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Statement to Parliament 24.01.02

Modernizing the public sector in Norway

– making it more efficient and user-oriented



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The Minister of Labour and
Government Administration,
Victor D. Norman's Statement
to Parliament 24.01.02

The public sector is responsible for the most important tasks in society – healthcare, education, environment, employment, security and social justice. This responsibility is not to be taken lightly. If we manage to fulfil these tasks, we will ensure the welfare and security of individuals. If we fail, however, we risk exposing individuals to unnecessary difficulties, – at worst we may cause personal tragedies.

Unfortunately, there is still a large gap between ambition and reality. Although public consumption in Norway is among the highest in Europe, and the number of employees in the public sector has increased by almost 200 000 during the last 15 years, we still have waiting lists for hospital treatment and child care, deficiencies in care of the elderly, unsatisfactory standards of quality in schools, and unmotivated employees. Interest and participation in political issues are declining, businesses face bureaucracy and legislative obstacles, and taxpayers feel that they are not getting their money's worth in terms of public services.

On the other hand, the Norwegian public administration has a strong tradition of objectivity and professionalism, and there are competent and well qualified employees at all levels of the public sector. The distance between individuals and the political decision-makers is relatively short. Norway has the financial strength that gives us the time and opportunity to improve the public sector and to give the individual better public services.

The public sector in Norway accounts for almost a quarter of mainland investment and a third of the labour force. Those who work in the public sector do an important job and contribute to our society in the same way as those who work in the private sector. However, every employee in the public sector means one less employee available to business and industry – not a helpful factor to a private sector that faces a shortage of labour and expertise in the decades to come.

The use of labour and other resources in the public sector costs more than it does in the private sector. The reason for this is that the public use of resources is financed through taxes, which creates distortion and inefficiency in other parts of the economy. Each extra krone of public expenditure therefore in reality costs more than a single krone, and the larger the public sector the more it costs to let it grow.

It is necessary to review and clarify how far public responsibility should go. Reviewing the boundaries of public responsibility, however, does not alter the general consensus in Norway that the public sector must have a broad and comprehensive responsibility for developments in society, social security and individual welfare. This means that the public sector will continue to use a large part of the available resources. Given the increasing need for health care services, it is more likely that the share of goods and services for which the public sector is responsible will increase, rather than decline. This makes it even more important that national and municipal authorities are efficient. Efficiency means attaining the goals that have been set in the best and most cost-efficient way. If we are to fulfil our commitments, this must be the norm for the public administration and the services it provides.

Efforts have been made to renew and re-organize the public sector, but unfortunately there has been more discussion than action. And what we need now is action. We have to deal with the core problems, and our approach must be firm and consistent. We will continue the structural changes initiated by previous governments, and avoid symbolic gestures and ad hoc interventions. Our main approach will be to trigger action in all sectors, agencies, municipalities and service producers that constitute the Norwegian public sector. The modernization must be carried out in each and every unit, and only by giving these units appropriate conditions we will achieve results.

The coalition government's vision

is a public sector where:

- citizens participate in democratic arenas, know their rights and responsibilities, and experience that the authorities conduct themselves in a clear and consistent way.
- users have equal access to readily available services of a high standard that are adapted to individual needs.
- taxpayers are confident that public sector activities are run efficiently.
- businesses experience the public administration as orderly and unbureaucratic, and where the standard of public services represents a competitive advantage internationally.
- employees have interesting and challenging jobs that allow for personal development and a sense of participation and job security.

This is a demanding vision, but it is also a necessary and realistic one. If we are to realize it, we must create a less complex public sector, provide public services that are adapted to individual needs, make the public sector more efficient and ensure that it contributes to efficiency in the rest of the economy, and develop a human resource policy for those who work there. The vision also requires a modernization of the division of labour between central and local government authorities in which the state provides appropriate operating parameters for local government, and ensures that locally elected representatives have a decisive say in what goes on in their own spheres of responsibility.

A less complex public sector

Our efforts to achieve a less complex public sector are based on three principles.

The first is that users of public services should not have to be familiar with the internal organization of public bodies. One-stop shops and electronic administration are useful instruments in this regard. These must, however,

Public service shops will serve as user-oriented entry ports cutting across agencies and administrative levels.

serve as user-oriented entry ports that cut across agencies and administrative levels.

Services related to employment, social security and social welfare, will be merged and coordinated.

In some fields, such as employment, social security and social welfare services, a more thorough re-organization is called for. This includes the merging of

individually oriented services, the coordination of service units and financing arrangements.

The second principle is that citizens and companies are entitled to a consistent system of rules and easy access to information about their rights. In order to achieve this, we must review laws and regulations. The sunset principle, i.e. that regulations automatically expire

The sunset principle and simplification will help ensure a consistent system of rules and easy access to information.

on a specific date unless they are renewed, is a useful approach in this process.

The third principle is that citizens and users feel confident that the public sector maintains a sound division between its various roles – as authority, owner, service provider, source of financing and control body – and that we know which agency is responsible for what.

Consolidating and reducing ownership interests will contribute to a sound division between the various roles of the public sector.

Consolidating and reducing ownership interests are important steps in this direction. Another important step is to distinguish more clearly between administration and service provision, and between responsibility for the financing of public services and the actual production of these services. These distinctions are important, among other things because they allow for the possibility of exposing service production to competition and also so

that the agency financing a service can impose requirements on the provider. A third important step is to strengthen public supervisory authorities and give them a more independent position in relation to the central government administration.

A clearer distinction between administration, financing and the providing of services will be made.

The Government is currently in the process of reviewing and re-organizing state supervisory activities and will submit a white paper to Parliament (Storting) in the course of 2002. The purpose of the review is to strengthen the supervisory and control functions, to make the supervisory authorities more independent, and to ensure that they have a high standard of expertise. It is also to find appropriate geographical locations for the various supervisory bodies.

All state supervisory activities will be reviewed for appropriate location and the strengthening of independence.

Public services adapted to individual needs

The need for public services varies from individual to individual. The Government considers it important to adjust services, within reasonable bounds, to individual needs and desires, whether these are for day-care adapted to parents who work shifts, the desire to attend a particular school, adapting schools and workplaces to cater for the needs of the disabled, the desire to be treated at a particular hospital, or the need of an elderly person for a particular type of care. It is also important to take account of the fact that Norway is becoming more and more multicultural, and that public services must therefore meet the needs of a diverse population.

In order to meet the users' individual needs, the Government wants to increase freedom of choice, for example by extended use of vouchers, by developing more differentiated service units, and by requiring public agencies and service providers to carry out systematic user surveys. The results of such surveys will be used as part of the annual reporting system, and as a reference and basis for comparison between service providers.

In order to meet the users' individual needs, the Government wants to increase freedom of choice, for example by extended use of vouchers and user surveys.

At the same time, service production must be re-organized. At present it is too heavily influenced by the administrative and control system. Forms of organization and leadership, reporting procedures, budget systems and control routines are all based on the administration's needs, and the emphasis is on ideals such as transparency, democratic participation and political control. But a sound principle for an administration is not necessarily a sound principle for the delivery of services. A hierarchical organization is convenient from an administrative point of view but is difficult to combine with teamwork, user influence and other service ideals. Transparency may come into conflict with confidentiality, and rigid budget and control systems are not consistent with the flexibility necessary for meeting individual desires and needs.

A clearer division between administration and the delivery of services will make it possible to choose more flexible, user-oriented organizational models for public service providers. This will make agencies more independent and allow the individual agency to develop the most appropriate organizational model.

More autonomy for service providers and greater individual adaptation of services will lead to a greater differ-

More flexible and user-oriented organizational models for public service providers. | tiation of services between individuals, groups and geographical areas. This will not be a disadvantage; on the contrary, it will reflect more closely the differences in individual desires and needs, and the differences in local priorities.

An efficient public sector

Our third main goal is an efficient public sector.

We must reallocate resources to get more and better services for every krone spent. In order to achieve this, the Government will introduce a requirement for estimates of total costs in connection with tenders, investments and major re-organizations of service provision. By total costs we mean the sum of the costs for the provider of the service, the resulting cost or saving for other parts of the public sector, and the costs incurred by the user

when making use of the service. For many public services, such as education and health, the total costs are considerably higher than the cost to the government agency concerned.

Requirements for estimates of total costs in connection with tenders, investments and major re-organizations of service provision will be introduced.

Total costs estimates will make the effects of measures and the consequences of decisions more visible. For example, the authorities will avoid centralizing schools in cases where the municipality saves less than the extra costs inflicted on children and parents in terms of time and transport. Similarly, the authorities will be able to increase the treatment capacity for diseases in cases where the extra cost of rapid treatment is more than compensated by the benefits to the patient and the National Insurance Services of a shorter waiting time for treatment.

There are two different paths to more efficient performance and greater cost effectiveness. One leads through centralized control, larger units and nice-looking organizational charts. This has been tried, and it has not led anywhere. The other leads through delegation and decentralization of authority and responsibility, economic incentives and independent quality control. This alternative provides a greater variety of solutions and thus a less streamlined organizational chart, but on the other hand it results in better and less costly services for the public.

The main principles underlying the efforts to promote efficiency are delegation and decentralization.

This is because the insight and expertise that are necessary in order to find the best solutions lie with the individual municipalities, service producers and government agencies. The main task for the central government authorities must be to liberate this expertise and ensure that local bodies are given operating parameters that promote efficiency, combined with the necessary training and guidance.

The main principle underlying these efforts to promote efficiency will thus be local freedom and local responsibility. Public providers of services will be made more independent, as has already been done for hospitals, and as Parliament has decided to do for colleges and universities.

Municipal and county service producers will also benefit from being more independent. However, it must

Providers of public services will be granted greater autonomy. | be left to the locally elected representatives to choose solutions that are appropriate and efficient. The Government intends to give the counties and municipalities more autonomy to choose how their services should be organized and supplied. It also

The counties and municipalities will get more independence with regard to their organization, services and influence on their level of income. | intends to give them more independence in determining how state transfers of funds should be administered as well as more influence on their level of income.

More independence for local government and for state service providers, greater freedom of choice for users, and a larger number of voucher schemes will lead to greater competition between public producers of servi-

The Government aims at introducing private service providers in sectors where interaction and competition between public and private actors may be beneficial. | ces. This in itself will be a sound development, and it will open the way for competition between public and private service providers. Exposure to competition has been tried with success in many municipalities, and experience has shown that many more could benefit from this. Public services could also be improved through interaction and competition between public and private actors. The Government aims at introducing private service providers to some extent in the healthcare and

educational sectors, transport and communications, measures for unemployed and the occupationally disabled, state property administration, etc.

More independence and responsibility mean that local agencies must be rewarded on the basis of their results. In areas where users can choose between different providers and where voucher schemes are in use, this happens automatically. Those who provide services of high quality attract more users and will subsequently achieve higher income. Correspondingly, those doing a poor job lose income. In other areas, financing linked to performance is required. The new funding scheme for higher education has this kind of elements, as do financing systems for hospitals. The Government intends to develop these schemes further and link them more closely to performance. We will also consider introducing similar schemes in other state services.

Schemes for financing linked to performance will be introduced in several areas.

More autonomy for municipalities and service providers demands greater organizational insight and leadership at the local level. Although actors at the local level are in the best position to choose solutions, not all of them feel that they have the necessary organizational and leadership expertise. The central authorities must therefore be responsible for guidance and leadership development. Leadership development programmes for the public sector will be launched. The Government will also set up an organizational development programme to help state, county and municipal service providers. Reference groups of representatives from municipalities will be established for the purpose of exchanging experience and guidance.

Leadership development programmes for the public sector will be launched.

Autonomy requires monitoring and supervision in order to safeguard the individual's security under the law and

ensure a high standard of services. The re-organization and strengthening of the supervisory authorities are therefore essential to efficiency. Supervision should be based on functional requirements, rather than detailed regulations.

A public sector that promotes productivity and efficiency

Efficiency alone is not enough, however. The public sector must also act in a way that benefits the rest of the economy. This makes stringent demands on the tax system (which lies outside the framework of the modernization programme), on business and regional policy instruments, on government regulation, and on the way the public sector conducts itself in private markets.

The state has an overall responsibility for regional development. We need a healthy business community throughout the country, and the best way of promoting business development is through favourable operating parameters. The taxation level must not be too high, companies must have adequate access to capital, knowledge, qualified labour and high-standard infrastructure and public services, and there must be effective competition in domestic markets. In the same way regional development is best promoted through measures that make it attractive to live and work outside the larger cities as well as in them. The central authorities can help out by giving the municipalities more autonomy and a general economic framework, improving local and regional infrastructure, eliminating unnecessary restrictions and

Regional development is best promoted through good public services, effective competition, local independence, good infrastructure and uncomplicated regulations.

regulation of regional industries, and supporting the development of good educational, cultural and leisure facilities throughout the country.

However, more specific measures are also called for, especially in order to promote new and more varied business activities in the districts. The Government will review the existing instruments and organization with a view to obtaining more and better results.

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As part of the modernization process, we will also consider which government agencies and services can be relocated outside the capital. In principle, tasks and functions that are not dependent on a particular location and can be performed just as well or better outside the capital will be considered. This way we can make use of the entire country, and related issues can be considered in connection to each other – issues like the larger regional centres, areas that are undergoing major changes and areas with a substantial decline in population.

Reviewing and simplifying legislation and other regulatory measures are other means of promoting efficiency and productivity in the business community. Provisions governing opening hours, working hours and the working environment are especially important for business and industry. The Government has announced its intention to repeal the legislation regarding opening hours for shops and make the provisions governing working hours more flexible. The committee reviewing the Working Environment Act will submit its report in 2003. We will also simplify the regulations issued pursuant to the Act and make them more consistent. When the provisions have been made more flexible it will be important to enforce them more strictly, especially in relation to public sector activities.

Provisions governing opening hours, working hours and the working environment will be made more flexible. Enforcement will be stricter.

An efficient business sector presupposes competition. The Government will implement an action plan to ensure fair competition, which will focus on strengthening the position of the Competition Authority. The relevant

legislation and other forms of regulation will be reviewed in order to repeal provisions that could hinder competition. It is important to practise public procurement in a way that promotes competition, given that the public sector accounts for such a large proportion of the total purchase of goods and services in Norway. Real and effective competition for public procurement will encourage

The Government will implement an action plan to ensure fair competition.

the development of an innovative and internationally competitive business community. All companies, irrespective of their size and location, must be given opportunities in this market. The Government therefore has decided that all major state framework agreements are to be submitted to the Competition Authority for assessment before competitive tendering takes place, and it will also establish a new appeals body for public procurement.

An inclusive and motivating human resources policy

The modernization of the public sector will be impossible unless the majority of the over 700 000 employees are motivated for such changes and participate in the process. An essential condition for a better public sector is a human resources policy that motivates people. Such a policy must ensure a broad recruitment base, encourage a diversity of cultures and competence among the personnel as well as prevent the exclusion of older employees. It must also facilitate re-organization and transition both within the public sector and between the public and the private sector.

The employment and working conditions for employees in the public sector do not meet these criteria today. The public administration and service providers do not yet have enough autonomy locally to compete for key personnel. The public sector is not doing enough to take advantage of the diversity of impulses and ideas that

can be obtained by recruiting from a broad selection of groups, including ethnic minorities. Employers could also draw more heavily on women, who represent 50 per cent of potential leaders.

The strong protection against dismissal and lack of follow-up of employees make adjustments hard to carry out, and the employment and working conditions in the public and private sectors are so different that they make transition difficult. Public sector employees, especially in the state sector, generally have a lifetime career perspective, with strong protection against dismissal, well-defined career ladders, good pension schemes – and relatively low salaries. This leads to a situation where employees in the both sectors are virtually excluded from moving to the other sector.

New employment and working conditions for employees in the public sector must be negotiated with the employees and their unions. Employment and working conditions and pension schemes must be altered with a view to reducing the differences between the public and private sectors. In this connection, it would be wise to consider whether the Act relating to civil servants is an appropriate instrument in its present form. Anyway, the employees' rights must be safeguarded, and changes must be made in such a way that they do not worsen conditions for public sector employees. It is especially important to harmonize salaries and public and private pension schemes so that the individual does not lose out when public bodies are made more independent or in the event of a transfer from one sector to the other. This harmonization process must be coordinated with the work of the Pensions Commission.

New employment and working conditions for employees in the public sector will be developed in conjunction with the employees and their unions.

The differences in employment terms between the public and the private sectors will be reduced. Public and private pension schemes will be harmonized.

In addition to altering employment and working conditions, the public sector must develop a more active human resources policy. Employees are the main resource in the public sector and must be given opportunities for development. This means that both the state and local agencies and service providers must pursue a policy of continuous development involving guidance and encouragement of every employees and opportunities for further education. Every employee must also be given increased opportunities to influence his or her job. There must be less focus on control and more horizontal

The public sector will develop a more active human resources policy. ■ structures to provide motivation. The state must also set an example as an inclusive employer with regard to older people, occupationally disabled and ethnic minorities.

The lack of «hands and heads» in the production of public services is a basic problem, and therefore it does not make sense to exclude any group of employees. It is the employer's responsibility to follow up individuals and encourage and develop them into flexible and adaptable employees. Efforts must be made at an early stage to ensure this.

Inflexible employment and working conditions not only restrict the individual, they also make the public employer unnecessarily rigid. They are likely to result in costly manoeuvres and adjustments. One example of this is the use of early retirement in order to solve the problems caused by rigid rules. Instead of being inclusive, public employers have often excluded older and less functional employees. An example of this is the redundancy payment system practised by the state.

Priority areas and measures

The process of modernization must run through all activities in the public sector, and it is therefore neither desirable nor appropriate to organize the work in limited projects. However, some areas are so important, either in themselves or as a basis for further efforts, that they must be given particular attention. The Government has therefore selected certain sectors where the need for modernization is particularly urgent. At the same time a number of cross-sectorial projects that will promote modernization in all sectors have been started.

The areas that will be given high priority are education, local government, and the coordination and user-orientation of the employment, social security and social services. In each of these areas the Government will seek to implement reforms that will raise standards and safeguard user interests, give local bodies greater freedom and responsibility, and promote a more efficient use of resources.

In addition, the Government will give priority to the implementation of ongoing reforms in the hospital sector, higher education, the armed forces and the justice sector. The modernization process also involves cross-sectorial measures, such as the revision of legislation, the re-organization of public supervisory bodies, the development of leadership, organizational and human resource programmes in the public sector, information and communication technology in the public administration and services, and the division of labour between ministries and directorates.

Implementation

The process of modernizing the public sector involves making organizational changes, reviewing financing schemes and other operating parameters, passing new types of legislation, and changing human resources policy and employment conditions. If measures in these areas are to be effective, they must alter organizational cultures. Instead of imposing specific solutions on agencies and employees, the Government wants to make them responsible for finding their own solutions. This in itself marks a change of culture. However, if people and organizations are to become more responsible, the organizational culture must be changed in other ways as well.

First of all, the public sector must become less introverted. Its sole purpose is to serve all citizens and users, The individual should always be the focus of attention and the benchmark for measuring our results. All other functions – organization, administrative routines, financial management and reporting procedures – are only support functions.

Secondly, public sector employees must stop thinking of this sector as a sheltered one. We must be aware of the differences between the public sector and civil society, and at the same time bridge the gap between them in areas where this is appropriate. This will be accomplished by involving the private sector in the production of public services, and by choosing some of the organizational solutions used by private service providers.

The most important step in this bridge-building effort, however, is to create a common, integrated labour market. The fact that the public sector is responsible for important services does not mean that those providing the services have to have special employment and working conditions. We will benefit from the exchange of personnel and expertise between the private and the public sectors, and we will benefit if equal demands are made and equal systems of reward and motivation are implemented in what has traditionally been two separate spheres. And in particular we will benefit from the unity of purpose between public and private sector employees that will result from an integrated labour market.

The modernization process aims at a new organizational culture, with better administration for the individual and for the business community, more interesting and stimulating jobs for employees, and more value for the taxpayers' money. But first and foremost, it aims at giving the individual public services of higher quality.

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