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RISK MANAGEMENT POLICY IN DUTCH MUNICIPALITIES

Understanding the process, identifying strengths and visualizing possible improvements

Gestión de riesgo en las municipalidades de Holanda Entender el proceso, identificar fortalezas y visualizar posibles mejoras

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ABSTRACT: The paper starts by analyzing the legal, financial and administrative environment under which municipalities in the Netherlands operate. Afterwards, it goes on to review the public reform processes in Dutch Local Government characterized by the incorporation of "private" sector instruments and practices into public management (Hood, 1995). According to some researchers (Van Helden and Bogt, 2001; Yesilkagit and De Vries, 2002; Sadowski, Nucciarelli and De Rooij, 2009 and De Vries, 2008),this process also known as "New Public Management", might have increased the vulnerability and the level of uncertainty of Dutch municipalities. The last section of

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the document, discusses the special bylaw that local governments have in the Netherlands regarding risk management, an instrument deemed innovative, yet in the need of improvement (Boorsma and Haisma, 2005) given the best practices and the specialized literature of risk management.

Keywords: risk management, new public management, municipalities, financial resilience

RESUMEN: Partimos analizando el entorno jurídico, financiero y administrativo de los municipios en los Países Bajos. Luego, estudiamos el proceso de reforma del Estado y su influencia en los Gobierno Locales, período que se caracteriza por la incorporación de instrumentos y prácticas del sector "privado" a la gestión pública. Este proceso, denominado también como el de la Nueva Gestión Pública (Hood, 1995), es relevante en razón de la incertidumbre y aumento de la vulnerabilidad que habría generado en los Municipios de ese país (Van Helden y Bogt, 2001; Yesilkagit y De Vries, 2002; Sadowski, Nucciarelli y De Rooij, 2009 y De Vries, 2008). En la última sección del artículo, se discute la política especial de Gestión de Riesgos en Holanda, herramienta que puede ser calificada de innovadora, pero que sin embargo devela espacios de mejora en cuanto a las mejores prácticas de la disciplina y la literatura especializada (Boorsma y Haisma, 2005).

Palabras clave: riesgo, gestión de riesgo, nueva gestión pública, municipalidades y resiliencia financiera

Describing administrative and economic environments seen in dutch municipalities

As pointed out by Korthals Altes (2002), the position of the nation-state has changed in the last decades. The hollowing-out of the nation-state and the rise of supranational regimes having regional and local governance (Jessop, 1994), was a response to the more complex environment that public entities had to deal with. An environment where the general public demands for quality services rendered as efficiently as possible, meant greater competitive pressure applied to the local public sector (King and Pierre, 1990) forcing the implementation of new managerial instruments, modifying their organizational structures and scope of action. In a context of greater uncertainty, the implementation of an adequate risk management approach would contribute in meeting the challenges that modern municipalities face. However, in order to receive the benefits of the discipline, the context that municipalities deal with needs to be taken into account.

The Netherlands is a decentralized unitary state where municipalities are characterized as autonomous and co-governmental public institutions (Van Helden and Bogt, 2001). Although the Dutch governmental system is hierarchical, municipalities do have a certain degree of autonomy, thus local government organizations have the leeway to initiate and conduct their business within the constraints imposed by national (and provincial) regulation. The nature of this co-government means that municipalities are a party to the implementation of national and provincial laws. According to Korthals Altes (2002) the Dutch constitution of 1848 made municipalities autonomous. As stated by Thorbecke (1798-1872), who is attributed as the architect of this constitution, unity cannot be top-down imposition. As discussed by Hoetjes (2009), there is a strong preference in Dutch public policies in general and in local government in particular , to seek consensus, and to consult as many stake-holders as possible before making any policy decisions. Because the Netherlands is currently minority ruled and has never been governed by clear-cut majorities is and was never ruled by clear-cut majorities, there is a strong tradition (born out of political necessity) to consult and accommodate minority views as much as possible. Several scholars venture the opinion that this may be the underlying reason not only for a slow decision-making process and a predilection for watered-down compromise policies, but also for the broad acceptance and long term legitimacy that government decisions enjoy (Lijphart, 1975 in Hoetjes, 2009).

The playing field of Dutch municipalities is not limited by an ultra vires rule, as in Britain, or by a Dillon's Rule, as in the US, which prohibits local authorities from providing services unless specially authorized to do so (Pacione, 2001 in Korthals Altes, 2001). Municipalities in the Netherlands are competent in the regulation and administration of their internal affairs and are only limited by statutory rules adopted at provincial or central government level (Schouten, 1999 in Korthals Altes, 2001). As seen in the work of Van Helden and Bogt (2001), Dutch municipalities are active in many policy fields, ranging from education and culture to city planning and economic affairs, including social services and employment programming. In many instances, police, fire brigade, public transport and public utilities are transferred to other organizations, which operate outside the formal municipal institution.

Municipalities in the Netherlands are governed by a municipal council, which is composed of elected members and is politically accountable for their actions (Van Helden and Bogt, 2001). The mayor is the chairman of the local council and he is appointed by the national government after consultations with the local council (De Rooij, 2002). The aldermen are elected by the council and together with the mayor constitute the executive committee, which is jointly accountable to the council (Korthals Altes, 2002). The local council makes the final decisions on most policy proposals, but prior to full local council meetings, council commissions meetings are held. Managers within a local government organization are not appointed on the basis of their political ideas, but because of their professional background (Van Helden and Bogt, 2001) and they are accountable for the day-to-day processes in their organization or organizational unit (see Figure 1 for municipal structure composition).

In spite of the apparent autonomy that Dutch municipalities seem to have, they are financially dependant on central government, reflecting the unitary structure of the country. Levies are waged by central government and only recently, in the late 20th century, that limited taxation powers were given to municipalities (Van Helden and Bogt, 2001). Ever since the Allocation of Finances Act in 1929, local government has had access to three sources of income: (1) a general grant from the Municipal Fund which the municipality is free to decide on how to spent it (2) special grants, which have to be spent on specific objectives as defined by central government and (3) own incomes received mainly through taxes collected (Boogaard and Huigslood, 1998). Income taxes represent only 10 per cent of municipal income, while the rest is assigned by central government in the form of general and special grants.

The general grant assigned by central government is distributed out according to 'objective criteria' related to the financial position of each municipality and is 'policy-free', meaning that central government does not use policy goals as criteria in its assignation. As discussed by Korthals Altes, in his work in 2002, this can be seen as a paradox, since in his opinion the way in which municipalities have access to these general grants makes Dutch municipalities relatively independent, since they do not have to develop any particular policies for generating a local tax-base. They are free to make decisions they consider relevant and effective for the community as well as for their own political interest. In case a municipality were to overspend, it will be placed in a financial deficit; meaning its finances fall under central government control for financial reconstruction. Once finances are reorganized, the municipality may return to it previous autonomous status (Korthals Altes 2002).This system prevents the municipality from becoming insolvent and provides financial sustainability for the sector in the Netherlands, ensuring that local public entities continue providing the services the community requires, yet it may also encourage irresponsible financial decision-making or increase the 'appetite for risk' that decision makers have.

As discussed by Boogaard and Huigslood (1998), the amount of special grants awarded has seen a decline from 432 awarded in 1985 to 114 awarded in 1998. The total funds involved in special grant transfers has also decreased in the same period from 43,5 to 30,7 billion guilders. Several special grants, such as those for building primary and secondary schools, have been transferred to the Municipal Fund and have therefore become general grants (Boogaard and Huigslood, 1998).

Although the Dutch system defines municipalities as equals in legal terms, and with uniform power structures, responsibilities and decision-making systems, it appears that this is not the case in practice (Hoetjes, 2009). Hoetjes (2009) mentions that the main cities in the Netherlands, such us Amsterdam, Rotterdam, The Hague and Utrecht, have a special financial status and political heavy-weights operating in most public policy fields. These municipalities can therefore exert a considerable lobby in national politics, sometimes stronger than that wielded by national ministry. Formally they do not have a special legal status, but differ from the other municipalities in several aspects. Due to their population size and their issues associated to metropolitan areas, they are entitled to a larger budget from central government and they have no limitation in terms of overspending or deficit. In addition and associated with their physical, economic and human resources (such as number of private companies, universities, voters etc.) they have a political weight which not only surpasses that of smaller municipalities, but also most of the provinces. It has been argued that they are 'regions on to their own and, in fact, quasi-provincial structures have been established to deal with their own particular interests (urban regions such as Rotterdam-Rijnmond, Haaglanden have been created) (Hoetjes, 2009). Their elected representatives are often, well-known political leaders, who have developed their own policy strategies in many areas, without waiting for a provincial or a national consensus in the issues.

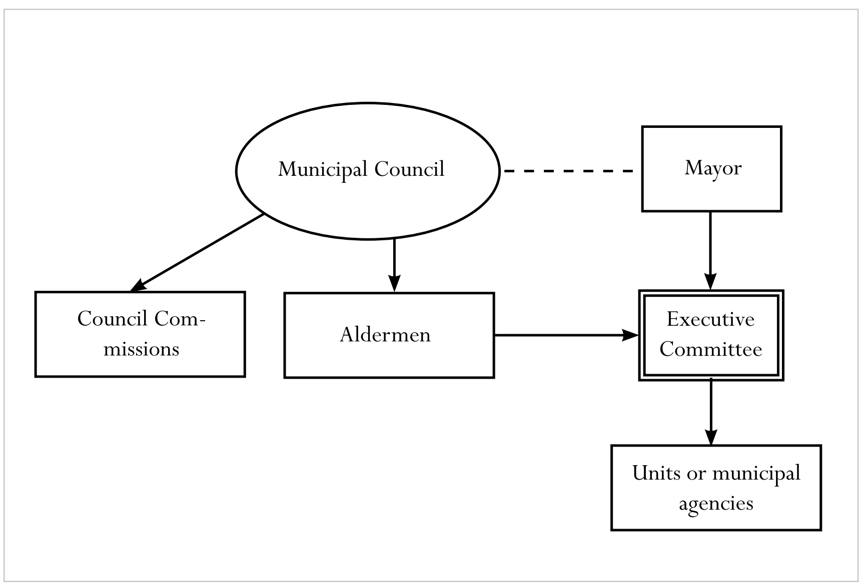
As stated, municipalities in the Netherlands are financially dependant on central government. However, there are some items that are increasingly relevant in their income structure. This being the case with real estate, given the responsibilities that they hold in the policies of territory development within their regions. They are allowed to form agencies which buy land and sell it on to developers, housing associations and other users of real estate (Needham, 1992 in Korthals Altes, 2002). As described by Korthals Altes (2002) these municipal land agencies are managed as if it were a business entity. When an opportunity arises to buy-up more real estate in an urban renewal area, the land agency would resort to a loan and pay interest on the credit, reporting its financial results on an annual account.

Financial results are not necessarily transferred to a central municipality, usually they are maintained within the land agency, which may reinvest assets on further regeneration policies as it sees fir. A salient issue in this practice is the lack of financial transparency, exposing the municipality to corruptions risks. Municipal land agencies have often been referred to as black boxes (Kolpron Consultants, 2001 in Korthals Altes, 2002). As established by Kolpron (2001), several municipalities have a substantial financial dependence on land development. In Houten, a rapidly growing suburban area near Utrecht, 50 per cent of all municipal income is derived from land sales. In Amersfoort, a medium sized city in the province of Utrecht, the percentage of income derived from the land market is around 30 per cent. In both cases, land development costs take up a large share of the municipal budget (Korthals Altes, 2002). As can be seen, the strong bias Dutch municipalities have towards investing in land development exposes them to market risk and also in reputation if the decision-making process related to these activities is lacking in transparency and the outcomes of these financial decisions are detrimental to the community.

Safety issues and order it is a responsibility also of the municipalities within the Dutch contexts, aspects that play a relevant dominant in the public agenda in the Netherlands, mainly in the bigger cities of the country. As discussed by Van Swaaningen (2008), in Rotterdam for example, there is a special alderman for safety issues. Even this is a mater of great public concern and debate these days in the Netherlands and in a strict perspective of risk management should be consider, in terms of this article we will not analyze it in detail, concentrating our study more on the risk management practices within the municipality.

The number of municipalities has seen a sharp decrease since World War II (see Table 1). Central government has promoted the merging process that the municipal sector has experienced. The emergence of private management practices in developed countries has hastened this merging process. Arguments such us increased efficiency, reduced costs for the state, and increasing administrative capacity were the major driving forces that fuelled this phenomena. However, as shall be seen in the next section, this process has had some consequences for municipal organizations, changing the risk profile of these entities, exposing them to new risks. On the other hand, as mentioned by Van Helden and Bogt (2001), although some Dutch municipalities seem to have adopted and implemented an important range of 'businesslike' management instruments, this does not mean that they have actually implemented and incorporated the actual practices that were being promoted in this period.

FIGURE 1. STRUCTURE OF A DUTCH MUNICIPALITY



Source: Own research.

TABLE 1. DISTRIBUTION OF DUTCH MUNICIPALITIES BY SIZE OF MUNICIPALITY

	Number of municipalities			
Population size	1950	1980	1990	2010
Less than 5.000	624	246	105	6
5.000 to 20.000	314	407	384	165
20.000 to 50.000	53	114	130	192
50.000 to 100.000	13	27	36	42
Over 100.000	11	17	17	26
Total	1.015	811	672	431
Average population size	9.879	17.375	22.162	38.327

Source: Based on Denters, Klok and Visser, 2002.

Public Management Reform in the Dutch Local Government Sector

In most western countries, government organizations have adopted several instruments and practices from business organizations, particularly so since the end of the 80'. This process has been named as 'New Public Management' (NPM). The principles behind NPM lie in the reducing or removing the differences between the public and private sector and shifting emphasis from process accountability towards greater accountability in terms of results (Hood, 1995).

As discussed by Van Helden and Jansen (2003), NPM refers to the introduction and application of business tools and practices in government management. Pollitt and Bouckaert (2000 in Van Helden and Jansen, 2002) argue that NPM reforms have evolved around six dimensions: privatization, marketization, decentralization, output orientation, quality systems, and intensity of implementation. Therefore NPM can be characterized by both instrumental and attitudinal elements (Van Helden and Jansen, 2003). Instrumental elements include:

- Decentralization of the organization into product-based units;
- Contract-based relationships among these units, that is, between the top level and the divisions, as well as among the divisions and with the underlying departments;
- Accountability of the organizational units through performance indicators, including the application of target levels;
- An output-oriented control structure at all hierarchical levels of the organization.

Olson (1998 in Van Helden and Bogt, 2001) calls the above instrumental elements, which are part of a more businesslike planning and control process, the New Public Financial Management.

On the other hand, attitudinal elements submit to private sector styles and visible hands-on management, referring to practices that institutionalize and routinizes through in the organizations (a complete picture of NPM characteristics is given by Hood, 1995 and Kickert, 1997). (See Table 2)

Following this train of thinking, Pollitt (2002 in Van Helden and Jansen, 2003), argues that the adoption of NPM practices can be distinguished at four different levels: at the discourse, at formal reform decisions, in actual organizational practices, and results or impacts to changes in public administration. In the Dutch context, one of the most tangible and visible effects of NPM processes is the transfer of many responsibilities from central government to municipalities during the early 1990s. De Vries (2008), mentions that Policy areas like welfare, social and cultural affairs, sports, recreation, the elderly, social insurance policies, juvenile delinquency, social housing, city renewal, health sector prevention policies, regional economic policies, the care of monuments and policies for the disabled– all became the responsibility of municipalities. There are concepts such us efficiency and effectiveness, as well as quality in service delivery that central government perceives as being a function of scale, and also considering that central government does not believe in the ability of municipalities to deliver on services connected to the decentralized duties, many smaller municipalities were forced to merge, as mentioned in the previous section (De Vries, 2008).

As discussed by Boorsma and Mol (1995), Dutch cities have been in the forefront in many issues in the process of public reform. However, it seems that although businesslike management instruments and practices were adopted, changes were far less radical than in, for instance, in the UK, Australia or New Zealand (Hood, 1995; Pollitt, 2000 in De Vries, 2008). Therefore, although a large majority of municipalities have introduced NPM instruments, the claims made originally, such as contributing to efficiency and effectiveness, may be only partially fulfilled. For instance, some studies revel that in the Dutch municipal sector the application of management instruments for decision-making was not widely applied by decision makers in practice (Van Helden and Bogt, 2001; Van Helden and Jansen, 2003 and De Vries (2008) among others).

Limits to the application of NPM in Dutch Municipalities, practices and decisions

Van Helden and Jansen (2003) show that in the 1980s, some larger municipalities in the Netherlands took the initiative to change their control system. The most important features of these changes were the transition from input to output controls and the replacement of traditional centralized organizational structures by decentralized organizational devices. The newly established decentralized units were organized by policy field, such as spatial planning and social security. This process was extended later when in 1990, the Dutch Ministry of Home Affairs took the initiative to stimulate municipalities –irrespective of their scale– to apply businesslike tools, such as output budgeting, responsibility accounting, variance analysis and cost allocation (Van Helden and Jansen, 2003). This initiative of the central government in terms of control instruments, was known as BBI (in Dutch: 'Beleids-en Beheers Instrumentalism'), which could be translated as Policy and Management Instruments (PMI). The process was formalized and documented through special instructions and recommendations.

A survey elaborated by Kpmg (1997 in Van Helden and Jansen, 2003) found that approximately 75 per cent of municipalities in the Netherlands applied output-oriented planning and control instruments. However, this review also indicated that the smaller the municipal scale, the lower the average use of these instruments was (Moret, 1997 in Van Helden and Jansen, 2003). A field study also conducted by Kpmg (1997, in Van Helden and Jansen, 2003), using a small sample of 16 municipalities having populations ranging from 13,000 and 40,000 inhabitants, found that output budgeting was used by 67 per cent of the municipalities studied.

A clear indicator related to the extended use of NPM practices in Dutch municipalities may have to do with the decision making process and the applications of these instruments by decision makers. As we have seen, aldermen are the elected politicians who comprise the municipal executive. Given the emphasis NPM puts on output control and the use of performance information, aldermen are supposed to make intensive use of the performance information in planning and control documents, such as budgets and reports. However, discussed by Bogt, (2001 in Van Helden and Jansen, 2003) this assumption is not corroborated in survey developed using information of Dutch aldermen in municipalities with more than 20,000 inhabitants. From this survey, Bogt (2001) concludes that the most intensively used sources of information, in the case of aldermen, comes from informal, verbal consultations and formal meetings with top managers. Therefore according to his findings, aldermen use written information in budgets, annual reports and management reports to a more limited extent than with informal sources of information. In addition, another field study conducted by the same author on three Dutch municipalities with more than 100,000 inhabitants indicates that aldermen do not primarily use quantitative output measures to evaluate the performance of top managers (Bogt, 2001). Although these findings may skewed by the small sample used, so invalidated for use in generalizations, they do give us some interesting evidence that could indicate difficulties in the implementation of best management practices in local public entities in the Netherlands.

Moreover, Van Helden and Jansen (2003) consider that the difficulties in applying business practices by decision makers in municipalities are related to how the process of NPM was implemented in the country. Since this was a top down approach initiated and laddered by central government, they believe that was relatively easy to observe management instruments adopted more than businesslike management styles and practices. Therefore in their opinion, it could be less difficult to impose new instruments top-down, than to change management styles, which requires an understanding and internalization of new concepts and a new attitude at all levels throughout the organization (Van Helden and Jansen, 2003).

Effects and new threats due to NPM

When considering the effects of NPM in Dutch municipalities and in particular the impacts of its most visible consequences, namely the decentralization process in the public sector, the South Holland banking scandal becomes an interesting example. As discussed by Yesilkagit and De Vries (2002), the near bankruptcy of a private company due to an economic crisis and a devastating hurricane in Latin America, led to one of the biggest crises in central-local government relationships in The Netherlands, when a newspaper found out that the company had received two loans from the Province of South Holland. Further investigations revealed that over a four year period, the Province had made excessive loans at high rates of interest (1.7 billion guilders) particularly to financial institutions, but also to commercial businesses and semi-public agencies (such as housing corporations) (Van Dijk Commission, 1999 in Yesilkagit and De Vries, 2002). In addition, this scandal revealed that other provinces were also pursuing such bank practices (Yesilkagit and De Vries, 2002).

Therefore, according to Yesilkagit and De Vries (2002), the public management reform initiated under the generic label of New Public Management, may have led to these unintended consequences. Thus the decentralization of financial management and the emergence of 'reinvention' ideas may have exposed municipalities to catastrophic events.

The Dutch constitutional reform of 1983 established that decisions made by local authorities (provinces and municipalities) can be subjected to ex post control only in circumstances specified by law and subject to reversal by Council Order only when local government decisions are in defiance of the public interest (Yesilkagit and De Vries, 2002). Regarding financial management however, the constitutionally guaranteed autonomy of the provinces implies that provincial authorities can initiate and undertake any kind of financial activity as long as the Provincial Council deems such activity necessary. (Minister of Interior Affairs and Kingdom Affairs, 29 September 1999).

Central governmental maintains an ex-post supervision of the provincial budget. The main objective of the budgetary supervision is to avoid provincial authorities, due to poor financial management, from falling into financial arrears. Budgetary supervision includes yearly controls on the budget and any changes in the annual account. The central criterion in this supervision is to keep tabs on the extent to which the budget is in balance in comparison to the former year (Yesilkagit and De Vries, 2002). A further criteria to be considered is the risk exposition, which the municipality itself has to determine, an issue seen in greater detail in the next section of this paper. If risk is present, the province must stipulate it in the budget's risk section (risk paragraph). Equally important is the criterion that the province's financial management should be in accordance with the general interest, a definition of which is provided by the 1995 Governments Account Act (Yesilkagit and De Vries, 2002).

Despite this supervision system, the Ministry of Interior Affairs was unable to detect these banking activities as carried out by the Province of South Holland. The fact that the Ministry of the Interior finally found out that the Province was providing loans to the private sector through information received by the Association of municipalities is a clear indication that this supervision system did not have a risk management element that may have provided an early warning which could have triggered intervention, thus protecting community assets and the public interest. Indeed, probably due to structural limitations in the paragraphs dealing in risk and the lack of knowledge by decision makers within municipal levels when dealing with risk management methodologies and concepts –aspect that we will deal with in the next section-banking activities were not considered in the paragraphs dealing on risk. On the other hand, and in relation with best practices in maintaining a solid and stable financial system in any country, the described situation also confirmed that financial intermediation activities required special risk management supervision, where aspects such us liquidity risks, credit risks as well as operational risk become increasingly relevant in terms of controlling the systematic threats involved in these processes, aspects that are beyond the capacity and scope of municipalities as well as that of the Ministry of Interior as a supervisory entity. The latter justifies the existence of special institutions and regulations within the financial industry and at the same time, the consensus among experts and governments that the provision of financial services has to be made by single institutions that have as a unique business and operational scope the provision of such financial services.

Therefore the case of the Province of South Holland may serve as an example in how the incorporation of management practices in Dutch municipalities did not actually lead to the desired result of achieving more certainty through planning, control and the gathering of more information so as to inform rational and efficient decision-making by municipal authorities, exposing instead these types of entities to a new kind of risk. In fact, this crisis did not only evidence the emergence of new financial risks materializing in the local government scene, but political consequences for elected and appointed officials as well. While the decentralization of tasks and legal affairs to lower levels within the organization created more scope for management, the stock of reinvention ideas empowered some managers to act within this space in a certain direction. As discussed by Yesilkagit and De Vries (2002), external and internal decentralization created room for greater managerial flexibility in municipalities, which in turn led to 'institutional uncertainty' (Bovens, 1996 in Yesilkagit and De Vries, 2002).

An additional consequence of the NPM process in the Dutch municipalities, contributing to the appearance of new threats, is the proliferation of quasi-autonomous organizations (called 'quangos') as a consequence of this decentralization trend (Van Helden and Jansen, 2003). Quangos are organizations which are charged with policy implementation and funded by local government, but operate with a measure of independence from that local government, without an immediate hierarchical relationship, making them difficult to control and may lead to financial and non-financial risks if things go wrong. Moreover, public-private partnership follows a businesslike approach that is now standard practice in local public organizations in the Netherlands as a consequence of the impulse of NPM, instrument that should delivered efficiency, transferring part of the financial risk associated to a public project. However, according to Drennan and MacConnell (2007) taking into account the nature of public organizations, these risk management techniques or responses do not eliminate the risks to which municipalities are exposed to, since residual risk such as risk to the reputation and trust levels, remain within public organizations, taking into account that as far as the community and the public is concerned, the municipality is still responsible for the activities.

Although these new risks that municipalities face may be a consequence of the new management process , all in a more complex and demanding environment, it is more than likely that this scenario is going to be a permanent one not merely for municipalities but for every organization involved in local governance. Therefore, it is not possible to infer that the rise of private-management instruments in the public sector is the reason for failure and the reason why the risk that municipalities face has increased, on the contrary, the fact that these tools may not be implemented as real practices in use for decision makers may be the reason why they have not been able to support local public organizations in decision-making processes when confronting these difficulties. In that sense, Van Helden and Bogt (2001) found wanting the attitude of municipal decision-makers to planning and the application of best practices in management, mainly because they had to deal with short-term political issues and due to their resistance to accountability and transparency. These conclusions were drawn from a survey conducted by these scholars where municipal representatives gave their opinions, mentioning for example, that politicians and managers in general were not sufficiently performance-oriented so as to make planning and control systems successful within municipalities (see also Kpmg, 1997).

Moreover, NPM in a consensual democracy seems to be too ambiguous a notion to act as a promoter for real change. As previously mentioned, the Dutch governmental sector has a long tradition of consensual regimes. For many decades, central and provincial government, as well as a majority of municipalities, have been run by coalitions. Making compromises, the creation of broad political and public support, and intensive consultations to multiple stakeholders are important aspects in Dutch political culture and decision-making. Another aspect of the consensual culture is that, in order to be acceptable to a variety of stakeholders, policy as agreed by politicians can be subject to various interpretations, which results in a wide variety of potential consequences in the workplace. Pollitt and Bouckaert (2000) argue also that deep structural reforms to the public administrative apparatus tend to be less difficult in majority regimes than in consensual ones.

TABLE 2. THE NEW PUBLIC MANAGEMENT APPARATUS IN DUTCH MUNICIPALITIES

NPM characteristic	Evidence	Comments
1. Divided in units, organized by products	Divisions based on policy fields (similarity of products) is very popular	Recently there have been other principles for forming divisions considered (such as similarity of processes)
2. Contract based internal relationship	Businesslike internal relations realized lo a limited extent: wide	Often compulsory internal transactions maintained
3. Adoption of private sector styles and practices	Pay for performance is rare. But its importance is growing: prevalence of public sector ethics	Scarce use of businesslike performance indicators for rating top managers; resistance to incorporating private sector ethics(practices)
4. Cut the use of resources	One of the main reform reasons : improved efficiency	Evidence on efficiency gains not always clear-cut
5. Visible hands-on management	Top managers are more vulnerable to enforced leave	Reasons for top manager's vulnerability h d l y related to bad results on performance indicators
6. The need for clearly defined targets	Development of performance indicators is important, but target setting underdeveloped	Relevance and controllability of performance indicators generally low
7. Outputs and results controls	Change in the focus of control, but change seems more rhetorical than rational	Performance information often hardly used for decision making and control

Source: Van Helden and Jansen, 2003.

Risk Management in Dutch Municipalities, the special regulation on Financial Resilience

The Province Law that was established in 1995, further developed during the process of New Public Management, securing the autonomous position of provinces with regard to their financial management (Yesilkagit and De Vries, 2002). As mentioned in the previous sections, this Province Law determined that central government no longer controls ex ante, shifting to an ex post mode, trough a budgetary control mechanism which was formalized and detailed through a latter Province Law, the 1997 Policy Framework Financial Control. This latter regulation contains the actual rules and procedures for this reserved budgetary control. With this instrument, the Ministry of Interior Affairs controls weather the yearly provincial budget is balanced. The main objective of these Laws and the ex post supervision performance by central government, is to prevent that provincial authorities, due to poor financial management, from falling in arrears financially (Yesilkagit and De Vries, 2002). There is a specific procedure establish in the Provincial Law of 1995, aside from the information that they have to prepare and show to central government with respect to balanced budget form year to year, which details the extent of potential financial risk. According to this normative, the Province must stipulate in its budget a 'risk section'.

In 2004 the Provincial Law that determined the "budgetary control" was further modified to include a special paragraph on financial resilience. This financial resilience is defined as a ratio between the financial capacity available divided by the financial capacity required (Boorsma, 2006). In addition the bylaw states in detail that the paragraph should include at least; a) a scrutiny of the available financial capacity, b) a scrutiny of the risks (required financial capacity) and c) the policy on financial resilience with risks and measures taken into account.

As discussed by Boorsma (2006), this approach assumes a series of steps in order to achieve its purpose. The first step should attempt to summarize uncovered risks, these being the risks that are not covered nor transferred through an insurance mechanism, or a budgetary reserve. The Provincial Law also defines important risk management concepts and help in guiding the implementation of the paragraph. For example it defines the notion of "regular risks" as risks which occur frequently and can for that reason be easily assessed. Hence the bylaw determines that these types of threats can be covered by insurance, which is the main reason why the normative does not consider regular risks in the risk paragraph. Boorsma (2006), also mentions that, by leaving regular risks outside the scope of financially covered risks, organizations have no incentive to develop full-scale risk management, neither is there an incentive to include weighing-up all policy alternatives nor to respond through a Cost-Benefit Analysis. In addition, a specific insurance policy may not give full coverage, or it may be too expensive, which seems consistent with evidence suggesting that Dutch people and organizations in general a tendency for over-insurance. Therefore, even that transfer a risk that has a high frequency and a low impact could be a pertinent 'risk strategy', it is not the only respond for this kind of risks (Lam, 2003). Risk strategies such us risk prevention and other risk reduction mechanisms such as education and enforcement could be also applicable by themselves or in combination with a risk financing or insurance strategy which would have positive impact on the cost of the premium.

The Provincial Law also discriminates between 'positive risks' and 'pure' risks (Boorsma, 2006). According to this bylaw, positive risks are those which may have a positive outcome, for example the decreasing interest on short-term loans, which in the literature of risk management, and specially so by scholars who apply an integrated perspective, consider as a 'upside risk' (see for example Lam, 2003). 'Pure' risk, on the other hand, is defined in this regulation as the probability an event will happen bearing negative consequences for the party involved. Also considered are 'general risks' and 'specific risks'. According to the legal text, general risks should impact and have consequences for all municipalities, such as an increase in loan interest, while specific risks are risk that apply only to the original characteristics or risk 'profile' of the particular municipality. A subcategory is also defined by the bylaw; 1) financial risks, 2) risk to property and 3) risks related with internal organization. Although the definitions do not include just pure, i.e., negative risk, but also risks that may have a positive outcome, this being a modern and a proactive approach to risk management, thus municipalities should see the discipline of risk management not just as a model for managing possible losses but also to measure opportunities, the classification in general is not sufficient nor clear enough. As established by Boorsma (2006), this could suggest that the Ministry of Interior Affairs may have to push municipalities to clarify possible financial consequences related to certain risks, thus neglecting other (none) financial or reputational risks.

After these uncovered risks are summarized (step one), the Provincial Law establishes a second step, where the municipality calculates the financial loss due to these uncovered risks. The sum of this calculation is the financial capacity needed (CN) (Boorsma, 2006). As a third step, the bylaw defines the financial capacity available (FCA) as the sum of the available free budgetary reserves (Afbr) plus the available room for extra tax income (Arei) plus the hidden reserves (Hr), which can also be viewed as follow:

$$\text{FCA} = \mathit{Afbr} + \text{Arei} + \text{Hr}$$

As discussed by Boorsma (2006), all municipalities have silent or hidden reserves, which are not evident from the capital statement. These hidden reserves could be found when assets are valued at the balance or book price, using the historical value as the initial position. However, because of inflation factors and other causes the actual value may be much higher. This is said to be the case in public utilities companies that municipalities used to own (such as energy companies, cable networks) and the largest Dutch development company, which was previously owned by over 200 municipalities (Korthals Altes, 2001), which were sold at very high prices, thus making an enormous book profit, making clear the existence of former hidden reserves. There may be other hidden reserves in the book value of the buildings, or land, or machinery etc. Therefore by definition the assessment of hidden reserves is difficult (Boorsma, 2006).

The fourth step considered in this bylaw is the actual calculation of financial resilience, which is the ratio between financial capacity available (FCA) and the capacity needed (CN). Therefore, the municipalities that have a positive result in this calculation, where the ratio is more than 1, are in a safe zone in terms of financial resilience or capacity to confront undesirable events. As a final and fifth step, the Provincial Law for budgetary control and specially its paragraphs relating to risk defines that the municipality should develop an explicit and official risk management policy. Although this objective is adequate and consistent with a modern approach of risk management; Boorsma (2006) considers that the Ministry of Internal Affairs has failed to give precise guidelines, particularly when considering the wide spectrum of literature on risk management research and standards for different industries, sectors and types of risks. Therefore, a particular framework developed by central government and the association of municipalities for applying risk management in municipalities may be needed, guidelines that should determine for example, the period for reviewing and evaluation of the risk management policy and the participation and involvement of the citizens during the risk management process, as well as the roles, responsibilities and competencies required (see Figure 2 for an illustration of the 'risk paragraph').

Room for improvements and risk management deficiencies in Dutch Municipalities

Boorsma and Haisma (2005) undertook specific research on the application of articles on resilience as set out in Provincial Law 2004. They used data from 130 municipalities to determine how this risk management approach for local public organization in the Netherlands may be actually implemented. Study findings indicate an inconsistency between actual municipal practices with the recommendations as established in the bylaw and also with best practices in risk management seen in the literature.

Regarding the risk identification steps, considered both in the bylaw (uncovered risk) and also in every version of the risk management cycle, Boorsma and Haisma (2005) found that municipalities do not identify risks in any systematic manner. They conclude that municipalities merely provide a list of risks, not distinguishing between events (such as burglary or fire), policy fields subject to risk (such as environmental policy, treasury, municipal ambulance transport), and those exposed to risk (such as buildings, computers, employees, citizens, etc.). This finding, in their opinion, may be related to a previously mentioned aspect, which is that Dutch municipalities only summarize and identify 'unfunded' risk, which are mentioned in the articles. Another possible explanation discussed by the authors may be attributable to a lack of experience by municipalities in the implementation of risk management, something which can be viewed as a "deficient risk management processes" within organization.

Boorsma and Haisma (2005) found that pure and catastrophic risk such us fire, storm, flooding, theft, are not often mentioned by municipalities, while internal or operational risk (see Fone and Young, 2005 and Drennan and McConnell, 2007) such as fraud, internal procedures, internal management are often ignored, which could be explained, in their opinion, by the fact that public organizations find it hard to scrutinize critically their own performance. In addition it is indeed surprising that risks related to European subsidies are hardly ever mentioned by municipalities in the paragraph (Boorsma and Haisma, 2005), considering not just the economic effects of this policy specially for border municipalities, but also the political and social impacts that it has now in several communities in the Netherlands (De Rooij, 2002).

Due mostly by the structural and conceptual difficulties of the paragraph (in particular the definition of uncovered risks), immaterial or reputational risks were never found by the authors in their research (Boorsma and Haisma, 2005). Risks related to the damage inflicted on a third party were also scarcely mentioned, unless it was the cause of legal liability procedures (for which the city is insured against). Furthermore, only 50% of the municipalities mention the expected liability damage.

In terms of distinguishing positive and negative risks, Boorsma and Haisma (2005) found that most municipalities only mention pure or negative risks. Only a few mention positive risk, like the possibility that Parliament allows cities to sell-off its shares in energy companies (Boorsma and Haisma, 2005), seen more as a hope than a positive risk. Although this situation may also be explained by the 'structural' difficulties in the paragraph, as mentioned earlier, the lack of risk management knowledge or the application of risk management practices, as well as the lack of clear guidelines central government, could give us further reasons.

The distinction established in the paragraph between general and specific risks is not strictly adhered to. Even if municipalities use this risk classification in practice (general risks), they would mention several different types of risks (Boorsma and Haisma, 2005). As also mentioned by Boorsma and Haisma (2005), general risks to which all the Dutch municipal sector is exposed to, such us the variation of profit tax or the reduction of general grants, which, as we have seen, represents the biggest source of income for municipalities, are not even mentioned in the resilience paragraph. However, without clear guidelines, pertinent training of municipal decision-makers and a better design of current policy instrument (the paragraph), it would be unlikely to find more sophisticated and mature risk management processes and practices.

As discussed by Boorsma and Haisma (2005), given the assessment step as defined in the paragraph, this being the calculation of the financial capacity needed, it assumes-in any given risk management framework or methodology– that once identifying the risk, the organization and in this case the municipality, should assess the probability, determine the possible loss (the probability that the identified risk will actually materialize) and its impacts. Empirical studies by the authors found that just a few cities (5 out of 130) and in particular larger cities, use this standard approach as developed using Knight's contribution (1921).[2] It is interesting to note that the cities which follow this approach, such as Groningen and Tilburg, are cities judged as being international leaders in the implementation of NPM, pioneering business practices such as management at arm's length, and performance budgeting (Boorsma and Haisma, 2005).

Other relevant findings in Boorsma and Haisma's empirical research consider particular practices in the calculation of possible risk. They mention that many cities use very unorthodox methods, approaches that may be appropriate in the distribution of specific public services to citizens or to measure or control the effectiveness of a particular municipal outcome, but not in measuring risks within an organization. Thus, in many cases the municipality will merely state that they need a financial capacity of x amount per citizen, times the number of citizens, or even worse, as a result of y% of the total budget of the municipality. As acknowledged when studying the theory of risk management, the calculation of 'risk indicators', such as financial capacity, which strictly speaking is the amount

[2] Knight argued that many risks are characterized either by uncertainty or by objective uncertainty. He points out that a major direction in the development of organizations is the prediction, analysis, and containment of risk, so that, over time, risks are converted into certainties (Knight, 1921). Thus, the standard frequency-severity index found in the literature of risk management, follows in practice the contributions of Knight , that means that after the identification of risk has been accomplished the organization should assess the probability, after which the possible loss is the probability times the possible loss.

of economic capital required to support activities bearing risk for the organization and therefore, prevent possible financial default (Lam, 2003) –which may in principal be wrong, given the fact that the municipality will not break down– dependant of the risks the city is exposed to. Once again, these examples illustrate paragraph design problems, as well as a void in risk management knowledge within Dutch municipalities, which may explain for example why the paragraph did not serve its purpose in the catastrophic event of the Province of South Holland, as explained in the previous section.

Finally, the research conducted by Boorsma and Haisma (2005), revealed that most municipalities were actually able to calculate in a consistent manner with the paragraph, the financial capacity available (FCA) mentioned as a third step in the bylaw. Thus, 124 out of 130 entities measured the available financial capacity. When considering step four, meaning the calculation of the actual 'finance resilience' (the ratio between capacity available and capacity needed), the authors found –as expected– that the municipalities did not calculate the financial capacity needed for uncovered risks, this being the ration denominator. A mere 13 out of 130 municipalities calculated the needed financial capacity. As for step five, which is the requirement of a formal risk management policy, most municipalities failed to mention which responses were for each specific risk identified. The municipalities studied also failed to discuss, as mentioned in the paragraph, that policy objectives and scope be consistent with a wider approach to risk management as described in modern literature. Thus, most municipalities did not show a clearly formulated policy, only 7 out 130 presented an explicit risk management policy and only 6 out of 7 entities defined targets, responsibilities and specific instruments for conducting assessments and control (see Table 3 for the comparison of a standard risk management process and the steps defined in 'risk paragraph').

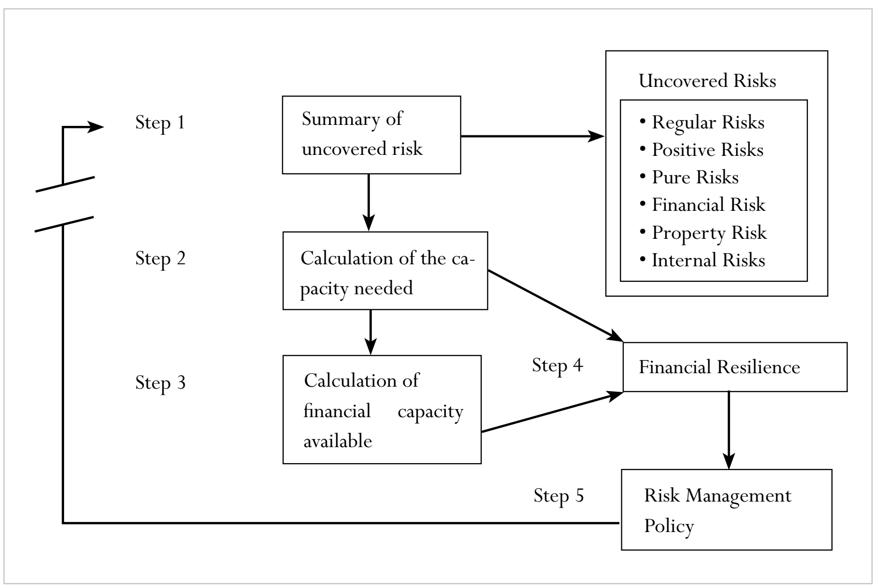
Conclusion

As a conclusion, we can say that municipalities in the Netherlands have legal, economic and political conditions and characteristics that expose them to several types of risks, which compromise the fulfilment of their objectives and therefore to some extent the welfare of their citizens. Some of the elements that describe the context on which municipalities perform harp back to the roots and values of Dutch society and others are more related to the new challenges and expectation of a complex and competitive new world. Nevertheless, all these considerations need to be taken into account when studying the implementation of risk management practices, particularly the decision- making process within municipalities, an area of our interested for future research.

Assuming that there are plenty of good reasons for a public organization, and a municipality in particular, to implement best practices in risk management, methods and instruments for expanding knowledge on the subject should be sought so as to gain the full benefits of the discipline. Although in the Netherlands there is wide array of local goverments that has risk management at its core, there is ample room for improvement, both at the structural level (the actual design, concepts defined in the paragraph which may have incentives and disincentives in the development of risk management practices) as well as at the implementation level, this being the risk management practices that actually occur.

Management literature should be scoured, particularly the Maturity Model field, a methodology that may facilitate the integration of risk management best practices into the business processes of organizations, so as to objectively measure the risk management process of municipalities in the Netherlands. As showed by Boorsmand Haisma (2005) some municipalities in the Netherlands have more 'mature' risk management practices, such as Groningen and Tilburg, cities that could serve as a benchmark instrument for the development of risk management in the whole sector. The study of best management practices for municipalities and the empirical application of special risk maturity model for these organizations, may shed light not only in assessing and improving risk practices of these entities but –with further research– suggest some improvements in terms of the current public policy (the risk paragraph).

FIGURE 2. STEPS IN THE RISK MANAGEMENT PARAGRAPH IN DUTCH MUNICIPALITIES



Source: Own elaboration from Boorsma (2006).

TABLE 3. COMPARING RISK MANAGEMENT PROCESS WITH THE RESILIENCE PARAGRAPH, HIGHLIGHTING SOME PUBLIC POLICY GAPS

Standard Risk Management processes	Resilience Paragraph steps
Determining objectives	Not defined
Identifying risks	Identifying or summary of uncovered risk
Evaluating risk	Evaluating risk or financial resilience calculation (ratio between capacity available/ capacity needed)
Considering alternatives and selecting the risk treatment device (Decision and Control)	Not defined
Implementation and reviewing	Establishes the necessity of a policy, however does not consider specific roles, instruments and the necessity of continued improvement and feed back.

Source: Own elaboration.

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Implementing risk management in construction projects and organizations may bring a number of benefits and therefore it is necessary to have risk management as an integral part of a construction organization's management practice. The aim of this paper is to develop a risk management maturity assessment model for construction organizations. The paper describes the development process of a Web-based RM3 (risk management maturity model), including its contents, its validation and testing, as well as its applications. The RM3 developed has five attributes namely, management, risk culture, ab 5. The Risk Management Policy provides entity level risk guidelines encompassing key risk areas across the group such as Business Risk, Operational Risk, technology risk and Strategic and Reputation risk. Scope. 6. The Policy shall apply to all operations, divisions and geographic locations of the Company.Â Â· Help in identifying risk, assessing the risk, policies / guidance notes to respond its risks and thereafter frame policies for control and monitoring. Risk Management Function. The Risk Management Division is the key division which would implement and coordinate the risk function as outlined in this policy on an ongoing basis. It would act as the central resource division for administration of RMF. Risk management policy in dutch municipalities understanding the process, identifying strengths and visualizing possible improvements. ADD To my list. Author(s): Ignacio Cienfuegos Spikin. Journal: Revista Enfoques : Ciencia PolÃtica y AdministraciÃ³n PÃºblica ISSN 0718-0241. Volume: IX; Issue: 14; Start page: 155; Date: 2011; Original page.Â The last section of the document, discusses the special bylaw that local governments have in the Netherlands regarding risk management, an instrument deemed innovative, yet in the need of improvement (Boorsma and Haisma, 2005) given the best practices and the specialized literature of risk management. My list. Download the list. You may be interested in