

Chapter 4

Policy execution

This chapter presents reforms in the area of policy execution. The organisation of policy execution is very diverse. There is little similarity across countries. Within countries the organisational pattern tends to be rather unsystematic. The analysis in this chapter is based on two distinctions between organisations inside central government: 1) between the State and other organisations with legal personality (private and public non-profit organisations), and 2) between core ministries, arm's length agencies and independent agencies. These distinctions are recognisable in all countries participating in the study, but strict criteria for the use of the various organisational forms are often lacking or are not systematically applied.

A more systematic approach could potentially lead to large savings. This chapter presents four reforms that aim to ensure a more consistent task assignment to arm's length agencies, independent agencies and private non-profit institutions. Another reform concerns the merger and co-operation of executive agencies with similar tasks. Finally one reform looks at the foreign service as an executive organisation with special characteristics.

Introduction

What is policy execution?

This study is based on the distinction between four tasks of government:

- policy development;
- policy execution;
- administrative regulation and supervision;
- provision of support services.

This chapter is devoted to policy execution. Since the distinction between the tasks is sometimes subtle, some further explanation on the demarcation of policy execution is in order.

Governments execute their policies making use of three policy instruments¹:

1. financial instruments;
2. regulation;
3. service delivery in kind.

Financial instruments at the revenue side are taxes². Taxes can flow into the general fund or into special funds earmarked for the financing of specific expenditures. They can be imposed with the sole purpose of financing expenditures or with the additional purpose of constraining consumption of certain goods (regulatory taxes). Financial instruments at the expenditure side include grants, subsidies and social benefits. Grants are transfers to legal persons outside the State (international organisations, sub-national governments, private corporations, public non-profit institutions). Subsidies are transfers to legal persons outside the state that affect the price of goods sold in private markets. They typically cover less than 50% of the costs (otherwise they would be grants). Social benefits are transfers to family households in virtue of social security legislation.

Regulations put direct constraints on the purchase or sale of goods in the market. They can be implemented in law (acts of the legislature) or in by-laws (acts of the government or the minister). In some cases regulation can be issued by administrative regulatory authorities (administrative regulation).

Service delivery in kind consists in the provision of goods. They can be collective goods (infrastructure, army, police, penitentiary institutions, etc.) which are available to the citizenry as a whole, or individual goods (education, health, social and cultural services). If they are individual goods, they are made available free or at prices that cover less than 50% of the costs. The government may also engage in commercial production via state owned enterprises (SOE), but this is not a government task in the sense of this study (and the financial flows concerned are in the national accounts not recorded in the general government sector, but in the corporate sector).

In order to implement these instruments the government needs executive organisations. As far as financial instruments are concerned, taxes need to be assessed in individual cases. For the general fund taxes, this task is performed by the tax service. For certain earmarked taxes, separate organisations may exist to perform these assessments.

Grants, subsidies and social benefits need to be awarded in individual cases. This involves eligibility testing. These tasks can be attributed to various kinds of government organisations and are seen as executive tasks.

Many regulations attribute authority to government organisations to issue administrative decrees in individual cases, mostly in administrative law, but sometimes also in civil and criminal law. These decrees can have the character of licenses and permits (to do something that otherwise would be prohibited, in general or in a concrete case), concessions (to exploit a government property on a commercial basis), or admissions (recognising somebody in a certain quality, such as a notary or a car-driving school). The issuance of these decrees is considered as policy execution, unless it is attributed to a special administrative regulatory organisation, in which case it is considered as administrative regulation and supervision (see Chapter 5).

The delivery of services in kind, both collective and individual goods, is always considered as policy execution. Consequently, the army, police, the road construction agency, the penitentiary institution, the hospital, the school are seen as executive organisations.

Executive tasks can be divided in administrative service delivery and service delivery in kind. Execution of financial instruments and regulations is considered as administrative service delivery, provision of individual and collective goods in kind is considered as service delivery in kind³.

How is policy execution organised?

Looking at the organisation of policy execution in OECD countries, the most conspicuous feature that comes to the fore is diversity. There is very little similarity in organisational patterns across countries. Some countries have devolved policy execution mostly to special executive organisations, but there is little international comparability between the types of these organisations in terms of their autonomy and legal status. Also the scope of ministerial responsibility with respect to their task performance is widely different between countries.

A second observation is that also within countries the pattern tends to be rather unsystematic. Very few countries have strict criteria for the task attribution to different kinds of organisations and for their legal status. Nevertheless for the purpose of international comparative analysis it is necessary to work with a taxonomy that is applicable to all OECD countries.

For the purpose of the present study, two distinctions in organisations within the central government sector (in the sense of the national accounts⁴) have been made.

The first distinction is that between the State⁵ and the public non-profit institutions. The latter belong to the central government sector in the sense of the national accounts but have their own legal personality and thus do not belong to the State.

The second distinction is that between core ministries, arm's length agencies and independent agencies within the central government. This distinction has been explained in Chapter 2 in connection with employment statistics. Central government employment includes apart from these three types of organisations, also the so-called "High colleges of State". These include the household of the Head of State (royal household, office of the President), the Parliament, the Judicial Branch (the courts⁶) and the Supreme Audit

Institution. The armed forces are considered here as a separate branch of the core ministry of Defence (not an arm's length or independent agency).

These distinctions lead to the following taxonomy of executive organisations.

Table 4.1. Taxonomy of the organisation of central government

Organisations	Administrative or service delivery in kind	Type of task	Some examples*
High colleges of State	Neither administrative nor service delivery in kind	Not split out	Head of State Parliament Judicial Branch Supreme Audit Institution
Core ministries	Administrative	Policy development	Tax policy division
		Policy execution	Tax service
		Administrative supervision and regulation	Education Inspectorate
		Support services	Ministerial support services
	Collective service delivery in kind	Policy execution	Armed forces
	Individual service delivery in kind	Policy execution	Foreign service (consular affairs, trade promotion)
Arm's length agencies	Administrative	Policy execution	Executive Service Education
		Administrative supervision and regulation	Inspection work and Income
		Support services	Work agency (shared service centre)
	Collective service delivery in kind	Policy execution	Infrastructure agency
	Individual service delivery in kind	Policy execution	Centre for the Promotion of Import from Development Countries
Independent agencies without legal personality	Administrative	Policy execution	Electoral council
		Administrative supervision and regulation	Competition authority
Independent agencies with legal personality (public non-profit institutions)	Administrative	Policy execution	Social Benefit Administration
	Individual service delivery in kind	Policy execution	Universities, museums, etc.

Note: * The examples are all from the Netherlands.

Some observations regarding this taxonomy are necessary:

- Many OECD countries have not systematically devolved all policy execution to agencies implying that administrative policy execution is often still in the core ministry (the tax service for instance). Also, supervisory and regulatory authorities, including inspectorates, are often still in the core ministry. Support services are always for a large part in the core ministries, even in those countries that have more or less systematically devolved policy execution, in particular the support services for the ministry as a whole (shared service centres are often devolved to agencies). Furthermore, the armed forces are never devolved. Individual service delivery by core ministries has become scarce, but there are still examples (see Table 4.1).
- Arm’s length agencies do not exist in all countries, but if they do exist, they are typically not tasked with policy development, but rather with policy execution (administrative and collective service delivery), administrative policy supervision and regulation and support services. Arm’s length agencies tasked with individual service delivery are scarce. A Dutch example is the Centre for the Promotion of Import from Developing Countries under the Ministry of Foreign Affairs that supports businesses from these countries to expand their exports to the EU.
- Independent agencies without legal personality are typically tasked with administrative policy execution (for instance the electoral council) or with administrative regulation and supervision (for instance the competition authority). The boundary line with independent agencies with legal personality (which are public non-profit institutions) is fluid. The attribution of legal personality is very unsystematic in most OECD countries.
- Concerning public non-profit institutions, the essential dividing line is between a) administrative agencies, of which there are many examples in most countries, for instance “Executive Non-Departmental Public Bodies” in the UK, the “State Operators” (“*Opérateurs d’État*”) in France and many of the “Autonomous Organs of Administration” (“*Zelfstandige Bestuursorganen*”) in the Netherlands); and b) suppliers of the services in kind (for instance universities, hospitals and providers of social services). It should be emphasised that all these organisations are considered as belonging to central (and general) government, meaning that they are controlled and financed more than 50% by government. If financing is organised in a different way, for instance through health care insurance institutions, they may belong to the corporate sector and are not considered as general government organisations.

The trend of recent reforms

In many OECD countries the picture of organisations in central government outside the core ministries is complicated. They have different legal statuses and different degrees of autonomy. Sometimes they have legal personality, sometimes not. Often there are no clear criteria for the attribution of a certain legal status or of legal personality. This is also true for the countries included in this study. However, a few countries have started to remedy this state of affairs and are trying to bring more order in the picture. In view of vested interests it is usually easier to apply criteria to new organisations than to change the status of existing organisations. The UK has put up criteria for the different kinds of organisations, building forth on the existing pattern, but has not yet fully applied these

criteria to existing organisation. France has carried out studies of the existing pattern of organisations and has embarked on an operation to bring more order in the pattern. The Netherlands has made various attempts to bring more order, but these attempts have partly failed.

In spite of these mixed experiences, countries are generally aware that reforms in this area are important and can potentially lead to large savings. The most common problems are:

- Policy execution has not been systematically devolved to arm's length agencies, much execution remains in the core ministry;
- There are no strict criteria for independent agencies; although independent agencies are not protected against government interference in cost control (only in their executive policies), in practice there is often less scrutiny;
- There are no strict criteria for attribution of legal personality. As a consequence many administrative authorities have the status of public non-profit institutions (outside the State). This has consequences for the financing of these authorities, cost control and the applicability of standards of operational management that apply to State agencies;
- There are no strict criteria or clear policies on the attribution of service delivery (both collective and individual) over agencies, public non-profit institutions and private non-profit institutions.

This chapter describes a number of reforms that have taken place in several countries included in the study, in order to remedy these problems. Reforms in these areas can lead to substantial savings, since they often lead to stricter cost control and less opportunities to escape scrutiny by core ministries. Countries that have been active in this area include Australia, Denmark, France, the Netherlands, and the UK. Sweden is a special case because of the traditional split between core ministries and agencies that has existed in that country for centuries. Other countries have often refrained from looking at Sweden because the Swedish arrangements were thought too exceptional and too different from the national organisational pattern. It will be argued in this chapter that this view is too simple. Now that many countries have devolved policy execution to arm's length agencies, the Swedish example has become particularly relevant and inspirational. Sweden has accumulated more experience with arm's length agencies than any other OECD country, and has adjusted its steering and control arrangements over a long period. This should be a reason to pay close attention to Sweden, and the Swedish example figures prominently in this chapter as well as in Chapter 12 on the steering of agencies (although the word "reform" is a bit peculiar in relation to Sweden, as it sometimes concerns arrangements that have been introduced long ago).

This chapter describes 5 reforms. The first concerns the systematic devolution of all kinds of policy execution (administrative services, services in kind) to arm's length agencies. The second concerns the use of arm's length agencies to organise common executive process units that provide services to several ministries. The third concerns the role of independent agencies and looks at the Swedish example for how the risk of diminished cost control and scrutiny can be minimised. The fourth concerns the role of public non-profit institutions in policy execution and looks at the consequences of transferring their tasks to the private non-profit sector. The last reform looks at the particular case of the Foreign Service as an executive organisation. The reason for

considering this particular case is that in countries that have systematically transferred executive tasks to arm's length agencies, the Foreign Service is sometimes the only unit inside a core ministry that still performs individual service delivery, particularly in the area of trade promotion. Arm's length agencies under the Ministry of Foreign Affairs are sometimes also the only arm's length agencies that perform individual service delivery, also in the area of trade promotion (see examples in Table 4.1).

Reform 4.1. Role of arm's length agencies

Characteristics of the reform

The reform consists of devolving all executive tasks of central government to agencies that have their own financial administration. Since the largest share of central government employment is used for the conduct of executive tasks this will lead to a reduction of employment in (core) ministries of up to 95%, compared to a situation in which all executive tasks are conducted by the ministries. Apart from policy execution tasks, arm's length agencies can also be tasked with the provision of support services for the ministry and its agencies, or, as shared service centres, for several ministries or for ministries and local governments.

Where did it occur?

A country that has a long tradition in policy execution by arm's length agencies is Sweden. In that country policy execution has always been separated from policy making, by way of constitutional principle. However, the Swedish example has not been the most important inspiration for the trend of separating policy execution from policy development that started in the UK in the 1980s with the so-called "Next Step agencies". That trend was mostly inspired by the ideas of New Public Management. The UK and other Anglo-Saxon countries always had known administrative authorities on arm's length distance from government, but the new trend envisaged explicitly the separation of execution from policy making across the board by way of principle of public administration. This idea was gradually taken over and explicitly endorsed by a number of OECD countries. In the Netherlands the idea was adopted leading to a gradual devolution of all executive tasks to agencies (the last executive unit still in a ministry being the tax service).

Analysis

Arm's length agencies in the 1990s

The devolution of executive tasks to arm's length agencies was one of the core ideas of New Public Management (see Chapter 1). The main motivation was the aim to introduce incentives in production of public services that would ensure the same level of efficiency and quality of services that are achieved in competitive markets, while maintaining government ownership and control. As it turned out this aim could be endorsed by both right leaning and left leaning governments, as long as it concerned basic public services where government ownership and control was seen as necessary.

The original concepts that inspired first the "Next Step agencies" in the UK, and subsequently the agency movement in many other OECD countries (Australia, New Zealand, the Netherlands, Denmark, Finland) were twofold:

- a results oriented governance model;
- special facilities in operational management (exemptions to the standards applying to core ministries, particular in the area of financial management).

The results oriented governance model was based on the view that executive units were producers of services comparable to private service producers. They could hence be steered in the same way: on the basis of integral cost prices for their services. In this view core ministries were seen as the purchasers of their services in the light of prices and quality (the “provider-purchaser” model). This implied that agencies had to define their services and provide good information about quality. Financing of agencies was conceived in this view as negotiating budgets and performance. Quantity and quality of performance needed to be measured. Financing contracts between core ministries and agencies needed to be stated in terms of budgets and performance indicators. In order to calculate integral cost prices, the financial administration of agencies had to be based on accrual accounting. This would allow the integration of capital costs and depreciation in the cost price of services. Core ministries had to abstain as far as possible from interference in the production process of agencies. This was to be delegated to the agency managers, including decision-making over the input mix (salaries, procurement, operational investment) and including operational management (the use of operational means, in particular financial resources).

Agency managers were made accountable for performance, but they would acquire more freedoms in the area of operational management. In the beginning, there were various kinds of experiments with exemptions to government wide “standards of operational management” (see Chapter 6), particularly in the area of financial management. The most important ones were that agencies were allowed to build up financial reserves, held at the Treasury (unlimited carryover of financial resources) and that they were allowed to borrow from the Treasury. This would allow them to manage their own capital goods, including investment and sale of capital goods. In connection with these facilities the agencies were supposed to use a financial administration based on accrual accounting.

The original view was that gradually all executive tasks of central government would be devolved to agencies. Task transfer to arm’s length and independent agencies together, would lead to a large reduction of administrative employment in the core ministries, in the order of 80-95%⁷. As a consequence the core ministries would become much less important from the point of view of operational expenditures. It was largely accepted that core ministries could not be managed to the same extent as agencies on the basis of performance, but in view of their small scale this would become less problematic. The big efficiency gains had to come from the agencies. This would lead to large savings. In several countries there were attempts to link the devolution of tasks to agencies with savings targets. Executive units that would become agencies were freed from certain standards of operational management under the condition that they would realise efficiency savings. In other countries the link was not so direct, but governments sometimes committed to regularly reporting on efficiency savings in agencies at the request of Parliament or the Supreme Audit Institution. Parliaments were often sceptical about devolution of executive tasks to agencies, for fear of losing authority over agency spending.

The agency movement of the 1990s was hardly influenced by the Swedish example. This is curious because in Sweden the separation of policy preparation from policy

execution is anchored in the constitution for centuries. However, the background of the Swedish model has nothing to do with results oriented governance or with New Public Management. In Sweden the separation between both tasks of government is based on particularly strict interpretation of the rule of law. In this interpretation, the application and interpretation of the law is generally entrusted to the agencies, which have a certain kind of autonomy from the government and which, for their decisions in individual cases, can only be corrected by the Courts. The idea that ministers cannot give instructions to agencies in individual cases was not part of the agency movement of the 1990s, but it is essential for the Swedish model. On the other hand the results oriented steering model, although not part of the Swedish model had an impact on the Swedish practice of agency steering once the agency movement started in the 1990s. Devolution as such was not relevant for Sweden, because it already existed, but results oriented governance and facilities in the sphere of operational management were part of the reforms adopted by Sweden in the 1990s similarly as in other OECD countries.

Implementation of the agency model

United Kingdom

In the UK the agency model was introduced by the Thatcher cabinet following a 1988 review of the Civil Service led by Sir Robin Ibbes under the title “Improving Management in Government: the Next Steps (UK Efficiency Unit, 1988). The aim of the review was to seek recommendations to improve the management and delivery of government services. The government accepted the main recommendations of the review which included disaggregating ministries into distinct agencies to carry out the executive tasks of government, with a greater focus on delivery of services and the attainment of specified results. Agencies would be “semi-detached” from ministries and headed by a Chief Executive with freedom to manage operations in order to meet objectives and targets set by the agency’s parent ministry. Starting with 3 agencies in 1988 the number of agencies increased to 138 in 1997. By the mid-1990s the agency model had become the principal organisational type for central government public service delivery (Cabinet Office, 2006). Since then the number has decreased a bit to 84 in 2010, mostly through mergers and privatisations⁸.

Total expenditure of all arm’s length agencies amounted to over GBP 18 billion in 2003 (James, Moseley, Petrovsky, Boyne, 2011). There are three kinds of financing arrangements: 1) agencies that are financed on a fully funded basis have both their revenue and expenditure on budget and approved by the Government and Parliament; 2) agencies that are financed on a net funded basis only have net government contribution and expenditures funded by that subject to government and parliament approval; 3) agencies are free to expand their expenditures if they collect additional revenues. Trading fund financing implies that an agency finances its operations mostly from its own revenues or is entirely self-financing. Trading funds are free to raise revenue from customers and alter services according to customer demand. Only the net government contribution to trading funds is subject to Governmental and Parliamentary control.

Arms’ length agency employment reached 285 000 (persons employed) in 1997. This amounted to 60% of the Home Civil Service. This grew further to 303 000 (FTEs) in 2009, amounting to 62% of the Home Civil Service. Independent agencies (Non-Departmental Public Bodies, see Reform 4.3) employ 111 000 civil servants (persons employed) in 2009 (Elston, 2011). Agencies are relatively evenly spread among ministries. Eleven ministries have one or two agencies, four ministries have 3-5 agencies,

and 2 ministries have more than 5 agencies. Next to the owner ministry many agencies have other client ministries that co-finance the agency.

The vast majority of agencies focus on delivering services (both administrative services and services in kind), while a smaller number carry out administrative supervision and regulation.

Arm's length agencies have no legal personality and are part of the State. The governance structure of arm's length agencies can vary, but the model employed must be set out in an agency's framework document. Each agency must have a Departmental Sponsor, envisaged as a senior civil servant who acts as the main source of advice to the Minister on the performance of the agency (the so-called "Fraser figure", after the chairman of a Cabinet Office report; Cabinet Office, 2006)⁹.

The Netherlands

In the Netherlands the first arm's length agencies were established in 1994. Since then some 3 new agencies have been added per year. In 2012 there were 39 agencies, and apart from the tax service, most policy execution had by then been devolved to agencies.

Total benefits (agencies use accrual accounting and thus have benefits rather than revenues¹⁰) increased from EUR 214 million in 1994 to EUR 10 billion in 2012. All agency costs and benefits are specified in the so-called agency paragraph of the budget chapters, and thus subject to approval by Government and Parliament.

Total employment in 2012 is 54 000 FTE or one third of civil central government employment excluding police and educational institutions (independent agencies employ another 40 000 FTE; remember further that the tax service (30 000 FTE) is not an agency. Of these 54 000 FTE 91% percent is employed by the 17 largest agencies and 9% by the other 22 agencies.

Arm's length agencies are strongly concentrated in 4 ministries: Interior, Economics and Agriculture, Safety and Justice and Health, Welfare and Sport, but each ministry has at least one agency.

Of the 39 agencies, 15 work for one ministry, 11 work for 2-3 ministries and 13 work for more than 3 ministries. In total the costs of agencies are financed for 71% by the owner ministry, for 20% by other ministries and for 9% by fees from third parties.

Similarly as in the UK, the large majority of agencies focus on delivering services (both administrative services and services in kind), while a smaller number carry out administrative regulation and supervision (inspectories) or provide support services.

Arm's length agencies have no legal personality and are part of their owner ministry. Their task is defined in a ministerial decree. In each ministry the task of supervision is assigned to the Finance Directorate. This task includes: the control of requests for investments and loans, the control of annual reports and budget requests and approval of fees.

Recent developments

a. The results oriented governance model

Output is hard to define and heterogeneous. Financing of output then becomes illusory. In addition politicians continually change their minds on what has to be

produced. This is logical, because political preferences change, insights in the usefulness of services change in the light of new social and economic research and social and economic circumstances change affecting the needs for services. Therefore steering takes place in practice on a continuous basis by contacts between ministries and agencies, even if these contacts are not formally recognised as a steering mechanism¹¹ (see Reform 12.1 on agency steering).

Continuous steering also recognises the fact that many services are aimed at helping households or businesses in difficulty. In those cases the broader policy target is often in preventing clients from getting in difficulty and needing the service to begin with. This suggests that successful policy implies reduction rather expansion of the service. This notion is captured by the expression “capacity budgeting”: budgeting for agencies should be based on sufficient capacity to provide the services if needed. Successful policy often means that the services are not needed (see Reform 12.2 on capacity budgeting).

The recognition of permanent steering has led in the UK, the Netherlands and Sweden to a split in the roles of financing and steering of executive policy on the part of ministries. As soon as this split is recognised, it can formally be attributed to two different units in the core ministry. The financing role is often fulfilled by the permanent secretary, supported by the financial directorate. The steering role is often attributed to the policy making directorate (the tax policy directorate for the tax service, the directorate for public safety for the police, etc.). Supervision of performance belongs to the steering role. It concerns a permanent process aimed at providing services of the required quality (see Reform 12.1). Financing is an annual process aimed at efficiency and minimisation of costs (see Reform 12.2).

b. Special facilities in operational management

The original idea of arm’s length agencies was that steering and control would be based on outputs and that, in return, government wide standards of operational management would be relaxed. In the beginning there have been many experiments with additional freedoms for agency managers, particularly in the areas of human resources, finance, accommodation and facilities. Agency managers were allowed to switch between outsourcing and in-house production (leading to more or less staff and more or less procurement); to create new jobs with new function descriptions; to increase variable pay; to design their own recruitment and assessment procedures; to switch between civil servant contracts and private labour contracts; to carry over financial reserves to the next budget year; to borrow with the Treasury for investments; to rent their own premises and to organise in house or procure their own facilities (reproduction, cleaning, catering, cars, maintenance, etc.).

In the UK and the Netherlands, these freedoms have gradually been reduced. For instance, in the Netherlands the only exemptions to government wide rules of cost control that are still in existence concern a small facility to create reserves by carryover of budgets and a facility to borrow from the Treasury. The reserve facility is limited by the rule that the accumulated reserve of the agency cannot exceed 5% of the average production costs over the last three years. The borrow facility is strictly limited to the purpose of investments and subject to approval by the ministry.

As it turns out the reserve and borrow facilities do not play a large role in practice. From the Dutch evaluation (Ministry of Finance of the Netherlands, 2011) it appears that only 6 out of 44 arm’s length agencies have on average an investment level of more than 10% of their annual benefits (measured over the period 2007-2010). Only 2 agencies have

depreciation costs exceeding 10% of their benefits. Both of these are shared service centres (see Reform 6.1 in Chapter 6), namely the State Building Service (which owns the State buildings and rents them out) and the State Real Estate and Development Agency (which owns and develops State land). Capital intensity of production is very low. Only 4 agencies have a capitalisation factor (total benefits divided by total capital) higher than 1 (all included in the 6 agencies with the largest investments). For the large majority of arm's length agencies the largest part of their costs consists of compensation of employees, rent and procurement of goods and services. As to the borrowing facility it turns out that 15 out of 44 agencies make annual use of the facility, the remainder do not use it at all or only incidentally. In spite of the rule that the borrowing facility can only be used for investments, it turns out that loans have sometimes been allowed for other purposes. This has not been well explained in the budget documentation. As to the reserve facility, it turns out that almost all agencies make use of it. The size of the reserves varies substantially between agencies. The reserves are reasonably stable in time which could indicate that the reserves are not used for investments but to save financial resources ("contingency reserves") and that the ministries pay too much for the services of the agencies.

In the light of these findings, the question can be posed whether the accrual administration, the borrow facility and the reserve facility are necessary for all agencies, and whether these facilities should not be limited to the few agencies with substantial investment needs and be abolished for all other agencies. This would lead to simplification of the financial administration and to substantial savings.

Conclusions

Considering experience and evaluations, several governments have wholly or partly taken distance from the original ideas that inspired the agency movement of the 1990s. They have come to the conclusion that the results oriented governance model for agencies does not work as it was conceived. The provider-purchaser model cannot be used to steer agencies, if output cannot be measured, if politicians continually change the requirements on outputs to be produced, and if there are no competitive markets to assess prices. Additional freedoms for agency managers have led to cost increases. Many agencies don't need an accrual administration, reserve facilities and borrowing facilities because their investments represent an insignificant part of their costs.

In spite of these experiences and evaluations, no country that has devolved policy execution to arm's length agencies has yet decided to move the agencies back into the ministries. In the UK, the Netherlands and Sweden, where policy execution has mostly been moved outside the ministries, there is broad agreement that devolution has been a sensible reform even apart from the results oriented governance model and the additional facilities for agency management. The basic reason for this agreement seems to be that policy execution is an essentially different task than policy development and requires different types of skills, in particular executive and entrepreneurial skills that are more comparable to the skills required for production organisations in the private sector. It is seen as sensible that within the public administration, there is a clear distinction between the core ministries which focus on policy development and the agencies which focus on execution. This distinction in particular has consequences for human resource policy.

Furthermore, even if the results oriented governance model and the special facilities are rolled back, there still remains the one special feature of agencies, namely that they have their own financial administration, be it on cash or accrual basis. There is broad

agreement in the countries that have devolved policy execution to the agencies, that this feature is valuable. It allows politicians and the public to gain insight in the costs of policy execution as a separate task of government and it allows them to assess the costs of execution for each separate policy. This is seen as valuable information to assess the costs of public policy. In this light the countries that have devolved policy execution, broadly remain satisfied with this reform. It is also the reason that the reform remains worthwhile and inspiring for countries that have not yet, or not yet fully implemented this reform.

Feasibility of the reform

Devolution of executive tasks to arm's length agencies can in principle be applied to all countries with a well-developed public administration, including all OECD countries. In countries where it has not fully been implemented thus far it can lead to better quality of policy execution and better insight in the costs of policy execution. This can in turn lead to better insight in the costs of public policies, which may in turn lead to beneficial effect on policy development.

Reform 4.2. Use of common process units

Characteristics of the reform

The reform consists of merging agencies and/or sharing parts of the policy execution process across government ministries and agencies. Such horizontal integration is possible for the ministries and/or agencies that share similar tasks, the same clients, the same processes, and/or the same geographical target area and resulting in the use of common process units or service delivery organisations. This reform seeks to deliver three key benefits:

- savings;
- an increase of the quality of services;
- greater attractiveness of the public sector as an employer.

The common process units are placed under one ministry that assumes the role of economic ownership and is responsible for operational management. These units are financed on the basis of fees or lump-sum contributions paid by the client ministries to the owning ministry.

Where did it occur?

In the recent past various countries included in the Value for Money study have made attempts to realise efficiency gains by horizontal integration of production processes. Two models of such amalgamation can be distinguished: the Australian and Danish models. The Australian model is aimed at merging service delivery organisations on the basis of client characteristics. The Netherlands followed this model in some of its recent reforms. The Danish model is aimed at “seamless” interaction with government by means of electronic portals.

Analysis

Australia

Horizontal integration in Australia is provided by the federal government's Centrelink agency. Centrelink centralises all central government social services and benefits, namely payment services for the Department of Human Services; the Department of Families, Housing, Community Services and Indigenous Affairs and 20 other agencies and departments. Centrelink has an integrated ICT database that contains all relevant information regarding citizen's payment needs. The payment services cover old-age and disability pensions, family support, unemployment benefits for young people, and study loans.

Established in 1997, Centrelink has a staff of 26 000, of which 3 000 provide support services, 3 000 provide common ICT processing services and 20 000 are involved in case handling either in the headquarters or in the 15 regional offices¹². The case handling staff is organised according to programmes. There are for instance 600 social workers for social assistance programmes. The programme staff has counterparts in the line departments that Centrelink serves.

Centrelink has been costly to set up in terms of investment in ICT and buildings. Given a number of ICT investments that were deemed necessary in the last ten years, it is currently difficult to assess the extent to which the horizontal integration has saved resources, but officials think that this is the case if compared to a baseline of the previous organisational set-up. In addition, there has been a marked improvement in the quality of government services delivered to citizens as a result of Centrelink. Recently, Centrelink has been merged with Medicare and the Child Support Programme. Australian officials consider that additional savings can be attained by a more intensive use of the Centrelink infrastructure.

Centrelink is funded by the Ministry of Finance. Financing is split between base financing and variable financing. Base financing covers mostly capital expenditure (ICT, physical assets). Variable financing covers mostly current expenditure (both current operational expenditure and programme expenditure) which is strongly dependent on activity assumptions. These assumptions are revised regularly.

The Netherlands

Examples of common process units in the Netherlands are NL Agency (for subsidy payments to the corporate sector) and the Tax service (that pays income supplements for the Ministry of Social Affairs and Employment). Dutch agencies (both arm's-length and independent) are owned (in an economic sense¹³) by a single ministry. However, some are co-financed by other ministries, either on a basis of lump sum contributions, or on the basis of agreed fees for services provided.

Recent reforms of shared process agencies in the Netherlands were inspired by the Australian model of wholesale merger of service delivery organisations. The Dutch government has recently embarked upon a number of new reforms partly based on ideas that were developed in the Spending Review on "Operational Management" (see Box 4.1 below). This study explored various options for co-operation and mergers between units. Under the proposed framework the responsibility for executive policy remains with the line ministry in charge of the programmes. In case of full mergers, the common process units would be placed under one ministry that would assume the role of economic

ownership and be responsible for operational management. Financing would take place on the basis of fees or lump sum contributions, to be paid by the client ministries (including the owning ministry).

Box 4.1. Horizontal integration in the Netherlands

The spending review “Operational management” has identified clusters of executive agencies and ministerial divisions characterised by similar executive processes or target groups of service users. The most concrete proposals include the horizontal integration of three clusters of executive organisations:

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

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

Source: Government of the Netherlands 2010

Denmark

In Denmark the emphasis has been on using ICT to make interaction with government “seamless”. There is a citizen portal being set up in order to enable a broad array of public sector organisations – central and local – to use a common interface with the citizens. A new initiative with a positive business case¹⁴ is Digital Mailbox, where each citizen has a digital mailbox for receiving government communications (accumulated savings potential of EUR 65 million in 2016). Horizontal integration is also pursued across government through enhanced ICT standard setting by the Ministry of Finance, which will allow easy communication between all government units (central and local).

The use of common e-government components across the public sector or within selected domains is of great utility, not only to ensure increased efficiency (in some cases also large savings potentials) but also to establish a more integrated public sector as perceived by the citizens and businesses.

Models of horizontal integration

Country experiences described in the previous sections show that the focus in the area of agencies amalgamation can be placed either on the development of a common service delivery organisation, like in Australia and the Netherlands, or on “seamless interaction” which leaves back office tasks where they are, but guarantees easy access and communication, as is the case in Denmark. Nevertheless, although the emphasis may differ, both components are necessary in a policy aimed at horizontal integration. For instance, Australia’s social service delivery organisation (merged Centrelink, Medicare, Child Support Programme) needs to communicate with the line ministries that are responsible for executive policy and the Danish Agency for Government Management

needs to establish shared front office units (the citizen portal, the Digital mailbox unit, etc.).

In any model of horizontal integration a solution has to be found for the ministerial responsibility for executive policy in the shared process units. In the Danish case the responsibility for common front offices rests with various line ministries and also with the municipal ATP organisation (“Labour markets Additional Pension), which implements a number of pension benefits on behalf of the municipalities. In Australia the responsibility for service delivery in the social area now rests with the Department for Human Services.

When designing horizontal integration, the best way to proceed may be to conduct a government wide study, in which all modalities for process sharing are thoroughly analysed. In the light of the Danish and Australian experiences the primary focus could be on similarity of services (for instance cash payments, cash collection, medical examinations, social consultancy for families) or similarities between client groups (for instance, students, elderly people, small and medium enterprises, etc.).

As to the steering of the shared process units, the following lessons can be drawn from international experiences:

- Make one line ministry (the “owner ministry”) responsible for funding and operational management of the common process agency or the merged agency.
- Make other client ministries negotiate their financial contributions and service delivery requirements with the owner ministry (not directly with the common process or merged agency) before, and if necessary after, the conclusion of the funding contract with the agency.
- Give a role to all client ministries in the permanent performance dialogue with the common process agency or the merged agency. The performance dialogue should be conducted in a co-ordinated way under the leadership of the owner ministry (not by each client ministry separately).

It is important that merging of agencies into common units should be complemented by the introduction and/or further development of online services to make government services more efficient and effective. These reforms are expected to lead to:

- a “tell us once” approach;
- a service delivery portal that guides citizens through interaction with government; and
- physical locations where citizens can access multiple services.

Feasibility of the reform

Costs, benefits and risks of horizontal integration should be well considered before implementing this reform in a country. The international experiences suggest, for example, that full mergers are not always necessary to realise the savings potential. To realise the sought benefits horizontal integration may only affect small front offices like in Denmark. Furthermore, it is not always obvious that merging all organisations with similar tasks or similar target groups will lead to an optimal size of production. In any case it is essential that every initiative in this area is based on a thorough business case analysis, which shows clear savings.

Reform 4.3. Role of independent agencies

Characteristics of the reform

This reform consists in protecting independent agencies from government interference in their executive policy, while maintaining government supervision on their operational costs and without excluding them from the standards of operational management that apply to (core) ministries and arm’s length agencies. This implies that they should not be granted a special legal status other than that of arm’s length agencies and that they should be given legal personality only under strict conditions.

In many OECD countries independent agencies (in the sense of the Value for Money study) constitute an important part of the central government sector, both in terms of employment and in terms of operational expenditures. Simultaneously, the regulation of these institutions is often complicated and fragmented, and in practice they often escape standards of operational management that apply to ministries and arm’s length agencies (see Chapter 6). This reform aims to eliminate the resulting inefficiency and waste.

Where did it occur?

The domain of independent agencies is an area of concern from the perspective of operational management in many OECD countries. However, the problem is approached differently in every country, due to the fact that the typology of publicly controlled organisations is different in every country. In Sweden, independent agencies are not recognised as a separate group of agencies with special legal status, next to arm’s length agencies. As a consequence standards of operational management that apply to arm’s length agencies, equally apply to independent agencies as defined in this study. This can be seen as best practice approach to cost control in independent agencies.

Analysis

Independent agencies and public non-profit institutions

The Value for Money Study distinguishes three types of organisations: core ministries, arm’s length agencies and independent agencies (see Glossary and Chapter 2 for the definitions).

The definition of an “independent agency” as used in this study is based on conceptual distinctions that may not be used or only partly be used in national typologies. These national typologies are widely different between countries, which complicates comparative analysis.

As far as independent agencies are concerned, the problem of international comparison is further complicated by the fact that some of these agencies have legal personality. They belong to the so-called public non-profit institutions. They are controlled by government but they are not part of the State. Since the 1990s of the last century the relevance of legal personality tends to be given less emphasis than was previously the case. This is true both for analytical studies in public administration and for practical policy documents that are produced by governments. This is probably due to the fact that the attribution of legal personality is often due to historical developments and *ad hoc* decisions. In many countries the resulting pattern is therefore arbitrary. Similar agencies may have, or lack legal personality without clear reason. However, regardless of legal personality, there is common concern in regard to independent agencies, which is

that operational costs have increased much faster than in core ministries and arm's length agencies.

Against this background, governments have taken new initiatives to improve control over the operational costs of independent agencies. In this respect three approaches can be distinguished, exemplified by (1) France and the Netherlands (2) the UK, and (3) Sweden.

Alternative approaches to cost control in independent agencies

A. The French/Dutch approach

In the context of the French spending review procedure¹⁵, initiated under the Sarkozy presidency, France has put up a list of all central government institutions outside the State, called “*Opérateurs d’Etat*” (State Operators). These institutions have legal personality and are thus, public non-profit institutions. Their legal status can vary: they can have several forms of public legal personality (“*Établissement Public Administratif*”, “*Établissement Public Industriel et Commercial*”, “*Groupement d’Interet Public*”) or of private legal personality (foundations, associations). In total some 650 institutions were identified. They can be divided in groups of institutions of the same kind, such as universities and cultural institutions (museums, theatres, etc.) and unique institutions.

As a first step, the French government has started to apply rules of operational management to all institutions on the list. Although the State operators have legal personality and thus own their own resources, they are dependent on public financing, so that rules of operational management can be imposed on them via conditionalities attached to the public grants. However, in France there also exists a large number of agencies that have no legal personality and still enjoy a large degree of autonomy in virtue of their legal status as “*Services à compétences nationales*” (SCN, Services with National Competences) and “*Autorités administratives indépendantes*” (AAI, Independent Administrative Authorities). These agencies thus far escaped the rules imposed on State operators. For this reason the French government has now embarked on a broader approach that covers not only the State Operators but also the SCN's and the AAI's. In the context of this broader approach the French word “*agences*” is now used to denote the entire spectre of independent agencies and public non-profit institutions. The basic idea is that all these institutions will be subjected to the same rules of operational management, which will be stricter than the regime previously applied to the State Operators. Moreover the new regime will require that core ministries develop a clear policy of operational management and financing (“*tutelle*”) for the institutions under their umbrella and become accountable for the results of this policy. Recent policy documents¹⁶ recognise that thus far there are no clear policies or criteria in place that determine which legal form publicly financed institutions should take (SCN, AAI or a variety of forms under public and private law with legal personality). This is seen as problematic and efforts are under way to develop a more systematic approach in this respect.

In the Netherlands, the Ministry of the Interior has put up a list of independent administrative¹⁷ agencies that are not subject to ministerial responsibility for their executive policies, called “*Zelfstandige Bestuursorganen*” (ZBO's, Autonomous Organs of Administration). The list contains some 65 budget financed independent agencies¹⁸ and a few hundred others that are financed by their own revenues. Many of them have public legal personality, but some have not. A general law concerning these agencies requires

that they should be based on a legal statute (law or by-law), that contains provisions on the requirements of operational management that the government can impose on them¹⁹. In the past there have been efforts to develop criteria for the suitability of the status of ZBO. In 1994 a government committee formulated three criteria: (1) lack of discretion in policy execution in view of legal provisions, (2) participation of social partners or non-governmental organisations in their board of governance, and (3) protection against government interference in their executive policies. Since then several attempts have been made to narrow down these criteria (particularly to remove the first and second criterion) and to turn ZBO's into arm's length agencies, but these attempts have largely failed. The mentioned criteria are now enacted in the Law on the Autonomous Organs of Administration.

It is characteristic for the French and Dutch approaches that (1) they seek to apply the same regime of operational management to all public institutions that in virtue of legal provisions have a certain autonomy in their executive policy (“*agences*” in France, ZBO's in the Netherlands), and 2) they neglect the distinction between institutions with and without legal personality. This approach can largely be explained by the fact that in these countries there is no systematic pattern in the legal status of independent public institutions. There are no strict criteria for the attribution of legal status nor of legal personality and the current pattern is rather due to historical developments. Applying a uniform regime of operational management is then a more pragmatic solution than trying to change the legal status of existing institutions, for instance by depriving them from legal personality or bringing them under the regime that applies to ministries or arm's length agencies.

B. the UK approach

In the UK the development has been different. The British government started in the early nineties with an operation to devolve many executed tasks to agencies on arm's length distance from the government, the so called “next steps agencies” named after the Next Steps policy document of the Thatcher Cabinet (see Reform 4.1). This initiative provided inspiration to many governments of other OECD countries to start similar initiatives. The new agencies existed henceforth next to many other public bodies that had already a semi-autonomous status in virtue of legal and administrative provisions of earlier decades or even centuries

As a consequence the domain of public bodies grew substantially and it was not always clear which criteria were used for the attribution of the various forms of legal and administrative status.

The British government continues to work to provide greater clarity in the way in which it classifies arm's length and independent agencies. The Cabinet Office has published in 2011 a new guide for ministries on the categorisation of public bodies. This guide was revised in December 2012. Moreover, in 2010 the UK government undertook a review of public bodies, encompassing 900 public bodies across 17 ministries, which will lead to the abolition, merger, or substantial reform of approximately 500 bodies. Currently, the government distinguishes a range of categories of public body. Among these three key models are: 1) non-ministerial departments, 2) executive agencies, and 3) non-departmental public bodies (NDPBs).

Non-ministerial departments are departments (ministries) not headed by a minister but usually headed by a statutory board. They are accountable to Parliament through their sponsoring ministers, but have their own budget (estimate) voted directly by Parliament.

Examples are the Food Standards Agency, HM Revenues and Customs, Office for Standards in Education, Children's Services and Skills. They date from the time before the next steps initiative. In view of their privileged position it has become difficult to turn them into executive agencies.

Executive agencies are part of a Government department (ministry). They originated from the next steps initiative. They carry out a range of executive tasks, with policy (including executive policy) set out by ministers. They are part of a government ministry and have no separate legal personality. Examples are: HM Passport Office, Maritime and Coastguard Agency.

Non-departmental public bodies (NDPBs) comprise of four types:

1. Executive NDPBs: The Arts Council England, the British Council, the Information Commissioner, the Parole Board. Executive NDPB's are often established as statutory bodies or as companies.
2. Advisory NDPBs: Advisory Committee on the Misuse of Drugs, the Boundary Commissions (advising on Constituency Boundaries).
3. Tribunal NDPBs: The Foreign Compensation Commission and the Traffic Commissioners.
4. Independent monitoring boards are: The Independent Monitoring Board of Prisons, the Independent Monitoring Board of Immigration Removal Centres, and the Independent Monitoring Board of Immigration Holding Facilities.

Executive NDPB's are often established as statutory bodies or as companies (with legal personality) whereas the other types of NDPB's do not. NDPB's are usually financed by their parent ministry. It is government policy to reduce the size of the NDPB sector. All such bodies will be subjected to a review of control and governance arrangements every three years which will 1) provide a robust challenge to the continuing need for individual NDPB's, both their function and form, 2) if it is decided that a body should be retained as a NDPB, ensure that the body is complying with recognised principles of good corporate governance.

In making the case for a new NDPB, departments must assess the function or activity against the following tests: (a) is this a technical function (which needs external expertise to deliver); (b) is this a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory functions); (c) or is this a function which needs to be delivered independently of ministers to establish facts and/or figures with integrity and credibility.

It is characteristic for the UK approach (1) that agencies that in virtue of legal provisions have a certain autonomy in their executive policy (NDPB's and non-ministerial departments, which are independent agencies in the terminology of this study) are fully accountable for their costs to ministers, regardless whether they have legal personality, (2) that strict criteria are used for the establishment of the various types of arms' length and independent agencies and that efforts are made to change the administrative or legal status of existing bodies in line with these criteria.

C. The Swedish approach

In Sweden the pattern of agencies with a certain kind of autonomy in executive policy is quite systematic. There are some 370 agencies in Sweden. They don't have legal

personality and are all part of the State. All of them are accountable for their executive policies to the government, but all of them are autonomous in their handling of individual cases. This autonomy is based on a centuries old tradition that aimed to protect the rule of law and to restrict the authority of the King to the domain of policy making. Accordingly the autonomy of the agencies in handling of individual cases is vested in the constitution and seen as a basic feature of Swedish public law. Public non-profit institutions (with legal personality) exist in Sweden only in the area of service delivery in kind (universities, research establishments, etc.), not in the area of administration.

It is characteristic for the Swedish approach: (1) that all agencies have the same status of arm's length agencies and are subject to the same standards of operational management; (2) that public non-profit institutions (institutions with legal personality) only exist in the area of service delivery in kind (universities, etc., not in the area of administration).

Which administrative agencies need to be protected against government instructions or guidelines about executive policies?

The Swedish approach can be seen as best practice from the point of view of operational management, but the question remains which administrative agencies (agencies tasked with administration rather than with in-kind service delivery) need special protection against government interference in their executive policies. In the context of the current study the Swedish authorities have only identified some regulatory authorities as in need of protection in special provisions of their founding laws, but they have also indicated that only a thorough investigation of all 370 agencies, including their founding laws, could reveal which other agencies should be protected in some way against certain forms of government instructions or guidelines.

There are few countries that thus far have developed strict criteria for the need to protect administrative agencies against government interference. However, the UK has done so: agencies can qualify as NDPB, in view of the role independent expertise, political impartiality or independent fact finding in their task performance. Based on information from other countries participating in this study, the British criteria are used in many countries, although sometimes alongside other criteria and sometimes in less strict formulation. In this light, it is possible to put up a tentative list of agencies that may need special protection and thus could qualify as independent agencies in the sense of this study.

The list could include the following three types of administrative agencies:

- forecasting agencies and the statistical bureau (see Reform 3.4);
- regulatory and supervisory agencies²⁰ (see Reform 5.1);
- the advisory bodies and their secretariat.

If countries aspire to bring a more systematic approach to the attribution of legal status and legal personality in the organisation of central government, this list could be a sensible point of departure.

Which agencies need legal personality?

In France and the Netherlands independent agencies (“Agences”, “ZBO’s”) may have legal personality or not and no strict criteria are applied in this respect. In the UK,

executive NDPB's are often set up as statutory bodies or companies (with legal personality), whereas other types, for example advisory NDPB's, are not. In Sweden no agency has legal personality separate from the State.

Legal personality provides a certain protection to own revenues of executive agencies. These revenues are not supervised by government and not authorised by Parliament. Furthermore they are automatically earmarked for the expenditures of the agencies (unlike the revenues of budgetary and extra-budgetary funds that need special legal provisions to have their revenues earmarked for the fund's expenditures). The question arises why independent agencies would need legal personality (and thus become public non-profit institutions).

In order to answer this question, it should first be noted that independence, in the sense of protection against government intervention in executive policy, is not dependent on legal personality. A government agency can be protected against government intervention regardless whether it has legal personality. From this perspective it would be appropriate to conclude that independent agencies do not require legal personality at all.

From the perspective of operational management, legal personality may pose an obstacle: organisations with legal personality do not belong to the State as a legal entity. They own their own resources in the legal sense. As a consequence the state budget authorises the public funding for these organisation as net expenditures (net of expenditures financed from own revenues), whereas the budget authorises the expenditures of agencies belonging to the state as gross expenditures and the non-tax revenues earmarked for these expenditures as state revenues. This has consequences for the applicability of standards of operational management. The government can impose standards upon its own agencies by way of internal regulation. Institutions with legal personality cannot be ruled by internal regulations. If the government wants to impose such rules on legal persons outside the State, also in so far as their expenditures are financed by own resources or own revenues, it can do so only in the form of conditionalities attached to public funding.

However, attribution of legal personality can have its own rationale, namely that it provides an incentive for collection of own revenues and hence for efficiency (an agency will care more for efficiency if it concerns services that are partly financed from own revenues). In this light the stated question can also be answered from the perspective of whether it may be sensible that this incentive is introduced for certain independent agencies. The answer now depends on the type of independent agency. Supposed that in a country strict criteria for independence are applied, so that only the three above mentioned types of agencies enjoy legal protection against government intervention in executive policy, then a case could be made that the first type of agency (forecasting agencies and the statistical bureau) should have legal personality. This will stimulate these agencies to provide forecasts and statistics to private sector institutions, next to their public tasks. This may contribute to their efficient task performance. It is hard to see how this argument can be applied to regulatory and supervisory authorities and to advisory bodies and their secretariat. These agencies can do without legal personality as is the case in the UK and Sweden. These countries can be seen as best practice in this respect.

Note finally, that the mentioned rationale for legal personality may apply to public institutions tasked with service delivery in kind. In many countries, including France and the UK, providers of individual services in the sphere of health care, long term care, education, social and cultural services are organised on a large scale as public not profit

institutions. Under certain conditions attribution of legal personality to these institutions can be consistent with the mentioned rationale (see Reform 4.4).

Feasibility of the reform

The domain of independent public institutions is a particularly complicated and fragmented area of central government organisation in many OECD countries. In many countries, legal status and legal personality is attributed in an unsystematic way based on historic developments. In addition, and partly as a consequence, there are few internationally comparable features or trends.

What is comparable, however, is that the domain is in need of reform in many countries. This need arises in the first and foremost case from the deficiencies in operational management arising from the unsystematic attribution of legal status and legal personality. As a consequence many independent agencies escape the rules of operational management that are applicable to core ministries and arm's length agencies. The required reform has to tackle first the criteria for the attribution of legal status and legal personality and second the nature of the independent agencies that need some form of protection against interference in their executive policies. Experience in several countries show that the first part of the reform is a particularly difficult and politically sensitive exercise. It requires a strong political commitment and a thorough preparation. In various countries efforts are under way to embark on this reform, not surprisingly in cases where the current situation raises the most concern (including France). However, the reform should also be inspiring in many other countries where further improvement is possible and can lead to substantial savings.

Reform 4.4. Role of private non-profit institutions in service delivery

Characteristics of the reform

The reform devolves publicly financed service delivery in the area of individual services (education, health care, long term care, social services), to the private non-profit sector (sometimes called the voluntary sector). The aim of the reform is to promote competition in service delivery leading to better quality and lower costs.

Where did it occur?

Many OECD countries currently seek to increase the role of the private non-profit sector in the delivery of publicly financed services. The country that has traditionally used the private non-profit sector to the largest extent to produce publicly financed services is the Netherlands. Health care, long term care, social and cultural services are entirely provided by the private sector in the Netherlands (around 15% of GDP). Primary and secondary education are provided for two thirds by non-profit institutions with private legal personality (foundations, associations), but in view of government control and funding, these institutions are seen as public non-profit institutions (in the general government sector in the national accounts). The UK has also a clear policy in place for the devolution of publicly financed service delivery to the private sector, particularly in the areas of education, long term care and social and cultural services (health care remains largely in the general government in the UK). In the UK the private non-profit sector provides for a growing, but still relatively small, share of total publicly financed individual service delivery, but this amounts to about half of total expenditure of the private non-profit sector.

Analysis

Provision of individual services in kind

As noted in the introduction to this chapter policy execution mainly includes three tasks: (1) application of administrative law in individual cases, leading to administrative decrees (licences, permits, concessions, admissions, etc.), (2) application of financial regulations in individual cases, leading to tax assessments and public commitments (subsidies, grants, social benefits, etc.) and (3) provision of collective and individual services in kind. The execution of all three tasks requires the use of support services, finance, human resources, procurement, etc. The third task is different from the first and second in that the supply chain can entirely be outsourced (privatisation). As to the first and second tasks, the government must remain responsible for administrative decrees and financial assessments and commitments. In the case of service provision in kind the government must only remain responsible for appropriate provision, which in principle can be realised through quality control and accessibility requirements, usually involving financing. Furthermore the provision of individual services is a typical development of the last century. In the era before the “welfare state” production of individual services was typically left to the market, including the voluntary sector (private non-profit institutions).

The main policy instruments that have been used to further the aims of the welfare state are twofold: 1) financial regulations establishing public financial commitments in the form of social benefits (unemployment, sickness, family benefits, disability and old age pensions), and 2) provision of individual services in kind, that are seen as basic needs (education, health care, long term care, social services).

As it turns out, OECD countries have organised the provision of individual services in different ways. Since these services can in principle be provided by the market (and were provided by the market before the welfare state), the relation to market provision is the key policy variable in this respect. Some countries have virtually taken over the provision of these services from the market, providing them free of charge through public agencies (France is the typical example). Other countries have tried to leave market provision as much as possible intact, but have strongly regulated the market to ensure accessibility and quality, usually involving a high level of public financing (the Netherlands is the typical example). Most countries have followed an intermediate course by organising public provision, while simultaneously strongly regulating private provision, thus creating alternative arrangements of supply. Furthermore the picture is typically different for separate basic services: education may be partly private, while health care is mostly public, like in the UK, or health care may be mostly private, while education is mostly public, like in the USA.

In many countries there are debates about the appropriate roles of public and private modes of provision. These debates take place against the background of national circumstances and traditions and often have a highly political character (in that different political parties have different views). Furthermore these debates often have a rather technical character in view of the complicated policy arrangements that have developed over the past decades for each of the individual services involved in each separate country. It is not possible in the context of the present study to identify any best practices in this respect for any of the services concerned. However, it is possible to identify a certain general trend in a number of countries over the last few years to put more emphasis on individual service provision by private non-profit institutions. This trend can

partly be explained by the global financial crisis which in many countries has led to more scrutiny on the tasks of government. The UK is a good example in this respect. The Netherlands is mainly interesting because it traditionally belonged to the countries with a large role for private non-profit institutions in the provision of publicly financed services and still stands out in this respect among all other OECD countries.

Public and private non-profit institutions

Both public and private non-profit institutions have legal personality. In spite of the absence of a profit motive, this creates a certain incentive for efficiency (see Reform 4.3). However, public non-profit institutions are per definition controlled by government (in the sense that their executive policies are decided by government and their board of governance is appointed by government). If this condition is not met a non-profit institution is considered as private. A private non-profit institution can then still be financed mostly by government in the form of fees for services, but it is then seen as a market producer and belongs to the corporate sector in the sense of the national accounts. A public non-profit institution (controlled by government) that is mostly financed by the proceeds of its sales is equally seen as a market producer and part of the corporate sector (as a state owned enterprise, SOE, or local government owned enterprise).

Although both public and private non-profit institutions are subject to certain efficiency incentives in virtue of legal personality, the incentive is usually much stronger in private institutions, due to competition. In the case of publicly financed services in kind, competition mostly focuses on quality not on prices. Efficiency of the production process is enhanced because gains can be used to increase quality. There is little room for price competition, because prices are usually strictly regulated to ensure accessibility. However, in the case of private producers, additional quality or services above prescribed minimum levels can sometimes be purchased at market prices. In that case competition can also affect the prices for these mark-up services.

Financing of basic individual services

If individual services in kind are provided through private non-profit institutions, public financing has to take place through fees and subsidies. This can be realised in two ways: through vouchers that are provided directly to the consumers, or through financing of admitted institutions. If vouchers can only be spent on services of admitted institutions both financing modes are equivalent. In practice however, vouchers usually offer a larger choice to consumers. For instance, in long term care, they can often be spent on aid at home or facilities in the home. Both voucher financing and direct financing make it possible to ensure quality control through admission requirements on supply institutions.

Publicly financed services in kind need not be provided free of charge (implying that public contributions cover cost prices). In most cases regulations prescribe uniform low prices. These prices serve two purposes: they contribute to financing and they serve as “brake payments”, meaning that they prevent unnecessary use of the services. However, since they are prescribed and uniform, they do not contribute to competition and efficiency. Furthermore, prices have a different role in production by non-profit producers than by for-profit producers. Since non-profit institutions cannot easily raise capital, they are largely dependent on internal financing for expansion. Paradoxically, this often implies that they make more profit than for-profit institutions in order to make this possible²¹. In principle private for-profit producers offer better efficiency incentives than private non-profit institutions, but governments and the public are understandably

cautious with allowing profit making in the provision of basic publicly financed services. Only in the areas of housing and transport, where subsidies typically amount to less than half of the cost, are for profit institutions commonly allowed to provide services.

In many OECD countries there is a debate on the question whether individual services that are considered as basic needs should be provided at low uniform prices also for those who can afford to pay market prices. This debate has sometimes led to the conclusion that certain publicly financed services should only be accessible for households with low incomes, or that regulated prices are increased for households with larger incomes. Such measures are understandable in times of austerity in public finance but they have important drawbacks. Prescribed private contributions to publicly financed private services must be seen as taxes, since the consumption of these services is legally or factually unavoidable. This means that income dependent private contributions add to the marginal tax rate for low income households, which is even more problematic from a microeconomic point of view than an increase in the marginal tax rate for high income households. In addition income dependent private contributions are hard to execute and prone to irregularities and fraud. In this light income dependent private contributions should only be considered by countries with a highly developed system of household income administration and preferably be executed by the tax service.

Some special cases

Public transport

In most OECD countries, public transport companies are public for-profit institutions (public enterprises, owned by the State or local government), which are heavily subsidised, but mostly not more than 50%, so that they belong to the corporate sector (in the sense of the national accounts). Sometimes the infrastructure (mostly railways) is split off in a separate company that is equally a public for-profit institution and heavily subsidised.

Although in general public transport is only partly financed by government, the argument that it concerns a basic need (welfare state service) still plays an important role in the discussion about financing in many countries. Another argument in favour of subsidising is alleged positive external effects. Neither argument is very strong. Public transport has only beneficial effects on others than consumers if it diminishes private transport. However, many empirical studies show that the cross-elasticity tends to be low. But even if a weak effect on private transport can be proven, this does not amount to a positive external effect, but rather to a reduction of the negative effects of private transport. These negative effects have to be reduced by better pricing of private transport or by green taxes, not by subsidising public transport. As to the argument that transport is a basic need, it can indeed be observed that some forms of transport (trains and buses in remote areas, trams and buses in urban areas outside rush hours) cannot be exploited on a commercial basis, because it would lead to prohibitive prices. If this would lead to abolition of these forms of public transport, some low income households would suffer from reduced mobility. However, other forms of transport tend to be highly profitable due to monopolistic market conditions. In general, public transport companies can be required to cross-subsidise their unprofitable activities with the profits from their lucrative activities. Only if this is impossible (for instance if a company hardly conducts lucrative activities) can subsidising on the basis of the basic need argument be considered.

Public housing

In most OECD countries housing is seen as a basic need and thus in principle a concern of government. However, for most households the market can provide for their needs and government intervention is not necessary. Government intervention tends to focus on low income households or households with special needs. This tends to take two forms: rent subsidies for eligible households and public supply of low rent houses. Public suppliers can be for-profit (public enterprises) or non-profit institutions. They can be owned by the State or by local government. In the case of public ownership, rent subsidies are usually hidden in the form of public financing of the suppliers.

The case for public ownership is weak. It tends to distort the housing market. Private for-profit companies are discouraged to invest in low-rent housing investment and public suppliers do not invest enough due to lack of capital (public non-profits) or lack of competitive pressure (public for-profits as well as non-profits). This leads to supply shortages, waiting lists, and wrong allocation (middle income households in low rent houses, who stay there in view of rent protection). This is a major problem in many OECD countries.

Rent subsidy for eligible households is a better instrument to meet the basic need for housing. Privatisation of supply would lead to savings (not all households renting from public suppliers would be eligible for subsidy), would invigorate the market for low rent households by attracting investment by for-profit suppliers, and would in the long run lead to additional savings when sufficient low rent houses have become available.

Feasibility of the reform

Reforms of this type are usually complicated. They need to be tailored to the specific features of the existing national policy arrangement of each area of service delivery. Usually they are also politically controversial. It would be premature to conclude that there exists any best practice in this respect in any of the policy areas concerned. Nevertheless in a number of countries that are on the forefront of innovation in this respect, a tendency can be observed in the direction of devolution of delivery of basic individual services to the private sector.

Accessibility and quality can in principle be assured by regulation, possibly complemented by the establishment of supervisory agencies (see Reform 5.1 on social supervisory authorities). The reform leads to increased competition and thus to better quality and more efficiency. In the long term the savings can be substantial. Reforms of this type can also reduce the size of the government in the national economy by a substantial percentage (10 to 20 percentage points). The reform applies to individual services in kind that are mostly financed by government (education, health care, long term care, social services) and also to some individual services in kind that are mostly provided by the market, but where public subsidies can be motivated with the “basic need” argument (public transport, public housing).

Reform 4.5. Reform of the foreign service

Characteristics of the reform

The reform consists in increasing efficiency of the Foreign Service by focusing on its core tasks and political priorities as defined by the foreign policy of the country, by using technology more effectively and by adapting organisational arrangements to the changing

needs (smaller and more efficient networks). Among other things the reform includes the devolution of individual service delivery in the sphere of trade promotion to other agencies and to the market.

Where did it occur?

The Foreign Service is one of the most labour intensive areas of government services; therefore many countries focus its attention on modernising and making possible savings in this area. The UK, Sweden, Norway and the Netherlands are among the countries that have modernised and continue to reform their Foreign Service.

Analysis

Background information

The core tasks of the Foreign Service remains relatively unchanged over time while political priorities can change depending on the shifts in the Government and in the country's policy agenda. A modern Foreign Service adapts its personnel and organisational structure to the political priorities and changing needs swiftly, reallocates limited resources rationally, and strikes an optimal balance between the costs and quality of services.

The reform supports the following initiatives to increase efficiency and reduce the costs of the Foreign Service:

- Consolidating finance, HR and purchasing functions (support services) into country or regional hubs and sharing office space with other countries' missions when possible leading to savings in office and residential accommodation and support services.
- Calibrating trade promotion tasks of the Foreign Service network, delegating greater responsibilities to private institutions (the chambers of commerce, to businesses) and drawing a clear line between the tasks of the Foreign Service and of sectoral ministries.
- Developing specialisation within the Foreign Service network coupled with shrinking the personnel and engaging attachés from line ministries.
- Granting the European External Action Service (EEAS) of the EU the power to provide consular services on behalf of EU countries.

In this study no attempt is made to compare foreign services in quantitative terms. There is no common ground for comparison. For instance, some countries have privatised trade promotion (Switzerland) or put it on the budget of other ministries (Nordics, partly Netherlands). Some countries organise culture promotion in separate institutes (France, Spain, UK), others have it done by the Foreign Service, etc. Solving these problems of comparison should in principle be possible but could not be undertaken in the context of the present study. Nevertheless, the impression exists that there are large differences between countries, even if such factors are taken into account.

The United Kingdom

Apart from the consular services, the core tasks and priorities of the Foreign Service differ from country to country. For example, in the UK foreign policy focuses on the following areas:

- safeguarding national security by countering terrorism and weapons proliferation, and working to reduce conflict;
- building Britain's prosperity by increasing exports and investment, opening markets, ensuring access to resources, and promoting sustainable global growth.

In the UK the global network of the Foreign and Commonwealth Office (FCO) extends to 141 sovereign and 130 subordinate posts in 160 countries. The FCO employs around 14 000 staff around the world. Roughly one-third are UK-based British Civil Servants whose career typically includes work in the UK and postings overseas; and around two-thirds are locally engaged staff, employed by a British Diplomatic Post overseas (such as an Embassy, High Commission, or Consulate).

The FCO has set a target of GBP100m savings by 2014 - 2015 in support services, including human resources and estate of which GBP 25 million savings have been achieved by 2012 (UK Government, 2012). The FCO intends to reduce the costs of office and residential accommodation and corporate services by consolidating finance, HR and purchasing functions into country or regional hubs. The FCO has also focused on building a new global network for data services, telephony and unclassified videoconferencing joining up overseas posts and the FCO in London. Savings of 30-40% of existing costs are expected to be produced by improving business functionality and replacing the global desktop service. For instance, the FCO plans to rationalise and improve high classification systems and introduce new mobile telephony and laptops to work smarter and share knowledge and information more effectively.

With the aim to produce efficiency savings, the FCO builds real and virtual knowledge networks across Government and with academic organisations to share best practice and expertise. It also develops the FCO's electronic records system and the FCO-wide electronic library to broaden access to the FCO's archive.

The FCO increasingly uses digital networks to communicate policy messages²². For instance, a virtual Embassy in Iran has been established²³. Its Ambassadors are using blogs and social media, to great effect, to communicate directly with citizens in their countries, providing a reach of millions.

Sweden

The core tasks of Sweden's foreign policy are:

- representing the Swedish government in foreign countries and safeguarding national security;
- promoting trade (facilitating exports and imports to and from other countries; creating favourable conditions for Swedish interests and raising Sweden's profile);
- promoting and enhancing respect for human rights.
- international development co-operation;
- providing advice, help and protection to Swedish citizens abroad.

The Swedish Foreign Service comprises of the Ministry for Foreign Affairs and the 103 missions abroad, which include embassies (89), representations/delegations (7) and consulates (7). There are also 10 roving ambassadors based in Stockholm for specific countries. Premises are in a few countries shared with the missions of other countries. The staff of the Ministry for Foreign Affairs in Stockholm is 750 persons and another 530 Ministry for Foreign Affairs officials, together with around 1 300 locally employed persons, serve at missions abroad. In total there are 2 580 persons working in the Foreign Service as a whole²⁴.

Modernisation of the Swedish Foreign Service is an on-going process in order to realise an effective use of given resources and adapt the activities and organisation to changes in the world. Modernisation efforts include digital diplomacy (including placing all embassies on Twitter and Facebook). Decisions have been made to establish a few embassies with only one diplomat. In these cases administrative matters will be handled in Stockholm or by a near-by mission. This kind of concentration in hub-missions will be considered also for other small missions. Increased outsourcing of immigration matters is another example that will affect the workload of several missions.

Norway

The main tasks and functions of the Foreign Service Missions of Norway (as described in the Norwegian Foreign Service Instructions of 2003) are:

- Representing the King and the Government;
- Safeguarding and promoting Norway's interests in the relations with other countries;
- Acting as the Government's spokesman to the Government of the receiving State, international organisations and local authorities;
- Keeping the Government informed on current developments in the receiving State;
- Public diplomacy, cultural exchange and promoting Norwegian business interests;
- Providing advice, help and protection to Norwegian citizens abroad.

As of 2011, there are 2 483 people working for the Foreign Service in Norway of which 830 are in Oslo, 662 are posted abroad, including special representatives from other ministries and 991 local employees at missions. There are 106 Norwegian missions abroad (85 embassies, 10 consulates general, 7 permanent delegations, 3 embassy sections, 1 representative office) and 380 honorary consulates²⁵.

The efforts in modernising the Foreign Service in Norway were spurred by a slowdown in the budgetary growth. Norway focused on effective use of resources by clear prioritisation, rational division of labour throughout the network, flexibility in the reallocation of resources following the changes in political priorities, and close co-operation with subordinate agencies and other parts of the administration. The Strategy 2013 adopted by the Ministry of Foreign Affairs includes such initiatives as introducing a performance management system for the Foreign Service to ensure the best possible match between priorities and available resources; planning for fewer but more robust missions that can act as hubs, and cover more regional and thematic tasks; improving co-ordination of efforts across thematic, departmental and national borders; and outsourcing tasks in certain areas, such as administration, ICT and immigration.

The Netherlands

The Dutch foreign policy is focused on:

- international stability and security, energy and raw material security;
- international legal order (including human rights);
- commercial and economic interests of the Netherlands and Dutch businesses.

The Foreign Service network in the Netherlands includes 112 embassies, 23 consulates-general, 18 representations with public international organisations and representation with Palestinian Authority in Ramallah and 316 honorary consulates. As from 2013, there are 8 regional support service centres.

Dutch diplomacy is undergoing reforms. The reform programme promotes clear choices and new priorities and emphasises economic diplomacy²⁶. The Ministry of Foreign Affairs will cut EUR74 million by 2015: 55 million at embassies and consulates and 19 million at the Ministry in The Hague. The network should become cheaper, more efficient and better equipped. Savings are to be made on terms of employment and accommodation. The closure of missions is subject to the approval of the Council of Ministers. An extra saving of EUR8 million per year will allow investment in areas like economic diplomacy and consular assistance to Dutch nationals abroad. The workforce is to shrink from 2 800 at present to 2 500 in 2015²⁷. It is planned to cut 200 positions in the embassies and consulates and 100 positions in the Ministry in The Hague. The current number of 356 attachés is also to be cut substantially.

Moving away from the traditional image of an embassy as a building with a flag and mission staff is another underlying idea of the reform. The concept of travelling ambassadors, based in the Hague is being developed. There will be more regional embassies representing the Netherlands in more than one country.

Consular services are also set to slim down and to become more streamlined and reliable. One of the negative consequences of a smaller Dutch mission network would be a higher cost of passport application for Dutch nationals abroad because travelling costs may increase. However, to compensate for this inconvenience, the validity of passports will be extended to ten years.

Structural cuts are also envisaged to the budget for development co-operation. For instance, the reduction of the development budget from 2010 to 2012 is 0.1 percentage point of GDP (from 0.8% of GNP to 0.7% of GNP).

Concentration on core tasks

The underlying idea of the reform is to focus on the core tasks and political priorities of the country's Foreign Service that has four main consequences:

1. Consolidating support services in the country or regional hubs and sharing accommodation with other countries' missions.

Support services (in the sense of the Value for Money study) should be taken out of the embassies and put in the capital, or in so far as proximity has any added value, in regional shared service centres. Finance, human resources, accommodation and procurement tasks of representations can be well concentrated in the capital or in regional hubs and thus provide for savings in office and residential accommodation and corporate services. New technology can help realising this transfer, working smarter and

sharing knowledge, information and data more effectively. Building up a global network for administrative services (telephony, teleconferencing, shared electronic databases) can bring efficiency gains joining up overseas posts and the Foreign Ministries in the countries.

Another important element of the reform is to continue to modernise the way the countries procure and manage the global estate, driving down costs wherever possible, and allowing the Foreign Service to concentrate on the front-line tasks. For instance, the savings in office and residential accommodation and support services could be produced if premises are shared with the missions of other countries.

2. Focusing the tasks of the Foreign Service and separating them from the tasks of the private sector and of the Ministry of Economic Affairs (or other sectoral ministries) in the area of trade promotion.

There is an increased attention in several countries for economic diplomacy and creating opportunities for economic growth and expanding overseas markets. However, this does not need to translate into personnel expansion within the Foreign Service, but it should result in focusing on the core tasks of the Foreign Service in the trade promotion area and in quicker reactions to unfolding international developments in economic and trade affairs. It implies a clear separation line between the Foreign Service tasks and the tasks that can be privatised or financed by the Ministry of Economic Development or other relevant sectoral ministry.

The tasks of a Foreign Service trade diplomat should involve establishing and maintaining contacts with governments, public administrations and international organisations. Other tasks, such as contacts with businesses, market scans, and participation in business fairs can be ensured by private units, such as Chambers of Commerce or business representations or by the Ministry of Economic Affairs. In the latter case the attachés from the Ministry of Economy or other relevant line ministries can be allocated to the overseas representations and be financed by the ministries concerned. Such practice already exist in several countries and should be further developed (for instance in the Dutch Foreign Service network there are 23 posts for the support of the business sector belonging to the Ministry of Economic Affairs).

3. Specialisation of missions and engaging representatives of sectoral ministries

Developing specialised embassies (or other network missions) means having the right workforce with the right skills in the right place. Specialisation of embassies leads to cutbacks in posts of embassies (large and medium-sized) that are not crucial for the core tasks of the foreign policy. If certain embassies or posts are particularly important for certain line ministries but not covered by the core tasks of the foreign policy, these line ministries can send out personnel to those embassies. These employees are not part of the Foreign Service and their appointment can be temporary in the light of concrete needs or projects.

In general, reduction of foreign services personnel in large and medium-sized embassies is a less drastic way of consolidation than wholesome closing down of embassies and it has less adverse effects on bilateral relations and service delivery to citizens. In regions where there are only few embassies, regional desks (one embassy for a region of several countries) and “lap-top” diplomats are a way to retain contacts and information in the capital. Under this framework, development assistance is also

separated from the Foreign Service and insured by people attached to respective ministry and insured by a respective budget.

4. Granting the European Foreign Service with the power to provide consulate services on behalf of EU Member State

The European External Action Service (EEAS), otherwise known as the “European foreign service”, has now existed for two years. It has staff of 3 500 (1 500 in headquarters and 2 000 in 140 EU delegations)²⁸ drawn from the EU institutions and national diplomatic offices. The role of the EU delegations consists of co-ordinating the work of national embassies, representing the EU and its policies; and engaging in political reporting. However, the EU delegations do not currently offer real consular services. Granting the extensive network of EU delegations with the power to deal with consular issues (issuing passports, visas and provide other forms of consular support) would be very beneficial for national Foreign Services and for EU citizens in general.

As there might be sensitive issues, the delegation of consular powers to the EEAS can be done to a certain extent through case-by-case agreements. For instance, the UK government could allow the EU delegation in Russia to distribute passport application forms and to collect them once filled in for UK citizens and send these to London (possibly by electronic means) for processing. As long as EU citizenship and immigration policies are not fully harmonized, EEAS officials can apply country specific procedures.

Feasibility of the reform

As the priorities of foreign policy differ from country to country, the reform design and implementation would be country- specific and depend on the needs and capacities. The reform framework can include all the elements suggested in the previous section for modernising the Foreign Service with the exception of the EU shared consulate (Element 4) for non EU countries.

Notes

1. Sometimes providing information is mentioned as a fourth instrument. In this study providing information is seen as a support service (communication, see Chapter 6).
2. Setting and collecting of fees for services in kind are seen as part of service provision in kind. Borrowing and collecting property income from privatisation or sale of government assets is seen as a support service (finance).
3. Remember that employment can also be divided in administrative employment and service delivery in kind employment (see Chapter 2). Administrative employment is all employment for policy development, administrative regulation and supervision, support services and the administrative part of policy execution. Service delivery employment is employment for provision of individual and collective goods in kind.
4. Since these distinctions apply to the central government sector (as part of the general government sector) they exclude State owned enterprises (which are in the corporate sector but belong to the “public sector” of state controlled organisations).
5. The term “State” is used here in the sense of the legal person of the central government. In federal governments sometimes the word “State” is used for the constituent bodies of the federation (for instance in the USA). This is a different meaning of the term that is not used here.
6. The public prosecutors are here not included in the Judicial Branch although in some countries they have semi-judicial status as the “standing branch” of the judiciary. They are considered here as independent State agencies.
7. In Sweden only 5% of central government administrative employment is left in the core ministries.
8. There is an academic literature (for instance Talbot and Johnson, 2007; Pollit, 2007) which has interpreted the developments in the last decade as a swing back from the arm’s length agency model. It is true that some concern has been raised in reports of the 2000s about a “silo mentality” and the need for “joined up” government (UK Government, 2002; James, 2003; James, 2004). However, this has not led to a roll back of the agency model, but rather to a clearer advisory role of agencies in policy development and in some cases mergers of agencies with adjacent responsibilities or reintegration with ministries (Elston, 2011). Simultaneously during the 2000s more than 50 new agencies were created (sometimes resulting from mergers) and the share of home civil service employment in arm’s length agencies continued to rise.
9. See Reform 12.1 for steering of agencies.
10. Benefits include contributions of the parent ministry and can thus be seen as an indicator comparable to total expenditures of an agency run on cash basis.

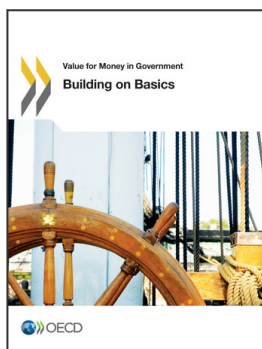
11. A good illustration of the fact that agreements about targets and budgets are usually not the real steering mechanism, is that for many agencies an arrangement exist, which specifies that budgets for services that have not been produced, must be returned (so-called after calculation).
12. In 2011.
13. In a legal sense all agencies without legal personality are owned by the State. Economic ownership means ultimate control over operations as guaranteed by standard setting for operational management. This competency remains with government, also in the case of independent agencies with legal personality.
14. A strict condition for the development of e-government initiatives in Denmark is the proof of cost savings in the form of a positive business case (see Reform 9.3).
15. “Révision Générale des Politiques Publics” (RGPP, General review of public policies).
16. See for instance République Française (2012), “L’État et ses agences” (2012) and Conseil d’État “Les agences : une nouvelle gestion publique ?”.
17. This inventory concerns only independent agencies with administrative tasks, not agencies tasked with service delivery in kind.
18. The list is not comparable with the French list of “*Opérateurs d’État*” because the latter contains agencies tasked with service delivery in kind and does only contain agencies with legal personality.
19. Law on the Autonomous Organs of Administration 2007.
20. Including the agency that supervises elections.
21. The literature on commercial non-profit institutions also suggests that profits are used for perks for board members and personnel (supported by many empirical studies).
22. See more on Digital Diplomacy in the UK at <http://blogs.fco.gov.uk/digitaldiplomacy/social-media-policy/>
23. See <http://ukforiranians.fco.gov.uk/en/>
24. The official web-site of the Ministry for Foreign Affairs, <http://www.government.se/sb/d/3367>
25. Information provided by the Norwegian Ministry for Foreign Affairs.
26. See more on the official website of the Dutch Ministry of Foreign Affairs www.government.nl/ministries/bz/about-the-ministry/missions-abroad/reforming-diplomacy-clear-choices-new-emphases
27. The number of staff, sent out by the Ministry of Foreign Affairs to overseas missions should decrease from 1 138 people now to 885 in 2015, sent out by other ministries- from 326 now to 290 in 2015; and the number of locally employed staff should decrease from 2 334 now to 2 095 in 2015.
28. As of December 2012, <http://www.bbc.co.uk/news/world-europe-20522201>

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