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**OECD VALUE FOR MONEY STUDY  
COUNTRY ASSESSMENT OF THE NETHERLANDS**

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## OECD VALUE FOR MONEY STUDY COUNTRY ASSESSMENT OF THE NETHERLANDS

### CHAPTER 1 - INTRODUCTION

#### The Value for Money study

1. This report presents the results of the assessment of the organisation of the central government of the Netherlands. This report is part of a series of similar assessments that will be made for the OECD Value for Money Study. This study is a multi-annual project that aims to identify reforms and plans for reform currently undertaken or planned in OECD countries that are interesting from the point of view of value for money. The study looks at reforms that are aimed at the improvement of the quality of services (more value) and efficiency (less money) in central government.

#### Sources of information

2. In order to collect information the OECD Secretariat has made fact finding to Australia, Denmark, the Netherlands and Sweden. Furthermore, 13 OECD countries offered to provide information via questionnaires.

3. Quantitative data on employment are drawn from the Public Finance and Employment Database (PFED) of the OECD. In addition data have been provided to the OECD about administrative employment (the snapshots of the public administration) by most Value for Money countries.

#### Contents of the assessment

4. Chapter 2 will provide a number of 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 in the last decades been undertaken 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 ones that were considered the *most interesting for the particular case of the Netherlands*. For each area of reform recommendations will be provided focused on 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.

## CHAPTER 2 - BENCHMARKS FOR THE DUTCH CENTRAL GOVERNMENT

### Basic features

5. 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 1.

**Table 1 - Basic statistics of the Netherlands (2009)**

<b>Land and population</b>	
Area (1000 km <sup>2</sup> )	42
Population (x 1000)	16417.7
Inhabitants (per km <sup>2</sup> )	489
Employment (fte x 1000)	8638.5
of which: agriculture	222.3
<b>industry and construction</b>	1549.1
other	6867.1
<b>Production</b>	
Gross domestic product (billion euro)	570.2
Gross domestic product per head (1000 euro)	34.7
<b>General government</b>	
Total expenditures (percent of GDP)	48.9
Total revenues (percent of GDP)	46
Deficit (ESA '95) (percent of GDP)	5.2
Public Debt (percent of GDP)	60.8
<b>Central government</b>	
Total expenditures (percent of GDP)	30.8
Total revenues (percent of GDP)	27.4
Deficit (ESA '95) (percent of GDP)	3.4
Public Debt (percent of GDP)	49.9
<b>Politics</b>	
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

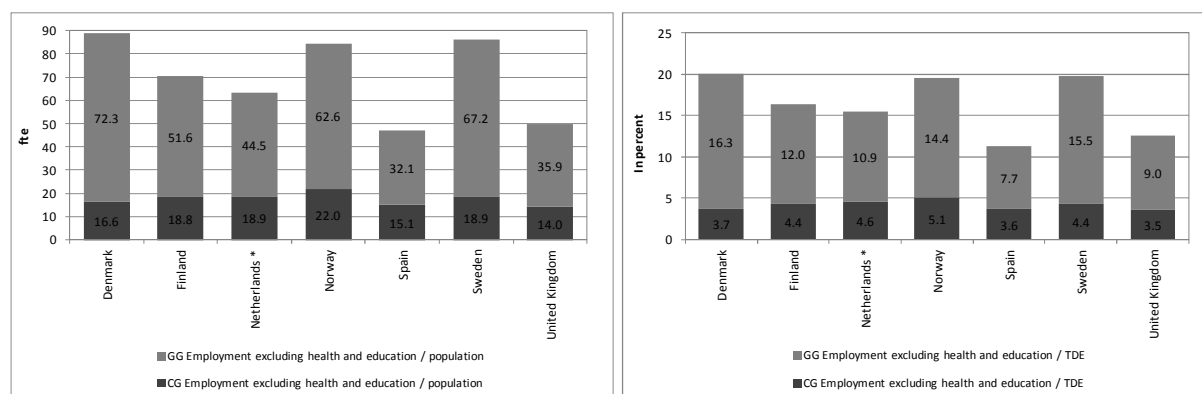
Source: OECD Statistics

## General government employment

6. The size of employment in central government and in general government (including local government) is about average<sup>1</sup>. However, this observation is strongly affected by the organisation of the policy areas of education and health in 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 UK, 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 constitutes about two thirds of primary and secondary education<sup>2</sup>. In this light a sensible comparison can only be made by leaving health and education aside. Figure 1 presents central and general government employment without health and education per 1000 inhabitants and as percentage of domestic employment. The sub-sector of social security has been merged in this figure as well as in all following tables of this chapter with the central government<sup>3</sup>.

**Figure 1 - Employment in general and central government without health and education relative to domestic employment**

(Fte's per 1000 inhabitants and percent of domestic employment in fte, 2006\*)



\* Data from the Netherlands are for 2004.

Source: PFED (OECD)

7. It appears from Figure 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 percent of domestic employment, 15-20 government employees per 1000 inhabitants.). The Netherlands and Norway have 5 percent employment in general government, all other countries 4 percent. However, when central government employment is compared with general government employment, the Netherlands comes out much higher, due to a higher degree of

<sup>1</sup> An extensive analysis of the size of Dutch public employment was provided in “Public Administration after New Public Management” (OECD 2010).

<sup>2</sup> These institutions are supposed to be controlled by government and hence attributed to the government sector in the national accounts.

<sup>3</sup> Countries outside the EU can opt to merge the social security sector with the central government in the national accounts (SNA 1983). According to ESA '95 EU countries are required to present separate accounts for Social Security. In order to secure comparability the social sector has been merged with the central government in this chapter for all countries (including the EU countries).

centralisation. This is illustrated in Table 2, which shows employment without health and education in percentage of total general government employment.

**Table 2 - Employment in general government without health and education by organisation**

(percentage of total general government in fte, 2006)

	Denmark	Finland	Netherlands	Norway	Spain	Sweden	UK	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)**
Local government	77.0	63.5	57.4	64.8	37.8	71.8	60.9	60.1
<b>General government</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	100	<b>100</b>	100

\* Data for the Netherlands are for 2004.

\*\* For the calculation of the averages, employment in State government is put on 0 for the unitary countries. The number between brackets is the true average of the federal countries (in this case only Spain).

Source: PFED (OECD).

8. The centralisation rate of the Netherlands is 42.5, the one but highest of all Value for Money countries, only exceeded by Spain.

9. More information about the distribution of employment over public organisations is available from the so-called snapshots of the public service provided by participating countries. The snapshots only contain 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.)<sup>4</sup>. The snapshots make it possible to distinguish between employment in core ministries, arm's length agencies and independent agencies. An agency is defined as a unit of a ministry with a separate financial administration and certain autonomy in operational management. 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 of individual cases). An independent agency is an agency for which the minister is not responsible as far as policy execution is concerned (nor for handling of individual cases nor for executive policy. Table 3 shows the distribution of central government employment about these three kinds of organisation. The difference between the totals of administrative employment as shown by Table 3 and the totals of central government employment without health and education as shown by Table 2 are due to service delivery employment (including service delivery in education and health<sup>5</sup>)

<sup>4</sup> 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 (the public prosecutors and their staff are not part of the Judicial Branch and thus included in the snapshots).

<sup>5</sup> In addition the differences are due to some administrative employment in health and education that are also excluded from table 2.

**Table 3 - Central government administrative employment by type of organisation**  
(percent of total administrative central government employment in fte, 2009)

	Australia	Austria	Denmark	Finland	Netherlands	Norway	Spain	Average
Core ministries	42.0	29.7	6.2	10.4	34.5	8.7	36.1	23.9
Arm's length agencies	58.0	47.3	80.5	80.8	37.4	86.8	63.3	64.9
Independent agencies	0	23.0	13.3	8.7	28.1	4.5	0.6	11.2
Total	100	100	100	100	100	100	100	100

Source: Snapshots of the public administration 2010.

10. In spite of the arm's length agency reform of the nineties, it turns out that the Netherlands has still relatively large employment in the core ministries as compared to the Nordic countries, but lower than Australia and Spain.

11. The snapshots also allow to compare the division of employment over the four activities of government (policy development, administrative policy execution, regulatory/supervisory activities and support services). Table 4 shows the resulting picture. It should be emphasised that in spite of detailed guidelines, the countries reported many problems in putting up the snapshots and particularly in the distribution of employment over the four activities of government.

**Table 4 - Administrative employment in central government by activities of government**  
(percentage of total central government in fte, 2009)

	Australia	Austria	Canada	Denmark	Finland	Netherlands	Norway	Spain	Average *
Policy development	18.5	15.0	n.a.	5.1	8.5	6.3	9.0	18.9	10.2 (11.6)
Administrative policy execution	31.5	48.7	n.a.	88.9	68.5	80.8	57.4	70.5	55.8 (63.8)
Regulatory/supervisory activities	17.0	13.8	9.1	4.9	7.0	7.5	27.5	0.5	10.9
Support services	33.0	22.5	18.3	1.1	16.1	5.4	6.1	10.0	14.1
Total	100	100	100	100	100	100	100	100	100

\* Averages are calculated by putting non available data at zero. The number between brackets is the true average for the countries for which data are available.

Source: Snapshots of the public administration 2010.

12. Although the numbers of Table 4 must be taken with a grain of salt, it appears from this figure that the Netherlands have relatively small employment in the area policy development, similarly as 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 snapshot of Denmark 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 have relatively high levels of policy development, supervisory/regulatory activities and support services.

13. Countries also provided information on support service employment by kind of support service. The resulting picture is provided in Table 5.

**Table 5 - Central government employment in support services**  
(absolute and percentage of total central government support services in fte, 2009\*)

	Australia		Austria		Canada		Denmark		Finland		Netherlands		Norway		Spain		Average ** (%)
	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	
Finance	7706	22.5	1082	16.5	4700	9.4	350	48.5	1720	20.1	993.0	12.0	364	12.2	4402	16.8	19.8
HR and organisation	5071	14.8	1118	17.1	9800	19.5	111	15.4	1810	21.2	2738.8	33.2	75	2.5	4013	15.3	17.4
Information and ICT	10674	31.1	1834	28.0	19700	39.2	171	23.7	2080	24.3	1190.8	14.4	1264	42.4	6384	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	1.8 (3.7)
Procurement	n.a	n.a	204	3.1	3200	6.4	n.a	n.a	280	3.3	0.0	0.0	58	1.9	n.a	n.a	1.8 (2.9)
Communication	n.a	n.a	261	4.0	3600	7.2	n.a	n.a	1000	11.7	965.6	11.7	225	7.6	n.a	n.a	5.3 (8.4)
Accommodation and fac.	n.a	n.a	1900	29.0	8000	15.9	90	12.5	1600	18.7	1508.1	18.3	992	33.3	11425	43.6	21.4 (24.5)
Other corporate	10850	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)
<b>Total</b>	<b>34301</b>	<b>100</b>	<b>6541</b>	<b>100</b>	<b>50200</b>	<b>100</b>	<b>722</b>	<b>100</b>	<b>8550</b>	<b>100</b>	<b>8250</b>	<b>100</b>	<b>2978</b>	<b>100</b>	<b>26224</b>	<b>100</b>	<b>100</b>

\* Data for the Netherlands from 2006.

\*\* Averages are calculated by putting not available data at zero. The number between brackets is the true average for the countries for which data are available.

Source: Snapshots of the public administration 2009

14. Table 5 too, has to be taken with a grain of salt, in view of lacking data and sometimes poor quality of the data, but nevertheless it is interesting to note that the Netherlands spend relatively much on the support services of human resources and organisation, internal audit (three times average) and communication, and relatively little on finance, information and ICT (half of average), and accommodation, real estate and facilities.

### General government expenditures

15. Obviously, employment is not the only indicator for 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 sub-national government, public contributions and subsidies to the corporate sector and most investment). Table 6 presents general government expenditures per sub-sector and for general government as a whole as 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 6 - General government expenditures by sub-sector**  
(percent of general government expenditure, 2007)

	Austria	Denmark	Finland	France	Ireland	Netherlands	New Zealand	Norway	Spain	Sweden	UK	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
<b>General government</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* There two federal country (Austria and Spain). For the calculation of the averages, employment in State government is put on 0 for the other countries. The true average for the federal countries is provided between brackets.

Source: PFED (OECD)

16. It turns out that also by expenditures the Netherlands is the most centralised country of all. The rate of central spending is more than 10 percent above average. The UK and Ireland are on the second and third place with centralisation rates above 90 percent.

17. Patterns of central government spending vary considerably between the Value for Money countries. 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 leave more tasks to local and/or state government. In federal states, the tasks of state government are often determined by the federal constitution. Table 7 provides an overview of spending patterns over policy areas in the central government of the Value for Money countries.



**Table 7 - Central government expenditures by policy area**  
(percentage of central government expenditure, 2007\*)

	Austria	Denmark	Finland	France	Ireland	Netherlands	Norway	Spain	Sweden	United Kingdom	Average **
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)
<b>Total collective services in kind</b>	<b>14.9</b>	n.a	n.a	n.a	n.a	<b>21.1</b>	<b>17.4</b>	<b>17.0</b>	<b>22.0</b>	<b>19.5</b>	<b>11.2 (18.7)</b>
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)
<b>Total cash transfers</b>	<b>10.3</b>	n.a	<b>9.2</b>	<b>0.6</b>	<b>0.0</b>	<b>13.1</b>	<b>14.7</b>	<b>33.8</b>	<b>17.5</b>	<b>14.5</b>	<b>11.4 (12.6)</b>
<b>Total collective services and transfers</b>	<b>25.2</b>	n.a	n.a	n.a	n.a	<b>34.2</b>	<b>32.1</b>	<b>50.8</b>	<b>39.6</b>	<b>34.1</b>	<b>21.6 (36.0)</b>
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)
<b>Total individual services in kind</b>	<b>36.9</b>	n.a	n.a	n.a	n.a	<b>35.8</b>	<b>32.9</b>	<b>6.7</b>	<b>18.6</b>	<b>38.1</b>	<b>16.9 (28.2)</b>
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)
<b>Total individual services and transfers</b>	<b>74.8</b>	n.a	n.a	n.a	n.a	<b>65.8</b>	<b>67.9</b>	<b>49.2</b>	<b>60.4</b>	<b>65.9</b>	<b>38.4 (64.0)</b>
<b>Total central government</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* Data from the Netherlands are for 2006.

\*\* Averages are calculated by putting not available data at zero. The number between brackets is the true average for the countries for which data are available

Source: PFED (OECD)

18. 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).

### General government revenues

19. An important feature of local government in the Netherlands is its small tax base and own tax revenue. Almost 90 percent of local government revenue comes from central government transfers, about equally divided over earmarked transfers and general purpose and block grants. Table 8 provides an overview of own tax revenue as a share of total revenue in the sub-sectors of general government.

**Table 8 - Own tax revenue as share of total revenue by sub-sector of general government**  
(percent 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 all countries except for New Zealand for which data are for 2007.

Source: PFED (OECD)

20. As appears from Table 8, the own tax share in total revenue of local government is the lowest (11 percent). Other countries with low local tax revenue are the UK and Ireland. All other countries have local tax shares above 30 percent. Apart from transfers, the non-tax revenues are: sales, fees, property income and subsidies.

## CHAPTER 3-- OVERVIEW OF DUTCH REFORMS

### Three periods of reform

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

22. The 1990s and much of the first decade of the current century were the years of New Public Management. In these years *the arms’ length agencies* were established in the Netherlands. This reform was inspired by the Next Step agencies in the UK. 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.

23. In the last few years a certain swing back is noticeable from the New Public Management reforms and simultaneously new ideas have come to the fore. In this period the *Central Government Reform* has been launched.

### Spending review

24. The spending review procedure was introduced in the Netherlands in 1981. At that moment the country was facing a severe fiscal crisis. The cash deficit had reached a level of 8 percent (ESA95 deficit 6 percent) as a consequence of a fall back in gas revenues that had been used in previous years to fund ordinary expenditures (Dutch disease) in combination with 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 coordinated 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 report annually. There was always a mixture of reports focused on specific policy areas and “horizontal” reports (in total 44 horizontal out of 243 reports in the period 1981-2006). In recent years the procedure weakened considerably and the number of annual reports decreased in certain years to below 5. In 2009, the procedure was revived as a consequence of the financial crisis. In 2010, 20 reports were produced, covering 80 percent of central government expenditures.

25. In terms of savings, the procedure was quite effective. The 70 reports of the first two years were used in the cabinet formation of 1984 and led to savings of some 7 billion guilders (3.2 billion euro) in the government programme of that year and subsequently implemented in the annual budget process. In the period between 1984 and 1997 some 9 billion guilders (4.1 billion euro) of savings 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 amount to about 25 percent of the savings options (based on results over the period 1981-1991).

## Grand operations

26. The 1980s were the years of the “grand operations” in the Netherlands. These included: (1) Decentralisation, (2) Deregulation, (3) Privatisation, (4) Personnel Reduction, and (5) Reorganisation of Central government. The first three of these originated in Spending Review reports of 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; secretariat of all working groups in a central ministry (Interior and Kingdom Relations for decentralisation, Justice and Economic Affairs for deregulation; Finance for privatisation); supervision by a committee of high ranking civil servants of central ministries.

27. The grand operations led to far reaching reforms of the central government. The Privatisation operation and the Personnel Reduction operation were especially successful. In addition, 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 percent. Fiscal policy supported the grand operations because it provided the necessary incentives to achieve the often controversial reforms.

## Arm’s length agencies

28. The first arm’s length agencies were introduced in the Netherlands in 1994 on the basis of the Spending Review “Rules for Operational Management”<sup>6</sup> and the revision in 1995<sup>7</sup> of the Budget Code of 1976. An important consideration for introduction of the 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 and based on accruals budgeting. They were allowed more freedoms concerning carryover of resources to the next budget year and operational management mainly in the sphere of accommodation and facilities. Conditions for establishment of arm’s length agencies included: (a) outputs should be measurable, (b) potential for more efficient performance, and (c) a financial administration that allows the agency to control outputs and costs. Compliance with these conditions would be checked by the Ministries 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 were the Next Steps Agencies introduced in the United Kingdom.

29. The number of arm’s lengths agencies was gradually expanded from 4 in 1994 to 43 now. This development did not always proceed smoothly. Particularly the Parliament and the Court of Accounts were concerned about the potential loss of control and took many initiatives to obtain better guarantees in this respect. In 1999, a borrowing facility was created for arm’s length agencies and simultaneously the carry over and savings facilities were restricted (henceforth saving was only allowed to provide for a buffer function in case of volatile expenditures, not anymore for investment).

30. Currently 37.4 percent of central government employees work in arm’s length agencies. However, the operation of agency formation remains incomplete. Some major executive units remain inside core ministries and some executive units that have become *independent* agencies before 1994 for the wrong

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<sup>6</sup> Spending Review 1991 “Rules for Operational Management”.

<sup>7</sup> Sixth revision of the Budget Code 1976 (1995), enacted with retrospective force from 1 January 1991.

reasons (to acquire agency facilities before the status of arm's length agency was created) have not been converted into arm's length agencies.

### **From policy budget to policy accounts**

31. On the basis of various reports concerning aspects of the budget presentation and documentation, the Cabinet launched in 1998 the reform "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 on all budgetary and financial reporting documents as from 2002. The essence of reform was that both in the budget and the financial reports the focus should be on the link between policy, performance and resources.

32. In order to emphasize 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):

- A. In the budget:
  - What do we want to achieve?
  - What are we going to do for that purpose?
  - What is the maximal cost?
- B. 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?

33. 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:

- Budget table (expenditures and revenues per chapter in one table); this part has legal status in that it authorizes 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);
- Policy agenda which formulates the main priorities of the ministry;
- "Budgetary consequences of policy" table which divides each article of the budget in sub-areas mainly according to types of outputs ("operational targets");
- Policy articles, each specifying outcome targets, output targets and resources; outcomes and outputs as much as possible quantified.

34. The financial reports had to be structured in exactly the same way as the budget on the understanding that all components will be looking backward 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. This aim was supported by reforms of evaluation policy that made periodic evaluation of all policy areas according to certain quality standards obligatory (every 5 year).

35. 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) and the contents of the budget and the financial reports were analysed by independent experts. The tenor of the evaluation was remarkably critical<sup>8</sup>. The Minister of Finance sent this evaluation in December 2004 to the Second Chamber and simultaneously announced a number of changes in 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 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. The obligation to evaluate periodically all policy would be abolished. Information on budget execution would be made available on internet and continuously updated. These reforms were then implemented.

36. Since 2004 no major changes have been proposed anymore in the presentation of the budget and the financial reports. However, the size of the documents has become smaller and smaller and information on outcomes and outputs have 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**

37. Since the cabinet formation of 2007, the Dutch government seems to have entered a new era. As was clear already 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.

38. The College of Secretaries General<sup>9</sup> produced in 2006 the report “Beyond Compartmentalization” in support of the preparation of the government programme 2007-2011<sup>10</sup>. In this report it was stated that a better and smaller government was feasible if a number of conditions would be met: less legislation (primary and secondary), simpler policy execution, less regulation/supervision, 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 down-sizing operation, leading to a personnel reduction of 20 percent in policy making, of 25 percent in support services, 20 percent in supervisory/regulatory activities and 10 percent 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<sup>11</sup>).

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<sup>8</sup> Second Chamber (2004-2005).

<sup>9</sup> 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.

<sup>10</sup> College of Secretaries General (2006).

<sup>11</sup> In addition, the Royal Houshold, the High Colleges of State (Parliament, Court of Accounts, etc.) and the courts were exempted.

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

40. In September 2007, shortly after the start of the cabinet period, the Cabinet published the memorandum "Central Government Reform" that specified the reforms that would be taken in connection with the personnel reduction operation<sup>12</sup>. As far as policy making is concerned these reforms applied to the tasks of the planning bureaus, the advisory councils, the legal divisions, the planning and control cycle and the support service of communication. The report put a large emphasis on simplification of legislation, which would lead to savings both in policy making and policy execution and simultaneously decrease the administrative burdens of the corporate sector, local government and citizens. As far as support services are concerned it emphasized the importance of service sharing and the use of ICT, which could lead to large efficiency gains across the board.

41. 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 development facing the central government, political advisors, job mobility and new ways of working in the civil service<sup>13</sup>. The general tendency of these reports was that the era of New Public Management is over. As new tendencies were signalled: 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.

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<sup>12</sup> Ministry of the Interior and Kingdom Relations (2007).

<sup>13</sup> Ministry of the Interior and Kingdom Relations (2010).

## CHAPTER 4-- AREAS OF REFORM AND RECOMMENDATIONS

### Ten priorities for reform

42. The present chapter presents the ten reforms or reform trends that in the view of the OECD Secretariat are particularly interesting for the Netherlands. Each section will be concluded by recommendations to the Dutch Government. Indications of potential quality improvements and savings will be provided in a final section. The reforms are the following:

- A. Policy development
  1. A more logical division of policy making competencies across levels of government
  2. Sectoral career development
  3. Integration of executive and professional expertise in policy development
- B. Policy execution
  4. Horizontal integration of clusters of executive units
- C. Regulatory/supervisory activities
  5. Independent supervisors/regulators
- D. Support services
  6. Standard setting for operational management in the Ministry of Finance (all support services)
  7. Automatic productivity cuts (finance)
  8. Strengthening the spending review process (finance)
  9. Focus on risk control in internal audit; strict separation from external audit (internal audit)
- E. Agencies
  10. Steering and control of arm's length and independent agencies

43. The next sections of this chapter focus on each separate reform.

### **Reform 1: A more logical division of policy making competencies over levels of government**

#### ***Features of Dutch decentralisation***

44. In terms of expenditures and government employment, the Netherlands is a very centralised country. This was illustrated in tables 2 and 6 of chapter 3.

45. Apart from the high centralisation rate, Dutch financial relations across levels of government are characterised by the following features:

- Large number of earmarked grants.
- Low tax revenues.



- Strong equalization, embedded in the non-earmarked general purpose and block grants.<sup>14</sup>

46. The large number of earmarked grants 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 so. 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 WW II. There have been periodical attempts to clean up the number of earmarked grants, the latest one being the report of the Brinkman Commission<sup>15</sup>, but usually with limited or only temporary effect.

47. Dutch provinces and municipalities have small own tax revenues (see Table 8 of the previous chapter). This is not in the first place 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 many OECD 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<sup>16</sup>. In principle the increase of the own tax share of sub-national revenue can be realised in two different ways: (1) by increasing the tax competencies of sub-national government, and (2) by (introduction or) increase of the sub-national share in national tax revenue. The choice between both routes is partly a question of how the merits of various tax bases are estimated. Sub-national 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 tax competencies of local government<sup>17</sup> not on the introduction of tax sharing, as routes to increase the own tax revenues of sub-national government.

48. The Dutch non-earmarked general purpose and block grants amount to 70 percent of local revenue. It is generally assumed that general purpose and block grants in the Netherlands have a strong equalisation component both for tax capacity (but tax capacity is small in view of limited tax competencies) and for service capacity<sup>18</sup>. However, there are no good data on how equalising the general and block grants are, because the grants are not split between a financing part and an equalising part<sup>19</sup>.

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<sup>14</sup> Block grants are non-earmarked grants for broad task areas, but can be used outside these areas if the local government thus decides.

<sup>15</sup> Brinkman Commission (2005).

<sup>16</sup> The dividing line between non-earmarked general purpose grants and earmarked grants is not always straightforward. The OECD network of financial relations between levels of government has after much discussion defined tax-sharing as follows: a financial flow from central to sub-national government is considered as tax sharing if it fulfils the following three criteria: (1) risk sharing (for revenue yields), (2) unconditionality (no earmarking), and (3) formula stability (no volatility of the formula from year to year).

<sup>17</sup> This route was advocated by the Boorsma Commission in 2004 (Boorsma, de Kam and van Leeuwen, 2004).

<sup>18</sup> See OECD (2006) and OECD (2007) for the analysis of equalisation in local government financing.

<sup>19</sup> In principle the split could be made by decomposing the grants in factors that are dependent and those that are independent from tax capacity and service needs, but such an exercise has never been undertaken.

### ***Two roads toward decentralisation***

49. Decentralisation can follow two roads:

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

50. The first road has been recommended by the working group on Public Administration in the 2010 spending review that has recently been completed. In this respect the working group takes over the recommendations of the “It is your business or not” Report of the de Grave Commission<sup>20</sup>. In this view the tasks (including policy making) in the areas of social services, enduring care (as oppose 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 of government. Large successes have been achieved on this route in recent years by the decentralisation of social assistance (social security benefits for unemployed people that are not eligible for other social security benefits), leading to savings in the order of 25 percent 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 large decentralisations along this line have been proposed by the Spending Review on “Long term care” in 2010.

51. 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 the citizen, and in view of varying preference patterns: the allocation optimal level. Probably, there is in the Netherlands still room for application of the subsidiarity principle in certain areas of public policy. One can think of the areas of housing, infrastructure, police, child care, culture and pre-school education, but these opportunities can only be realized in connection with more profound reforms in these policy areas, that fall beyond the scope of the present assessment.

52. The economic theory of fiscal federalism recognizes three counter indications against decentralisation: external effects, economies of scale and policy coherence<sup>21</sup>. If local governments are small (particular in territorial size), citizens and business 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, a policy area may have such close connections to other policy areas that they should stay 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 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.

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<sup>20</sup> De Grave Commission (2005).

<sup>21</sup> Netherlands Bureau for Economic Policy Analysis (2006); Spending Review 2010 “Public Administration”.

***Decentralisation conditional on amalgamation?***

53. In view of potential welfare losses from external effects and non-optimal scale, there is a strong feeling in the Netherlands that both roads to decentralisation are conditional on reduction of 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 envisaged for them. Many municipalities are considered too small to fulfil the tasks in the area of the domains of social services and care that could potentially be decentralised.

54. From an international perspective it can be observed that among OECD countries there are different political cultures around 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 Anglo-Saxon countries as well as in Mediterranean countries such as France, Spain and Italy. These countries are often characterised by a lively local democracy and directly elected mayors or governors. In federal countries, the territory of the states is constitutionally anchored. In the USA amalgamation of sub-State jurisdictions requires in many States approval by these jurisdictions themselves or by referendum. In Northern Europe decisions on amalgamation of local government are more seen as a matter for the central government to decide. In Denmark a far-reaching government led amalgamation operation for municipalities has successfully been 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 now proposals on the table to reduce the number of municipalities from 430 now to 100 à 150 or even to 25 to 30 and the number of province from 12 to 5 to 8 or even to zero<sup>22</sup>). 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 against strong local resistance. The Netherlands seems to be located somewhere in between the Nordic culture and the Anglo-Saxon/Mediterranean culture as far as amalgamation is concerned. The Nordic culture prevails in the Hague, the Anglo-Saxon/Mediterranean culture prevails in much of the rest of the country.

55. Against the background of the high centralisation rate of the Netherlands, some nuanced remarks concerning the arguments from fiscal federalism are in order. 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 the 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 from external effects. Similarly, sub-optimal scale of service delivery makes citizens and businesses suffer (from high taxes, or saving on other services). Again, if citizens nevertheless resist centralisation and amalgamation, it is hard to argue for such policies from economies of scale. Apparently citizens are willing to pay a price for decentralisation and maintenance of their existing jurisdictions and particularly for keeping them small and relatively responsive to citizen's concerns. Coherence of tasks is obviously important, but is not only a counter indication against decentralisation but can also be an argument in favour of decentralisation along the first road. 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 sub-national governments and their representative associations would be in favour of decentralisation.

56. 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

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<sup>22</sup> Spending Review 2010 "Public administration".

decentralisation on amalgamation is not so strict as is often assumed in the Netherlands. If small municipalities or historical provinces cannot fulfil the 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 for amalgamation 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 thought not to have the right scale for being entrusted by tasks now performed at the national level is not always a good reason to refrain from decentralisation. Essential 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

- a. *In view of the high centralisation rate in the Netherlands, there is room for substantial decentralisation, particularly along the road of a more logical division of tasks as spelled out in the 2010 Spending Review on 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.*
- b. *The Dutch government should consider a substantial increase in municipal own tax revenue, to be realised to the introduction of tax sharing with a clear distinction between the financing component and the equalisation component, rather than through expansion of local tax competencies.*

## **Reform 2: Sectoral career development**

### ***Quality of the policy development staff***

57. Common observations concerning the policy development staff in ministries include the following nature:

- Staff turnover in policy development has become too large, both at the level of managers and at the level of subordinate staff.
- Institutional memory is deteriorating. It has become difficult to find staff members in a policy development unit, who have any personal recollection on what happened 5 or 10 years ago, let alone what happened 20 or 30 years ago in the policy area.
- The right balance between generalists who know about policy making in general and specialists who know about the specific policy area is lost.
- There are too few staff members in policy development who have ever worked in (applied) research or consultancy in the same area. The disconnect between results of research and policy development is partly due to the fact that staff in policy development does not know the research literature, is not able to ask to right questions to research institutes or consultants if research is called for and is not able to communicate with researchers about the results and relevance of their work.
- There are too few staff members in policy development who have ever worked in administrative policy execution or service delivery in the same area. As a consequence policy development staff have little notion about the problems that can arise in execution or on the

consequences of policies for the quality of service delivery as generally understood by professionals in service delivery.

- Managers in policy development have become too dependent on their staff as far as knowledge of the policy area is concerned. That makes it difficult for them to assess the work of their staff. It is also frustrating for subordinates, because they feel that their work cannot really be judged by their superiors.

58. In the area of human resource management, many governments in OECD countries have undertaken reforms aimed at regular job change of civil servants (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 variety of experience and is seen as an important determining factor for 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 5 to 10 years in their current position and help them in doing so. In addition, in some countries there exist special arrangements for the top civil service (the highest layer of the civil service) or for the sub-top, that facilitate job rotation among managers. These reforms have often been successful in that the job turnover has increased considerably compared to ten or twenty years ago. To a certain extent it has also led to more job traffic between ministries and in this way has contributed to the sense of unity of the civil service and the quenching of inter-ministerial tribal wars that sometimes raged in the past. However, it cannot be denied that it has also led to a loss of expertise in separate policy areas, that is at the root of the observations mentioned in the previous paragraph.

59. Various countries have policies or plans in place to promote variety of 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 is 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, in a number of countries there is an awareness of the problem and a certain emphasis on the need to create better career perspectives for “specialists”. This can be seen as a first step in the direction of a more specific policy of career development, but it is not enough.

### ***Requirements for policy development staff***

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

1. Expertise in the policy areas and awareness of the results and relevance of the applied research in the policy area;
2. Awareness of the potential support for policy reform among politicians and stakeholders;
3. Awareness of the feasibility of policy reform in execution.

61. 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 for the fields of financial and economic policy where economic expertise is required. It is also true for the area of foreign policy, where knowledge of foreign countries and the history of diplomacy is required. It is not by chance therefore, that one sees that in such policy areas, civil servants are rotating jobs in the same ministry or in a few kindred ministries (finance and economics, foreign policy and defence), but not across the board of 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? Etc. 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 to 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.

62. Sensitivity to political circumstances is obviously an essential requirement for policy development staff. It applies not only for managers, but for everybody who wants to work 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 may generate a tendency to recruit special political assistants and public relations advisors, that is observable in many OECD countries and to a limited degree also in the Netherlands. The problematic effects of this tendency (demotivation 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 keep emphasising sensitivity to political circumstances as an important requirement for all policy development staff.

63. The third requirement concerns the awareness of how reforms will work out in the practice of 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 has been heard in all countries visited for the Value for Money Study, including the Netherlands.

#### ***Emphasis on experience within each policy area***

64. If the Netherlands would want to increase the quality of policy development staff in ministries, it could consider to put 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 entrance level are only advertised internally, but job shifts are largely left to the initiative of the individual official. This ambiguity is felt by many officials as unsatisfactory. 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 research institutes, executive organisations (administrative execution and/or service delivery) and policy development *in the same policy area*. After a number of years upon implementation of such a programme, it should not be possible anymore to rise to higher job levels in policy development without proven experience in research and/or execution *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 for managers it is even more important that they have research and executive experience than for junior staff. Of course managers need strong management skills, but this requirement should be put on managers *in addition to* knowledge and experience in the policy area and not *instead of* such knowledge.

65. If the Dutch central government would move in this direction, that would have 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 Directors General and Secretaries General and the sub-top of 600 directors). Among other things it is supposed to check quality requirements for the senior civil service. For this purpose it looks at management skills and experience and also on variety of previous experience. If the Dutch government would go in the direction indicated above, the authority would have to reorient its work and put more emphasis on variety of experience *in research and policy execution*, rather than in *different policy areas*.

66. A change of cap in this direction may possibly have the effect of less co-operative relations between ministries and may cause fears of revival of the old “stove pipes” syndrome that has motivated much human resource reform in recent years. On the other hand it can be argued that in the Netherlands the pendulum has swung too far, also in comparison with other OECD countries, and it cannot be denied that there is a serious problem in the quality of policy development staff. Moreover, if there is a need for inter-ministerial co-ordination, there is intrinsic value in assessment of 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 go to ministers and the cabinet, not be smoothed over by bureaucratic compromise. It is not a task of civil servants to make life easy for their fellows in other ministries. Too cosy relations, especially at the top of the civil service, may pose a danger for underestimation of risks or neglect of side effects, based on non interference. Fears for revival of inter-ministerial animosity are unfounded. There are enough other ways of promoting the basic unity of the civil service and young generations of officials are not so easily entrapped in old patterns of bureaucratic behaviour anyhow. It is worth reiterating the dictum of Wildavsky, that it is the primary responsibility of civil servants to speak truth to power, or to inform superiors about realities they don’t 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 substitute for relevant expertise and experience.

#### Recommendations

- a. *The Dutch government should consider developing a more ambitious programme of career development for civil servants aimed at fostering variety in experience.*
- b. *Variety in experience should focus on job rotation between research institutions, executive institutions (both administrative and service delivery), and core ministries in the same policy area, not on shifts between policy areas.*
- c. *The Civil Service Authority should 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: Integration of executive and professional expertise in policy development**

#### ***Separation of policy development and policy execution***

67. The reforms aimed at the separation of policy execution and policy development in the 1980s and 1990s has been successful in the Netherlands. Currently, 65.5 percent of central government employment is in agencies (see Table 3 of Chapter 3). The operation is not entirely completed however. Some policy execution remains in ministerial divisions (for instance the tax service), and substantial part of supervisory/regulatory activities (to be addressed below). In the discussion about the desirability of agency status for the tax service an important argument has been that it is essential that this service remains 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 formation operation of the previous century.

68. It is generally recognised by the countries participating in the Value for Money Study 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 can be seen as the most inspiring example.

#### ***The Swedish approach***

69. Sweden has a centuries old tradition of policy execution in arm's length agencies<sup>23</sup>. 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<sup>24</sup>. However, agencies are subject to ministerial instructions of a general nature concerning executive policies<sup>25</sup>, with the exception of independent agencies, of which there are very few in Sweden. Furthermore, like 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 percent<sup>26</sup>. The staff of core ministries is only 4,620 in total and on average 355 per ministry.

70. The strict separation of competencies between core ministries and agencies in the area of execution prevailing 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 from an early stage of the process about the main aims and features of the proposed reforms. In the light of executive experience, they 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, always by providing information and analysis, but usually also by actual elaboration of the proposals in part or in total.

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<sup>23</sup> See OECD (2001).

<sup>24</sup> A similar division of competencies between ministries and agencies prevails in Denmark.

<sup>25</sup> There are only very few independent agencies in Sweden.

<sup>26</sup> Annex II of "Public Administration after New Public Management" (OECD 2010).



### ***The need for further reorganisation***

71. In the Dutch central government, the separation of tasks between ministries and agencies is not as strict and systematic as in Sweden. A first question to be answered when analysing the possibilities for better integration of executive expertise in policy making, is where policy execution is located in the Netherlands. It appears that administrative execution (through decrees in individual cases such as licences, concessions, subsidies, 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. An example of administrative execution left behind in the core ministry is the tax service and examples of administrative execution in independent agencies are the Executive Employee Insurance Service ("Uitvoeringsorgaan Werknemersverzekeringen") and the Service Execution Education ("Dienst Uitvoering Onderwijs"). Execution through service delivery also occurs everywhere, but most of it is concentrated in arm's length or independent agencies (police, armed forces, prison system, courts) or in non-profit institutions inside central government: educational institutions.

72. 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.

73. 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 behind in the core ministries. Closeness to the policy making process should not be an argument in this reconsideration, because 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 Independent agencies in central government (2004, Kohnstamm Commission) and the Spending Review Operational Management (2010, Committee van Rijn), the OECD Secretariat suggests that in principle all executive agencies 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 of from ministerial interference in individual cases by legislation<sup>27</sup>. On the other hand it is entirely appropriate that the minister can provide instructions to these agencies concerning executive policy and operational management. In the current situation, the minister is obliged to conduct executive policy for independent agencies through formal (primary or secondary) legislation which is unnecessarily burdensome. One can think of State Forest Management, the Executive Organs for the Law Special Care Costs, the Policy Academy and various others. Furthermore, although it is generally recognised that the minister still has the responsibility for operational management in independent agencies, in practice this responsibility has watered down through bureaucratic resistance and (unjustified) appeals to the status of independence. 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, to be addressed below), one can think of the courts, the Central Bureau of Statistics, the forecasting institutes (Bureau of Economic Policy Analysis, Social-Cultural Planning Bureau, Planning Bureau for the Living Environment), the institutions for examinations and assays, the research institutions, the Water Authorities (Waterschappen) and the public universities<sup>28</sup>.

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<sup>27</sup> As mentioned above this safeguard is in Sweden even granted in the constitution.

<sup>28</sup> 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

### ***The role of executive agencies in policy development***

74. Supposing that policy execution would be organised in arm's length agencies and only in exceptional cases in independent agencies, involvement of the agencies 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 make sure that this will happen it is useful that all agency directors are given a seat in the management board ("bestuursraad") of the ministry (in so far as this is not already the case). Agencies should also be encouraged to table reform proposals on their own initiative. Second, it should become common practice that agencies are invited to provide concrete support in policy development. This includes not only information and analysis but also elaboration of proposals and legislation. The role of independent agencies (bureau of statistics, forecasting institutes, etc.) should be limited to 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 in management boards of ministries. Obviously, the process of policy making 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.

75. Since policy execution is not only taking place in agencies, but also in non-profit organisations inside and outside central government, it is important to look also at the involvement of these organisations in policy development. This regards mainly service delivery (not administration)<sup>29</sup>. In the fields of education, health, social services and culture, there exist councils of boards of non-profit institutions 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. The non-profit institutions are not only executive institutions 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.

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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.

<sup>29</sup> 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.

Recommendations

- a. *The Dutch government should reconsider the assignment of executive tasks. In principle all executive tasks inside central government should be attributed to arm's length agencies (the Swedish model). 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: courts, Central bureau of statistics, forecasting bureaus, Water Authorities, institutions for examinations and assays, the research institutions and the public universities.*
- b. *The Dutch government should consider involving agencies in all policy initiatives from the start. Agencies should be encouraged to table reform proposals on their own initiative. The directors of all arm's length agencies should have a seat in the Management Board of the ministry (but not the directors of independent agencies).*
- c. *The Dutch government should consider ways of working in which a larger part of policy development work including elaboration of proposals, is delegated to the arm's length agencies so that the core ministry can concentrate on co-ordination. The support of independent agencies to policy development should be limited to provision of information and analysis.*
- d. *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: Horizontal integration of clusters of executive units*****Process sharing***

76. In the Netherlands all agencies (both arm's length and independent) are owned (in an economic sense<sup>30</sup>) by a single ministry. However, some are co-financed by other ministries, either on a basis of lump sum contributions, or on the basis 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<sup>31</sup>. Examples of shared support service agencies are: Work Company Agency and the State Audit Office (for internal audit). Examples of shared process agencies are NL Agency (for subsidy payments to the corporate sector) and the Tax service (that pays income supplements for 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 in supervisory/regulatory units). These opportunities may potentially lead

<sup>30</sup> 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. This competency remains with government, also in the case of independent agencies with legal personality.

<sup>31</sup> Shared process units can also apply to supervisory/regulatory units, but such units have not yet been established in the Netherlands.

to quality improvements in administration and service delivery and in savings. The section will focus primarily on initiatives in Australia and Denmark both of which countries are leaders of innovation in service delivery.

### ***Australia's Centrelink agency***

77. 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 for the Ministry of Human Services, Ministry of Families, Housing, Community Services and Indigenous Affairs and twenty 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, disability pensions.

78. Centrelink has a staff of 26,000, of which 3000 are providing support services, 3000 are providing common ICT processing services and 20,000 are involved in case handling either in the headquarters or in the 15 regional offices. The case handling staff is organised according to programmes, for instance 600 social workers for social assistance programmes. The programme staff has counterparts in the line departments that Centrelink serves.

79. Centrelink has been costly to set up in terms of investment in ICT and buildings. Given a number of ICT investments that were deemed necessary in the last 10 years it is presently 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.

80. 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, Centerlink officials feel that the future in terms of service delivery lies in horizontal integration of ICT architecture (built once, used by many).

81. Regarding the relationship between agency and line ministry in policy development, Centrelink officials voiced that Centrelink should be involved early in the process by participating in departmental working groups in order to assess the requirements that new initiatives entail. There are already experiences which 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.

82. 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<sup>32</sup>. Now funding has been taken over by the Ministry of Finance (both base and programme?). It is 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

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<sup>32</sup> ANAO 'The Business Partnership Agreement between the Department of Education, Employment and Workplace Relations (DEEWR) and Centrelink' 4/2008/2009 see: [http://www.anao.gov.au/uploads/documents/2008-09\\_Audit\\_Report\\_04.pdf](http://www.anao.gov.au/uploads/documents/2008-09_Audit_Report_04.pdf)

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 to some extent undermines development of staff and ICT systems.

83. Direct financing by the Ministry of Finance, as well as the fact that Centerlink now executes programmes of many different ministries, has led to a discussion in Australia about the ministerial responsibility for executive policy in Centerlink. In this context the idea has been put forward that a special minister for Service Delivery should be created. However, this discussion has not come to a conclusion.

### ***The Danish approach***

84. In Denmark emphasis has been on using ICT to make interaction with 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 the 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 potentials) but also to establish a more integrated public sector as perceived by the citizens and businesses<sup>33</sup>.

85. An example of horizontal ICT based services is the “Easy account” system, which is developed by the Agency for Governmental Management of the Ministry of Finance (the main standard setting unit for support services in Denmark). An Easy Account is a normal bank account which citizens already have, and will be designated as the citizens Easy Account. All payments from public institutions are transferred directly to this account. All citizens and business companies in Denmark will be required to have such an account. There are numerous efficiency advantages with Easy Account – for the government, for the citizenry and for companies.

86. One key initiative where Denmark is at the forefront internationally is the introduction and use of digital signature for citizens and companies. The digital signature means that each person/company has a unique digital code that has the same legal status as a person’s signature. This obviously enables transactions between the government and citizens/companies but in addition potentially between all private actors. More than one million digital signatures have been issued to citizens and just over 240,000 for businesses. Furthermore, during the last few years several initiatives regarding the spreading information on the digital signature have been developed, e.g. the national campaign on e-government solutions in 2006. Several mobile solutions have been developed as well. Just recently, an agreement with the banking sector has been reached about the use of the infrastructure for digital signature in the market sector (internet banking). This is expected to significantly increase the take-up of the digital signature by citizens and businesses.

87. A strict condition for the development of e-government initiatives in Denmark is the proof of cost savings in the form of a positive business case. A new initiative for which the business case is Digital

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<sup>33</sup> The discussion below regarding E-government initiatives is based on OECD (2010, forthcoming).

Mailbox, where each citizen has a digital mailbox for receiving government communications (accumulated savings potential of 65 million euro in 2016).

### ***Towards horizontal integration in the Netherlands***

88. Whereas in Australia the emphasis in the area of horizontal integration has been on the development of a common 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 Government Management needs to establish shared front office units (the citizen portal, the Digital mailbox unit, etc.). In neither country the discussion about the responsibility for the common process units has yet come to a conclusion (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).

89. 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 common process unit for all ministries, will be created in the Ministry of the Interior and Kingdom Relations.

90. 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 on “Operational Management”<sup>34</sup>. This spending review identified 25 clusters of executive agencies and ministerial divisions characterized by similar executive processes or target groups of service users<sup>35</sup>. It explored various options for co-operation and mergers between these units. As to the responsibility for executive policy it suggested that this responsibility could remain with the line ministries responsible for the programmes. In case of full mergers, the common 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.

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

92. As to the steering and control of the shared process units, it is essential that client involvement is strongly enhanced through a permanent performance dialogue between the agency management and the responsible ministers (see below under Reform 10 Steering and control of agencies). This is particularly true for the ministries that do not own the shared process unit and that have to realize the ministerial responsibility for executive policy through its client relation with the agency. Without such an enhanced client involvement, the responsible minister cannot bear his/her responsibility for execution (think of

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<sup>34</sup> Spending Review 2010 “Operational management”.

<sup>35</sup> Apart from agencies or government divisions with supervisory/regulatory tasks and with tasks in the area of support services.

discussions about the ministerial responsibility for the Australian Centrelink agency)<sup>36</sup>. 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 agencies that they do not own. From this perspective it seems wise to focus efforts for horizontal integration in the Netherlands on agencies 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

- a. *In the Dutch central government there is a large potential for quality improvement and savings through horizontal integration of policy execution through e-government projects based on common portals and through merging of executive agencies and ministerial divisions.*
- b. *The Dutch government should make sure that every proposal for establishing shared process units is based on a thorough business case analysis.*
- c. *In view of the ministerial responsibility for executive policy (apart from independent agencies), the Dutch Government should make sure that client involvement in executive policy is strongly enhanced, before any new shared process unit is set up (see reform 10 below).*
- d. *The Dutch government should consider to focus efforts aimed at horizontal integration of executive agencies with agencies 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.*

### **Reform 5: Independent supervisors/regulators**

#### ***Dutch features of supervision and regulation***

93. There are 29 supervisory/regulatory authorities in the Netherlands at the central level of government, with a total employment of some 8.500 fte. These authorities can be divided in economic and social supervisors/regulators. Economic supervisors/regulators supervise and regulate the corporate sector (including the non-profit sectors outside general government) aimed at the promotion of 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 the 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 aimed at the protection of citizens other than through the promotion of competition. Of the 29 supervisory/regulatory authorities in central government there are 6 economic supervisors/regulators with a total employment of 1,717 fte and 23 social supervisors/regulators with a total employment of 6,833 fte.

<sup>36</sup> This concern does not apply to independent agencies, for which the minister solely bears responsibility for operational management. This applies to 9 of the 25 clusters, mostly in the sphere of examinations, financing of basic research and culture as well as the planning bureaus.

94. The tasks of both social and economic supervisors/regulators can be divided in:

- a. Monitoring of compliance with current legislation (supervision);
- b. 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);
- c. Enforcement of current law (including secondary law) by decrees of a general nature on the basis of competencies attributed by law (regulation);

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

96. In the Netherlands three economic supervisors/regulators are organised in independent agencies (The Netherlands Bank, the Financial Markets Authority and the Independent Post and Communication Authority, total employment 619 fte<sup>37</sup>), one is organised as an arm's length agency (the General Agricultural Inspection Service, total employment 955) and two are organised as ministerial divisions (the Dutch Competition Authority and the Secretariat of the College for the Supervision of Chance Games, total employment 328 fte). Of the social supervisors/regulators six are organised as independent agencies (total employment 727 fte), three as arm's length agencies (total employment 2,873 fte's) and fourteen as ministerial divisions (total employment 3,233 fte). The upshot is that economic supervisors/regulators are mostly organised as independent agencies and social supervisors/regulators mostly as ministerial divisions, but that there are many exceptions. The total picture is differentiated and little systematic.

### ***Supervision and regulation in OECD countries***

97. Table 9 provides an overview of the status of social and economic regulators in the several countries

**Table 9 - Status of supervisory/regulatory authorities**

		Australia	Austria	Denmark	Netherlands	Norway	Spain	Sweden
social	cm*	5	4	0	14	0	n.a.	0
	ala**	3	1	30	3	19	n.a.	7
	ia***	6	0	0	6	4	n.a.	0
economic	cm*	3	1	0	2	0	0	0
	ala**	8	1	5	1	7	0	23
	ia***	12	2	0	3	2	6	0
total		37	9	35	29	32	n.a.	30

\* cm: core ministry

\*\* ala: arm's length agency

\*\* ia: independent agency

98. 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;

<sup>37</sup> Only the supervisory/regulatory division of the central bank are taken into account.



- In Australia, social 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 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 where 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.

### ***Arguments against independent social supervisors/regulators***

99. Dutch supervisory/regulatory authorities all put much emphasis on their factual independence of the ministry to which they belonged, regardless the organisational form of their institution (ministerial division, arm's length agency or independent agency). When asked about the desirability of formalisation of this independence, 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, officials of *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 in independent agencies. Apart from the argument that factual independence was already achieved and sometimes laid down in ministerial decrees or guidelines, these arguments were the following:

- Social supervisors/regulators do 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 the ministerial responsibility;
- Social supervisors/regulators fulfil tasks in the area of monitoring and enforcement of policies, including executive policies that are not embedded in legislation but in informal ministerial instructions.

100. 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 countries, and is also recommended to the Netherlands above (see reform 3 above). Since supervisors/regulators may be supposed to hold eminent expertise on execution and professional standards, there is certainly also a role for them to play in policy development<sup>38</sup>. 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 and regulators and their role in policy development. However, this is different as

<sup>38</sup> Since they are independent agencies, the role of supervisory/regulatory authorities should be limited to the provision of information and analysis (see Reform 3).

far as the third argument against formal independence is concerned. It may be required from an independent supervisory/regulatory authority that it refrains from openly criticising the legislation it is supposed to uphold, while internally advising the minister to adjust or even abolish it, if it 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 regulator/supervisor 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* 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/regulator, but for those authorities the matter is less pressing.

101. The question arises 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 further be elaborated in Building on Basics<sup>39</sup> 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 already now entirely based on law (one can think of the health care sector). Third, there is a good case for bringing back independent service delivery agencies under the ministerial responsibility (see Reform 3 above), in which case the minister can have its policies monitored and enforced by direct instructions to the agencies concerned.

#### Recommendation

*The Dutch government should consider to organise all economic and social supervisory/regulatory authorities in the form of independent agencies.*

## **Reform 6: Standard setting for operational management in the ministry of Finance**

### **Terminology**

102. 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 process 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)

<sup>39</sup> This proposal is also presented in the Spending Review 2010 "Public Administration".

and the use of accommodation (accommodation management). Policy making in this area is denoted as *standard setting for operational management*.

### **Recent developments**

103. In the nineties of the previous century important reforms occurred in the areas of operational management and support services both in the Netherlands and in many OECD countries. These reforms were inspired by the ideas of New Public Management. In the Netherlands these reforms included:

- Substantial de-concentration of the central support services of the ministries to line managers (“let managers manage”). New support bureau’s arose in many ministerial divisions and agencies.
- Loosening of government wide standards and reduction or wholesome abolition of central standard setting units (for instance Human Resources division of the Ministry of the Interior, Procurement Office, Audit Directorate of the Ministry of Finance, Government Building Office).
- Reduction of data collection capacity in central standard setting units on government wide use of production factors and intermediate services (data on personnel, procurement, internal audit, accommodation, etc.)

104. As from 2008 a certain swing back from the New Public Management reforms occurred in the Netherlands. A new Directorate General for Organisation and Operational Management was created in the Ministry of the Interior and Kingdom Relations. This division was conceived as a central standard setting unit for a broad range of operational means: human resources and organisation, procurement, ICT, facilities. Standard setting for finance and audit remained in the Ministry of Finance. Standard setting for accommodation and real estate remained divided over various other ministries. Standard setting for communication remained in the Prime Minister’s Office.

105. Simultaneously the government agreed an ambitious plan for Central Government Reform (see chapter 4). In the area of support services this plan envisaged the acceleration of support service sharing among ministries (including agencies). The reduction percentage of 20 percent for support services would be an important incentive for achievement of this aim. A new shared service centre (Work Company, “Werkmaatschappij”) had already been created in connection with the establishment of the Directorate General for Organisation and Operational Management in the Ministry of the Interior and Kingdom Relations. This centre is an arms’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.

106. In other countries there is a similar tendency to concentration of 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 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?**

107. There is much to say for further concentration of standard setting in a single ministry, and in particular for combining standard setting for finance and audit with standard setting for human resources

and organisation, information and ICT, procurement and facilities in the Ministry of Finance as is the case in 6 out of 9 countries of the Value for Money Study that provided information on standard setting. There are strong connections between standard setting in all of these fields. Furthermore the basic policy questions are always the same: (a) promoting uniform standards across the general government, so that no unjustified differences can arise between ministries and agencies, (b) guaranteeing minimal standards, and (c) cost control. All of these policy questions belong to the core tasks of the Ministry of Finance and particularly of the budget bureau. For the case of the Netherlands this would imply among other things, the transfer of the Directorate General for Organisation and Operational Management from the Ministry of the Interior and Kingdom Relations to the Ministry of Finance.

108. There was however limited support for this by the Ministry of the Interior and Kingdom Relations and in the Ministry of Finance. Reservations in the Ministry of Finance were mostly motivated by the fear that such a reorganisation would compromise the financial control perspective of the Ministry because it would become responsible for policies that require financial resources and that have (also) other aims than financial control. In the light of the situation in other OECD countries, the OECD Secretariat is not convinced by this argument. The Ministry of Finance is responsible for many programmes that require financial resources, and the strong relations between standard setting in the area of finance and audit on the one hand and those of human resources and organisation, accommodation, real estate and facilities, procurement, etc. on the other hand, constitute a strong argument for integration in the same ministry (and even in the same Directorate General as is the case in Denmark<sup>40</sup>).

### ***Consequences for shared services centres***

109. The question arises 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 of 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 other countries.

110. 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 to have established shared service centres. In this respect it is important to be aware of the definition of a shared service centre: 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<sup>41</sup>. Table 8 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).

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<sup>40</sup> The best example of a strong and well organised bureau that is responsible for both finance and (other) operational management is the Office of Management and Budget in the USA. It does not reside in the Ministry of Finance (Treasury) but directly under the President.

<sup>41</sup> 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.

**Table 10 - Shared service centres**

	Number of css's	Total employment	Number of ministries where the css's are located
Austria	6	2,558	2 (5 out of 6 in Finance)
Canada	15	1,1476 <sup>a</sup>	8 (7 out of 15 in PWGSC <sup>b</sup> )
Denmark	2	400	1 (Finance)
Finland	7	2,087	1 (Finance)
Netherlands	25	2615 <sup>a</sup>	4 (17 out of 25 in BZK <sup>c</sup> )
Norway	4	1,030	various
Sweden	1	43 <sup>d</sup>	1 (Prime Minister's Office)

<sup>a</sup> Data for some smaller agencies were not available and have not been included.

<sup>b</sup> Public Works and Government Services Canada.

<sup>c</sup> Ministry of the Interior and Kingdom Relations.

<sup>d</sup> In persons employed (not in fte's).

111. 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 the use, such as one of personnel reduction operations (sometimes specified for support services) or permanent automatic productivity cuts<sup>42</sup>. Austria, Denmark and Finland report to follow a top down approach. The Netherlands, Norway and Sweden report to follow a bottom up approach, Canada a combination of the two. As appears from table 10 there is a clear connection between the use of the two models and the concentration of shared service centres, which is not surprising. The three countries that use the top down methods have all created their shared service centres in one ministry: all three in the Ministry of Finance<sup>43</sup>. The three countries that use the bottom up methods and Canada that uses both methods, all have a number of shared service centres spread out over a number of ministries. (Sweden also uses bottom up methods but has only one shared service centre which of course is located in one ministry). On the other hand there appears to be little connection between the location of standard setting units and the location of shared service centres. The top down countries have created all their shared service centres in the Ministry of Finance where also standard setting is concentrated (with the exception of one centre in Austria outside the Ministry of Finance), but so have done two bottom up countries that have more spread out service centres (Norway and Sweden). Other (partly) bottom up countries with spread out shared services units (Canada and the Netherlands), have most standard setting divided over two different ministries.

<sup>42</sup> See "Public Administration after New Public Management" (OECD, 2010) for more information about these models.

<sup>43</sup> 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 it 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).

112. 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. The government consist by its nature 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 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 sub-national 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.

113. 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.

#### Recommendations

- a. *The Dutch government should consider a further concentration of standard setting for operational management in the Ministry of Finance, including the transfer of the Directorate General of Organisation and Operational Management from the Ministry of Kingdom Relations and Operational Management to the Ministry of Finance.*
- b. *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***

114. A number of countries 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 base line of current policy that serves as the point of

departure for the annual budget process. This is seen by ministries of Finance as a strategic advantage in budget negotiations<sup>44</sup>.

115. Automatic productivity cuts do not mean that the budget of all line ministries is substantially reduced from year to year. Firstly they apply only to current operational expenditures<sup>45</sup> which is generally a small part of ministerial budgets. Secondly, most ministries have annually new spending initiatives which may be larger than the automatic cuts.

116. 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

117. 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 in every year. Denmark works already with the automatic cuts since the beginning eighties. Sweden also used the multi-annual estimate for the upcoming budget year as the base line 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 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 baseline in the annual budget cycle. This implies that inflation has to be absorbed (around 2,3 percent in recent years), but adjustments may be made for wage developments in the market sector.

118. Some countries exempt sizeable portions of current operational expenditure from the productivity cuts. Australia applies the efficiency dividend only 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 defense. 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 defense has been traded of for an multi-annual agreement for defense spending that included sizeable retrenchments. The principle of the automatic cut, make such special agreements easier to attain.

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<sup>44</sup> For more information on automatic productivity cuts, see “Public Administration after New Public Management” (OECD 2010).

<sup>45</sup> 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.)

119. 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 organization providing similar services. The other is to use a government wide percentage based on a reasonable average. The first approach was followed by Denmark in the late eighties (Denmark started in the early eighties with the second approach). However, this attempt was short lived, since the empirical estimates were generally seen as little reliable and open to all kinds of criticism. Finland does differentiate the cuts between the ministries, but not primarily 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 percent for the government as a whole, which obviously is a strong incentive for convergence around the one percent.

120. 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 percent (subject to occasional revision in the last decades).

### **Risks**

121. Those countries that do not utilize automatic cuts emphasize 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, they 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 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 realize 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 percent 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***

122. Although ad hoc down-sizing operations can be useful to kick start shared services centers and shared process units, automatic productivity cuts can also play a useful role to stimulate these forms of inter-ministerial co-operation. In the longer run ad hoc down-sizing operations can be dispensed, if a stable regime of automatic productivity cuts is in place. This would lead to more predictability of budgets and more tranquility in public administration.

### **Recommendation**

*The Dutch Government should consider to introduce a government wide annual productivity cut on current operational expenditures of 1-2 percent. The cut percentage can be integrated in 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***

123. 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 for this is that line ministers want to maximize the chance of adoption of new spending proposals, but to minimize the chance of adoption of new savings proposals in their portfolios. One method to compensate for this asymmetry is to impose strict portfolio ceilings, which force the line ministers to come with good savings proposals to compensate for setbacks and new initiatives. However, this mechanism does not work at moments when the ceilings are established or adjusted. In most OECD 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).

124. Spending reviews differs 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. They are held accountable by the Parliament and the public expects value for taxpayer's money. However, line ministers may not always be interested in publishing critical assessments of policies they are responsible for, particularly after they have been some years in office. Consequently, performance evaluations not always give the complete picture. Moreover, performance evaluations generally do not focus on savings and, in so far as they are forward looking, they tend to produce options for improvements of outputs, rather for cost reductions.

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

126. The use of spending reviews is wide-spread. All Value for Money countries report that they use spending review procedure, except Austria, Norway and New Zealand (the latter country used it in the past, but the procedure is no longer in place).

### ***Dutch spending review procedure***

127. 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 above). Basic features are: (1) reports about separate policy areas that are not only backward looking (evaluation) but also forward looking (reform options), (2) reports to be 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, (3) reform options that lead to savings (with an obligatory minus 20 percent option); (4) 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 (5) decision-making on the reports in the budget process.

128. As noted in chapter 3 the procedure has faded in the last few years (in some years there were less than 3 reviews) until last year. 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 35bn Euro in savings.

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

### ***Spending review in Ireland and the United Kingdom***

130. 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 been using a "court style" method (Ireland) and an institutionalized biannual procedure (the United Kingdom).

131. In November 2008, the government in Ireland 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 Ministry of Finance.

132. 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 Ministry of Finance to prepare independently their 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 responsibility on the Ministry of Finance to develop its own savings options than the Dutch procedure, which tends to encourage a wait and see attitude in the Finance representatives.

133. In the United Kingdom, the spending review process started in 1998 as part of a wider set of reforms aimed at the modernization 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 sector 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 stabilization.

134. The Dutch procedure could be enhanced by better institutionalization along the British lines. The Minister of Finance should decide on the selection of policy areas to be reviewed and the composition of the working parties. Apart from the UK, this is also standard practice in Denmark<sup>46</sup>. The line ministry can be invited to join the working parties and be invited to submit its own options along the Irish lines. In the Dutch context of coalition cabinets, it is useful for that purpose 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).

#### Recommendations

*The Dutch government should consider to move to a quadrennial procedure of spending review, connected to the establishment of the expenditure framework along the British lines.*

### **Reform 9: Separation of external and internal audit function**

#### ***The statutory task of the internal audit function***

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

- a) Financial audits resulting in a 'true and fair view' on the annual accounts of ministries and agencies;
- b) Broad audits (operational and information technology audits);
- c) Audits of Third Parties, which receive and spend public funds.

136. 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 and also in the countries of the Value for Money Study internal audit concerns merely the task mentioned under b). The situation in the Netherlands has a historical background.

137. Until 1987, the function of internal audit on the state level was underdeveloped and did never get real attention of the management of ministries. Then the Minister of Finance presented to the 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 units should add a 'fair and true' opinion to the annual accounts of each ministry. The new function of internal audit was laid down in a Government decree of 1987, which decree was amended in 1995. The task of the internal audit departments was then extended with auditing non-financial management and the internal audit departments should also give an opinion on the annual accounts of the newly established agencies.

138. The operation "From Policy Budget to Policy Accounts" (VBTB, see chapter 3) had also consequences for the statutory task of the Internal Audit units: as from 1991 their audits should also include the non-financial information (output and outcome indicators) in the annual report of the ministries. The VBTB operation was also an impulse for evaluating the quality of internal audit. A

<sup>46</sup> The Danish Minister of Finance informs the cabinet committee of economic and financial affairs (which he chairs) on the spending reviews he has approved.

spending review 2001<sup>47</sup> (“Kordes Commission”) recommended to broaden the scope of the internal audit departments and to expand the task of the internal audit departments with periodical audits of policies and management. The expansion of the tasks of the internal audit departments implied that the internal audit function was transformed into a multidisciplinary audit function. The working group also recommended to centralize specialism’s (‘create pools’), and to think of investigating inter-ministerial personnel policy. An evaluation of the implementation of the recommendations of the Kordes Commission in 2003 was clear: the internal audit departments were restructured, but the transition of the work was incomplete. The statutory task required a minimum capacity of the audit services.

139. Another spending review<sup>48</sup> led in 2004 to the conclusion that the balance between efficiency and regularity in internal audit had swung too much to regularity. There were too many complex rules, 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.

140. In 2009 the total employment of the internal audit support services has risen to about 800 from less than 50 in 1987.

### **Recent developments**

141. In 2008 the “Memorandum Central Government Reform’ (see chapter 3) concluded that concentration of support services could lead to a reduction of audit cost. 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 the audit quality. The experiment should be evaluated in before the end 2010. However, the design of this project as of March 2010 is very clear: abolishing the statutory task will not be part of this study.

142. 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 nineties of the former century. The tasks even were extended. However, the large expansion of the internal audit units has led in the 20<sup>th</sup> century also to discussions how the quality (‘added value’) and the cost effectiveness of the internal audit services can be improved.

143. In the 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 the question whether this balance could better achieved by abolishing the statutory task of the internal audit units and to let them concentrate on assisting the management of ministries and agencies in achieving their objectives has never deeply been discussed. The question whether internal audit departments should annually certify the accounts of a ministry or agency has been 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.

144. In international practice certifying the annual accounts of 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 Institute of Supreme Audit Organisations (INTOSAI). The task of internal audit, in

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<sup>47</sup> Spending Review 2001 “Competitive Service Provision Accountancy”.

<sup>48</sup> Spending Review 2004 “The burden from regulation and the control tower”.

countries where it is developed, is in general to support the ministry or agencies to accomplish its objectives by evaluating and improving the effectiveness of risk management, control, and governance processes<sup>49</sup>. The Dutch Court of Audit is of the opinion that in the Netherlands the minister is accountable for the reliability of the accounts and a 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”<sup>50</sup>. The Court of Audit is not a part of the executive branch and can therefore not function as the certifying body for government institutions.

145. 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 units. However, time has changed. The financial management and control situation improved considerably in the nineties of the former century and the internal audit units do not have to prove their right of existence anymore.

146. The efforts since 2001 to improve the quality of the internal audit has been hindered by the capacity need for the statutory assurance task. It is also difficult to explain to managers that the advises of the internal auditor (the result of the operational audit activity) and the annual assessment (the result of the statutory assurance task) are not leading a conflict of interest.

147. The experiment of centralising *all* audit activities in the Ministry of Finance does not solve the problem of conflict of interest, but 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 the international principles, internal audit is a tool of management and the internal auditor is a part of the organisation he/she audits with sufficiently guarantees of independence.

148. Transferring the statutory assurance task to the Court of Audit might seem a radical policy change, but in international perspective the Netherlands stands alone and its vision on internal audit is an exception rather than the rule. Further, 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 submit annually 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 task between internal and external audit but will also lead to savings. Indeed, the Court of Audit reviews yearly 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 a substantial saving could be realised by abolishing the internal assurance task of internal audit.

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

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<sup>49</sup> The definition of the International Internal Audit Association is: ‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.’

<sup>50</sup> Baayens van der Wielen (2009), page 32.

Recommendation

*The Dutch government should consider abolishing the statutory assurance task of the internal audit units and transferring this task to the Court of Accounts.*

**Reform 10: Steering and control of agencies**

***Can agencies be steered on the basis of output measurement?***

150. 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.

151. Throughout the 1990s there was severe criticism of the lack of transparency concerning the outputs and costs of agencies by Parliament and the Court of Accounts. The last evaluation (of 2002) revealed that 15 of 22 examined arm's length agencies lacked sufficient information about measured outputs and costs per unit to assess efficiency. The situation in independent agencies is 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.

152. On a conceptual level the problems are threefold: (1) outputs are difficult to measure, (2) outputs definitions are subject to permanent reformulation in the light of political priorities and results from social research and (3) the role of outputs in funding is unclear. These problems will further be explored in "Building on Basics". For the present assessment it suffices to pay attention to recent developments in the Value for Money countries.

***The Swedish approach***

153. The Netherlands is not an exemption. Other governments that have established agencies (New Zealand, UK), or that had policy execution organised in agencies since 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 the light of its age old experience with policy execution in arm's length agencies.

154. Important features of the Swedish approach are:

- transparency on 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;
- the split between ownership versus client roles of core ministries redefined.

155. The budget process should generally be used for financing and not for steering and control of outputs. Budgetary sanctions on performance failure lead to manipulation of data and gaming and are usually impossible (in case of entitlements) or counterproductive (because they lead to deterioration in service quality).

156. 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 need assistance from advisors having thorough knowledge of the agency's organization and production methods.

157. The purchaser-provider model assumed that the agency manager determined the price and the minister the output of the agency's services. This model is ill-conceived. As monopsonistic buyer the minister is responsible for both the price and the output of an agency's services. However, it is important that the core ministry clearly separates its financing role (sometimes called the ownership role) from its client role.

158. Separating steering and control of performance from the annual budget process is an important trend in several countries<sup>51</sup>. 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)<sup>52</sup>. 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 by-pass 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.

159. As far as financing is concerned, it is important that this is not only left to the financial directorate of the line ministry. Financing can take place on the basis of robust rules usually split in a fixed base budget and a variable component based on need indicators. However, these rules can only be applied if there is full transparency about the costs of inputs and the input mix. 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

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<sup>51</sup> For instance in Denmark and to some extent in Finland.

<sup>52</sup> 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 large literature has developed that 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).

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 the interlocutors put also 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?***

160. 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, particularly in the area of accommodation and facilities. Apart from the flawed ideas of New Public Management, there are no good arguments for such exceptions and they could be abolished without adverse consequences.

***Do independent agencies need a special regime for steering and control?***

161. The OECD Secretariat has understood that in the Netherlands there are large and mostly unexplainable differences in the ways independent agencies are steered and controlled on the one hand and arm's length agencies on the other hand. In general there are no legal impediments against the application of similar procedures of budgeting and steering and control of output, of course under the understanding that the minister cannot interfere in the executive policy of independent agencies (but he remains responsible for operational management). There seems to be a historic tradition of laissez-faire towards independent agencies in the Netherlands, which is tough to change. Also there seems to be a widespread feeling that firmer steering and control requires new legislation, which in general is not the case since existing legislation provides sufficient basis for a more assertive role of core ministries.

**Recommendations:**

*a. The Dutch government should consider to distinguish 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. 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.*

*b. Steering and control of performance is essential, but performance targets and performance realisations should be set, monitored and evaluated in a performance dialog running throughout the year. This could be done along Swedish lines: performance dialogue with the minister on the basis of the agency report, meeting with the National Audit Office on the basis of the audit report, and various forms of evaluation. In the core ministry the Minister should be assisted by a team of agency specialists, drawn from the policy development staff and the financial directorate. Steering and control of independent agencies should be organised along similar lines as steering and control of arm's length agencies, with the understanding that the minister cannot interfere in executive policy.*

*c. The Dutch government should consider to abolish exemptions from government wide standards for operational management that are currently enjoyed by agencies in so far as they are not connected with the financial administration based on accruals.*



## Survey of effects of reforms

162. Table 11 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 percent) of large units can be larger than a large (more than 20 percent) saving on small units.

**Table 11 - Survey of value for money effects**

	<b>Reform</b>	<b>Quality improvement in administration</b>	<b>Quality improvement in service delivery</b>	<b>Saving</b>
<b>Reform 1</b>	Logical division of policy making over levels of government	X	X	L (for the tasks to be transferred)
<b>Reform 2</b>	Sectoral career development	X		
<b>Reform 3</b>	Integration of executive and professional expertise in policy development	X	X	
<b>Reform 4</b>	Horizontal integration of executive units	X	X	M (for the units involved)
<b>Reform 5</b>	Independent supervisors/regulators		X	
<b>Reform 6</b>	Standard setting in Ministry of Finance	X		M (for the total of administrative expenditure)
<b>Reform 7</b>	Automatic productivity cuts			M (for the total of administrative expenditure)
<b>Reform 8</b>	Strengthening spending review	X		
<b>Reform 9</b>	Separation of internal and external audit			L (for the total of internal audit units)
<b>Reform 10</b>	Steering and control of agencies		X	Unknown, but potentially L

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