Chapter 3

Policy development

This chapter presents a number of recent reforms that aim at strengthening the capacity of central government for policy development. The chapter focuses on technical skills required for policy development, such as forecasting, analysis and evaluation, that were somewhat neglected in the era of New Public Management.

Several reforms aim to strengthen the capacity of line ministries in the areas of analysis, use of research data and policy evaluation, including forms of ex ante evaluation such as Cost Benefit Analysis (CBA) and Regulatory Impact Analysis (RIA). Another reform concerns the assignment of the forecasting task to an independent fiscal institution in order to foster technical expertise and to prevent bias.

The problem of disconnect between policy development and policy execution is addressed in a reform that aims to ensure the involvement of executive experts in policy development.

This chapter also presents a reform that aims to clarify the division of tasks between levels of government in order to ensure greater coherence and to reduce unnecessary overlap within each policy area.

Introduction

Policy Development and the challenge of New Public Management

There is an increasing awareness in OECD countries that the New Public Management ethos is likely to create a vacuum in the capacity of governments to undertake policy development. During the course of this study, officials repeatedly discussed this theme whether referring to frustrations over the lack of strategic policy direction, the systemic neglect and undervaluing of technical policy skills over political nous, or general disquiet over poorly designed programmes or policies. Similar challenges have been highlighted in reports by participating governments[1].

These frustrations are not surprising given that public administration reform over the past three decades has given primary attention to building managerial capacities within government. In the 1980s and 1990s, governments sought to "let managers manage" by reducing constraints over resource allocation within departments under the set of reforms that reduced controls in the budget, moved vote structures from input to output, and established accrual based management and budgeting systems, for example. In many countries the public sector industrial relations framework was also reformed away from centralised employment structures to one that delegated authority over employment conditions to individual managers within each department.

Gradually, a second tranche of reforms emerged from the mid-1990s that focused on “making managers manage” by strengthening accountability and supervisory structures. Here the move toward increasingly stringent performance measurement and management regimes emerged as a means of articulating and then controlling the activities undertaken and outputs delivered within departments or agencies. Similarly, the Public Service Acts governing the responsibilities of senior public servants were rewritten to emphasise managers´ primary responsibility for ensuring the efficient and effective management within their departments. And the capacity to fulfil this managerial mandate rather than set strategic policy directions became the key criteria for professional success and promotion at the most senior levels of government.

Policy development received little attention under this framework because it is seen largely to be the responsibility of elected officials. So, for example, the adaptation of principal-agent theories to define public sector reform defines the elected government as the “principal” who set out a range of outputs to be delivered by the public sector as the "agent". When coupled with the purchaser-provider models of service delivery, this removes any impetus – or legitimacy – for senior managers to become overly involved in policy development or design. Gradually this had led to a devaluation of the technical skills required for policy development such as research, analysis and evaluation.

The resultant vacuum was filled by building the evaluation work typically associated with policy development within the executive agencies. However, this work typically focuses on improving the current programme delivery mechanisms rather than evaluating the entire programme structure and the choice of policy instruments. Strategic policy analysis is less likely to occur. Questions of policy appropriateness are rarely asked as they may challenge the very rationale of existing agencies. Policy development is driven by the interests of the policy deliverers rather than the recipients or society more generally. Over time this tendency reinforced the *status quo* of policy design. These difficulties were compounded in some countries as reformers defined policy development as a contestable product that could be purchased from external providers. In many countries this led to a proliferation of policy development entities and forums, while undermining the policy development skills of officials within the core ministries.

Overview of reforms

This chapter draws on cross-country experience in the Value for Money study to suggest seven reforms intended to strengthen the institutions for policy development across government, and thereby improve the quality of policy and programme design. All of these reforms start from the position that line ministries have primary responsibility for policy development within their subject area. So, for example, the Ministry of Education is responsible for working with the Education Minister to actively set a strategic direction for education policy, decide which elements of current policy require evaluation and reform, conduct or co-ordinate the analysis and research to develop policy reform options, and then negotiate those reforms with the stakeholders as necessary. This is a marked shift away from the current approach of many governments in which line ministries continue to take a "hands-off" approach to developing policy and, focus more on managing executive agencies via quasi-contracts and extensive performance measurement and management.

First, policy development capacity within the core ministries needs to be strengthened. Second, expertise from executive agencies should be better integrated into the policy development, without undermining the authority of core ministries. Third, core ministries need to build access to relevant, appropriate and timely policy-based research. Fourth, the creation of independent forecasting institutions will provide all policy makers with better information on economic and fiscal contexts and on the cost of government policy. The fifth and sixth reforms focus on ensuring the rigour and validity of policy development within government by establishing government wide standards for policy evaluation and *ex ante* analysis of the impact of policy change. These reforms are intended to improve the quality of technical analysis being undertaken as an input into policy development. Finally, several governments are reviewing the division of policy responsibilities across different levels of government to reduce the degree of overlap or conflict and to better align with principles of subsidiarity. Typically the division of policy responsibilities in a nation is the outcome of historical evolution rather than deliberate institutional design. Reducing overlap and conflict will achieve savings by reducing administrative efforts and enhancing policy efficiency and effectiveness.

Many of these reforms will require a concerted and sustained co-operation between governments and are likely to invoke claims of constitutional or political impracticality. Yet, throughout this study examples of government striking out boldly to reform and improve policy capacities have been observed. This type of systemic reform is crucial if governments across the OECD are to resolve their budget crises by building the policy development capacity for future generations, rather than deferring the problem through decremental cuts and policy deferral. Together these reforms aim to reinvigorate policy development capacity within government and thereby improve both the cost and the quality of government intervention in society.

Reform 3.1. Strengthening policy development capacity within line ministries

Characteristics of the reform

The reform consists of strengthening policy capacity within line ministries by:

- clarifying the mandate and role of line ministries in policy development *vis a vis* central ministries and executive agencies;

- developing policy skills within the line ministries by introducing a comprehensive professional development programme for policy development staff that is designed to strengthening four key competencies: professional expertise, technical and analytic skills, executive (or delivery) experience and political skills. Reforms should address recruitment and promotion criteria, staff training and development, and on-going job rotation and professional exchange.

Where did it occur?

Australia and the Netherlands are increasingly aware of the need to strengthen policy development capacity in line ministries and over the last few years have taken measures to that purpose.

Analysis

Aims of the reform

Strategic policy development is a core responsibility of line ministries. Policy development should certainly draw on advice from relevant experts and stakeholders within and outside government. However, it is crucial that every directorate in line ministries employs staff with the skills and specialist knowledge to ensure they do not become overly reliant on (and therefore captured by) external advisors and can assess external advice against the broader strategic policy aims of government. Put simply, reforms that strengthen policy development capacity within the core ministries will improve both the quality and cost effectiveness of government policies by ensuring they are subject to rigorous and expert policy analysis.

Interlocutors from countries participating in the Value for Money study repeatedly observed a need to strengthen policy development skills within the line ministries. The concerns expressed by interviewees included high levels of staff turnover which led to a loss of corporate memory; an imbalance between generalist and specialist policy analysts in favour of the former as they are easier to transfer between sectors; a lack of expertise in conducting applied policy research which can be translated into specific recommendations for policy reform. Other concerns included a lack of experience in policy implementation or service delivery which resulted in policies being developed with little recognition of the potential problems during execution, or the impact that policy reform in one area will have for service delivery in related policy or service areas.

Based on the experiences of OECD countries, observed reforms fall into two areas: *i)* clarify the policy development role of core ministries and *ii)* recruitment and staff career development strategies within the line ministries should focus on ensuring relevant staff possess the policy expertise, analytic skills and the political and executive experience required to undertake policy development at the highest levels.

Clarify the mandate and role of line ministries in policy development

Reforms to strengthen the policy development role of line ministries should begin by clearly articulating the policy mandate of line ministries *vis a vis* executive agencies and in relation to other central government ministries. Fundamentally, line ministries should co-ordinate policy development in their own domain. This includes agreeing on an agenda for policy development within the ministry with key stakeholders including the minister, executive agencies and central agencies; monitoring and evaluating the performance of existing programmes within the ministry; and undertaking independent policy analysis with a view to developing options for policy improvement or reform, and focusing on the questions of continued appropriateness and priority.

This study identified numerous instances where line ministries were relegated to a secondary or junior role in policy development. In some countries line ministries must compete with central ministries (such as the Ministry of Finance or the Office of the Prime Minister), political advisors, or external advisory boards for policy influence within their area of responsibility. Elsewhere large, powerful executive agencies control policy implementation, evaluation and research, and can therefore limit access to policy information within the ministry and block the implementation of potential reforms. Both situations mean that line ministries expend too much effort responding or reacting to external demands or pressures, and too little time developing a strategic agenda for policy development, undertaking in-depth policy evaluation, analysis and research, or developing and co-ordinating key policy reforms.

It is crucial, therefore, that governments articulate the primary role of line ministries in policy development and they ensure line ministries have the resources necessary to deliver this mandate. To this end, line ministries need to build their access to relevant, appropriate and timely policy-based research (discussed in Reform 6 of this Chapter), governments should clarify the formal procedures and institutions for cross government policy co-ordination, and efforts should be made to differentiate the policy mandate of the core ministry and of the executive agencies (as discussed in Reform 2 of this Chapter). Most importantly, each line ministry must have a highly skilled cadre of policy officers with the skills and expertise to undertake strategic and autonomous policy development.

Develop policy skills within the line ministry

Efforts to strengthen the policy skills of officials within line ministries should focus on four key competencies. First, and most fundamentally, officials require expertise within their specific policy area. Policy or ‘scientific’ expertise differs between policy areas: in the fields of financial and economic policy, for example, economic expertise is typically required, and foreign policy requires knowledge of foreign countries and the history of diplomacy. Similarly policy expertise in health or education policy draws from specific scientific backgrounds, although expertise is often contested across professional boundaries. In these policy areas managers should consider whether the ministry holds the appropriate balance between areas of professional expertise. In contrast, some line ministries require generic expertise in social or industrial policy: labour market policies, policies for the aged or people with disabilities, business and industry development or market regulation. These ministries should emphasise a balance between economic, social and other disciplinary perspectives.

Second, policy development requires the technical skills to enable the line ministry to undertake rigorous policy analysis and development and remain independent of external advisors. This includes ensuring technical skills related to policy research and analysis, writing new legislation, articulating a strategic direction for policy evolution, and evaluating the effectiveness and efficiency of existing policies within the ministry's area of responsibility. These requirements are not diminished if use is made of external research institutes and consultancy firms. On the contrary, providing guidance to external institutes or firms belongs to the most demanding tasks of policy development staff and this task should generally be assigned to the most senior staff with a proven record of policy analysis in their own right.

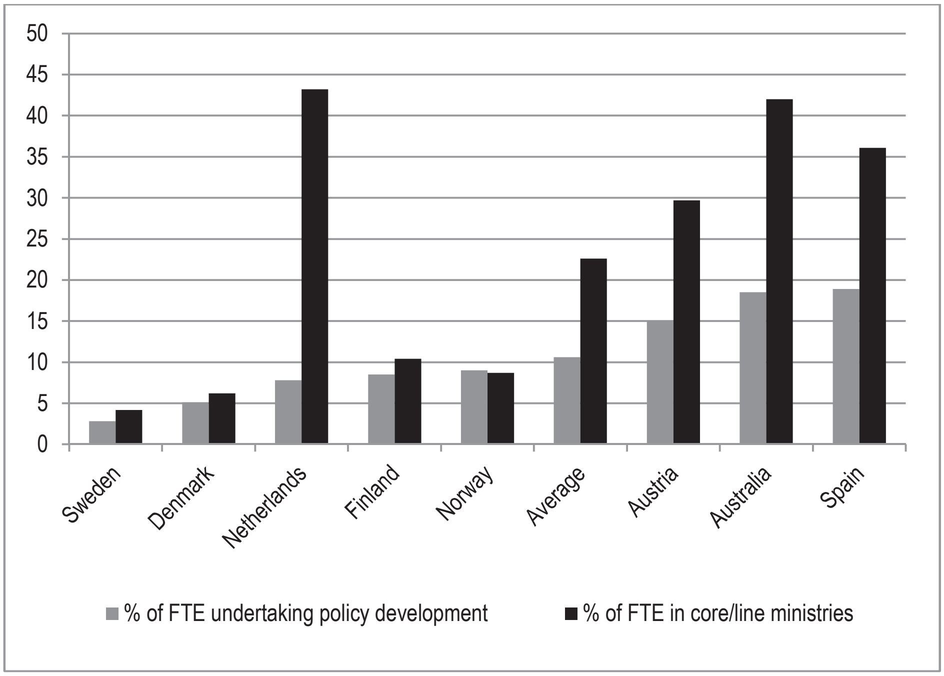
Thirdly, those responsible for policy development must also be aware of the practical feasibility of implementing policy options. The complaint that too many policies are poorly designed and generate unexpected problems or simply cannot be executed at all was heard in all countries visited for the Value for Money Study. Experience from many countries suggests that the best way for policy development staff to acquire this awareness is through experience in the execution or implementation of policies (administrative execution or in-kind service delivery). More broadly, executive agencies should be involved in policy development to ensure any potential difficulty in execution is raised and discussed as a routine component of policy development (see Reform 3.2).

Finally, skilled policy development also requires awareness of the potential support for policy reform among politicians and key stake holders. A fully professional civil service can only function appropriately if policy development staff has the confidence of the government of the day, and civil service must engage in constructive dialogue with its political superiors about the merits of policies and to provide "frank and fearless" advice on different options. Indeed this requirement is a necessary condition for the maintenance of a fully professional civil service and for strong restrictions on the use of political advisers. Chapter 10 contains a reform that is specifically aimed at reduction of the use of political advisors.

The implementation of the reform

The viability of clarifying the policy development mandate of line ministries will be shaped by the existing organisational structures and the administrative philosophy of each country. The evidence of this study shows the Nordic countries to have fewer policy development staff than other countries in the study, and much smaller core ministries relative to the executive agencies (see Table 2.4 of Chapter 2). These countries also have strong traditions of separating policy development from policy execution in line ministries and executive agencies respectively. These examples show that policy development can be undertaken with relatively small numbers of civil servants if they have a clear mandate and are well-resourced. Hence, countries should resist the impetus to increase the number of policy development officials as a way of strengthening this function.

Figure 3.1. Small cadre of policy development officials



Source: Snapshots of the public administration.

It is also evident that the separation of policy development from execution makes it easier for the Nordic countries to identify the staff responsible for policy development. During the study it was observed that many countries found it difficult -- and contentious -- to identify policy development staff. There were numerous reasons for this difficulty, including the fact that many staff were performing dual functions (developing and implementing policy), or because there was no clear definition of the "policy development" role. However, this confusion complicates the task of strengthening the skills of policy development staff. It is important that countries take measures to improve understanding of the tasks and roles that constitute policy development, and the staff that are involved in these tasks. This will be an important precursor to reforms intended to strengthen policy development skills and hence the quality of policy development outcomes.

Effort to clarify and strengthen the policy mandate of line ministries may be resisted in countries with administrative philosophies that encourage numerous actors to engage in policy development. Australia and the United Kingdom, for example, encourage "a challenge and scrutiny role" of the central agencies. Others have argued that this increases the market in policy ideas, but does not facilitate policy development. Sweden and the Netherlands ensure that external experts, stakeholders and advisors are incorporated into the process of policy development while maintaining the primacy of the line ministry in the process.

In countries where the line agencies have a clear policy mandate, reforms focus on strengthening the skills of policy development staff in line ministries. Countries should consider adopting a whole of government approach to developing the standards for the recruitment of policy development staff, and on establishing a whole of career development programme for policy officers. Wherever possible, responsibility for developing and managing these programmes should lie with the agency responsible for public sector employment such as the Australian Public Service Commission, or the Department of Public Administration in Sweden.

A number of governments have taken steps to articulate the core competencies required in policy development and these should be further developed to articulate the basic competencies required when recruiting policy officers. Potential staff should evidence both experience and aptitude in the technical skills required to undertake policy analysis and research, and the specialist knowledge appropriate to a given policy areas. It is also important to ensure that technical skills are continually extended and honed via professional development programmes, and delivered in partnership between government, universities, or other expert providers. To reinforce the professionalization of policy development work, ministries should require proven experience in research and/or execution in the same policy area as a pre-requisite for promotion to higher job levels in policy development.

Developing high level political and executive skills requires experience rather than training, and therefore should be built through programmes for career development. These should provide job rotation opportunities within a particular policy area, including between jobs in the same ministry or in a few kindred ministries (finance and economics, foreign policy and defence), rather than across the entirety of central government. These programmes should also facilitate job shifts between research institutes, executive organisations (administrative execution and/or service delivery) and policy development in the same policy area. The flexibility of civil service employment conditions will limit the extent to which these are possible, and it may be necessary to establish a government wide policy standard that facilitates job rotations rather than relying on individual organisations (see Chapter 8).

Feasibility of the reform

The reform is relevant for all OECD countries, but the challenges resulting from existing organisational structures and constitutional arrangements are different between countries. This implies that the focus of the reform has to be tailored to the circumstances of the country and that implementation procedures have to ensure that bottleneck factors are addressed with priority.

Reform 3.2. Integration of executive and professional expertise into policy development

Characteristics of the reform

The reform consists of integrating executive and professional expertise into policy development. Executive agencies should commit to policy proposals before they are tabled for political decision-making in Cabinet or Parliament and this can be achieved by giving a role to executive agencies in the initiation and elaboration of policy proposals, and having executive agencies represented in the ministerial staff group by which all policy proposals are selected, developed and approved.

Where did it occur?

Sweden has a centuries old tradition of separating policy development in line ministries from policy execution in arm’s length agencies, and it has relatively small line ministries. As a result, policy development units within the line ministries rely heavily on executive agencies for information and advice, and the mechanisms for integrating executive agencies into policy development are clearly established.

In Sweden, the involvement of executive agencies in the policy development takes two forms. First, agency officials are consulted about the main aims and features of the proposed reforms from an early stage of the process of policy development. Executive agencies can also initiate reforms themselves, and bring their ideas to the attention of the minister and the staff of the core ministry. Second, agencies are invited to contribute to reform proposals by providing information and analysis and usually by providing detailed elaboration on the practicalities of executing or delivering the policy proposals.

Analysis

Aims of the reform

The importance of involving executive agencies into policy development is generally recognised by all countries participating in the Value for Money Study. Executive agencies within government should always be asked for advice on proposals for policy reform, be allowed to initiate their own reform proposals, and asked to elaborate certain reforms in collaboration with policy development staff in line ministries. The advice of executive agencies should be taken seriously as they understand the key issues needed to ensure successful implementation of policy or service delivery reforms. Integrating executive and professional expertise into policy development has the primary objective of improving the quality of proposals for policy reform. Throughout this study, interlocutors mentioned policy reforms that could not be implemented due to poor programme design or that had a negative impact on existing programmes.

The reforms discussed in this section aim to balance the need to integrate executive agencies into policy development, while retaining the authority of line ministries to set the strategic direction of policy within the ministry. The key reforms revolve around the extent to which executive agencies are integrated into policy development, and how this involvement should be organised. In this respect the experience of Sweden provides some good examples and lessons that can then be adapted by other countries.

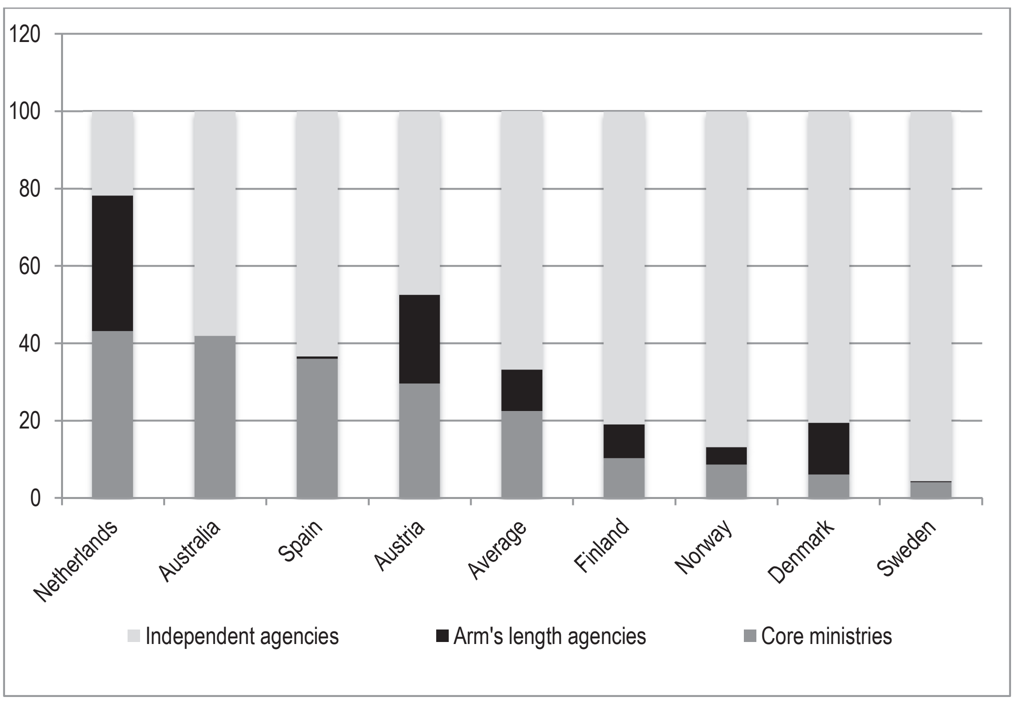
Since policy execution is not only taking place in agencies, but also in non-profit organisations inside and outside central government, it is important to look also at the involvement of these organisation in policy development. This regards mainly in-kind service delivery (not administration). In the fields or 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, and mostly financed by, government (and thus classified inside the government sector). The non-profit institutions are not only executive institutions of government policy, but also service providers in competitive markets (see Reform 4 in Chapter 4). In view of their latter role they should not be given a formal role in policy development.

Implementation of the reform

The feasibility of these reforms depends on the extent to which policy development and execution are currently differentiated. If the two functions are clearly separated, then the challenge is primarily one of integration. If however, policy development and execution are largely indistinguishable activities then there is an additional challenge of differentiating between units responsible for these functions before ensuring co-operation on policy development. This is not simply a question of organisational form. While it is desirable for policy officials to have expertise in policy execution - and vice versa -- the two functions require different expertise and specialist skills. As a general principle, they should not be undertaken by the same person or unit because the day to day practicalities of delivery tend to dominate over questions of policy development.

So, before considering these reforms, is important that countries understand where policy execution is currently located. At a general level, this differs significantly between countries in the Value for Money study. Overall, the Nordic countries have a much higher percentage of public officials employed executive agencies than other countries. This is represented by the figures in Figure 3.2 below. The figures are illustrative of a long standing tradition of institutionally separating policy development from execution.

Figure 3.2. Size of core ministries and executive agencies



Source: Snapshots of the public administration.

Most other countries participating in this study organise policy development and execution according to much less systematic or rigorous criteria – most are the product of history. Supposing policy execution is organised in arm's length agencies, involvement of the agencies in policy development could mainly be arranged along the Swedish lines as discussed above. 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 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. 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.

Feasibility of the reform

The reform is relevant for all countries participating in the study. The implementation has to take into account the current organisation of policy execution and requires tailored solutions in view of the organisational structure of policy execution in every country and every policy area.

Reform 3.3. Transfer of policy research institutions to universities, private research establishment and consultancy firms

Characteristics of the reform

The reform consists of transferring government policy research institutions to the universities and private research sector with the aim to strengthening policy makers access to timely, relevant, independent and rigorous policy focused research. This reform is intended to increase the research budget available to policy development staff in core ministries, but it can also lead to savings.

Where did it occur?

Denmark transferred most policy research to universities in 2006 as part of a comprehensive reform of the university sector.

Analysis

How to organise policy research in support of policy development

This reform aims to ensure that officials in core ministries have access to rigorous, relevant and timely policy research to inform policy development. Since the Blair government argued that “what matters is what works”, governments have renewed their efforts to build an "evidence-based" approach to policy development. This requires that policy development officials in all divisions of the core ministries can mobilise independent information about the effectiveness of policy options, and engage with external expertise and networks of research institutes. However, this expertise should be supported by access to external experts with an on-going mandate to undertake primary and applied policy research. Some countries have sought to build policy research capacity inside government by establishing in-house policy research institutions. Elsewhere the emphasis has been on shaping the research agenda of individual researchers by providing research grants.

There are problems with both of these approaches. First the in-house research institutions struggle to find a balance between policy relevance and academic independence, and the researchers interviewed for this study typically placed greater emphasis on the latter. Often this has led to a lack of policy relevance and a combative relationship with policy development officials. Second, engaging individual researchers is also problematic as it ignores the practical realities of academic life where "publish or perish" has become a daily mantra. Engaging primarily with individual researchers also fails to build an institutional capacity for policy research and analysis that can be leveraged by governments over the longer term.

The experience of Denmark in moving most policy research institutions from government to the university sector suggests that the core ministries can access independent *and* relevant policy research without requiring this be undertaken inside government. In 2006 the government of Denmark implemented reforms that integrated all but four government research institutions into the university sector. The reforms occurred within a broader context of restructuring the governance and funding arrangements with universities and a commitment to increase government spending on research and development to 3% of GDP in accordance with the Barcelona Agreement.

Specifically, the reforms occurred at three levels. First, the ministry of Science, Technology and Innovation undertook a review of all government research institutions to identify those working in closely related policy areas, and then took steps to merge these institutions. Next, nine of thirteen government research institutions were transferred to universities with recognised expertise in the policy area. Importantly, the universities were willing participants in the process as they gained highly qualified research and teaching staff, additional public funding, and the influence that comes from better contact with government policy makers. Thirdly, the funding relationship between policy research institutions and the core ministries was made more explicit by differentiating between two levels of funding: base funding and commissioned research. Government provide most institutions with a base budget to fund a percentage of on-going staff to conduct basic research and long term projects such as maintaining databases that track the impact of policies in a specific area of government. Additional funding is then agreed between the line ministry and the institutions for evaluations commissioned by government – these may be funded through competitive tender for specific evaluations, or to a contractual agreement to conduct a given number of specific evaluations over a discrete time period (for example three evaluations a year for three years).

Conditions for successful implementation

Officials in the Danish government argue the reforms were successfully implemented for a range of reasons. First, the questions of *enhancing* research capacity across Denmark "rose to the top of the political agenda" and therefore both political and administrative resources were dedicated to the reform task. There was a public expectation that change would occur and this provided the political mandate for comprehensive reform. As a result, the merger process occurred quickly and within 6 months of the Cabinet decision to transfer public research institutions, and this reduced both uncertainty and the opportunities for blocking strategies.

Second, specific elements of the reform agenda were developed in consultation with the key stakeholders in the university and government sectors, to ensure they were widely accepted and easily implemented. A number of interviewees emphasised the importance of tailoring the reform programme to each university in recognition of the unique circumstances of size, expertise, geographical location, and the balance between the existing research staff and those from the public research institutions. Not surprisingly some researchers from the public research institutions resisted relocation for personal reasons.

New procedures should also establish mechanisms for disseminating research findings and ensuring collaboration between researchers and policy professionals. The relationships between those undertaking policy development and policy researchers will not be enhanced by this reform unless deliberate efforts are made to improve the co-ordination and dissemination. Physical distance from policy makers was also identified as a logistical problem in ensuring the ongoing networks between policy makers and researchers, and in some instances it had led to difficulties in recruiting or retaining suitability qualified personnel. ICT technology can play an important part in solving these problems. Clearly the size and geographical distributions within countries will shape the importance of this issue.

In 2009, an International Evaluation Panel assessed the impact of the university mergers. While this evaluation focused primarily on mergers between the universities themselves as well as between universities and formerly independent research institutes, there are useful lessons in relation to the impact on policy development in core ministries. As stated in official papers, these reforms were designed to increase:

- efficiency by abolishing closed shop and automatic funding arrangements that existed within the public sector research bodies, and
- effectiveness by "creating critical mass and research synergies" that improve the quality of research.

Concern was expressed that these reforms would weaken the support that research institutes provide to strategic policy makers in core ministries. Interviewees raised some problems in relation to the knowledge transfer activities between universities and policy officials. Another ministry was frustrated by a limited capacity to leverage knowledge held and developed within these institutions for the purposes of policy development. Some ministries indicated that they have difficulty in shaping the research agenda and getting timely, relevant and applicable advice.

As it turns out, however, the same complaints concerning the lack of support for the government research agenda were voiced about "in-house" research bodies as about the universities, and similar concerns were expressed by interviewees from the line ministries in Sweden about the fact that autonomous evaluation agencies pursued an independent research agenda regardless of the government agenda.

It appears therefore that the legal status of research institutions is less important for the support of policy development than the contracts which define their co-operation with the government. In this light, governments may reconsider the contractual relations between line ministries and research institutions. 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 the preparation of one off reforms, while maintaining competitive and objective tendering procedures. Special attention should be paid to 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.

Feasibility of the reform

The levels of investment in public research institutions vary across OECD countries. In countries with a large number of public research institutions, benefits are likely to result from a systematic review of the sector, with a view to merging related institutions to create a critical mass of researchers, and reduce administrative costs.

Very large public research institutions may not be suitable for amalgamation within existing university arrangements. In the Danish experience four public research institutions were not transferred for various reasons. The Danish National Centre for

Social Research for example had approximately 65 researchers with expertise in social policy research and was therefore the largest evaluation centre in the country. The centre focuses on evaluating social policies across government, as requested (and funded) by line ministries. This centre retains "academic" status by undertaking basic research, training PhD students and retaining the right to publish. However, its primary function is to ensure the quality of policy evaluation by developing guidelines, undertaking evaluations, and providing advice on policy and programme design to ensure evaluations are possible. Hence this institution is primarily a provider of shared evaluation services rather than purely a public research institute.

Reform 3.4. Independent fiscal forecasting institutions

Characteristics of the reform

The reform consists of the establishment of an independent fiscal institution (IFI) for macro-economic forecasting and costing of major policy proposals. A major goal of the IFI is promotion of fiscal transparency. Careful attention should be given to ensuring the IFI works for the executive and legislative arms of government, as well as for civil society organisations (possibly at a cost). The IFI should avoid duplication of forecasting and costing efforts within the central government as a whole.

Where did it occur?

Among the countries participating in the study, IFIs have been established in Australia, Canada, Finland, France, the Netherlands, Sweden and the UK.

Analysis

Tasks performed by IFI's

Independent fiscal institutions are a growing phenomenon in OECD member countries, aimed at improving the information base from which policy development and analysis proceeds, and from which citizens are informed. Particularly in the wake of the financial crisis, governments, regional and international bodies are looking to IFIs as a way to enhance fiscal discipline and promote greater transparency and accountability.

Until the turn of the century, IFIs existed only in Belgium, the Netherlands, Sweden and the United States. Among OECD countries, many of the features of these IFIs were adapted in Korea and Canada.. Following the recent financial crisis, IFIs proliferated quickly not only across the European Union (Hungary, Slovenia, UK in the last decade alone), but also in Australia and Chile. Most recent IFIs can be found in Finland, France, Germany, Italy, and Spain. By now IFIs operate in more than 20 member countries—the precise number depending on the breadth of the definition of what constitutes an IFI.

Beginning in 2012, the OECD established a reference group of heads of IFIs of selected member countries to examine the experience of existing IFIs and develop draft principles of good practice. Specifically, the OECD Principles for Independent Fiscal Institutions make recommendations in nine domains: 1) local ownership, 2) independence and non-partisanship, 3) clearly legislated mandate, 4) resources, 5) relationship with the legislature 6) access to information, 7) transparency, 8) communication, and 9) external evaluation. This section draws on the Principles as well research conducted for the Value for Money study; however, readers should consult the Principles endorsed by OECD Council for more detail (OECD, 2014).

Notwithstanding widespread differences, the aims and tasks assigned to IFIs can be divided in two main domains: First IFIs can have an *ex ante* diagnostic role in preparing independent short- and medium-term macro-fiscal forecasts, policy costing, and/or policy analysis.[2] Secondly, IFIs can fulfil an oversight role with respect to fiscal policy proposals and outcomes against rules or objectives. IFIs do not replace the treasury or ministry of finance in formulating fiscal policy, nor do they replace the *ex post* accountability function of the national audit office. In terms of policy development, the primary aim of establishing an IFI is to provide policymakers, as well as the citizenry, with access to independent and rigorous analysis of fiscal policy and performance and on the budgetary cost of government policy initiatives.

The form and structure of IFIs vary considerably across countries. While some are headed by an individual, others operate under collective leadership; some are endowed with a large technical staff, others are not.

By way of illustration, table 1 compares the tasks assigned to independent fiscal institutions in five countries participating in the Value for Money study as well as the US (the Congressional Budget Office being an inspiring example for many other countries).

Table 3.1. Tasks of forecasting and costing institutions in selected OECD countries

	Netherlands Central Planning Bureau (CPB) (1945)	**US Congressional Budget Office (CBO) (1975)**	**Sweden National Institute of Economic Research (1937)**	**Canada Parliamentary Budget Office (PBO) (2008)**	**United Kingdom Office for Budget Responsibility (OBR) (2010)**	**Australia Parliamentary Budget Office (2011)**
Agency of:	Ministry of Economic Affairs	Congress	Ministry of Finance	Parliament	Ministry of the Treasury	Parliament
Short and medium term macro-economic forecasting	Yes, unique	Yes	Yes	Yes	Yes, (in principle) unique	No
Long term macro-economic forecasting	Yes, unique	Yes	Yes	Yes	Yes, unique	No
Costing	Yes, unique	Yes	Yes	Yes, on request	No, only scrutiny	Yes, but not leading to duplication
Costing of electoral platforms	Yes, unique	Yes	No	No	No	Yes, but not leading to duplication
Monitoring of fiscal policy against rules and objectives	No	Yes	No	Yes	Yes	Yes (implicitly)
Policy research on own initiative	Yes	Yes	Yes	Yes	Yes	Yes

The Dutch and UK IFIs stand out in that they are tasked with macroeconomic forecasting for government as well as parliament. In these countries it is felt that this arrangement has two important advantages.

First, it avoids the cost of duplication. Given that the basic reason for establishment of an IFI is that the government numbers may be affected by an optimistic bias, and will inherently always be perceived as politically self-serving, the dominant view in these countries has been that there is no reason to continue producing these numbers as soon as an IFI is established.

Second, the governments concerned feel that it is desirable for the political debate to be conducted on the basis of a unique set of numbers. While it is generally recognised that forecasting and costing are difficult arts and that with retrospect predictions were often wide of the mark, there is nevertheless an advantage in leaving these "technical" problems out of the political debate. In countries where IFIs are the unique providers of forecasts, it is generally felt that agreement among the major political parties that the political debate will be conducted on the basis of the numbers of the IFI, has a beneficial effect on the quality of the debate and of subsequent decision making.

The Dutch and Swedish IFIs stand out in that they do not fulfil an oversight function with respect to fiscal policy proposals and outcomes against rules or objectives (the second task of IFIs mentioned above). It is widely felt in the Netherlands and in Sweden that this assessment task is not compatible with the forecasting and costing tasks assigned to these institutions and would complicate their role as the government's forecasting and costing institution[3].

The Parliamentary Budget Office (PBO) in Australia is unique among IFIs, in several respects. It is not allowed to do forecasting (to avoid overlap with the Department of Treasury) and will do costing only for members of Parliament if these members (possibly of the opposition) have not asked the Government to do the costing of the same proposals. The latter arrangement is meant to avoid duplication, but the OECD Secretariat has noted that it is problematic from another point of view, namely, that different proposals are costed by different institutions (OECD, 2012b). In addition, unlike all other IFIs, the PBO is not authorised to release its assessments to the public. Furthermore the Australian IFI is not required to carry out the monitoring task in relation to fiscal rules or objectives (the watchdog task). Rather it is entitled to do so under the prevailing enabling legislation. As elsewhere, to ensure that the PBO in Australia has access to the information necessary to fulfil the costing tasks, the founding legislation provides broad ranging powers to access information from Commonwealth bodies.

Both the Australian and Dutch IFIs stand out in that they are undertaking costing for electoral platforms. Costing of electoral platforms has the effect of focusing the debates during the electoral campaigns on policies rather than on the facts. A supervisory committee of the IFI can be charged with approving the work programme of the IFI and to see to it that opposition parties are served in the same way as the government and the government parties.

There is no consistency across countries on whether the IFI is established as an agent of the legislative, the executive, or the judicial branch. The Australian PBO is an agency accountable to Parliament with the same status as the National Audit Office and serves both chambers of Parliament. In contrast, both the OBR and the CPB are under the Executive branch of government rather than Parliament. The OBR is a legally independent agency with its own oversight board; the CPB enjoys the status of an independent agency under the Ministry of Economic Affairs, with its independence guaranteed by statute. Over a broader spectrum of countries, whereas most IFIs are established under the tutelage of the executive or the legislative branches, there are a few (Finland and France) that operate in the Court of Audit as part of the judicial branch, and others (including Hungary, Ireland, and Portugal) that are not attached to any branch. Regardless of the formal statutory arrangement, what really matters is the effective degree of independence of the institution.

Finally, questions of staffing and budget allocations also differ across countries. The Australian, Dutch and UK IFIs may serve as illustrative examples. The IFI's in Australia and the United Kingdom are relatively small institutions. The Australian PBO is financed by an appropriation of AUD 6 million (~EUR 4.75 million) in the financial year starting on 1 July 2011 and it is expected to receive a similar amount for the next three years. It is envisaged that the PBO will employ about 20 economic analysts. In the UK, the OBR is even smaller with an annual budget of GBP 1.75 million (~EUR 2.15 million) and a staff of 15 economists – the majority of whom are ex-treasury officials. By contrast, the CPB in the Netherlands has a staff of 160 (140 full time equivalents) and an annual budget of approximately EUR 12 million. Up to two thirds of staff in the CPB are academic economists and the remainder are statisticians and support staff. Eighty-five to ninety percent of the CPB budget is appropriated, and they earn the remaining 10-15% from project contributions by ministries, the European Union and other international organisations (including the OECD). These differences are illustrative of the broader mandate of the CPB as discussed above.

Feasibility of the reform

The applicability of this reform to Value for Money countries differs according to the current state of practice. In those countries that have not established an independent fiscal institution, steps have to be taken to ensure immediate adoption in accordance with the OECD principles discussed below.

At a very minimum, the mandate of the IFI must be set down in legislation and clearly define the tasks and analysis to be undertaken and the reports be produced. As discussed above, IFIs undertake a range of tasks including macroeconomic and fiscal projections (with a short- to medium-term horizon, or long-term scenarios); costing of major policy proposals and electoral platforms, monitoring compliance with fiscal rules or official targets; and analytical studies on selected issues.

While each country should decide which tasks are most appropriately undertaken by the IFI, the reform as formulated here follows the Dutch and UK model, in that the IFI serves as the unique forecasting and costing institution for government, parliament and civil society and that duplication is avoided. This fits into the approach of the current study that aims at presenting reforms that lead to simplification and savings. Furthermore it follows the Dutch and Swedish model in that reforms aim at the establishment of an independent forecasting and costing institution, regardless of how the role of monitoring against fiscal rules or objectives (the "fiscal watchdog" role) is carried out (in principle allowing that this role is assigned to another independent institution).

It is also important to establish mechanisms to encourage appropriate accountability to the legislature, as well as the public at large, regardless of whether the IFI is created as an agent of the legislature, executive, or the judiciary. These mechanisms may include (but are not limited to): 1) all reports sent to parliament for scrutiny, preferably through the legislature's budget committee (or equivalent) and in time to contribute to relevant legislative debate; 2) appearance of IFI leadership or senior staff before the budget committee (or equivalent) to provide responses to parliamentary questions; 3) parliamentary scrutiny of the IFI's budget; and 4) a role for parliament (including the budget committee or equivalent) in leadership appointments and dismissals.

Reform 3.5. Whole of government standards for *ex post* evaluation

Characteristics of the reform

The reform consists of establishing whole of government standards for the conduct of policy evaluation in line with practices from Canada and the UK and ensuring that line ministries hold primary responsibility for planning, conducting or commissioning policy evaluation.

Where did it occur?

The UK and Canada have established government wide standards for the conduct of policy evaluation.

Analysis

Government wide standards of evaluation

The impetus for establishing government wide standards in evaluation derives from a quest to strengthen the capacity for relevant evaluation to support policy development within each line ministry. This reform assumes that line ministries are engaged in the work of strategic policy development, including the conduct and/or commissioning of policy evaluation. Core ministries need to ensure they have access to independent and relevant policy research (as discussed in Reform 3.4) although this work does not need to be undertaken inside government.

This reform addresses policy evaluations undertaken to assess and adapt existing policies or programmes. Responsibility for conducting policy evaluation primarily lies with line ministers as they are accountable to parliament and their cabinet colleagues for the effectiveness and efficiency of government policies. This incentive is particularly strong when ministers are newly appointed and want to reform the programmes for which they are responsible. Ministers need support to undertake critical evaluation because their own ministries will not always be supportive of critical evaluation. Civil servants often have a tendency to defend existing programmes. The same is true for long serving ministers.

To this end standards should be set that ensure all evaluations are methodologically rigorous and relevant to the policy concerns of both the ministry and the overarching agenda of the government. This should include articulating the governance framework that assigns primary responsibility for conducting policy evaluation with line ministries rather than executive or autonomous bodies. This will minimise the possibility of capture by those who have vested interest in the *status quo*, or lack a whole of ministry or whole of government perspective. Similarly, evaluation can be strengthened by requiring they follow a standard process and adopt rigorous methodologies. This in turn strengthens confidence that evaluations finding are based on analytically objective and independent research, which allows the line minister and ministry to be critical of existing policies and programmes in the interest of policy improvement.

Standards of evaluation in the UK and Canada

The governments of the United Kingdom and Canada have both introduced government wide standards to enhance the quality and to build incentives for conducting relevant and rigorous policy evaluation. In Canada, the evaluation standards set out governance structures and accountability arrangements that assign line ministries with the responsibility for ensuring all existing departmental programme spending is evaluated every five years. In contrast, the UK Treasury published "The Green Book" which sets down the procedures and methodologies that can be used by all line ministries at various stages in the policy life-cycle. However, in the UK there is no obligation to evaluate. The Green Book only provides guidelines for the case that an evaluation has been ordered on a needs basis. Interested governments should consider using the experiences of both countries when developing whole of government standards for policy evaluation.

The UK Green Book: appraisal and evaluation in Central Government (2003, updated in 2011) explains the processes and methodologies that should be used to assess government policies at various stages in the policy lifecycle, from inception to evaluation. Policy evaluation is treated in Chapter 7 of the Green Book, which states: "Evaluation requires management initiative (sometimes political commitment) and intensive monitoring. The thoroughness of an evaluation should depend upon the scale of the impact of a policy, programme or project, and to some extent on the level of public interest. […] Evaluation reports should be widely disseminated and published, where appropriate, to contribute to the knowledge base up which future decisions will be taken."

Essentially, the Green Book aims to support "analytically robust appraisal and evaluation" by providing detailed descriptions on six different analytical methodologies in a series of appendices. While only one chapter of The Green Book discusses evaluation specifically, other chapters provide guidelines for policy analysis that can also be included in an evaluation. These include, justifying government activity (Chapter 3); clarifying policy objectives (Chapter 4), and undertaking options analysis (Chapter 5). This publication is disseminated widely throughout the government and sets a benchmark of evaluation best practice that must be adhered to in all official evaluations of government policy.

The experience of Canada provides another useful example because it sets down a standard governance framework for the conduct of programme evaluations. Importantly, it allocates responsibility for evaluation to the line ministry, rather than either the central ministries or executive agencies.

Briefly, in 2009 the Government of Canada introduced a cabinet approved policy on evaluation in government with application to all departments. The stated objectives of this policy are to "create a comprehensive and reliable base of evaluation evidence that is used to support policy and programme improvement, expenditure management, Cabinet decision making, and public reporting" (Government of Canada, 2009: Section 5.1). The policy identifies the (permanent) head of each line ministry as responsible for establishing a "robust, neutral evaluation function in their department". To this end, each department must create a Departmental Evaluation Committee of senior officials which is chaired by the "deputy head or senior level designate". The deputy head must ensure that the evaluation committee has "full access to information and documentation needed or requested to fulfil their responsibilities... and that sufficient performance information is available to effectively support the evaluation of programmes."

Feasibility of the reform

The recommendation to develop and publish a set of government wide evaluation standards is relatively straight forward and has generic applicability. Methodologically, the standards set down in the UK Green Book adhere to the fundaments of good qualitative and quantitative analysis, and the publication explains the linkages between the objectives of an evaluation and the choice of approach or methodology. It can therefore serve as a useful starting point from which countries can develop a similar publication. Countries may also find it useful to develop a suite of on-line tutorials or similar educational tools as a secondary resource which provides detailed instruction in the application of each methodology. Responsibility for developing these guidelines could be assigned to experts in the Ministry of Finance, to a special purpose expert working group, or to educators with recognised expertise in the field of policy evaluation. The publication should be disseminated throughout the core ministries and on-line.

The challenge in implementing this reform is to ensure the rigorous application of these standards whenever line ministries undertake policy evaluation. Both the UK and Canada have budgetary rules requiring all proposals for policy expansion be supported by evaluations that adhere to these standards, and Canada requires all evaluations be submitted to Cabinet and made publically available. More importantly, all line ministries in Canada must now appoint a Head of Evaluation to oversee and guarantee the quality of evaluations conducted within the ministry. In doing so, evaluation is recognised as a discrete activity in policy development that requires professional skills and adequate funding.

Finally, evaluation standards should discuss the importance of linking evaluation findings and the policy development work conducted in the line ministries. Throughout this study interviewees from both ministries and those responsible for conducting evaluation expressed their frustration about the limited use of policy evaluations in policy development. Policy officials from the ministries repeatedly highlighted their difficulties in shaping the programme of policy evaluation or in getting access to evaluation findings that were timely, relevant and applicable. Conversely, many evaluators raised the need to balance the need for independence when conducting evaluations with the demand to ensure that evaluation topics and findings were relevant to policy makers. The Canadian experience suggests that line ministries should establish a whole of ministry evaluation committee that is chaired by the most senior civil servant in the line ministry and including the heads of policy development and key executive agencies.

Canada’s experience also suggests that countries should be wary of establishing an overly prescriptive forward agenda or cycle of evaluation. The policy in Canada states that line ministries should ensure that all major programmes are evaluated over a 5-year cycle. In practice, this has often led to "compliance" evaluations or to blocking strategies by officials responsible for policies and executive programme managers. A similar experience occurred in Australia under the Portfolio Evaluation Programme in the early 1990s. To overcome these problems, it is important to ensure that the policies to be evaluated are selected on a “needs” basis. There should also be significant input on the selection of programmes or topics from the line minister.

Reform 3.6. Whole of government standards for Regulatory Impact Analysis and for Cost-Benefit Analysis

Characteristics of the reform

This reform consists of establishing whole of government standards for the conduct of regulatory impact analysis (RIA) and cost benefit analysis (CBA) to strengthen policy development capacity. These standards should establish both technical competencies and procedural requirements for undertaking RIA and CBA in relation to the development of proposals for new regulatory and infrastructure policies. [4]

Primary responsibility for planning, conducting or commissioning both RIA and CBA should lie with line ministries as the key actors in policy development. These analytical techniques should be recognised as a core skill of policy development and therefore technical training should be provided as part of the professional development for policy officers within line ministries.

A specialist unit located in the ministry responsible for the business sector (usually the Ministry of Economic Affairs) should provide expert technical advice, procedural oversight and government-wide co-ordination. Experience of countries participating in this study suggests this unit should be a professional centre of analytical excellence within government.

Where did it occur?

This reform focuses on ensuring the government operates with a common set of professional standards and those standards are applied in practice as part of the policy development procedures within line ministries and across government. All countries participating in this study report centrally mandated requirements for undertaking CBA and RIA as part of new policy development, and most standards are informed by the best practice principles set down by the OECD.

This reform draws on the recent experience of Australia in reforming their processes for Regulatory Impact Analysis and Cost Benefit Analysis as an example of how to ensure analytical techniques are applied during policy development and on how the whole of government oversight and technical support can be organised.

Analysis

The need for adopting government wide standards for RIA and CBA in policy development

The essence of this reform is that governments should adopt appropriate specific techniques when analysing the social costs and benefits of policies that have major impacts on the private sector of the economy. The need to adopt sophisticated analytical tools holds in relation to the development of new policies and programmes, and when evaluating the continued appropriateness of existing programmes.

It is standard practice in all OECD countries that new policy initiatives that have fiscal impacts, either on the expenditure or the revenue side of the budget, can only be tabled for government decision-making, if the proposals are accompanied by a fiscal impact table. This applies to policy initiatives that are implemented by regulations, including regulations concerning financial instruments such as grants, subsidies and social benefits, as well as to initiatives that do not require regulations, such as infrastructure projects. Moreover, in countries using and expenditure framework (see Reform 3.7), new initiatives can only be tabled if the line ministry has reached agreement with the Ministry of Finance that the fiscal impacts can be accommodated within existing expenditure ceilings, either because the ceilings were established in a way that anticipated the new policy initiative, or because the line ministry has made room for the initiative under its ceiling by offering compensation.

However, these practices do not cover impacts on the private sector of the economy. Obviously these impacts have to be assessed *ex ante* in the documentation of the new policy initiative, but for initiatives with major impacts, this is perceived as not enough. For this reason many OECD countries have developed special *ex ante* assessment tools that aim to provide objective information on impacts on the private sector, in particular Regulatory Impact Analysis (RIA) and Cost-Benefit Analysis (CBA).

There is a vast literature on both the technical and practical challenges of these tools. This literature is not repeated here but it is useful to mention three key explanations why instruments with major impacts on the private sector require particular attention in *ex ante* assessment.

First, the costs of programmes with impacts on the private sector are difficult to fully capture using traditional models of policy analysis. Put simply, the costs of regulatory policies are defrayed between governments, individuals, organisations or communities required to comply with the regulation. The latter costs include the administrative costs of regulatory compliance, and the costs of economic or behavioural restrictions imposed in the regulations. Measuring the full cost of infrastructure programmes is similarly complicated by the need to capture expenses which run over many years through multiple project stages, including planning, financing, construction, operation and maintenance.

Second, capturing and measuring the full benefits of regulatory and infrastructure programmes are also complicated by the fact they are typically used to produce collective goods diffused across society, or only achieved over a relatively long timeframe. In the aftermath of the Global Financial Crisis for example, governments are placing a renewed emphasis on the value of government regulation as “one of the key levers by which governments act to promote economic prosperity, enhance welfare and pursue the public interest” (OECD, 2012c).

Third, together these analytic challenges complicate the process of analysing the full impact of regulatory and infrastructure policy instruments both independently, and in comparison to other instruments. This has resulted in concerns about a bias in favour of regulatory instruments and an oversupply of government infrastructure. For example, international history in relation to regulatory development shows a rapid increase in regulatory costs being sustained over several decades. The OECD found in 2002 that every available indicator and study show that regulation continues to be one of the most widely used tools of government, and that its use is rapidly increasing (OECD, 2002:22). Concerns about the cumulative impact of government regulation on society and the economy have seen some government adopt policies designed to limit regulatory costs, whether in specific areas or as a global total. Some countries have developed “regulatory budgeting” provisions which set a specific target in relation to total regulatory costs; others have adopted a “one in, one out" approach.

This reform addresses concerns over the quality and quantity of regulatory and infrastructure policies by ensuring that governments are able to apply the most rigorous analytic and procedural standards whether developing new policies or evaluating existing ones with major impacts on the private sector. In this regard the 2012 recommendations of the OECD Council on Regulatory Policy and Governance sets the standard:

"…an explicit whole-of-government policy for regulatory quality. The policy should have clear objectives and frameworks for implementation to ensure that, if regulation is used, the economic, social and environmental benefits justify the costs, the distributional effects are considered and the net benefits are maximised". (OECD, 2012c:2).

At a minimum this will require governments to (a) establish whole of government standards for the conduct of RIA and CBA to be applied rigorously and appropriately during the development of new policy proposals; (b) create a specialist unit with responsibility for building and maintaining the technical skills of policy development officials in line ministries, and co-ordination and oversight of RIA and CBA across government. The feasibility and prerequisites of each recommendation are addressed below.

Establish government wide standards for RIA and CBA in new policy development

All countries participating in the Value for Money study reported some requirements for conducting RIA or CBA as part of the new policy development. There was, however, wide variation in terms of the technical and procedural requirements embedded in these standards, the rigor and breadth of application, and the extent to which common standards have been established across government. In terms of the latter, many countries state that these analyses *should* occur and left line ministries to decide how and when. This results in duplicated effort, disparity of capacity and application, and an array of slight variations in the techniques adopted across government undermining the technical comparability of new policy proposals. Governments should overcome these problems by developing a simple and easily accessible handbook explaining how and when CBA and RAI should be used during the policy development process, and establishing this as a prerequisite for the submission of a proposal for government approval.

The first component of the reform is to develop and publish government wide standards on both CBA and on RIA with generic applicability. Methodologically, the RIA standards set down in the Australian Government's Regulatory Best Practice Handbook were recently reviewed and found to be "entirely consistent with OECD Principles for implementing best practice regulation". The Canadian Cost Benefit Analysis Guide (2007) provides an overview of the need for and application of CBA in relation to regulatory policy. These publications can serve as useful starting points from which countries can develop a similar publication.

Special attention should be given to the relation between RIA and CBA. The latter tool is mostly applied to infrastructure projects, but CBA is in principle applicable to any policy instrument, including regulations. For instance CBAs have successfully been applied to such initiatives as road pricing and environmental legislation. Standards should include criteria for the applicability of both tools. Since CBA aims at monetary valuation of costs and benefits, while recognising the existence of factors than cannot be monetised, the criteria should specify the suitability of CBA in the light of the relative weights of the factors that can be valued in monetary terms versus those that cannot.

Interlocutors in the countries participating in the study mentioned time and again that good technical skills cannot be developed simply by reference to a handbook and therefore governments should consider developing a suite of on-line tutorials or similar educational tools as a secondary resource which provides detailed instruction in the application of each methodology. Responsibility for developing these guidelines could be assigned to an oversight unit located under the ministry that is responsible for the business sector (usually the Ministry of Economic Affairs). The publication should be disseminated throughout the core ministries and on-line.

The challenge in implementing this reform is to ensure the rigorous application of the standards whenever line ministries move to develop options for new policy proposals with major impacts on the private sector. To this end, Australia has rules that require all proposals for new policies or policy expansion that require certain criteria related to the impact on the private sector must be provided with a regulatory impact statement (on the basis of a RIA).

Secondly, the government wide standards should position RIA and CBA as part of the broader policy development work conducted in the line ministries.

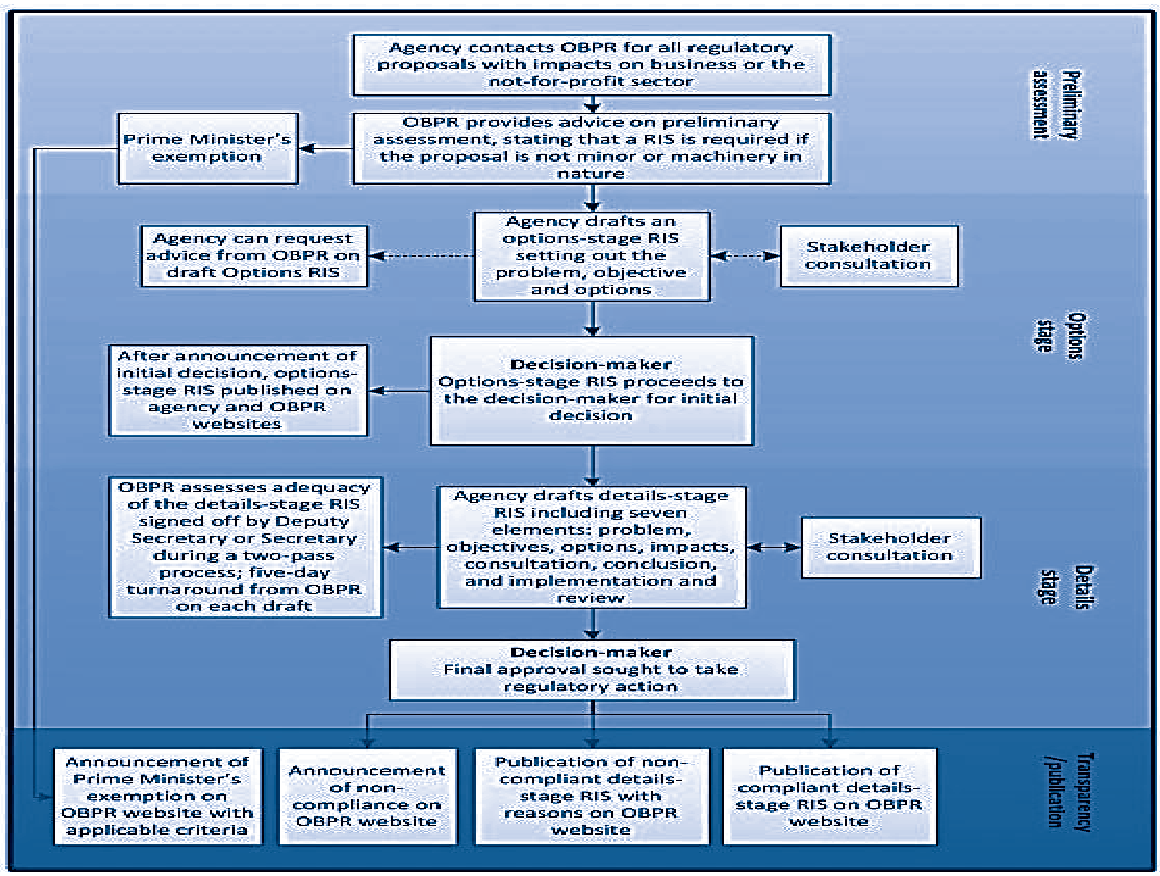
For this purpose it is important that in the first stage of every policy development process, the line ministry decides on the basis of criteria specified in the government wide standards whether the policy initiative requires special *ex ante* assessment procedures. This may concern RIA or CBA, but also an ICT gateway procedure (see Reform 9.3). If uncertain of the appropriate methodologies, line ministries can consult with the central unit tasked with government-wide oversight and technical support. If the criteria apply, the line ministry orders a RIA or CBA to be carried out, sometimes preceded by a options-stage RIA or CBA, if the policy initiative allows alternative options for the policy mix. In the Australian case the Prime Minister may grant exemption in special cases of political expediency.

It is common practice that line ministries out-source RIA or CBA to a reputable consulting agent to ensure both technical expertise and impartiality. Once the RIA or CBA is undertaken, however, it is the responsibility of the line ministry to decide whether the policy proposal has to be submitted to the Government.

In the case of infrastructure projects, the CBA requirement is independent from the sectoral planning process. In most OECD countries, there is a long and medium-term planning process of infrastructure investment in place. These plans are often annually updated and submitted to Parliament. However, it is important that no irreversible decisions are taken on these plans before the separate projects are submitted for implementation to the Government. CBO's must be carried out at the occasion of the final decision on implementation, since economic, demographical, social and environmental circumstances are permanently changing and it is important that CBAs take into account the most recent information that affect social costs and benefits.

Once the RIA or CBA is completed it should be submitted for quality control to the oversight unit. The unit may make comments that should be part of the documentation that goes to the Government at the occasion of final decision-making. Figure 3.3 provides an overview of the Australian procedure for RIA's that illustrates the various stages of the assessment process. The Australian procedure does not apply to CBAs. However, there are strong arguments to apply a single procedure for RIAs and CBA's. First the tools are quite similar and a single procedure avoids overlap and makes it possible to co-ordinate the use of both tools. Second, using a single procedure for both forms of assessment is efficient and makes it even possible to realise savings if in a country both procedures are currently organised separately. Note that the process is divided between preliminary, options and details stages in which the analytical requirements are increasingly sophisticated.

Figure 3.3. The RIA process in Australia



Co-ordination and steering by an oversight unit

Many OECD countries have in recent years established regulatory oversight units (OECD, 2011). Their tasks may include:

- Consulting with line ministries during development of new regulations;
- Reporting on regulatory reform by line ministries;
- Reviewing of, and commenting on RIAs of line ministries;
- Conducting RIAs of inter-ministerial regulations.

Establishing a single unit for these purposes may avoid a fragmented approach to regulatory oversight as sometimes exists in countries without a single specialist authority. The unit should consist of specialists in regulatory policy, possibly supported by a committee of officials from the legal affairs divisions of line ministries. The unit would have a technical role and should not interfere with the substantive merits of new regulation. Since the unit is per definition tasked with the review of CBAs of new regulations, it seems logical and efficient that oversight on the application of CBAs in general is entrusted to the unit (also if it concerns the CBA of other policy proposals than regulations).

Countries are divided on the question of where to locate this specialist unit, although it is invariably located in an economic focused ministry. For examples, the specialist unit is located in the Ministry of Economic Affairs in the Netherlands, in the Treasury Board Secretariat in Canada, and in the Treasury in the UK. In Australia, responsibility for the regulatory framework is split between units in two ministries: the Productivity Commission (an agency of Treasury) establishes regulatory policy and undertakes policy focused regulatory reviews as mandated by the cabinet. In contrast, the Office of Best Practice Regulation (Ministry of Finance) implements the system by providing oversight, co-ordination and specialist advice to line ministries (see Box 3.1).

Box 3.1. The Office of Best Practice Regulation

The OBPR plays a central role in helping Australian Government departments and agencies to meet the government's requirements for best practice regulatory impact analysis, and in monitoring and reporting on their performance. The OBPR promotes the Australian Government's objective of effective and efficient legislation and regulations. Its functions include:

- Advising agencies on whether a Regulation Impact Statement (RIS) is required;
- Examining details-stage RIS and providing comments to agencies
- Examining details-stage RIS and advising decisions-makers whether the statements are adequate in terms of the government's best practice requirements
- Advising agencies on assessing business compliance costs and maintaining the Business Cost Calculator as a regulation costing tool
- Providing training and guidance on RIS
- Providing technical assistance on CBA and consultation.

Evaluation and reduction of regulatory burdens of existing regulation

Evaluation of existing regulation is not a form of *ex ante* assessment. However, there are connections with RIA which need consideration.

RIAs look at proposals for new regulation. Since they are a relatively recent phenomenon, it is not ensured that existing regulation would have passed the scrutiny of RIAs when it was established. Moreover, economic, social, demographical and environmental circumstances have changed over recent decades, and it is not sure that existing regulation would currently pass the scrutiny of a RIA even if it would have done so in the past. For this reason many governments have undertaken operations to evaluate existing regulations.

It is important to distinguish between two kinds of *ex post* evaluation of regulations. The first is aimed at effectiveness and efficiency, the second at regulatory burdens for businesses, citizens and private and public service delivery institutions.

For evaluation of the efficiency and effectiveness of existing regulation no special arrangement is necessary. This is fully covered by the general arrangement for policy evaluation (Reform 3.5). A single, general approach has the advantage that the regulatory instrument can be more easily compared with other policy instruments such as subsidies, tax instruments, and the delivery of services in kind.

The second mode of *ex post* regulatory evaluation requires a more top-down approach, as line ministers have little incentives for the reduction of regulatory burdens and are rarely held accountable by Parliament for their efforts in this respect. This situation is somewhat comparable to that of budgetary policy, where ministers have little incentives for developing good savings proposals. This implies that special procedural requirements, comparable to those of spending reviews (see Reform 7.6 in Chapter 7) should be put in place to generate such proposals. Such requirements should insure that the line ministries can bring their expertise and take part in the development of proposals to reduce regulatory burdens, but cannot dominate the process or veto the proposals of other ministries or external experts.

However, there is no full analogy with budgetary policy, since in the case of regulatory burdens there can be no trade-off between regulatory instruments and there is no permanent need to weigh the costs of existing policy against new policy and tax relief. For this reason operations to reduce regulatory burdens have generally been set up as one-off operations (see Reform 7.6).

A one-off regulatory review focused on evaluating the cumulative impact of regulatory stock should be conducted within a limited period of some five years and not much longer on penalty of losing impetus and effectiveness. A temporary arrangement could be set up under the supervision of the regulatory oversight unit. The temporary arrangement should be set up in a similar way as spending review procedures (inter-ministerial working parties, independent chairmen, secretariat with oversight ministry, external experts, public reports, etc.). The measurement of regulatory burdens should follow a pragmatic approach. For administrative burdens the standard cost model (endorsed by the OECD) can be used. Compliance costs should be estimated by use of robust, approximate estimation methods. No attempts should be made to estimate benefits The recommendations for the conduct of regulatory review published by the OECD in 2012 suggests *a "whole-of-government" approach to regulatory reform, with emphasis on the importance of consultation, co-ordination, communication and* co-operation *to address the challenges posed by the inter-connectedness of sectors and economies* (OECD, 2012c).

Feasibility of the reform

Most OECD countries have in recent years implemented reforms aimed at various forms of *ex ante* analysis. However, the approach to these reforms is often fragmented and leads to overlapping procedures and inefficient organisational structures. In addition the compliance with these procedures is not always ensured, often because the urgency of policy initiatives makes it politically impossible to apply these procedures according to the standards that were set for them. It is therefore important that counties focus on simplification and merging of procedures, avoiding overlap and fragmentation and concentration of oversight in a single unit. Only if procedures are clear and simple, can RIAs and CBAs provide effective scrutiny over policy proposals.

Reform 3.7. A more consistent division of policy responsibilities between central and sub-central governments

Characteristics of the reform

This reform consists of revising the distribution of policy tasks between levels of government to ensure greater coherence and reduce unnecessary overlap within each policy area. This will strengthen policy development capacities within each policy area, and provide a substantial reduction in earmarked grants and associated supervisory administration from central government. Decentralisation of tasks should not be made conditional on amalgamation of subnational governments. This reform is contingent on existing constitutional and governance arrangements and should proceed from a review of existing arrangements in which coherence within each policy area should be the prime assessment criterion.

Where did it occur?

Efforts to clarify and streamline the distribution of policy responsibilities across levels of government are an ongoing objective of government and constitutional reform in many countries participating in this study. Specifically, this reform draws on experiences from the Netherlands, Australia, Canada and the United Kingdom. These countries represent different constitutional arrangements (federal and unitary systems), administrative histories and cultures, and offer different approaches.

Analysis

Problems caused by current task divisions

The overall division of policy responsibilities between central and subnational governments in countries participating in the study is patterned by the combination of constitutional, political, financial and practical histories. Rarely is the distribution of policy tasks over levels of government designed according to a single set of principles and then frozen in time. Nor is the distribution of policy tasks similar across different countries. For example, in Australia, Canada, Spain and the US responsibility for developing and delivering policy in the areas of health, education and transport is divided across two, sometimes three levels of government. In the UK, Sweden and Denmark these policy areas are divided between central and local government. In the Netherlands responsibility for social security and welfare programmes is divided between central and local governments, whereas in Australia the national government has singular responsibility for this policy area. As a consequence there is significant variability and complexity in the prevailing distribution of policy tasks within and between countries participating in the study,

Mechanisms designed to manage policy fragmentation and inconsistency, add to the complexity of governance and are often sub-optimal from a budgetary and administrative perspective. Unclear task assignment between levels of government are likely to reduce the capacity for cohesive policy development within a policy area, and are likely to increase competition between policy advisers and distance policy deliverers from the processes of policy development (see Reform 3.4). Separating responsibility for policy design and implementation from revenue raising and funding is likely to encourage free-riding and cost-shifting within a policy area, and consequently create difficulties in managing public finance and budget ill-discipline. The mechanisms designed to ensure policy coherence across different levels of government often create a complex web of intergovernmental administrative controls. Taken together, these factors create policy development arrangements that are unnecessarily complex, overlapping and fractured (see Reform 3.4).

Aims of the reform

Consolidating responsibility for policy development within a single level of government aims to strengthen policy effectiveness. Furthermore, in reducing overlap and duplication of purpose across levels of government the reform will improve efficiency within each policy sphere. The reform will also contribute to efficiency by simplifying funding arrangements. In particular, the reform will make it possible to eliminate earmarked grants and the administrative oversight arrangements typically accompanying such grants and replace them by simpler financing instruments such as tax sharing and general purpose and block grants.[5] In sum, establishing a more logical and transparent separation of tasks between central and regional governments, this reform has the potential to deliver significant value for money savings across the government sector, while also enhancing policy capacity.

Two roads toward reform

Reforming the division of policy responsibilities among levels of government can follow two roads: pragmatic or normative. A pragmatic approach aims to improve the existing distribution of policy responsibilities among levels of government by making it more logical and coherent. This approach will be accompanied by a clean-up operation in the area of earmarked grants and administrative arrangements in policy areas where more government levels are now involved. The second, more normative, approach to restructuring policy responsibilities aims at a more fundamental review that develops options for the transfer of policy tasks from central to local government in areas that are now exclusively the domain of the central government, or vice versa.

Recent reform efforts in the Netherlands provide an example of the first approach. A spending review conducted in 2010 developed an option for the transfer of policy tasks in the areas of social services, enduring care and youth care to local government. In contrast "cure" should remain a task of central government. The areas of spatial and economic policy should be concentrated at the provincial level. This option drew confidence from the success of previous reforms where decentralising social assistance[6] led to savings in the order of 25% of the costs. Further decentralisation along this line was proposed by the Spending Review 2010 "Long-Term Care" (Government of the Netherlands, 2010b).

This approach is likely to retain some degree of fragmentation and incoherence within policy areas, which may limit some of the possible benefits for policy development. For example, Australia's recent efforts to reform health policy have been hampered by the fact that responsibility for primary care (essentially hospitals) lies with state governments, while community care (health rebates) and pharmaceuticals lies with the national government. Repeated efforts to develop a coherent national agenda for health reform have been hampered by the division of responsibilities within this policy area.

In the second approach to reform, the direction of change – centralise or decentralise – will be determined largely by the theoretical framework underpinning the review. So, for example reviews informed by the subsidiarity principle will say that tasks should be attributed to the level closest to citizens and, in view of varying preference patterns, the optimum level for allocation. In most countries this is likely to translate into a programme of decentralisation in most areas of social policy including health, education and transport. The central government is likely to retain responsibility for international trade, defence, and customs for example.

The UK government adopted a normative approach when restructuring policy responsibility with a philosophical agenda dubbed "localism". Under these reforms, all departments of central government were required to devolve the "power and finances of government to local government, public service professionals and communities" (UK Government, 2010: see Box 3.2).

Box 3.2. Localism in the UK

The UK government introduced legislation setting out a general policy of decentralisation to be implemented through six "essential actions" (UK Government, 2010:2-3)

Six essential steps for implementing "new localism"

1. **Lift the burden of bureaucracy**: The first thing that government should do is to stop stopping people from building the Big Society.
2. **Empower communities to do things their way**: Getting out of the way is not enough. Government must get behind the right of every community to take action.
3. **Increase local control of public finance**: Government must will the means, as well as the ends, of community power.
4. **Diversify the supply of public services**: Local control over local spending requires a choice of public service providers.
5. **Open up government to public scrutiny**: Public service providers should be subject to transparency not bureaucracy.
6. **Strengthen accountability to local people**: Public services shouldn't just be open to scrutiny, but also subject to the individual and collective choices of active citizens.

The specific reforms were based on reviews undertaken by the relevant department of central government.

A progress report conducted in December 2012 shows that progress toward decentralisation differs considerably between departments (UK Government, 2012). Of the twelve departments rated out of 5 stars, two received 4 stars, eight received 3 stars, and two departments were allocated just 2 stars. The report findings suggest a key indicator of successful decentralisation is whether or not public institutions currently exist in that policy area so that policy and funding responsibilities can be easily (and legally) devolved. So, the Departments of Local Government and Education which were judged as most successful reformers were able to devolve policy responsibilities relatively simply to councils and schools respectively. In contrast the department of sports and recreation had to work with a plethora of government, private and community organisations, many of whom were competing among each other and lacked basic governance structures.

Source: UK Government (2010, 2012)

Decentralisation conditional on amalgamation?

More cohesion in task assignment will often imply more decentralisation, because tasks that are now mostly carried out at a sub-central level of government will henceforth be entirely carried out a the sub-central level. However, there is a strong feeling in many countries participating in the Value for Money study that decentralisation of policy responsibilities should be conditional on reducing the number of sub-central governments at the level of state and local government. There are also more theoretical arguments that lend support to the view that decentralisation should only be considered when sub-central governments are large enough. If local governments are small (particularly in geographical size), citizens and businesses may shop around to neighbouring jurisdictions to get better services at no costs to them. Similarly, small governments may not be able to realise economies of scale in service delivery, which may also affect service quality. However, these arguments are subject to debate. If both suburban and metropolitan jurisdictions resist centralisation and amalgamation, it is hard to argue for such policies on the basis of external effects. Similarly, a sub-optimal scale of service delivery makes citizens and businesses suffer (from high taxes, or savings on other services). Again, if citizens nevertheless resist centralisation and amalgamation, it is hard to argue for such policies on the basis of economies of scale. Apparently citizens are willing to pay a price for decentralisation and the maintenance of their existing jurisdictions and particularly for keeping them small and relatively responsive to citizens' concerns.

It can be observed among OECD member countries that there are different political cultures regarding amalgamation. In some countries, the basic attitude is that it is up to the citizens and their existing local councils to decide about amalgamation. This is the prevailing attitude in Mediterranean countries such as France, Italy and Spain. These countries are often characterised by a lively local democracy and directly elected mayors or governors. In northern Europe and in Australia, decisions on amalgamation of local government are seen more as a concern of the central and state governments respectively. In these countries the experience with amalgamation operations is mixed. In Denmark, a far-reaching government-led amalgamation operation for municipalities was successfully completed in 2007. This operation reduced the number of municipalities from 271 to 91 and the number of regions from 13 to 5. The Netherlands has a long history of failed amalgamation operations. Recently it was proposed to reduce the number of municipalities from 430 to 100-150 or even to 25-30, and the number of provinces from 12 to 5-8 or even to 0 (Government of the Netherlands, 2010a). The current cabinet has adopted a more modest proposal in its government programme, but the chance that this will be adopted is decreasing.

Overall the experience of countries participating in the study suggests that policy decentralisation need not be conditional on amalgamation. If small municipalities or historical provinces or regions cannot fulfil decentralised tasks as efficiently or as well as larger units do, the drive for amalgamation will automatically come from below. Jurisdictions will seek regional co-operation or will decide to amalgamate on their own initiative. Alternatively, citizens of these governments will need to pay for a sub-optimal scale, or accept a lower service level. The fact that some municipalities and some provinces/regions are not believed to have the right scale for being entrusted with tasks now performed at the national level is not always a good reason to refrain from decentralisation. What matters is whether municipalities, provinces and regions 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.

Feasibility

Existing policy arrangements, constitutional limits and political coherence within each country and each policy area will determine the feasibility and impact of this reform.

Experience from countries participating in the study points to two major issues that must be resolved when undertaking reforms to clarify the distribution of policy responsibilities between levels of government. First, the overall road or approach to consolidation or decentralisation must be decided: should the programme of reform be built around a pragmatic "clean up" of existing arrangements, or a more fundamental review driven by normative principles? Second, the question of whether decentralisation of policy responsibilities should be contingent on the amalgamation of local or regional governments must be resolved.

Given that the degree of fragmentation within a policy area differs considerably within and across countries, reform efforts may begin with a scoping review that maps out the current policy, administrative and funding arrangements in each policy area, thereby identifying the policy areas in most conducive to reform.

Notes

1. See, for instance, Advisory Group on Reform of Australian Government Administration (2010).
2. In some countries (e.g., Ireland, and currently in Hungary), the IFI is charged with simply approving or disapproving the official forecasts, but without presenting a forecast of its own.
3. In view of European legislation that requires a national authority to be charged with the assessment task, the Dutch government has recently decided to attribute the assessment task to the Council of State (an existing independent advisory body for the Government). A similar consideration in Sweden has led to the establishment of the Fiscal Policy Council apart from the existing National Institute of Economic Research.
4. This reform focuses on using RIA and CBA to strengthen policy development rather than as a means of achieving a specific policy objective of reducing regulation in favour of other policy instruments. These issues are partly addressed in previous reforms of this chapter and more extensively by the Recommendation of the OECD Council on Regulatory Policy and Governance adopted by the Council of the OECD (2012c). For technical advice on the conduct of RIA and current best practice principles we refer readers to the OECD Guiding Principles for Regulatory Quality and Performance which are designed to "provide guidance to member countries to improve regulatory policies and tools, strengthen market openness and competition and reduce regulatory burden". For the practice within individual countries we refer to the regulatory reviews undertaken by the OECD and found at www.oecd.org/gov/regulatory-policy/49990817.pdf
5. A block grant is a grant intended for a limited number of purposes, which is not earmarked (and thus can be used for other purposes).
6. These are social security benefits for unemployed people who are not eligible for other social security benefits.

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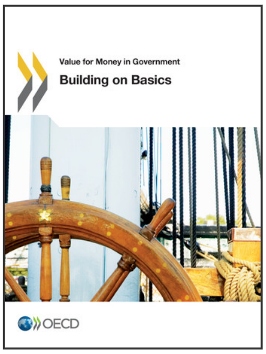

From:
Building on Basics

Access the complete publication at:
https://doi.org/10.1787/9789264235052-en

Please cite this chapter as:

OECD (2015), "Policy development", in *Building on Basics*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264235052-5-en