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Foreword

This report is the fifth country assessment to be published as part of the OECD *Value for Money in Government* series. The study, launched in 2008 on the initiative of the Dutch government, aims to identify new developments in the organisation of central government that are leading to better value for money: better services at lower costs for taxpayers. The first report in the series was published in 2010 under the title *Public Administration after "New Public Management"*. Since then, country assessments have been published on the Netherlands (2010), Denmark (2011), Australia (2012) and Sweden (2013).

The OECD Value for Money study aims to provide useful information for all OECD countries, but it uses data from a limited number of countries that have pledged to provide these data and to participate in an advisory committee for the study. These countries are: Australia, Austria, Canada, Denmark, Finland, France, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and the United Kingdom.

The Norwegian country assessment was prepared by an OECD team consisting of Dirk Kraan (lead, OECD Secretariat), Gwen Carpenter (consultant from the Danish Technological Institute), Knut Klepsvik (OECD Secretariat), Jeroen Nijland (OECD Secretariat) and Valentina Kostyleva (OECD Secretariat). Statistical assistance was provided by Emmanuel Job (OECD Secretariat).

The OECD team undertook a mission to Oslo on 21-24 November 2011. The team met with numerous officials of ministries and agencies and discussed many topics with them. During the discussions, the basic ideas for the reforms to be proposed to the Norwegian government gradually took shape. Much attention was paid to the special features of financial management in Norway that are connected to the oil revenues. Norway has introduced a set of specific fiscal rules in order to make sure that its oil riches are preserved for future generations and that the country will not suffer from "Dutch disease". An important theme of the discussions was to what extent these rules are compatible with a medium-term budgetary framework procedure as exists in most OECD countries. This resulted in the formulation of a reform that introduces a medium-term expenditure framework while maintaining the special safeguards that Norway has made for the preservation of its wealth from natural resource extraction. Much attention was also given in the discussions to automatic cuts on productivity dividends, spending review, regulatory policy, and co-ordination across ministries.

The team is grateful to Lars-Henrik Myrmel-Johansen, Director General for Administration and Reform, and Pal Longva, Director General of the Budget, for making this assessment possible and for inspiring discussions during the mission. The team also wishes to thank Carlo Thomsen, Senior Policy Advisor at the Department of ICT Policy and Public Sector Reform, and Colin Forthun, Deputy Director of the Budget Department of the Ministry of Finance, for their numerous suggestions and contributions to the report. The team is also grateful to Carlo Thomsen for the organisation of the mission, for help throughout the conduct of the study to find information, trace documents or contact people, and for his hospitality during the mission.

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Acronyms

ACPD: automatic cuts of productivity dividends

AFP: *Avtalefestet pensjon* (Norwegian early retirement programme)

AME: annually managed expenditure

CBA: cost-benefit analyses

COSO: Committee of Sponsoring Organisations of the Treadway Commission

CSIRO: Commonwealth Scientific and Industrial Research Organisation

DEL: departmental expenditure limits

DFØ: *Direktoratet for Økonomistyring* (Norwegian Government Agency for Financial Management)

Difi: *Direktoratet for forvaltning og IKT* (Agency for Public Management and eGovernment)

DPG: deduction in productivity growth

EEA: European Economic Area

EMU: European Economic and Monetary Union

ESA 95: European System of Accounts

FTE: full-time equivalents

FY: fiscal year

GAS: Government Administration Services

GPFG: Government Pension Fund Global

IIA: Institute of Internal Auditors

ILO: International Labour Office

INTOSAI: International Organisation of Supreme Audit Institutions

KOFA: *Klagenemnda for offentlige anskaffelser* (Appeals Board for Public Procurement)

KOSTRA: *KOmmune-STat-RApportering* (Municipality-State-Reporting)

NAV: *Ny Arbeids- og velferdsforvaltninga* (Norwegian Labour and Welfare Service)

NCA: National Collection Agency

NOK: Norwegian kroner

NOU: *Noregs offentlege utgreiingar* (official Norwegian report)

OAG: Office of the Auditor General

PFED: *Public Finance and Employment Database*

PWA: price and wage adjustment

RIA: regulatory impact assessments

SAI: supreme audit institution

SGP: Stability and Growth Pact

SNA 93: System of National Accounts

SR: spending review (called "strategic review" in Australia)

USD: United States dollars

Executive summary

The Value for Money in Government study

This report presents the results of the assessment of the organisation of the central government of Norway. The report is part of a series of similar assessments that has been carried out for the OECD Value for Money in Government study, which is a multi-annual project that aims to identify reforms currently undertaken or planned in OECD countries that are interesting from the point of view of value for money. The study looks at reforms that are aimed at improving the quality of services (more value) and efficiency (less money) in central government.

This assessment is based on an inventory of some 50 reforms and reform trends concerning the organisation of central government currently undertaken or planned in OECD countries. These reforms and reform trends will be presented in the final report of this series entitled: *Building on Basics* (forthcoming).

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

Benchmarks for Norway

Compared to the other countries in the Value for Money study, the size of general government employment (including local government) is large in Norway, even when excluding health and education (which are almost entirely inside the general government in Norway), as is the case in other Nordic countries. However, it is somewhat smaller than in Denmark and Sweden. The large public employment in Norway is concentrated at the local level. Central government excluding health and education is remarkably similar in all of the countries participating in the Value for Money study (3-5% of domestic employment, 14-22 government employees per thousand inhabitants).

Most employment in central government in Norway is in the agencies. In contrast to other countries included in this study, hardly any administrative policy execution is left in the core ministries. Norway has a relatively small share of employment in independent agencies, due to the fact that the executive agencies of social security and inspectorates are, for the most part, not formally independent. Countries that have a clear policy as to the status of independent agencies, based on explicit criteria, tend to have a larger share of employment in independent agencies.

As far as expenditure is concerned, the overall rate of decentralisation is close to the average of the countries included in this study (33.6% *versus* 30.3% on average). In line with the tenor of the employment data, Norway is less decentralised than Sweden, largely due to relatively high spending on market regulation (including industrial policy), social services and defence (comparative data are not available for Denmark and Finland).

The Norwegian central government spends slightly less than average on collective services in kind (18.4% *versus* 21.1% on average) and on collective cash transfers (34.3% *versus* an average of 36.5%). The central government spends more than average on individual goods in kind (31.1% *versus* 27.6% on average), mainly because of the centralisation of health-care spending and substantial subsidy expenditures. Norway spends slightly more than average on individual cash transfers (34.6% *versus* an average of 33.1%), but substantially less than other Nordic countries.

In Norway, the own tax share in total revenue of local government is close to the average of the countries participating in this study (41.8% *versus* 40.5% on average) and substantially less than in Finland and Sweden (but more than in Denmark). This is due to the fact that Norwegian local government is largely financed through earmarked and non-earmarked grants rather than through tax-sharing arrangements.

Previous reforms in Norway

Since the 1980s, three periods of reform can be distinguished in Norway. The first period covers the 1980s. Whereas the period from WWII to 1980 has been described as the expansion period of the Norwegian public administration, the 1980s can be seen as a period of rebuilding and adjustment. This period was influenced by the ideas of market reform and New Public Management that also became prominent in other OECD countries. In Norway, the Conservative Party came into power after the election in 1981, taking over from the Labour Party that had dominated the government after WWII. This change of government led to a period of active reform in the Norwegian government administration which included deregulation, devolution of government units into corporations without complete privatisation (*fristilling*) and budget reform aimed at medium-term fiscal planning and more emphasis on performance and results.

In the 1990s, many reforms in Norway were inspired by the 1989 Hermansen Report which discussed organisational options for several kinds of governmental tasks. The report emphasised the political role of ministers and their unlimited right to steer, and underlined the responsibility of the ministries for steering and controlling subordinate agencies. These ideas were thought to enhance the effects of the budget reform of 1986. The Hermansen Report's proposals were developed further during the 1990s. In 1992, the Cabinet decided to strengthen the requirements for performance information, both in the steering dialogue between the line ministries and the agencies as well as in the line ministries' budget proposals to the Parliament. The budget is classified by programme area and agency. Descriptions of objectives and targets for the budget year and of results achieved in the previous year are assigned to the attachment called the *Yellow Book*. In 1997, the *Storting* (Parliament) introduced a new parliamentary budget procedure based on a top-down approach, mirroring the new top-down oriented budget procedure adopted by the government in 1991. The new government procedure focused on two Cabinet conferences. During the first, in March, the Cabinet decides on spending frames for each ministry based on unchanged policy as well as on a total limit for new initiatives of all ministries. Then in August, the Cabinet decides on new estimates for entitlement spending and distributes the resources reserved for new initiatives among the ministries. During the 1990s, the government put a lot of emphasis on enhancing market competition, and the Parliament adopted a new Competition Law in 1993. At the same time, it established a new agency to supervise and enforce competition in markets for goods and services, the Norwegian Competition Authority.

The policy to establish agencies outside the core ministries that started after WWII continued in the 1990s and accelerated in the 2000s. With the introduction of new instruments for steering, in the second part of the 1980s, agencies were also established in politically sensitive areas like police, education and health. Over the last decades, therefore, the core ministries have become more focused on establishing new policies, and the boundaries between politically appointed personnel (ministers, state secretaries and political advisors) and civil servants have become less clear than before. Devolving tasks to subordinate agencies was no longer considered to apply only to technical and administrative tasks, but to all executive tasks. Political sensitivity or room for maneuver in executive policy was not seen as an argument against devolution. In the beginning of the 2000s, major reforms took place in several policy sectors, including the organisation of the central health administration, the reorganisation of the court administration, hospital reform, defence reform, police reform, the reorganisation of penitentiary institutions, reorganisation of the administration of lower and secondary education, reform of social services, the transfer of local food control authorities to the Norwegian Food Safety Authority, and the centralisation of employment services and unemployment and social assistance benefits through the creation of the Norwegian Labour and Welfare Service. Within de-concentrated agencies, the tendency has been amalgamation of local units into larger district and regional units, for instance in the Tax Administration, the Customs and Excise Administration and the Public Roads Administration. In the early 2000s, some government agencies were split up and parts were transformed into government-owned public companies, including the real estate company Entra Eiendom and the road construction company Mesta. In connection with the transfer of tasks from the government to public enterprises, the government established supervision authorities to ensure that the state monopoly would be replaced by effective competition. This applies to the following sectors: postal, telecommunications, railways, and aviation, as well as energy production. The centre-left government established a tax revenue ceiling in 2005 which, in combination with the balance rule of 4% use of real return from the Government Pension Fund Global, implicitly defines an expenditure ceiling at aggregate level.

Ten priorities for reform

This report presents the ten reforms or reform trends from the list of 50 to be presented in the forthcoming *Building on Basics* that in the view of the OECD Secretariat are particularly interesting for Norway.

The reforms are organised by type of government task:

- Policy development:
  1. Strengthening of regulatory policy.
  2. Co-ordination across ministries.
- Operational management and support services:
  3. Medium-term expenditure framework.
  4. Implementation of spending reviews.
  5. Automatic cuts of productivity dividends; size of core ministries.
  6. Shared support services.
  7. Standards of operational management.
  8. Digitising the public sector.
  9. Standards of internal audit.

- Administrative supervision and regulation:

  10. Independent supervisory and regulatory authorities.

The proposed reforms lead to the following recommendations.

Reform 1: Strengthening of regulatory policy

- The Norwegian government may consider: evaluating and updating the current impact assessment methodology in parallel with the current review of the cost-benefit methodology, including the guidance and support provided; putting in place a solid mechanism to ensure the quality of regulatory impact assessments and cost-benefit analyses, considering the use of a preliminary check by a regulatory oversight authority.
- The Norwegian government may consider integrating *ex post* review of existing regulations into a broader policy of programme evaluation along the lines of the United Kingdom's *Green Book*.
- The Norwegian government may consider increasing and broadening the current efforts to simplify existing regulation and to reduce regulatory burdens by including other target groups like citizens and public sector front-line workers, as well as going beyond tackling administrative burdens for businesses. Evaluation of regulatory burdens requires a top-down approach and special procedural rules.
- The Norwegian government may consider strengthening oversight and co-ordination by the ministry charged with regulatory policy, formulating the Cabinet's vision of Norway's regulatory policy, where it is and where it should be going, assessing its progress on a regular basis. The recommendations mentioned above should be part of this vision.

Reform 2: Co-ordination across ministries

- The Norwegian government may consider reducing the number of full Cabinet ministers to 13-15 at the start of the next parliamentary period. This reform could be prepared by a study of a high-level committee of (former) politicians, senior civil servants and external experts. The study should focus on ways to merge existing ministries so as to minimise the need for interministerial co-operation in the light of future needs for public policy and public service delivery.

- The Norwegian government may consider enhancing its planning procedure for new policy initiatives in connection with the introduction of a fixed expenditure framework (Reform 3). All new policy initiatives should be specified, and the budgetary consequences for all ministries, both in the budget year and the out-years, should be included in the expenditure framework at the occasion of its periodical revision.

Reform 3: Medium-term expenditure framework

- The Norwegian government may assess the pros and cons of adopting a fixed multi-year expenditure framework in which, for example, spending ceilings for each ministry are set for the following three years, consistent with trend returns on the Government Pension Fund Global (GPFG) and tax revenues and a structurally zero non-oil deficit. In addition, the government may consider adopting a pay-as-you go rule for the tax side of the budget.

Reform 4: Implementation of spending reviews

- The Norwegian government may consider introducing spending reviews with the aim of evaluating the efficiency and effectiveness of current programmes and the development of savings options. The review process should be closely linked to the government's budget preparation procedure. The regulation should clearly articulate the spending review framework, including the task and composition of the working parties conducting the reviews, the role of the supervisory committee, and the publication of the reports. In order to succeed, the key concern in institutionalising the spending review procedure is to make spending reviews as stringent and focused as possible, meaning that they must lead to concrete and elaborated saving options to be used in the budget process. Options to increase expenditures should not be allowed in spending reviews.
- The Norwegian government may consider conducting spending reviews on a quadrennial basis linked to the parliamentary electoral cycle – that is, in the year before elections. All major spending areas should be included in the spending review procedure.

- The Norwegian government may consider creating a spending review unit within the Ministry of Finance to support the review process. It must ensure that the reviews are conducted in a timely manner and that they remain focused on questions that lead to saving options that can be used in the budget process.

Reform 5: Automatic cuts of productivity dividends; size of core ministries

- The Norwegian government may consider introducing a government-wide procedure for automatic cuts of productivity dividends (ACPD) in the central government. Cuts should cover all ministries and agencies. Following the Swedish experience, Norway could apply the annual cuts on the multi-annual baseline estimates of operational expenditures (compensation of employees, intermediate consumption, and investment in government accommodation and facilities) for the upcoming budget year.
- The Norwegian government could either establish the rate of the annual cut by political decision (following the Australian and Danish examples) or link the cut rate to productivity development in the private service sector (following the Swedish example). In the former case, it is commendable to choose a prudent rate in the order of 1% or 2% per year to foster broad political acceptance.
- If, in the light of an assessment of recent developments, the Norwegian authorities come to the conclusion that a more focused approach is required to reduce employment or operational expenditures in core ministries, they could temporarily increase the cut rate of the ACPD arrangement for core ministries, or they could introduce a temporary operation to reduce employment or operational expenditures of core ministries or for units tasked with policy development and support services (typically located in core ministries). The Norwegian authorities may wish to look more closely at the examples of Finland and the Netherlands for the design of an operation of this kind.

Reform 6: Shared support services

- The Norwegian government may consider reorganising and merging the shared service providers in order to enhance efficiency.
- The Norwegian government may consider: *i)* facilitating shared services in more areas, in particular ICT, human resources and

procurement; and *ii)* strengthening the incentives for the use of shared services.

Reform 7: Standards of operational management

- The Norwegian government may consider enhancing the standards of operational management, primarily by ensuring better compliance with existing standards. For that purpose, it could be useful to hold regular meetings of ministerial directors for the various areas of operational management, at which time an explicit policy of standard maintenance can be discussed and agreed.
- The Norwegian government may consider bringing all central and de-central standard-setting tasks under the direct responsibility of a minister. In the case of central standard setting, this may involve lifting these tasks out of the remit of shared service centres.
- The Norwegian government may consider concentrating the responsibility for standards of operational management in one or two ministries. In the latter case, it is recommended that all standard-setting tasks of the Ministry of Government Administration, Reform and Church Affairs be concentrated in a single directorate general.

Reform 8: Digitising the public sector

- The Norwegian government may consider clarifying governance frameworks for the common components of the ICT infrastructure by:
  - clearly defining the participating ministries and agencies in basic registers and the client ministries and agencies of the Agency for Public Management and eGovernment (Difi);
  - organising basic registers as arm's-length agencies;
  - ensuring that all participants of basic registers and all clients of Difi contribute to the financing of their activities and negotiating their contributions in the context of the regular budget process with the parent ministry; only the parent ministries should finance basic registers and Difi;
  - strengthening the common rules for the basic registers.
- The Norwegian government may consider creating a gateway procedure that facilitates the financing of ICT projects that lead to

savings and ensures that ICT projects requiring additional resources are decided in the regular budget process. The procedure should require the elaboration of a business case for each major project (with a threshold in the order of NOK 10 million). The business case should be proposed by the responsible minister and checked in an *ex ante* evaluation by a special committee of high-level civil servants and experts. The business case should be explicit about costs and savings, year by year, over the medium term. Each business case should lead to an unambiguous conclusion on whether a proposed ICT project leads to savings in the medium term against the baseline of current policy. ICT projects that lead to savings can subsequently be decided by the responsible minister. An ICT project that does not lead to savings (but possibly to quality benefits) should only be decided by an individual minister if it can be financed through internal reallocation and does not require an increase of ministerial expenditure ceilings (see Reform 3 on the role of expenditure ceilings). Otherwise, the decision on the project should always be taken in the annual budget process after trade-off with other new spending initiatives, possibly in other ministries.

- The Norwegian government may consider creating a directorate for ICT management (possibly as part of a Directorate General for Operational Management with responsibility for standard setting for other operational means as well) in the core Ministry of Government Administration, Reform and Church Affairs. The director (chief information officer) could chair a standing commission of ministerial information officers of all ministries. The ministerial information officers could supervise the implementation of central standards and serve as de-central standard setters for their ministries.

Reform 9: Standards of internal audit

- The Norwegian government may consider establishing small central internal audit units in core ministries, under the direction of a highly qualified senior auditor. These units could focus on risk management for the ministry and its agencies as a whole and advise the secretary general on all matters of internal control and internal audit in the ministry. The units should receive all of the subordinate agencies' audit reports. This would increase the coverage of internal audit to a large percentage of total and operational expenditures, without in any way detracting from the criteria of risk and significance.

- The Norwegian government may consider making capacity for central harmonisation available in the Ministry of Finance. The unit concerned could be tasked with setting government-wide standards for internal audit. These standards should also encompass requirements for the staffing, recruitment, training and certification of internal auditors.

Reform 10: Independent supervisory and regulatory authorities

- The Norwegian government may consider starting preparations for a comprehensive follow-up on the important current analyses carried out by Difi; part of this follow-up should be the development of a coherent framework to help design clear and transparent legal bases for the respective supervisors and regulators; it should also entail mechanisms to monitor the extent to which the conditions set out in the framework are met in practice.

- The Norwegian government may consider exploring ways to stimulate closer co-operation and the exploitation of synergies between the respective supervisors and regulators; this should cover the co-operation and synergies in the back offices of the organisations, as well as in the front offices, in managing relations with businesses and other client groups.

- The Norwegian government may consider developing a vision of the common principles that guide the interaction with citizens and businesses to whom regulations are addressed and that have to ensure that regulatory burdens are minimised; this should clarify the regulators' and supervisors' contribution to the national regulatory policy (Reform 1).

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

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

	Reform	Quality improvement in administration	Quality improvement in service delivery	Savings
Reform 1	Strengthening of regulatory policy	X	X	
Reform 2	Co-ordination across ministries	X		
Reform 3	Medium-term expenditure framework	X		
Reform 4	Implementation of spending reviews	X		Moderate
Reform 5	Automatic cuts of productivity dividends; size of core ministries			Large
Reform 6	Shared support services	X		Moderate
Reform 7	Standards of operational management			Moderate
Reform 8	Digitising the public sector	X	X	Moderate
Reform 9	Standards of internal audit	X	X	
Reform 10	Independent supervisory and regulatory authorities	X	X	

Chapter 1

Introduction to the "Value for Money" assessment of Norway

This chapter describes the background for the OECD study on value for money in government and the content of this report on Norway.

This report presents the results of the assessment of the organisation of the central government of Norway. It is part of a series of similar assessments that have been carried out for the OECD Value for Money in Government study, which is a multi-annual project that aims to identify reforms and plans for reform currently undertaken or planned in OECD countries that are interesting from the point of view of value for money. The study looks at reforms that are aimed at improving the quality of services (more value) and efficiency (less money) in central government.

This assessment is based on the inventory of some 50 reforms and reform trends concerning the central government currently undertaken or planned in OECD countries. These reforms and reform trends will be presented in the final report of the Value for Money in Government study entitled *Building on Basics* (forthcoming).

In order to collect information, the OECD Secretariat went on fact-finding missions to countries for which country assessments have been produced. These countries include: Australia, Denmark, the Netherlands, Norway and Sweden. Furthermore, three questionnaires were sent to eight additional countries that offered to provide information for this study: Austria, Canada, Finland, France, Ireland, New Zealand, Spain and the United Kingdom. Information was also collected from OECD databases as well as from databases of other international organisations.

Quantitative data on employment and expenditures are drawn from the OECD *Public Finance and Employment Database* (PFED). To date, this database covers 18 European countries. As far as the countries of the Value for Money in Government study are concerned, the PFED does not cover Australia, Canada, France, the Netherlands or New Zealand.[1] In addition, data have been provided to the OECD about administrative employment (the snapshots of the public administration) by most of the countries participating in the Value for Money in Government study (with the exception of Ireland, New Zealand and the United Kingdom).

Variety of institutions, common language

In spite of having features in common, such as representative democracy, rule of law, market economy and broad public social security arrangements, the variety of the public administration institutions in OECD countries is large. This variety is the result of centuries of historical development, geographical circumstances, national values and political traditions. As a consequence, the vocabulary that is used for describing the administrative institutions is different between countries. Terms may have a different meaning or connotation in the vocabulary of another country. Examples include such elementary terms as agency, ministry, service delivery, administration, civil service, etc.

Therefore, a comparative description can only begin after a common language has been established. Such a common language will surely be at odds with the national ways of speaking about institutional arrangements. This study uses existing terms, but gives them new meanings, while alerting the readers that these meanings do not coincide with those of the national vocabulary. When necessary, the terminology is explained in the text. In addition, it is summarised in the Glossary of this report.

Building on basics

During the 1980s and 1990s, the organisation of government in all of the countries participating in the Value for Money study was profoundly influenced by the ideas of New Public Management. Some countries have gone further than others in reforming their governments along these lines. Among the ones that went the furthest are Australia, New Zealand and the United Kingdom. Since then, it has become clear in all countries concerned that these reforms led to some unexpected results, such as undesired growth of support services and administrative executive agencies, an accumulation of public funds in agencies outside the control of government, and loss of control at the centre of government (Office of the Prime Minister and the ministries responsible for finance and operational management).

Critics say that New Public Management has also led to loss of service quality for citizens and businesses in many areas of public service delivery and demotivation of professionals in service delivery (care providers, teachers, police officials, etc.). The difficulties with the New Public Management reforms will further be analysed in the forthcoming Value for Money report *Building on Basics*. For the current report, it suffices to observe that, in a number of countries that have provided information to the project, a distinct swing back from the New Public Management reforms can be observed. A swing back is particularly noticeable in some of the countries that the OECD Secretariat visited for fact-finding missions (Australia, Denmark, the Netherlands).

However, new trends cannot simply be described as back to basics. They are also driven by new developments, for instance in information and communication technologies (ICT). Current trends include:

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

ICT creates new opportunities for improving service quality and ease of communication with the government, and with more tailor-made service provision to citizens and business. In this light, the current developments in public administration are presented in the Value for Money in Government study under the heading of “Building on Basics”.

Contents of the assessment

Chapter 2 provides a number of facts and quantitative benchmarks on the Norwegian central government compared to other countries. Chapter 3 briefly reviews the reforms concerning the organisation of central government that have been undertaken over the last decades in Norway. Chapter 4 focuses on ten areas of reform that are interesting for Norway in view of what other countries have achieved or are envisaging to achieve. The ten reforms selected are by no means the only reforms identified in the Value for Money in Government study that are relevant for Norway. The present country assessment reviews the ten reforms that were considered the most interesting for Norway in view of current policy developments and economic circumstances. For each area of reform, recommendations will be provided focused on the Norwegian situation. Chapter 4 concludes with a survey of the effects on the quality of services and the potential savings. Since the savings are dependent on factors that the OECD Secretariat cannot estimate, the size of the savings are characterised in qualitative terms.

Note

1. The PFED (*Public Finance and Employment Database*) is based on other international databases, in particular the *Laborsta database* of the ILO and the Eurostat database of the EU. Eurostat does not collect data for non-European countries (Australia, Canada, New Zealand) and, for some European countries, the Eurostat data are not complete or not yet released (France and the Netherlands).

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Chapter 2

Benchmarks for the Norwegian central government

This chapter describes basic features of the Norwegian government, including quantitative data on employment, expenditures, and revenues.

Basic features

Norway is a country of intermediate size in terms of population and gross domestic product. Its constitutional structure characterises it as a parliamentary democracy. Norway is not a member of the European Union. Instead it belongs to the European Economic Area (EEA). The European countries participating in this agreement (Iceland, Lichtenstein and Norway) have taken over the rules of the European Union for the common economic market (the relevant *acquis communautaire*) and can make their voices heard in EU affairs through a special procedure established for this purpose. The Norwegian Parliament is elected on the basis of proportional representation. Table 2.1 provides basic statistics of Norway.

Table 2.1. **Basic statistics of Norway (2010)**

Land and population	
Area (1 000 km²)	323.8
Population (x 1 000)	4 889.2
Inhabitants (per km²)	14.7
Employment (x 1 000)	2 494.5
of which:	
Agriculture	63.8
Industry and construction	491.3
Other	1 939.5
Gross domestic product (USD billions)	279.8
Gross domestic product per head (USD thousands)	57.2
Total expenditures (% of GDP)	46.1
Total revenues (% of GDP)	56.7
Deficit (ESA 95) (% of GDP)	10.6
Public debt (% of GDP)	49.7
Composition of Parliament (seats; elections 2009)	169
Labour Party	64
Progress Party	41
Conservative Party	30
Socialist Left Party	11
Centre Party	11
Christian Democratic Party	10
Liberal Party	2

Sources: OECD National Accounts, OECD Publishing, Paris; CIA (2010), *The World Factbook*, Central Intelligence Agency, Washington, DC.

General government employment

The size of employment in government is strongly affected by the organisation of the policy areas of education and health. The size of private education (outside the general government sector) relative to the size of public education varies from country to country. In Norway, the size of private education is small. With the exception of universities and tertiary vocational education, education is the responsibility of local government and counties. Hospitals and doctors may be inside, partly inside or outside the general government sector. In Norway, they are almost entirely inside.

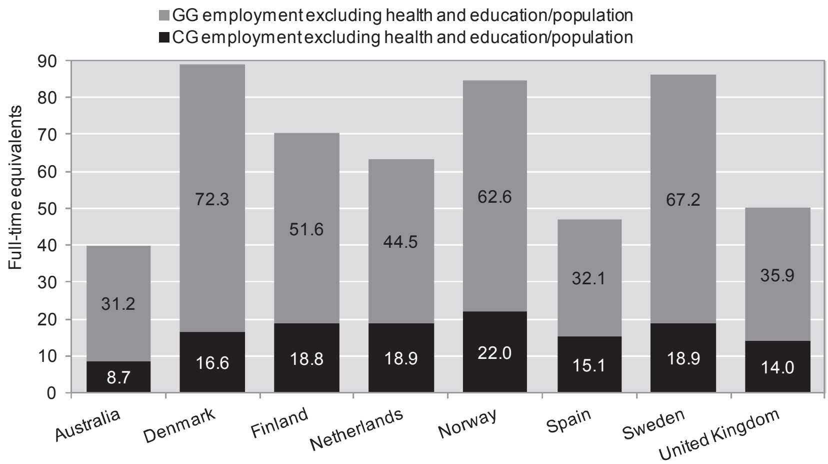
In this light, a sensible comparison can only be made by leaving health and education aside. Figure 2.1 presents central and general government employment excluding health and education per thousand inhabitants and as a percentage of domestic employment. Total government employment includes both administration and service delivery in kind. The sub-sector of social security has been merged with the central government in this figure as well as in all of the following tables of this chapter.[1] As is common in Nordic countries, the size of employment in general government (including local government) is quite large in Norway.

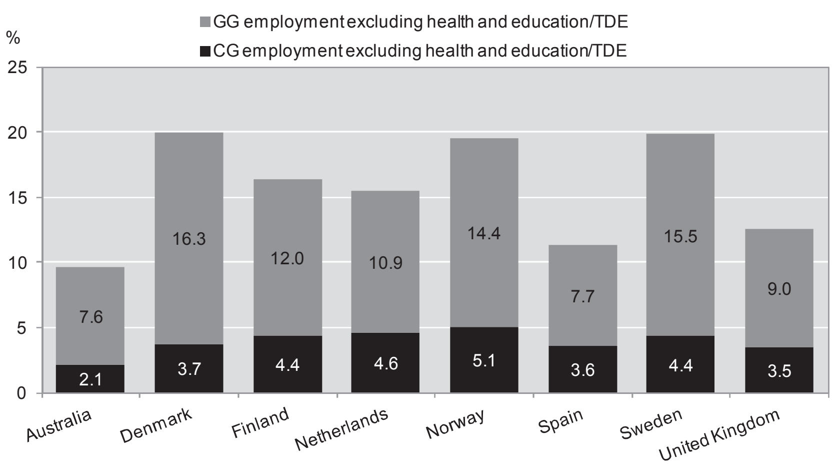
It appears from Figure 2.1 that the size of general government employment in the Nordic countries is clearly larger than in the other countries (all above 80 employees per thousand inhabitants), even when health and education are excluded (which are in the Nordic countries almost entirely inside general government). Norway has the third largest employment in general government (surpassed only by Denmark and Sweden); the large public employment in Norway is concentrated at the local level. Central government employment excluding health and education is remarkably similar in all of the countries participating in the Value for Money in Government study (3-5% of domestic employment, 14-22 government employees per thousand inhabitants). Norwegian employment in central government amounts to 103 000 full-time equivalents (FTEs).

The decentralisation rate of Norway excluding health and education is 64.8, which is substantially lower than in the other Nordic countries and close to the overall average (60.1%). This can be explained by the fact that Norway has relatively[2] more employment in market regulation (including industrial policy) and social services (mostly family care and child care) than Denmark and Sweden. In addition, Norway has relatively more employment in defence than Sweden and more employment in infrastructure and network services than in Denmark.

Figure 2.1. **Employment in general and central government excluding health and education relative to population and domestic employment**

FTEs per 1 000 inhabitants and % of domestic employment in FTE (2006)[1]





1. Data for the Netherlands are for 2004.

Source: OECD *Public Finance and Employment Database* (PFED).

Table 2.2. **Employment in general government excluding health and education, by level of government**

% of total general government in FTE (2006)[1]

	Denmark	Finland	Netherlands	Norway	Spain	Sweden	United Kingdom	Average
Central government	23.0	36.5	42.5	35.2	47.1	28.2	39.1	36.9
State government	–	–	–	–	15.0	–	–	2.1 (15.0)[2]
Local government	77.0	63.5	57.4	64.8	37.8	71.8	60.9	60.1
General government	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. Data for the Netherlands are for 2004.

2. For the calculation of the averages, employment in state government is set at 0 for the unitary countries. The number in parentheses is the true average of the federal countries (in this case, only Spain).

Source: OECD *Public Finance and Employment Database* (PFED).

More information about the distribution of employment over public organisations is available from the snapshots of the public service. Snapshots have been provided by eight of the 13 the countries participating in the Value for Money in Government study. The snapshots only contain administrative employment, not service delivery. Administrative employment excludes: the military, the police, staff of penitentiary institutions, other collective service delivery (for instance, units for construction or management of transport infrastructure), all non-profit institutions classified inside central government in the national accounts, all educational institutions, health providers and other institutions involved in individual service delivery (cultural services, social services, etc.).[3] The snapshots make it possible to distinguish between employment in core ministries, arm's-length agencies and independent agencies. An agency is defined as a unit of a ministry with a separate financial administration. An arm's-length agency is defined as an agency for which the minister is responsible as far as executive policy is concerned (not necessarily for handling of individual cases). An independent agency is an agency for which the minister is not responsible as far as policy execution is concerned (neither for handling individual cases nor for executive policy). Table 2.3 shows the distribution of central government employment for these three kinds of organisations. The difference between the totals of administrative employment as shown by Table 2.3 and the totals of central government employment excluding health and education as shown by Table 2.2 are due to service delivery employment (including service delivery in education and health).[4]

Table 2.3. **Central government administrative employment by type of organisation**

% of total administrative central government employment in FTE (2009)

	Australia	Austria	Denmark	Finland	Netherlands	Norway	Spain	Sweden	Average
Core ministries	42.0	29.7	6.2	10.4	43.2	8.7	36.1	4.2	22.6
Arm's-length agencies	58.0	47.3	80.5	80.8	21.7	86.8	63.3	95.6	66.8
Independent agencies	0.0	23.0	13.3	8.7	35.1	4.5	0.6	0.2	10.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Snapshots of the public administration 2010.

Even if the data presented in Table 2.3 have to be taken with a grain of salt, due to problems that countries encountered in splitting off employment engaged in service delivery from administrative employment, it is clear that the Nordic countries again stand out from the others in that they have very small core ministries. Most employment in central government is in the agencies. In contrast to other countries, hardly any administrative policy execution is left in the core ministries (compare, for instance, the Netherlands where the tax administration is still in the core Ministry of Finance). Norway has a relatively small share of employment in independent agencies, due to the fact that the executive agencies of social security and inspectorates are for the most part not formally independent. Countries that have a clear policy as to the status of independent agencies, based on explicit criteria, tend to have a larger share of employment in independent agencies (Austria, the Netherlands).

The snapshots also allow a comparison of the division of employment over the four activities of government (policy development, administrative policy execution, regulatory/supervisory activities and support services). Table 2.4 shows the resulting picture. It should be emphasised that in spite of detailed guidelines, countries reported problems in completing the snapshots, and particularly in the distribution of employment over the four activities of government.

Table 2.4. **Central government administrative employment by type of activity**

% of total central government in FTE (2009)

	Australia	Austria	Canada	Denmark	Finland	Netherlands	Norway	Spain	Sweden	Average[1]
Policy development	18.5	15.0	n.a.	5.1	8.5	7.8	9.0	18.3	2.8	9.4 (10.6)
Administrative policy execution	31.5	48.7	n.a	88.8	68.5	79.9	57.4	68.1	73.0	57.3 (64.5)
Administrative supervision/ regulation	17.0	13.8	9.1	4.9	7.0	5.7	27.5	0.5	0.2	9.5
Support services	33.0	22.5	18.3	1.1	16.1	6.6	6.1	13.1	24.0	15.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. Averages are calculated by setting unavailable data at 0. The number in parentheses is the true average for the countries for which data are available.

Source: Snapshots of the public administration 2010.

It is possible that, due to differences in the interpretation of the various activities of the government, the resulting comparative picture is not fully reliable, particularly as far as support services are concerned. Nevertheless, a pattern is still visible. Again, the Nordic countries stand out with low employment in policy development and large employment in policy execution, but Norway is an exception. Its share of employment in policy development (9.0%) is substantially larger than in the other Nordic countries (only slightly smaller than the overall average of 10.6%) and its share of employment in policy execution (57.4%) is substantially smaller than in the other Nordic countries (even smaller than the overall average of 64.5%). Norway stands out with an employment share of 27.5% in administrative supervision and regulation. This can partly be explained by the large independence of Norwegian regulators, but it may also be partly due to difficulties in interpretation and application of the concept of administrative regulation and supervision. Norway reports the smallest share of employment for support services among the countries participating in the Value for Money study (6.1% *versus* 15.6% on average).

General government expenditures

Obviously, employment is not the only indicator for the size of government. Expenditures are equally important. Expenditures include all operational expenditure (including compensation of employment) as well as all programme expenditure (social benefits, transfers to sub-national government, public contributions and subsidies to the corporate sector and most investment). Table 2.5 presents expenditures by level of government (sub-sector) as a percentage of general government expenditure. Note that the sum of the sub-sectors exceeds general government expenditure as a consequence of transfers between sub-sectors.

Table 2.5. **General government expenditures by level of government (sub-sector)**

% of general government expenditure (2010)[1]

	Austria	Denmark	Finland	France	Ireland	Netherlands	Norway	Spain	Sweden	United Kingdom	Average
Central government	85.4	78.5	84.1	90.2	92.8	95.4	79.3	74.6	69.1	92.4	83.5
State government	18.5	–	–	–	–	–	–	37.5	–	–	5.1 (28.0)[2]
Local government	15.5	64.5	40.6	20.9	16.0	34.2	33.6	15.7	47.9	27.8	30.3
General government	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. Data for Ireland, the Netherlands and Sweden are for 2009.

2. There are two federal countries (Austria and Spain). For the calculation of the averages, employment in state government is set at 0 for the other countries. The true average for the federal countries is provided in parentheses.

Source: OECD *Public Finance and Employment Database* (PFED).

In line with the tenor of employment data, it turns out that Norway is less decentralised than other Nordic countries as far as the decentralisation of expenditure is concerned. Its rate of decentralisation is close to average (33.6% *versus* 30.3% on average). Some of the same factors are at work in this respect: Norway spends relatively more on market regulation (including industrial policy) and social services than Sweden, and relatively much more on defence than Sweden.[5]

Patterns of central government spending vary considerably between the countries participating in the Value for Money study. This is partly due to different policies concerning privatisation and decentralisation. Some countries leave more tasks to the market sector of the economy than others. Similarly, some countries leave more tasks to local and/or state government. In federal countries, state government tasks are often determined by the federal constitution. Table 2.6 provides an overview of spending patterns over policy areas in the central governments of the countries participating in the Value for Money study.

The Norwegian central government spends slightly less than average on collective services in kind (18.4% *versus* 21.1% on average) and on collective cash transfers (34.3% *versus* 36.5% on average). It spends more than average on individual goods in kind (31.1% *versus* 27.6% on average), mainly because of the centralisation of health-care spending and substantial subsidy expenditures. The government also spends slightly more than the average on individual cash transfers (34.6% *versus* 33.1% on average), but substantially less than other Nordic countries.

Patterns of spending have an impact on government employment, mostly via two channels. The first is the rate of outsourcing, which reduces government employment. The second is the labour intensity of outputs. A higher priority for non-outsourcible or labour-intensive outputs leads to higher government employment.[6]

It turns out that the rate of outsourcing[7] in the Norwegian central government is 48.5%, which is a bit below the average of the other countries in the Value for Money study (53.6%), suggesting that there are still opportunities for more extensive use of the market sector, particularly in policy areas such as defence (53.1% *versus* 57.3% on average), public order and safety (32.4% *versus* 57.3%), market regulation (46.7% *versus* 58.1%), non-market recreation, culture and religion (38.8% *versus* 53.4%), and social services (30.3% *versus* 49.5% on average).

Table 2.6. **Central government expenditures by policy area**

% of central government expenditure (2009)[1]

	Austria	Denmark	Finland	France	Ireland	Netherlands	Norway	Spain	Sweden	United Kingdom	Average[2]
General governance services	1.7	n.a	n.a	n.a	0.7	n.a	2.6	1.6	3.8	7.7	1.8 (3.0)
Basic research	0.7	n.a	1.3	n.a	0.0	n.a	0.1	0.3	2.4	0.0	0.5 (0.7)
Defence	1.8	3.3	n.a	3.8	1.2	3.0	4.7	3.0	3.9	5.8	3.1 (3.4)
Public order and safety	3.1	2.4	n.a	2.0	4.1	3.9	2.4	3.6	3.2	4.3	2.9 (3.2)
Infrastructure and spatial development	1.8	n.a	n.a	n.a	5.5	n.a	4.4	2.9	5.4	5.0	2.5 (4.2)
Market regulation	4.4	n.a	n.a	n.a	11.5	n.a	4.3	3.9	2.7	12.2	3.9 (6.5)
Total collective services in kind	13.5	n.a	n.a	n.a	23.0	n.a	18.4	15.3	21.4	34.9	12.7 (21.1)
International co-operation	2.1	4.5	2.8	n.a	2.5	n.a	3.0	3.2	4.3	2.4	2.5 (3.1)
General purpose and block grants	0.0	n.a	n.a	n.a	1.3	n.a	10.3	31.6	7.0	0.1	5.0 (8.4)
Interest	5.8	n.a	2.9	n.a	4.7	n.a	2.7	4.5	2.6	4.1	2.7 (3.9)
Total cash transfers	7.9	n.a	n.a	n.a	8.4	n.a	16.0	39.3	13.9	6.6	9.2 (15.4)
Total collective services and transfers	21.4	n.a	n.a	n.a	31.4	n.a	34.3	54.7	35.3	41.6	21.9 (36.5)
Health	13.2	n.a	n.a	16.7	18.4	n.a	14.9	1.2	3.5	17.6	8.6 (12.2)
Non-market recreation, culture and religion	0.6	n.a	n.a	n.a	0.7	n.a	0.8	0.4	0.8	0.7	0.4 (0.7)
Education	7.9	n.a	n.a	n.a	12.3	n.a	5.2	0.4	4.9	5.9	3.7 (6.1)
Social services	12.7	n.a	14.0	6.6	4.3	n.a	5.6	0.8	12.9	5.2	6.2 (7.8)
Market subsidies	4.0	2.9	2.7	1.8	1.2	2.3	4.5	1.7	2.4	0.9	2.4 (2.4)
Total individual services in kind	38.5	n.a	n.a	n.a	36.8	n.a	31.1	4.4	24.5	30.3	16.6 (27.6)
Social cash transfers	40.1	9.5	37.1	39.4	31.7	29.4	34.6	40.9	40.2	28.1	33.1 (33.1)
Total individual services and transfers	78.6	n.a	n.a	n.a	68.6	n.a	65.7	45.3	64.7	58.4	38.1 (63.5)
Total central government	100	100	100	100	100	100	100	100	100	100	100

1. Data for the Netherlands are for 2006.

2. Averages are calculated by setting unavailable data at 0. The number in parentheses is the true average for the countries for which data are available.

Source: OECD *Public Finance and Employment Database* (PFED).

The labour intensity of Norwegian central government output is relatively high (the compensation of employment share of total spending on goods in kind excluding health and education is 27% *versus* 20% on average). This is mostly due to the fact that the Norwegian central government spends more on compensation of employment in: general governance services, including the Tax Service and the Foreign Service (49% *versus* 42% on average); in public order and safety (62% *versus* 48% on average); in service regulation, including facilities for the private business sector (48% *versus* 39% on average); and in social service provision in kind (20% *versus* 7% on average). These are all areas in which Norway spends roughly the same amount as in other countries in the Value for Money study – except social services, where it spends less (21% *versus* 35% of all spending on goods in kind; the high average is mainly due to very high central government spending on social services in Denmark, Finland and the Netherlands).

General government revenues

An important feature of local government finance is the local tax base and the size of own tax revenue. Table 2.7 gives an overview of own tax revenue as a share of total revenue in the sub-sectors of general government.

Table 2.7. **Own tax revenue as a share of total revenue by sub-sector of general government**

% of total revenue (2010)[1]

	Austria	Canada	Denmark	Finland	France	Ireland	Netherlands	New Zealand	Norway	Spain	Sweden	United Kingdom	Average
Central government	81.1	91.0	82.4	72.6	91.1	86.3	81.7	84.1	76.4	85.3	81.3	95.7	84.1
State government	50.8	58.6								44.0			12.8 (51.2)
Local government	66.9	39.4	35.8	46.2	36.7	17.5	10.8	56.7	41.1	45.7	62.7	14.7	39.5

1. Data for Canada and New Zealand are for 2009.

Source: OECD *Public Finance and Employment Database* (PFED).

As appears from Table 2.7, in Norway the own tax share in total revenue of local government is close to the average of the countries in the Value for Money study (41.8% *versus* 40.5% on average), and substantially below Finland and Sweden (but not below Denmark). This is due to the fact that

Norwegian local government is largely financed through earmarked and non-earmarked grants rather than through tax-sharing arrangements.

Notes

1. Countries outside the European Union (EU) can opt to merge the social security sector with the central government in the national accounts (SNA 93). According to ESA 95, EU countries are required to present separate accounts for social security. In order to secure comparability, the social sector has been merged with the central government in this chapter for all countries (including EU countries).
2. Note that Denmark and Norway have roughly the same population (5.5 million in Denmark and 4.9 million in Norway) while Sweden has a population almost twice that much (9.5 million).
3. Administrative employment also excludes the Parliament and its staff, the head of state and her/his staff, the supreme audit institution and its staff, and the judicial branch and its staff (the public prosecutors and their staff are not part of the judicial branch and are thus included in the snapshots).
4. In addition, the differences are due to some administrative employment in health and education that are also excluded from Table 2.2.
5. Comparisons with Denmark are not possible as some data are not available for Denmark.
6. OECD (2010) contains an analysis of both transmission channels between expenditure patterns and employment, but does not cover Norway.
7. The share of intermediate consumption in total current operational expenditure.

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Chapter 3

Overview of previous reforms in the Norwegian government

This chapter discusses the three main periods of reform in the Norwegian government: the efforts in the 1980s to curb expenditure growth; the decade of markets and performance in the 1990s; and efforts in the 2000s to restructure the government organisation and concentrate public governance on core values.

Introduction

Norway became an independent nation in 1905 when it peacefully dissolved the union it had with Sweden. It is a constitutional monarchy and a unitary state. Norway rejected joining the European Union (EU) in referenda held in 1972 and in 1994. Since 1994, Norway has been a member of the European Economic Area (EEA) and as such is included in the common market in the EU.

Norway has a unicameral Parliament elected by a system of proportional representation. In the 2009 parliamentary election, seven parties were elected to Parliament. The government is dependent on parliamentary confidence (parliamentary rule). The relatively large number of parties in Norway makes it difficult to establish stable majority governments.

Since 1965, Norway has been mostly governed by minority governments which have tended to foster consensual politics. Relatively strong party discipline has been conducive to stable governments despite their minority character. The government formed in 2005 and re-elected in 2009 (Stoltenberg II) is exceptional because it is a majority government made up of a coalition between the Labour Party, the Socialist Left Party and the Centre Party.

Ministers serve as the political head of their ministries. Closest to the minister are the politically appointed state secretaries. The minister can also appoint political advisors who report directly to him/her but who cannot give instructions to civil servants. The ministries are structured hierarchically, with a secretary general as the top-ranking administrative official, followed by the director generals leading ministerial departments.

The line ministries play an important role in the Norwegian government. The Prime Minister's Office is very small and fulfils a co-ordinating role for the Cabinet. The Cabinet meets once or twice a week to discuss all important policy matters, even if there are little or no interministerial aspects and even though line ministers are accountable to the Parliament and responsible for final decisions and implementation. The Ministry of Finance has a central role in co-ordinating the budget process and prepares budget proposals to put forward to the Cabinet. The Budget Department in the Ministry of Finance monitors whether ministries spend money according to plan and examines new policy initiatives; budgetary matters are mostly not resolved in bilateral negotiations with line ministries but in plenary meetings in the Cabinet.

The Norwegian administration is generally characterised by a high degree of managerial flexibility, decentralisation to agencies and relatively small ministries.

The political responsibility for administrative policy is shared by several ministries in Norway. The main responsibility rests with the Ministry of Government Administration, Reform and Church Affairs. The Ministry of Finance is responsible for financial policy and financial management. The responsibility for some essential laws, such as the Public Administration Act and the Freedom of Information Act, rests with the Ministry of Justice and the Police. The Ministry of Local Government and Regional Development oversees the local governments. The administrative developments in Norway have to a large extent been driven by the line ministries. Several ministries have established an operational capacity to analyse and implement administrative reforms.

Since the 1980s, the main task of all levels of government has come to be seen as assuring a high level of service provision with equal standards to citizens in all parts of the country. Most of the government services are the responsibility of local authorities. At the municipal level, primary education and elderly care are the largest sectors in terms of expenditure and employment. At the county level, secondary education and public roads and transport are the largest sectors. The responsibility of the national government for service provision is largely limited to hospitals, higher education, police, national road networks and social benefits in the sphere of pensions, sickness and unemployment benefits. The KOSTRA reporting system (an electronic reporting system from local governments to central government about local governments' economy and service delivery) contains coherent information on resource allocation, services and user requirements, and provides benchmarking data for all municipalities.

Arm's-length agencies were part of the Norwegian administration long before they were introduced as part of the New Public Management reforms in other OECD countries. Indeed, as early as the mid-1950s, a prominent administrative idea was that ministries should be relieved of the routine tasks of an administrative or technical nature by transferring these tasks to subordinate agencies (in Norway called directorates). During the 1970s, there was a strong decentralisation trend which led to the expansion of local government, rather than to a larger role for the agencies ("directorates").

1980s: Receding government[1]

The period from WWII until 1980 has been described as the expansion period in Norwegian public administration. In the period after 1980, there was more rebuilding and adjustment than expansion (Pedersen and Lægreid, 1999). This period was influenced by the ideas of market reform and New Public Management that also became prominent in other OECD countries. In Norway, the Conservative Party came into power after the election in

1981, taking over from the Labour Party that had dominated the government after WWII. This change of government led to a period of active reform in the Norwegian government administration.

Deregulation started in Norway, as in several other OECD countries, in the 1980s. The first policy areas that became the object of deregulation were the credit and exchange markets. This deregulation effort has to be seen in relation to an excess of credit and negative real interest rates over a period of several years in the 1980s that contributed to a housing boom in the late 1980s and eventually to a banking crisis at the beginning of the 1990s.

In 1986, the Conservative coalition published the "Modernisation Programme". The Labour Party which came into power the following year published a programme called "The New State". This introduced a tradition for most new governments in subsequent years to issue a reform programme called either modernisation (Conservative and centre parties) or renewal (Labour and left-leaning parties). These programmes sought to rebalance the roles of the public *versus* the private sector, and the roles of government policy instruments *versus* the market mechanism. The programmes also sought to facilitate better public management through devolved authority in ministries and agencies, to lead to better performance and service to clients.

The two above-mentioned reform programmes were to a large extent based on the same ingredients: deregulation; cutting red tape and promoting efficiency; performance orientation and frame steering; and an emphasis on the quality of public services. The main distinction between the two programmes was the role of government involvement in the society. However, the Conservative Party in Norway did not promote privatisation to the same extent as sister parties in other countries, like the United Kingdom. The Labour Party did not propose privatisation, but recognised the role of markets to a larger extent than it had done in the past.

Norwegian public policy demonstrates a large degree of agreement between the major parties on the welfare state model. This consensus largely survived the 1980s. The Norwegian model has been described as more oriented towards public steering than the models that were introduced in other OECD countries, partly under the influence of the ideas of New Public Management. The modernisation programmes of the 1980s continued the tradition begun after WWII of delegating tasks to the agencies but put more emphasis on better steering of those agencies.

The Conservative Party's enthusiasm for privatisation in the 1980s did not result in a substantial reduction of the public sector. In practice, the discussion on government involvement in public service provision and infrastructure construction and maintenance was focused on transforming agencies and government enterprises from state institutions into limited companies while government ownership was maintained (*fristilling*), and ending unique market access or special privileges for public monopolies (creating an "equal playing field"). There were political discussions about proposals for reform of most of the big state institutions running business, providing services and constructing or maintaining infrastructure, but these often ended in broad political compromises of a moderate character.

In 1986, the appropriation regulations were reformed[2] (NOU, 1984). This reform aimed to enhance productivity by giving more managerial freedom to ministries and agencies and introduced a more top-down and frame-based budget process. Financial management would henceforth be based on objectives and results. In this context, the principle that up to 5% of unused operating funds could be transferred to the next budget period was adopted. The reform also introduced net budgeting for the replacement of equipment, and a facility to compensate overspending on expenditure appropriations with non-tax revenues. The Cabinet decided that all agencies should establish medium-term strategies and annual work plans based on management by results by 1990.

1990s: A decade of markets and performance (1993-2005)

A government commission submitted a report in 1989 which established a basis for more comprehensive reorganisations in the 1990s: "A Better Organised State" (NOU, 1989). The commission was headed by the Secretary General of the Ministry of Finance, Thormod Hermansen. The report discussed organisational options for several kinds of governmental tasks. It emphasised the political role of ministers and their unlimited right to steer. The report also underlined the ministries' responsibility for steering and control of subordinate agencies. It adopted proposals for performance management and the idea of steering agencies on main issues (rather than on details) which had already been advocated in the reform programmes of the political parties some years earlier (see previous section). These ideas were thought to enhance the effects of the budget reform of 1986.

The proposals of the Hermansen Commission were further developed during the 1990s. In 1992, the Cabinet decided to strengthen the requirements for performance information, both in the steering dialogue between the line ministries and the agencies as well as in the line ministries' budget proposals to the Parliament (formally an attachment to the budget, the *Yellow Book*). However, performance information was not given a prominent role in the budget process, neither in the Ministry of Finance nor in the Cabinet, nor in the Parliament. The budget is classified by programme area and agency. Descriptions of objectives and targets for the budget year and results achieved in the in the previous year are assigned to the *Yellow Book* attachment.

Performance management was eventually incorporated into the new comprehensive Financial Management Regulations of 1996.[3] The regulations are set out in a government decree and entail rules on steering agencies, internal agency management, performance management, financial management, accounting and disbursement, and the administration of grant schemes and guarantees. The regulations apply to all ministries and agencies within the central government.

Research indicates a substantial influence of performance information in the steering of agencies in the late 1990s. In 1999 *Statskonsult*, a former agency[4] mandated to perform administrative evaluation and guidance to ministries and central government agencies, observed more attention to the performance of agencies as well as less steering on financial and administrative issues. However, several investigators emphasised that the developments were piecemeal and cautious adjustments and did not lead to a wholesale overhaul of previous practices.

In 1997, the *Storting* introduced a new parliamentary budget procedure based on a top-down approach. It consists of two phases. First, the Committee on Finance and Economic Affairs proposes an overall spending limit and limits for each of 23 sector committee areas, which are subsequently adopted by plenary vote in Parliament. Second, the different parts of the budget are discussed and possibly amended in the sectoral committees. Committee proposals are then submitted to Parliament for a plenary vote. This change mirrors a new top-down oriented budget procedure in the government, adopted in 1991, which focuses on two Cabinet conferences.[5] During the first, in March, the Cabinet decides on spending frames for each ministry based on unchanged policy and on a total limit for all new combined initiatives of all ministries. This implies that the total ceiling is fixed and the ministerial breakdown based on unchanged policy is set. Then, in August, the Cabinet decides new estimates for entitlement spending and distributes the resources reserved for new initiatives among the ministries. The Cabinet simultaneously approves the final line items[6] for all ministries. In addition, there is a budget revision in April of the budget year.

In 1990, after several years of discussions, the Conservative government established a new division in the Ministry of Government Administration and Reform for central government employer functions. The main argument for the new division was the need to enhance political steering of the salary negotiations leading to the main collective agreement for central government employees. The division is the central government's highest authority on civil service pay and working conditions. It negotiates civil service pay with the main unions and defines policies concerning civil service personnel, leadership and management. The tasks of training and leadership development were delegated to a subordinate agency, *Statskonsult*. Some years later (1996), ministerial and parliamentarian control of the number of employees in ministries and agencies was abolished.

Box 3.1. **The main collective agreement for central government employees in Norway**

- Re-negotiated every second year.
- Ministry of Government Administration, Reform and Church Affairs negotiates with the main unions by central negotiations.
- Regulates the civil service pay grades.
- Frame of pay increases decided centrally, negotiated locally.
- Based on the country's economic situation and prospects (results of pay negotiations in national export industries).
- Basic pay renegotiated annually.

The EEA agreement entered into force in 1994. It had an important impact on various policy areas, procurement standards among others. The new public procurement regulations, enacted in 1999 and revised in 2006, define procurement procedures for the whole public sector on the basis of the EU thresholds.[7] The regulations set stringent requirements for preparing, implementing and completing acquisitions, including rules for documentation, special announcements and deadlines, and they define the right of appeal to the contracting authority, to the Appeals Board for Public Procurement (KOFA) and ultimately to the courts. The regulations have turned out to be hard to comply with and the Auditor General frequently comments on deviations from the rules in the annual audit reports.

In the second half of the 1990s, various reforms enhanced parliamentary oversight. In 1993, Parliament created a new committee: the Standing Committee on Scrutiny and Constitutional Affairs, with the aim of strengthening the *Storting*'s supervisory role on the executive branch (the central government administration). In 1996, the Office of the Auditor General (OAG), accountable to the *Storting*, established a new Department for Performance Audit. The OAG undertakes systematic investigations of economy, effectiveness and efficiency, based on the decisions and intentions of the *Storting*. Numerous reports on performance audit by the Auditor General have attracted media interest and have led to political discussion between the government (the Prime Minister and responsible line minister) and the opposition in the Parliament. In recent years, the government has voiced some criticism of the methods of the OAG, in particular its practice to hold the government to account for compliance with its own internal regulations and standards as interpreted by the OAG.

The 1990s were the decade, in the government administration like in society in general, when ICT took a prominent place in the dissemination of information and communication. ICT has been described as one of four major themes in public administration after 1990, next to the organisation of the administration, steering and financing of agencies, and personnel and leadership policy. *Statskonsult* and Difi[8] have been important contributors to the overall development of ICT in the public administration; however, the most significant developments have taken place in the sectoral arenas of line ministries. The Unit Register (1995), managed by the Ministry of Trade and Industry, identifies all private and public organisations with legal personality in society. The Task Register (1997), managed by the same ministry, provides an overview of the obligations for businesses to report to the government. The KOSTRA system (1994) eases the reporting on services and use of resources from local authorities to the central government. Portals for public procurement were established in 1996: Doffin and *eHandel.no*. Portals for citizens, like MinSide and *Norge.no*, were equally established in the late 1990s. Some sector authorities co-operated on common portals like Altinn (1997), which takes care of reporting from businesses to the Tax Administration and other public authorities.

During the 1990s, the Norwegian government put a lot of emphasis on enhancing market competition. The Parliament adopted a new Competition Law in 1993. At the same time, it established a new agency to supervise and enforce competition in markets for goods and services: the Norwegian Competition Authority.

As for network sectors, far-reaching reforms were adopted based on the principles of competition in production and service provision and of separation of production and service provision from network construction and maintenance. The pioneer sector was energy. Norway was the second country in Europe to introduce market-based principles for energy trade in 1989. The new Energy Law was adopted by Parliament in 1990. About a year later, the government proposed to establish a separate state-owned company for the central energy infrastructure (*Statnett*, which remained a monopoly), which led to the separation of transport activities from the production of energy and thus created a market for energy trade. The Supervision Authority for electricity had already been established by the government.

In the case of the telecom sector, in 1994/95 the fixed telephone network was transferred to a new limited company, Telenor, owned by the government under the Brundtland III administration (Labour Party). An important reason for the political acceptance of the legal form of a limited company was the international trend towards liberalisation of telecommunications services as promoted and partly prescribed by the EU. As in many other countries, service provision was separated from the network and subjected to competition.

Regarding public enterprises, policies were more radical than those proposed during the 1980s. However, privatisation had to wait for the new millennium. In the first stage, the solutions focused on differentiating the government's roles in separate organisations. Production and service provision were transferred to government-owned limited companies and separated from authority; authority would be divided between regulation and supervision. The affiliation with the parent ministry could be divided, such that sector governance and corporate governance rest with different ministries. Corporate governance was often transferred to the Ministry of Trade and Industry. The adoption of separate supervisory agencies was the most prominent development in these years. For example, in the telecom sector, Telenor provides both infrastructure (fixed lines) and service provision. The Norwegian Post and Telecommunications Authority (an agency under the umbrella of the Ministry of Trade and Industry) supervises the market and has a specific regulatory authority. The corporate governance of Telenor rests with the Ministry of Trade and Industry. Statoil (petroleum sector) is supervised and regulated by the Petroleum Safety Authority Norway. This authority was established by transferring tasks from the Norwegian Petroleum Directorate in 2004. Corporate governance of Statoil rests with the Ministry of Trade and Industry. Both Telenor and Statoil are partly privatised.

The sectors of transport (roads, rail, air and sea) and postal services, which had previously been subject to extensive government regulation, were gradually deregulated during the late 1980s and 1990s. Agriculture is still heavily regulated. However, this is a politically sensitive sector were prevailing regulations are based on negotiations between the government and sector organisations. The sector is characterised by the prevalence of large co-operative organisations, substantial subsidies and high custom fences.

2000s: From structural rebuilding to concentration on core values

In the 1990s, several budgetary cutbacks were implemented in the wake of the global recession. The Bondevik I government (from 1997) developed an alternative strategy to reduce spending growth without reducing welfare, namely by increasing the efficiency of the public sector through the sale of state shares, competition, municipal mergers and reorganisation. The first Stoltenberg government (2000-01) followed this up with a comprehensive hospital reform and reorganisation of the defence, and introduced guidelines for the use of oil money in the state budget in 2001. The Bondevik II government (2001-05) continued the active reform period.

Several new agencies were established in the late 1980s and in the 1990s, but many more came into being after the turn of the century. At the same time, some government agencies moved out of the central government (became limited companies or public non-profit institutions). In addition, there were several reorganisations, mergers, etc. (more than 800 substantial organisational changes were registered in the central government administration after 1990). In sum, the total number of agencies fell during the 1990s and the 2000s.

Concerning the division of tasks between the core ministries and the agencies, the basic argument behind the policy changed in this period.[9] Henceforth, task devolution to subordinate agencies was no longer considered to apply only to technical and administrative tasks, but to all executive tasks. Political sensitivity or room for manoeuvre in executive policy was no longer considered an argument against devolution. According to this logic, important political tasks that had been kept in the ministry in the past, like the police administration (2000), the administration of lower and secondary education (2004), as well as the administration of penitentiary institutions (2002) were now transferred to agencies.

Against this background, the steering of agencies became an even more important theme of reforms in this period, and the attention to it has increased substantially in the ministries. The new Financial Management Regulations of 1996 (revised in 2003) were an important phase in this development. Simultaneously, the ministries gave an advisory role to the agencies in policy development. The task devolution to agencies therefore did not represent a separation of executive expertise from policy development as sometimes happened in other countries as a consequence of New Public Management reforms.

In contrast to this development, some tasks were also transferred in the opposite direction – into the ministries – including administrative tasks in the sphere of defence that had previously been carried out by the armed forces. However, this task transfer can also be seen as a more logical division of civil and military administration.

In the beginning of the 2000s, major organisational reforms took place in several policy sectors. The most important were:

- the reorganisation of the central health administration, leading to mergers of 11 agencies and the redistribution of tasks to the Norwegian Institute of Public Health, the Norwegian Directorate of Health, and the Norwegian Board of Health Supervision (2001/02);
- the reorganisation of the court administration, leading to the establishment of the Norwegian Courts Administration mainly by transferring tasks from the Ministry of Justice and the merger of de-concentrated court administrations (2002);
- the hospital reform, leading to the transfer of government hospitals to the state (2002);
- the defence reform, leading to a new structure of the armed forces, and a substantial reduction of staff and infrastructure (2002-05);
- the police reform, leading to the establishment of the Police Agency mainly by transferring tasks from the Ministry of Justice (2001);
- the reorganisation of the administration of penitentiary institutions, leading to the establishment of the Norwegian Correctional Services mainly by transferring tasks from Ministry of Justice (2002);
- the reorganisation of the administration of lower and secondary education, leading to the establishment of the Norwegian Directorate for Education and Training mainly by transferring tasks from the Ministry of Education and Research (2004);
- the reform of social services, leading to the transfer of family care centres and child care services to the Norwegian Directorate for Children, Youth and Family Affairs (2004);
- the transfer of local food control authorities to the Norwegian Food Safety Authority (2004);
- the transfer of employment services, and the administration of unemployment and social assistance benefits to the Norwegian Labour and Welfare Service (NAV) under the common authority of the state and the local authorities (2006).

The latter reform was particularly important. In 2005, the Bondevik II government proposed to the *Storting* to establish a new agency for welfare, unemployment and social security. The resulting Norwegian Labour and Welfare Service (NAV) was established on 1 July 2006. The government's main objectives for this initiative were to get more people into work and less people on social insurance benefits, as well as to adapt the services to people's actual needs. The new agency consists of the two previous central government organisations: the National Insurance Administration and the Labour Authority, as well as the municipalities' social security services. Local authorities and the government have been co-operating on the most wide-ranging, fundamental welfare reform of modern times in Norway. The NAV administers one-third of the national budget through schemes such as unemployment benefits, rehabilitation schemes, pensions, child benefits and family cash benefits, and counts the entire population as its users. The implementation period extended over several years and the reform has experienced severe ICT problems and cost overruns. It is still ongoing.

Within deconcentrated agencies, the tendency has been amalgamation of local units into larger district and regional units. Examples of this practice are the Norwegian Tax Administration, the Norwegian Customs and Excise Administration, and the Norwegian Public Roads Administration. Several agencies have moved from county to regional structures. However, there are no common regional boundaries for all agencies, even if most of the regionally organised agencies have established structures of five or six regions.

In the early 2000s, some government-owned limited companies were privatised. Two examples are Entra Eiendom (real estate), which was separated from Statsbygg (real estate management) in 2000, and Mesta (road construction), which was separated from the Road Administration in 2003, both established as limited companies.

In connection with the task transfer from the government to public enterprises in the early 2000s, the government established supervision authorities to ensure that state monopoly would be replaced by effective competition. This applies to the postal sector, telecommunications, railways, and the aviation sector, as well as to energy production.

In 2003, the Centre coalition government (Bondevik II) presented a White Paper on supervision authorities. The paper clarified roles and proposed to restructure supervisory agencies, reducing the authority of line ministries to direct these agencies, as well as relocating several agencies to regional centres outside Oslo. As a consequence, in several sectors supervision was separated from regulation by taking supervisory tasks out of the previous regulatory authority and establishing them in new agencies, for instance the Petroleum Supervision Agency (2004) and the Health Supervision Authority (2002). Around 900 people were affected by these reforms and some supervisory agencies had to rebuild their competencies more or less from scratch.

As part of the work on supervisory agencies, several complaints boards were established in the same period. In most areas, appeals processing has been transferred from the ministries to subordinate agencies or to separate complaints boards. At the start of the new millennium, almost half of the appeals were being processed in separate complaints boards.

In the area of budgeting, a commission proposed in a report in 2003 to move to multi-annual budgeting and accrual accounting and budgeting (NOU, 2003). The Bondevik II government turned down this idea in the 2005 budget documents but introduced medium-term expenditure baseline estimates at ministerial and programme level for three out-years. At the same time, the government decided that the cash base of budgeting and the corresponding accounting and central government financial report should not be changed. However, pilots of accrual accounting were introduced at agency level, provided that the agency still reported to the central accounts on a cash basis. The Stoltenberg II government continued this practice after 2006 and also established accrual accounting as an additional voluntary option for agencies (currently used by about 30% of the agencies). It also introduced a common chart of accounts for all agencies and ministries that will become mandatory by 2014. The central government budget and corresponding financial reports remain on a cash basis.

Box 3.2. **Budget regulations decided by the Norwegian Parliament**

- Budgets valid for one year (following the calendar year).
- Budgets and annual financial statements are cash-based.
- The budget and financial statements must be complete, i.e. all state revenue and expenses should be included.
- The budget and financial statements are kept in gross terms.
- The budget proposal must provide information on planned objectives and achieved results.

The Government Pension Fund Global (GPFG) was established as an integral part of the central government's annual budget as early as 1990 as a fiscal policy tool to support the long-term management of Norway's petroleum revenue.[10] Its capital inflow consists of all government petroleum revenue and net financial transactions related to petroleum activities, net of what is spent to balance the state's non-oil budget deficit. Fiscal policy is based on a guideline established in 2001 that, over time, the structural, non-oil budget deficit must not exceed the real return on the fund, estimated at 4%. This implies that petroleum income should be phased into the economy on par with the development in expected real return of the fund.

Since 2005, the centre-left coalition government has established a tax revenue ceiling which, in combination with the balance rule of 4% use of real return from the GPFG, implicitly defines an expenditure ceiling at aggregate level.[11] However, at the ministerial and programme levels, there are only baseline estimates over the medium term.

The "red-green" coalition government, Stoltenberg II, submitted three White Papers to the *Storting* concerning administrative policy:

1. "An Information Society for All" (Ministry of Government Administration, Reform and Church Affairs, 2006).
2. "The Good Acquisition" (Ministry of Government Administration, Reform and Church Affairs, 2009a).
3. "A Public Administration for Democracy and Community" (Ministry of Government Administration, Reform and Church Affairs, 2009b).

The first report makes clear that ICT has had a large impact on administrative practices in this period. The Stoltenberg II government introduced common principles for ICT architecture and procedures to foster thorough planning of ICT investments. It has also established a portal for voluntary government e-commerce and prepared regulations for electronic invoicing from businesses to the government. However, these measures have still not induced a genuine breakthrough among ministries and agencies. Despite these efforts, outcomes remain below expectations. Norway scored ninth on the World Bank Government Effectiveness Indicator in 2010, after the other Nordic countries and down from third place in 2007; Norway ranked sixth in the UN e-Government Survey 2010, down from third place in 2008.[12] The Auditor General criticised the government in 2008 for weak use of the potential of ICT, missing common solutions for security, infrastructure and standards.

The second report addressed critics from, among others, the Office of the Auditor General for violating the rules of public procurement. The government revised the regulations mostly by simplifying them. The revised regulations entered into force in 2007. The government also took new measures enabling KOFA to react to more types of violations. It also enhanced Difi's capacity to offer training to central government officials.

The third report describes the main goal for the government's administrative and reform policy as follows:[13] "Central government should work and be organised so that it forms the basis for political control and broad participation of citizens. It should make it easy for citizens, organisations and businesses, and it will use resources in an efficient and environmentally conscious manner. It requires high skills and good management." The government underlined, among other things, the need for co-ordinating efforts across ministries and agencies, better communication and user involvement, efficiency, competence and leadership. However, the report did not introduce any concrete reform initiatives.

The most important long-term fiscal challenge is posed by the effects of population ageing. The broad-based parliamentary agreement on pension reform in 2006, which was implemented by 2011, promises improved work incentives and long-term pension savings. However, the early retirement programme (AFP) and a generous disability benefits programme may hamper the positive effects of the reform. The large public employee pension programmes are still to be aligned with the features of the general pension reform.

Notes

1. The description of reform initiatives and developments in the central government after 1980 relies heavily on the history of the central government administration as seen by Grønli and Flo (2009).

2. According to the Constitution, the *Storting* is the final authority in matters concerning the finances of the central government, expenditures as well as revenues. The Appropriation Regulations, adopted by the *Storting* 26 May 2005, prescribe the form of the budget. The procedure of adopting the budget is set out in the *Storting*'s Rules of Procedure. Neither of these two regulations has the formal status of law.

3. In 1999, the Office of the Auditor General criticised weaknesses in the government's routines for accounting and financial management. This resulted in a review of the Financial Management Regulations leading to a revised and leaner set of Financial Management Regulations in 2003.

4. On 1 January 2004, *Statskonsult* was converted into a limited company wholly owned by the Ministry of Government Administration and Reform. The new "red-green" coalition government (Stoltenberg II) decided to discontinue *Statskonsult* by 1 July 2007. The tasks were transferred to the Agency for Public Management and eGovernment (Difi), which was established at the same time.

5. Under the centre-right coalition government 2001-05 (Bondevik II), the Cabinet also held a budget conference at the end of June. This practice ended with the Stoltenberg II government in 2006.

6. The Norwegian budget is relatively detailed. There are approximately 1 400 line items classified by programme (health care, the police, education, etc.) and by economic type of expenditure (operating expenditures are split from programme items like investments, transfers, and financial transactions). The budget is appropriated and binding on a line-item level.

7. The previous Procurement Law from 1992 authorised the EU directions on procurement into Norwegian law as early as 1995.

8. See note 4 regarding *Statskonsult* and Difi.

9. In Norway, a ministry has always been seen as the secretariat for the political leadership and the steering unit for sectoral policies and agencies as well as administrator of laws, if not delegated to agencies. Most administrative and technical tasks would be transferred to subordinate agencies or delegated to lower-level local or regional governments.

10. The Government Pension Fund Global was called the Petroleum Fund until 2005.

11. See Reform 3 in Chapter 4 on this supposition.

12. Sources: World Bank and United Nations websites, and Ministry of Government Administration, Reform and Church Affairs (2009a, Chapter 2).

13. Translation from Chapter 1.2 ("Goal for the Administration Policy") in Ministry of Government Administration, Reform and Church Affairs, 2009a.

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Chapter 4

Areas of current reform in Norway and recommendations for the future

This chapter presents ten reforms or reform trends that are particularly interesting for Norway. Two reforms focus on policy development, seven focus on operational management and support services, and one focuses on administrative supervision and regulation.

Ten priorities for reform

This chapter presents the ten reforms or reform trends from the list of 50 to be presented in the forthcoming *Building on Basics* that, in the view of the OECD Secretariat, are particularly interesting for Norway. Each section will conclude with recommendations to the Norwegian government. Indications of potential quality improvements and savings will be provided in the final section.

The reforms are organised by type of government task (the taxonomy underlying the snapshot of the public administration):

- Policy development:
  1. Strengthening of regulatory policy.
  2. Co-ordination across ministries.
- Operational management and support services:
  3. Medium-term expenditure framework.
  4. Implementation of spending reviews.
  5. Automatic cuts of productivity dividends; size of core ministries.
  6. Shared support services.
  7. Standards of operational management.
  8. Digitising the public sector.
  9. Standards of internal audit.
- Administrative supervision and regulation:
  10. Independent supervisory and regulatory authorities.

The following sections of this chapter focus on each separate reform.

Reform 1: Strengthening of regulatory policy

Focus of the reform

Regulation[1] is, together with financial instruments and public service provision, one of the three key levers of government's intervention in society. Regulatory policy is the horizontal policy used by governments to ensure the quality of new regulation and to regularly check the efficiency and effectiveness of existing regulations.

In the past decade, OECD countries have stepped up their efforts to build and strengthen their regulatory policies (OECD, 2009). Especially now that fiscal constraints may limit the extent to which this lever can be used, it is of growing importance that regulatory policy is effective, helping to ensure that existing and new regulation is justified and effective.

This reform will concentrate on regulatory policy and present some recommendations to strengthen this policy. Compared to OECD best practices, regulatory policy in Norway could and should be strengthened in a number of ways.

Since the OECD review team found a well-developed consultation practice in Norway, this recommendation will not address consultation.

Other elements of regulatory policy are the role of regulatory agencies, and how to achieve accountability and avoid capture. These will be dealt with in Recommendation 10.

This first recommendation will therefore focus on:

- the part of the regulatory policy aiming at facilitating evidence-based decision making (i.e. using instruments such as regulatory impact assessments [RIA] and cost-benefit analyses [CBA]);
- the part of the regulatory policy which ensures that existing regulation is up to date, effective and efficient (i.e. using simplification policies and *ex post* reviews);
- the underlying governance needed to achieve this (oversight, strategy, co-ordination).

Strengthening evidence-based decision making: RIA and CBA practice

The Norwegian Agency for Public Management and eGovernment (Difi) has conducted a study of proposals and White Papers from the government to the Parliament and found that the level of compliance with the requirements for impact analysis and studies of alternatives is quite low (Difi, 2012). In the light of Difi's study and the OECD regulatory policy recommendations, Norway is currently considering how to identify measures to improve the rate of good impact assessments. Measures that could be considered include:

1. Are the requirements for impact assessments clearly outlined and sensible (not too burdensome)?

2. Is there a lack of resources and competence for carrying out impact analysis, and would it be useful to have better written guidance on impact assessments and a resource pool with competent professionals helping staff in the ministries to produce better impact assessments?

3. Is there a need to reshuffle responsibilities for regulatory policy and a need for new institutional arrangements, such as the creation of an oversight function?

The *ex ante* assessment of the impacts of draft regulation, using RIA, is a technique used by a majority (and still growing number) of OECD countries to support evidence-based decision making. The assessment of costs and benefits for society from the welfare perspective (CBA) forms a part of this RIA.[2]

RIA practice in Norway originated in 2000, and guidelines assisting practitioners in applying this instrument in 2005. The Ministry of Public Administration and Church Affairs has the overall responsibility for the policy.

Ideally, the external stakeholders are involved in the RIA procedures (often using consultation techniques). This is a relatively well-developed part of Norwegian RIA practice, where external involvement is secured via public hearings that are institutionalised in the process (and again if significant changes to the draft take place).

However, the guidance on RIA methodology and the quality control of impact assessments seem to be less developed. In addition, while there is extensive written guidance on the methodology for CBA, this guidance has a number of shortcomings (see below).

Although the current RIA process in Norway encompasses a lot of impacts[3] which need to be assessed – even when the relevance of some impacts in a particular case is not clear up front – it seems, however, to overlook important aspects, like possible effects on competition.

The RIA methodology has not been revised since 2005. It should more clearly define which impacts need to be reviewed in which cases. In view of the above-mentioned Difi study, it would also be useful to offer training to the most concerned staff in the line ministries and to revise the guidance for conducting RIAs. In this context, Norway could also consider forming a pool of expertise under an oversight body (see the third part of this reform) which could support officials of line ministries in conducting RIAs. These experts could also play a role in the training programme for line ministries.

Especially when it is likely that regulation will have a significant impact on society and the economy, impacts (costs as well as benefits) should be quantified as much as possible. For this, instruments such as CBAs are used in OECD countries. An in-depth review is currently under way in Norway to investigate how to better apply CBAs, addressing dissatisfaction stemming from some methodological shortcomings (see OECD, 2012a). The in-depth review was published in October 2012 and was subject to a public hearing through January 2013.

Apart from addressing methodological shortcomings in CBAs, there is a need to strengthen the quality-assurance mechanisms of the RIAs and CBAs performed. Currently, no effective quality assurance mechanism is in place. The Ministry of Public Administration and Church Affairs, which issues the guidelines for RIA, and the Ministry of Finance, which issues the guidelines for CBA, are not tasked with assessing the quality of RIAs or CBAs. Ministries that draft RIAs or CBAs are not obliged to have them checked.

This is a shortcoming in regulatory policy. Not only does it undermine investments made in methodology, training and the preparation of guidelines, but a lack of incentives to comply with the guidelines also erodes efforts to establish evidence-based decision making as a common policy practice. Solid and serious quality-assurance mechanisms should therefore be created in parallel with the methodological update of CBAs and RIAs, to ensure that these improvements will be followed up.

The most straightforward solution to this problem is to have all RIAs and CBAs checked by an authority that carries out a regulatory oversight function (to be discussed further below; see also OECD, 2012a). Ideally this authority would have the responsibility to independently assess the quality of RIAs and CBAs and the competency to make suggestions to ministries on how to improve them (for example, using a "comply or explain" incentive) and ultimately to forward its opinion – should the authority feel that appropriate decision making requires this – along with the draft proposals when these are presented for decision making in the Cabinet.

Effective and up-to-date legislation: Administrative simplification and **ex post** *reviews*

Norway was one of the first countries to test the Standard Cost Model used to tackle administrative burdens when it was developed in 2003-04. A number of pilots were organised, followed by the announcement (earlier than in the majority of European Union countries) of an overall target to reduce the administrative burdens for businesses by 25%.

The Norwegian simplification measures centre around a well-developed system for electronic interaction between the business community on the one hand and the government on the other. This hub, called Altinn, was set up in 2003 and now covers numerous ministries, agencies and layers of government. Altinn is considered to be one of the best practices in e-government services among OECD countries.

Nevertheless, overall progress in meeting the 25% target was limited. Recently, a new initiative covering NOK 10 billion of additional simplification measures was announced (Ministry of Trade and Industry, 2011). Although it is not clear whether the additional measures covered by this new initiative will suffice to meet the 25% target, it definitely provides new momentum in the efforts to reduce administrative burdens for businesses and should be welcomed.

However, businesses are not the only group hindered by administrative burdens. Public sector workers like policemen, hospital staff and teachers often complain about mandatory paperwork stemming from regulation which keeps them from providing services to the public, and citizens are also bogged down by administrative burdens. In addition, although efforts to reduce administrative burdens are welcomed by businesses, other costs and procedures may pose unnecessary obstacles to doing business which should be covered by programmes aiming to simplify existing business regulation.

It is therefore recommended that Norway broadens its current simplification policy, based on the experience to reduce burdens for businesses and using the full potential of instruments like Altinn. In doing so, Norway could look into practices developed by a number of leading countries that recently broadened their approach as well (Box 4.1; and see, for example, OECD, 2010b). In February 2013, the Norwegian government introduced an initiative to collect suggestions from citizens to simplify regulation and the public sector (Ministry of Government Administration, Reform and Church Affairs, 2013).

Currently in Norway – like in the majority of OECD countries – there is no regular *ex post* review of existing regulation. Insight in the effectiveness of current regulation is not only useful to verify *ex post* whether the regulation is actually achieving the targets it was meant to achieve, but also to check whether there are other (side-)effects than the impacts which were expected *ex ante*. In this way, useful feedback could be generated to improve the quality of the impact assessment tools used in Norway.[4]

Developing regular *ex post* reviews of regulation is considered best practice by the OECD. Initiatives to launch this in Norway could be developed, beginning with areas where impacts have proven to be difficult to assess *ex ante*, where decision making was under time pressure because of crisis-, incident- or emergency-related reasons, or in areas of high political sensitivity.

Box 4.1. **Taking simplification beyond reducing administrative burdens for businesses: Selected country experience**

Countries like Austria, Belgium, Germany and the Netherlands are among the earliest developers of programmes to reduce burdens for citizens. Their programmes pair methodologies used in their business programmes to innovative approaches centred around life cycles (birth, marriage, death) and/or categories of citizens (for example, the disabled).

In the Netherlands and the United Kingdom, specific programmes targeting red tape for public sector workers (teachers, police and other front-line workers) were developed based on the approach used to reduce administrative burdens for businesses.

Some countries have started to develop quantitative simplification programmes that go beyond administrative burdens, for example aiming to reduce substantive compliance costs of regulation. Front runners in the EU are the United Kingdom, where in principal increases in regulatory costs now have to be offset by decreases of the same amount (the "one in, one out" principle), and the Netherlands, which started to set quantitative targets for substantive compliance costs in 2007.

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

The first kind of *ex post* evaluation of legislation could be part of a broader policy of evaluation covering all policy instruments (including subsidies, tax instruments, and the production of goods in kind). A broader approach has the advantage that the regulatory instrument can be more easily compared to other policy instruments. Various OECD countries have regulatory frameworks in place that contain requirements for programme evaluations (the *Green Book* in the United Kingdom is a good example of such a framework). These requirements include the participation of external experts in steering groups guiding the evaluation, competitive commissioning of the evaluation agency, and publication of the terms of reference and the reports. Programme evaluations are undertaken on the initiative of the responsible line minister, who often has a good incentive to launch an evaluation because s/he is responsible to Parliament and society for deficiencies in existing programmes. The minister may also see opportunities for efficiency savings that are needed to make room for new initiatives or to achieve savings targets. Experience in various OECD countries shows that it makes little sense to prescribe periodic programme evaluations at fixed times in the regulatory framework.[5] If the responsible line minister does not see any reason for an evaluation at a given point in time, such a prescription tends to lead to artificial exercises and little critical reports.

The second kind of *ex post* evaluation requires a more top-down approach, as ministers seem to feel little responsibility for regulatory burdens and are not held accountable by Parliament or society at large for reducing them. This situation is comparable to that of budgetary policy. A similar asymmetry in the process means that line ministers are not intrinsically motivated to develop good proposals for reducing regulatory burdens. This implies that special procedural requirements, comparable to those of spending reviews (see Reform 4), should be put in place in order to generate such proposals. Such requirements should ensure that line ministries can bring in their expertise and take part in the development of proposals to reduce regulatory burdens, but cannot dominate the process or veto the proposals from other ministries or external experts.

Regulatory policy: Strategy and co-ordination

A sound regulatory policy should encompass both the impact assessment of new legislation and the simplification of existing legislation. The development of a strategy for a coherent and effective regulatory policy, its implementation and its evaluation needs careful oversight and co-ordination from the centre of government, with strong political backing.

However, in Norway, the field of actors involved in (elements of) regulatory policy looks fragmented. At present, this fragmented organisation of responsibilities involves the Ministry of Public Administration and Church Affairs, the Ministry of Finance, the Ministry of Trade and the Ministry of Justice. Despite – or maybe because of – this broad involvement, no one seems to be responsible for taking the lead in formulating a regulatory policy strategy, monitoring its progress and evaluating the policy at regular intervals. Compared to many OECD countries, Norway lacks a strong oversight authority facilitating the development of a coherent regulatory policy (Figure 4.1).

The lack of a central oversight function for regulatory policy can partly be explained by the fact that the Norwegian model of governance at the state level is characterised by the line ministries' strong responsibilities for policy development and execution and by a relatively weak centre of government (see Reform 2). In Norway, this works together with a relatively well-functioning practice of government-appointed committees for making major changes in laws and a strong tradition of wide consultation on legislative initiatives.

Figure 4.1. **Oversight authorities and anticipation of compliance and enforcement: Norway's position among OECD countries**

Functions of oversight bodies		OECD countries responding "yes"	NORWAY
Consulted as part of process of developing new regulation	2005	73%	No
	2008	82%	No
Reports on progress made on reform by individual ministries	2005	43%	No
	2008	56%	No
Authority of reviewing and monitoring regulatory impacts conducted in individual ministries	2005	43%	No
	2008	50%	No
Conducts its own regulatory analysis	2005	43%	No
	2008	47%	No
Anticipating compliance and enforcement			
Regulatory policies require that issue of securing compliance and enforcement be anticipated when developing new legislation	2005	57%	No
	2008	70%	No
Guidance for regulators on compliance and enforcement	2005	37%	No
	2008	47%	No
Existence of policy on risk-based enforcement	2005	N.A.	N.A.
	2008	30%	No

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gov_glance-2011-en*.

However, these arrangements in Norway would not interfere with the establishment of a clearly defined oversight function. An oversight body –

for instance in the form of a directorate under the Ministry of Government Administration, Reform and Church Affairs or the Ministry of Finance – supported by a committee of regulatory specialists from the line ministries, would have a technical role, exclusively focusing on the regulatory aspects of new primary and secondary legislation. It would not interfere in the substantive merits of new and existing legislation. Staff of the oversight body would have to be recruited on the basis of expertise in regulatory policy. Their tasks would consist of developing regulatory policy, providing guidance for RIAs, providing training for conducting RIAs, undertaking quality control of RIAs, and leading *ex post* evaluation of existing legislation aimed at reducing regulatory burdens (see parts 1 and 2 of this reform).

This oversight body would be responsible for formulating the Cabinet's vision on Norway's regulatory policy, where it is, and where it should be going. The policy suggestions mentioned above, as well as in Recommendation 10, should be part of this vision.

Recommendations

The Norwegian government may consider:

1. Evaluating and updating the current impact assessment methodology in parallel with the current review of the cost-benefit methodology, including the guidance and support provided; putting in place a solid mechanism to ensure the quality of regulatory impact assessments and cost-benefit analyses, considering the use of a preliminary check by a regulatory oversight authority.

2. Integrating *ex post* review of existing regulation into a broader policy of programme evaluation along the lines of the United Kingdom's *Green Book*.

3. Increasing and broadening the current efforts to simplify existing regulation and to reduce regulatory burdens by including other target groups like citizens and public sector front-line workers, as well as going beyond tackling administrative burdens for businesses. Evaluation of regulatory burdens requires a top-down approach and special procedural rules.

4. Strengthening oversight and co-ordination by the ministry charged with regulatory policy, formulating the Cabinet's vision on Norway's regulatory policy, where it is and where it should be going, assessing its progress on a regular basis. The recommendations mentioned above should be part of this vision.

Reform 2: Co-ordination across ministries

Norway is a parliamentary democracy. Ministers are responsible to Parliament and the government; individual ministers are dependent on parliamentary confidence. This characterises the Norwegian constitutional structure as an example of the "Westminister model" of governance.

Co-ordination is a problem in all democratic countries. With the relatively strong responsibility of line ministers for policy development and execution and a relatively weak centre of government and a small Prime Minister's Office, Norway probably has a larger need for special co-ordination arrangements than many other OECD countries, particularly on cross-cutting topics such as the environment or ICT infrastructure. The Norwegian authorities are often faced with the dilemma of how to balance clear ministerial responsibility with incentives to co-operate – especially when costs and benefits appear in different remits – and have expressed interest in how other OECD countries have handled this dilemma.

While analysing this question, it is important to distinguish between three areas of interministerial co-operation:

1. process sharing and merging of agencies among executive and supervisory/regulatory ministerial divisions and agencies;
2. support service sharing;
3. policy development in cross-cutting policy areas.

Process sharing and merging of executive agencies can lead to a simplification of the structure of central government and substantial savings. The number of executive agencies in Norway (around 250) is not exceptionally high, but it may nevertheless be worthwhile for the Norwegian authorities to conduct a special study to explore potentially beneficial options in this regard. Special attention should be given to the governance structure of common process units, in particular as far as budgeting, operational management and steering of executive policy is concerned (see Reform 8 for the special case of agencies that manage common components of the national ICT infrastructure). The budgeting arrangement should ensure that all client ministries and agencies contribute to the financing and negotiate their contribution with the parent ministry of the common process before the parent ministry negotiates the budget with the common process unit. This arrangement should eliminate incentives on the part of line ministries and agencies to shift tasks to other ministries without paying for them.[6] This reform will not further address the merging of agencies or process sharing.

Sharing of support services is another area of co-operation between ministries that can lead to simplification and substantial savings. Here too, the governance arrangement of the shared service centres is of paramount importance for the incentives to co-operate. This issue is addressed in Reform 5. The current reform will further focus on co-operation in the area of policy development.

It has been noted in a previous Value for Money country assessment that, within the Westminster model of governance, there are basically three sub-models of policy development: the line ministry model, the Cabinet model, and the central steering model (OECD, 2011b).

The line ministry model is characteristic of such countries as Austria, Germany and the Netherlands. In this model, the responsibility for policy development rests exclusively with the line ministry and there is little steering from the Prime Minister's Office or any other central ministry. There may be a Cabinet or coalition agreement in place that specifies new policies for the government as a whole, but the responsibility for subsequent development rests exclusively with the line ministers. This implies, among other things, that only the line ministries can order evaluations or impact analysis studies and put forward concrete proposals for Cabinet consideration. It also implies that only line ministries can take the initiative for interministerial co-ordination if certain aspects of policies exceed the domain of the line minister. The role of the Prime Minister's Office is limited to monitoring progress and solving problems at the request of line ministers if the process is blocked because of lacking interministerial agreement.

The Cabinet model is characteristic of Scandinavian countries such as Denmark, Norway and Sweden. In this model, there is collective Cabinet responsibility for the development of all new policies. This implies that there is a strong role for the Prime Minister's Office or for the Ministry of Finance. Evaluations or impact analysis studies can be ordered by line ministries as well as by the Prime Minister's Office or the Ministry of Finance. In Denmark, policy development in the economic area is co-ordinated by the Economic Committee, chaired by the Minister of Finance, and in the areas of public order, safety, defence and international affairs by the Cabinet Committee, chaired by the Prime Minister. All proposals for new policies have to pass through these committees before they reach the Cabinet. In Sweden, all (important) legislative proposals have to go through an internal committee procedure. The committee can be chaired by an official of the line ministry, or by the Prime Minister's Office or a prominent expert or former politician or official. Other ministries and stakeholders outside the core ministries (executive agencies, local government, interest groups, civil society organisations) are represented in the committee. Executive agencies are often tasked with elaborating new proposals at the request of the committee. The committee reports formally to the line minister, but the minister has little room to deviate from the committee's proposal.

The central steering model is characteristic of Anglo-Saxon countries such as Canada, the United Kingdom and to some extent Australia (featuring a two-party political system). In this model, there is a strong steering role for one or more central ministries (Prime Minister's Office, Ministry of Finance, Ministry of Public Administration). Central ministries may take the initiative for new policies, particularly if they constitute an important part of the government's programme, or if they fall in the area of responsibility for various line ministries. Central ministries may also order evaluations or impact analysis studies.

Looking at Norway in the light of these distinctions, it can be concluded that Norway fits in the Scandinavian model, but with some features characteristic of the line ministry model. In particular, there are no strong gateway committees to the Cabinet as in Denmark, nor is there a committee procedure for new legislation as in Sweden. Line ministers can take their own initiatives and can submit their proposals directly to the Cabinet. Strong Cabinet responsibility implies, however, that every proposal that has consequences for other ministries needs to be agreed beforehand with the ministries involved on penalty of being sent back to the primarily responsible minister. Lack of such preliminary agreements can lead to prolonged blockages.

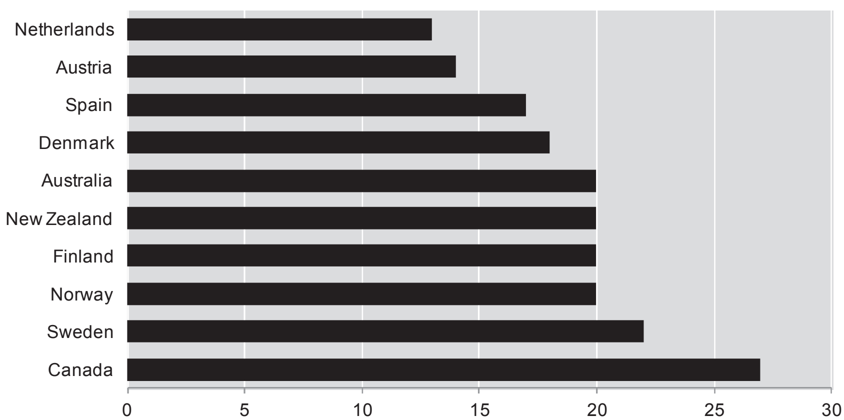
The most obvious way to alleviate the co-ordination problem is by reducing the number of ministers. Figure 4.2 shows that the number of ministers in Norway is quite high relative to comparable OECD countries.

Reducing the number of ministers not only reduces the problem of interministerial co-ordination (because more co-ordination problems can be solved within ministries), but also leads to substantial savings. Savings are mostly the consequence of merging the central support services of the merged ministries, including the sharing of accommodation and facilities. Further savings are possible as a consequence of the reduced number of top officials (ministers, secretary generals) and political advisors. In addition, the costs of horizontal co-ordination between line ministries are reduced.

Volkerink and De Haan (2001) study 22 OECD countries from 1971 to 1996 and find that the addition of one spending minister leads to a deterioration of the central government budget balance by 0.08% of GDP.

Perotti and Kontopoulos (2002) use a panel of 19 OECD countries between 1970 and 1995 and estimate that an additional minister increases the general government deficit by 0.12 percentage points of potential GDP per year, due to impacts on spending. Ricciuti (2004) uses data for 19 OECD countries from 1975 to 1995 and estimates that an additional spending minister adds -0.13% and 0.11% of GDP to the primary surplus and primary spending, respectively. Studies with larger samples including non-OECD countries come to remarkably similar conclusions (Woo, 2003; Wehner, 2010). In sum, there is strong evidence that an increase in Cabinet size or the number of spending ministers is associated with higher costs (OECD, 2011b).

Figure 4.2. **Number of ministers with full Cabinet rank in ten countries of the Value for Money in Government study**[1]



1. In Sweden, all ministers have Cabinet rank, but nine are ministers in other ministries, e.g. the Minister for Social Security is a minister in the Ministry for Health and Social Affairs. The total for Sweden (22) includes these nine ministers. Ministers outside the Cabinet in Australia (ten) and New Zealand (three) are excluded. Also excluded are various deputy ministers, such as Ministers of State in Canada (ten) and state secretaries in the Netherlands (five). The following section discusses deputy ministers in more detail.

Source: Questionnaire responses.

Apart from reducing the number of ministries, there are basically two other ways to tackle the problem of interministerial co-ordination. Norway could go in the direction of Denmark and Sweden by formalising the pre-submission process of negotiation and consensus-building or, alternatively, it could go a step further in the direction of the line ministry model.

In the line ministry model, a minister who is confronted with an interministerial blockage can call on the Prime Minister to solve the blockage. In Austria and Germany, this mechanism is enhanced by the strong constitutional position of the Chancellor, who can give directives to the line ministers. This is not the case in the Netherlands, where there is a tradition of an elaborate Cabinet or coalition agreement that specifies in detail the policy initiatives that are expected from every line minister for every year of the Cabinet period. Moreover, and even more importantly, the budgetary consequences of these future policy initiatives are immediately integrated in the fixed expenditure framework for the Cabinet period (see Reform 3 for the fixed expenditure framework). This implies that if ministries gain from other ministries' initiatives, these gains are subtracted from their budget at the start of the Cabinet period. Equally, if other ministries' policy initiatives lead to additional costs for required complementary policy, these costs are integrated in the framework at the start of the Cabinet period. This procedure not only prevents wrong incentives, but also ensures that the policy initiatives specified in the Cabinet programme are actually realised. Delays or revisions to the programme would immediately lead to an adjustment of the ministerial expenditure ceilings, which is difficult under a fixed expenditure framework (see Reform 3). This will give the Prime Minister an additional incentive to carefully monitor the progress of the implementation of the Cabinet programme and to help solve problems between ministries if necessary (next to the political motive that s/he is accountable to Parliament and society for the realisation of the Cabinet programme).

The incentive mechanism for interministerial co-ordination embedded in a fixed expenditure framework is not dependent on the specification of new policy initiatives in the out-years (the years after the budget year) of the framework (as practiced in the Netherlands). The Swedish framework procedure only allows new spending to be integrated for the upcoming budget year (see Reform 3). However, also under this option, a strong incentive remains for line ministries and the Prime Minister to implement new policies and to overcome interministerial disagreements, once they are decided and integrated in the framework.

Given that Norway has no tradition of strong gateway procedures or commissioning processes for new legislation, the Norwegian authorities may consider moving in the direction of enhanced planning of new spending initiatives. This would in particular seem the most attractive option for fostering interministerial co-operation if Norway were to adopt a fixed expenditure framework (Reform 3). Indeed, implementing a fixed framework already requires specification of all new spending initiatives (including budgetary consequences in the budget year and the out-years) at the occasion of the periodical revision of the framework.

Recommendations

5. The Norwegian government may consider reducing the number of full Cabinet ministers to 13-15 at the start the next parliamentary period. This reform could be prepared by a study of a high-level committee of (former) politicians, senior civil servants and external experts. The study should focus on ways to merge existing ministries so as to minimise the need for interministerial co-operation in the light of future needs for public policy and public service delivery.
6. The Norwegian government may consider enhancing its planning procedure for new policy initiatives in connection with the introduction of a fixed expenditure framework (Reform 3). All new policy initiatives should be specified and the budgetary consequences for all ministries, both in the budget year and the out-years, should be included in the expenditure framework at the occasion of its periodical revision.

Reform 3: Medium-term expenditure framework

The current fiscal guidelines and tax rule in Norway

Budgetary policy in Norway is determined by guidelines, agreed by all but one of the main political parties. These guidelines focus on the use of revenues from oil and gas production and on the balance of tax revenues and expenditures. The current government has augmented these guidelines with self-imposed restrictions on structural (enacted) tax changes.

The guidelines have two parts: *i)* a rule on the management of the annual oil and gas revenues; and *ii)* a rule on the non-oil deficit.

- All government revenues from oil and gas production, whether through taxation or ownership, less investment costs, are paid into the Government Pension Fund Global (GPFG). The GPFG invests exclusively in assets outside Norway.
- The so-called 4% rule stipulates that the central government deficit excluding oil and gas revenues and adjusted for the cyclical position of the mainland economy should, over time, equal 4% of the value of the GPFG at the end of the year prior to the budget year.[7]

One of the aims of the rule on the management of the oil and gas revenues is to preserve oil and gas wealth for future generations. Another aim is to insulate the budget and mainland economy from the immediate effect of swings in oil and gas prices, allowing adjustment to take place over a longer period.

Oil and gas revenues are accumulated in the GPFG and contribute to high national savings. The GPFG was worth over 160% of mainland GDP at the end of 2010, but rather less in late 2011 owing to equity market decline.

The figure of 4% in the deficit rule was chosen because it was estimated that this was the long-term real rate of return the fund could expect. In this case, the rule amounts to preserving the real capital value of the GPFG (which itself is growing with the annual accumulation of gas and oil revenues). For the first decade or so, it achieved a return of almost 4% but, after stock market declines since the global financial crisis, the average return since the inception of the fund up to September 2011 has declined to only 2.8% per year.

A non-oil structural deficit equal to 4% of the GPFG is not a binding target for a particular year. The government is free to deviate from it in various circumstances, notably when discretionary fiscal action seems necessary to stabilise the economy. Although one of the aims of the fund is to preserve wealth for future generations, the guidelines do not require that cumulated deviations of the structural deficit from the 4% threshold should be zero. The discretion allowed by the guideline has the additional advantage that the deficit can be used to compensate for erratic changes in the value of the GPFG that are due to financial markets, rather than to oil and gas revenues.

The current government has operated since 2006 with an additional rule on enacted tax changes, which states that every enacted change should be revenue neutral. If one tax is increased, another must be reduced to offset the estimated impact of the increase. In effect, this should lead to a broadly constant share of mainland tax revenues in mainland revenue (assuming a GDP-tax elasticity around unity).

The government feels that the current rules put constraints on budgetary policy that are broadly equivalent to that of countries that operate a medium-term budgetary framework. However, the Norwegian authorities have indicated that a precise comparison and a presentation of possible features of a medium-term budgetary framework for Norway could be useful.

Medium-term expenditure frameworks

Almost all OECD countries nowadays work with medium-term expenditure frameworks, Australia and New Zealand being the notable exceptions. However, expenditure frameworks may have quite different meanings. In this analysis, the focus will be on expenditure frameworks, as generally understood in the international discussion on financial management.

An expenditure framework in this sense can be defined as a normative constraint on the total expenditures of central or general government over the medium term. Countries that use frameworks in this sense in their budget process can be divided into two broad groups: those that use a flexible framework and those that use a fixed framework. A flexible framework can be changed from year to year; a fixed framework cannot. The latter group of countries can be seen as a sub-group of the first, since a flexible framework does not necessarily have to be changed from year to year, and countries that use a flexible framework often try to maintain their framework as much as possible from year to year. In practice, the difference may thus not be very large. On the other hand, a fixed framework cannot be changed as a matter of principle, and so the difference is not merely a matter of gradation.

A large majority of the countries that use expenditure frameworks belong to the first group (flexible frameworks). Their practices with respect to medium-term expenditure planning are described in the following paragraphs.

The budget documentation contains forward ceilings for central or general government as a whole and sometimes for ministries or broad expenditure groups for a period of two to four years after the upcoming budget year.

The ceilings are decided at the beginning of the budget process (top-down budgeting) on the basis of macroeconomic and revenue forecasts, costs of current and new programmes, and political priorities.

In the budget process, decisions are taken in order to ensure that the line-item budget estimates for the upcoming budget year and for future ("out-") years (baseline estimates) fit into the ceilings for those years. If there is room between the ceiling and the sum of the baseline estimates in any year, new spending initiatives can be allowed. If the sum of the baseline estimates exceeds the ceiling in any year, cuts are required.

Both baseline estimates and ceilings for the out-years are published in the budget documentation.

Strong rules of budgetary discipline are in place that require immediate compensation by the line minister of any overspending on the ceilings of the budget year and the out-years during budget preparation and budget execution (until the next framework comes into force). For this purpose, baseline estimates must be frequently updated (at least four times a year) and carefully checked (and if necessary revised upward) by the Ministry of Finance.

The expenditure framework that is decided at the start of budget preparation is usually held as constant as possible compared to the framework of the previous year, but changes are possible in the light of new macroeconomic and revenue forecasts, updated baseline estimates and new political priorities.

The use of a flexible expenditure framework in this sense has important advantages compared to a budget process that does not start with ceilings or that focuses exclusively on the upcoming budget. Starting with a ceiling ensures that there is no creep in the total during budget preparation, as was usually the case in the era of "incremental budgeting" when the Ministry of Finance and line ministries started with their respective bids and the outcome ended up somewhere in between. The multi-annual perspective ensures that future consequences of new spending initiatives are taken into account and have to be reconciled with future ceilings (constraining "camel noses", i.e. spending initiatives with large impacts in future years). Similarly, it ensures that decisions concerning savings that are necessary in future years are taken now. This implies a more structural approach to savings. This is particularly key because important savings usually need several years to phase in since they require changes to laws and reorganisations.

Evidently, the advantages flowing from the multi-annual perspective are only realised if the reconciliation requirement between baseline estimates and ceilings in out-years is taken seriously, which requires reliable estimates that are published in the budget documentation. It also requires that estimates for the out-years be carefully checked by the Ministry of Finance. In a budget process that is based on expenditure frameworks, line ministries have a major interest in keeping baseline estimates for the out-years low so as not to trigger savings decisions. If the problem arises a year later, it is often too late for structural measures, so that the line minister may hope to receive more resources for funding of ongoing programmes. In a flexible framework, this hope is all the more realistic because the framework can be changed from year to year. Paradoxically, the Ministry of Finance therefore often sees itself in a position to plead for higher baseline estimates in out-years, and this incentive is stronger to the extent that the framework is more flexible (in the sense that the budgetary culture is more permissive regarding annual changes to the framework). It can also help to have an independent forecasting institution check the baseline estimates of major programmes with demographic components (education, social security, health, social services).

An expenditure framework has to be anchored in a fiscal rule. This can be the deficit and debt rules of the European Union (a 3% headline deficit limit and a 60% headline debt limit) or the (structural) medium-term objectives of the Stability and Growth Pact if a country exceeds the headline limits, but it is safer to steer on national fiscal rules that are stricter than the EU rules. Many OECD countries anchor their expenditure framework in a structural balance rule (balance over the economic cycle).

Many OECD countries nowadays try to anchor their fiscal policy in long-term sustainability analysis. This requires that public debt does not exceed a certain percentage of GDP or gradually converges to a sustainable level if it is currently too high (for instance, the 60% of the Stability and Growth Pact). In addition, it requires that future demographic developments be absorbed without pushing the public debt over its agreed limit. In the case of an ageing population, this usually means that public debt should be reduced well below the agreed limit in the coming decades in order to allow it to grow over the longer term until a demographic balance is reached. This in turn implies a substantial surplus target for the balance in the coming decades.

Fixed expenditure frameworks

A handful of OECD countries use fixed expenditure frameworks in their budget process, notably: the Netherlands, Sweden and the United Kingdom.[8] The characteristics of fixed frameworks are analogous to those of flexible frameworks except that the framework cannot be changed from year to year.

Compared to a flexible framework, a fixed framework has two additional advantages:

1. It leads to a strict separation of expenditure and revenue planning. Revenue windfalls cannot lead to more room for expenditures, and revenue setbacks do not trigger consolidation. Expenditure frameworks lead therefore to automatic stabilisation. They are not anti-cyclical in the sense that windfalls lead to savings and setbacks to expansion, but a-cyclical or neutral in the sense that revenue windfalls and setbacks do not affect expenditures. Automatic stabilisation is usually seen as more effective than anti-cyclical activism because of timing problems (the recession is over when the stimulus phases in, the boom is over when the consolidation phases

in) and because of the disruptive effect of activism on programme planning and the budget process in general.[9]

2. The effect on budgetary discipline is substantially stronger: line ministers cannot hope to survive the current problems by *ad hoc* measures and accounting gimmicks and receive more money in the next year. Even though reallocation between sub-ceilings is generally allowed during budget preparation, every line minister knows that reallocation in his/her favour is very difficult to bring about since it necessarily has to happen at the cost of a colleague. This implies that every minister knows what he receives for the entire period of the framework. The effect of this arrangement is that line ministers start to behave as "their own Minister of Finance". It also implies a considerable change in the task of the Ministry of Finance: it no longer negotiates about allocation, but monitors and enforces the rules of the game. These rules are the rules of budgetary discipline, which tend to be quite extensive and elaborate under fixed frameworks. In addition, the Ministry of Finance has to carefully supervise the regular updating and reliability of the baseline estimates, because these estimates are the foundation of the budget process under a fixed expenditure framework. They trigger any savings decision to comply with the framework and they must permit any new spending initiative that respects the framework.

One of the differences between the fixed frameworks in use in the Netherlands, Sweden and the United Kingdom regards the frequency of revision. In the Netherlands, the framework is periodical in the sense that it is decided during the formation of the Cabinet and covers the entire Cabinet period. Ever since the introduction of the framework procedure in 1994, a new framework has been decided at the beginning of each Cabinet period for a period of four years (although sometimes a Cabinet fell before the four years were over, which led to a new framework for a new Cabinet period but again for four years). In the United Kingdom, the framework is also periodical in this sense: it has always been a three-year framework since the introduction of the procedure in 1998. The framework was usually renewed after two years and twice after expiration (three years).[10] The current United Kingdom Cabinet has, for the first time, established a framework for the entire Cabinet period of five years. In Sweden, the framework is on a rolling basis, every year one year is added at the end of the planning period.

However, the difference between the periodical frameworks in the Netherlands and the United Kingdom and the rolling framework in Sweden is not as great as it might seem. In the Netherlands, the framework is in fact extended every year as well with one new out-year, but the ceilings in the out-years after the Cabinet period cannot comprise new policies (either savings or new spending) to be implemented after the end of the Cabinet period (in contrast to ceilings in the out-years during the Cabinet period, which can comprise new policies to be implemented in out-years). This resembles the Swedish procedure, which excludes new policies to be implemented in all out-years (not only in the new Cabinet period).[11] Furthermore, the Swedish procedure also allows for the entire framework to be revised at the start of a new Cabinet period, if a new Cabinet so decides. In the United Kingdom, the framework was usually revised after two years, whereas the existing framework still contained a third year, which largely eliminated the need for adding out-years from year to year. How the new Cabinet with its five-year framework will provide for ceilings after the Cabinet period is still unclear, but evidently a new Cabinet will always be allowed to revise the framework of a previous Cabinet. In this light, the procedures in the three countries are very similar as far as the frequency of revision is concerned.

In all three countries, the framework is anchored in a structural balance rule. Estimating the structural balance is a difficult exercise. It gives rise to deviating estimations and leads to a certain degree of arbitrariness. This problem occurs in all countries that anchor their framework in a structural balance rule (and when the framework is flexible), but it is mitigated to some extent if the framework is fixed, because in the latter case it only comes up when the framework is revised (or extended, but then only for the extension year at the end of the planning period). Sweden uses a structural surplus rule, requiring the budget to be at least 1% in surplus over the economic cycle. In the Netherlands, the current medium-term framework aims at restoring structural budget balance in 2015. In the past, Dutch frameworks aimed at a surplus. In the Netherlands, the estimation of the structural balance is delegated to the independent Bureau for Economic Analysis (locally known as the Central Planning Bureau).

The essence of a fixed expenditure framework is that revenues and the headline deficit are allowed to fluctuate according to the economic cycle without affecting expenditures. However, if the framework is anchored in a deficit rule, the revenue side of the budget has to be constrained as well. For this purpose, it is necessary to fix tax policy at the same time as the expenditure framework for the same period. Subsequently, budgetary discipline on the revenue side has to be guaranteed equally by a compensation requirement. This can be called a "pay-as-you-go" requirement, using the terminology of the Budget Enforcement Act that was in force in the United States in the 1990s (abandoned in 2002). "Pay as you go" requires that every enacted change in tax policy be fully compensated in other enacted changes on the tax side of the budget. For instance, tax relief in the income tax has to be compensated by tax enhancement in indirect taxes or vice versa. So as not to affect the deficit, both tax relief and tax increases should be compensated. Note that the compensation requirement applies to the estimated change in the tax yield flowing from the enacted changes in the legislation. The compensation requirement does not apply to autonomous cyclical effects under current legislation (this is the essence of automatic stabilisation).

It is recognised in all three countries that tax expenditures, in principle, constitute an important loophole to evade the expenditure ceilings. In particular, subsidies and social benefits can easily be transformed into tax expenditures. The solution to this problem should be sought on the revenue side of the budget, not by bringing tax expenditures under the ceilings. Tax expenditures are in integrated part of the tax legislation. They are not authorised as separate expenditure line items but as part of the tax legislation. Imposing compensation requirements on line ministers that bear at most a partial responsibility for the tax legislation is not a viable procedure. However, a pay-as-you-go rule on the revenue side should also apply to tax expenditures. Any enacted increase of a tax expenditure should thus be compensated by a tax increase elsewhere. Obviously, this can easily lead to a tax structure with high tariffs and high tax expenditures at the cost of the quality of the tax structure, but this is a question of tax policy and not of budgetary discipline.

Countries that have constraints on the revenue side of the budget in place have usually determined a band of fluctuation for the actual tax yield. If the boundaries of this band are exceeded, the underlying change in GDP is considered as structural. If tax revenue exceeds the upper boundary of the band, a part of the growth is considered as structural and therefore available for tax relief ("return to the citizens").[12] If, on the other hand, tax revenue falls short of the lower boundary of the band, this may require revision of the expenditure framework to restore the structural balance requirement in the medium term.[13] Note that, under a fixed framework, structural windfalls give rise to tax relief whereas shortfalls may give rise to downward adjustment of the expenditure ceilings. This reflects the notion that deficit problems should, in the first place, be solved on the expenditure side whereas the benefits of buoyant growth should, at least partly, be given back to the citizens.

Differences between a fixed framework and the Norwegian guidelines and tax rule

Norway has developed a set of rules for its fiscal policy that are very strict. The entire yield of oil and gas extraction is saved. Structural budget balance is ensured. The tax level cannot be increased. This is of course commendable and, in these respects, Norway can serve as an example for other OECD countries.

Nevertheless, some improvements are still possible. The current rules could, in some respects, be further sharpened in order to exclude courses of action that would undermine the strict budgetary discipline that Norway aspires to. In order to identify such reforms, it is useful to enumerate as precisely as possible the differences between the Norwegian guidelines and tax rule on the one hand and medium-term frameworks as used by many OECD countries on the other. For the sake of simplicity, the differences will be specified in comparison to the countries that use fixed frameworks (in various aspects, the differences with flexible framework practices are smaller; this will be mentioned).

There are six main differences:

1. There are no ceilings for out-years. The main reasons for multi-annual ceilings are to identify and accommodate camel noses (spending initiatives with large impacts in future years) and to decide savings (large savings need time to phase in: they may require changes of entitlement law or major reorganisations of executive agencies), all in a timely manner. In the absence of ceilings for out-years, line ministries may be less critical on camel noses, may try to postpone savings (next year there is new money and a new chance), and may be less interested in accurate baseline item estimates for future years.[14]

2. Multi-annual ceilings facilitate sectoral planning, particularly planning for savings (planning for new expenditures generally requires less phasing-in time). Medium-term sectoral planning requires that future resources available for policy areas be known some years in advance.[15] Fixed frameworks generally subdivide the total ceiling into sub-ceilings (in the United Kingdom, in ministerial ceilings; in Sweden, in ceilings for some 25 broad policy areas; in the Netherlands, first in ceilings for the three main sectors of health, social security and central government, and then central government subdivided in ministerial ceilings). It is true that formally all three countries allow reallocation between the sub-ceilings during annual budget preparation, but reallocations between sub-ceilings for ministries are rare in practice.[16] Since every increase in a sub-ceiling has to be compensated by a decrease of another ceiling and since all ministers defend their turf in Cabinet, reallocations are extremely difficult to bring about in practice under a fixed framework.[17] Fixing

the total ceiling thus means, in practice, fixing the ministerial ceilings. This difference does not apply to flexible frameworks.

3. In Norway, the prescribed structural non-oil deficit of 4% can be adjusted from year to year in view of macroeconomic policy (for instance, to provide for "stimulus" of demand). An essential feature of a fixed expenditure framework is that the expenditure side of the budget is not used for active macroeconomic policy. Only the automatic stabilisers on the revenue side (and possibly some entitlements, such as unemployment benefits; see next section) are used for macroeconomic stabilisation policy.[18] This difference does not apply to flexible frameworks.

4. In Norway, the prescribed structural non-oil deficit of 4% can, in principle, be adjusted from year to year to smooth "erratic movements in the value of the GPFG" due to fluctuations in financial markets. This could open opportunities for less strict fiscal policy (increasing the deficit).

5. In Norway, the GDP trend has to be estimated from year to year (in order to derive structural tax revenue); under a fixed framework, it is only estimated when the framework is up for revision. Annual trend revision opens up some additional possibilities for a less strict fiscal policy. This difference does not apply to flexible frameworks.

6. In Norway, the tax rule stipulates that enacted tax change should be revenue neutral. A medium-term expenditure framework can be based on any tax policy. A fixed expenditure framework can be based on rising, equal or declining tax revenue from enacted tax changes over the period covered by the framework. Only after the tax policy is decided, and the framework is in place, can changes in tax policy during the period of the framework be compensated under the pay-as-you go rule.

Features of a fixed expenditure framework for Norway

Some argue that there is a risk with an expenditure framework that ceilings would, in practice, be seen as floors for future expenditure. There seems to be little international evidence to support this argument, particularly if the framework is fixed. In the three countries that have used fixed frameworks over a long period of time, transgression of ceilings has hardly ever occurred.[19] It should be noted, however, that none of these countries has experienced as large surpluses as Norway over the last 10-15 years. Comparisons are therefore not straightforward. If the authorities were to consider introducing a medium-term expenditure framework in a next Cabinet period, they would have to decide on the main features of the framework procedures and in particular on: *i)* a fixed or flexible framework; *ii)* coverage of the framework; and *iii)* the rules of budgetary discipline.

Fixed or flexible framework

Although in practice the differences between flexible and fixed frameworks need not be very large (see above), the formal differences are substantial. In view of the fact that the main differences between the current Norwegian guidelines and tax rule on the one hand and the medium-term framework procedure on the other are concerned with features of the fixed framework (not the flexible framework, see above), it hardly seems worthwhile for Norway to move to a flexible framework procedure. If the move is considered in the future, it should therefore be a move to a fixed framework procedure.

The coverage of the ceilings

The choice of coverage has to address two main questions:

1. Should mandatory expenditure be included?
2. Should interest on public debt be included?

In the United Kingdom, the ceilings ("departmental expenditure limits", DEL) apply to discretionary spending and exclude mandatory expenditures, so-called annually managed expenditures (AME). This applies mostly to social security. However, education and health expenditures – that in some countries have the character of mandatory expenditures (because they are completely determined by law in those countries) – are considered to be discretionary in the United Kingdom and are thus included under the ceilings. DEL included around 60% of total spending and AME around 40%. DEL ceilings are set separately for current and capital budgets in order to protect investment (ministers cannot compensate setbacks on current spending by cutting investments). An argument for excluding AME expenditure is that some of it is cycle related, in particular unemployment benefits, so that exclusion may contribute to automatic stabilisation. In the Netherlands and Sweden, the ceilings include both discretionary and mandatory spending. The logic behind this is that the very reason for working with multi-annual frameworks is that setbacks on mandatory spending can often be anticipated years in advance so that timely measures can be taken to change the laws. Furthermore, in the Netherlands and Sweden, a larger share of expenditure is completely determined by law and thus mandatory (for instance, education spending and all grants to local government in the Netherlands). Excluding mandatory spending would thus deprive the frameworks of their effectiveness. Finally, most mandatory spending is not cycle related, so that the automatic stabilisation argument is not very strong.

Interest payments on public debt are excluded from the ceilings in Sweden and the United Kingdom (in the United Kingdom because they are AME). The main argument is that these expenditures are accounted for in the budget of the Ministry of Finance – and that ministry has little room for maneuver to compensate for large setbacks. In the Netherlands, interest payments were under the ceiling from 1994 to 2008, then taken out, and since 2011 have been brought back under. The temporary exclusion from 2008 to 2011 was presented as a "stimulus measure" to the European Commission. There was not much else behind this measure. The fact that the Dutch Ministry of Finance feels comfortable with responsibility for compensation of setbacks on interest payments has to do with the rules of budgetary discipline prevailing in the Netherlands, which give the Minister of Finance substantial leeway to broker interdepartmental reallocation (see below).

Rules of budgetary discipline

If Norway were to consider moving to a fixed medium-term expenditure framework it would have to establish an extensive set of rules of budgetary discipline in order to monitor and enforce the framework.

Working with a fixed expenditure framework requires precise and detailed rules of budgetary discipline. The rules in use in the countries that practice fixed framework procedures show considerable variance. The list below should therefore be seen as a selection of options that could be considered by the Norwegian authorities.

- Every minister is obliged to avoid overspending on any line item, not only in the budget but also in the baselines for the out-years. If overspending still occurs, every minister is obliged to compensate the amount overspent on other specific line items as soon as the overspending is observed (not only in the budget year but also in the out-years).[20] The compensation measures are specified in the same financial report to Parliament in which the overspending is reported and submitted in the first subsequent (supplementary) budget law (compensation in the budget year needs authorisation, compensation in the out-years needs only to be reported).
- For the application of the expenditure ceilings, non-tax revenues belong to the expenditure side of the budget. Setbacks on non-tax

revenues in the budget year or in future years have to be compensated.

- Windfalls on expenditure line items or in baseline estimates for future years (for instance on unemployment benefits due to favourable macroeconomic circumstances, or on infrastructure projects due to delays in execution) can be used to compensate for incidental setbacks on other line items, but not for new spending initiatives or for compensation of structural setbacks. Windfalls not required for compensation of incidental setbacks have to be handed in to the Minister of Finance (asymmetric treatment of windfalls and setbacks). The asymmetric treatment of windfalls and setbacks on the expenditure side gives the Minister of Finance some leeway to broker (temporary) reallocations between ministries (in particular, in cases of unforeseeable setbacks on entitlements, for instance on unemployment benefits or higher education), to broker compensation in case of carry-overs, and to make room for overspending on interest payments (that are authorised on the budget of the Ministry of Finance and have to be compensated by that ministry in case of overspending).
- Windfalls in interest payments can only be used for repaying the debt.
- The Minister of Finance decides on carry-overs of authorised resources and takes care of compensation in the next budget year.
- Guarantees need to be authorised by the Minister of Finance. Risk on guarantees needs to be authorised in separate line items and be compensated in case of overspending.

Other subjects that need precise regulation in the rules of budgetary discipline concern: the treatment of inflation (notably if the expenditure framework is in real terms), sanctions on sub-central governments if their deficit exceeds agreed limits (notably if the expenditure framework includes the whole of general government), statistical corrections for accounting changes, exclusion of non-tax revenues from mineral extraction from the ceilings, treatment of public-private partnerships, treatment of balances of agencies and non-profit institutions in general government that use accruals accounts, extrapolation rules for the baseline estimates in the new out-year.

Rules of budgetary discipline have to be agreed by the government. They can take the form of (secondary) legislation or be part of the coalition programme. In the case of a minority Cabinet, they need to be explicitly agreed by the parties outside government that support the government party or coalition. The Minister of Finance is responsible for supervising compliance with the rules.

Recommendation

7. The Norwegian government may assess the pros and cons of adopting a fixed multi-year expenditure framework in which, for example, spending ceilings for each ministry are set for the following three years, consistent with trend returns on the Government Pension Fund Global (GPFG) and tax revenues and a structurally zero non-oil deficit. In addition, the government may consider adopting a pay-as-you-go rule for the tax side of the budget.

Reform 4: Implementation of spending reviews

Why introduce spending review procedures?

Norway does not have experience with spending reviews (SRs), although they are a widespread practice in the countries participating in the Value for Money study.[21] SRs are seen as a useful tool to evaluate current spending programmes and to make room for new initiatives, hence supporting the allocative function of the budget. It is an evidence-based assessment of spending efficiency, and more broadly of the efficiency and effectiveness of policy choices.

Spending review has a different aim than performance evaluations by line ministries and follows different procedural rules. The initial OECD Value for Money report outlines that:

> ...there are three main differences of SRs with the policy evaluations conducted by line ministries: *i)* spending reviews not only look at the effectiveness and efficiency of programmes under current funding levels but also at the consequences for outputs and outcomes of alternative funding levels; *ii)* the Ministry of Finance holds final responsibility for the spending review procedure; and *iii)* the follow-up of spending reviews is decided in the budget process. (OECD, 2010a)

Generally, line ministers do not have incentives to put forward good proposals for new savings in their portfolios, but are enthusiastic about making good proposals for new spending. There is a fundamental asymmetry in the regular budget process in that it is capable of producing good options for new spending, but not of producing good options for new savings. One method to compensate for this asymmetry is to impose strict portfolio ceilings, which force line ministers to put forth good savings proposals to compensate for setbacks and new initiatives. However, this mechanism does not work at the time the ceilings are established or adjusted. In most OECD member countries, the ceilings are adjusted annually; in some countries every few years. Spending review is an appropriate tool aimed at the development of saving options with the co-operation of the line ministries but does not give the line ministries a leading role.

On the one hand, the introduction of SRs can provide savings (a spending review is aimed at developing concrete spending options, usually varying from 5% to 20% of spending) and, on the other hand, a quality improvement in public policy (a spending review evaluates the efficiency and effectiveness of current programmes and puts forward options for programme improvements next to savings options).

The latest OECD economic survey of Norway (OECD, 2012a) supports the introduction of spending review. The survey mentions that:

> …an additional measure [to reduce expenditure] would be to set up a[n] SR system that could take major policy areas one at a time and conduct in-depth reviews of policy aims and effectiveness. Investigating panels should have independent chairpersons and could use both experts from ministries and outside experts, including from other countries, with a remit both to assess existing policies and to propose modifications that would meet policy objectives more cost-effectively. One of the purposes of such a system would be to provide background information for the multi-annual spending framework […]. (OECD, 2012a)

Country experiences

Netherlands

In the Netherlands, spending reviews are conducted by working parties of civil servants from several ministries and external experts under the chairmanship of prominent persons who do not bear responsibility for current policies. All SRs are supported by a special unit in the Ministry of Finance which provides the secretariat of all working parties. The reviews must be primarily forward-looking and include reform options based on an evaluation of the current policy. The reform options must lead to savings (with a mandatory option leading to a spending reduction of 20%). In the working parties, there is no right to veto any policy option proposed. The spending review procedure is supervised by a committee of high-level officials of the central ministries (Prime Minister's Office, Finance, Economic Affairs, and Interior and Kingdom Relations), and decision making on options described in the reports is integrated in the budget process.

From 1981 until recently, the procedure was annual and selective, with 10 to 15 interdepartmental reviews undertaken each year. However, the number of reviews fell during the 2000s, when only three to five were conducted each year.

The Dutch procedure was reinvigorated during the recent fiscal crisis and a series of working parties undertook a comprehensive review of all major spending programmes in the public sector. This has now been set as the norm. It is probable that in the future the procedure will run to a quadrennial cycle in which all major spending programmes are reviewed in the year before elections. It is expected that the incoming Cabinet will use the recommendations from the spending reviews as the basis for their forward policy agenda.

The reports of all spending reviews are published and made available to the public and political parties. In review rounds preceding elections, they are published before the start of electoral campaigns.

Australia

Alongside spending reviews (called "strategic reviews" in Australia), the Australian government also conducts comprehensive expenditure reviews and programme evaluations. There is currently no single framework covering these three forms of evaluation and review. Comprehensive expenditure reviews are usually decided on an "as needed" basis and are not conducted on an annual basis. In contrast, SRs are now part of the Australian government's budget process and are an option to directly target policies, programmes and agencies designated either to be of strategic policy or budget importance with each review managed by the Department of Finance and Deregulation. Review topics are selected at the start of the budget process when priorities are set. Finally, programme evaluations are conducted by line ministries and agencies to monitor and evaluate their programmes. The quality of these programme evaluations is quite variable. The Australian government is looking for ways to streamline monitoring and evaluation across ministries and agencies as tools for policy and budget development.

Strategic review was established in April 2007, when the Australian government committed to an enhanced framework for the strategic review of government programmes. This implied establishing a team within the Department of Finance and Deregulation to conduct strategic reviews of major policy and spending areas across programmes and/or portfolios and significant Australian government initiatives. The team is located in the Budget Group within the Department of Finance and Deregulation and is responsible for managing the process as well as providing support to the review team leaders. Review team leaders are selected as "eminent persons" with specific expertise in the topic area and have ultimate responsibility for writing the report and its recommendations. The purpose of strategic reviews is:

- to identify options for improving the efficiency and effectiveness of expenditure programmes and their alignment with policy priorities (i.e. their appropriateness);
- to identify opportunities for savings (or avoidance of unbudgeted cost increases) in order to contribute to budget sustainability;
- to allow for resources to be reallocated to better address policy priorities and identify potential duplication.

Strategic reviews are not focused solely on operational efficiency, but have a whole-of-government focus, examining the alignment of programmes with government priorities, the effectiveness and the efficiency of programmes and potential budget savings.

Under the framework, the Department of Finance and Deregulation (and Treasury, in the case of tax expenditures) leads and manages reviews in close consultation with the responsible ministry or ministries. Where applicable, joint strategic reviews are conducted by the Department of Finance and Deregulation and the relevant ministry.

Some 12 strategic reviews have been conducted since 2008 in accordance with the following process:

- Review topics are identified by the Minister of Finance who then requests Cabinet (or a sub-committee of Cabinet) to agree to the proposed reviews.
- Each review is conducted over approximately four to six months by approximately four team members.
- Strategic reviews are usually led by a senior Department of Finance officer or by an independent leader who is either a former public servant or eminent person. The review leader is supported by a team of officials from the Department of Finance and secondees from other relevant agencies.
- The team is supported by a consultative group of representatives from relevant agencies, including the Treasury Department and the

Department of the Prime Minister and Cabinet, which provides expert advice to the team.

- Line ministries are invited to participate in the review via interviews or as part of a reference group, but they do not have any direct influence over the report or its recommendations.
- Reports are presented to the finance minister who brings it to Cabinet. With an expanded agenda for open and transparent government, there is a trend for these reports to be published.

Although final reports are initially provided to the Minister of Finance and Deregulation (and the relevant minister in case of a joint strategic review), the government takes the final decisions on review of recommendations. Strategic reviews are usually considered during the budget process.

Comprehensive expenditure reviews follow a procedure that is decided *ad hoc*, but have not been carried out since 2007-08.

Programme evaluations are decided by line ministries and follow an *ad hoc* procedure, decided by the responsible minister.

The key weaknesses of the Australian strategic reviews are that, first, the process tends to focus on questions of appropriateness, policy alignment and operational efficiency (such as shared services) rather than on identifying savings. SRs in other countries usually require the development of one or more mandatory savings options (5%, 10% or 20% of spending). The Australian strategic reviews do not require the development of mandatory savings options (except if the terms of reference of a review contain such a requirement on an *ad hoc* basis).

Second, strategic reviews ought to compensate for the fundamental asymmetry of the regular budget process – that is, the bias towards options for new spending over those for new savings. However, the current rules of the strategic review process do not prohibit the development of options that lead to new spending. In the current situation, the strategic review reports are sent to Cabinet for decision as part of the budget process but are not fully integrated into the process.

United Kingdom

In the United Kingdom, the spending review process started in 1998 as part of a wider set of reforms aimed at modernising public finance management. The aims of SRs were to support the biennial revision of the expenditure framework and ministerial ceilings. For that purpose, SRs are supposed to reallocate money to key priorities, change policies so that money is well spent, ensure that departments work better together to improve services, and weed out unnecessary and wasteful spending.

Spending reviews are produced by various types of working groups: some exclusively composed of Treasury officials, some of mixed composition. External experts and prominent personalities from the public and private sectors are often invited to participate or chair the working groups. The completed reviews are discussed between the Chief Secretary of the Treasury (responsible for the budget) or the Chancellor of the Exchequer and the line minister.

The British SR process focuses on discretionary spending, which covers around 60% of total spending. This is the part of the budget that is subject to the fixed multi-annual ceilings. The remaining 40% is taken up by "annually managed expenditure" which includes social security, interest and other items of mandatory spending, and is allowed to fluctuate to provide for automatic stabilisation.

The United Kingdom's "spending review process" is explicitly linked to the setting of departmental expenditure limits on a periodic basis. In 2010, the United Kingdom's new coalition government used a comprehensive spending review to distribute large-scale expenditure reductions planned over a five-year period across the various ministries.

Denmark

Ten to fifteen spending reviews are conducted in Denmark each year. Although the established practice is to carry out SRs on an annual basis, for a number of spending areas (defence, courts, etc.), SRs are conducted according to the period covered by multi-annual budget agreements (usually every third or fourth year). There are currently no formal requirements regarding the selection of topics, conducting a spending review, the stakeholders involved in the process, or the implementation and dissemination of the review's recommendations. Individual budget analysts within the Ministry of Finance have a high degree of discretion with regard to the subject and conduct of each review. In practice, similar procedures are applied from year to year to organise and conduct SRs.

Identifying possible subjects for SRs takes place at an early stage of the budget preparation when budget analysts try to map particular programmes or departments experiencing upward pressure on spending ceilings and may thus need to be reviewed. After internal decision making in the Ministry of Finance and dialogue with the concerned line ministries, a list of suggested spending reviews is drawn up and presented by the Ministry of Finance to the Economic Committee of the Cabinet to decide which reviews to mandate. The weakness of this selection procedure is that it does not ensure a comprehensive coverage of all major spending programmes over a given period of time.

The reviews themselves are conducted over a relatively short period of time (usually from February to the beginning of May) to allow possible savings proposed in the SRs to be incorporated in the draft budget for the upcoming year. As a result, SRs focus on a specific agency or programme, and on questions of efficiency to control spending within budgetary limits. This system does not promote cross-departmental reviews nor is it intended to provide options for strategic policy change or programme redesign.

The institutions and experts involved in conducting SRs vary depending on the scope of a review and its subject. There is no standard, unified procedure. Some reviews are undertaken by the Ministry of Finance alone, others in a more open process. In smaller reviews, the organisation and procedures are less formal and the review is conducted internally by contacting the relevant line ministry. For larger and more comprehensive reviews, external experts or consultants are involved in the analysis and they are typically overseen by a steering committee. The line ministry supplies the facts and is involved in implementing conclusions from the review. The role of the Ministry of Finance is inquisitorial and analysts challenge established views and procedures. Once the reviews are finalised, results are provided to the Steering Committee. The Ministry of Finance and the concerned line ministry prepare a common presentation, although they can give separate opinions in cases where the two disagree on the conclusions or recommendations.

Decisions on whether or not to accept the recommendations of the review for inclusion in the budget are taken by the Economic Committee, which is a Cabinet committee that serves as a gate for all financial-economic proposals submitted to Cabinet (including the budget). There are no formal mechanisms ensuring that recommendations are implemented, although the Ministry of Finance often monitors implementation. Moreover, funding levels may assume that changes have been implemented. Finally, some reviews are published or made available on the Internet, while others are not; the decision for publication remains with the Economic Committee of the Cabinet. If they are made publicly available, the full reports, including the conclusions and recommendations, are made available; this only takes place once the government has decided upon the recommendations.

Canada

In Canada, the strategic review procedure was established in 2007 as part of the new expenditure management system. Reviews are managed by a small secretariat within the Treasury Board Secretariat and undertaken as part of the Treasury Board Secretariat's dual role as budget office and management board. The process applies to all direct programme spending and the operating costs of statutory programmes; review results feed into the annual budget process and are announced in the annual budget. Strategic reviews have three key aims: to ensure the efficient and effective delivery of departmental programmes; to ensure that departmental spending programmes are aligned with the federal government core responsibilities; and to ensure that departmental spending is aligned with the government's key priorities. All reviews must identify options for restructure and programme redesign, and at least 5% of total spending must be "freed-up" for reallocation from the "lowest priority, lowest performing" policies. Strategic reviews are decided on an *ad hoc* basis.

Introducing spending reviews in Norway

In establishing SRs, the Norwegian authorities may take inspiration from the experiences of other countries participating in the Value for Money study. As there is no single blueprint establishing a successful SR procedure and country models differs, many factors should be considered and tailored to the national institutional and regulatory context and established practices.

The SR process needs to rest on a comprehensive and coherent regulatory framework which should articulate clearly:

- the aims;
- the main actors and their roles, including line ministries, the Ministry of Finance, the Office of the Prime Minister, external experts;
- the appointment of an independent chairperson of the working parties conducting SRs;
- the role of a steering group charged with supervision;
- the frequency of SRs, and the conditions for subject selection;
- mandatory savings options;
- prohibition of options leading to new spending;
- the prohibition of veto right on options to be introduced in the reports;
- publication of the terms of reference and of the reports.

In designing the system, it is important to promote SRs as a stringent and focused process. This implies that a spending review should lead to concrete, elaborated saving recommendations to be used in the budget process. It also means that the SR process and its outcomes should be embedded in the budget cycle. Without this link with budget formulation, SRs cannot produce the expected impact on expenditures and programme efficiency and effectiveness. Options to increase expenditures should not be allowed in SRs. The required amount of savings to be developed by a spending review can be fixed in the regulation. The Norwegian authorities may specify this amount, taking into consideration all relevant factors and the experience of other countries where SRs usually require the development of one or more mandatory savings options amounting to 5%, 10% or 20% of spending.[22] A requirement already exists in the Norwegian budgetary process for line ministries to propose a 4% spending saving option when submitting annual budget drafts to the Ministry of Finance. This practice has not proven to be very effective considering that only line ministries themselves are involved in developing saving options,[23] but this experience may contribute to a well considered decision as to the implementation of a spending review procedure in Norway.

Following the Dutch experience, it would be recommendable to conduct SRs on a quadrennial basis linked to the parliamentary electoral cycle – that is, in the year before elections. This frequency would allow sufficient time for producing high-quality, evidence-based recommendations while the political environment would be favourable for achieving high impact and best results. It would also decrease the risk of "review fatigue" that sometimes shows up in countries with an annual procedure. All major spending areas should be included in the SR procedure.[24] The selection of the policy areas to be reviewed can rest with the Ministry of Finance.

With regard to the institutional side, the Cabinet could decide the composition of the working parties on the proposal of the Minister of Finance. The line ministry can be invited to join the working parties and to submit its own options. The introduction of SRs implies creating a spending review unit within the Ministry of Finance to support the review process and the working parties undertaking reviews. The unit should include officials with relevant expertise and technical skills. The other key role of the unit would be to assure the secretariat of the working parties and, as such, to ensure that the reviews are conducted in a timely manner and that they remain focused on questions that lead to saving options that can be used in the budget process.

Recommendations

The Norwegian government may consider taking the following measures:

8. Introducing spending review with the aim of evaluating the efficiency and effectiveness of current programmes and the development of savings options. The review process should be linked closely to the government's procedure of budget preparation. The regulation should clearly articulate the SR framework, including the task and composition of the working parties conducting the reviews, the role of the supervisory committee and the publication of the reports. In order to succeed, a key concern in institutionalising the SR procedure is to make SRs as stringent and focused as possible, meaning that they must lead to concrete and elaborated saving options to be used in the budget process. Options to increase expenditures should not be allowed in spending reviews.
9. Conducting spending reviews on a quadrennial basis linked to the parliamentary electoral cycle – that is, in the year before elections. All major spending areas should be included in the SR procedure.
10. Creating a spending review unit within the Ministry of Finance to support the review process. The unit must ensure that the reviews are conducted in a timely manner and that they remain focused on questions that lead to saving options that can be used in the budget process.

Reform 5: Automatic cuts of productivity dividends; size of core ministries

Why introduce automatic cuts of productivity dividends?

Norway does not have experience with procedures of automatic cuts of the government's operational expenditures based on an assumed productivity increase, although such cuts are applied in a number of countries participating in the Value for Money study.[25] The rationale for automatic cuts of productivity dividends (ACPD) is that there is productivity growth in the public sector and that, without these cuts, productivity growth would lead to backdoor increases in service levels without explicit budgetary decisions.

ACPD procedures have the following characteristics:

- They are "automatic" in the sense that they are part of the regular budget process and that no special decision is needed from year to year as to their application.

- The cuts are based on assumed productivity gains in public administration and the public production of goods and services in kind.
- In view of their rationale, the cuts are at least applied to the operational expenditures of central government.

The latest OECD economic survey of Norway (OECD, 2012a) supports the introduction of ACPD in Norway. It mentions that "in order to redirect expenditure over time to more cost-effective areas, a system of 'efficiency dividends' could be envisaged." It develops further a recommendation to "consider the introduction of an 'efficiency dividend' system in which mandatory across-the-board cuts in ministerial budgetary allocations are redistributed annually to priority areas" (OECD, 2012a).

The challenges of measuring productivity

Productivity is generally defined as a measure of the amount of output generated per unit of input. Strictly speaking, this is the definition of average factor productivity, which stands in contrast to the definition of marginal factor productivity (the marginal addition to output as a consequence of a marginal addition to an input).

Operational (or technical) efficiency is a relative concept: it measures the relative productivity of a production process. It can be defined as the amount of input required to produce a unit of output compared to the amount of input required in the optimal production process.

Productivity growth can be achieved by a better combination of inputs (the allocative efficiency of production), a better quality of inputs, and better operational efficiency (changes in the production process).

The main obstacle to output measurement in the public sector is the lack of market prices, but measurement is also affected by the difficulty of accounting for changes in quality of services. In the national accounts, it is commonly assumed (but not prescribed) that in the government sector the value of inputs equals the value of outputs. This means that productivity growth in the public sector is zero by definition. However, this "output = input" convention has increasingly come under scrutiny in recent years. Many policy makers and academics consider this as a major shortcoming, and some OECD countries have started exploring other options for measuring the value for public outputs, thus accounting for productivity development.

Country experiences

Australia

Terminology

The Australian government uses ACPD under the name of "efficiency dividend".

History

The efficiency dividend was officially introduced in the 1987-88 Budget as an integral component of the running costs arrangements for departments and agencies.

A precursor to the efficiency dividend was introduced in the 1986-87 Budget which aimed to achieve a general efficiency saving of 0.5% in salaries and 1% in administrative and operational expenses, thus reflecting an initial step to introduce general public service reforms that were put in place by the government in 1983. Following this savings measure, the efficiency dividend was introduced.

Baseline and size

The efficiency dividend has been applied at the rate of 1.25% per annum since 1987-88. It was subsequently decreased to 1.0% per annum in the 1994-95 Budget following the inquiry into the efficiency dividend arrangements by the House of Representatives Standing Committee on Banking, Finance and Public Administration, and then revised upward again to 1.25% in the 2005-06 Budget following an election commitment in 2004.

In 2007-08, the government at the time further decided in the *Mid-Year Economic and Fiscal Outlook* to maintain this higher rate of the ongoing efficiency dividend (1.25% per annum) from 2008-09 to 2010-11. Moreover, as part of its 2007 election commitment, the government applied an additional one-off 2% efficiency dividend to the same base funding that has been used for the ongoing efficiency dividend of 1.25%, with some exceptions that are outlined further below. A *pro rata* adjustment was applied for the 2007-08 year, with the full year impact of 2% occurring in 2008-09.

More recently, the 2011-12 Budget measure "Efficiency Dividend" increased the rate of the ongoing efficiency dividend to 1.5% in 2011-12 and 2012-13, and 1.25% in 2013-14 and 2014-15, before reverting back to 1% in 2015-16. In this same budget, following the "Review of the Measures of Agency Efficiency", the government introduced a mechanism to increase the flexibility of the efficiency dividend by allowing portfolio ministers to reallocate the application of the efficiency between entities, particularly small agencies, within their portfolio.

The 2011-12 *Mid-Year Economic and Fiscal Outlook* saw the government introduce the measure "Reducing the Cost of Government Administration", a one-off measure, which applied an additional efficiency dividend of 2.5% in 2012-13 to departmental appropriations (but not including departmental capital funding). The measure also exempted a number of (typically smaller) government entities from application of the one-off efficiency dividend: specific cultural agencies, courts and tribunals, Aboriginal and Torres Strait Islander organisations, and a number of other small entities.

Coverage

In Australia, the efficiency dividend takes the form of a uniform percentage applied to all policy areas, the Australian government being responsible for the decisions in relation to these rates and the associated exemptions made. The efficiency dividend is applied to the operational expenses of all agencies in the general government sector, unless they are specifically exempted by the government. The efficiency dividend also applies to the total net departmental appropriations, excluding receipts received through Section 31 of the Financial Management and Accountability Act 1997.[26] It is also applied to all funding for new policy initiatives following the year in which the new measures are introduced. Finally, the efficiency dividend is also applied to the Departmental and Administered Capital Budgets and Collection Development Acquisition Budgets (the budgets allocated to the acquisition of new books for public libraries).

The efficiency dividend is applied before any price adjustments (i.e. indexation) are made to the estimates and is implemented through a corresponding reduction in appropriations revenue. It does not apply to administered expenses (unless explicit decisions have been made by the government). These expenses are those that are administered by the agency on behalf of the government and are normally related to activities governed by eligibility rates and conditions established by the government or Parliament, such as grants, subsidies and benefit payments. There are a limited number of administered expenses that are subject to the ongoing efficiency dividend. The efficiency dividend is applied to these administered appropriations on the basis that they involve payments for outsourced programmes that could have been managed within the Australian government (they are departmental-like in nature).

The efficiency dividend applies to the operational expenses for Australian public service agencies, which are Commonwealth departments and agencies where staff members are employed under the Public Service Act 1999. Agencies that are currently exempted from the ongoing efficiency dividend are:

- the Australian Broadcasting Corporation;
- the Special Broadcasting Service Corporation;
- Safe Work Australia.

Other agencies have the ongoing efficiency dividend applied to only a proportion of their departmental funding. These agencies include:

- the Australian Institute of Marine Science, which is subject to the efficiency dividend cut in relation to 12% of its funding, in recognition of the fact that the organisation is funded 88% by fees;
- the Commonwealth Scientific and Industrial Research Organisation (CSIRO), which is subject to the efficiency dividend cut in relation to 30% of its funding broadly recognising its non-research activities;
- the Department of Defence, to which the efficiency dividend is applied to a range of civilian and non-operational areas. For the 2011-12 Budget, the efficiency dividend was applied to around 11% of the Department of Defence's expenditure base;
- the Australian Nuclear Science and Technology Organisation (15% of its funding).

In addition, agencies are exempted from the ongoing efficiency dividend in relation to specific funding. The agencies concerned are the Australian Customs and Border Protection Service in relation to its Coastwatch contractual arrangements for surveillance aircrafts and helicopters and the Australian Council for the Arts in relation to grants to major performing arts organisations.

Finland

Terminology

In Finland, the practice of ACPD was previously called the "Central Government Productivity Programme" for the period 2007-11. The new government led by Prime Minister Jyrki Katainen (appointed in June 2011) replaced it with the new "Programme for Effectiveness and Productivity".

History

Productivity targets up to 2015 are defined in terms of their financial impact (cuts in operational expenditure). The new programme puts a stronger focus on the effectiveness of government functions, on the availability and quality of services, and on human resources management in terms of developing the capabilities and competences of the personnel and the leadership, and increasing the mobility of personnel.

Baseline and size

The cuts that apply to 2007-15 are based on increasing labour productivity (i.e. on reducing the number of central government personnel and the corresponding average cost of a person work-year). They are implemented via four-year spending limit decisions and annual budgets. For that purpose, the objective of staff reduction is translated into savings on current operational expenditures. In order to create incentives for the implementation of productivity measures, it was decided that savings created by increased efficiency and productivity were to be divided roughly half and half for the period 2007-11 between the government and the ministry that achieved an increase in productivity (i.e. only half of the saved personnel costs were cut from the appropriations of administrative branches). It was also decided that, for 2012-15, 25% of the savings will be cut while the rest will remain in the use of the ministry that achieves an increase in productivity within its administrative branch. However, due to the stringent financial situation, several ministries have proposed to use this money for savings required by the new government programme.

Originally, the staff reduction target from 2005 (the year of comparison) until 2011 was 9 645 man-years (8%) and the cumulative staff reduction target from 2005 through 2015 was 14 465 man-years (12%). Since 2010, Finnish universities are no longer a part of central government (they are currently independent corporations under public law or foundations under private law) and the targets have been modified accordingly (including other smaller changes): 8 414 by the year 2011 and a further 5 034 between 2012 and 2015. Since the Central Government Productivity Programme has ended and the Programme for Effectiveness and Productivity has been launched, there are currently no absolute limits to person work-years for 2012-15, but the financial impact is to be achieved. Targets and measures of the programme were based on productivity programmes drawn up by the ministries in the administrative branch in 2004 and 2005, followed by further joint preparations and negotiations by the ministries and the Ministry of Finance.

Coverage

All ministries (in Finland, there are no exemptions from productivity cuts) were asked to provide productivity plans that included concrete measures to increase productivity. These plans were then used to decide the different amounts of the cuts.[27] It was further required that implementation of these plans be followed by a reduction in staff. For 2012-15, there are again quantitative top-down targets for ministries and agencies. Measures to achieve these were proposed by ministries and negotiated between the Ministry of Finance and the line ministries, and approved by the Cabinet. Ministries have a right to reallocate cuts between agencies. Targets for staff reductions were converted into targets for cuts of current operational expenditures by using roughly the average cost of person work-year within the central government, which does not take into account accommodation or office equipment. Also, cuts have been made in the four-year spending limits.

Denmark

Terminology

The Danish automatic budget cut, which is applied each year to the central government budget, is called the "reprioritisation contribution". It is a cut in the budget baseline, the actual outcome of the budget process may be different.

In addition to the automatic budget cut, the central government budget is occasionally subject to other across-the-board multi-annual budget cuts. These are introduced to fund specific government priorities and initiatives and are therefore not automatically applied to each year's budget.

History

Denmark introduced a uniform, automatic annual budget cut of 2% in the mid-1980s. The size of the cut was recalculated in 1987-88 as a productivity dividend, based on estimated productivity in comparable private sectors. This meant that the percentage cut varied from agency to agency, but on average it was about 2.5%. This procedure was greatly criticised, and after the change of government in 1993 it was replaced by a uniform 2% cut. The 2% uniform flat rate has been subject to discussion but no new proposal has been put forward to the Cabinet's Economic Committee for the moment.

Baseline and size

Concerning its application, the cut is applied – and has always been – to the central government's operating expenditure. The base varies as different parts of central government are exempted depending on government priorities and special political agreements. The cut is applied to the central government's operating expenditure in the last out-year of the four-year budget forecast (baseline) that is part of each year's budget. Thus for the 2012 budget, the cut is applied to the central government's estimated operating expenditure in 2015.

Coverage

Institutions and programmes subject to special political agreements are exempted from the cut. Exemptions on this ground account for approximately one-third of the central government's operating expenditure. The remaining two-thirds of the central government's operating expenditure are subject to the cut.

However, for institutions and programmes that are subject to "national spending targets", such as universities, educational institutions and certain cultural institutions, special procedures apply in regard to the use of the savings. For these entities, the savings are transferred to earmarked accounts used to fund new initiatives within these areas.

For the remaining areas that are subject to the "reprioritisation contribution", the cut is used in the general reprioritisation that takes place during the annual budget preparation process.

The exact percentage share of government operational expenditure exempted from the cut varies each year as government priorities change and political agreements reach their expiration date and are either terminated or renegotiated. Thus, the decision to exempt institutions and programmes is a political decision.

Sweden

Terminology

In Sweden, the practice of ACPD is called "deduction in productivity growth" (DPG).

History

Prior to 1994, agencies were automatically reimbursed for additional expenditures resulting from wage negotiations with trade unions; there was little incentive for agencies to control costs or productivity. In 1994, the government introduced an appropriation "frame" system for operational expenditures. Within the appropriations "frame", agencies could themselves decide the allocation of funds between wage, rent and remaining administrative costs (the three main components of operational expenditures). It thereby became possible for agencies to prioritise between these three components. Simultaneously, the frame system provided an incentive to optimise the input mix, since costs "unlocked" by efficiency measures could be transferred to other components. Agencies were no longer automatically reimbursed for increased wage costs; rather the appropriation was adjusted for inflationary factors to ensure consistent nominal costs. This model was operationalised in the form of a price and wage adjustment (PWA) system.

The purpose of the DPG is to keep a productivity pressure on agencies, the same wage index being applied to all agencies. If an agency's service output remains unchanged, it is assumed to be able to produce this output with decreased wage resources because of the corresponding increase in the productivity of labour. The model assumes productivity development in the public sector is the same as in the private sector. The PWA is necessary because output and productivity cannot be measured directly in the public sector.

The DPG (and more broadly the PWA) is an integral part of the budget process. The model has been debated and criticised on specific aspects, but the model as a whole is broadly accepted among political parties and civil society.

Baseline and size

The DPG is calculated as the average productivity growth in the public sector during the last ten years. Taking a reference period of ten years dampens the volatility in the fluctuation of the DPG, which in turn helps forecasting efforts for operational expenditures. Since its introduction, the DPG has kept within the range of 1-2%.

Cuts are applied to the multi-annual estimates of agencies' operational costs. These estimates are put up in real terms but annually converted into nominal terms by an aggregated wage and price index. The PWA accounts for nominal changes in the price of services/products/labour the agency requires to perform its functions.

The PWA is an aggregate index composed of three main indices (there are some other indices impacting a small number of appropriations): wage index, rent index (properties), and an index for remaining administrative expenditures.

The DPG is applied to the wage index part of the PWA. Data on the labour cost index is provided by the Swedish Statistics Agency. The DPG is deducted from the labour cost index; the resulting figure is the wage index, a conversion factor by which the current year's appropriation is multiplied to generate the agency's PWA-adjusted appropriation for the coming budget period. This process is repeated the next year but with the PWA-adjusted base from the previous year as the base input for the current year's calculations. The DPG is calculated using a ten-year moving average of the productivity development in the Swedish service sector (in simplified terms, productivity is calculated by dividing the real contribution of the sector to GDP by the number of labour hours worked in the sector).

Coverage

The PWA applies to *ca.* 28% of the total state budget (FY2012). The DPG applies to *ca.* 16% of the total budget (the percentage represents the base amount subject to the DPG, not the actual deduction resulting from the application of the DPG).

New Zealand

Terminology

In New Zealand, the ACPD practice is called "fixed nominal baselines". An additional "efficiency savings" was introduced in July 2012.

History

New Zealand has had fixed nominal baselines since the early 1990s on all baselines excluding specific forecast items. In addition, in April 2011 the Cabinet decided to implement efficiency savings on core governmental administration as from 1 July 2012. These efficiency savings are to be added to the fixed nominal baselines that have been in place since the 1990s. The government faced strong criticism from the opposition party following this announcement, and there has been a lot of debate about the impacts of efficiency savings after their introduction in July 2012.

Baseline and size

In order to apply such cuts, New Zealand uses nominal current operational expenditures as a baseline in the annual budget cycle. This means that inflation has to be absorbed. Fixed nominal baselines do not allow for exemptions, and all the cuts are made on a uniform basis for all policy areas.

New Zealand does not cut operational expenditures by a given percentage but rather keeps to a fixed baseline. However, given that inflation has remained around 2.5% for the last few years, ministries have had to achieve at least a similar productivity gain in order to maintain their existing level of output.

The efficiency savings introduced in July 2012 are calculated on the Crown Revenue component[28] of the current operational expenses. The size of the required savings is 3% for small agencies and 6% for larger agencies.

Coverage

Fixed nominal baselines for operational expenditures are applied to the entire central government budget, without exception.

On the other hand, the efficiency savings introduced on 1 July 2012 apply to core government administration. Core government administration excludes the following agencies:

- the Community Probation and Psychological Service and Prison Service sections of the Department of Corrections;
- the Child, Youth and Family and Work and Income sections of the Ministry of Social Development;
- Crown entities (apart from the five noted above);
- non-public service departments (New Zealand Defence Force, New Zealand Police, Parliamentary Service, New Zealand Security Intelligence Service, Office of the Clerk, Parliamentary Counsel Office).

The base for efficiency savings is departmental output expenses (Crown-funded proportion), excluding special education services, school property output expenses and third-party revenue. From these cuts, the agencies that were at the time of the decision undergoing, or recommended for, spending reviews (Defence Force, Statistics NZ, Department of Corrections) were excluded. An appeals mechanism for exceptional cases was also put in place (to be used, for instance, if ministries saw a risk of serious service failure or a need to invest in order to realise structural savings). Again, no distinction is made between policy areas; hence, efficiency savings apply to the entire budget except for the exclusions and exemptions mentioned above.

Introducing an ACPD procedure in Norway

If the Norwegian authorities wish to consider introducing an ACPD procedure, they may take into account the experiences of other countries participating in the Value for Money study. There is no single blueprint for ACPD procedures. Different country models provide useful examples and evidence to be taken into account. Nevertheless, the international experience thus far available allows some provisional conclusions.

First of all, there are still widely different approaches to the measurement of productivity in the government sector. In this light, it seems prudent to avoid too direct a connection between the outcomes of productivity research and the parameters (cut rates) of an ACPD arrangement. A direct connection may lead to a permanent policy debate about the appropriate cut percentages in the various areas of public service provision and a politicisation of productivity research. There is consensus that there is productivity growth in the government sector and there are approximate insights in the order of average growth in the government sector as a whole. This is enough to establish an effective ACPD arrangement, based on an undifferentiated annual cut percentage.

Second, the overview of country examples shows that the ACPD rate varies from 1% to 2.5%. There are basically two approaches to the choice of the cut rate. The first is a political decision informed by national and international productivity research. If the Norwegian authorities choose this approach, they may consider starting an ACPD arrangement with a prudent level (for instance 1%) and eventually increase it to 2% if the arrangement is established and working effectively. The second approach is the Swedish one, which basically calculates government sector productivity growth as a ten-year moving average of productivity growth in the private service sector. The cut percentage may change from year to year but the changes are very small in view of the use of a ten-year moving average. The advantages of this approach may be that it is less vulnerable to short-term political considerations and that it ensures equal treatment of the private and public service sectors.

Employment in core ministries

There is some concern in Norway about the recent growth of employment in core ministries. This development has taken place at the same time that executive tasks have been moved from core ministries to agencies. This is not a universal phenomenon among OECD countries. On the contrary, many countries have tried in recent years to reduce employment in core ministries, often through gradual reduction plans or *ad hoc* operations.[29]

If Norway were to introduce a government-wide ACPD procedure with a uniform cut rate, this problem would be addressed automatically. Apart from new spending initiatives, the ACPD procedure would ensure that operational expenditures in core ministries would shrink at the same pace as the operational expenditures of agencies, probably leading to a gradual reduction of employment. However, if the Norwegian authorities feel that the problem needs a more focused approach, they could also decide to launch an *ad hoc* reduction operation. Many OECD countries have launched *ad hoc* reduction operations on particular forms of employment. OECD countries with ACPD procedures in place have sometimes temporarily increased cut rates, sometimes for specific parts of the government, to correct past developments that have been assessed as excessive growth.

The Norwegian authorities may want to look in particular at the Finnish and Dutch employment reduction operations. In Finland, the ACPD is based on periodical ministerial productivity plans, that are usually differentiated for separate parts of the ministry and that may differentiate between the core ministry and agencies. If a minister feels that there is more room for efficiency gains in the core ministry than in agencies, it is reflected in the productivity plan.

In the Netherlands, there is no ACPD procedure in place, but subsequent Cabinets have worked with four-year employment reduction plans that were differentiated between sub-sectors of the central government. For instance, in the previous Cabinet period (2006-10) a reduction plan was in place based on four different reduction targets over a period of four years: -20% for policy-making units, -25% for support service units, -10% for executive units and -20% for administrative supervisory and regulatory units. An elaborate arrangement was set up to monitor progress. This required, among other things, the classification of all central government personnel in one of the four mentioned categories. At the end of the Cabinet period, the reduction targets were largely achieved.

Following the Finnish or Dutch examples, the Norwegian authorities could introduce quantitative top-down targets for ministries and agencies for a determined period of time (for example, four years). Line ministers would have to take responsibility for the measures to achieve the targets. Targets could be formulated in terms of operational expenditures or in terms of staff numbers or, as in Finland, targets for staff reductions could be converted into targets for cuts of current operational expenditures by using roughly the average cost of person work-year within the central government. In any case, an effective monitoring arrangement would have to be set up to check progress. The Ministry of Finance should retain responsibility for monitoring and holding line ministers to account for delays in implementation.

Recommendations

11. The Norwegian government may consider introducing a government-wide ACPD procedure in the central government. Cuts should cover all ministries and agencies. Following the Swedish experience, Norway could apply the annual cuts to the multi-annual baseline estimates of operational expenditures (compensation of employees, intermediate consumption and investment in government accommodation and facilities) for the upcoming budget year.
12. The Norwegian government could either establish the rate of the annual cut by political decision (following the Australian and Danish examples) or link the cut rate to productivity development in the private service sector (following the Swedish example). In the former case, it is commendable to choose a prudent rate in the order of 1% or 2% per year to foster broad political acceptance.
13. If, in the light of an assessment of recent developments, the Norwegian authorities come to the conclusion that a more focused approach is required to reduce employment or operational expenditures in core ministries, they can temporarily increase the cut rate of the ACPD arrangement for core ministries or they can introduce a temporary operation to reduce employment or operational expenditures of core ministries or for units tasked with policy development and support services (typically located in core ministries). The Norwegian authorities may want to look more closely to the examples of Finland and the Netherlands for the design of an operation of this kind.

Reform 6: Shared support services

Introduction

The use of operational means is primarily a responsibility of managers who are tasked with policy development (mostly in core ministries), policy execution (often in arm's-length and independent agencies, sometimes in core ministries) and regulatory and supervisory activities (often in arm's-length and independent agencies, sometimes in core ministries). Operational means include: communication, human resources and organisation, internal audit, procurement, information and ICT, finance (budgeting and accounting) and accommodation, real estate and facilities (office equipment, reproduction, cars, catering, security). The use of operational means in this sense is called operational management. Managers may be supported by dedicated staff in separate units near the manager or they can make use of separate support services. The support services may cover all operational means.

Shared service centres are defined as government units providing support services to more than a single ministry (including its agencies) or sub-sectors of government (central government, social security funds, local government). A central support division of a ministry is thus not a shared service centre in this sense (although it may serve several or all divisions of the ministry).

Shared services arrangements allow organisations to reduce costs through concentration, process standardisation and economies of scale. Achieving synergy, enhancing service quality and facilitating a stimulating working environment for specialists are likewise common arguments for shared services. The organisation will release resources to focus on strategy and core activities instead of dealing with repetitive administrative issues. Shared service arrangements may generate substantial cost savings.

The Value for Money study

Of the nine participating countries in the Value for Money study that have provided information about shared service centres, two (Australia and Spain) reported that no shared service centres are currently in place in their government. Seven (Austria, Canada, Denmark, Finland, the Netherlands, Norway, Sweden) reported having established shared service centres. Table 4.1 provides an overview of the number of shared service centres, their total employment and their location (the number of ministries where the centres are located should not be confounded with the number of client ministries and governments to which services are provided).

Norway is among those countries in the Value for Money study which follows a bottom-up approach. In this approach, the use of the shared service centre remains voluntary for the line ministries, but there may be incentives in place to stimulate the use of its services, such as one of personnel reduction operations (sometimes specified for support services) or permanent automatic cuts of productivity dividend. The Netherlands and Sweden also report following a bottom-up approach; Canada uses a combination of a bottom-up and a top-down approach. Austria, Denmark and Finland report following a top-down approach where the shared service is imposed and support personnel is transferred by Cabinet decision. Table 4.2 provides an overview.[30]

Table 4.1. **Shared service centres (SSCs)**

	Number of SSCs	Total employment	Support services provided by SSCs	Number of ministries where the SSCs are located
Austria	6	2 558	IT, procurement, accounting, finance, law, real estate	2 (5 out of 6 in Finance)
Canada	15	11 476[1]	ICT (2), procurement (2), communication (2), accommodation and facilities, payroll and pension, learning and training, telecommunications, human resources (3), audit, finance	8 (7 out of 15 in Public Works and Government Services Canada)
Denmark	5	N/A[2]	Human resources, salary payments, bookkeeping and accounting, payment of pensions, loans and grants (1), advice on ICT, budgeting, procurement, salary payments (1), ICT development (1), accommodation and real estate (1), pay bargaining (1)	1 (Finance)
Finland	7	2 087	ICT (2), finance and human resources (2), accommodation and facilities, procurement, training and development	1 (Finance)
Netherlands	25	2 615[1]	N/A[2]	4 (17 out of 25 in BZK[3])
Norway	4[4]	1 030	Accounting (2), salaries and travel expenses (2), training (2), ICT (2), human resources and organisational development, procurement, facilities, switchboard	2 (3 out of 4 in the Ministry of Government Administration, Reform and Church Affairs)
Sweden	2	631[5]	Financial and administrative services	1 (Prime Minister's Office)

1. Data for some smaller agencies were not available and have not been included.

2. Not available from the questionnaire responses.

3. Ministry of the Interior and Kingdom Relations.

4. Excluding the agencies Statsbygg (for accommodation), National Collection Agency (for cash collection) and Brønnøysund Register Centre (ICT portals).

5. In persons employed (not in FTEs). This includes both Kammerkollegiet (43) and the Office of Administrative Affairs (588). The latter is not known as a shared service centre in Sweden in view of the fact that, since 2007, all ministries have the status of a single agency. However, in terms of the OECD definition (see Glossary), the Office of Administrative Affairs is a shared service centre (it serves more than one ministry).

Source: Questionnaire responses.

Table 4.2. **Shared services: Incentives, funding and collection of efficiency gains**

	Mandatory *versus* voluntary services	Incentives for use of shared service centres	Funding of shared services	Collection of efficiency gains
Austria	Mandatory by specific law	One-off savings target	N/A	Cut in appropriation by Ministry of Finance
Canada	Both	Cost and quality gains for client ministry, *ad hoc* across the board efficiency cuts	Appropriation (mandatory) and user fees (voluntary)	Agency keeps savings
Denmark	Mandatory by government decision	Permanent cut of productivity dividend	Cost recovery fees	Cut in appropriation by Ministry of Finance
Finland	Mandatory by government decision	Permanent cut of productivity dividend specified for support personnel	Cost recovery transfer, negotiated annually	Agency keeps savings
Netherlands	Voluntary	*Ad hoc* efficiency cuts specified for support personnel	Cost recovery transfer, negotiated annually	Agency keeps savings
Norway	Voluntary	One-off negotiated budget transfer on the basis of cost recovery	Appropriation	Agency keeps savings
Sweden	Voluntary	Permanent cut of productivity dividend	Cost recovery transfer, negotiated annually	Agency keeps savings

Source: Questionnaire responses.

Shared service centres provide a wide variety of services. Common examples are finance (accounting and payment services), human resources (salary and pension payments, recruitment, training, performance assessment, career planning, and management of top civil service), ICT (development, Intranet, government-wide portals) procurement as well as accommodation and facilities (catering, security, cars, cleaning, printing and telephone).

There is no common organisational model of shared services. Most countries have organised the services according to function (e.g. Austria, Denmark and Finland) while some organise services according to user groups (e.g. Sweden and partly Canada and Norway). The ministerial responsibility for shared service centres also varies among the countries in the Value for Money study, between the Ministry of Finance, the Ministry of Interior or Administration and the Prime Minister's Office.

In the countries that rely on incentives to stimulate the establishment and use of shared service centres, and consequently feature a more scattered pattern of such centres (the bottom-up countries), there are no plans in place to move to a more coercive approach or to concentrate shared service centres in a single ministry. On the contrary, it is generally felt in those countries that the practice of service sharing will increase automatically to the extent that the cost and quality benefits flowing from economies of scale become clear to potential clients. Interlocutors in those countries have also noted that there are risks attached to the creation of monopoly suppliers of those services within the public sector, particularly as large ICT systems are involved (risks of project failure or malfunctioning of existing systems).

Sharing services may be seen as a first step towards outsourcing to private service providers or privatisation of shared service centres. However, outsourcing and privatisation of government-specific assets can lead to private monopoly conditions, which are riskier from the point of view of costs and quality control than public monopoly conditions. Against this background, it is understandable that the countries taking part in the Value for Money study have not developed a general outsourcing or privatisation policy for support services. On the other hand, not all support services involve government-specific assets, and in cases where such assets are absent or small – for instance in the supply of facilities such as printing, catering or cleaning – outsourcing or privatisation may lead to additional cost or quality advantages due to competition in private sector markets and the incentives flowing from the profit motive.

Even when the shared service provider grows naturally through the decisions of separate agencies and ministries based on cost and quality considerations, there is a risk of future cost increases or sub-optimal quality due to monopoly conditions flowing from specific assets. Therefore, it is important that the customers and the owner ministry have sufficient leverage over the shared service centre to assure efficiency and service quality.

The Norwegian approach to shared services

Table 4.3 shows six shared service centres in the Norwegian central government: three under the Ministry of Government Administration, Reform and Church Affairs (Difi, GAS, Statsbygg); two under the Ministry of Finance (DFØ, NCA); and one under the Ministry of Trade and Industry (Brønnøysund Register Centre). One only serves the core ministries (GAS). The other five serve all ministries and agencies, mainly on a voluntary basis.

Accounting, payroll, and human resource management training are the most common shared services. The service centres are located in several places across the country. For example, the Norwegian Government Agency for Financial Management (DFØ) has regional offices in six locations in addition to its headquarters in Oslo.

Table 4.3. **Shared services for operational means in central government in Norway**

	Central support services and shared services	Decentralised support
Communication		All ministries and larger agencies
Human resources	Staff and leadership training: – Agency for Public Management and eGovernment (Difi), subordinate to the Ministry of Government Administration, Reform and Church Affairs (voluntary for agencies) Payroll administration and travel expenses: – Norwegian Government Agency for Financial Management (DFØ), subordinate to the Ministry of Finance (voluntary for agencies) – Government Administration Services (GAS), subordinate to the Ministry of Government Administration, Reform and Church Affairs (mandatory for ministries) Portal for recruitment: – GAS (voluntary for ministries)	Ministries and agencies
Organisation	Organisational evaluation and development support: – Difi (voluntary for ministries and agencies)	Some larger agencies
Internal audit		Some larger agencies
Procurement	Portals and databases: – Database for public sector tenders (Doffin), run by Difi (mandatory) – Portal for public sector electronic procurement (*eHandel.no*), run by Difi (voluntary) Electronic procurement: – DFØ (electronic processing for accounting clients, voluntary)	Ministries and agencies
Information and ICT[1]	Advice and development: – GAS (mandatory for ministries) Portal for businesses and public institutions' contacts with public authorities (for instance, the tax administration): – Brønnøysund Register Centre (Ministry of Trade and Industry) Common infrastructure for eID in the public sector: – Difi	Some ministries (e.g. Ministry of Finance) and most agencies
Finance: budgeting		All ministries and agencies

Table 4.3. **Shared services for operational means in central government in Norway** (*cont.*)

	Central support services and shared services	Decentralised support
Finance: accounting and cash/debt operations	Accounting and reporting, electronic procurement, electronic invoice processing, remittance: – DFØ (voluntary for agencies) – GAS (mandatory for ministries) – National Collection Agency (NCA) (for the police) Cash collection: – NCA (for agencies, according to law and specific agreement)	All agencies Large deconcentrated agencies have concentrated support services (e.g. Defence, the Norwegian Labour and Welfare Service, the Norwegian Public Roads Administration)
Accommodation and real estate	Property management, development and construction: – Statsbygg (guidance and support, voluntary)	Some agencies
Facilities (office equipment, etc.)	Security, cars, maintenance, cleaning, switchboard, printing, etc. – GAS (mandatory for ministries) – Switchboard – Service Centre in Engerdal (for nine agencies)	Some agencies (e.g. the police)

1. In addition to ICT support services, there are common ICT components. These are seen in this study as common process units rather than shared support services (see Reform 6).

Financing

The shared services are mainly financed by appropriations. There are some additional transaction fees on some services (for instance, office rent to Statsbygg). When a shared service provider takes up a new client, the client will normally transfer part of its appropriation for marginal cost coverage to the service provider. Any gains are retained in the agencies.

Steering

The owner ministry steers the shared service centre as any other agency, based on the annual allocation letter and steering dialogue focusing on objectives, annual tasks and targets, as well as finance and performance monitoring.

There are service level agreements negotiated by the service centre and the client agency. The clients are not directly involved in the steering process.

Assessment: Organisation

Although the Norwegian government has established essential shared services, there are some areas where more can be done. One observation is the organisation of the shared service provision. In other countries in the Value for Money study, there is a tendency towards centralising shared service provision although not necessarily across different types of services. Larger units can offer a larger variety of expertise and provide a more stimulating working environment and better career opportunities for specialists. They may also supply services at lower costs through economies of scale. In Norway, there are many production locations for shared services, some of which suffer from low turnover and staffing constraints that may negatively hamper service quality and efficiency.

Another observation concerns the combination of service provision and advice on standards in a number of shared service centres. The standards are eventually set by the relevant ministry, but the agencies that provide shared services are heavily involved in the preparation of the standards and guidance on how to interpret the adopted standards. The OECD Secretariat previously recommended (OECD, 2011b) that support services should only be placed in arm's-length agencies if these agencies are not simultaneously tasked with support for central or de-central standard setters. While the combination of advice on standards and support service delivery in a single unit can be useful, the consequence of combining these tasks is that the responsible unit cannot be devolved into an arm's-length agency. Standard setting is a policy-making task (policy with respect to operational management) and standards should be set by a core ministry under direct authority of a minister. Current practice in Norway is broadly consistent with this principle, but when reconsidering the organisation of support services, the authorities would be well advised to keep this principle in mind.

A third observation regarding the organisation of shared services in Norway concerns their mutual dependence. For instance, the Norwegian Government Agency for Financial Management (DFØ), which is subordinate to the Ministry of Finance, is dependent on services (for example, e-procurement portals) delivered by the Agency for Public Management and eGovernment (Difi), which is subordinate to the Ministry of Government Administration, Reform and Church Affairs. Both the DFØ and Difi offer training to central government employees.

Based on these observations regarding organisation, the OECD Secretariat recommends that the Norwegian government consider options for a more efficient organisation of support service delivery. Some central questions for examination are: *i)* whether co-operation and efficiency could be improved by amalgamation of shared service centres; and *ii)* whether standard setting could lead to additional savings without negative effects on the quality of support services, if it were to be removed from support service units and brought under the direct responsibility of the relevant ministers.

A study of reorganisation along these lines should also look into potential gains of more concentration of providers of similar or mutually dependent services, in particular the opportunities for realising economies of scale and scope.

The question arises whether a reorganisation along these lines would need to have consequences for the responsibility for standards.

Currently, the Ministry of Government Administration, Reform and Church Affairs sets standards for procurement (Department of Competition Policy), for information and ICT (Department of ICT Policy and Reform), for human resources (Department of Employer Policy) and for accommodation, real estate and facilities (Department of Government Services). The Ministry of Finance sets standards for finance (Budget Department). This division of responsibility for standards is broadly consistent with the responsibility for shared support services proposed above, but slight adjustments may be considered (for instance, moving all responsibility for training to the Ministry of Government Administration, Reform and Church Affairs, including training in financial management).

Assessment: Incentives for use of shared services and assuring client requirements

According to Table 4.2, there is no imposed obligation to move support personnel into the centres (the Danish top-down model) in Norway, nor is there a savings target for support personnel or a permanent annual cut of productivity dividends. The incentive for making use of shared support services is to be found in the transfer of appropriations from new client agencies on joining the service. This is far less than the proportional running costs for the shared service centre, and the service is thus in practice subsidised. It is true that, according to available data, Norway has relatively little support personnel (Table 2.4), so that there is little empirical basis for savings efforts specifically targeted at support services, but a more general mechanism would also help to ensure efficiency in the support services sector. Such a mechanism was proposed in Reform 5.

In all countries participating in the Value for Money study, the discussion on service sharing focuses on the right balance between efficiency and quality gains by concentration and loss of quality caused by reduced client involvement. It is therefore essential that if concentration is considered, attention must also be given to assuring the clients' requirements. In this discussion, fee financing is sometimes seen as a mechanism that enables clients to impose their requirements. According to this reasoning, service providers would be dependent on agreements with clients on both costs and quality conditions. However, fee financing is not a panacea, particularly if the client has few real alternatives. If the shared service provider has a factual monopoly position, it is usually preferable that it negotiates its budget with a single financing authority, namely its parent ministry. This ministry should then reach agreement with all client ministries about the main components of the task package of the service centre in advance of its budget negotiation with the service centre.

In this approach, it is essential that clients' wishes can further be discussed after the budget is fixed. This can take place during the executive process in a permanent performance dialogue in which all clients participate. It is important that the performance dialogue is also co-ordinated among client ministries and agencies, in order to avoid playing them out against each other. The dialogue could take the form of a periodical discussion (quarterly or biannual) in which all clients participate and which is chaired by the parent ministry.

Potential for more extensive shared services

Tables 4.3 and 4.1 show that there is room for more extensive use of service sharing. It seems that Norway is far behind countries like Denmark, Finland and the Netherlands when it comes to shared services in ICT. Human resource management and procurement are also areas where Norway should take further steps towards service sharing, given more extensive standard setting (see Reform 7).

ICT

Denmark and Finland are forerunners on ICT shared services. There are substantial potential savings for Norway in more extensive shared services in office automation (including Intranets and help desks).

Human resource management (HRM)

The existing shared services in this area are restricted to wage administration, travel expenses, and remuneration. Norway should also consider shared services for recruitment and for general personnel administration (documentation on personnel).

Procurement

Norway has already established a portal for e-procurement, but the turnover on the portal has been limited even though the present government had a goal of 25% e-procurement for 2009[31] (procurement for operations). The government should consider incentives and budgetary or regulatory measures to increase the level of ecommerce, like support for common tenders, negotiations, central processing, etc. At the same time, the Ministry of Government Administration, Reform and Church Affairs should monitor the achievement of savings.

Recommendations

14. The Norwegian government may consider reorganising and merging the shared service providers in order to enhance efficiency.
15. The Norwegian government may consider: *i)* facilitating shared services in more areas, in particular, ICT, human resources and procurement; and *ii)* strengthening the incentives for the use of shared services.

Reform 7: Standards of operational management

Standard setting

Standard setting is defined as making general rules with respect to operational management. Managers responsible for operational management have to respect rules for the use of: human resources (rules on recruitment, remuneration, performance assessment, promotion, etc.); accommodation, real estate and facilities (rules on office space, office equipment, etc.); procurement (rules on the purchase of goods and services); internal audit (rules on independence of auditors, etc.); etc. These standards are generally set for the whole of central government by authorities who are located in central ministries (finance, interior, and the Prime Minister's Office). Furthermore, central standards are often complemented by de-central standards which are set by the permanent secretaries (highest civil servant) of the ministries.

There are various units for standard setting in Norway as presented in Table 4.4: the Ministry of Finance adopts standards concerning financial management; the Ministry of Government Administration, Reform and Church Affairs is responsible for the other areas of operational management and adopts standards for some of these areas. There is no government-wide standard setting for communication, accommodation, or real estate and facilities, and only limited standards for ICT and internal audit (agencies decide for themselves in light of their needs).

Table 4.4. **Standard-setting authorities for operational management in the Norwegian central government**

	Central standard setting	Decentralised standard setting
Communication		All ministries and larger agencies
Human resources	Ministry of Government Administration, Reform and Church Affairs (negotiated salary scales, travel expenses and collective terms and conditions of employment, framework for recruitment)	All ministries and agencies
Organisation	No central standards	Some larger agencies
Internal audit	No central standards	Some larger agencies
Procurement	Ministry of Government Administration, Reform and Church Affairs (law) Difi (central standards, voluntary process requirements and guidance)	Some ministries and agencies
Information and ICT	Ministry of Government Administration, Reform and Church Affairs (requirements for common ICT infrastructure components, process requirements for new initiatives)	All agencies
Finance: budgeting	Ministry of Finance (parliamentary regulation and ministerial provisions)	All ministries and agencies
Finance: accounting, cash and debt operations	Ministry of Finance (government decree, ministerial provisions)	All ministries and agencies
Accommodation and real estate	Statsbygg (voluntary guidance) Ministry of Finance (quality assurance of large investment projects)	Some agencies
Facilities (office equipment, etc.)	Government Administration Services (mandatory for ministries)	Some agencies (e.g. the police)

Operational standards are particularly important in a government such as Norway where there is a widespread expectation on the part of ministries and agencies of ever-growing budgets, financed by the revenues of the oil revenue fund. There are two ways in which Norway could enhance its standards for operational management:

1. by introducing additional standards in areas where currently there are not any or only a few standards, without introducing unnecessary bureaucracy;
2. by ensuring better compliance with existing standards.

For this reform, suggestions are made for further steps in both directions, with emphasis on the latter. In addition, attention is given to the attribution of standard-setting competences and the option of more concentration of standards setting in one or a few ministries, which has been a trend in some OECD countries.

Additional standards

According to Table 4.4, Norway has established standards for several areas, like human resource management, finance and procurement. Other areas of interest for standardisation could be communication, ICT, internal audit as well as accommodation, real estate and facilities.

Communication

Several countries participating in the Value for Money study have experienced a proliferation of communication units, partly induced by political rather than policy considerations. The OECD Secretariat does not have any data on the situation in Norway. However, in view of what has happened in other countries, it could be worthwhile to investigate this area more closely and to consider stricter standards if this could lead to savings without adverse effects on the effectiveness of policies.

Accommodation, real estate and facilities

Statsbygg operates as a *de facto* standard setter in this area. The parent ministry (Ministry of Government Administration, Reform and Church Affairs) should be more involved in the development of such standards in order to obtain substantial savings and eventually adopt the standards. The standards could include square metre per office space, heating and electricity, security, etc.

ICT

The Ministry of Government Administration, Reform and Church Affairs could take a broader role in standard setting on ICT, both for generic use of ICT and strategies for the use of ICT in the primary processs of sectoral policy development and execution. Standards in this area will further be discussed in Reform 8.

Internal audit

The Norwegian government has not issued any requirements for internal audit in the central government administration, but has established mandatory management requirements for internal control. Internal audit could further be developed in Norway by stricter central guidelines and better organisation of the central and decentral standard-setting units within existing budgets available for this support service. Standards in this area will be further discussed in Reform 9.

Ensuring better compliance with existing standards

In the area of standard setting, ensuring compliance with existing standards is even more important than introducing new standards. In most OECD countries, monitoring compliance is fulfilled by the de-central standard setters in each line ministry. Each line ministry typically has directors for all areas of operational management: finance; internal audit; human resources and organisation; information and ICT; procurement, real estate, accommodation and facilities; and communication. These directors not only have to “translate” central standards into tailor-made ministerial standards, they also have to see to it that the standards are maintained within the ministry. In order to ensure that the right balance is found between government-wide application and adjustment to the special circumstances of each ministry, directors for each area of operational management usually meet regularly to discuss concrete practices.

Such regular (often monthly) meetings of finance directors, internal audit directors, human resource directors, ICT directors, etc., play a crucial role in many countries in ensuring compliance with central and de-central standards. In order to effectively fulfil this role, the secretariat of these regular meetings must be supplied by the central standard-setting unit for each area of operational management. In addition, this unit must formulate an explicit policy of standard maintenance (and, if necessary, enforcement), to be discussed and agreed upon in the directors meeting.

In areas where regular directors meetings do not yet exist (internal audit; human resources and organisation; information and ICT; procurement; real estate, accommodation and facilities; communication), it is recommended that Norway go in a similar direction and that the secretariat of these meetings pay special attention to compliance.

Standard setting is policy making

Standard setting is policy making about operational management through general rules. Since it is a policy-making task, it is important that it is organised within the core ministry (finance or public administration) and not placed at arm's length. For finance and internal audit, this is generally the case but standard-setting tasks in the areas of human resources and organisation, information and ICT, and procurement are in some countries delegated to arm's-length agencies in combination with tasks in the sphere of support service delivery. It has been argued in previous Value for Money assessments (OECD, 2010a and 2011b) that, unlike support service delivery, standard setting is not an executive task and that typical political considerations are involved. Even if the combination with service delivery tasks can be beneficial in order to ensure that standards are informed by practical experience, this should imply that the combined task units be organised inside the core ministries, rather than at arm's length. This is generally the case in the case of de-central support units of ministries. These units serve simultaneously as de-central standard setters and as support service units for the ministry and they are generally organised directly under the permanent secretary of the ministry. On the other hand, government-wide standard-setting tasks are sometimes delegated to arm's-length agencies that simultaneously function as shared service providers.

The lack of involvement of the responsible ministers resulting from delegation to arm's-length agencies may lead to a lower profile of the standard-setting tasks and the adoption of standards that everybody can live with but that are not very effective in terms of efficiency gains. This is also relevant for Norway where a number of standard-setting tasks have been delegated to Difi, Statsbygg and GAS (see Table 4.4). The Norwegian authorities may wish to consider bringing these tasks back to the core ministries under the direct supervision of the responsible minister.

Concentration of standard setting

In six out of the nine countries included in the Value for Money study, standard setting for finance (budgeting, accounting and paying) and audit is combined with standard setting for human resources and organisation, information and ICT, procurement, and facilities in the Ministry of Finance. In the other three countries, standard setting on finance and audit is concentrated in the Ministry of Finance and standard setting in the other mentioned areas in the Ministry of the Interior or Public Administration or in the Office of the Civil Service Commissioner (a ministry).

An argument to concentrate standard setting in a single ministry is the similarity of standard-setting practices in the different areas of operational management. Certain basic policy questions in these areas are the same: *i)* promoting uniform standards across the central government so that no unjustified differences can arise between ministries and agencies; and *ii)* cost control. These policy questions belong to the core tasks of the budget division of the Ministry of Finance. This could provide an argument to concentrate all standard setting in the Ministry of Finance. This would make the Ministry of Finance the responsible ministry for operational management.

On the other hand, there are also arguments in favour of standard setting outside the Ministry of Finance, particularly for human resources: *i)* placing standard setting outside the Ministry of Finance does not compromise that ministry's financial control perspective: effective financial control often requires a certain distance from direct policy responsibilities; and *ii)* placing standard setting for human resources in the Ministry of Finance could lead to that ministry being too closely involved with general rules that affect the work situation of employees and that are hence subject to co-determination with the public sector trade unions, including pay-setting.[32]

Norway could consider concentrating all standard setting in the Ministry of Finance, thus effectively creating a ministry for operational management. Even if Norway does not choose to go so far, it could concentrate standard setting in two ministries: the Ministry of Finance for finance and internal audit, and the Ministry of Government Administration, Reform and Church Affairs for the rest.

Currently, standards for procurement, human resources, information and ICT, and facilities all fall under the auspices of the Ministry of Government Administration, Reform and Church Affairs, but all under different divisions and sometime under an agency (Difi), whereas for other areas there are few or no central standards at all (organisation, certain aspects of human resources, certain facilities, communication). A few years ago, the Dutch government concentrated standard setting in most areas (except finance, internal audit and communication) in one directorate general of the Ministry of the Interior and Kingdom Affairs. This reform was motivated by the basic similarity of standard setting in all areas of operational management: achieving an optimal trade-off between quality and efficiency. Norway could consider moving in the same direction.

Recommendations

16. The Norwegian government may consider enhancing standards of operational management, primarily by ensuring better compliance with existing standards. For that purpose, it could be useful to hold regular meetings of ministerial directors for the various areas of operational management, at which time an explicit policy of standard maintenance is discussed and agreed.
17. The Norwegian government may consider bringing all central and de-central standard-setting tasks under the direct responsibility of a minister. In the case of central standard setting, this may involve lifting these tasks out of the remit of shared service centres.
18. The Norwegian government may consider concentrating the responsibility for standards of operational management in one or two ministries. In the latter case, it is recommended that all standard-setting tasks of the Ministry of Government Administration, Reform and Church Affairs be concentrated in a single directorate general.

Reform 8: Digitising the public sector

ICT vision and strategy in Norway

For a considerable period of time, the use of IT was perceived in Norway as a technical instrument to rationalise public administration and not as a means for better communication with citizens and businesses and for more tailor-made public service provision. This approach has changed over time. The first comprehensive plan for cross-sectoral ICT co-ordination in the public sector was produced in 1999. In the 2005 "Soria Moria declaration", the government stated that it would focus on three key objectives: *i)* a strong and efficient public sector; *ii)* user orientation; and *iii)* more local freedom and less micro-management. The government declaration notes that "new technologies and the Internet are to be central tools in achieving these objectives" (Office of the Prime Minister, 2005).

The OECD e-government review of Norway (OECD, 2005) was one of the first OECD e-government studies. It looked at the progress to date and the remaining challenges faced by the Norwegian government in implementing e-government. The report provides a detailed analysis of the e-government policy cycle, focusing on the role of the central state as a policy actor. It also provides proposals for action to improve the delivery of electronic services to citizens, understand public demand for online services and participation in government, develop frameworks for monitoring and evaluation of e-government, respond to agencies' demands for more central guidance and improve co-ordination.

Key challenges highlighted by this report include:

- lack of funds and lack of long-term and joint funding mechanisms;
- lack of collaboration and lack of common vision to enhance collaboration among agencies;
- a real understanding of user demand had not yet become a major driver for e-government development;
- e-engagement: in contrast to other Nordic countries, in Norway relatively few projects were being undertaken by the central government to improve online citizen consultation and participation in policy making.

Recently, the Norwegian government made a large step forward in the development of its ICT policy. In April 2012, it published the Norwegian eGovernment programme "Digitizing Public Sector Services" (Norwegian Ministries, 2012). This is an ambitious programme that addresses all of the challenges mentioned in the OECD review of e-government in Norway. Not all of the objectives formulated in this document have been realised, but the programme presents a clear, government-wide, comprehensive vision, as well as many specific and concrete steps that are to be taken in the coming years in order to achieve the stated objectives.

According to "Digitizing Public Sector Services" the government's objectives are formulated as follows:

- The public sector is to be accessible on line to the extent possible.
- Digital services are to be the general rule for the public sector's communication with citizens and businesses.
- A digital public sector is to result in improved services.
- Digitising the public sector will free up resources for areas in need of more resources.

These general objectives are translated into eight concrete guidelines (principles):

1. The public sector is to provide unified and user-friendly digital services.
2. Login to public web services is to be simple and secure.

3. All citizens and businesses will receive email from the public sector in a secure digital mailbox.
4. Citizens and businesses will be notified via SMS text messages and/or email.
5. Necessary assistance is to be provided to citizens to ensure that they will be able to find and use digital services.
6. Development of ICT solutions is to be viewed in the context of the public sector's work processes and organisation.
7. Protection of privacy and information security are to be safeguarded.
8. Digitisation measures of relevance for several services are to be co-ordinated.

The programme states that the realisation of the programme is based on certain premises concerning the digital infrastructure. This infrastructure must contain a number of common components such as electronic IDs, digital mailboxes and public registers. Common components must be managed, organised and funded in an efficient manner so as to ensure the proper development of the infrastructure.

The programme states furthermore that the digital public sector is part of a focused effort to ensure positive encounters with users. Contact with users is to be fast, understandable and carried out in a respectful manner. Users are to be involved in the development of public services. The public sector is to be open and accessible and communicate in a clear and understandable way.

Finally, the programme states that the government will ensure better use of resources internally within the public sector. The government will emphasise the preparation of good plans for achieving gains during the planning of such measures in the eGovernment programme. Such gains may be in the form of reduced costs or improved quality of public services.

The OECD Secretariat fully supports the ambitions expressed in this programme. Achieving the objectives formulated in this programme will not only ensure that Norway catches up with other Nordic countries, but will bring Norway to the forefront among OECD countries as far as the use of ICT in the public sector is concerned. However, given the relatively slow progress until a few years ago, Norway must now move quickly and energetically to realise its ambitions. This reform addresses three areas of policy development where the programme needs to be elaborated urgently in order to make such a quick and energetic progress possible. These areas are:

1. effective and efficient governance frameworks for common components;
2. stricter criteria for the gateway process;
3. enhancement of standard setting.

Priorities for reform

Effective and efficient governance frameworks for common components

Progress has been achieved in the area of developing a common infrastructure. This infrastructure consists of common components or common building blocks. There is evidence available that the outcome of the usage of these common components delivers lower IT costs, higher quality solutions, improved data quality and greater frequency of changes and updates (Ministry of Government Administration and Reform, 2007).

A common component may consist of multiple building blocks. All components share a defined interface with other components. The common components are:

- Altinn: a "toolbox" which public authorities and agencies can use to produce and operate their electronic forms and services for citizens and businesses (Altinn is also a common portal for the business sector);
- the common infrastructure for eID and login;
- national population register;
- the central register for legal entities (basic information about legal entities);
- the new cadastre;
- the digital mailbox (different solutions are now under consideration).

In the terminology of the Value for Money study, central registers are common process units characterised by broad usage among many public agencies.

Government-wide portals, eID and login infrastructure, and the digital mailbox are shared ICT services for the whole of government.

In earlier Value for Money assessments and in Reform 6 above, it has been argued that common process units and shared service units should be managed by an arm's-length agency under the umbrella of the first responsible ministry.[33] That same ministry should be responsible for financing and operational management and for the co-ordination of the permanent performance dialogue. Other ministries' financial contributions should be negotiated with the primary responsible ministry, not with the unit managing the common process unit.

Looking at the governance structure of the common components of the Norwegian ICT infrastructure from this perspective, it can be concluded that the assignment of responsibilities is mainly in line with the guidelines put forward in the reports in the OECD *Value for Money in Government* series: the central register for legal entities, the national population register and the cadastre are managed by agencies under line ministries (respectively the Brønnøysund Register Centre, the Tax Administration and the Norwegian Mapping Authority). Altinn is managed by the Brønnøysund Register Centre and the common infrastructure for eID, login and the digital mailbox are managed by Agency for Public Management and eGovernment (Difi).

The Ministry of Government Administration, Reform and Church Affairs is working step-by-step towards a common regime for the common ICT structure. In 2012, co-ordination groups were established and formalised both at the ministry level as well as at the public agency level. The ministry and the co-ordination groups contribute to the annual budget process, with the goal of achieving a common prioritisation of ICT proposals across sectors. In 2013, the ministry will work towards a set of common financing principles for certain important ICT components, for instance the common ICT structure of digital post.

However, improvements are still possible in the sphere of the steering arrangements for the agencies involved.

As far as the basic registers are concerned, it could be argued that in an initial phase they should be fully or mostly centrally financed to encourage their usage. However, in a subsequent phase, it will be important to clearly define the participating ministries and agencies and to make sure that all of them contribute to financing the registers and negotiate their contributions annually in the context of the regular budget process with the parent agency (not with the agencies running the registers themselves). Subsequently, only the parent ministries should finance the agencies running the registers. If the participants are allowed to enter into independent contracts with the register agencies, the parent ministries can no longer bear responsibility for the efficient operations of the register agencies (the client ministries can be played out against each other). Furthermore, it may be useful to strengthen the common rules of all common databases (not only the central registers of people, land and businesses). Common rules and guidelines can have a significant impact on the usefulness of the national components. This task should be fulfilled by the upgraded standard-setting unit in the responsible Ministry of Government Administration, Reform and Church Affairs (see below).

A similar reasoning applies to the governance arrangement for the common infrastructure for eID, login, the digital mailbox and other ICT services.[34] For a shared service centre as well, it is important that a single parent ministry is responsible for financing and operational management and for co-ordination of the permanent performance dialogue. In the case of Difi, the parent ministry is the Ministry of Government Administration, Reform and Church Affairs and the clients are all ministries and agencies. As for all shared service centres, it is important to clearly define the clients, to make sure that they contribute financially to the parent ministry of the shared service centre,[35] and to make sure that they participate in the permanent performance dialogue with the centre.

Create a gateway process that facilitates financing projects that lead to savings

According to the Norwegian eGovernment programme "Digitizing Public Sector Services", there is a gateway process in place in Norway consisting of the following components:

- Common requirements have been stipulated for all ICT-related investments by the state in order to ensure better and more unified digital services. These comprise: requirements related to co-ordination and control (especially during the planning stages); the use of general architectural principles, administrative standards and common components; requirements related to information security; and requirements to facilitate reuse of public information.
- Difi has established a website (*prosjektveiviseren.no*) which provides online guidance for planning and achieving ICT-related investments within the public sector based on the Prince 2 project management methodology. A possible next step could be to consider obligatory use of a common methodology or gateway procedures for ICT projects exceeding a minimum cost. The state's common ICT requirements are also available via this website. Difi will further develop this website with stronger recommendations regarding structuring of phases, decision milestones and associated templates.
- Investments expected to cost in excess of NOK 750 million will be subjected to external quality assurance. The quality assurance will

be implemented during two phases of project planning (KS1 and KS2).

- The Ministry of Government Administration, Reform and Church Affairs in Norway has a role in the yearly budget process, considering all of the ministries' budget proposals in the area of ICT, thereafter giving a statement to the Ministry of Finance.

What is not explicitly provided for is a business case analysis of all major ICT investments (for example, above NOK 10 million). In view of the high failure risk of ICT projects (in all OECD countries), a business case analysis should be required for all major ICT projects. The procedure should clearly define the requirements of the business case. The Danish gateway procedure may serve as an example in this respect. The business case should be proposed by the responsible minister, and checked in an *ex ante* evaluation by a special committee of high-level civil servants and experts. The business case should be explicit about costs and savings, year by year, over the medium term. Each business case should lead to an unambiguous conclusion on whether a proposed ICT project leads to saving in the medium term against the baseline of current policy. Each positive decision concerning an ICT project should immediately be accounted for in an adjustment of the baselines and accommodated in accordance with regular rules of budgetary discipline (see Reform 3).

Upgrade ICT standards, particularly in the area of common ICT architecture and security

In order to facilitate the wider diffusion of electronic administration, cross-sectoral co-ordination is a key condition. This call for stronger cross-sectoral co-ordination has been made before, in the 2007 report to the *Storting* called *An Information Society for All* (Ministry of Government Administration and Reform, 2006) and is repeated in "Digitizing Public Sector Services". Good progress has been made in the area of standardisation[36] yet more remains to be done.

The government has formulated architectural principles for the state's ICT solutions which emphasise service orientation, interoperability, accessibility, security, openness (open standards), flexibility (facilitating changes in use, content organisation, ownership and infrastructure) and scalability (facilitating changes in terms of the number of users, data volume and lifespan of services). The development of standards that must ensure that ICT systems can communicate with each other is entrusted to the Norwegian Standards Council, which proposes the standards that are to be recommended or to become mandatory within different areas. The mandatory standards are incorporated into secondary legislation by the ministry and apply to both state and municipal agencies.

However, standard setting (not only for ICT but for all support services) is a policy-making task that cannot only be entrusted to arm's-length or independent agencies. It is essential that standard setting takes place under the direct responsibility of a minister – in the case of ICT, the Minister for Government Administration, Reform and Church Affairs. Reform 7 proposed that a central directorate for operational management be established in the Ministry of Government Administration, Reform and Church Affairs that would bear responsibility for ICT development throughout the public sector and possibly for standard setting in other areas as well. This directorate should have the responsibility for carrying out the policies set out in the programme "Digitizing Public Sector Services" and have sufficient clout to enforce the standards that have been set.

As has been argued in Reform 7, it is therefore essential that standard setting as a policy-making task be removed from shared services providers in the area of ICT, such as GAS, Brønnøysund Register Centre and Difi, and that it be steered under the direct supervision of the minister. The director of ICT standard setting, in some countries called a chief information officer, could chair a standing commission of ministerial information officers from all ministries. The ministerial information officers would supervise the implementation of central standards and serve as de-central standard setters for their ministries. Simultaneously, they could head the central ministerial ICT support units responsible for office automation, ministerial Intranets and help desks and for advice about development and procurement of ministerial systems. This organisation of ICT standard setting has been introduced in various OECD countries (Australia, the Netherlands, the United Kingdom and the United States) and has generally led to an effective governance structure of ICT development in the public sector and rapid progress in achieving e-government objectives. In recent years, Norway has strengthened its central steering of ICT development to a considerable extent, but this has to some degree been achieved in an informal way. It would be useful to explicitly adjust the governance structure of ICT standard setting along the mentioned lines.

Recommendations

The Norwegian government may consider taking the following measures to enhance ICT standard setting and management:

19. Clarify governance frameworks for the common components of the ICT infrastructure by:

    – clearly defining the participating ministries and agencies in basic registers and the client ministries and agencies of Difi;

    – organising basic registers as arm's-length agencies;

    – ensuring that all participants of basic registers and all clients of Difi contribute to the financing of their activities and negotiating their contributions in the context of the regular budget process with the parent ministry; only the parent ministries should finance basic registers and Difi;

    – strengthening the common rules for the basic registers.

20. Create a gateway procedure that facilitates financing ICT projects that lead to savings and ensures that ICT projects that require additional resources are decided in the regular budget process. The procedure should require the elaboration of a business case for each major project (with a threshold in the order of NOK 10 million). The business case should be proposed by the responsible minister and checked in an *ex ante* evaluation by a special committee of high-level civil servants and experts. The business case should be explicit about costs and savings, year by year, over the medium term. Each business case should lead to an unambiguous conclusion on whether a proposed ICT project leads to saving in the medium term against the baseline of current policy. Each positive decision on an ICT project should immediately be accounted for in an adjustment of the baselines and be accommodated in accordance with regular rules of budgetary discipline.

21. Create more capacity and responsibility for ICT standard setting in the core Ministry of Government Administration, Reform and Church Affairs. One option is creating a directorate for ICT management (possibly as part of a directorate general for operational management with responsibility for standard setting for other operational means as well) in the core Ministry of Government Administration, Reform and Church Affairs. The director (chief information officer) could chair a standing commission of ministerial information officers from all ministries. The ministerial information officers could supervise the implementation of central standards and serve as de-central standard setters for their ministries.

Reform 9: Standards of internal audit

The role of internal audit

There is a growing international consensus seeing internal audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (OECD, 2011d). The role of internal audit in OECD member countries has evolved over the last two decades from mostly direct control of financial decisions and transactions with a focus on financial compliance and regularity, to an important element of good governance with a broader systemic approach of internal control with more emphasis on management controls, information and communication processes and performance (Diamond, 2002; INTOSAI, 2010a). Today, a basic component of internal audit will be audit of financial information and of the regularity of financial management, aimed at assuring the top management of an agency or a ministry as to how the internal control systems and procedures of the entity are functioning (European Union, 2011).

Internal audit, in countries where it is developed, may focus on different tasks:

- Financial audit:[37] verifies that financial management is consistent with prevailing legislation (including secondary legislation) and customary practice, and includes:
  - Compliance audit: verifies that financial management complies with the appropriations granted, laws and other regulations, private contracts concluded and customary practice.
  - Operational audit: assesses whether the practices and organisation of the broader financial management guarantees effective operations and reliable financial reports.
- Performance audit: verifies the economy of input, the efficiency of output, and the effectiveness of the outcomes of government's policies.

Internal auditors normally report to the top of the organisation: to the minister or top civil servant of a ministry or the managing director of an agency. In some cases, internal auditors may report to an audit committee appointed by the minister. There is a growing consensus that internal auditors should have dual reporting lines, one to a politician and one to a civil servant or audit committee, to emphasise political responsibility. The internal audit report is sometimes also linked to an obligation of the top management to sign a statement on the functioning of the internal control systems (European Union, 2011).

In decentralised government administrations like Norway, the internal auditors are normally part of the audited organisation but they hold an independent position. Supreme audit institutions (SAI) are independent of the government[38] and aim to provide an annual verification of the agency's or ministry's financial accounts. SAIs usually have additional tasks to verify that expenditures are made and revenues are collected in accordance with the budgetary authorisations and regulations (compliance audit), and to examine the economy, productivity, goal achievement and its impact on the implementation of decisions (performance audits).

Internal and external auditors may co-ordinate their activities. This co-ordination may include exchanging plans and reports, and co-operating on methodology and training, and does not compromise the independence of external audit, nor does it shut down the reporting line of internal audit to management (European Union, 2011; INTOSAI, 2010b). Internal audit can identify risk and control problems, giving line managers a possibility to correct faults before they are subject to an external audit report.

Standard setting

A national government has to develop its own standards of internal audit, for which international standards might establish a basis. A noticeable development in recent years is that national laws or regulations on internal audit refer to recognised international standards and good practice (European Union, 2011).

There are several international standards of internal control and internal audit for the public sector, for instance: the International Organisation of Supreme Audit Institutions (INTOSAI) has established "Guidance for Good Governance" in the public sector, including guidelines on internal audit (INTOSAI, 2010a) and on co-ordination between SAIs and internal auditors (INTOSAI, 2010b). The Institute of Internal Auditors (IIA) has developed "International Standards for the Professional Practice of Internal Auditing" (IIA, 2011) primarily focused on private organisations, but issues guidance documents for public governments as well (OECD, 2011d).

Internal audit must provide assurance that internal control arrangements in an organisation work according to regulations and are effective. Internal audit should focus on risk assessment. The Committee of Sponsoring Organisations of the Treadway Commission (COSO) has issued an "Internal Control – Integrated Framework" covering internal control and risk management, which might be relevant for public government administrations. INTOSAI has issued "Guidelines for Internal Control Standards for the Public Sector" which has incorporated the internal control concept of COSO.

The Value for Money survey

Tables 4.5 and 4.6 display various arrangements for internal audit in the countries participating in the Value for Money study.

The scope and tasks of internal audit in the respondent countries vary. In all respondent countries, internal auditors accomplish financial audits (both compliance and operational audits). However, in most countries internal auditors do not audit the financial statements of central government entities (with the exception of Denmark, the Netherlands and Spain; in New Zealand internal auditors may issue financial statements at the request of the top management of an agency or ministry). Performance audits are carried out in five countries, sometimes only on request.

When it comes to reporting, there are two common approaches. The main trend is that internal auditors report both to the minister and to the permanent head of the ministry or agency. In four countries (Australia, Finland, Norway and Sweden), internal auditors only report to the permanent head of the ministry or agency. Denmark represents a special case, as the internal auditors report to the SAI in addition to reporting to the permanent head of the ministry or agency and the minister.

There is a distinct trend among the respondents that at least a substantial part of the internal audit reports are submitted to the SAI. Four countries (Canada, Denmark, Finland and Sweden) submit all reports to the SAI. In most of the respondent countries, the SAI relies on the internal audits. Only Finland and Norway explicitly stated that the SAI does not rely on internal audits. In addition, Sweden said that the question is not relevant because the internal audit does not perform operational or performance audits.

Table 4.5. **Scope of internal audit and reporting structure in the Value for Money survey**

	Scope and tasks	Reports to	Submit reports to the SAI
Australia	Primarily financial audit including compliance audit (support management to comply with obligations). No audit of financial statements. Performance audits are accomplished at chief executive's discretion.	Audit Committee reports to chief executive, board of directors or nominated representatives	Yes, some reports. The SAI relies on financial internal audits.
Austria	Financial audit including operational audit. Audit financial statements.	Line ministers and relevant division, agency or unit head	Yes, some reports (50%). The SAI relies on financial and performance internal audits.
Canada	Differs among agencies, at the discretion of the chief executive officer.	Deputy head of large departments and agencies	Yes, all reports. The SAI relies on internal audits.
Denmark	Financial and performance audits. No audit of financial statements.	Line minister, department/agency head and SAI	Yes, all reports. The SAI relies on financial and performance internal audits.
Finland	Financial and performance audits. Audit financial statement.	Division or agency head	Yes, all reports. The SAI does not rely on internal audits.
Netherlands	Operational audit (focus on risk management, control and governance processes). No audit of financial statements.	Line minister and department or agency head	Yes, most reports (90%). The SAI relies on financial and performance internal audits.
New Zealand		Chief executive officer of line ministry or their devolved audit committee	Information not available.
Norway		Agency head	Yes, some reports (75%). The SAI does not rely on internal audits.
Spain		Line minister, department/agency head and Cabinet (summary)	Yes, some reports (25%). The SAI relies on financial internal audits.
Sweden		Board and agency head	Yes, all reports

Table 4.6. **Size and numbers of internal audit units in the Value for Money survey**

	Location	Number of internal audit units in each line ministry	Total employment
Australia	Line ministries/agencies	All agencies, total 194 units.	Variation of 7-73 FTE
Austria	Line ministries	1-2 (average 1) in each ministry.	100
Canada	Line ministries/agencies	Total 54 (most large departments and agencies). In addition, the Office of the Comptroller General/Internal Audit Sector conducts horizontal audits on 46 small departments and agencies.	525
Denmark	Line ministries	0-1 in each ministry (to be approved by the SAI).	80
Finland	Line ministries	Total 87, each ministry and agency may decide to establish internal audit.	33
Netherlands	Ministry of Finance/line ministries	0-3 (average 1).	769
New Zealand	Line ministries	Information not available.	Information not available
Norway	Line ministries/agencies	Total 13 agencies (5% of total) with internal audit function.	2-4 each on average
Spain	Ministry of Finance	0 (the SAI conducts an *ex ante* audit of transactions).	180 (professionals)
Sweden	Agencies	Total 61 agencies (of 211) with internal audit function.	124

Regarding centralisation *versus* decentralisation among respondant countries, there is one country at each extreme, with a continuum in the middle. The only country with a fully centralised approach is Spain, where the internal audit function is centralised within the Ministry of Finance (the General Comptroller of the State Administration). The Netherlands has a shared service centralised in the Ministry of Finance combined with decentralised responsibility for internal audit with the line ministries. Canada has also established a shared service for small agencies, whereas the Internal Audit Sector Office of the Comptroller General conducts horizontal audits across agencies and ministries. In Austria, internal audit is decentralised to the ministries.

Sweden represents the other peripheral case, as the responsibility for internal audit rests entirely with the agencies. Norway is similar to Sweden in this respect. The other countries have decentralised internal audits to line ministries or to line ministries and larger agencies. Australia requires all agencies to have internal audit. Three countries require larger agencies to establish internal audit (Canada, Denmark and Sweden).

The decision to establish internal audit units is at the discretion of the permanent head of the ministry in Finland, New Zealand and Norway. Denmark is exceptional as the SAI has to approve the establishment of an internal audit unit in central government. In other countries, internal audit units are established by the government or by the line ministries.

The size of internal audit units varies substantially. Canada and the Netherlands both employ more than 500 FTE in internal audit. Spain is in the middle with around 180 FTE. All the other respondent countries have less than 100 FTE internal auditors. Norway seems to be among the countries that have kept internal audit capacity limited with some 50 FTE.

The Norwegian approach

The Norwegian central government is a single legal entity. It is organised in government agencies that are separately managed, and which are accountable to the parent line minister for their operations, including finance and results. The line minister is accountable to the Parliament for all activities within his/her portfolio.

The Norwegian government has not issued any requirements for internal audit in the central government administration, but has established mandatory management requirements for internal control.[39] The establishment of an internal audit function is left to the discretion of the management of the agency. In practice, the decision is made in co-operation with the parent line ministry. There are currently 12 agencies and one ministry (Defence) that have an internal audit function in the Norwegian central government (out of a total of about 250 government agencies). These are typically large agencies or agencies that manage substantial financial flows covering 55% of total central government expenditures (excluding petroleum expenditures and debt repayments) and 64% of central government operational expenditures.[40] The average number of employees in the existing internal audit units is between two and four, and two-thirds of the agencies concerned procure additional external audit services.

In 2011, the Norwegian Government Agency for Financial Management issued guidance for agencies that are considering establishing an internal audit function (DFØ, 2011). The guidelines discuss four models for organising internal audit in agencies: *i)* an internal unit with permanent employed auditors; *ii)* full outsourcing; *iii)* internal audit director procuring external auditing services; and *iv)* internal audit director recruiting *ad hoc* internal staff for concrete audits.

According to the 2011 guidelines issued by the Norwegian Government Agency for Financial Management, the main task of internal audit units in the Norwegian central government is operational audits focusing on an examination of the agency’s processes for internal governance and control, and to propose improvements, in line with the IIA standards. The examinations must be risk-based. The internal auditors may give reasonable assurance and advice, in line with the IIA standards. They do not audit financial statements.

According to the guidelines, the agency must consider whether to inform the parent ministry of the results of the audit, for instance by an annual report. The agency must equally consider co-operation with the Office of the Auditor General (the SAI) in accordance with the INTOSAI guideline, “Co-ordination and Co-operation between SAIs and Internal Auditors in the Public Sector” (INTOSAI, 2010b). The current practice is that most, if not all, reports from internal audit units in agencies are routinely sent to the relevant line ministry, as well as to the National Audit Office.

Apart from the Ministry of Defence, none of the ministries has established an internal audit function. The Ministry of Defence has a central internal audit unit responsible for auditing the ministry and three agencies (the Norwegian Defence Estates Agency, the Norwegian National Security Authority, and the Norwegian Defence Research Establishment). The Chief of Defence, who is responsible for approximately 90% of the defence budget, has his own internal audit function separate from the central internal audit unit of the ministry. Some other ministries have established a central resource (one person or a small team) that advises the secretary general on internal control issues and dialogue with the Office of the Auditor General.

Table 4.7. **Prevalence of internal audit units in the Norwegian central government**[1]

Agency	Parent ministry	Type[2]	Board	Employees (FTE)	Total expenditures (NOK)
Labour and Welfare Service (NAV)	Ministry of Labour	OFO	No	12 989	350 665
Public Service Pension Fund (SPK)	Ministry of Labour	FB/OFO	Yes	389	21 497
Statsbygg	Ministry of Government Administration, Reform and Church Affairs	FOSF	No	810	2 138
Defence Estates Agency (*Forsvarsbygg*)	Ministry of Defence	FOSF	Yes	1 405	1 099
Defence (*Forsvaret*)	Ministry of Defence	OFO	No	15 621	33 084
Tax Administration (*Skatteetaten*)	Ministry of Finance	OFO	No	6 044	20 953
Customs and Excise (*Toll- og avgiftsetaten*)	Ministry of Finance	OFO	No	1 838	1 569
Directorate of Immigration (UDI)	Ministry of Justice	OFO	No	1 048	3 949
University of Oslo	Ministry of Education and Research	FOSF	Yes	6 042	6 168
University of Bergen	Ministry of Education and Research	FOSF	Yes	3 242	3 357
Research Council (*Forskningsrådet*)[3]	Ministry of Education and Research	FOSF	Yes	401	6 987
Road Administration (*Statens vegvesen*)	Ministry of Transport and Communications	OFO	No	5 650	15 081
National Rail Administration (*Jernbaneverket*)	Ministry of Transport and Communications	OFO	No	3 485	9 281
Total				58 964	475 828
Central government total				*135 226*	*872 733*
Per cent				43.6%	54.5%

1. Instead of assessing prevalence according to total expenditures, a better approach would be to assess it according to the total of expenditures, revenues, assets and liabilities. The OECD does not have the data necessary for such an assessment.

2. Type of agencies: ordinary agencies (OFO); agencies with specific devolved authority (FOSF); central government enterprise (FB).

3. The Research Council’s employment data are not included in the list attached to the budget. The source is the Council’s 2010 annual report.

Sources: DFØ (Norwegian Government Agency for Financial Management) (2009), “Internrevisjon og intern kontroll i statlige virksomheter – en kartlegging”, April, Table 4.1, Oslo; Ministry of Government Administration, Reform and Church Affairs (2011), “Prop 1S (2011-2012), Budget Proposal for 2012”, Attachment No. 1 (employment data March 2011), Oslo; Ministry of Finance (2011), “Meld St 3 (2010-2011) Central Government Financial Report 2010” and central accounts database (expenditures 2010), Oslo.

Assessment

Organisation of internal audit units

The mandate, organisation and staffing of internal audit vary a lot in the countries participating in the Value for Money study, as described above (Tables 4.5 and 4.6). The Nordic countries, which might be the most relevant for Norway, have an agency approach to internal audit. In Finland and Sweden, internal audit is completely left to the discretion of the agency. In practice, Norway comes next to Sweden in this respect. Two Nordic countries require larger agencies to establish internal audit (Denmark and Sweden).

The risk approach to the establishment of internal audit is sensible and efficient. However, the question arises whether it is sensible to leave the decision to establish internal audit to the agencies. The minister is ultimately responsible for wasteful expenditure, even if it occurs in arm's-length agencies or even independent agencies under the umbrella of the ministry. Norway could consider placing internal auditors in a central directorate of the ministry (not in the agencies, but in the core ministries), and deciding on concrete audits on the basis of risk and significance. This would increase the coverage of internal audit to a large percentage of total and operational expenditures, without in any way detracting from the criteria of risk and significance.

The Office of the Auditor General (OAG) presents all external audit findings, including those concerning agencies, to the (parent) ministry for comments, and eventually the findings are submitted to the *Storting* together with the ministerial explanations. The findings of the OAG may come as a surprise to the ministry. In recent years, the Norwegian government has voiced some criticism of the methods used by the OAG, in particular its practice of holding the government to account for compliance with its own internal regulations and standards as interpreted by the OAG. More use of internal audit may reduce the number of critical external audit findings of administrative character and the resources spent on dialogue with the OAG on minor audit findings. In addition, a discussion of audit priorities within ministries might help to direct audit resources to areas where the OAG has indicated interest and to areas where the ministry identifies risks, as well as to help the ministries to assess the importance of the OAG findings and prepare for responses to such findings. Therefore, the government should consider establishing small central audit units in core ministries. These units could focus on risk management for the ministry and its agencies as a whole and advise the secretary general on all matters of internal control and internal audit in the ministry.

Standards

The Norwegian government has issued standards for internal control but not for internal audit, though the Norwegian Agency for Financial Management has published guidance. However, a 2009 survey (DFØ, 2009) shows some uncertainty of which standards of internal control apply. According to this survey, there is little uniformity in the way internal control is organised in agencies.

The recent guidance published by the Norwegian Government Agency for Financial Management expresses that, if an agency establishes internal audit, it should adopt the standards issued by the Institute of Internal Auditors. In other *Value for Money in Government* reviews (OECD, 2010c and 2011b), the OECD Secretariat has recommended that central standards should be issued by a ministry, preferably the Ministry of Finance. Standard setting is a policy-making task (policy with respect to operational management) and therefore should not be delegated to subordinate executive agencies. This applies to both central (government-wide) and de-central standard setting. In this light, the Norwegian government may consider establishing a central harmonisation unit in the Ministry of Finance tasked with establishing government-wide standards. Such units exist in many OECD countries. The standards should cover not only internal audit, but also requirements for staffing, recruitment, training and certification of internal auditors.

Recommendations

22. The Norwegian government may consider establishing small central internal audit units in core ministries, under the direction of a highly qualified senior auditor. These units could focus on risk management for the ministry and its agencies as a whole and advise the secretary general on all matters of internal control and internal audit in the ministry. The units should receive all of the audit reports from subordinate agencies. This would increase the coverage of internal audit to a large percentage of total and operational expenditures, without in any way detracting from the criteria of risk and significance.
23. The Norwegian government may consider making capacity for central harmonisation available in the Ministry of Finance. The unit concerned could be tasked with setting government-wide standards for internal audit. These standards should also encompass requirements for the staffing, recruitment, training and certification of internal auditors.

Reform 10: Independent supervisory and regulatory authorities

Focus of the reform

Over the past decades, the number of administrative supervisors and regulators in OECD countries has risen sharply. This partly reflects a proliferation of regulations designed to influence the behaviour of agents in society and, subsequently, an increase in activities related to monitoring compliance. For a large part, the growth of these organisations is also driven by the privatisation of markets in the past decades. The role of the public sector shifted from "taking care of" to "taking care that"; and in doing so, the establishment of regulators, operating independently or at arm's length, was a way to ensure that the conditions on the new markets are defined and guarded in a fair and impartial way without direct political intervention.

Administrative economic supervisors/regulators supervise and regulate the corporate sector (including the non-profit sector outside general government) in order to promote competition. For that purpose, they supervise and regulate the entry or exit from a market, the prices at which goods and services are sold or the quantities of goods and services that are sold. Economic supervisors/regulators also supervise and regulate access to infrastructure owned by other parties.

Examples of economic supervisors/regulators include:

- central banks;
- general economic and financial regulators, such as authorities for consumer protection, competition or financial markets;
- industry regulators, as in telecommunications and energy.

Social supervisors/regulators supervise and regulate the corporate and non-profit sector outside general government, as well as service delivery units inside central government (ministerial divisions, arm's-length agencies and independent agencies), non-profit institutions inside central government and local governments in order to protect the citizens other than through the promotion of competition.

Examples of social supervisors/regulators include:

- health inspectorates;
- nuclear safety authorities;

- education inspectorates;
- food and drug inspectorates.

The tasks of both economic and social administrative supervisors/regulators can be summarised as:

- implementing current law by decrees of a general nature on the basis of competences attributed by law (administrative regulation);
- monitoring compliance with current law and administrative regulation (supervision);
- enforcing current law and administrative regulation in individual cases through administrative decrees (licences, permits, settlement of disputes) and sanctions, as well as through codes of conduct, moral suasion and other forms of informal guidance (supervision).

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

These supervisors and regulators are the kind of organisations referred to in this reform. This reform will consider in particular how to handle the balance between the independence and the accountability[41] of a supervisor or regulator. In addition, the reform will take a systemic approach by looking into the co-operation and interaction among supervisors and regulators and, finally, the role played by supervisors and regulators as part of a wider regulatory system. This last part is where this reform links with Reform 1.

Independence and accountability

The importance of having appropriate governance arrangements in place for supervisory or regulatory agencies cannot be underestimated. Appropriate arrangements mean striking the right balance between arranging a sufficient amount of independence on the one hand, and having clear mechanisms ensuring that supervisors and regulators can be kept accountable on the other.

Independence adds to the confidence that the decisions taken by those organisations are fair and impartial, and therefore forms the basis of public trust. When this independence can be questioned, trust and confidence will decrease.

However, sound mechanisms should be put in place to ensure a sufficient level of accountability on penalty of loss of legitimacy.

In short, maintaining the balance matters and is complex and therefore needs careful attention.

Table 4.8 summarises the status of supervisory and regulatory authorities in Norway and some other countries.

Table 4.8. **Status of supervisory/regulatory authorities**

		Australia	Austria	Denmark	Netherlands	Norway	Spain	Sweden
Social	Core ministry	5	4	0	14	0	n.a.	0
	Arm's-length agency	3	1	30	3	19	n.a.	7
	Independent agency	6	0	0	6	4	n.a.	0
Economic	Core ministry	3	1	0	2	0	0	0
	Arm's-length agency	8	1	5	1	7	0	23
	Independent agency	12	2	0	3	2	6	0
Total		37	9	35	29	32	n.a.	30

Various conclusions can be drawn from this table:

- The number of supervisors and regulators is roughly comparable, with the sole exemption of Austria which has significantly less. However, the number of economic and social regulators differs widely between countries. The number of social regulators in Denmark (30), the Netherlands (23) and Norway (23) is far larger than in the other countries. The opposite applies to the number of economic supervisors/regulators.
- The status of the supervisors and regulators differs widely. In some countries (Australia, but especially Austria and the Netherlands), a substantive number of supervisors and regulators can be found that are still part of the core ministry. This is not the case in the Scandinavian countries, where none of the regulators or supervisors is part of the core ministry.
- In the Scandinavian context, Norway is the only country with supervisors and regulators in the form of independent agencies. In

Denmark and Sweden, all supervisors and regulators operate at arm's length from the government, but not as independent agencies.

Ideally, the status of the supervisory and regulatory authorities has a clear, legal basis which is publicly known, and combines this delegation of regulatory powers to supervisors or regulatory agencies with a well-developed system of public accountability through reporting requirements, peer review and, ultimately, competences of intervention by the government and/or the legislature.

The information displayed in Table 4.8 only gives a rough categorisation of the status of the authorities, and does not mention the legal basis underlying arrangements for independence and accountability, particularly for independent agencies.[42] For this, one has to dig deeper.

In a couple of front-running countries, the field of independent regulators and supervisors has recently been reviewed with the aim of rationalising it, modernising the legal bases, and optimising accountability schemes. It is commendable that Norway also recently started to undertake similar activities.

The case for independence of administrative regulatory and supervisory authorities

Economic supervisors/regulators should be independent because the government has own interests (conflict of interest), for instance in the case of public monopolies or because of political lobbies of powerful private companies. Social supervisors/regulators should be independent to ensure that protecting citizens/clients against risky products or risky production processes (food, drugs, nuclear energy production) is based on objective expertise, free from political motives, and to ensure that the assessment of the quality of collectively funded services (in education, health, social services) is based on objective expertise and free from political motives.

The recent strong development of (more or less) independent bodies in the Norwegian administration led the Agency for Public Management and eGovernment (Difi) to document the current situation in terms of, among other things, the prevalence and regulation of independent administrative bodies and the legitimacy-enhancing mechanisms.[43]

The two main findings of the first interim report are:

- Nearly half of all bodies exercising authority in individual cases are given some form of independence from the political leadership.
- The independence of administrative bodies is inadequately regulated in legal terms; more often than not the content and scope of independence are unclear.

Given the interim findings of the report, it is recommended that a comprehensive follow-up effort be prepared starting immediately, which should encompass:

- the development of a coherent framework which can be used to help design a clear and transparent legal base for the respective supervisors and regulators;
- the development of a system to periodically check to what extent the conditions set out in the framework are met in practice.

Ideally, this framework contains a clear description of the role and mandate of the supervisory or regulatory authority. However, this is not enough. The framework should also provide clarity on other issues which are key in setting the balance between independence and accountability in clear terms (list based on Laking, 2005):

- mission, competences, appointment and dismissal of top management, reporting requirements;
- arrangements for operational management (budgets, human resources, accommodation, etc.);
- powers for the minister or other political authority to give directives and the legal form these directives should take;
- emergency powers to intervene if and when there is a failure of management.

In the preparation for this work, Norway can use the Australian experience as an inspiration (see Box 4.2).

Box 4.2. **Illustration: Systemic review of regulators and supervisors in Victoria, Australia**[1]

In 2008, the State Services Authority (SSA) developed a whole-of-government policy and framework for the governance of regulators.[2] One of the findings was that the institutional form and governance arrangements of regulators have developed in an *ad hoc* manner without a coherent framework for regulatory design. The legislative framework, regulatory objectives, governance arrangements and performance of regulators are not uniformly clear, transparent or consistent. The review developed a better practice public sector governance framework for all Victorian regulators, which consists of the following:

- principles for better practice governance arrangements;
- decision-making criteria to assist the assessment of existing arrangements and design of new arrangements and institutional forms; and
- a checklist of 38 indicators for better practice governance applicable to all regulators.

1. Available at *www.ssa.vic.gov.au/products/a-z/view-products/review-of-the-rationalisation-and-governance-of-regulators.html.*

2. Part of the work related to examining the merits of rationalising or merging the number of regulators in Victoria.

Independence and mutual co-operation

In view of the recent proliferation of supervisors and regulators, countries are now starting to review and rationalise this fragmented field, and to explore other ways to stimulate co-operation and exploit synergies.

For a number of reasons, the co-operation among supervisors and regulators themselves is not yet very well developed in OECD countries. This is partly the case because the organisations are still relatively young, and they first had to spend resources and energy on internal matters. As to external relations, these were first and foremost related to developing the relation with the parent ministry, and not so much to exploring co-operation with other supervisors and regulators. In addition, establishing and defending independence – typically an activity in which supervisors and regulators had to invest in the early days – perhaps do not create the ideal context for exploring possibilities for synergies and co-operation at the same time.

Exploiting synergies and strengthening co-operation are a necessity, however: first of all because of efficiency gains related to avoiding overlap, pooling investments or improving risk management which allow resources to be concentrated on cases which matter most;[44] second, because increasingly businesses are confronted with, and complaining about, supervisors and regulators who operate independently from each other.

It is recommended that the follow-up of Difi's work not only concentrates on independence and accountability, but also addresses the issue of co-operation and synergies between the respective supervisors and regulators. In this regard, inspiration could be drawn from the "Inspection Reform Programme" in the Netherlands (see Box 4.3).

Box 4.3. **Illustration: Inspection reform programme in the Netherlands**

In order to increase both the impact and the efficiency of the central government supervisors, the Netherlands developed a programme (2006-11) to facilitate the co-operation between them. It was envisaged that this would also decrease burdens and irritations for businesses affected by supervisors.

The programme had two parts:

- a domain-oriented approach;
- identifying and exploiting synergies between supervisors.

The rationale behind the domain-oriented approach is that compliance with regulation would be facilitated by organising information, advice and even inspections from the business sector perspective, instead of confronting businesses with a fragmented field of supervisors acting as silos. In a given domain, the relevant supervisors would work together and approach the businesses in that domain in a co-ordinated way. This business-sector approach was to be applied in 18 domains.

The second part of the programme aimed at increasing the co-operation in the back offices of the supervisors by offering shared services or instruments such as:

- IT (for example, the development of standards for exchange of information between supervisors);
- communication (covering both communication to businesses and developing templates for reports and letters of supervisors); or
- education programmes.

The execution of the programme is the responsibility of a dedicated unit staffed with people from several ministries. An overarching council, comprising the chief executive officers of the respective supervisors, oversees the implementation.

Independence, yet part of a regulatory system

Reform 1 (Strengthening of regulatory policy) recommended, among other things, the development of a vision and strategy for a coherent and effective regulatory policy. The activities of regulators and supervisors should logically be part of this.

A vision could be developed not only about the way they plan to co-operate and co-ordinate among themselves (see above), but also on the common principles that guide the interaction with citizens and businesses to whom regulations are addressed and that have to ensure that regulatory burdens are minimised.

In this regard, inspiration can be found in the Hampton Review in the United Kingdom (Box 4.4). In 2004, Philip Hampton was asked by the Chancellor of the Exchequer to lead a review of regulatory inspection and enforcement. The ensuing report was published in 2005. Among other things, it introduced general principles – now commonly known as the Hampton principles – that should be consistently applied throughout the regulatory system. With the exemption of one or two principles, they all deal with the way supervisors and regulators should interact with those to whom regulations are addressed (in this report: businesses). It can be seen as one of the few comprehensive attempts known to date to extend principles of better regulation to the level of independently operating supervisors and regulators.

Compliance with these principles is facilitated by reviews of the respective regulators performed by teams comprising independent experts, peers from regulators, officials from the government's regulatory policy oversight unit, and staff of the National Audit Office.

Box 4.4. **Illustration: The Hampton principles of regulatory inspection and enforcement, United Kingdom**[1]

- Regulators, and the regulatory system as a whole, should use comprehensive risk assessment to concentrate resources on the areas that need them the most.
- Regulators should be accountable for the efficiency and effectiveness of their activities, while remaining independent in the decisions they take.
- No inspection should take place without a reason.
- Businesses should not have to give unnecessary information, nor give the same piece of information twice.
- The few businesses that persistently break regulations should be identified quickly and face proportionate and meaningful sanctions.
- Regulators should provide authoritative, accessible advice easily and cheaply.
- Regulators should be of the right size and scope, and no new regulator should be created where an existing one can do the work.
- Regulators should recognise that a key element of their activity will be to allow, or even encourage, economic progress and only to intervene where there is a clear case for protection.

1. *www.hm-treasury.gov.uk/hampton*.

Recommendations

The Norwegian government may consider:

24. Starting preparations for a comprehensive follow-up on the important current analyses done by Difi, part of which should be the development of a coherent framework to help design clear and transparent legal bases for the respective supervisors and regulators; it should also entail mechanisms to monitor to what extent the conditions set out in the framework are met in practice.
25. Exploring ways to stimulate closer co-operation and the exploitation of synergies between the respective supervisors and regulators; this should cover the co-operation and synergies in the back offices of the organisations, as well as the front offices in managing relations with businesses and other client groups.
26. Developing a vision about the common principles that guide the interaction with citizens and businesses to whom regulations are addressed and that have to ensure that regulatory burdens are minimised; this should clarify the regulators' and supervisors' contribution to the national regulatory policy (Reform 1).

Overview of value for money effects

Table 4.9 provides an overview of quality improvements and potential savings of the ten priority reforms discussed in this chapter. Savings are characterised in relation to the current operational costs of the units concerned. A moderate saving (less than 20%) of large units can be larger than a large (more than 20%) saving on small units.

Table 4.9. **Survey of value for money effects**

Reform		Quality improvement in administration	Quality improvement in service delivery	Savings
Reform 1	Strengthening of regulatory policy	X	X	
Reform 2	Co-ordination across ministries	X		
Reform 3	Medium-term expenditure framework	X		
Reform 4	Implementation of spending reviews	X		Moderate
Reform 5	Automatic cuts of productivity dividends; size of core ministries			Large
Reform 6	Shared support services	X		Moderate
Reform 7	Standards of operational management			Moderate
Reform 8	Digitising the public sector	X	X	Moderate
Reform 9	Standards of internal audit	X	X	
Reform 10	Independent supervisory and regulatory authorities	X	X	

Notes

1. Regulation is defined in the context of the Value for Money study as an economic concept. It can be divided into economic regulation and social regulation. See the Glossary for definitions. Regulation can have the form of formal law or of secondary legislation (administrative regulation).

2. CBA is applied to other policy instruments than regulation, for instance on investments in capital goods in kind.

3. For instance: financial, administrative, environmental, health, regional, gender, business impacts; human rights.

4. A good illustration is provided by Kjerkreit and Odeck (2009).

5. For instance, the Netherlands has dropped its requirement that all programmes should be evaluated every five years. Similar experiences have led to the adjustment of requirements concerning sunset legislation in the United States.

6. For more details, see the Value for Money country assessments of Australia (OECD, 2012b), Denmark (OECD, 2011b), the Netherlands (OECD, 2010c) and Sweden (OECD, 2013) that contain reforms aimed at merging agencies and process sharing.

7. The assumed revenues from the GPFG of 4% are treated as revenues. The total deficit is zero. This means that public debt does not grow because of deficit financing. The Norwegian debt is mostly maintained for reasons of monetary policy. Currently, the Norwegian public debt amounts to 26.2% of GDP.

8. Another country that has moved more recently to a fixed framework is Austria.

9. It is sometimes thought that a fixed expenditure framework resembles in this respect a (permanent) expenditure rule (as a fiscal rule), but this is not necessarily the case. Examples of expenditure rules are the requirement that total expenditures cannot increase from year to year by more than the growth of GDP (currently promoted by the EU) or that expenditures cannot exceed a certain percentage of GDP. Expenditure rules of these types do not generally lead to a strict separation of expenditures and revenues and are therefore less conducive to automatic stabilisation.

10. The 2004 framework remained in place to 2007 and the 2007 framework until 2010.

11. The fact that in Sweden the ceilings in the out-years cannot be filled up with new policies to be implemented in out-years means that there is often

a "budget margin" in the out-years between the sum of the baseline estimates and the ceilings that come up for distribution in the budget preparation process in future years.

12. For instance, in the Netherlands tax relief is possible under the current framework if the budget is expected to be in surplus over all years of the framework and if, moreover, the deficit and debt limits of the EU Stability and Growth Pact (SGP) are respected. If these conditions are met, one-third of the excess tax yield over the trend estimate can be given back in the form of tax relief (the rest being used for debt redemption).

13. In addition, the EU Stability and Growth Pact (SGP) requires euro-area countries to revise their expenditure frameworks or tax policies in order to comply with the EMU deficit requirements of the GDP. The financial crisis has pushed many OECD countries over the GDP thresholds in the last few years. Many of these countries have now embarked on revising their expenditure frameworks in order to restore their public finances (OECD, 2011a).

14. There are 1 400 line items and thus baseline estimates in the Norwegian budget.

15. Note, however, that in Sweden the sub-ceilings for the out-years cannot contain new expenditures (see above). This implies that the sub-ceilings for the out-years only contain baseline estimates and no new spending initiatives. If there is no room between the sum of the sub-ceilings and the total ceiling, the sectors know four years in advance how much they will get. However, if there is room between the sum of the sub-ceilings and the total ceiling in the out-years (the "budget margin"), the sectors have to wait until the margin comes up for distribution, which is only one year in advance. Medium-term sectoral planning of savings is thus perfectly possible, but medium-term planning of new spending is not.

16. In Sweden, reallocation between sub-ceilings under the same ministry is a bit easier than reallocation between sub-ceilings under different ministers.

17. The Dutch experience is that, on the few occasions where they have occurred, reallocations concerned windfall gains on entitlement spending. Under the rules of budgetary discipline, these windfalls have to be handed back to the Minister of Finance, but on these occasions the Cabinet also decided to lower the sub-ceiling concerned in favour of another sub-ceiling. It mainly concerned moving resources from social security (windfalls on unemployment benefits) to health.

18. For this reason, the Netherlands and Sweden had difficulty in complying with the European guidelines for implementing a "stimulus package" in 2010. Sweden did not adjust its framework at all, while the Netherlands implemented a small and temporary package with a one-off amendment

of the expenditure framework. The United Kingdom, whose framework was up for revision anyway, decided a very large stimulus package incorporated in the new framework.

19. For instance, in the Netherlands it has occurred only once, and then deliberately, namely in 2010 under EU pressure to implement a "stimulus package". It is true that, in the United Kingdom, public expenditures have derailed in the 2000s but this has mainly occurred because the fixed period of the frameworks was so short (two years) and because every new framework was used to increase spending. The ceilings themselves were not exceeded.

20. Baseline estimates are estimates of the costs of current policy in future years, estimated at the line-item level. Current policy is a concept that is not only applicable to policies determined by entitlement laws (mandatory spending), but that applies to all spending. In particular, discretionary spending is determined by sectoral plans (for instance, procurement plans, investment plans, etc.). In case of compensation, sectoral plans have to be explicitly adjusted in order to decrease the associated baseline estimates.

21. All countries of the Value for Money study except Austria and New Zealand report that they use spending review procedures.

22. OECD (2012a) suggests introducing a requirement to spending reviews to propose how a 10% cut in resources could be achieved at minimum losses to the objectives.

23. OECD (2012a) mentions that line ministries may propose cuts that are evidently not acceptable to the Cabinet. This is a common experience in countries that have procedures in place that require line ministries to propose cuts in their own budgets.

24. OECD (2012a) suggests that the system should aim to cover all the main spending programmes.

25. The ACPD procedures are currently in place in Australia, Denmark, Finland, New Zealand and Sweden.

26. Section 31 increases an agency's appropriation by amounts equivalent to eligible receipts received from the sale of goods and services. Subject to an agency's Section 31 agreements can be for example: a receipt from the sale of minor departmental assets; a receipt from providing services to the public; a contribution to fund departmental activities.

27. The average requirement of a 1% cut for the government as a whole works as a strong incentive for convergence around the 1%, even if the annual percentage cut is differentiated between policy areas.

28. The term "Crown" is used where revenue, expenditure or assets are being managed by a department of the Crown otherwise than for departmental

purposes. They are also referred to as "non-departmental". Examples are Taxation Revenue and Benefit Payments.

29. OECD (2011a) provides an overview of the plans currently in operation.

30. See OECD (2010a) for more information about these models.

31. Presented by the Minister of Government Administration and Reform in a speech on 12 October 2007, adopting the goal of the previous government presented in the strategy document "eNorge 2009".

32. The term "pay-setting" will be used for the decisions of officials, usually ministers or agency heads, on pay for certain groups of employees or for individual officials.

33. For common process units, see OECD (2010c; 2011b); for shared service units, see Reform 6.

34. See Reform 6 for other support services provided by Difi.

35. Financial contributions to a government-wide shared services centre have, in principle, to be negotiated only once, namely when the service centre takes on a new task previously carried out by the line ministries. At that moment, the costs of the transferred tasks can be subtracted from the budgets of the line ministries and added to the budget of the ministry responsible for the shared service unit.

36. See, for example, Ministry of Government Administration, Reform and Church Affairs (2009).

37. Financial audit is sometimes also referred to as regularity audit.

38. The independence is typically measured along three dimensions: leadership, functions and finance.

39. The Financial Management Regulations, issued by the Ministry of Finance, have rather strong requirements for internal control in agencies and ministries. Internal control is a responsibility of the line management of ministries and agencies, and is based on the comprehensive concept of internal control laid down by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). A 2009 survey by the Norwegian Government Agency for Financial Management documented, however, that between 42% and 83% of the respondents did not know on which standards internal control was based (DFØ, 2009).

40. The Norwegian Labour and Welfare Service processes entitlements regarding pensions, sickness benefits and unemployment support. These essential entitlement expenditures (39% of total expenditures) are omitted when assessing prevalence according to operational expenditures, which

results in a substantially higher ratio of internal audit functions than displayed in the table where the basis is total expenditures.

41. Accountability refers to the obligation of those entrusted with particular responsibilities to present an account of, and answer for, their execution.

42. Arm's-length supervisors and regulators are usually subject to the same arrangements as all other arm's-length agencies. In Nordic countries, this usually implies that the minister remains responsible for executive policy and operational management, but not for decisions in individual cases.

43. A third item to be reviewed is the organisation and working methods of complaint bodies.

44. It is not unlikely that agents who do not comply with a regulation have a general attitude towards regulation that could lead them to not comply with other pieces of legislation as well. This implies that there is a case for joint risk assessments by supervisors.

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Glossary

Note: The asterisk (*) in some of the definitions refers to a term included in this glossary.

Administrative employment: all employment in general government (in the sense of the national accounts) except employment in service delivery in kind*.

Administrative regulation: economic regulation* or social regulation* by authorities other than the formal legislature.

Administrative supervision: monitoring of compliance with laws, economic regulations* and social regulations* other than through the regular police, in particular through inspectorates.

Agency: unit of a ministry with a separate financial administration.

Arm's-length agency: agency* for which the minister is responsible as far as (executive) policy is concerned (not necessarily for the handling of individual cases). The minister also remains responsible for operational management.

Baseline estimates: multi-annual estimates of expenditures on the basis of current policy at the level of line-item authorisations*.

Central ministry: Prime Minister's Office, Ministry of Finance and ministry where the most important tasks in the area of standard setting* for operational management* are located.

Central support unit: division* providing support services to all or some line divisions* of the ministry.

Civil service: all employees of central government whose labour conditions are ruled by public law.

Common process unit: government unit that carries out tasks that belong to the primary process of more than a single ministry of central government or more than a single government (for instance, a ministry and a municipality).

Core ministry: the part of the ministry that is not organised in agencies*.

De-central support unit: unit of a core ministry or agency that provides support services to a single (sub-)division of a core ministry or agency.

Division of a ministry: unit of a core ministry led by an official who reports directly to the minister or deputy minister or to the highest non-political official of the ministry. National titles of officials leading ministerial divisions may be: director-general, director, assistant secretary.

Economic (or "market") regulation: regulation of entry to or exit from a market, the prices at which goods and services can be sold or the quantities of goods that can be sold aimed at the promotion of competition. Economic regulation also includes regulation requiring the provision of access to infrastructure owned by other parties.

Executive policy: policy concerning policy execution.

Financial audit: assessment of reliability of financial reports. This includes the compliance of financial transactions or the registration of financial transactions with the applicable legislation (compliance audit) and the assessment of the financial control arrangements in place to safeguard the reliability of financial reports (operational audit).

Horizontal integration: process sharing among agencies* and merging of agencies*; sharing of support services* or merging of support service* units.

Independent agency: agency* for which the minister is not responsible, neither for executive policy*, nor for the handling of individual cases (the minister remains responsible for policy and operational management*).

Internal audit: financial audit* or performance audit* carried out by a unit of a core ministry* or an arm's-length agency* to be reported to the minister, deputy minister or highest non-political official of the ministry or agency.

Line division: division* of a core ministry that has tasks in the areas of policy development, policy execution and administrative regulation or supervision.

Line-item authorisation: authorisation of expenditures at the most detailed level of the classification used in the annual budget law.

Line minister: minister who is not responsible for standard setting for operational management (or acting in any other capacity).

Market structure: conditions of the market that determine its competitiveness or other features of perfection. A market can be imperfect because of small numbers of buyers or sellers (monopoly, oligopoly), information asymmetry, or external effects. Monopoly or oligopoly can be legal (legal entry barriers) or natural (decreasing marginal costs, for instance in network services).

Multi-annual baseline estimates: estimates of the future expenditures in the two, three or four years following the budget year, on the basis of current policy of the most detailed expenditure group distinguished in the budget law.

Operational (or technical) efficiency: relative productivity of a production process compared to the optimal production process with the same output.

Operational expenditures: expenditures for compensation of employees, intermediate production, and investment in accommodation for employees (in the sense of the national accounts).

Operational management: decision making on the use of operational means*. For instance: financial management, human resource management, procurement management.

Operational means: communication, human resources and organisation, internal audit, procurement, information and ICT, finance (budgeting, accounting and paying), accommodation, real estate and facilities (office equipment, reproduction, cars, catering, security, cleaning, internal post).

Out-year: each year of the multi-annual estimates after the (upcoming) budget year.

Performance audit: assessment of the effectiveness or efficiency of government activities, given the policies (targets and instruments) in place.

Permanent advisory council or committee: a committee established by law or governmental or ministerial decree for an indefinite term or a term longer than a few years, with the task of advising the government or the minister about policy development or execution.

Planning bureau: unit of the government that provides forecasts on economic, social, financial and environmental developments and scenario studies on impacts of government policies on those developments. A planning bureau may, in addition, provide other forms of policy analysis.

Policy evaluation: assessment of the effectiveness and efficiency of a policy (targets and instruments).

Private corporation: institutional unit belonging to the corporate sector of the economy (in the sense of the national accounts) which is not controlled by the government.

Programme expenditure: all public expenditure except operational expenditure* (transfers, grants, subsidies, social benefits, investment other than in accommodation for public employees, etc., in the sense of the national accounts).

Public corporation: institutional unit belonging to the corporate sector of the economy (in the sense of the national accounts) which is controlled by the government.

Regulatory capture: undue influence of regulated market parties or governmental organisations over regulatory authorities*.

Service delivery employment: all employment in the military, the police, the penitentiary institutions, units providing other collective services in kind (for instance, construction or management of transport infrastructure: roads, tunnels, bridges, waterways, harbours, rail networks, airports, pipelines, etc., or ICT infrastructure), non-profit institutions classified inside general government in the national accounts, educational institutions, health-care providers, and units providing other individual services in kind (cultural institutions, institutions providing social services, etc.).

Social (or "protective") regulation: regulation of the quality of goods and services that are sold on markets or that are provided by government outside markets (against "insignificant prices" in the sense of the national accounts). This includes, for example, regulation of environmental quality, food safety, labour conditions, health-care quality, and quality of education.

Standard setting: making rules on operational management*.

Senior civil service: top layer of the civil service*.

Shared service unit: government unit that provides support services* to more than a single ministry of central government or to more than a single government (for instance, a ministry and a municipality).

Support services: services to support operational management*.

Supreme audit institution: independent high college of state mandated by the Constitution to audit the activities of the state (financial audits* and usually also performance audits*).

Vertical integration: a better use of executive and professional expertise in policy development.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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