

Executive Summary

The *Value for Money in Government* series

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

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

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

Benchmarks for the Netherlands

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

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

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

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

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

Previous reforms in the Netherlands

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

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

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

Current trends in public administration

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

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

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

A more consistent division of tasks between levels of government

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

Vertical integration

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

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

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

Horizontal integration

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

Independent supervisors/regulators

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

Stricter standards of operational management

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

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

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

Separation of financing of agencies from steering and control of outputs

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

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

Survey of the reforms

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

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

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



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