among politicians and stakeholders;
- awareness of the feasibility of policy reform in execution.

The role of expertise differs between policy areas. In some areas, scientific knowledge is an almost indispensable prerequisite for any involvement in policy making. This is true, for instance, in the fields of financial and economic policy where economic expertise is required. It is also true for foreign policy, where knowledge of foreign countries and the history of diplomacy is required. It is not by chance, therefore, that in such policy areas one sees civil servants rotating jobs in the same ministry or in a few kindred ministries, but not across the central government. The question arises whether specialist knowledge should not be required for a much larger group of policy areas, if not for every policy area. Can law enforcement policy be entrusted to civil servants who have little knowledge about criminology or police studies? Can health policy be entrusted to civil servants who know little about medical science or health economics? Can infrastructure policy be entrusted to civil servants who have no previous training in civil engineering, transport economics or cost-benefit analysis? Is a little on-the-job training enough for the adequate fulfilment of tasks in policy development in such areas? There is also another aspect to this question. In modern government, policy development in all ministries is supported by specialised research institutes inside and outside universities. Civil servants tasked with policy development must be able to formulate sensible research questions for these institutes and be able to guide their research and assess the relevance of their results. This task can only be carried out by civil servants who have a thorough background in the relevant disciplines themselves and, preferably, have done research themselves in earlier steps of their career.

Sensitivity to political circumstances is obviously an essential requirement for policy development staff. It applies not only to managers, but to everybody who works in policy development. Staff should be aware of the field of political forces in which ministers have to operate, including parliament, lobby groups and the public at large. Lack of such sensitivity could generate a tendency to recruit special political assistants and public relations advisors, observable in many OECD member countries and to a limited degree also in the Netherlands The problematic effects of this tendency (loss of motivation of the regular civil service, distortion of the regular lines of reporting, incoherent advice to the minister, additional costs), and the fact that some countries are perfectly able to do without such assistants and advisors (among the countries visited by the OECD Secretariat: Denmark), are strong reasons to emphasise sensitivity to political circumstances as an important requirement for all policy development staff.

The third requirement concerns the awareness of how reforms will work out during actual execution. The best way to acquire this awareness is

experience in execution (administrative execution or service delivery). Too many policies are being proposed and decided that generate unexpected problems or that simply cannot be executed. This complaint was heard in all countries visited for the Value for Money study, including the Netherlands.

Emphasis on experience within each policy area

If the Netherlands wants to increase the quality of policy development staff in ministries, it could consider putting more emphasis on programmes for career development. Currently the Dutch civil service has features of both a career-based and a position-based service. Most vacancies above entry level are only advertised internally, but job shifts are largely left to the initiative of the individual official. This ambiguity is considered unsatisfactory by many officials. There is certainly room for more guidance and aid in career planning. New programmes for career development would have to focus on particular policy areas and provide job rotation opportunities within the policy area. Job shifts would particularly have to be encouraged and facilitated between executive units (administrative execution and/or service delivery), research institutions or consultancy bureaux, and policy development in the same policy area. There is no need to make a difference here between specialists and generalists, nor between subordinate staff and managers. Indeed, it is even more important for managers to have research and executive experience than for junior staff. Of course managers need strong management skills, but this requirement should be imposed on managers in addition to knowledge and experience in the policy area and not instead of such knowledge.

If the Dutch central government were to move in this direction, there would be consequences for the tasks of its Civil Service Authority (*Algemene Bestuursdienst*). This authority currently plays a role in the appointment of the top layers of the civil service (the top management group of 74 director generals and secretary generals and the second-highest level of 600 directors). Among other things, it is supposed to check quality requirements of the senior civil service. For this purpose, the authority looks at management skills and experience and also at the diversity of their previous experience. A first important step in this direction has recently already been made by the decision of the Civil Service Authority that, from 2011 onwards, executive experience will be required for promotion to the two highest levels of the civil service. If the Dutch government were to go in the direction indicated above, the authority would have to reorient its work even further and put more emphasis on variety of experience in research and policy execution, rather than in different policy areas, as the regular path of career development for all civil servants.

A change of cap in this direction may possibly have the effect of less co-operative relations between ministries and may cause a revival of the old "stove pipes" syndrome that has motivated a lot of human resource reform in recent years. On the other hand, it can be argued that if there is a need for interministerial co-ordination, there is intrinsic value in assessing proposals for policy reform from different angles and perspectives, to be put forward by representatives of different policy areas and ministries. Serious differences of opinion should be sent to ministers and the Cabinet, not smoothed over by bureaucratic compromise. It is not the job of civil servants to make life easy for their colleagues in other ministries. Too cosy relations, especially at the top of the civil service, may be a danger for underestimating risks or neglecting side effects, based on non interference. Fears of reviving interministerial animosity are unfounded. There are plenty of other ways of promoting the basic unity of the civil service, and younger generations of officials are not so easily entrapped in old patterns of bureaucratic behaviour anyhow. It is worth reiterating the dictum of Wildavsky (1979) that it is the primary responsibility of civil servants to speak truth to power, or to inform superiors about realities they do not necessarily want to hear. The self-confidence required to bear that responsibility can only be based on relevant expertise and experience. A certain agility to foster bureaucratic compromise may be useful in civil servants but can never be a substitute for relevant expertise and experience.

Recommendations

3. The Dutch government may consider developing a more ambitious programme of career development for civil servants aimed at fostering variety in experience.
4. Variety in experience should focus on job rotation between executive units (both administrative and service delivery), research institutions or consultancy bureaux and core ministries in the same policy area, not on shifts between policy areas.
5. The Civil Service Authority may put more emphasis on variety of experience within the same policy area in its advisory role for appointments in senior positions in policy development, next to general management skills.

Reform 3: Better use of executive and professional expertise in policy development

Separation of policy development and policy execution

The reforms of the 1980s and 1990s that aimed at the separation of policy execution and policy development have been successful in the Netherlands. Currently, 56.8% of central government employment is in agencies (see Table 2.3). The operation is not entirely complete, however. Some policy execution (for instance, the Tax Service) and a substantial part of supervisory/regulatory activity remain in ministerial divisions. In discussions concerning the desirability of agency status for the Tax Service, an important argument has been that this service should remain close to the minister and to the policy-making process. This is a valid argument, but it applies to all executive units and it is not necessarily an argument against agency status. It is an argument against the removal of agencies from the policy-making process that has accompanied the agency-forming operation of the previous century.

Countries participating in the Value for Money study recognise that the involvement of executive units in policy making is essential for the quality of the resulting policies. The question is how this involvement should be organised. In this respect, Sweden is the most inspiring example.

The Swedish approach

Sweden has a centuries-old tradition of policy execution in arm's-length agencies (Blöndal, 2001). This tradition is rooted in concern for the rule of law and anchored in the Constitution. The basic idea is that the Crown is not allowed to interfere in the application of the law in individual cases. Consequently, all policy execution is relegated to agencies, and agencies are entirely autonomous as far as administrative decisions and service delivery in individual cases are concerned.[7] However, agencies are subject to ministerial instructions of a general nature concerning executive policies with the exception of independent agencies, of which there are very few in Sweden. Furthermore, as in the Netherlands, Swedish agencies are subject to standards of operational management prescribed by the government. In Sweden, the share of central government employment in agencies is even higher than in the Netherlands, namely 95% (OECD, 2010a, Annex B). The staff of core ministries in Sweden is only 4 620 in total and on average 355 per ministry.

The strict separation of competencies between core ministries and agencies in the area of execution in Sweden does not extend to the area of policy development. In fact, the core ministries are so small that this could

hardly be otherwise, but in Sweden this is also seen as an important condition to safeguard quality in policy development. The involvement of Swedish agencies in the policy-making process takes two forms. First, agency officials are consulted at an early stage in the process about the main aims and features of the proposed reforms. In the light of executive experience, agency officials can also initiate reforms themselves and bring their ideas to the attention of the minister and the staff of the core ministry. Second, agencies are invited to contribute to reform proposals by providing information and analysis, but usually also by the actual elaboration of the proposals in part or in their entirety.

The need for further reorganisation in the Netherlands

In the Dutch central government, the separation of tasks between ministries and agencies is not as strict and systematic as in Sweden. When analysing the possibilities for better integration of executive expertise in policy making, one of the first questions to be answered is where policy execution is located in the Netherlands. It appears that administrative execution (through decrees in individual cases such as licences, concessions, subsidies, or tax assessments) occurs everywhere in government. Most of it is nowadays concentrated in arm's-length agencies, but a substantial part remains in core ministries or is transferred to independent agencies. Execution through service delivery is mostly concentrated in arm's-length or independent agencies.

In view of this somewhat unsystematic pattern of organisation, it is useful to distinguish between suggestions for further reorganisation and suggestions for better integration of executive expertise and experience in policy development. Suggestions in the latter domain can be focused on executive units in the appropriate form according to the suggestions in the former domain.

As far as further reorganisation is concerned, it would be useful for the Netherlands to reconsider the organisation of the executive tasks that are left in the core ministries. Proximity to the policy-making process should not be an argument for this reconsideration, because the integration of executive agencies in the policy-making process should be safeguarded in any case. It would also be useful to reconsider the organisation of executive tasks in independent agencies. In accordance with the recommendations of the Spending Review 2004 "Independent Agencies in Central Government" (known as Kohnstamm Commission) and the Spending Review 2010 "Operational Management", the OECD Secretariat suggests that in principle all executive units should be organised as arm's-length agencies. If deemed necessary in view of the rule of law, arm's-length agencies can be explicitly screened from ministerial interference in individual cases by legislation.[8] On

the other hand, it is entirely appropriate for the minister to provide instructions to these agencies concerning executive policy and operational management. Examples of currently independent Dutch agencies for which arm's-length status could apply include the State Forest Management, the Executive Organs for the Law Special Care Costs, the Executive Authority Employee Insurance (*Uitvoeringsorgaan Werknemersverzekeringen*), and various others. The fact that independent agencies are often not subject to the Regulation for Government Employees (*Rijksambtenarenreglement*) and are therefore able to hire employees at lower costs than arm's-length agencies is not a good argument against bringing agencies back under ministerial responsibility, but rather an argument to reform the Regulation for Government Employees.

Execution in the form of independent agencies should only be considered in cases where independence from government intervention other than through legislation is essential in view of the specific role of the agency. Apart from supervisory/regulatory units (which are not executive units, see below), one can think of the Central Bureau of Statistics, the forecasting bureaux (Bureau for Economic Policy Analysis, Netherlands Institute for Social Research, Netherlands Environmental Assessment Agency), the institutions for examinations and essays, the research institutions and the Electoral Council (*Kiesraad*).[9]

The role of executive agencies in policy development

Supposing that policy execution was organised in arm's-length agencies and only in exceptional cases in independent agencies, agencies' involvement in policy development could mainly be arranged along the Swedish lines. First, agencies would have to be involved in all policy initiatives from the start. In order to ensure this, all agency directors should be given a seat on the management board (*bestuursraad*) of the ministry (insofar as this is not already the case). Agencies should also be encouraged to present reform proposals on their own initiative. Second, it should become common practice for agencies to be invited to provide concrete support in policy development. This includes not only information and analysis but also the elaboration of proposals and legislation. The role of independent agencies (Central Bureau of Statistics, forecasting bureaux, etc.) should be limited to the provision of information and analysis, since actual participation in the elaboration of policies might compromise their independence. For the same reason, they should not have a seat on ministerial management boards. Obviously, the policy-making process has to be co-ordinated by the core ministry, but agencies could contribute a great deal more than is currently the case. There is every reason to assume that this would contribute considerably to the quality of policy development.

Since policy execution not only takes place in agencies but also in non-profit organisations inside and outside central government, it is important to also look at the involvement of these organisations in policy development. This regards mainly service delivery, not administration.[10] In the fields of education, health, social services and culture, councils or boards of non-profit institutions exist that meet regularly with the minister and advise on policy development. In general, this mechanism is useful, but non-profit institutions have a different role than public executive agencies, even if they are supposed to be controlled by government (and thus classified inside the government sector) as is the case in the Dutch educational domain. Non-profit institutions are not only executors of government policy, but also service providers in competitive markets. In view of their latter role, they should not be given a formal role in policy development.

Recommendations

6. The Dutch government may reconsider the assignment of executive tasks. In principle, all executive tasks inside central government should be attributed to arm's-length agencies. Required proximity of executive officials to the policy development process is not a valid criterion for withholding agency status, since executive expertise should be integrated in the policy development process in any case. Independent agency status should only be accorded to agencies in cases where independence from government intervention other than through legislation is essential for appropriate task performance in view of the specific role of the agency, for instance: the courts, the Central Bureau of Statistics, the forecasting bureaux, the institutions for examinations and essays, the supervisory/regulatory agencies, and the Electoral Council.

7. The Dutch government may consider involving agencies in all policy initiatives from the start. Agencies should be encouraged to present reform proposals on their own initiative. Arm's-length agencies could also be asked to contribute to the elaboration of policy proposals. The directors of all arm's-length agencies should have a seat on the management board of the ministry (but not the directors of independent agencies).

8. The Dutch government should make sure that non-profit institutions inside and outside central government that deliver collectively funded services are represented in advisory councils. The councils should meet regularly with the minister and have the opportunity to advise on new policy initiatives. However, the councils should not be given a similar role in policy development as public executive agencies.

Reform 4: Process sharing among executive units and merging of executive units

Process sharing

In the Netherlands, all agencies (both arm's-length and independent) are owned (in an economic sense)[11] by a single ministry. However, some are co-financed by other ministries, either on the basis of lump-sum contributions or on the basis of agreed fees for services provided. Co-financed agencies are of two kinds: shared service centres that provide support services, and shared process units that provide services that are part of the primary process of policy execution of different ministries.[12] Examples of shared support service agencies are the Work Company Agency and the State Audit Office (for internal audit). Examples of shared process units are the NL Agency (for subsidy payments to the corporate sector) and the Tax Service (that pays income supplements on behalf of the Ministry of Social Affairs and Employment). This section focuses on the opportunities for process sharing in executive units (not for support services sharing, nor for process sharing by supervisory/regulatory units). These opportunities may potentially lead to quality improvements in administration and service delivery and in savings. The section will focus primarily on initiatives in Australia and Denmark, as both countries are leaders of innovation in service delivery.

Australia's Centrelink agency

The most important example of horizontal integration in Australia is the Centrelink agency. Centrelink aims at being a one-stop shop where all central government social services and benefits are horizontally integrated. Centrelink delivers payment services on behalf of the Ministry of Human Services and the Ministry of Families, Housing, Community Services and Indigenous Affairs as well as 20 other agencies and ministries. Centrelink has an integrated ICT database that contains all the relevant information regarding a citizen's potential payment needs. The payment services include: old-age pensions, family support, unemployment benefits for young people, study loans and disability pensions.

Centrelink has a staff of 26 000 people, 3 000 of whom provide support services, another 3 000 provide common ICT processing services, and 20 000 are involved in case handling either at headquarters or in the 15 regional offices. The case-handling staff is organised according to programme; there are, for instance, 600 social workers for social assistance programmes. The programme staff has counterparts in the line departments that Centrelink serves.

Centrelink was costly to set up in terms of investment in ICT and buildings. Given the number of ICT investments that were deemed necessary in the last ten years, it is currently difficult to assess the extent to which the horizontal integration has saved resources, but officials think that this is the case if compared to a baseline of the previous organisational set-up. In addition, it is clear that there has been a marked quality improvement in government services for citizens as a result of Centrelink.

Australian officials feel that additional savings can be attained by using the Centrelink infrastructure more. Centrelink recently took over the passport service. Medicare staff are starting to move into Centrelink, and veteran services might be another possibility. In general, Centrelink officials feel that the future in terms of service delivery lies in the horizontal integration of ICT architecture (built once, used by many).

Regarding the relationship between the agency and the line ministry, Centrelink officials said that Centrelink should be involved early in the policy development process by participating in departmental working groups in order to assess the requirements that new initiatives entail. There are already experiences with such working groups. The process should lead to a "business requirement statement" which specifies the objectives of the law, what the agency needs in order to attain these objectives, and how much it will cost.

In the past, Centrelink was mostly financed by the Ministry of Human Services on the basis of fees (the purchaser-provider model). An Australian National Audit Office report pointed at some problems in the relationship between Centrelink and its parent ministry which led to a strained relationship (Australian National Audit Office, 2008). Funding has now been taken over by the Ministry of Finance, split between base financing and variable financing. Base financing covers mostly capital expenditure (ICT, physical assets). Variable financing covers mostly current expenditure (both current operational expenditure and programme expenditure) which is strongly dependent on activity assumptions. These assumptions are revised every quarter. Centrelink finds that it is the agency, not the Ministry of Finance, that carries all the risk regarding the assumptions. It also seems that funding agreements are regularly bypassed by savings measures flowing from political expediency. Centrelink officials claim that this undermines to some extent the development of staff and ICT systems.

Direct financing by the Ministry of Finance, as well as the fact that Centrelink now executes the programmes of many different ministries, has led to discussion in Australia about the ministerial responsibility for executive policy in Centrelink. In this context, the idea has been put forward

that a special minister for service delivery should be created. However, this discussion has not yet come to a conclusion.

The Danish approach

In Denmark, the emphasis has been on using ICT to make interaction with the government "seamless". A citizen portal is in the process of being set up that will enable a broad array of public sector organisations – central and local – to use a common interface with citizens. Horizontal integration is also pursued across government through enhanced ICT standard setting by the Ministry of Finance, which will allow easy communication between all government units (central and local). The use of common e-government components across the public sector or within selected domains is of great utility, not only to ensure increased efficiency (in some cases, also large savings potential) but also to establish a more integrated public sector as perceived by the citizens and businesses.[13]

A strict condition for the development of e-government initiatives in Denmark is proof of cost savings in the form of a positive business case. A new initiative is Digital Mailbox, where each citizen has a digital mailbox for receiving government communications (accumulated savings potential of EUR 65 million in 2016).

Towards horizontal integration in the Netherlands

Whereas in Australia the emphasis in the area of horizontal integration has been on the development of a shared process unit (Centrelink), the emphasis in Denmark has been on "seamless interaction" which leaves back office tasks where they are but guarantees easy access and communication. Nevertheless, although the emphasis may differ, both components are necessary in any policy aimed at horizontal integration. Australia's Centrelink needs to communicate with the line ministries that are responsible for executive policy, and the Danish Agency for Governmental Management needs to establish shared front office units (the citizen portal, the Digital Mailbox unit, etc.). The discussion about the responsibility for the shared process units has not yet reached a conclusion in either country (note the discussion in Australia about the need to create a minister for service delivery and the discussion in Denmark about the responsibility for shared process units with local government).

In the Netherlands, thinking about horizontal integration is still in an early stage. Work on common portals has started. The idea is that a common citizen portal, which can be seen as a shared process unit for all ministries, will be created in the Ministry of the Interior and Kingdom Relations.

In the area of integration of executive units, a number of ideas have recently been raised. The most concrete ideas are to be found in the Spending Review 2010 "Operational Management" (see Box 4.1). It explored various options for co-operation and mergers between these units. It also suggested leaving responsibility for executive policy with the line ministry in charge of the programmes. In the case of full mergers, the shared process units would be placed under one ministry that would assume the role of economic ownership and be responsible for operational management. Financing would take place on the basis of fees or lump-sum contributions, to be paid by the client ministries (including the owning ministry) according to the purchaser-provider model.

Box 4.1. **Spending Review 2010 "Operational Management"**

The Spending Review 2010 "Operational Management" has identified clusters of executive agencies and ministerial divisions characterised by similar executive processes or similar target groups of service users. The most concrete proposals include the horizontal integration of three clusters of executive units:

- units tasked with paying cash benefits to citizens (unemployment, old-age pensions, disability benefits, housing contributions, health premium contributions, study grants);
- units tasked with cash collection procedures (fines, taxes, repayment of study loans, etc.);
- units tasked with paying subsidies to the business sector (agricultural, environmental, technological and EU subsidies).

According to the calculations made for the spending review, horizontal integration of these three clusters could lead to savings of around EUR 250 million in 2015 (taking into account necessary costs of ICT and other investments.

In the light of international experiences, full mergers are not always necessary to realise the savings potential. In Denmark, horizontal integration mainly affects small front offices. Furthermore, it is not always clear that merging all organisations with similar tasks or similar target groups will lead to an optimal size of production. In any case, it is essential that every initiative in this area be based on a thorough business case analysis.

As for the steering and control of the shared process units, it is essential that client involvement be strongly enhanced though a permanent

performance dialogue between the agency management and the responsible ministers (see Reform 10). This is particularly true for the ministries that do not own the shared process unit and that must exercise their ministerial responsibility for executive policy through their client relation with the unit. Without such an enhanced client involvement, the responsible minister cannot bear his/her responsibility for execution (a case that comes to mind is the discussions about the ministerial responsibility for the Australian Centrelink agency).[14] It is too early to tell whether enhanced client involvement can ultimately substitute for ownership and whether line ministers will ultimately be able to bear the responsibility for executive policy in executive units that they do not own. From this perspective, it seems wise to focus efforts for horizontal integration in the Netherlands on units that are now already owned by the same ministry (for which there is still ample opportunity in the Netherlands), or that will be owned by the same ministry after the merger of ministries that may be desirable for other reasons as well.

Recommendations

9. There is potential for quality improvement and savings through the horizontal integration of policy execution by way of e-government projects based on common portals and through merging of executive agencies and ministerial divisions in the Dutch central government.
10. The Dutch government should make sure that every proposal for establishing shared process units is based on a thorough business case analysis.
11. In view of the ministerial responsibility for executive policy (apart from independent agencies), the Dutch government should make sure that client ministry involvement in executive policy is enhanced before any new shared process unit is set up (see Reform 10).
12. The Dutch government may consider focusing efforts aimed at the horizontal integration of executive agencies on agencies that are now already owned by the same ministry, or that will be owned by the same ministry after task transfer between ministries or after the merger of ministries that may be desirable for other reasons as well.

Reform 5: Independent supervisors/regulators

Dutch features of supervision and regulation

There are 29 supervisory/regulatory authorities in the Netherlands at the central level of government, with a total employment of some 8 709 full-time equivalents (FTE). These authorities can be divided into economic and social supervisors/regulators. Economic supervisors/regulators supervise and regulate the corporate sector (including the non-profit sector outside general government) in order to promote competition. For that purpose, they supervise and regulate the entry or exit from a market, the prices at which goods and services are sold or the quantities of goods and services that are sold. Economic supervisors/regulators also supervise and regulate access to infrastructure owned by other parties.

Social supervisors/regulators supervise and regulate the corporate and non-profit sector outside general government, as well as service delivery units inside central government (ministerial divisions, arm's-length agencies and independent agencies), non-profit institutions inside central government and local governments in order to protect the citizens other than through the promotion of competition. Of the 29 supervisory/regulatory authorities in central government there are 4 economic supervisors/regulators with a total employment of 1 575 FTE and 25 social supervisors/regulators with a total employment of 7 134 FTE.

The tasks of both social and economic supervisors/regulators can be divided into:

- monitoring of compliance with current legislation (supervision);
- enforcement of current law (including secondary law) in individual cases through administrative orders and sanctions, as well as through codes of conduct, moral suasion and other forms of informal guidance (supervision);
- enforcement of current law (including secondary law) by decrees of a general nature on the basis of competencies attributed by law (regulation);

In addition, social supervisors/regulators are often given the task of monitoring and enforcing current policies that are not embedded in law but rather in ministerial guidelines or policies.

In the Netherlands, three economic supervisors/regulators are organised as independent agencies (De Nederlandsche Bank, the Financial Markets Authority and the Independent Post and Telecommunication Authority; total employment 1 199 FTE[15]), one is organised as a ministerial division (the Dutch Competition Authority; total employment 376 FTE). Of the social supervisors/regulators, five are organised as independent agencies (total employment 646 FTE), seven as arm's-length agencies (total employment 3 693 FTE) and 13 as ministerial divisions (total employment 2 795 FTE). The upshot is that economic supervisors/regulators are mostly organised as independent agencies and social supervisors/regulators mostly as ministerial divisions, but there are many exceptions. The total picture is differentiated and not very systematic.

Supervision and regulation in OECD member countries

Table 4.1 provides an overview of the status of social and economic supervisors/regulators in several countries. Various conclusions can be drawn from this table:

- In Austria and the Netherlands, social supervisors/regulators are mostly organised as ministerial divisions, in all other countries as agencies.

- In Australia, social supervisors/regulators in the form of agencies are mostly independent agencies. In the Nordic countries (Denmark, Norway and Sweden), they are mostly arm's-length agencies, but arm's-length agencies in the Nordic countries are not subject to ministerial responsibility for the handling of individual cases (which in general is not a necessary feature of arm's-length agencies).

- Economic supervisors/regulators are mostly (at least half) organised as independent agencies, except in the Nordic countries were they are mostly organised in arm's-length agencies, but again: arm's-length agencies in Nordic countries are not subject to ministerial responsibility for the handling of individual cases.

Table 4.1. **Status of supervisory/regulatory authorities**

		Australia	Austria	Denmark	Netherlands	Norway	Spain	Sweden
Social	Core ministry	5	4	0	7	0	n.a.	0
	Arm's-length agency	3	1	30	13	19	n.a.	7
	Independent agency	6	0	0	5	4	n.a.	0
Economic	Core ministry	3	1	0	1	0	0	0
	Arm's-length agency	8	1	5	0	7	0	23
	Independent agency	12	2	0	3	2	6	0
Total		37	9	35	29	32	n.a.	30

Source: Country responses to the questionnaire of January 2010.

Arguments against independent social supervisors/regulators

All Dutch supervisory/regulatory authorities put a lot of emphasis on their factual independence from the ministry to which they belong, regardless of the organisational form of their institution (ministerial division, arm's-length agency or independent agency). When asked about the desirability of formalising this independence, the officials of an economic supervisory/regulatory authority that was organised as a ministerial division basically replied that this would be a logical step, also in view of the status of other economic supervisors/regulators. On the other hand, the officials of some social supervisory/regulatory authorities that were organised as ministerial divisions replied that there were various arguments that made organisation in the form of an independent agency unnecessary or undesirable. Some of the same arguments were also mentioned by officials in core ministries when asked about the desirability of the organisation of social supervisors/regulators as independent agencies. Apart from the argument that factual independence was already achieved and sometimes laid down in ministerial decrees or guidelines, the following arguments were given:

- Social supervisors/regulators not only monitor, enforce and regulate but serve also as the "ears and eyes" of the minister, who is ultimately responsible for policy development and policy execution.
- Social supervisors/regulators fulfil tasks in the area of policy development, which should be subject to ministerial responsibility.
- Social supervisors/regulators fulfil tasks in the area of monitoring and enforcing policies, including executive policies that are not embedded in legislation but in informal ministerial instructions.

The OECD Secretariat does not find these arguments convincing. There are many examples in other countries (and some in the Netherlands) of social supervisors/regulators that are organised as independent agencies and that nevertheless provide information or can be asked to provide information to the minister about the state of compliance with the legislation and that fulfil a prominent role in policy development. Indeed, the better integration of executive and professional expertise in policy development is an important trend in many OECD member countries, and is also recommended to the Netherlands (see Reform 3). Since supervisors/regulators may be supposed to hold eminent expertise regarding execution and professional standards, there is certainly also a role for them to play in policy development.[16] Moreover, all interlocutors from independent social supervisors/regulators in various countries have confirmed that they see no conflict of interest whatsoever between their role as independent supervisors/regulators and their role in policy development. However, this is different as regards the third argument against formal independence. An independent supervisory/regulatory authority may be required to refrain from openly criticising the legislation it is supposed to uphold, while internally advising the minister to adjust or even abolish it if the authority sees problems in its execution or enforcement, but that requirement is fundamentally problematic when it concerns ministerial policies that are not in any form enacted in law. An independent supervisor/regulator must be able to openly criticise ministerial executive policies that have no formal status and that cause problems. This important role of independent social supervisors/regulators is often not appropriately fulfilled or not fulfilled at all by Dutch social supervisors/regulators, which may be detrimental to the quality of ministerial policies. This conflict of interest does not exist for economic supervisors/regulators that are not (yet) organised as independent agencies, because they base their work entirely on formal legislation. Obviously, this circumstance does not diminish the case for formal independence of economic supervisors/regulators, but for those authorities the matter is less pressing.

The question arises of whether the removal of the role of social supervisors/regulators as monitors and enforcers of ministerial policies, other than embedded in legislation, may harm the effectiveness of such policies. This is not necessarily the case for three reasons. First, there is a good case (that will be further elaborated in *Building on Basics*[17]) for eliminating the role of social supervisory/regulatory authorities in regard to local government. This will also eliminate their role as monitors and enforcers of ministerial policies *vis-à-vis* local government. Second, most ministerial policies in regard to non-profit institutions inside and outside general government are now already entirely based on law (for instance in the health-care sector). Third, there is a good case for bringing back

independent service delivery agencies under the ministerial responsibility (see Reform 3), in which case the minister can have his/her policies monitored and enforced by means of direct instructions to the agencies concerned.

Recommendation

13. The Dutch government may consider organising all economic and social supervisory/regulatory authorities in the form of independent agencies.

Reform 6: Concentration of standard setting for operational management

Terminology

Operational management is defined as decision making about the use of operational means: finance; human resources and organisation; procurement; information and ICT; accommodation, real estate and facilities (office equipment, reproduction, cars, catering, security); internal audit; and communication. Operational management is in the first place the responsibility of managers in all areas of government activity (policy development, policy execution, supervisory/regulatory activities, support services). To support managers in this regard, specialised staff units exist in all ministries, ministerial divisions and agencies across government: support services for each of the operational means. In order to safeguard quality standards in operational means, as well as to control costs, general rules and policies exist for all areas of operational management. These rules apply, for instance, to the processes of budgeting and accounting (financial management), the processes of recruitment, performance assessment, promotion and remuneration of personnel (human resource management), the purchase of goods and services from external suppliers (procurement management), the application of ICT (ICT management) and the use of accommodation (accommodation management). Policy making in this area is denoted as standard setting for operational management. Standard setting in the area of human resource management includes the setting of guidelines or binding rules for remuneration of public employees. The term "pay setting" will be reserved for the decisions of officials, usually ministers or agency heads, who ultimately decide on pay for certain groups of employees or for individual employees.

Recent developments

In the 1990s, important reforms occurred in the areas of operational management and support services both in the Netherlands and in many other OECD member countries. These reforms were inspired by the ideas of New Public Management. In the Netherlands, these reforms included:

- Substantial decentralisation of the central support services of the ministries to line managers ("let managers manage"). New support bureaux arose in many ministerial divisions and agencies.
- Loosening of government-wide standards and reduction or wholesale abolition of central standard-setting units (for instance, the Human Resources Division of the Ministry of the Interior, the Procurement Office, the Audit Directorate of the Ministry of Finance, the Government Building Office). As far as pay setting is concerned, the centralised system prevailing before 1993 was replaced by a system in which public sector pay was negotiated and decided in 13 sectors.[18]
- Reduction of the data collection capacity in central standard-setting units on government-wide use of production factors and intermediate services (data on personnel, pay, procurement, internal audit, accommodation, etc.).

As from 2008, a certain swing back from the New Public Management reforms occurred in the Netherlands. This involved not only a certain recentralisation of support services into central support units of ministries and interministerial shared service centres, but also a certain enhancement of government-wide standards for operational management. In addition, it involved a certain concentration of standard-setting activities across the various operational means. A new Directorate General for State Organisation and Operational Management (DGOBR) was created in the Ministry of the Interior and Kingdom Relations. This directorate was conceived as a central standard-setting unit for a broad range of operational means: human resources and organisation, procurement, ICT, facilities. The new directorate general also negotiates pay for the state sector (one of the 13 pay sectors) with the trade unions and sets pay directives. Standard setting for finance and audit remains in the Ministry of Finance. Standard setting for accommodation and real estate remains divided over various other ministries. Standard setting for communication remains in the Prime Minister's Office.

Simultaneously, the Dutch government agreed an ambitious plan for "Central Government Reform" (see Chapter 3). In the area of support services, this plan envisaged the acceleration of support service sharing

among ministries (including agencies). The reduction percentage of 20% for support services would be an important incentive for achieving this aim. A new shared service centre (Work Company, *Werkmaatschappij*) had already been created in connection with the establishment of the Directorate General for State Organisation and Operational Management in the Ministry of the Interior and Kingdom Relations. This centre is an arm's-length agency under the new directorate general. Other existing shared service centres for salary administration and procurement were transferred and similarly organised as agencies under the new directorate general.

In other countries, there is a similar tendency to centralise and concentrate standard setting: human resources and organisation, information and ICT, procurement and facilities either in the Ministry of Finance (Denmark, Finland, Norway, Sweden) or the Ministry of Public Administration, the Ministry of the Interior or the Office of the Civil Service Commissioner (Australia, Canada, Netherlands); finance and audit in the Ministry of Finance. Standard setting for accommodation and real estate remains mostly in a separate ministry (sometimes several ministries, such as in the Netherlands) and so does standard setting for communication (often in the Prime Minister's Office).

Concentration of standard setting?

As to the question of further concentration of standard setting for all operational means in a single ministry, different models apply in the nine countries of the Value for Money study. In six out of the nine participating countries that provided information on this subject, standard setting for finance and audit is combined with standard setting for human resources and organisation, information and ICT, procurement and facilities in the Ministry of Finance. In other countries, it is concentrated in the Ministry of the Interior/Public Administration or the Office of the Civil Service Commissioner. Comparative research on the effectiveness or policy results of these models is at present not available, so arguments for and against have to be stated at a conceptual level or on the basis of practical experience in the countries concerned. Also, the nature of interdepartmental relations has to be taken into account, in particular the role and position of the Prime Minister's Office and the Ministry of Finance in the different countries.

An argument in favour of concentration in a single ministry is the connection that exists between standard setting in the different fields of operational management. Certain basic policy questions in these fields are the same: *i)* promoting uniform standards across the general government, so that no unjustified differences can arise between ministries and agencies; *ii)* cost control. These policy questions belong to the core tasks of the budget

division of the Ministry of Finance. Arguments in favour of concentration outside the Ministry of Finance are:

- Placing the standard setting outside would not compromise the financial control perspective of the Ministry of Finance: effective financial control often requires a certain distance to direct policy responsibilities.
- Concentration of standard setting in the Ministry of Finance could lead to a too-close involvement with pay setting in the state sector (now a responsibility of the Directorate General for State Organisation and Operational Management) and to the breakdown of the firewall between budgeting and pay setting for this sector. Furthermore, international comparison does not provide on obvious answer because national practices as to the assignment of pay-setting authority are diverse; further inquiry is called for and will be pursued in the final report of the OECD Value for Money study.
- If standard setting in the field of human resources and pay setting were to be placed within different ministries, this would threaten the coherence of central policies and thereby the quality of pay-setting agreements.

Decentralisation of pay-setting authority

Pay setting in the public sector usually proceeds through job classifications, grade/step schedules (that assign a basic salary to each class of jobs and each seniority step in each job class), and individual allowances and bonuses (based on qualifications achieved, special circumstances or performance).

Before 1993, job classifications and grade/step schedules were decided centrally by the Minister of the Interior and Kingdom Relations on the basis of agreement with the trade unions. The responsibility of ministers amounted to the assignment of grades and steps to individuals (recruitment and promotion) and special measures (step jumps, allowances and bonuses) within a prescribed framework. The centralisation of decision making was always supported by the trade unions and generally led to a reduction of transaction costs (costs of decision making).

Central decision making was replaced in 1993 by the "sector model" which shifted negotiating and standard-setting authority from the Ministry of the Interior and Kingdom Relations to the 13 sector authorities, of which five are ministers (the "Cabinet sectors"[19]). A number of topics remained for central negotiation and decision making, mainly pensions. The sector model

allows the sectors to develop job classifications and grade/step schedules that are better tailored to the business needs of the sector. On the other hand, the Minister of the Interior can issue bargaining parameters[20] which are binding for the Cabinet sectors and indicative for the other sectors. In practice, these parameters are very broad. The financial aspects are mainly based on a reference model aimed at keeping total pay increases in the sectors in line with private sector developments. The bargaining parameters may also address other concerns regarding coherence within the general government sector as a whole.

Previous OECD studies (OECD, 2007, and Rexed *et al*., 2007) have shown that, in OECD member countries, there exist at least three different models for pay setting:

- The Nordic model, with two-level bargaining. An arm's-length "Agency for Government Employers" negotiates and decides on general aspects, and subsequently individual ministers and agency heads negotiate and decide on more specific aspects in the light of business needs. The model is on the one hand more centralised than the Dutch (more subjects are negotiated at the central level) but, on the other hand, more decentralised (Nordic ministers and agency heads are more de-central than the Dutch sectors).

- The Australia/New Zealand model. Ministers and agency heads negotiate and decide in the light of business needs. In order to maintain coherence, binding bargaining parameters are provided by the Civil Service Commissioner (who is a Cabinet minister). The model is more de-centralised than the Dutch (ministers and agency heads are more de-central than the Dutch sectors; the binding bargaining parameters are roughly the same).

- The United Kingdom model. Ministers and agency heads negotiate and decide in the light of business needs. However, all bids need approval from the Treasury ("remit system"). Furthermore, the Cabinet Office can issue binding bargaining parameters. The model is more de-centralised than the Dutch (ministers and agency heads are more de-central than the Dutch sectors; the central bargaining parameters are roughly the same). However, in contrast to the Nordic and Australia/New Zealand models, there is no perfect "firewall" between pay setting and budgeting, because the Treasury is (indirectly) involved in the negotiations with the trade unions (via the remit system).

The design of the pay-setting model has to satisfy three requirements:

- The model has to be de-central enough to accommodate different business needs, and yet central enough to avoid unnecessary transaction costs and to steer human resource developments for socio-economic reasons.
- Pay must be affordable, which requires firm budgetary envelopes for administrative costs. Flexibility flows from productivity gains (the trade-off between price and quantity of employment and between compensation of employment and other components of administrative costs, such as equipment, accommodation, etc.). A firewall between pay setting and budgeting must guarantee that the budgetary envelope does not become a subject of pay negotiations.
- Some check on coherence is necessary. Since different ministries and agencies feature different degrees of flexibility, salaries between similar jobs in different ministries or agencies may grow apart in decentralised models. The resulting unfairness has always been a main concern for the trade unions. Central agreements (in Nordic countries) and bargaining parameters (in Australia, the Netherlands, New Zealand and the United Kingdom) must safeguard a sufficient degree of coherence.

Looking at the current Dutch model in the light of the design requirements of the previous paragraph, four problems come to the fore:

- Central steering is rather weak. It is true that the Ministry of the Interior and Kingdom Relations can issue bargaining parameters but, even for the Cabinet sectors for which these are binding, they are very broad and do not impede increases for various kinds of sub-groups within the sectors (among which, groups of well-paid managers) that are problematic from a whole-of-government perspective. In fact, the financial adjustments for annual pay are rather automatic, through the so-called reference model (which takes into account the wage developments in the market sector). This leads to unnecessary expenditures. Special wishes of the Cabinet in the socio-economic sphere (for instance, concerning minority employment) are communicated in priority letters. In fact, pensions, pay and special wishes of the Cabinet cannot effectively be connected in the Dutch structure, which may also lead to unnecessary expenditure. For instance, employers cannot link wages and pensions in the same negotiations, since pension benefits are decided centrally and pension premiums (decided by the central pension fund) have to follow. This imposes a high burden on government employers.

- Since the sectors have very different potential for trade-off between various kinds of administrative costs, there is also a tendency towards divergence between the sectors. This leads in turn to an upward pressure on all sectors, since it is hard to deny increases in one sector that are allowed in another sector for groups of employees with similar job requirements. The weak central steering is currently not capable of countering this tendency.

- The sector model was meant to respond better to the business needs of the sectors. However, the sectors are still very large. The reform amounted in fact to the splitting up of the former central pay-setting arrangement into 13 central pay-setting arrangements. For instance, in the state sector, there are a number of large arm's-length agencies whose business needs are very diverse and may require separate job classifications, grade/step schedules or qualification/performance allowances (penitentiary institutions, Tax Service, Water and Road Administration, Forest Administration, etc.). The current Dutch model is more central than the Australian/New Zealand and United Kingdom models and partly more central than the Nordic model (see above). If all (large) arm's-length agencies were to be recognised as separate de-central pay setters, only about 15% of current employees in the state sector would remain there: basically the core ministries with similar business needs (in terms of job classifications, grade/step schedules and qualification/performance allowances).[21]

- As noted, the firewall between budgeting and pay setting in the Netherlands exists, but it is not as strong as in the Nordic countries and in Australia/New Zealand. The Dutch sectors are so large that any lack of agreement tends to paralyse the entire sector. In this context, sticking to the envelopes is not always regarded as a politically viable policy. These problems decrease and the firewalls become stronger if the de-central pay setters are made smaller.

Taking into account these considerations, the Dutch government may consider moving in the direction of the Nordic model (see also OECD, 2007, and Rexed *et al.*, 2007). This would mean a two-level bargaining model in which certain matters considered essential for the state sector as a whole would be negotiated at the central level, and matters more connected to the business needs of separate agencies and organisations at a de-central level. This is not the place to elaborate the precise division of tasks between the central and de-central level but, in view of the Nordic practices, it would seem natural that pensions and general coherence guidelines should be decided at the central level and job classifications and grade/step schedules

(within the coherence guidelines) at the de-central level. In accordance with the Nordic model, pay-setting authority at the central level could be assigned to an Agency for Government Employers for the Cabinet sectors as a whole. This agency could be situated at an arm's-length distance under the Directorate General for State Organisation and Operational Management (DGOBR). The Cabinet sectors could be further decentralised, in particular the current state sector which could be decentralised according to agencies. This would strengthen the firewalls, since each agency would remain responsible for staying within its budget. For the core ministries (around 15% of current employment in the state sector), the Director General for State Organisation and Operational Management could remain the employer. All state employers would be represented in the board of this agency. The agency would not only be responsible for central pay-setting agreements but would also provide support and advice to all de-central pay setters. Pay setting and bargaining is a difficult profession, and it is essential that agency managers who are not experienced in this area can fall back on a professional centre of expertise to support them in this task. A reform in this direction would strengthen coherence and better respond to business case requirements of organisations and agencies. In addition, it could strengthen the firewalls between budgeting and pay setting, since the budget envelopes would be defined for the line ministries. Furthermore, the reform could lead to considerable savings, as the current five pay-setting divisions of the Cabinet sectors, with largely overlapping areas of expertise, could be merged into the new agency.

Consequences for shared service centres

The question arises of whether further concentration of standard setting would have consequences for the shared service centres that have recently been built up, including those that are currently residing as arm's-length agencies under the Directorate General for State Organisation and Operational Management in the Ministry of the Interior and Kingdom Relations. To answer this question, it is helpful to have a closer look at the developments concerning shared service centres in the other countries participating in the Value for Money study.

Of the nine participating countries that have provided information about shared service centres, two (Australia, Spain) reported that, up to now, no shared service centres were in place in their government. Seven (Austria, Canada, Denmark, Finland, the Netherlands, Norway, Sweden) reported having established shared service centres. In this respect, it is important to be aware of the definition of a shared service centre in the Value for Money study: a shared service centre is a government unit that provides support services to (divisions or agencies of) more than a single ministry of the

central government or to more than a single government.[22] Table 4.2 provides an overview of the number of shared service centres, their total employment and their location (the number of ministries where the centres are located should not be confounded with the number of client ministries and governments to which services are provided).

Table 4.2. **Shared service centres**

	Number of shared service centres	Total employment	Number of ministries where the shared service centres are located
Austria	6	2 558	2 (5 out of 6 in Finance)
Canada	15	11 476[1]	8 (7 out of 15 in PWGSC[2])
Denmark	2	400	1 (Finance)
Finland	7	2 087	1 (Finance)
Netherlands	25	2 615[1]	4 (17 out of 25 in BZK[3])
Norway	4	1 030	Various
Sweden	1	43[4]	1 (Prime Minister's Office)

1. Data for some smaller agencies were not available and have not been included.

2. Public Works and Government Services Canada.

3. Ministry of the Interior and Kingdom Relations.

4. In persons employed (not in full-time equivalents).

Source: Country responses to the questionnaire of January 2010.

There are two distinct models for the creation and use of shared service centres in the countries of the Value for Money study: the top-down model and the bottom-up model. In the top-down model, the use of the shared service centre is imposed by Cabinet decision, and the personnel that provides the support services is transferred from the line ministries to the shared service centre. In the bottom-up model, the use of the shared service centre remains voluntary for the line ministries, but there may be incentives in place to stimulate use, such as personnel reduction operations (sometimes specified for support services) or permanent automatic productivity cuts.[23] Austria, Denmark and Finland report that they follow a top-down approach. The Netherlands, Norway and Sweden report that they follow a bottom-up approach, Canada a combination of the two. As appears from Table 4.2, there is a clear connection between the use of the models and the concentration of shared service centres, which is not surprising. The three countries that use the top-down method have created their shared service centres in one ministry: all three in the Ministry of Finance.[24] The three countries that use the bottom-up method, and Canada that uses both methods, all have a number of shared service centres spread out over a

number of ministries. (Sweden also uses the bottom-up method but has only one shared service centre which of course is located in one ministry.)

In the countries that rely on incentives to stimulate the establishment and use of shared service centres and consequently feature a more spread-out pattern of such centres (the bottom-up countries), there are no plans in place to move to a more coercive approach or to concentrate shared service centres in a single ministry. On the contrary, it is generally felt in those countries that the practice of service sharing will increase automatically to the extent that the cost and quality benefits flowing from economies of scale become clear to potential clients. Interlocutors in those countries have also noted that there are risks attached to the creation of monopoly suppliers of those services within the public sector, particularly as large ICT systems are involved (risks of project failure or malfunctioning of existing systems). As far as the Netherlands is concerned, one can think of the difficult history of the Pay Direct system (for salary payments). This is not to say that monopoly supply should be avoided. By its nature, government consists almost entirely of monopoly suppliers. The argument is rather that if monopoly is optimal from the point of view of quality and economies of scale, it should grow gradually to the extent that its benefits are perceived by client units. That is also the prevailing attitude observed in the Netherlands (including in the Ministry of the Interior and Kingdom relations where many shared service centres are currently located). Moreover, for many support services it is not clear that the optimal scale of production is the entire central government, or even the entire general government (including subnational government). A too-large scale may lead to bureaucracy and lack of responsiveness to client preferences. In this light, it seems too early for recommendations about the concentration of support services in government-wide units or about the choice between the bottom-up approach and the top-down approach to service sharing as best practice from an international perspective.

In the light of the previous considerations, there seems to be no compelling reason for recommending the transfer of the shared service centres now residing in the Ministry of the Interior and Kingdom Relations to the Ministry of Finance if standard setting for operational management should be moved to the latter ministry. On the other hand, in the light of the international tendency to concentrate shared services in the finance ministry, there is also no reason to advise against the transfer of shared service centres to the Ministry of Finance, if such transfer would be deemed useful for other reasons.[25]

Recommendations

14. The Dutch government may consider abolishing exemptions from government-wide standards of operational management that are currently enjoyed by arm's-length agencies. Independent agencies that are tasked with administrative activities can also be brought under the government-wide standards for operational management (not independent agencies tasked with service delivery).

15. The Dutch government may consider a further concentration of standard setting for operational management and develop, together with the OECD, yardsticks for weighing the pros and cons for such a reorganisation. If it is concluded that human resource standards should indeed belong to the package of standards for operational management, it should be kept in mind that standard setting in this area cannot be separated from pay-setting responsibilities, as the dialogue structures connected to pay setting are the major tools for implementing human resource standards.

16. The Dutch government may consider moving in the direction of the Nordic model for pay setting (see also OECD, 2007, that contained a similar recommendation). This would mean a two-level bargaining model in which certain matters considered essential from a whole-of-government perspective would be negotiated at the state level, and matters more connected to the business needs of separate agencies and organisations at a de-central level. Pay-setting authority at the central level could be assigned to an Agency for Government Employers at arm's-length distance under the Directorate General for State Organisation and Operational Management. The agency would not only be responsible for facilitating central pay-setting agreements but would also provide support and advice to all de-central pay setters. A reform in this direction would strengthen coherence, better respond to business case requirements of organisations and agencies, and strengthen the firewalls between budgeting and pay setting. In addition, it could lead to considerable savings as the current sectoral pay-setting divisions, with largely overlapping areas of expertise, could be merged into the new agency.

17. For the short and medium term, there is no need for concentration of shared support service centres in the same ministry nor for transfer of the current shared service centre from the Ministry of the Interior and Kingdom Relations to the Ministry of Finance.

Reform 7: Automatic productivity cuts

Features of automatic productivity cut procedures

Approximately half of the countries participating in the Value for Money study have automatic productivity cuts in place, including Australia, Denmark, Finland, New Zealand and Sweden. The main advantage mentioned by the countries that use them is that automatic productivity cuts change the baseline of current policy that serves as the point of departure for

the annual budget process. This is seen by finance ministries as a strategic advantage in budget negotiations.[26]

Automatic productivity cuts do not mean that the budget of all line ministries is substantially reduced from year to year. First, the cuts only apply to current operational expenditures[27] which are generally a small part of ministerial budgets. Second, most ministries annually have new spending initiatives which may be larger than the automatic cuts.

Procedures for automatic productivity cuts (or efficiency dividends, as they are sometimes called) differ between countries in the following respects:

- the base to which they are applied;
- exemptions;
- differentiation of the annual cut percentage between policy areas;
- size of the cut percentage.

In most countries, the base is current operational costs. In Denmark, the cuts are applied to the last year of the multi-annual estimates (three years after the upcoming budget year). In this way, the cuts are "gradually phased in" and inserted in the multi-annual estimates that serve as the basis for budget preparation every year. Denmark has been working with the automatic cuts since the beginning of the 1980s. Sweden also uses the multi-annual estimate for the upcoming budget year as the baseline for the annual budget cycle, but imposes an implicit productivity cut from year to year on the operational expenditures by not fully adjusting the compensation of employment expenditure for inflation and wage development in the market sector. In Sweden, the multi-annual estimates are in real terms and translated from year to year in nominal terms through an aggregated wage and price index. If the tasks are not changed, the operational budgets are the same as the previous year, corrected by the index. In order to put productivity pressure on the agencies, the index used does not fully take account of the real increase of wages in the market sector: the index is decreased by a moving average of the last ten years of productivity increase in the market sector. New Zealand uses nominal current operational costs as the baseline in the annual budget cycle. This implies that inflation has to be absorbed (around 2.3% in recent years), but adjustments may be made for wage developments in the market sector.

Some countries exempt sizeable portions of current operational expenditure from the productivity cuts. Australia only applies the efficiency dividend to ministries and agencies whose staff members are employed under the Public Service Act (the civil service) and it exempts certain

research institutions, the armed forces, a large part of the cultural sector and the Customs Service. Denmark also exempts defence. The fact that certain domains are exempted from the automatic productivity cut does not mean that these sectors are exempted from targets for efficiency savings. In Denmark, for instance, the exemption of defence has been traded off for a multi-annual agreement for defence spending that includes sizeable retrenchments. The principle of the automatic cut makes such special agreements easier to attain.

In principle, there are two approaches to the cut percentage. One is to differentiate the percentage on the basis of empirical productivity studies, either for the public sector units that produce the services or for private sector organisations providing similar services. The other approach is to use a government-wide percentage based on a reasonable average. The first approach was followed by Denmark in the late 1980s (Denmark had previously used the second approach in the early 1980s.) However, this attempt was short-lived, since the empirical estimates were not considered very reliable and were open to all kinds of criticism. Finland differentiates the cuts between the ministries, not on the basis of empirical studies but on the basis of ministerial productivity plans (that in turn may be based on empirical studies). However, there is an average requirement of 1% for the government as a whole, which obviously is a strong incentive for convergence around the 1%.

Apart from Finland, all countries now use a uniform percentage. In New Zealand and Sweden, this is dependent on inflation and/or wage development in the market sector; in Australia and Denmark, it is set by a political decision somewhere between 1% and 2% (subject to occasional revision in the last decades).

Risks

Countries that do not utilise automatic cuts emphasise that productivity gains differ between policy areas, and if a single productivity estimate is used for the entire government sector or for central government, sectors with relatively low productivity growth suffer. Moreover, these countries claim that the productivity growth percentage cannot be determined objectively. And since public sector productivity may grow less rapidly than private sector productivity, comparisons between public and private sector productivity in comparable areas are difficult and do not provide reliable results. The first risk has to be nuanced: the fact that the productivity cut uses a uniform percentage does not mean that all ministerial divisions and agencies have to realise the same productivity gains. Line ministers are generally free to distribute the targets as they see fit. In practice, spending

priorities play an important role in this distribution apart from potential for productivity growth. The second risk can be mitigated to a certain extent by the choice of a low cut percentage (substantially below the market productivity development). The 1-2% generally in use meets this condition. In the long run, this will still lead to substantial savings.

Productivity cuts as incentives for support service sharing and process sharing

Automatic productivity cuts can also play a useful role to kick-start shared service centres and shared process units. In the longer run, *ad hoc* downsizing operations can be dispensed with if a stable regime of automatic productivity cuts is in place. This would lead to more predictable budgets and more tranquility in public administration.

Recommendation

18. The Dutch government may consider introducing a government-wide annual productivity cut on current operational expenditures of 1-2%. The cut percentage can be integrated into the extrapolation definition that is applied annually to calculate the last out-year of the multi-annual estimates (the Danish procedure).

Reform 8: Strengthening the spending review procedure

Spending review versus evaluation

Spending review procedures are seen as useful tools to evaluate current spending programmes and to make room for new initiatives, hence supporting the allocative function of the budget. Spending reviews compensate for the fundamental asymmetry of the regular budget process which is capable of producing good options for new spending, but not of producing good options for new savings. The basic reason is that line ministers want to maximise the chance that new spending proposals will be adopted, but to minimise the chance that new savings proposals in their portfolios will be adopted. One method to compensate for this asymmetry is to impose strict portfolio ceilings which force the line ministers to come up with good savings proposals to compensate for setbacks and new initiatives. However, this mechanism does not work at the time the ceilings are established or adjusted. In most OECD member countries, the ceilings are

adjusted annually; in some countries, every few years. In the Netherlands, the ceilings are in principle fixed for a four-year Cabinet period, but reallocations between line ministries are possible in between (but rare in practice).

Spending reviews differ from performance evaluations by line ministries. Obviously, line ministers have strong incentives to improve their policies. Performance evaluations can be an important tool for that purpose. Line ministers are held accountable by the parliament, and the public expects value for taxpayers' money. However, line ministers may not always be interested in publishing critical assessments of policies for which they are responsible, particularly after they have been in office for several years. Consequently, performance evaluations do not always give the complete picture. Moreover, performance evaluations generally do not focus on savings and, insofar as they are forward-looking, they tend to produce options for improving outputs rather than for reducing cost.

Compared to performance evaluations, spending reviews differ in three ways. First, spending reviews look not only at the effectiveness and efficiency of programmes under current funding levels but also examine the consequences of alternative funding levels on outputs and outcomes. Second, the Ministry of Finance or the Prime Minister's Office holds final responsibility for the spending review procedure. Third, the follow-up of spending reviews is decided in the budget process.

The use of spending reviews is widespread. All countries participating in the Value for Money study report that they use spending review procedures except Austria, New Zealand and Norway (New Zealand used them in the past, but the procedures are no longer in place).

Dutch spending review procedure

In the Netherlands, spending reviews (or interdepartmental policy reviews, as they are called) have been used for many years in policy development (see Chapter 3). The basic features are:

- reports about separate policy areas that are not only backward-looking (evaluation) but also forward-looking (reform options);
- reports prepared by working parties of civil servants from several ministries and external experts under the chairmanship of prominent persons who do not bear responsibility for current policies; secretariat of all working groups in the Ministry of Finance; no veto right in the working parties on any policy option proposed;

- reform options that lead to savings (with an obligatory -20% option);
- supervision by a committee of high-level officials of the central ministries (Prime Minister's Office, Finance, Economic Affairs, Ministry of the Interior and Kingdom Relations); and
- decision making on the reports in the budget process.

As noted in Chapter 3, the procedure has faded in the last few years (in some years, there were less than three reviews). In October 2009, the government revived the procedure and initiated the most comprehensive spending review round since 1982 (see Chapter 3). In total, the working groups had to identify EUR 35 billion in savings.

The Dutch procedure has one main flaw. Spending reviews are decided by Cabinet, which basically gives line ministers a veto right against reviews in their portfolio. A tremendous effort by the Minister of Finance has always been required to get the reviews approved. Most finance ministers since 1980 were willing to make this annual effort, which sometimes amounted to trading for budgetary leniency in other respects, but not all did.

Spending review in Ireland and in the United Kingdom

The spending review procedure in the Netherlands could be enhanced by adopting features from other countries' procedures. Ireland and the United Kingdom are known for performing far-reaching spending reviews. They have being using a "court style" method (Ireland) and an institutionalised bi-annual procedure (the United Kingdom).

In November 2008, the Irish government announced the establishment of a comprehensive spending review (the Special Group on Public Service Numbers and Expenditure Programmes) to examine the current expenditure programmes and to make recommendations for reducing the civil service. External experts from both the public and private sector were invited to participate. The secretariat was provided by the Irish Department of Finance.

Interestingly, the group introduced a "court-like style" working process: each line ministry was invited to meet the group and submit an evaluation paper in advance. The purpose of the evaluation paper was to give line ministries an opportunity to outline possible savings options and the impacts on outputs and outcomes. In parallel with this process, the group requested the Irish Department of Finance to prepare independently its own evaluation papers with options for expenditure and staff reductions. Both sets of evaluation papers were considered by the group in advance of meetings with the management teams of each line ministry. Subsequently the group

produced its own savings options, making use of all information thus obtained. This "accusatorial" rather than "inquisitorial" set up of the process puts more pressure on the Irish Department of Finance to develop its own savings options than the Dutch procedure, which sometimes leads to a wait-and-see attitude among the finance representatives.

In the United Kingdom, the spending review process started in 1998 as part of a wider set of reforms aimed at the modernisation of public finance management. The aims of spending reviews were to support the biennial revision of the expenditure framework and ministerial ceilings. For that purpose, the spending reviews are supposed to: reallocate money to key priorities; change policies so that money is well spent; ensure that departments work better together to improve services; and weed out unnecessary and wasteful spending. Spending reviews are produced by various types of working groups: some exclusively composed of Treasury officials, some of mixed composition. External experts and prominent personalities from the public and private sectors are often invited to participate or chair the working groups. The completed reviews are discussed between the Chief Secretary of the Treasury (responsible for the budget) or the Chancellor of the Exchequer and the line minister. The British spending review process focuses on discretionary spending, which covers around 60% of total spending. This is the part of the budget that is subject to the fixed multi-annual ceilings. The remaining 40% is taken up by "annually managed expenditure" which includes social security, interest, and other items of mandatory spending, and is allowed to fluctuate to provide for automatic stabilisation.

The Dutch procedure could be enhanced by better institutionalisation, for instance along the British lines. The Minister of Finance should decide the policy areas to be reviewed and the composition of the working parties. As in the United Kingdom, this is also standard practice in Denmark.[28] The line ministry can be invited to join the working parties and to submit its own options along the Irish lines. In the Dutch context of coalition Cabinets, it is useful that the Budget Code explicitly provides for the possibility that the line ministers be required to submit information about savings options (in connection with the existing provision that the line minister is required to provide other financial information).

In addition, it is useful to more clearly connect the procedure to the periodical revision of the expenditure framework as is the case in the United Kingdom. Since the expenditure framework is only revised at the start of the Cabinet period in the Netherlands, the procedure would thus become quadrennial.

Recommendations

19. The Dutch government may consider formulating the duty of line ministries to provide information to the Ministry of Finance in the Budget Code more broadly than is currently the case, in such a way that it explicitly includes the duty to provide information on savings options that can be used in spending reviews initiated by the Ministry of Finance.

20. The Dutch government may consider moving to a quadrennial spending review procedure connected to the establishment of the expenditure framework along the British lines.

Reform 9: Focus on risk control in internal audit; strict separation from external audit

The statutory task of the internal audit function

The internal audit function in the Netherlands was established in 1987. The Government Accounts Act defines three tasks for the internal audit divisions of the state level:

- financial audits resulting in a "true and fair view" on the annual accounts of ministries and agencies;
- broad audits (operational and information technology audits);
- audits of third parties which receive and spend public funds.

The statutory task of financial audit of giving an opinion in terms of a "true and fair view" on the annual accounts of ministries and agencies is rather exceptional for internal audit. In most countries, as well as in the countries participating in the Value for Money study, internal audit concerns merely the task mentioned under the second point (broad audits). The situation in the Netherlands has a historical background.

Until 1987, the function of internal audit at the state level was underdeveloped and never received attention from the management of ministries. Then the Minister of Finance presented to parliament the "Plan Operation State Accounting System 1987-1992" for improving the state accounting system. Improving the internal audit function was a part of this plan. Besides many other measures to improve the quality of internal audit, it was decided that internal audit divisions should add a "true and fair"

opinion to the annual accounts of each ministry. The new function of internal audit was laid down in a government decree of 1987 which was amended in 1995. The task of the internal audit divisions was then extended to include auditing non-financial management, and the internal audit divisions also give an opinion on the annual accounts of the newly established agencies.

The operation "From Policy Budget to Policy Accounts" (VBTB, see Chapter 3) also had consequences for the statutory task of the internal audit divisions: as from 1991, their audits also had to include non-financial information (output and outcome indicators) in ministries' annual reports. The VBTB operation was also an impulse for evaluating the quality of internal audit. A spending review in 2001[29] (Kordes Commission) recommended broadening the scope of the internal audit divisions and expanding their tasks to include periodical audits of policies and management. The expansion of the tasks of the internal audit divisions implied that the internal audit function was transformed into a multidisciplinary audit function. The working group also recommended centralising specialisms ("create pools") and considering investigating interministerial personnel policy. An evaluation in 2003 of the implementation of the recommendations of the Kordes Commission was clear: the internal audit divisions were restructured, but the transition of the work was incomplete. The statutory task required a minimum capacity of the audit services.

Another spending review[30] led in 2004 to the conclusion that the balance between efficiency and regularity in internal audit had swung too much towards regularity. There were too many complex rules and too little differentiation in types of audits. Overlaps in the control system were abolished, ministers became responsible for regularity, and the role of the audit units became more transparent. But the nature and the scale of the audit work did not change.

By 2009, the total employment of the internal audit support services had risen to about 800 from less than 50 in 1987.

Recent developments

In 2008, the memorandum "Central Government Reform" (see Chapter 3) concluded that the concentration of support services could lead to a reduction of audit costs. It was also decided that the audit activities of four ministries which volunteered as an experiment should be concentrated in one service in order to improve audit quality. The experiment was to be evaluated before the end of 2010. However, the design of this project as of

March 2010 was very clear: abolishing the statutory task will not be part of this study.

The above description of the development of the internal audit function in the Netherlands since 1987 shows that the tasks of internal audit have evolved as the financial management and control situation improved in the 1990s. The tasks were even extended. However, the large expansion of the internal audit divisions in the 20th century also led to discussions about how the quality ("added value") and the cost effectiveness of the internal audit services can be improved.

In light of these observations, one can conclude that governments have tried to find the balance between cost effectiveness and the need for qualitative good audit services, whenever and wherever they could. However, it is striking that one question has never been deeply discussed: whether this balance could be better achieved by abolishing the statutory task of the internal audit divisions and letting them concentrate on assisting the management of ministries and agencies in achieving their objectives. The question of whether internal audit divisions should annually certify the accounts of a ministry or agency was asked by the Kordes Commission and further investigated during the implementation of its recommendations in the project "Quality Plan for the Audit Function", but has not led to a fundamental change.

In international practice, certifying the annual accounts of the state and in many cases of local governments is recognised as the core task of the external audit function (the supreme audit institution) and is regulated by the International Organization of Supreme Audit Institutions (INTOSAI). The task of internal audit, in countries where it is developed, is in general to support the ministry or agencies in accomplishing their objectives by evaluating and improving the effectiveness of risk management, control, and governance processes.[31] The Dutch Court of Audit is of the opinion that, in the Netherlands, the minister is accountable for the reliability of the accounts and for sound financial management and control, and that the annual internal audit report "serves the minister in deciding whether the financial accounts under his supervision can be released" (Baayens and van der Wielen, 2009, p. 32). The Court of Audit is not part of the executive branch and can therefore not function as the certifying body for government institutions.

The opinion of the Court of Audit dates from 1987, when the internal audit function in ministries was established, and was at that time perhaps understandable. Legalising assurance as an internal audit task created a strong incentive for strengthening the internal audit divisions. However, times have changed. The financial management and control situation

improved considerably in the 1990s, and the internal audit divisions no longer have to prove their right to exist.

The efforts since 2001 to improve the quality of internal audit have been hindered by the capacity need for the statutory assurance task. It is also difficult to explain to managers that the combination of the advisory task of the internal auditor (the result of the operational audit activity) with the annual assessment task (the result of the statutory assurance task) does not lead to a conflict of interest.

The experiment of centralising all audit activities in the Ministry of Finance does not solve the problem of conflict of interest, and even creates a new problem: in the long run, the internal auditors could be regarded as representatives of the Ministry of Finance and serving the interests of this ministry ("watchdog of finance") and not the interests of the line ministry they are auditing. Indeed, according to international principles, internal audit is a management tool and the internal auditor is a part of the organisation he/she audits with sufficient guarantees of independence.

Transferring the statutory assurance task to the Court of Audit might seem a radical policy change but, from an international perspective, the Netherlands stands alone and its vision on internal audit is an exception rather than the rule. Furthermore, the need for an annual opinion on the accounts by the internal auditor could be questioned too. The financial management and control situation in ministries and agencies has improved, and ministers annually submit an internal control statement in their annual financial report which in principle fulfils the role of an accountability statement. Transferring the statutory task will not only lead to a clear division of tasks between internal and external audit but will also lead to savings. Indeed, the Court of Audit annually reviews the statutory audit work of the internal auditor. One-third of the Court's audit capacity is reserved for this activity. On an annual basis, substantial savings could be realised by abolishing the internal assurance task of internal audit.

Additional savings on internal audit could be realised by reducing the internal audit tasks with respect to non-financial information (output and outcome indicators). This subject will be further discussed in *Building on Basics* (OECD, forthcoming) in connection with the role of such information in the budget and financial reporting documents.

Recommendation

21. The Dutch government may consider abolishing the statutory assurance task of the internal audit divisions and transferring this task to the Court of Accounts.

Reform 10: Separation of budgeting from output steering and control for arm's-length and independent agencies

Can agencies be financed on the basis of outputs?

The separation of policy making and execution was implemented in the Netherlands through the establishment of agencies, first mostly as independent agencies, later mostly as arm's-length agencies according to the British model (see Chapter 3). Agencies were given more freedom to carry over funds from year to year, to save for investment and to decide within certain limits on accommodation and facilities with relaxation of the standards for operational management in this respect. Later, the saving facility was restricted and replaced by a borrowing facility.

Throughout the 1990s, there was severe criticism by parliament and the Court of Accounts of the lack of transparency concerning the outputs and costs of agencies. The last evaluation (2002) revealed that 15 of the 22 arm's-length agencies that were examined lacked sufficient information about measured outputs and costs per unit to assess efficiency. The situation in independent agencies was even worse, as many ministries lack any information on the performance and costs of these units. However, until recently the government persisted by its policy of improving measurability and financing on the basis of cost per unit.

On a conceptual level, the problems are threefold: *i)* outputs are difficult to measure; *ii)* output definitions are subject to permanent reformulation in the light of political priorities and results from social research; and *iii)* the role of outputs in funding is unclear. These problems will be further explored in *Building on Basics* (OECD, forthcoming). For the present assessment, it suffices to pay attention to recent developments in the countries participating in the Value for Money study.

The Swedish approach

The Netherlands is not an exception. Other governments that have established agencies (New Zealand, United Kingdom) or that had policy execution organised in agencies long ago but tried to move to a provider-purchaser model in the 1990s (Australia, Canada, Sweden) encountered exactly the same difficulties. In recent years, this has led to a certain reorientation. Sweden is in this respect the most inspiring country, which is not surprising in light of its age-old experience with policy execution in arm's-length agencies.

Important features of the Swedish approach are:

- transparency regarding input use;
- less emphasis on the annual budget process as a tool for the steering and control of outputs and more emphasis on permanent performance dialogue.

New Public Management changed the nature of budget negotiations between ministers and line managers. Traditionally, the negotiations focused on inputs, but focus shifted to the cost of services. However, this change has largely been fictitious because, in the absence of relevant market prices, costs can only be assessed on the basis of underlying assumptions about the input mix and the input costs. In order to carry out negotiations effectively, an agency's input costs have to be transparent and the minister needs assistance from advisors having thorough knowledge of the agency's organisation and production methods.

Separating steering and control of performance from the annual budget process is an important trend in several countries.[32] The annual exercise to reach agreement about output targets within the budget process is increasingly seen as ineffective, bureaucratic and distortive (leading to perverse incentives).[33] Output steering and control should take place on the basis of a permanent performance dialogue. Sweden has recently developed annual performance procedures that to a large extent bypass the budget process. Important elements are the performance dialogue with the minister on the basis of the annual agency report, the meeting with the National Audit Office on the basis of the audit report, and various forms of evaluation. In addition, Sweden intends to reduce the annual agency direction attached to the appropriation and to introduce informational requirements on performance in the agency ordinance.

As far as financing is concerned, it is important that this is not left only to the financial directorate of the line ministry. Financing can take place on the basis of robust rules, usually split into a fixed base budget and a variable component based on need indicators (capacity budgeting). The OECD

Secretariat has the impression that, currently, the information of core ministries about costs of agencies is limited, and sometimes next to absent (the last is particularly true for independent agencies). Nobody can say how efficient agencies are but, in view of the fact that by far the largest part of operational expenditure is made in the agencies, it is clear that substantial savings from efficiency improvements, if any, can only come from agencies. In this light, there is every reason for the Dutch government to focus its attention on better cost information about agencies. This should not be left only to the line ministries. The Ministry of Finance should play a leading role in the improvement of cost information about the agencies. Budget negotiations with agencies should be attended by representatives of the Ministry of Finance. One of our interlocutors also put forward the idea that an agency efficiency centre would be established in the Ministry of Finance that would provide the line ministries with information and analysis about the costs of agencies that could be used in budget negotiations.

Do agencies need exemptions from standards for operational management?

Dutch agencies have been exempted from standards for operational management that apply government-wide to ministerial divisions. Some of the freedoms are connected to the financial administration on the basis of accruals that is prescribed for all agencies, particularly the borrowing facility and the carry-over facilities. However, other freedoms are not connected to the financial administration, particularly those in the area of accommodation and facilities. Apart from the ideas of New Public Management, there are no good arguments for such exceptions, and they could be abolished without adverse consequences.

Standards of operational management are not always applicable to independent agencies. Independent agencies are often tasked with service delivery. Such tasks generally require quite different standards for operational management than administrative activities. For instance, buildings for universities, courts or prisons need to satisfy totally different criteria. It is therefore logical that service delivery agencies are exempted from rules of operational management that otherwise apply government-wide. On the other hand, there may be independent agencies that are exclusively tasked with administrative activities to which the general standards may apply, for instance the Central Bureau of Statistics. This has to be judged on a case-by-case basis. It is important that the applicability of standards to independent agencies is explicitly decided, which currently is not always the case, resulting in somewhat opaque situations.

Recommendations

22. The Dutch government may consider more clearly separating the steering and control of outputs of executive agencies from the budget process. Budgeting should take place on the basis of robust financing rules, partly based on need indicators (capacity budgeting). Agencies should be required to provide transparent information on the input mix and the input costs that allow the minister to assess cost per output. The Ministry of Finance should play a leading role in the improvement of cost information about the agencies and be represented in budget negotiations with agencies. An agency efficiency centre could be established in the Ministry of Finance that would provide the line ministries with information and analysis about the costs of agencies, which could be used in budget negotiations.
23. Steering and control of the performance of arm's-length agencies is essential, but performance targets and performance realisations should be set, monitored and evaluated in a performance dialogue throughout the year. This task should be fulfilled by the line minister who is responsible for executive policy of the agencies.
24. The Dutch government may consider abolishing exemptions from government-wide standards for operational management that are currently enjoyed by arm's-length agencies. Independent agencies that are tasked with administrative activities can also be brought under the government-wide rules for operational management (not independent agencies tasked with service delivery).

Survey of effects of reforms

Table 4.3 provides an overview of quality improvement and potential savings of the ten priority reforms discussed in this chapter. Savings are characterised in relation to the current operational costs of the units concerned. A moderate saving (less than 20%) of large units can be larger than a large (more than 20%) saving on small units.

Table 4.3. **Overview of quality improvement and potential savings of reforms**

	Reform	Quality improvement in administration	Quality improvement in service delivery	Saving
Reform 1	Consistent division of policy-making competencies across levels of government	X	X	Large (for the tasks to be transferred)
Reform 2	Sectoral career development	X		
Reform 3	Better use of executive and professional expertise in policy development	X	X	
Reform 4	Process sharing among executive units and merging of executive units	X	X	Moderate (for the units involved)
Reform 5	Independent supervisors/regulators		X	
Reform 6	Concentration of standard setting for operational management	X		Moderate (for the total of administrative expenditure)
Reform 7	Automatic productivity cuts			Moderate (for the total of administrative expenditure)
Reform 8	Strengthening the spending review procedure	X		
Reform 9	Focus on risk control in internal audit; strict separation from external audit			Large (for the total of internal audit divisions)
Reform 10	Separation of budgeting from output steering and control for arm's-length and independent agencies		X	Unknown, but potentially large

Notes

1. Note that, in Chapter 1, the reforms were grouped in another way – namely in accordance with broad reform trends (a more consistent division of tasks between levels of government, vertical integration, horizontal integration, etc.).

2. Block grants are non-earmarked grants for broad task areas, but can be used outside these areas if the local government thus decides.

3. Before the Brinkman Commission, there were reports with proposals to clean up earmarked grants in 1981 (Council for Municipal Finances), 1994 (Commission Griffioen), 1998 (Commission Pennekamp), and 2000 (Council for Financial Relations).

4. The dividing line between non-earmarked general purpose grants and tax sharing is not always straightforward. After much discussion, the OECD Network on Fiscal Relations across Levels of Government has defined tax sharing as follows: a financial flow from central to subnational government is considered as tax sharing if it fulfils the following three criteria: *i)* risk sharing (for revenue yields); *ii)* un-conditionality (no earmarking); and *iii)* formula stability (no volatility of the formula from year to year).

5. This route was advocated by the Boorsma Commission in 2004 (Boorsma, de Kam and van Leeuwen, 2004).

6. See Bergvall *et al*., 2006, and Blöchliger *et al*., 2007, for an analysis of equalisation in local government financing.

7. A similar division of competencies between ministries and agencies prevails in Denmark.

8. As mentioned above, this safeguard is even granted in the Constitution in Sweden.

9. This implies that the condition of large-scale generation of non-discretionary administrative decisions that has been agreed in the past as a criterion for independence is to be abandoned. A second criterion of independence agreed in the past – namely participation of non-governmental institutions in the governing board of an agency – can also be abandoned, because it does not constitute a separate reason for

independence (either it selects the same agencies that need to be independent for intrinsic reasons or it does not constitute a reason for independence at all). Both criteria were proposed in the report "Establishing Independence in a Responsible Way" (Sint Commission, 1994) and agreed by the Cabinet.

10. There are some rare instances of administrative competencies attributed to non-profit institutions inside or even outside central government for efficiency reasons, but they are not important.

11. In a legal sense, all agencies without legal personality are owned by the state. Economic ownership means ultimate control over operations as guaranteed by standard setting for operational management. In the case of economic ownership, this competency remains with the government. This can also apply to independent agencies with legal personality.

12. Shared process units can also be used by supervisory/regulatory units, but shared process units have not yet been established for supervisory/regulatory units in the Netherlands.

13. The discussion regarding Danish e-government initiatives is based on OECD, 2010b.

14. This concern does not apply to independent agencies, for which the minister only bears responsibility for operational management. This applies to 9 of the 25 agencies, mostly in the sphere of examinations and the financing of basic research and culture, as well as the forecasting bureaux.

15. Only the supervisory/regulatory division of the central bank is taken into account.

16. Since they are independent agencies, the role of supervisory/regulatory authorities should be limited to the provision of information and analysis (see Reform 3).

17. This proposal is also presented in the Spending Review 2010 "Public Administration".

18. State, police, defence, judiciary, education, universities, higher professional education, academic hospitals, research institutes, occupational and adult education, provinces, local authorities and water authorities.

19. State, police, defence, judiciary and education. The state sector includes all employees of the state except those of the other four sectors.

20. Contained in the "priority letters" (*speerpunten-brieven*).

21. The Tax Service is currently part of the core Ministry of Finance. It is not an arm's-length agency, but would probably claim to become one if pay setting were to be decentralised to the agency heads. There may also be reasons for separate pay setting for the Tax Service in view of business needs. The Tax Service is not included in the mentioned 15% employment in core ministries. There are also other reasons to reconstitute the Tax Service as an arm's-length agency (see Reform 3).

22. A unit providing support service to one ministry and one municipality is thus a shared service centre. A unit providing support services to one core ministry and an agency of the same ministry is not a shared service centre.

23. See OECD (2010a) for more information about these models.

24. It might be thought that the concentration in Denmark is not impressive, because there are only two shared service centres, but this is a bit misleading because the shared service centre in Denmark is pretty large – as appears from the employment number – and contains many divisions for different services that have not been counted as separate service centres (compare with the Netherlands where 17 units in the Ministry of the Interior and Kingdom relations have all been counted as separate service centres).

25. The Government Accountancy Service is a shared service centre that is already in the Ministry of Finance. This service also has tasks (relatively small ones) in the area of standard setting for internal audit, together with the Directorate General for the Budget. It seems more logical to split off the standard-setting tasks and to bring them together with the other standard-setting tasks in the Directorate General for State Organisation and Operational Management.

26. For more information on automatic productivity cuts, see OECD (2010a).

27. Compensation of employment and intermediate production in terms of the national accounts. Current operational cost is more inclusive than administrative expenditure: it includes service delivery by ministries and public agencies inside central government (armed forces, prison system, police, etc.).

28. The Danish Minister of Finance informs the Cabinet Committee on Economic and Financial Affairs (which he chairs) on the spending reviews he has approved.

29. Spending Review 2001 "Competitive Service Provision Accountancy".

30. Spending Review 2004 "The Burden of Regulation and the Control Tower".

31. The definition of the Institute of Internal Auditors is: "Internal auditing is an independent, objective assurance and consulting activity designed to

add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." See *www.theiia.org/guidance/standards-and-guidance/ippf/definition-of-internal-auditing*.

32. For instance, in Denmark and to some extent in Finland.

33. The insight that providers of services (as opposed to manufactured goods) cannot efficiently be controlled by output agreements is a long-standing result of institutional economics that goes back to Coase (1937). In the previous century, a lot of literature explored different forms of steering and control in the private service sector. A well-known conclusion of this literature is that services can only be provided efficiently on the basis of "relational contracting" that allows the buyer to specify the outputs during contract execution within certain procedural limits flowing from the agreed price (Williamson, 1985).

Annex A

Glossary

Note: The asterisk (*) in some of the definitions refers to a term included in this glossary.

Administrative employment: all employment in general government (in the sense of the national accounts) except service delivery employment*.

Agency: unit of a ministry with a separate financial administration.

Arm's-length agency: agency* for which the minister is responsible as far as (executive) policy is concerned (not necessarily for the handling of individual cases). The minister also remains responsible for operational management.

Central ministry: Prime Minister's Office, Ministry of Finance and ministry where the most important tasks in the area of standard setting* for operational management* are located.

Central support unit: division* providing support services to all or some line divisions* of the ministry.

Civil service: all employees of central government whose labour conditions are ruled by public law.

Core ministry: the part of the ministry that is not organised in agencies*.

De-central support unit: unit of a core ministry or agency that provides support services to a single (sub-)division of a core ministry or agency.

Division of a ministry: unit of a core ministry led by an official who reports directly to the minister or deputy minister or to the highest non-political official of the ministry. National titles of officials leading ministerial divisions may be director-general, director, assistant secretary.

Economic (or "market") supervision/regulation: supervision and regulation of entry to or exit from a market, the prices at which goods and services can be sold or the quantities of goods that can be sold aimed at the promotion of competition. Economic regulation also includes regulation requiring the provision of access to infrastructure owned by other parties. Economic regulations can take the form of orders or sanctions in individual cases and of rules for entire branches of economic activity.

Executive policy: policy (guidelines) concerning policy execution.

Financial audit: assessment of the compliance of financial transactions or the registration of financial transactions with the applicable legislation. This includes the assessment of the administrative organisation in place to safeguard the compliance with applicable legislation (operational audit).

Forecasting bureau: unit of the government that provides forecasts on economic, social, financial and environmental developments and scenario studies on impacts of government policies on those developments. A forecasting bureau may in addition provide other forms of policy analysis.

Independent agency: agency* for which the minister is not responsible, neither for executive policy* nor for the handling of individual cases (the minister remains responsible for policy and operational management*).

Internal audit: financial audit* or performance audit* of transactions or activities of a ministry carried out by a unit of a core ministry* or an arm's-length agency*.

Line division: division* of a core ministry that has tasks in the areas of policy development, policy execution and supervisory/regulatory activities.

Line-item estimate: estimate of the expenditures on the basis of current policy of the most detailed expenditure group distinguished in the budget law.

Line minister: minister who is not responsible for standard setting for operational management (or who is acting in another capacity than standard setting).

Market structure: conditions of the market that determine its competitiveness or other features of perfection. A market can be imperfect because of small numbers of buyers or sellers (monopoly, oligopoly), information asymmetry, or external effects. Monopoly

or oligopoly can be legal (legal entry barriers) or natural (decreasing marginal costs, for instance in network services).

Multi-annual line-item estimates: estimates of the future expenditures in the two, three or four years following the budget year, on the basis of current policy of the most detailed expenditure group distinguished in the budget law.

Operational expenditures: expenditures for compensation of employment, intermediate production and consumption of fixed capital (in the sense of the national accounts).

Operational management: decision making on the use of operational means*. For instance: financial management, human resource management, procurement management.

Operational means: communication, human resources and organisation, internal audit, procurement, information and ICT, finance (budgeting and accounting), and accommodation, real estate and facilities (office equipment, reproduction, cars, catering, security).

Operational (or technical) efficiency: relative productivity of a production process compared to the optimal production process with the same output.

Out-year: each year of the multi-annual estimates after the (upcoming) budget year.

Performance audit: assessment of the effectiveness or efficiency of government activities, given the policies (targets and instruments) in place.

Permanent advisory council or committee: a committee established by law or governmental or ministerial decree for an indefinite term or a term longer than a few years, with the task of advising the government or the minister about policy development or execution.

Policy evaluation: assessment of the effectiveness and efficiency of a policy (targets and instruments).

Private corporation: institutional unit belonging to the corporate sector of the economy (in the sense of the national accounts) which is not controlled by the government.

Public corporation: institutional unit belonging to the corporate sector of the economy (in the sense of the national accounts) which is controlled by the government.

Regulatory and supervisory activities: monitoring and enforcement of compliance with specific regulations by regulatory authorities*.

Regulatory authority: organisation(s) mandated to monitor and enforce compliance with specific regulations, as distinct from general legal enforcement agencies (*i.e.* the police and prosecuting authorities).

Regulatory capture: undue influence of regulated market parties or governmental organisations over regulatory authorities*.

Senior civil service: top layer of the civil service*.

Service delivery employment: all employment in the military, the police, the penitentiary institutions, units providing other collective services in kind (for instance, construction or management of transport infrastructure: roads, tunnels, bridges, waterways, harbours, rail networks, airports, pipelines, etc., or ICT infrastructure), non-profit institutions classified inside general government in the national accounts, educational institutions, health providers and units providing other individual services in kind (cultural institutions, institutions providing social services, etc.).

Shared process unit: government unit that carries out tasks that belong to the primary process of more than a single ministry of central government or more than a single government (for instance, a ministry and a municipality).

Shared service centre: government unit that provides support services to more than a single ministry of central government or to more than a single government (for instance, a ministry and a municipality).

Social (or "protective") regulation: regulates the quality of goods and services that are sold on markets or that are provided by government outside markets (against "insignificant prices" in the sense of the national accounts). This includes, for example, regulation of environmental quality, food safety, labour conditions, health care quality, and quality of education.

Social supervision/regulation: supervision and regulation of the corporate and non-profit sector outside general government and of executive units, subnational governments and non-profit institutions inside the general government sector aimed at the protection of citizens and businesses other than through the promotion of competition. Social regulation usually takes the form of orders or sanctions in individual cases.

Standard setting: making rules on operational management*.

Strategic policy unit: unit of a ministry established for the purpose of advising about medium-term or long-term policy development.

Support services: services to support operational management*.

Supreme audit institution: independent high college of state mandated by the constitution to audit the activities of the state (financial audits* and usually also performance audits*).

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