

© OECD, 2002.

© Software: 1987-1996, Acrobat is a trademark of ADOBE.

All rights reserved. OECD grants you the right to use one copy of this Program for your personal use only. Unauthorised reproduction, lending, hiring, transmission or distribution of any data or software is prohibited. You must treat the Program and associated materials and any elements thereof like any other copyrighted material.

All requests should be made to:

Head of Publications Service,
OECD Publications Service,
2, rue André-Pascal,
75775 Paris Cedex 16, France.

© OCDE, 2002.

© Logiciel, 1987-1996, Acrobat, marque déposée d'ADOBE.

Tous droits du producteur et du propriétaire de ce produit sont réservés. L'OCDE autorise la reproduction d'un seul exemplaire de ce programme pour usage personnel et non commercial uniquement. Sauf autorisation, la duplication, la location, le prêt, l'utilisation de ce produit pour exécution publique sont interdits. Ce programme, les données y afférentes et d'autres éléments doivent donc être traités comme toute autre documentation sur laquelle s'exerce la protection par le droit d'auteur.

Les demandes sont à adresser au :

Chef du Service des Publications,
Service des Publications de l'OCDE,
2, rue André-Pascal,
75775 Paris Cedex 16, France.

Distributed Public Governance: Agencies, Authorities and Other Autonomous Bodies in the Netherlands

by

Ronald Van Oosterom*

1. The wider state sector and the machinery of government

1.1. Background of creation of agencies in the Netherlands

In the context of English-speaking countries, the term agency is used as an umbrella concept for different forms of what is called in the Dutch context “privatisation” (*i.e.* devolution and delegation of power to more autonomous bodies). To assist in understanding the Dutch situation, this paper will discuss first a conceptual framework which runs as a thread through this chapter. The term agency covers in the Netherlands both the Dutch “agencies” and the independent administrative bodies (ZBOs) which can be best described as follows:

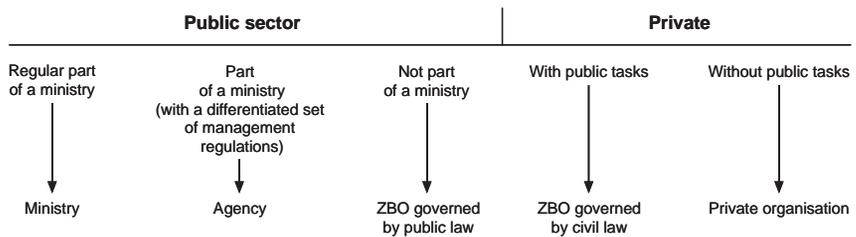
- An agency is a service that is part of a ministry and is subject to a differentiated set of administrative and financial management rules. Ministerial responsibility remains unchanged. The differentiation can be best described by the following: Agencies are supposed to apply results-oriented management in combination with an income and expenditure administration. They are monitored on performance criteria and their budget presentation is in terms of performance and costs, whereas ministries still have a cash/liabilities administration.
- A ZBO governed by public law is not part of a ministry but is definitely part of the public sector. Ministerial responsibility is then specifically defined. Financial and administrative management rules are tailor-made to the ZBO. There are two types of ZBOs within this category: Those that are legally part of the state and those that have their own legal personality and are thus separate from the state.

* Ronald Van Oosterom is Head, Management Control, Directorate of Budget Affairs, Ministry of Finance.

- A ZBO governed by civil law is not *per se* an integral part of the public sector, but does perform a public task. A specifically defined ministerial responsibility applies to this specific task. Management rules are those that apply to the private sector.

The historical context is relevant for understanding the current situation. The ZBO model dates back to the 1980s, when certain services were designated for the first time as ZBO.

Figure 1. The wider state sector



The most important characteristic of the ZBO model is that ministers cannot be held responsible for all the aspects of the operation of the ZBO. This is mainly due to the type of tasks that ZBOs have to carry out:

- when the task itself is specific, does not include some general policy-making, and requires an independent judgement;
- when the activities of the body require direct involvement from different sections of society;
- when the tasks of the entity consist of policy implementation on individual cases that has bearing on a large number of individuals for which the law has described tight boundaries and from which individual citizens enjoy complete legal protection. Independence of implementation is guaranteed by this organisational form.

At the beginning of the 1990s, the Netherlands Chamber of Audit severely criticised the organisational form of ZBOs. Its criticisms included that of unjustified limitation of ministerial responsibility, inadequate rules for monitoring ZBOs' activities and neglect of management. In a number of cases, the ZBO model was used to avoid management rules of ministries which were considered too burdensome.

A second historical development regarded the Accounting System Operation, a large-scale operation that was started in the mid-1980s. Its aim was to improve the management and control of expenditure, through, among other things, the introduction of commitment cash-accounting. This meant the registration not only

of cash expenditure but also of obligations that could lead to future cash expenditure. At the same time a great deal of attention was paid to improving the financial control of the ministries and obtaining statements of approval from accountants. At that time management concentrated on input factors. The Accounting System Operation was rounded off at the beginning of the 1990s.

By then there was demand for a new impulse for financial management within central government. The phase in which the control of expenditure was central was superseded by a phase in which a lot of attention was paid to the quality of operational management. The agency model was created for implementing services in which management according to profits (products and cost prices) was a real possibility. The nature of the necessary differentiation is partly financial (accrual accounting, an unlimited end-of-year margin) and partly administrative (management from a distance, more power with regard to recruitment and selection of personnel and with regard to the numbers of staff).

The Dutch agency model was introduced in 1994 partly as an internal alternative to the ZBOs. The goal was to create bodies which could avoid applying some of the management rules of ministries, without limiting ministerial responsibility.

The report "Becoming Independent Responsibly" introduced a step-by-step plan according to which the most suitable management-organisational design can be determined for the government's task. Questions to be used were the following:

- Is the task of public interest? If not, then there is no reason at all for the government to take responsibility; termination of the task (disposal) is appropriate. If there is a collective interest, the government in principle has a responsibility.
- Is it a government task? If it is determined that the government does not need to carry out the task itself and if the task can also be carried out by a private structure within the market system, privatisation is then appropriate. The form of privatisation is determined by the required type of government intervention.
- If it is a task that government should perform, then the question is which level of management should be carrying it out? This is really the question of the desirability of making lower government responsible for activities that central government had carried out up until then.
- Is it necessary to limit ministerial accountability? Are there urgent reasons for transferring the minister's (managerial) authority? When this appears to be the case, the task should be carried out by an independent administrative body (ruled by public law).
- Assuming that there is no reason for transferring ministerial accountability, is it then desirable to apply different control and management rules? If the answer is positive, then the hierarchical subordination to the minister continues to exist, but steering and management rules shall be adjusted.

Considerations about which cases are best suited to becoming a ZBO and which to an agency have been answered – and are still being answered – according to this framework. The formation of ZBOs means that these institutions remain a part of public authorities, but not of the state.

1.2. A model of differentiation

The agency model was introduced under the flag of differentiation in rules of control. This differentiation is obviously not a goal itself, but a means to achieve greater efficiency. For many years efficiency has been given largely a financial connotation; it was interpreted as producing and supplying services more cheaply. Since the first government-encompassing evaluation of the agency model (1997/98), a number of characteristics of the agency model have altered. The focus on efficiency has now been directed towards three aspects:

- a lower cost price of the product or service;
- a higher quality of the product or service;
- a higher quality of the organisation.

The last aspect was added as a result of the introduction of management control into central government. An organisation that is in control has greater opportunities for guiding and managing, because processes are more predictable and more manageable. In a few cases, savings were expected of an agency right from the start. In most cases, however, no such task was imposed.

Differentiation can be divided roughly into two forms. The first form is *managerial differentiation*. Agencies have been given their own separate identity. This differentiation has taken shape by distinguishing a number of roles: the contractor (the agency), the principal (chiefly, the policy department), and the owner (chiefly, the [deputy] secretary-general). The relationship between the agency and the principal is characterised by making agreements in advance about the products and services that will be supplied and giving account of their realisation with hindsight. Thus, within this relationship, management is in terms of achievements and cost prices. An internal market has been created. Some agencies have several clients, others only one. Most agencies function more or less as a monopoly. For the internal customer, one can often speak of a forced truck system. The role of the owner is essential in allowing the internal market to function. The importance of the role of the owner was underestimated for a long time; it is, however, the oil in the machinery. The owner approves the cost price model, agrees with investment policy and risk policy, and safeguards the quality of the management control system. Transparency is a key factor in the working of the agency model. Table 1 provides a useful summary of these roles.

Table 1. Types of roles

Type of roles	Holder of the role
1. Contractor (agency)	The implementing service
2. Owner	The (deputy) secretary-general
3. Principal	The policy department
4. Supervisor	Management staffs (among other): <ul style="list-style-type: none"> • Financial-economic affairs • Internal audit division
5. Client	Those who purchase products and services: <ul style="list-style-type: none"> • Citizens or a cross-section of citizens • Principal (internal client)
6. Banker	Ministry of Finance

The second form of differentiation is *administrative differentiation*. Up until recently, agencies were the only services that made use of accrual accounting instead of commitment-cash accounting. This involves, among other things, creating reserves; drawing up a balance, a cash-flow review and a profit-and-loss account; the creation and maintenance of internal capital. Accrual accounting provides better opportunities for determining cost prices than the commitment-cash accounting system.

1.3. Size of agency sector

As of 1 January 2001 there were 23 agencies linked to the Dutch central Government. The first agencies came into being on 1 January 1994. Table 2 contains a summary of government tasks being implemented by agencies. It also shows in which year each agency was set up and under which ministry it resides, and its turnover and internal capital.

A pattern is starting to crystallise with regard to services that become agencies. These are implementing services and inspectorates. As the agency creation movement is not over yet, a growing number of these services are being privatised internally into agencies. Some inspectorates are being privatised externally into ZBOs. This is the case when a restriction in ministerial accountability is advisable. At the same time it is sometimes the case that a ZBO that had been put at too great a distance is reinstated as an agency within the boundaries of a ministry.

What will remain within the ministries – in the long-term – is a nucleus involving policy that does not seem suited to the agency model. At the moment the Netherlands is on the threshold of a spate of new agencies. Large services such as the Tax Authorities, the Crown Lands Services and the government Department for the Inspection of Livestock and Meat will obtain this status in the near future.

Table 2. Summary of government tasks implemented by agencies

Ministry	Name of agency
Ministry of Foreign Affairs	Centre for promoting imports from developing countries (1998).
Ministry of Justice	Immigration and Naturalisation Service (1994), Judicial Institutions Department (1995), Central Justice Collection Agency (1996).
Ministry of Internal Affairs	Public Servants Information Department (1995), Central Archive Selection Department (1997), Organisation for Information and Communication Technology (1998), National Police Force (1998), Personal Details and Travelling Documents Record Department (1999)
Ministry of Education, Culture and Science	Central Finances Institutions (1996), National Archives Department (1996).
Ministry of Defence	Buildings Works and Grounds Department (1996), Defence Telematics Organisation (1998).
Ministry of Public Housing, Spatial Planning and Environmental Management	National Buildings Department (1999).
Ministry of Transport, Public Works and Water Management	Royal Netherlands Meteorological Institute (1995), Radio Communication Department (1996).
Ministry of Economic Affairs	Sender (1994), Economic Information Department (2001).
Ministry of Agriculture, Nature Management and Fisheries	Plant Protection Services (1994), Collection Office (1998), Laser (1999).
Ministry of Health, Welfare and Sport	Medicine Assessment Board (1996), Inspectorate for Health Protection, Goods and Veterinary Affairs (2000).

There are even plans, for example, for the Department of Public Works and the Public Prosecutor's Department to possibly become agencies in the future.

The share agencies have in the total national budget can be measured according to two criteria, *i.e.* the number of employees, and the level of expenses or expenditure. Each criterion gives a totally different picture in the Netherlands.

Looking at the number of employees, on 1 January 2001 agencies had approximately 30% share in the total civil service. Taking anticipated growth into account, this share is expected to increase to 80% by the end of 2004. On the one hand, this is due to the creation of new agencies (including the Tax Authorities which employ 20% of all civil servants). On the other hand, this is due to the cutbacks in the civil service as a whole. The Central Statistical Office, for example, is going to be turned into an independent administrative body and will no longer be considered part of the civil service.

The level of expense of agencies in comparison with the expenditure of the national budget paints a completely different picture. At 1 January 2001 the share was approximately 4% and will be between 5-10% at the end of 2004. This can be explained by the distinction between expenditure on apparatus and expenditure on programmes. The agencies only spend on apparatus (personnel and material). The funds for programmes are still the responsibility of the policy departments. For example, there is an agency that provides subsidies (programme-expenditure). Depletion in terms of expenditure is settled up with the relevant policy department. The only exception at the moment is the Government Buildings Services, whereby the stockpile of buildings has been brought under the responsibility of the agency.

1.4. Size of ZBO sector

As already indicated the ZBO sector is not as uniform as the agency sector. The numbers in Table 3 are based on clusters of institutions.

Table 3. Size of the ZBO sector

ZBO Form	Number
ZBO governed by public law – part of state	55
ZBO governed by public law – independent from state	77
ZBO governed by civil law	207

Examples of public law ZBOs that are part of the state are the Electoral Council, the Commission for Equal Treatment, the Rent Tribunals and the Central Agency for the Reception of Asylum Seekers. Likewise there are examples of public law ZBOs that do not belong to the state: the Information Management Group, National Forest Service Netherlands and the Land Registry. Examples of civil law ZBOs are the Securities Board of the Netherlands, the Dutch Central Bank, the Netherlands Probation and After-Care Foundation and the Periodic Motor Vehicle Test Inspection Centres.

Finally it is important to mention that funding methods can differ. Some ZBOs are funded from a ministry budget, and some from collection of national insurance contributions, or tariffs.

2. Legal and organisational framework

In the Netherlands the relevant procedures and rules of accountability between the professional ministry, the Ministry of Finance, the Netherlands

Chamber of Audit and the States-General are stipulated in the Government Accounting Act. Further elaboration is contained in the national budget regulations. Establishing agencies and ZBOs is regulated according to a single article in the Government Accounting Act. This states that all forms of privatisation must take place with the approval of the Ministers of Finance and Home Affairs. After their approval and following its consideration by the Council of Ministers, a privatisation plan is sent to the Lower House. The Lower House then has 30 days in which to ask questions or to organise a general discussion. If they do not do this, agreement is automatic after these 30 days.

Apart from this law, a number of other regulations are also pertinent both for establishment and for general functioning. There is, for example, a regulation on conditions with regard to capital, which regulates the realisation of posts in the opening balance and lays down norms for internal capital. There is also a loan and deposit facility regulation, containing rules for using an internal power to take out loans and make deposits. The national budget regulations contain the relevant requirements with a view to the planning and control cycle of the parent ministry. At the moment a regulation is being drafted for rules on reporting, in which reporting (national and international) is polarised towards central government. It precludes a number of alternatives.

Establishment procedures apply in addition to laws and legislation. These lay down requirements which must be fulfilled by a potential agency in order to obtain the formal status of agency. To what extent this is the case is determined by the Council of Ministers, based on the advice of a supervisory privatisation team comprised of experts from the Ministry of Finance and from the Ministry of Home Affairs and Royal Relations. These requirements include:

1. *Having an unambiguous management model.* The environment is mapped out in terms of roles (owner, principal, contractor, banker, client, supervisor) and responsibilities (decisions, payment and earnings). In addition financial flows and data flows are coupled to this. This condition is intended at setting up an unequivocal management model for agencies.
2. *Having measurable products, services and quality indicators.* The criteria provide clarity regarding the possibility of results-oriented management in the agency.
3. *Describing the operational processes.* The description must clarify the connection between the internal planning and monitoring cycle, the identified products and services and the applicable cost prices.
4. *Setting up a cost price model which links the identified products and services with the expenditure ascribed to the periods.* The cost price model offers insight into the possibility of offering products and services cost effectively.

5. *Establishing a system promoting efficiency which clearly states from the start the indicators on which to base assessment of efficiency in the results-oriented management model combined with the revenues and charges system.*
6. *Having an internal, results-oriented planning and control cycle and harmonised external planning and control cycle.* It is necessary that management and control rules by the agency are in line with those of the parent ministry.
7. *Formulating policy with regard to risk.* The aim is to agree in advance on possible risks and clarify responsibilities of both the parent ministry and the agency.
8. *Drawing up an opening balance scenario in order to decrease the risk of late or incomplete completion of the opening balance.*
9. *Drawing up a plan for getting financial management up to scratch.* The objective is to ensure that financial management is adequate for a results-oriented management model and that necessary measures for its improvement are clearly stated. Agencies are required to have a more sophisticated financial management than ministries.
10. *Having a statement of approval from an accountant.* Although it does not provide any real guarantees on the structure of financial management, it is a condition of financial management requested by the Lower Chamber. The absence of the report usually means that the improvements to be made are so extensive that there would not be enough time to implement them.
11. *Having had a trial run in a results-oriented management in order to ensure the accuracy of products and services which have been identified for the internal and external planning and monitoring cycles.*
12. *Having undergone a trial run with accrual accounting in order to ensure some experience of modern accounting has been acquired so that the chances of major problems in financial management are reduced.*

Much of this legislation has not yet been drawn up for ZBOs. Though it is true that establishing ZBOs falls under the Government Accounting Act, the national budget regulations do not apply. Some necessary changes have been taking place since 2000. For example, a bill has been drafted for using a directive to oblige ZBOs to maintain their liquid assets in the Treasury and that makes a loan facility available to them via the Treasury. Until then the ZBOs could borrow and lend money in the private sector. Because they use public resources, and central government can, by definition, borrow at the cheapest rates, this possibility has been removed. Draft framework legislation is also underway giving pointers as to what the rules should be for establishing a ZBO, and at the very least what they should be regarding ministerial responsibilities and ZBO reporting mechanisms to the parent ministry.

The creation of an agency or a ZBO needs to be approved by the Lower House of Parliament. This is preceded by an evaluation by the Ministers of Finance and Home Affairs and the approval of the Council of Ministers. Agencies are thus set up by means of a resolution and ZBOs by means of legislation. The reason for this difference lies in the fact that ministerial accountability is limited in the ZBOs and the States-General has to approve this.

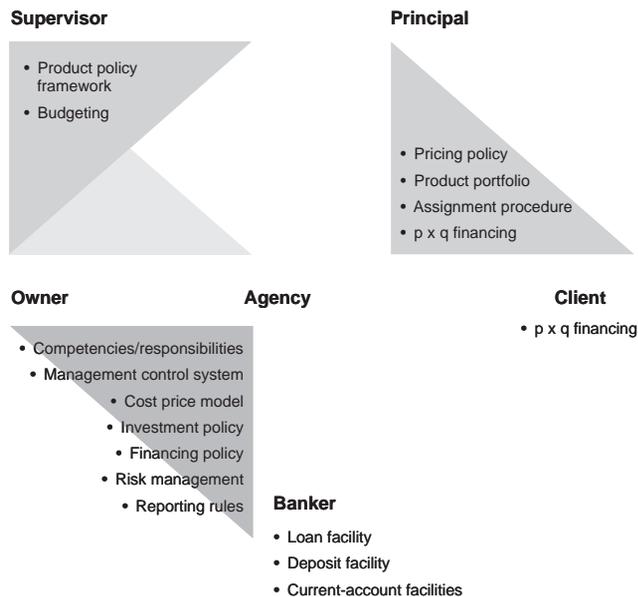
In June 2001, the Minister of Finance indicated in the Lower Chamber that the establishment rules for agencies will be applied as much as possible to the establishment of new ZBOs, at least to ZBOs that are funded collectively. However, the establishment of the steering relationship between ZBOs and the parent ministry has to take into account the need to provide a certain autonomy and independence to ZBOs, which is the very reason for their establishment.

3. Governance structure

3.1. Roles of owner, principal, contractor, client, banker and supervisor

An agency's relationship with its parent ministry is determined by the functions determined in the agency model *i.e.* the roles of owner, principal, contractor (= agency), client, banker and supervisor. This is shown schematically in Figure 2.

Figure 2. Roles of owner, principal, contractor, client, banker and supervisor



The role of owner is generally filled by the (deputy) secretary-general of the parent ministry. It is important that the owner approves agency policies on investment, finance and risk, as well as the cost price model and the management control system, and, where appropriate, the regulations on reporting. The owner can obtain advice from all types of management staff (such as financial/economic affairs, internal audit division and the personnel department). The division of responsibilities and powers and the internally relevant agreements will be laid down in a separate covenant.

The role of the client often rests upon a citizen or a cross-section of citizens in society. The client purchases products and services. Cabinet policy is that this should, in principle, take place cost-effectively. When there are policy reasons for departing from this, then the difference is charged to the contractor since the agency must recoup all its costs. In that case the customer and commissioner bear the cost price jointly. Clients, however, may not always be outside central government. For example, the Government Buildings Services have the ministries themselves as clients. Some agencies have a board of clients in order to communicate with clients about their range of products.

The role of principal is generally filled by a policy department of the parent ministry. The principal determines the agency's tasks that are aimed at realising the policy objectives of the policy department.

The Ministry of Finance fulfils the role of banker. Investments approved by the owner will be provided in the form of interest-bearing loans, which need to be repaid. The banker is only interested in receiving the interest due and the repayment.

The role of supervisor is a double role: 1) Supervision of the operational management of the agency. Every minister has various management staff (such as financial-economic affairs, internal audit division and the personnel department) who supervise operational management on behalf of the owner; 2) Supervising the implementation of policy is, in principle, in the hands of the principal. In some cases, supervision might be arranged separately, possibly even outside the boundaries of a ministry.

3.2. *Governing structure and appointment mechanisms*

Agencies are part of ministries. Their staff and management are largely the same. A director is in charge, or in a number of cases – very large services – a director-general (Government Buildings Services, Tax Authorities and Department of Public Works). There is no Governing Board or Board of Directors. The same applies more or less to the ZBOs.

The rules governing the appointment of executive positions within the agencies are identical to those for other ministry departments. These appointments fall under the responsibility of the secretary-general of a ministry. In practice one

sees that the management of agencies participates in mobility planning within the ministry. The conditions of employment for these executives are the same as those for other civil servants. There is no special regime. Within the agencies it is possible to work with special incentive policies, which do not have to fit the incentives framework of the ministry. Employment conditions can be different in ZBOs. When this is the case, it is recorded in the law establishing them. A number of laws establishing ZBOs explicitly state that their employment conditions are the same as those for civil servants. This is to avoid employment conditions being taken into consideration as improper arguments (from a control point of view) in decision-making on the most suitable management-organisational style.

Salary levels of agency executives are the same as those in ministries. The conditions of employment have been laid down in regulations. A study was carried out in the year 2000 to find out whether the salary scales of agency executives were in proper proportion to the scales in policy departments. A number of adjustments were recommended in order to put salaries into a similar position. Other benefits are very similar also, and they clearly differ from those in private industry. The attribution of a company car, for example, is a rare occurrence. Salaries and other benefits are public information.

4. Resources and budget process

Before having an agency status, services used input budgeting and received a lump sum budget from parent departments. Ideally, once they have agency status, agencies have to put in place output budgeting, and have to cover all their costs with the sale of products and services.

Agencies which have been created since 1 January 2000 satisfy this approach. However, this ideal has not yet been achieved for a large proportion of agencies. Internal management is based on output management. However, most of their funding still often comes from the attribution of a lump sum by parent ministries. In some cases, income is also obtained from other ministries. This is referred to as working for second parties.

A very limited amount of work is done for third parties. This refers to income obtained from contractors other than central government. This type of income often involves competition with private industry. This is not considered advisable. Instructions on the market and government stipulate in which situations this may be done and how one should enter into competition (including cost price calculation). For example, the Royal Dutch Meteorological Institute was forced to divest itself of commercial weather forecasting in favour of the market.

An agency is part of a ministry. Communication with Parliament takes place as an inherent component of the parent ministry's communication. For example, the budget and accountability of the agency are a component of the budget and

accountability of the parent ministry. It includes as many achievement indicators as possible to give an impression of how a given agency is performing.

ZBOs cannot be treated as a uniform group. Some of the budget of ZBOs partially or entirely comes from the contribution from parent ministries, so they are controlled through the usual budget process. For ZBOs whose budget comes from their own cost recovery processes, the parent ministry approved the level and nature of these fees, tariffs, premiums, etc.

5. Policy coherence, oversight and accountability mechanisms

5.1. Maintaining policy coherence

The issue of maintaining policy co-ordination is of a different scope for agencies and ZBOs. There is no problem maintaining policy coherence with agencies. The exchange of information between the policy department placing the order and the agency, both with regard to fulfilling orders and with regard to providing the policy department with the information it wants, is laid down in a covenant. This covenant can be adjusted if necessary. It is not an act or legislation.

The question is more complex in the case of the ZBOs. Formally, information exchanges as well as monitoring and control processes should be regulated in the legislation regulating their establishment. This is not always the case, which leads to some shortcomings in information exchanges and monitoring. An amendment in the law is then necessary, or the minister has to issue a directive. Both are seen as weighty management measures and are therefore employed only in exceptional cases.

5.2. Reporting systems

Reporting and control systems of agencies are part of the general management control systems of the parent ministry. This does not apply to ZBOs. In general, the act establishing ZBOs stipulates that their annual accounts need to be checked by an external accountant and presented to the parent ministry. In special cases a parent ministry can request specific supplementary information. Supervision of the activities of a ZBO is mostly carried out by the policy department and sometimes independently of a ministry. This was the case at least for a long time for social security and it is still the case for health care.

The Minister of Finance has a supervisory role over other ministries for budget preparation and implementation, accounting, and budget control. The supervision of ZBOs is organised indirectly. From the point of view of individual ministerial accountability, each minister is responsible for his own ZBO. In supervising the other ministries, the Ministry of Finance supervises the ZBOs of these other ministries.

5.3. Performance

The performance of agencies is determined through evaluations. These evaluations check to what extent the agencies still fulfil the conditions of their establishment, to what extent there exist some efficiency gains, etc. Annual performance indicators are used to measure the achievements of the goals laid down by the policy departments.

Agencies have Strategic Plans and Business Plans. A great deal of variety exists on the extent to which performance and budget are linked. It is only in the most recently established agencies which use performance budgeting methods that budgets and performance are directly related to one another.

If conflict over performance arises between an agency and the policy department placing an order, this is resolved by the (deputy) secretary-general in his role as owner.

5.4. External scrutiny

There is no direct relationship with Parliament. The provision of information takes place primarily via the budget and the parent ministry's Annual Report. Control over the agency is performed by the internal audit division or by external accountants by order of the responsible minister. The Netherlands Chamber of Audit supervises the quality of financial management and accountability.

Regulations on the means of challenging decisions made by agencies or obtaining redress from administrative authorities are no different from those for the normal ministry departments.

6. Evaluation, lessons learnt and recent developments

Most agencies developed from a situation in which input management was the central management philosophy. The strengths and weaknesses both involve primarily the culture of the organisation. If the culture is open to change and business-like then it is possible to introduce a results-oriented management model. In addition, the type of task carried out must be appropriate. Tasks with measurable products (and fairly mass-production in nature) are usually a sound basis for the implementation of results-oriented management.

When an agency is established, an evaluation condition is included in the statute. The idea behind this is not to threaten ending the status of agency. It is up to the parent ministry itself to formulate any consequences involving personnel. For the rest, the approach is not different from regular departments. When agencies do not fulfil their performance targets, the main sanction is that the results of the evaluation are made public. When problems appear, the States-General will demand a plan for solving it quickly, often on the advice of the Netherlands Chamber

of Audit. At the moment, dismantling agencies is no longer an option. The idea is to get the whole government apparatus to work in a more target-oriented way (report: "From Budget Policy to Accounting for Policy" [*Van beleidsbegroting tot beleidsverantwoording*]). Furthermore, the decision has been taken that in principle the whole government should work towards implementing accrual accounting. This should reduce the distance between the better and poorer performers.

For ZBOs it may be recorded in the Establishment Act that the minister is authorised to appoint and dismiss administrators. Reversing the status of a ZBO does occur. The extent of ministerial accountability is the determining factor here. This can be altered over time. For example, in the first quarter of 2001, the decision was made to withdraw two ZBOs, the Supervisory Committee for Social Insurance and the European Social Fund model. Likewise a foundation was recently recalled by the Minister of Justice (Foundation Study Centre for the Administration of Justice) and a private limited company by the Minister of Economic Affairs.

By formulating performance indicators, an attempt is made each year to measure progress in realising the aims of the agencies. This is not possible in all cases and an evaluation of the agency is then required. In practice, however, it has proven very difficult to find out whether or not the aims of the agency have been realised. The explanation is often that the definition of products, services and quality indicators were altered shortly after the agency was established. Managing in a results-oriented way seems to require different points of application. To improve this, nowadays a trial run in a results-oriented management model is required prior to commencing. For the rest, the first government-encompassing evaluation showed clear signs that individual agencies are achieving efficiency profits and quality improvements.

Apart from the evaluation of individual agencies, a government-encompassing evaluation of the agency model is carried out once every four years. This evaluation is supposed to show to what extent the existing agencies are functioning efficiently and what adjustments to the agency model are necessary. The results of this government-encompassing evaluation are presented to Parliament's Lower House.

6.1. Recent developments

Based on the first government-encompassing evaluation of the agency model in 1998, a number of large adjustments have been carried out. These are summarised below. It is important to keep in mind that the main budget system in the Netherlands is still integrated commitment-cash accounting and that accrual accounting can only be implemented at the level of agencies (as components of ministries) and ZBOs.

- *Strengthening the requirements for establishing agencies.* In the beginning there were three requirements that the agencies needed to fulfil. They included having :
 - 1) identifiable products and services;
 - 2) more efficient working methods;
 - 3) a statement of approval from an accountant.

These requirements were an insufficient incentive prior to the start for an agency to achieve immediate maximum quality improvements. After the start, therefore, another sizeable increase in quality was still necessary. Following criticism from the Netherlands Chamber of Audit and Parliament about the functioning of these services, the requirements were made more concrete and checking the fulfilment of these requirements by the Ministries of Finance and Internal Affairs was tightened up (for details on new requirements, please refer to Section 2).

- *Introduction of a facility for loans and deposits.* Accrual accounting was incomplete at the introduction of the agency model. Investments – both for replacement and expansion – had to be funded from their internal capital. There were seldom sufficient reserves, which meant that the parent ministry had to find funds from its own budget, which did not always take place in the year that would have been optimal for investment. This involved the agency in the management of input and results. When the actual EMU balance had sufficient funds according to the 3% norm (1998), it was decided to introduce a loan facility, so that agencies could borrow directly from the Ministry of Finance for their investments. The loan facility is only available for financing assets and not for corporate finance. Agencies pay interest on loans at market prices. Its counterpart, a deposit facility, was also introduced, under which temporary surplus means can be set aside at interests conforming to market rates.
- *Regulating the financial starting point.* Negotiations on the internal capital that the agency was to receive from the parent ministry always took place when the agency was established. The negotiations over this allocation were complicated. Discussions about passing on historical depreciation were held because there were no opportunities for investment loans. Agencies now purchase the balance of long-term possessions of the parent ministry, and finance this with a loan from the Ministry of Finance. The initial burden of interest is reimbursed to the contractor. The net working capital is also purchased. A positive net working capital is paid back in the first year of existence. If the net working capital is negative, then there is a claim on the parent ministry. In this way internal capital remains zero.

- *Maximising the agency's own capital.* Lower and upper limits have been laid down for the size of an agency's internal capital. Internal capital is only intended to fulfil a buffer function. The loan facility has superseded the financing function. An agency's internal capital may not exceed 5% of the average turnover during the past three years. This is to stimulate agencies to allow profits to flow back towards the customers (often citizens) or the contractors (policy departments within the parent ministry). After all, agencies are attempting to be self-supporting, but not profit-making. Too high an internal capital can be reduced by a single dividend payment to the owner (the secretary-general of the parent ministry) or by tariff reduction. Too low an internal capital – in any case when it is negative – must be replenished by tariff increases or a single exceptional contribution from the owner.
- *Increased attention to management control.* In recent years, the Netherlands Chamber of Audit has expressed a great deal of criticism about the quality of financial management of the agencies. It is true that it is more sophisticated than financial management in ministries (which still apply commitment-cash accounting and input management), but there is room for improvement. Attention has now been broadened to include operational management, with respect to ensuring that all primary and supporting processes are in control. Implementation of this approach has already made the most progress in the agencies and is being perfected.
- *Introduction of the status of temporary agency.* A recent development (March 2001) is that some ZBOs have been drawn back under ministerial responsibility. These organisations already use accrual accounting and plan to work according to the results-oriented management model of the agencies. In general they do not fulfil the set-up requirements with regard to a results-oriented management model. Because it would not be efficient to abolish accrual accounting first and then reintroduce it when the set-up requirements have been met, they have been given a temporary status. This means that these requirements must be met within a maximum period of three years. In order to achieve this, representatives of the Ministries of Finance and Home Affairs draw up an inception screening and a plan of approach.
- *Assistance for the different aspects of the change process.* The conversion to an agency involves a complex change process. To support this, plans for assistance have been drawn up and best practices collected by the Ministry of Finance. These relate to, among other things, change management, finance, the evaluation and the various establishment stipulations (step-by-step plan for steering model formulation, step-by-step plan for the identification of products and services, drafting of step-by-step plan for risk policy, plan of approach for financial management, scenario opening balance, risk analysis of the change process and the quality of the financial function).

In contrast to the agency model, ZBOs have benefited from far less attention, but this should change in the next few years. Recent adjustments to ZBOs have included an increased attention to operational management of ZBOs. When establishing a ZBO, most attention is paid to the Establishment Act. The operational management of ZBOs is not an essential point for attention. Because considerations involving control play a role more frequently in the decision to form a ZBO, it is now being given more attention. An establishment procedure similar to the agencies is being considered. This approach is being adopted in transforming the Central Statistical Office.

The three most important lessons to be learned from the creation and management of agencies are:

- *The creation of agencies is an important stimulus for results-oriented operating.* Working according to results is a process that can be taken in various steps. Going through this process improves the transparency of relationships and increases professionalism. In the Netherlands an agency is characterised as a results-oriented management model in combination with the use of accrual accounting. The emphasis is placed upon introducing a results-oriented management model. The accrual accounting system is thereby instrumental.
- *Getting the surroundings of the agency to change as well is an important factor of success.* There is, on the part of would-be agencies, a willingness to change. However, this will not succeed if the surroundings of an agency (in particular the policy department which places the orders) fail to change. If the policy department continues its input-oriented management, then managing an agency according to a results-oriented management model only leads to frustration. This is a problem that was encountered with the first agencies created.
- *Becoming an agency is a complex and time-consuming process of change.* Becoming an agency does not take place overnight. Organisations that have gone a long way in introducing results-oriented elements into their management can make the switch responsibly in two to three years. Organisations with a poorer starting position will sometimes follow a transitional path that will take a few more years. It is important not to rush the changes in order to guarantee cultural change within an organisation.

OECD Journal on Budgeting

Volume 2 – No. 1



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973), Mexico (18th May 1994), the Czech Republic (21st December 1995), Hungary (7th May 1996), Poland (22nd November 1996), Korea (12th December 1996) and the Slovak Republic (14th December 2000). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).

Publié en français sous le titre :
REVUE DE L'OCDE SUR LA GESTION BUDGÉTAIRE
Volume 2 – N° 1

© OECD 2002

Permission to reproduce a portion of this work for non-commercial purposes or classroom use should be obtained through the Centre français d'exploitation du droit de copie (CFC), 20, rue des Grands-Augustins, 75006 Paris, France, tel. (33-1) 44 07 47 70, fax (33-1) 46 34 67 19, for every country except the United States. In the United States permission should be obtained through the Copyright Clearance Center, Customer Service, (508)750-8400, 222 Rosewood Drive, Danvers, MA 01923 USA, or CCC Online: www.copyright.com. All other applications for permission to reproduce or translate all or part of this book should be made to OECD Publications, 2, rue André-Pascal, 75775 Paris Cedex 16, France.

Foreword

The OECD *Journal on Budgeting* is a new and unique resource for policy-makers, officials and researchers in public sector budgeting. Drawing on the best of the recent work of the OECD Working Party of Senior Budget Officials, as well as special contributions from finance ministries of Member countries and others, the *Journal* provides insights on leading-edge institutional arrangements, systems and instruments for the effective and efficient allocation and management of resources in the public sector.

We regret we are unable to take unsolicited contributions to the *Journal*. We are, however, anxious to receive feedback from our readers. Your views on how to improve the *Journal* are welcome and can be sent to: The Editors, The OECD Journal on Budgeting, OECD, 2, rue André-Pascal, 75775 Paris Cedex 16, France. Fax: (33 1) 45 24 17 06; email: pum.contact@oecd.org.

The views expressed are those of the authors and do not commit or necessarily reflect those of governments of OECD Member countries.

The Editors.

OECD PUBLIC MANAGEMENT SERVICE

Odile Sallard

Director

Alex Matheson

Head of Budgeting and Management Division

Andrea Uhrhammer

Communications and Information Manager

OECD JOURNAL ON BUDGETING

Jón R. Blöndal

Editor-in-Chief

Jennifer Gardner

Managing Editor

Marie Murphy

Administrative Co-ordinator

BOARD OF ADVISERS

Geert van Maanen (Chairman)

Secretary-General, Ministry of Finance, The Netherlands

Gerd Ehlers

Director of the Budget, Ministry of Finance, Germany

Richard Emery

Assistant Director, Office of Management and Budget, United States

Eva Lindstrom

Director of the Budget, Ministry of Finance, Sweden

Sophie Mahieux

Director of the Budget, Ministry of Economy, Finance and Industry, France

Peter Saurer

Deputy Director, Federal Finance Administration, Switzerland

Table of Contents

Agencies in Search of Principles By <i>Allen Schick</i>	7
Signposting the Zoo – From Agencification to a More Principled Choice of Government Organisational Forms By <i>Derek Gill</i>	27
Distributed Public Governance: Agencies, Authorities and Other Autonomous Bodies in Canada By <i>Toby Fyfe</i> and <i>Tom Fitzpatrick</i>	81
Distributed Public Governance: Agencies, Authorities and Other Autonomous Bodies in the Netherlands By <i>Ronald Van Oosterom</i>	103
Understanding the Waves of Agencification and the Governance Problems They Have Raised in Central and Eastern European Countries by <i>Miroslav Beblavý</i>	121