

AN ANALYSIS OF EXPENSES FOR THE OUTSOURCING OF POLICY ADVICE ON THE LEVEL OF THE MINISTRIES OF THE CZECH REPUBLIC

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Abstract:

The study is a contribution to the theoretical/empirical analysis of the problem of outsourcing of policy advice in the public administration. It provides the typologies of expenses for policy advice in the public administration and examines the relationship between internal and external expenses on an example of the ministries of the Czech Republic for the period from 2001 to 2011. It shows that extreme changes in the form of increases in expenses for outsourcing arise when an amendment to the Act on Public Contracts is prepared. We explain the problem on the basis of changes in the behaviour of the clients as a result of expected changes to the contracting conditions. The study shows that several factors influence the amount of expenses for the outsourcing of policy advice. The “large” ministries have relatively fewer expenses for the outsourcing of policy advice than “small” ministries. Ministries that have their own workplaces available in their structures (*i.e.* in the form of their own scientific research workplaces) have lower than average expenses for the outsourcing of policy advice. Ministries with higher average wages are ministries with a relatively large number of managers in relation to the number of analysts, and thus they implement a higher degree of external services (measured as a share of the wage expenses).

Keywords: outsourcing, policy advice, external expenses for policy advice, internal expenses for policy advice, expenses for policy advice on the level of the ministries in the Czech Republic

JEL Classification: H57, G14

1. Introduction

The provisioning of advice to policy makers is an age-old topic of scholarly debate. Yet, until recently, policy advice has been studied more from the philosophical and normative positions rather than from the analytical and empirical perspective. This has changed during the last two decades when quite a few scholars have tried to analyse how policy advice for politicians is actually organised, who provides such advice and with what results (*e.g.* Halligan, 1995; Howlett, 2009a, 2009b; Wellstead, Stedman and Howlett, 2011; Howlett and Walker, 2012). The new “empirically-driven” scholarship on **policy advisory systems** (hereinafter “PAS”) has led to many interesting, though not always consistent, findings (see also Halligan, 1995 and Howlett, 2011). The role of outsourcing and consultants in time of the public sector reform is addressed in Raudla (2013). Her

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paper focuses on “the problems that can emerge when policy and management advice for preparing a major public sector reform is purchased from a series of private sector actors”.

The approaches of the aforementioned authors can be used to define the types of PAS and their expenses in the conditions of the Czech Republic (see Table 1).

Table 1 | Types of PAS and Classification of Expenses

Types of Organisations	Types of PAS	Method of Providing Policy Advice	Related Expenses
Public administration organisations (public sector)	Direct internal PAS	Insourcing	Internal expenses (type A)
	Distant internal PAS	Insourcing	Internal expenses (type B)
Organisations outside of the public sector (profit and non-profit)	External PAS	Outsourcing	External expenses for the given service

Source: authors

First, there are central (or regional) public administration organisations such as ministries (and their units and departments) as well as other state institutions which are directly accountable to elected politicians. Policy advice in these institutions is generated by civil servants as a part of civil service. It can be assumed that decision-makers can require advice from people in these institutions directly and can legitimately expect to get it promptly. Hereinafter, we will call this locus of policy advice “**direct internal PAS**”. We will designate these services as “type A internal expenses”.

Second, there are state or public institutions which work at arm’s length from the central (regional) government. They include various institutions of applied research, organisations gathering and analysing data and other agencies of various types. These institutions are semi-autonomous in that they are not directly governed by elected politicians. Instead politicians can influence the work of these institutions indirectly, especially by allocating funding or by selecting the directors of these organisations. However, the day-to-day work of these institutions is relatively autonomous. They are, for instance, relatively free in choosing research topics or partners and are usually not expected to provide immediate advice “on the spot”. Yet, they are still part of the public sector. They are supposed to help public administration and the government as a part of their mission, and this help includes providing policy advice, usually without any further compensation. Therefore, hereinafter we will refer to these institutions as “**distant internal PAS**”. We will designate these services with the term “type B internal expenses”.

Third, there are institutions outside the public sector which provide policy advice either voluntarily or on a contractual basis. They include both profit and non-profit organisations outside the government. The mission, funding, scope and quality of these institutions are very heterogeneous. What makes them similar is the fact that they are not part of the public sector and cannot be directly compelled to provide policy advice if they do

not wish to. For the sake of simplicity, we will hereinafter call them “**external PAS**”. We will use the term “external expenses for the given service”¹ to designate these expenses.

The externalization of the PAS can mean different things and can be studied from different perspectives (Vesely, 2013; Tiernan, 2011; Howlett, 2013). One group of authors (e.g. Howlett, 2009a, 2009b; Howlett and Migone, 2013) focuses on the “sociology of policy analysis”. A second group of authors (the “institutional stream”) focuses upon different institutional arrangements and institutional structures (e.g. Halligan, 1995; Saint-Martin, 1998a, 1998b; Fleischer, 2009). Third, “the qualitative stream” includes qualitative interviews, focus groups, Q-methodology and related techniques (e.g. Colebatch, 2006; Colebatch, Hoppe and Noordegraaf, 2011).

Another group of authors (the “expenditure stream”) focuses mostly upon government expenditures for external consultants (Perl and White, 2002; National Audit Office, 2010) or the share of government contracts (local, provincial and federal) in the overall revenues of consulting firms (Saint-Martin, 1998a; Nemec *et al.*, 2005). In-depth analyses of expenditures on policy advising and consultation have been carried out in several countries, such as the UK (House of Commons Committee of Public Accounts, 2007, 2010; National Audit Office, 2006) and New Zealand (Scott, Duignan and Faulkner, 2010). These studies were often initiated because of the perceived inefficiency of the use of public funds on advising and consulting activities and the growth of expenditures on them.

It is also possible to classify the work that concerns the analysis of transaction expenses (Bajari and Tadelis, 2001), contracting (Bolton and Dewatripont, 2005), the quality of contracted services (Nemec *et al.*, 2008a) and the transparency of the contracting procedures (Pavel and Sičáková Beblavá, 2008) into this “expenditure stream”. The initial idea of economic analyses of expenses for the external provisioning of policy advice is “outsourcing”.

The outsourcing of policy advice is understood to mean such a method for its acquisition, where this advice is prepared and provided by organisations that stand outside of the public sector or outside the organisational structures of the given public administration institution for which the given organisation provides the consultation. The quality of such a contract is influenced by several factors (Nemec *et al.*, 2008b), particularly the transparency of the market (Pavel and Sičáková Beblavá, 2008), the type of contract (Prager, 1994), how open competition is (Maaytová, 2012) and the competitive environment (Pavel, 2010)². The resolution of the question whether to outsource the given service or insource it has the form of an institutional dilemma, as shown by Beblavý and Sičáková Beblavá (2006).

1 Surely, the PAS landscape is much more complicated and a more sophisticated PAS typology could be created. Yet the classification outlined above has its advantage, we believe, in its simplicity and its relative agreement with empirical and theoretical research realized so far. The distinction between internal and external PAS is crucial because most PAS literature has focused upon the relation between the two. Most importantly, many authors have argued that the importance of external PAS, as measured, for instance, by government expenditures on external PAS, is steadily growing. For the sake of simplicity, we will hereinafter refer to this proposition as the “externalization thesis”.

2 For excellent review on contracting out policy advice see Boston (1994).

In theory we can find three hypotheses to explain the origin of outsourcing (Perl and White, 2002). First, externalization may be caused by structural changes in the public sector, and especially the downsizing of its workforce. Simply put, PA is increasingly subcontracted because of decreasing internal PAS. Perl and White (2002) indeed found that the number of operational and administrative support workers explains 93.3 per cent of variance in policy consulting expenditures in Canada. Given the popularity of New Public Management (NPM) ideas in the Czech Republic and in the Slovak Republic (Nemec *et al.*, 2008a, 2008b), we may assume that this hypothesis is highly relevant, too.

Second, growth can be caused by greater demands in knowledge intensive sectors such as health, transport and environment. Perl and White (2002) call this the “knowledge expansion” hypothesis. They argue that more external advice is needed because many policy issues have increasingly technical characteristics and civil servants are not able to keep up with this; outsourcing has expanded in departments of environment and health, while it has been less evident in transport. While the “knowledge expansion” hypothesis seems legitimate, it is not completely clear which policy domains should be expected to be more knowledge intensive than others and why.

The third possible explanation offered by Perl and White (2002) lies in the politicisation of the public administration. The authors argue that the subcontracting of advice makes it easier for the government to get analyses more favourable to its preferences. Though this is a very interesting hypothesis we do not have any reliable indicator of politicisation and thus cannot test it³.

There are, of course, other factors that can influence the dynamics of external expenses for policy advice. These include the way the public contract system is set up, the given institution’s degree of internal capacities, the total economic development or nature and width of the given institution’s agenda.

2. Research Questions

To analyse the question, whether there are any non-disputable factors which determine the size of outsourcing of policy advice in the Czech conditions, we place the following fractional research questions and hypotheses:

1. What is the proportion of external expenses for policy advice in the overall current costs? How does this proportion change over time?
2. What is the relationship between external expenses for policy advice and the “size of the ministry measured by overall expenditures” and “size of the ministry measured by the number of employees” and the “average wage” of ministries’ employees?
3. What is the relationship between external expenses for policy advice and expenses for employee wages?
4. Can it be shown that the tendency for external expenses for policy advice to grow is lower at those ministries that have research workplaces, colleges and universities in their structures? What conclusions can be deducted from the ascertained state?

3 Perl and White (2002) measure politicisation by the difference in expenditures between central agencies and street-level departments. We are not able to judge the validity of this approach in the case of Canada. However, it would be meaningless in the context of the Czech Republic because of its different public administration structure.

5. Is it possible to confirm that the larger (smaller) the number of employees at the ministry, the lower (greater) its expenses for the outsourcing of policy advice? Do larger ministries have greater facilities to provide policy advice?

The following text contains the answers to the aforementioned questions. To our knowledge there has not yet been a similar analysis published. Our present results can thus spur next research and problem solving in this area.

3. Data for Empirical Analysis

The key dependent variable in our research, namely the **level of externalization**, is expressed as the expenditures of fourteen ministries on consulting and advisory services. We used data from two national publicly available registers, ARIS and ÚFIS. These registers contain data on public expenditures classified according to Ministry of Finance Decree No. 323/2002, on the Budget Structure. The expenditures and revenues are classified according to several classification schemes, including ministerial “chapters” (e.g. the Ministry of Finance) and the type of expenditures/revenues. Under the later classification, there is item 5166 entitled “Consulting, advisory and legal services”. They are defined as: “Expenditures for the contractual acquisition of information which does not have the status of property...” This information includes consulting, advice, analyses, reports, legal services or other information that the organisation uses for decision-making and is not explicitly legally bound to deliver (the provisioning of information which the organisation is obliged to provide by specific legal norms is classified under item 5169)⁴. These expenditures (see Table 1) are external expenses for the acquisition of contracted advisory and consulting services.

As for the time period, we have been limited by the availability of ARIS and ÚFIS data. These datasets cover the period from 2001 to 2011, providing us with only an eleven-year time series. The covered period, however, is very interesting. It includes both right-wing and left-wing governments; periods of economic boom, economic recession and the global economic crisis in 2008, followed by immense cuts in public budgets. Also worth mentioning is the EU accession in 2004 as well as changes to the regulatory rules in public contracts (the amendment to the Act on Public Contracts), which directly influences the outsourcing of advisory and consulting services.

On the other hand, a major public administration reform (the establishment of autonomous regions and transfer of authority) was realized prior to this period (in 2000). Our data is thus not affected by the crucial changes in the structure of public budgets and the devolution of competencies (and sometimes also staff) to the regions.

4 This definition seems to capture external PAS and advisory services rather nicely. The reference to decision-making makes this indicator clearly related to “policy work”, and the exclusion of activities which the organisation is obliged to do (such as data gathering for statistical purposes) eliminates routine work (such as hiring a company to provide the organisation with information systems). Though retrieving data from the registers was rather cumbersome, cross-checking evidence (such as other registers and our interviews with civil servants) indicates that the data is reliable and both internally and externally valid. It must be noted that we are able to discern only external expenditures for both ministries and state organisational units (SOU) together (see definitions above).

It was more complicated to measure the extent of direct internal PASs. Pending the large-scale survey, we do not have data on the number of policy workers or policy analysts in the ministries (after all, such a job title in the Czech Republic does not exist)⁵. The state's final accounts, however, contain information on the numbers of civil servants in ministries as well as on their salaries. We have been able to distinguish between various types of civil servants and take into account only those that work *directly* for ministries and not for other organisations supported or governed by ministries (*i.e.* not for the so-called “public research institutions” (hereinafter “PRI”, in Czech “veřejné výzkumné instituce”) and “state organizational units” (hereinafter “SOU”, in Czech “organizační složky státu”). Truly, the number of civil servants in ministries does not equal the extent of internal PASs because many of these workers carry out routine activities and do not provide any policy advice. We are not able to discern how much of these internal expenditures were allocated to policy or analytical units (type A internal expenses). However, this number is at least a good indicator of *potential* for internal PAS.

The measurement of the distant internal PAS (type B internal expenses) was even more difficult. We proceeded as follows: first, we analysed the lists of organisations established by each ministry which are available on their respective websites. Then we used the public Access to Registers of Economic Subjects/Entities (ARES) to find the legal form of each organisation. Then we researched each organisation's relevance for policy advice. We included all organisations that are at least partly concerned with producing analyses, analysing data, preparing strategies and so on. If possible, we also analysed the annual reports of these organisations. Then we tried to estimate the number of employees in each organisation, either from annual reports (the preferred choice) or from ARES⁶. This can be taken only as a rough estimate of the extent of the distant internal PASs (or for the calculation of type B internal expenses).

4. Results of the Empirical Analysis

On the basis of analyses of contemporary theoretical responses to the issue of policy advice, we set the basic research question: what is the role of the factors that according to our view have (under Czech conditions) a considerable influence on the dynamics of expenditures for policy advice? We decompose this basic research question into further research questions.

4.1 Analysis of the proportion of external and internal expenditures on policy advice

The first research question establishes the problem of what the proportion of external expenditures for policy advice is in the overall current costs and how this proportion changes over time. To look for the answers to this question it was necessary to acquire data on expenditures for the outsourcing of policy advice and data on the amount of the overall current costs of the state budget (Table 2).

5 The large-scale empirical research of policy workers in the Czech Republic's public administration will be realised in our project next year.

6 ARES only provides categorised information on the number of employees (*e.g.* “500–1,000”). In the absence of more specific information on the organisation, we used ARES interval mid-point values (*i.e.* if the interval was 500–1,000, we used 750).

Table 2 | External Expenditures for Policy Advice – Trends and Basic Relations

	External – 5166, hereinafter “ext” (A)	Total Current Costs, hereinafter “CC” (B)	Quota ext/CC (A/B)
2001	693,493	179,728,996	0.386%
2002	1,267,468	194,138,676	0.653%
2003	980,311	147,662,974	0.664%
2004	1,048,995	147,650,795	0.710%
2005	1,231,640	156,090,237	0.789%
2006	1,485,035	161,698,557	0.918%
2007	1,378,950	164,767,011	0.837%
2008	1,480,989	169,357,234	0.874%
2009	1,128,155	162,478,471	0.694%
2010	1,077,129	177,289,437	0.608%
2011	1,277,010	169,226,250	0.755%

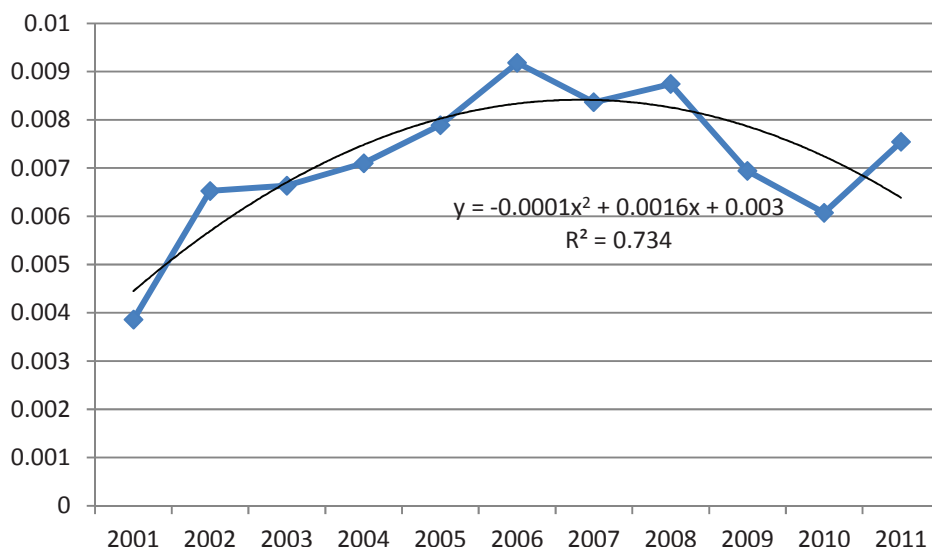
Note: All in CZK. The last column is the proportion of total external expenditures for policy advice (Item 5166) in the overall current costs; total for all ministries, in values of the year 2012.

Source: State’s closing accounts, state budget, own calculations

As the proportion of expenditures for policy advice and the total current costs (the quota of ext/CC) shows, the expenditures for the outsourcing of policy advice (item 5166) are relatively small when compared to the overall current costs of the state budget. Nevertheless, it is worthwhile examining them, since their analysis can help to uncover new trends in the outsourcing of services on the level of the central bodies of the state administration.

If we display the proportion of external expenditures on policy advice to the overall current costs in a graph (see Figure 1), it is evident that the quota increased up to the year 2006.

Figure 1 | Proportion of External Expenses for Policy Advice in Overall Current Costs (ext/CC)



Source: data from Czech Statistical Office, Table 2 in this text, own calculations

The later development is more random and cannot be judged to be a longer-term trend or other dependency. A polynomial function of degree 2, explaining 73.4% of the variability (see Figure 1), appears to be a suitable to describe this relation.

It can be inferred from the results of the empirical analysis that a certain turning point occurred in 2006. This turning point is probably caused by the fact that a new version of the Act on Public Contracts was passed on 14th March 2006 and it, among other things, significantly changed the limits for assigning public contracts. These were also reflected in the area of policy advisory services. According to the version of the Act on Public Contracts from 2006 the limits for small contracts were decreased. This led to two reactions on the part of contracting authorities. They now had to announce a tender for policy advice from the limit of CZK 3 million for the expected value of the public contract. At the same time it occurred, in practice, that the contracting authority broke up a larger public contract into several smaller contracts (contrary to the law) in order to be below the limit for small contracts, thus avoiding having to announce a “classic” tender.

The interviews with contracting authorities recently performed by the authors of this study as part of another research project signalled another possible result of this amendment on the growth of quotas of external expenditures for policy advice and overall current costs. The contracting authorities stated that each change (amendment) to the Act on Public Contracts means a risk when they make decisions. New procurement conditions and objectively-lacking experience in the new and amended procurement procedures lead the contracting authorities (as mentioned in their own statements) to “stock up” (see the turning point in 2006), or “postpone” the need for public contracts to a later time when the “given amendment to the Act on Public Contracts will be sufficiently verified”. Thus the contracting authorities act like rational decision-makers, who want to minimise the risks of their

decisions. This hypothesis, however, would require further verification. An analysis of the trends of expenditures that arise after the year 2012, when the Act on Public Contracts was amended yet again (1 April 2012), lowering the limits for small contracts, which assumes the value of the public contract to be up to CZK 1 million, could be an indicator of the rational justifiability for any further testing of this hypothesis. The category of “advisory and consulting services” in the regime of the “classic” awarding of public contracts is also behind this threshold. Unfortunately the appropriate data are still not accessible.

It can be “surmised” from Figure 1 that the amendment to the Act on Public Contracts (2012) will elicit a similar rational reaction on the part of the contracting authorities as the amendment in the year 2006. In 2011 there was once again an increase of the quotas of external expenditures for advisory and consulting services and overall current costs. These conclusions, however, remain hypotheses. Only a longer period of time will enable the empirical verification of the validity of the aforementioned claims in the future.

4.2 External expenditures and the main factors being researched - overview

The second research question is what the relationship is between external expenditures for advisory and consulting services and the “size of the ministry measured by overall expenditures” and “size of the ministry measured by the number of employees” factors and the “average wage” factor. The answer to this question is contained in Table 3.

Table 3 | Correlation Coefficient for Selected Factors (for more details see Appendix)

Correlation Coefficient between ext/CC...	... and Other Variable (factor)	Commentary: ext/CC indicates the proportion of external expenditures in current costs (quota)
0.0153	Time	Period (2001-2011), trend variable
-0.4020	CC	Current costs in CZK
-0.2971	I_L	Budgeted (limited) numbers of employees
-0.2880	I_LC	Budgeted (limited) expenditures for employees
-0.2907	L	Real numbers of employees
-0.2850	LC	Real expenditures for employees in CZK
0.0425	avgwage	Average monthly wage
0.0314	yyGDP	Real year-on-year growth of GDP in %
0.0192	d1_2006	Dummy variable equal to 1 for the period of the years from 2006 to 2011, inclusive, otherwise 0
-0.2988	d2_own	Binomial variable equal to 1 for ministries with academic workplaces

Note: Coefficients in an absolute value of more than 0.1582 are statistically significant on a 5% level of significance. The number of observations is 154 (11 periods (years), 14 ministries). This is Pearson's correlation coefficient giving values of from -1 to 1 for negative and positive correlations, values close to zero indicate variables are uncorrelated.

The following conclusions can be deduced from the analysis of the results of the correlation analysis for the preference of externalization (measured as ext/CC, see Table 3):

There was no monotonous trend over time. The correlation coefficient is not statistically significantly different from zero (coefficient = 0.0153 for Time). The size of the ministry, on the contrary (measured either by total expenditures or the number of employees), is a relevant factor that is statistically significant and negative. Thus “large” ministries expend relatively fewer finances on external services than “small” ministries. This probably corresponds to the fact that “larger” ministries have a greater capacity of their own to realise consultation and advisory services in their own organisational structures. “Smaller” ministries, on the contrary, do not have such a capacity of their own to perform consultation and advisory services, and therefore outsource the necessary services.

It was not possible to prove the influence of macroeconomic variables in the form of real changes of the GDP. Thus it seems that the use of external services is not dependent on the phases of the economic cycle, which the conclusion performed for the “Time” variable confirms. This can probably be explained by the fact that the rules (legal regulations) for the implementation of outsourcing are set relatively strictly and independent of GDP growth.

On the other hand the conjecture was confirmed that those ministries that have their “own scientific research workplaces” (implementing type B internal expenses) in their structures or subordinate to them do not need to outsource the required consulting and advisory services. Thus those ministries (namely the Ministry of Defence, the Ministry of the Interior and the Ministry of Agriculture) implement a relatively below average volume of external services. The coefficient for “d2_own” (see Table 3) is negative and statistically significant. Thus the aforementioned ministries implement below average quotas of external services, as we show in more detail in the Table 4.

The average wage at ministries and the level of outsourcing do not correlate (the coefficient = 0.0425 for average wage) on this level of the analysis. On the other hand, it is an interesting finding (see Table 5) that the ministries with higher wages realise a greater degree of external services measured by the ratio to one employee (the coefficient = 0.24 for ext/L, see the Appendix). One of the possible explanations is that the ministries with a higher wages have a relatively higher proportion of higher managerial functions (with relatively higher salaries) and fewer “regular” analysts (with relatively low salaries) than at ministries with a lower ratio of wage expenses *per capita* (employees). In other words, when the wages are higher, which is caused by a higher share of highly qualified professionals, this situation leads to a higher degree of external expenses (outsourcing) *per* employee. Thus services of more of a “non-managerial character” are procured externally. We are led to this claim (hypothesis) by personal work experience from the practice of the state administration in the Czech Republic. It is necessary, however, to research this hypothesis independently with the support of the corresponding empirical research. So far the currently available data does not enable such an analysis.

4.3 External expenditures to policy advice and expenditures for employee wages

The third research question is what the relationship is between external expenditures for policy advisory services and expenses for employee wages. Figure 2 gives a more detailed view of the given problem.

Figure 2 | Ratio of External Expenditures on the Overall Wage Expenditures



Source: data from Czech Statistical Office, own calculations

No clear trend can be deduced from Figure 2, though we can discern two peaks in the ratio of external expenditures for policy advisory services to overall wage expenditures (the years 2002 and 2006). In the aforementioned years the Act on Public Contracts was amended or amendments to the Act on Public Contracts were prepared for adoption. It can be assumed that the prepared amendment to the Act on Public Contracts are probably a factor that qualifies (in the aforementioned sense) the rational behaviour of the contracting authorities of public contracts in order to minimise the risk from unknown new contracting procedures (established by the amendment) in the form of “stocking up” on outsourcing services. In some cases it can also mean that the contracting authority is “informatively mapping new terrain” of public contracting and having an expert study prepared describing the expected “state of the amendment” before the amendment comes into effect.

4.4 Outsourcing and the ministries’ own facilities for the performance of policy advisory services

The fourth research question asks whether a tendency for external expenditures for policy advisory services to increase is lower at those ministries which have research workplaces, colleges and universities in their structures (see next table for details). If this is the case, then it probably confirms the greater facilities of the given research and university institutions to perform, in favour of the governing ministries, the necessary policy advisory services that would otherwise be outsourced. Table 4 shows the results of the analyses.

Table 4 | Ratio of External Expenditures for Policy Advice in the Overall Wage Expenses

Subject	Average Wage (TCZK)	Ratio of "ext" on "wages" in %	Var. coeff.
Ministry of Transport	35.6	62.4	58%
Ministry of Finance	39	52.7	15%
Ministry for Regional Development	36	37.4	43%
Ministry of Health	36	26.3	22%
Ministry of Justice	34.3	25.7	50%
Overall average (unweighted)	35.7	24.3	x
Ministry of the Environment	34	23	24%
Ministry of Industry and Trade	38.7	21.8	32%
Ministry of Labour and Social Affairs*	35.7	21.5	13%
Ministry of Education, Youth and Sport*	35.8	20	101%
Ministry of Defence*	41.5	18	40%
Ministry of the Interior*	33.2	10	27%
Ministry of Agriculture*	29.5	9.8	37%
Ministry of Culture	34	7	66%
Ministry of Foreign Affairs	36	4.7	49%

Note: "Wages" mean the overall wage expenses. The average value differs from the value which can be calculated in the previous table due to rounding. Var. coeff. designates the variation coefficient (deviation/average) for evaluating the degree of the changes over time. Subjects with a * have their own subordinate institutions specialising in advisory services. TCZK means thousands of CZK. In values of the year 2012.

Source: Czech Statistical Office, own calculations.

Ministries in Table 4 designated by "*" are those with various institutions that are subordinate to them and that can perform policy advisory services to their benefit. An empirical analysis of the available data shows that these ministries really do tend to have a lower ratio of external expenditures to wage expenditures. This ratio is significantly under the (unweighted arithmetic) average of all the ministries. It is not possible, however, to deduce clear conclusions about the suitability of the insourcing of the given services compared to its outsourcing from this finding (without the support of profound audit). During an analysis of the expenses of the Ministry of Education, Youth and Sport, a significantly high variation coefficient (101%) was found, which indicates a significant ambivalence of values, seemingly in connection with the "intermittence" of the sector's needs.

4.5 Outsourcing and size of ministries

The fifth research question is whether it is valid that the larger (smaller) the number of employees at a ministry, the lower (greater) the expenditures on the outsourcing of policy advisory services. In other words, do larger ministries have greater facilities to perform policy advisory services? Table 4 contains the input data for the performance of the analysis.

On the basis of the analysis it is possible to state a slight positive dependence between the number of employees and the costs for outsourcing. Pearson's correlation coefficient is 0.39 but not statistically significant on the common levels of significance.

If we analyse the relationship of expenditures for the external provisioning of policy advice to the number of employees on the level of the individual ministries, the results of the research are as follows (Table 5).

Table 5 | External Expenditures and the Sizes of the Ministries

Subject	Average Number of Employees "A"	Size	Ext/Wages in % "B"
Ministry of Transport (MT)	441	small	62.4
Ministry of Finance (MF)	1,350	large	52.7
Ministry for Regional Development (MRD)	502	small	37.4
Ministry of Health (MH)	346	small	26.3
Ministry of Justice (MJ)	345	small	25.7
Ministry of the Environment (ME)	606	small	23
Ministry of Industry and Trade (MIT)	756	medium	21.8
Ministry of Labour and Social Affairs (MLSA)	699	medium	21.5
Ministry of Education, Youth and Sport (MEYS)	523	small	20
Ministry of Defence (MD)	1,680	large	18
Ministry of the Interior (MI)	2,238	large	10
Ministry of Agriculture (MA)	1,928	large	9.8
Ministry of Culture (MC)	252	small	7
Ministry of Foreign Affairs (MFA)	714	medium	4.7
Pearson's correlation coefficient between (A) and (B)	-0.24		

Note: The relationship of relative external expenditures and the sizes of the ministries is measured during the entire monitored period and on the level of the individual ministries.

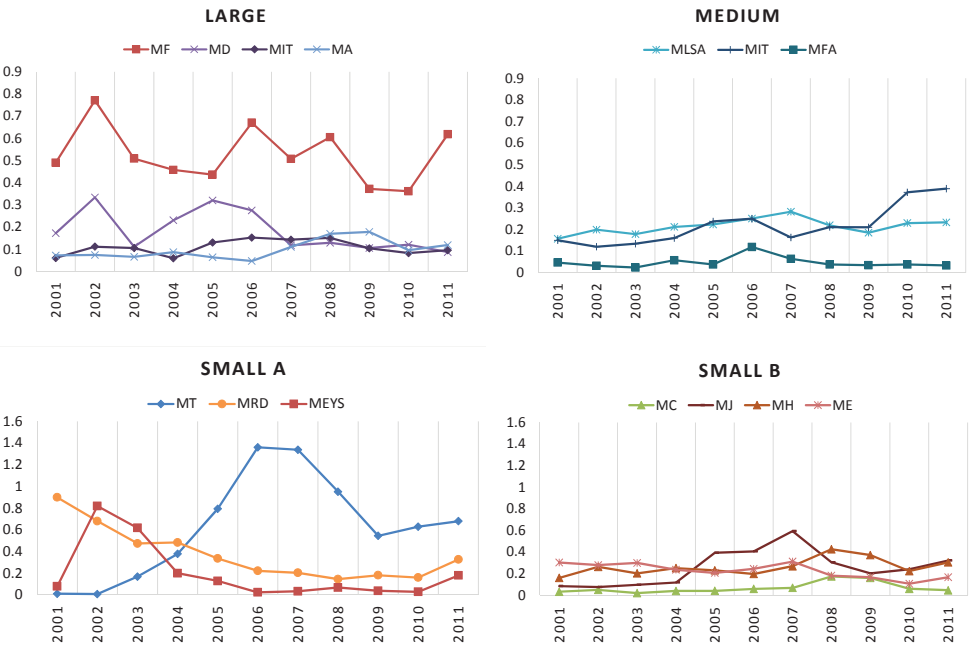
The variable "Size" acquires three values according to the relationship of the average number of employees of the given ministry to the average state for all ministries. "Medium" indicates that the deviation from the average is not more than 30%. Size is defined for the purpose of the graphical representation below (Figure 3).

Source: Czech Statistical Office, own calculations.

It follows from the analysis that the larger ministries (measured by the number of employees) have, on average for the entire period, a lower quota of external expenditures (see the negative correlation coefficient, -0.24). This could, for example, mean that ministries with a greater number of personnel have a greater capacity for the performance of policy advisory services, which they carry out as part of the performance of the specified analytical and conceptual activities.

If we use a different perspective, specifically by dividing the ministries into groups according to size and monitoring the behaviour of the quotas for the individual years, then we find that the larger ministries have nominally larger external expenditures but relatively lower ones. Figure 3 displays this problem.

Figure 3 | Quota of Relative Expenditures (Ext/wages) for Different Subgroups of Ministries (by number of employees)



Source: Czech Statistical Office, own calculations.
 Note: See Table 5 for subject's abbreviations.

The given conclusion is not surprising. In general larger ministries have more extensive (“voluminous”) spheres of operation with the related (“more voluminous”) performance of administrative activities. Thus it is possible to expect that in order to perform these activities the ministries will need a correspondingly greater nominal “volume” of analytical services that they will either produce through their own capacities or by purchases in the private sector.

If the demanded policy advice is so specific that the given ministry does not have its own capacity to produce such services, then no objections can be raised to their outsourcing. That, however, would require the performance of a “documentation audit,”

which is an analysis of the individual contracts and agreements about the outsourcing and to compare whether the given ministry really does not have the capacity available for the given policy advisory services. It would also be good to have a performance audit accompany this audit. Such information, however, is not currently available and acquiring it through research is unattainable under the current conditions.

If we focus on quotas (see Figure 3) from the analysed size groups the development of the quotas of external expenditures for policy advisory services to the number of employees at the Ministry of Transport (MT, small A group) is intriguing. This ministry can demonstrate certain general problems related to the outsourcing of policy advisory services in the Czech Republic. In the case of the Ministry of Transport, it is possible to “relatively rationally” expect a rather high need for consultation, expert opinions, assessments, *etc.* related to complicated construction projects⁷. This observation results from interviews with relevant ministries. In the future these contrary results for MT and MRD will be explicitly tested.

When monitoring the trends of the given quotas, the significant growth in the year 2006 sticks out. This is probably connected with the aforementioned lowering of the limit on small contracts and the aforementioned change in the behaviour of contracting authorities under the conditions of the changing rules in the form of the amendment to the Act on Public Contracts.

The total results of the correlation between the external expenditures for policy advisory services and the current costs, the number of employees and employee wages are given in Table 6.

At first glance at the results of the analysis, it is interesting that the correlation coefficient (see bold numbers) between the external expenditures and the number of employees at the Ministry of Transport is highly positive while being highly negative at the Ministry for Regional Development, even though both ministries belong to the same size group (small). What is the reason for this? Possible explanations are as follows: First is the fact that the Ministry of Transport primarily implements expansive construction projects with relatively expected specialised (external) advisory and consultation support for which the ministry (altogether objectively) does not have its own specialists. On the other hand, the Ministry for Regional Development has large capital expenditures (over the last three years the capital expenditures make up more than about 80% of all the expenditures in its budget each year). These capital expenditures are covered to a considerable extent from EU funds. Since the rules for handling these finances are given by EU regulations, it is not necessary (or even practical) to demand additional expenses for policy advisory services in order to realise these expenditure activities. Plus another factor plays a role here, specifically the fact that in the case of the Ministry for Regional Development most of the products of external policy advisory services have the character of legal consultations, while in the case of the Ministry of Transport they are project activities, the assessment of construction projects, expert opinions whose contents are bound to particular complicated (and therefore expensive) professional consultations and output with the corresponding high external acquisition expenditures for consulting and advisory services.

7 Important construction projects that are subject to public contracts are financed from this ministry's budget. This is evident in the fact that the ruling political parties have increased interest in a ministerial post at this ministry. It is not surprising that this leads to various “shake-ups” with regard to this post, where these “shake-ups” show elements of “political reciprocal deals”.

Table 6 | Correlation between Absolute External Expenditures (in CZK) and Current Costs, the Number of Employees and Wages

Subject / Coefficient	Ext and CC	Ext and L	Ext and Wages
Ministry of Transport	48.46%	71.44%	66.77%
Ministry of Finance	20.14%	-19.58%	0.19%
Ministry of Health	71.39%	72.12%	80.92%
Ministry for Regional Development	-63.84%	-80.17%	-80.93%
Ministry of Justice	-17.22%	-47.12%	13.09%
Ministry of the Environment	-65.84%	1.03%	-18.72%
Ministry of Industry and Trade	84.76%	39.28%	76.01%
Ministry of Labour and Social Affairs	84.60%	92.58%	91.93%
Ministry of Education, Youth and Sport	80.22%	-12.56%	-15.34%
Ministry of Defence	38.57%	47.09%	38.80%
Ministry of the Interior	-11.84%	2.74%	32.50%
Ministry of Agriculture	67.09%	46.10%	61.21%
Ministry of Culture	30.99%	69.51%	71.46%
Ministry of Foreign Affairs	-39.84%	-21.41%	19.38%
Total	30.69%	39.44%	48.18%

Source: Czech Statistical Office, own calculations.

Note: L is number of employees. "Ext" and "wages" were defined above.

4.6 Policy implication and recommendations emerged from analysis

Based on our analysis it was possible to make the following conclusions: Generally speaking, ministries in the Czech Republic differ in the way how they spend finances for policy advice outsourcing. These differences are caused by a range of factors which determine the size to be outsourced. Basically, the factors can be divided into two groups. First, there are primarily hard factors which comprise budget and budget rules for instance. If the ministries have sufficient financial resources to outsource the policy advice then they try to spend them entirely. This situation is caused by the bid budget system used in Czech Republic. In our opinion, it is necessary to change the existing system into performance budgeting. Additionally, here has not been any monitoring system which would enable expense audit on a value for money basis.

Second, the expenses for policy advice outsourcing are influenced by soft factors as well. For instance, ministries also differ in the use of internal and external capabilities. Typically, some of the policy advice has been outsourced despite the fact that the ministries have had enough own capabilities to provide the service. Further,

it was observed that there have been attempts made to transfer a part or the entire accountability for the policy onto third parties. At other times the policy is passed (outsourced) to companies belonging to ministry executives' acquaintances. It is evident the policy advice outsourcing in the Czech Republic is dependent on a variety of factors. A comprehensive audit of ministries can reveal the particular cause. As of April 2014 the government of Czech Republic has currently initiated such audits. Our results have unravelled certain issues which will be discussed at the Policy Advice Outsourcing Review with each ministry.

5. Conclusion

An analysis of the theoretical work shows that the problem of outsourcing policy advice in existing research was examined predominantly in isolated instances or only from a single perspective. The study attempts to apply a holistic approach during the examination of the outsourcing of policy advice and it indicates how it is possible to examine the given problem from the position of an interdisciplinary approach on the basis of the definition of organisational, structural, personnel and economic factors influencing outsourcing expenditures.

Even though the expenditures for outsourcing policy advice does not represent a significant part of the budgeted expenses of the relevant ("ministerial") sections of the state budget, their further examination has both theoretical and practical importance. Policy advice represents a relatively "sophisticated" product, which is the result of creative and highly-specialised activities of highly-qualified professionals. Modern trends in public administration show that the public administration will place continually increasing demands on high specialisation and qualifications necessary for the production of the services. This can potentially lead to the further "denationalisation" of the public administration and its "privatisation". If this truly is the case, then examining expenditures for policy advisory services represents a certain "laboratory" in which the modernisation of trends in public administration can be monitored and verified, making the appropriate theoretical and practical conclusions for the area of the theory of the public administration and for practical reforms.

It can be seen that extreme changes in the form of increases of expenditures for outsourcing appear when changes to the regulations (the Act on Public Contracts) are prepared and announced. Contracting authorities from the level of the state administration probably included the expected change to the limit for the amount of the estimated value of the public contract and the change to regulations in their decisions for outsourcing policy advisory services. They probably also order and implement "superfluous" services. By doing so they "stock up," figuratively speaking, because they do not know how the procedural rules for contracting these services will change. At the same time they probably do so in order to minimise the risk ensuing from not knowing the new facts ensuing from the amendment to the Act on Public Contracts.

Several factors have a demonstrable influence on the relative quota of the expenditures covering the outsourcing of policy advisory services. The amount of the expenditures for outsourcing is influenced by the size of the ministries measured by the number of employees. The division of the ministries into size groups (small, medium, large) and expenditures for the outsourcing of policy advice show a negative correlation. This finding is rationally explainable. Large ministries have a larger capacity of their own

to perform the services in their own structures. It must be mentioned, however, that this conclusion tells nothing about the quality of the services produced. In addition to this it would be necessary to perform a performance audit at the individual ministries, which the ministries practically never performed as of now (even though they are required to do so by Act No. 320/2001 Coll., on Financial Control in the Public Administration).

The analysis shows that those ministries that have subsidiary workplaces (e.g. in the form of their own scientific research workplaces) in their structures realise below average expenses for the outsourcing of policy advisory services. It is not possible, however, to make clear conclusions from the aforementioned findings with regard to the limitation of outsourcing of policy advice on the one hand and their provisioning by insourcing on the basis of organisational changes on the other. This is because information is not available on the quality of the service, which would, on the basis of a comparison of the same type of consulting and advisory services acquired through its own production and outsourcing of the same service, make it possible to make a cost benefit analysis with the subsequent corresponding recommendations.

In conclusion it is necessary also to mention the probable new factor of the “optical” decrease in expenditures for consulting and advisory services (item 5166) in the year 2012, as shown by the partial analysis of these expenditures for the year 2012 (Táborský, 2013). This is probably because the ministries are rationally reacting bureaucratically to the approved “*Resolution No. 146 by the Government of the Czech Republic from 7 March 2012 on the Limit of the Organisation Units of the State From Drawing on Unused Expenditures in the Year 2012*”. The resolution states that if a ministry or other administrative authority concludes a contract for the delivery of consulting, advisory or legal services for more than CZK 1 million from one supplier during a calendar year, the proposal for the conclusion of such a contract is subject to the government’s approval (see Point 2 of the aforementioned government resolution). This brings additional administrative expenses to the ministries. When the aforementioned government resolution comes into effect, starting in the year 2012, the ministries will probably react rationally to this fact by moving part of the expenditures for consulting and advisory services (item 5166) to a different item (5169), which is designated as “purchases of other services”. It will only be possible to verify if this assumption is justified, however, when the necessary complex statistical data for the year 2012 are available.

Appendix

Correlation Coefficients for Selected Economic and Other Factors

ext/CC		ext/L	
0.1930	Ext	0.7089	Ext
-0.4020	CC	-0.0785	CC
-0.2907	L	-0.1362	L
-0.2850	LC	-0.0744	LC
0.0425	avgwage	0.2399	avgwage
0.0192	d1_2006	0.1412	d1_2006
-0.2988	d2_own	-0.2537	d2_own

Note: Correlation Coefficients, using 154 observations (14n*11t), 5% critical value (two-tailed) = 0.1582 for n = 154. CC are current costs in CZK, L is number of employees, LC is labour costs, ext/CC, ext/L are relative quotas of EXT to current costs and number of employees respectively, Avgwage is average monthly wage, d1_2006 is Dummy variable equal to 1 for the period of the years from 2006 to 2011, inclusive, otherwise 0, d2_own is binomial variable equal to 1 for ministries with "own" academic workplaces.

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