

Executive Summary

The *Value for Money in Government* series

This report presents the results of the assessment of the organisation of central government in Denmark. It is part of the *Value for Money in Government* series, which is a multi-annual study that aims to identify reforms currently under way or planned in OECD member countries that are interesting from the point of view of value for money. The study looks at reforms aimed at improving the quality of services (more value) and efficiency (less money) in central government.

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

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

Benchmarks for Denmark

The size of employment in central government is about average and the size of employment in general government (including local government) is large in Denmark compared to the other countries participating in the Value for Money study. This is mostly concentrated at the local level as employment in central government is relatively small.

In Denmark, as in other Nordic countries, most employment in central government is concentrated in arm's-length agencies and hardly any administrative policy execution is left in the core ministries. There has been clear consistency in the separation of execution from the core ministry.

Denmark has the lowest centralisation rate excluding health and education of all of the countries participating in the Value for Money study. This can be explained by the fact that infrastructure and social services in kind are largely delegated to local government (although social services are funded by the central government through earmarked grants). Denmark is also very decentralised from the perspective of expenditure data (63% local government *versus* 30% on average). With respect to local government revenues, the own tax share in total revenue is about average in Denmark. The largest part of other local revenue consists of grants.

Denmark spends about average on collective services in kind (slightly less on infrastructure and network services) and substantially above average on collective cash transfers, mainly because of general purpose and block grants to the municipalities (approximately 10% more than average).

The rate of outsourcing in the Danish central government is 48%, which is below the average of the countries participating in the Value for Money study (54%), suggesting that there are still opportunities for more extensive use of the market sector, particularly in policy areas such as public order and safety and environmental policy.

Previous reforms in Denmark

The development of the budget balance and public debt over the last three decades reflects both macroeconomic conditions and government policy. The deep recession of the beginning 1980s as well as the current recession following the international financial crisis have led to substantial deficits. Deficits declined during the 1990s due to the favourable economic conditions. Simultaneously, a centre-left government conducted a more accommodating fiscal policy. The strong budgetary position in the 2000s was due more to exceptionally high revenue levels than to an improvement of expenditure control. Medium-term expenditure plans have generally imposed soft targets in the upcoming budget year while setting tougher but fictional limits in out-years (that were subsequently revised in the next year). Thus, in recent years the pressure for welfare services and other new initiatives have led to budget slippage.

The 1984-85 budget reform was the only real overhaul of the Danish budget process in the last 30 years. The reform was aimed at countering weaknesses such as inflexibility and a lack of incentives for efficient operation. Four main principles guided the Modernisation Programme: budget ceilings and devolution; incentives to economise and enhance efficiency; simplifying procedures; increasing use of information technology. The ideological overtones of many of these reforms faded over

time and were embedded into the public management framework of New Public Management during the 1980s and 1990s in that operational efficiency in itself became a cross-partisan goal.

Current trends in public administration

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

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

In this light the OECD Secretariat has formulated recommendations for the Danish government based on reforms that are being pursued in the most advanced countries in each area of reform. The reforms apply for a large part to the broad reform trends mentioned above, but not exclusively. The reforms include:

- Policy development:
 1. Strengthening the role of core ministries in policy development.
- Policy execution:
 2. Sharing process units among municipalities in the execution of government mandated tasks.
 3. Rationalising unemployment funds.
- Regulatory/supervisory activities:
 4. Independent competition authority.
- Support services:
 5. Streamlining operational management.
 6. Revising the budget classification.

7. Strengthening the medium-term expenditure framework.
 8. Strengthening the spending review procedure.
 9. Focus of internal audit on risk management; strict separation from external audit.
- And one reform focuses on types of organisations:
 10. Separating the financing of agencies from steering and control of outputs.

Reform 1: Strengthening the role of core ministries in policy development

- Develop policy development staff's skills. The requirements for policy development staff should be explicitly assessed in the recruitment procedures for policy development positions. This has consequences for human resource policy (including career development policy) and the establishment of recruitment procedures.
- Clarify executive agencies' role in policy development. Public executive agencies can to a certain extent be incorporated into the policy development process. They should always be asked for advice on policy reform and be allowed to propose reforms on their own initiative. They can also be asked to elaborate certain reforms under the supervision of policy development staff. Non-profit institutions should be given an opportunity to advise on policy development, possibly in advisory councils which already exist in Denmark, but should not have a formal role in policy development.
- Revise contract relations with research institutions. More attention should be paid to the relevance of research findings for policy change or development. A distinction could be made between long-term contracts involving the development and maintenance of databases and periodical surveys and short-term contracts aimed at preparing one-off reforms, while maintaining competitive and objective tendering procedures. Special attention should be paid to the requirements securing the confidentiality of data. If such requirements are applicable, they should be included in the contracts so that no controversy can arise once the research is under way.

- With respect to cross-government policy co-ordination, the Danish government may wish to more clearly and more restrictively define the tasks of the Ministry of Finance and the Office of the Prime Minister in policy development, thus leaving more room for line ministries to enhance their central role in this regard.
- Denmark should be content with the modest size of its policy development staff and be attentive to keep it so. Capacity enhancement should rather focus on quality and organisation along the lines of the previous recommendations.

Reform 2: Sharing process units among municipalities in the execution of government mandated tasks

- Investigate the possibilities for horizontally integrating policy execution tasks at the central government level. Focus could be on policy execution tasks that are similar across ministries and with regards to the user group. It might be fruitful to look at subsidy payments to business (EU and national legislation).
- Further identify municipal tasks mandated by central government and characterised by similar executive processes and/or user groups and where there is a limited need for face-to-face contact between the case officer and the user. These tasks can be attributed to a new agency for objective case handling.
- A strong cost control incentive should be created for the new municipal agency for objective case handling. This could take the form of budgetary cuts on municipal budgets amounting to the difference between current costs of administration and service delivery and normative costs implied by the objective case handling procedure. The ownership role of the Board of Directors (responsibility for funding, initial contract and cost control) should be separated from the responsibility for the quality of performance along the lines recommended in Reform 10. This may require the establishment of a separate committee of policy experts to conduct the performance dialogue.

Reform 3: Rationalising unemployment funds

- Fund activities in the areas of paying out benefits and active labour market policy (guidance talks, assessing whether the unemployed are available for employment and matching the unemployed with vacancies) could be done by a single or a handful of funds rather

than 27 different ones. Economies of scale and the use of good practices should ensure substantial savings in the short term. Since the freedom to choose a fund does not appear to be effective in keeping down operational costs, administration fees could be integrated in the insurance contributions and be paid to the central government. The Minister of Welfare would then become responsible for financing the operational costs of the funds.

- A more fundamental approach would be for the government to take over the tasks of the funds in the areas of active labour market policies and the administration of benefits. The monitoring and work placement tasks that are currently the responsibility of the funds could be transferred to municipal and central actors. Indeed, the municipalities currently already hold full responsibility for the “active employment” task (administration of benefits and finding work for unemployed persons on social assistance) and municipalities are currently already the gateway to various other social benefits. The regional and local actors should therefore already have the skills and infrastructure in place enabling them to take over the funds’ tasks.
- Unemployment insurance payments could be fully transferred by the tax agency.

Reform 4: Independent competition authority

- Reconstitute the Competition and Consumer Authority as an independent agency (not subject to ministerial responsibility for its executive policy).
- Continue to strengthen the regulation and supervision of the energy sector, while maintaining close co-operation with the Competition and Consumer Authority in the sphere of common personnel management.
- Abolish the Competition Council and replace the Appeals Tribunal by a Commercial Court that forms part of the regular court structure.
- The tasks of the Danish Competition and Consumer Authority in the enforcement of EU law on state aid should be carried out with vigour. Stepping up the activities in the sphere of illegal state aid may require enhancing the capacity of the Competition and Consumer Authority for this particular task (to be realised through reallocation within the Ministry of Economics and Business Affairs).

Reform 5: Streamlining operational management

- From an international perspective, the Danish government is on the forefront of policy development concerning shared support services. In the next phase, the concept needs to be more clearly defined in terms of organisational structure over the long term.
- The Danish government may consider establishing clear principles concerning the organisation of standard setting and support service delivery. In this respect, the following principles may be of use:
 - Central standard setting should be in the core of a central ministry under the supervision of the minister; de-central standard setting should be in the core line ministries under the supervision of the line minister.
 - Support service units should not be put in arm’s-length agencies if they are simultaneously tasked with central or de-central standard-setting tasks.
 - Support service units should not be tasked with parts of the primary process of policy making, policy execution, regulatory/supervisory units or providers of other support services.
 - Service sharing should be extended to promising areas.
 - Central standard setting should be stricter in areas where divergence in de-central standards leads to unnecessary diversity and additional costs.
- Reorganisation of support service delivery according to the principles stated under Recommendation 17 can lead to substantial savings, particularly in the areas of communication, human resources, accommodation and facilities. In addition, it can further contribute to improving service quality and the career development of specialists in accordance with existing policy.

Reform 6: Revising the budget classification

- The Danish government may consider carrying out a reform aimed at establishing a more programme-oriented classification of the central government budget and reducing the number of line items. This would make the classification simpler and easier to understand for everybody who has to work with it, including parliamentarians.

- Operational expenditure for policy development staff and central ministerial support units should not be split between programmes, but be authorised in undivided line items. Operational expenditure for inter-ministerial shared process units and service centres should be authorised on the budget of the owner ministry, which should be held responsible for operational management and efficiency. Financial contributions of other ministries should be made through inter-ministerial reallocation.
- The reclassification reform should be set up as a common operation of the government and the Parliament.

Reform 7: Strengthening the medium-term expenditure framework

- The Danish government may consider introducing a fixed expenditure framework.
- In conjunction with the introduction of a fixed expenditure framework, it is recommended that the Danish government improve the quality of baseline estimates, updating them at least quarterly and subjecting them to scrutiny by the Ministry of Finance and, as far as large entitlement expenditures are concerned, by an independent forecasting institution.
- The Danish government may consider a broad coverage of the expenditure framework, bringing both mandatory expenditure and interest payments under the ceiling.
- The Danish government may consider formulating an extensive set of precise rules of budgetary discipline and subjecting them to explicit government approval as well as the approval of any parties in Parliament that support the fiscal policy of the government.
- The Danish government may consider anchoring the expenditure framework in a balance rule that is stricter than the EU deficit rule and that is based on long-term sustainability requirements.
- The Danish government may consider introducing a “pay-as-you-go” requirement on the revenue side of the budget that includes tax expenditures.

Reform 8: Strengthening the spending review procedure

- Introducing a multi-year review cycle in which all major spending programmes are reviewed. This may follow the Dutch and British examples where a comprehensive review is undertaken periodically in line with the update of expenditure limits (United Kingdom) or in the year before elections (Netherlands).
- Formalising key features of the procedures, as this will reduce the need for budget analysts to “reinvent” the system with each review. Essential elements are: selection of policy areas on the proposal of the Minister of Finance to be endorsed by the Economic Committee (as is already the case in Denmark); participation of external experts in the working parties conducting the reviews; participation of the officials of the Ministry of Finance and the Prime Minister’s Office in the working parties; independent chairperson of the working party; mandatory savings options; no veto right on options to be introduced in the reports; publication of the reports.
- The Ministry of Finance should create a spending review unit to support the review process and undertake some of the initial research. This is the current practice in the Netherlands and in Australia, where teams of approximately ten officials provide the expertise and technical skills to support working parties undertaking individual reviews. The secretariat should also provide an interface between the individual reviews and the broader budget process by ensuring that the reviews are conducted in a timely manner and that they remain focused on questions that lead to recommendations that can be used in the budget process.
- The reviews should focus on the efficiency and effectiveness of current policies, including the appropriateness of current service levels and delivery systems; reviews should contain policy options to improve efficiency and effectiveness as well as obligatory savings options of a certain percentage (at least 10% to be determined at the start of each round of reviews). Options to increase expenditures should not be allowed in spending reviews, as such options can be developed by the line ministries themselves.

Reform 9: Focus of internal audit on risk management; strict separation from external audit

- Amend Section 9 of the Auditor General Act in order to convert the authority of the RR in the establishment of the financial audit task of internal audit units in an advisory role.
- Create a separate legal basis for establishing internal audit arrangements by the government in accordance with accepted International Internal Audit Standards; in this regard, the Danish government may consider the amalgamation of internal audit and internal control units into a new form of more flexible internal audit.
- Create a strong standard-setting unit for internal audit in the Ministry of Finance that supervises the mandates of internal audit units and assesses their necessity and size.

Reform 10: Separating the financing of agencies from steering and control of outputs

- The Danish government may consider more clearly separating the steering and control of outputs of executive agencies from the budget process. Budgeting should take place on the basis of robust financing rules, partly based on need indicators (capacity budgeting). Agencies should be required to provide transparent information on the input mix and the input costs that allow the minister to assess the capacity costs of the agency. The Ministry of Finance should play a leading role in the improvement of cost information about the agencies and be represented in budget negotiations with agencies. An agency efficiency centre could be established in the Ministry of Finance that would provide the line ministries with information and analysis about the costs of agencies, which could be used in budget negotiations.
- Steering and control of the performance of arm's-length agencies are essential, but performance targets and performance realisations should be set, monitored and evaluated in a year-round performance dialogue. This task should be fulfilled by the line minister who is responsible for executive policy of the agencies.
- The Danish government may consider establishing explicit task-tailored standards of operational management for agencies tasked with service delivery. These standards could either be set by the regular standard-setting authorities if they apply to agencies of

several ministries or by the permanent secretaries of ministries in their capacity as de-central standard setters.

Survey of the reforms

Table 0.1 provides an overview of quality improvement and potential savings of the ten priority reforms discussed in this report. Savings are characterised in relation to the current operational costs of the units concerned. A moderate saving (less than 20%) on large units can be greater than a large (more than 20%) saving on small units.

Table 0.1. **Survey of value for money effects**

	Reform	Quality improvement in administration	Quality improvement in service delivery	Savings
Reform 1	Strengthening the role of core ministries in policy development	X		
Reform 2	Sharing process units among municipalities in the execution of government mandated tasks	X	X	large
Reform 3	Rationalising unemployment funds	X		medium
Reform 4	Independent competition authority	X		
Reform 5	Streamlining operational management	X		
Reform 6	Revising the budget classification	X		
Reform 7	Strengthening the medium-term expenditure framework	X		large
Reform 8	Strengthening the spending review procedure	X		medium
Reform 9	Focus of internal audit on risk management; strict separation from external audit	X		medium
Reform 10	Separating the financing of agencies from steering and control of outputs		X	unknown, but potentially large



From:
Value for Money in Government: Denmark 2011

Access the complete publication at:
<https://doi.org/10.1787/9789264130746-en>

Please cite this chapter as:

OECD (2011), "Executive Summary", in *Value for Money in Government: Denmark 2011*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264130746-2-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.