

PUBLIC SECTOR PERFORMANCE CONTRACTING IN BELGIUM AND FLANDERS (*)

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EXECUTIVE SUMMARY

Performance contracting was only introduced in the beginning of the nineties in the Belgian public sector. The main aim appears to be savings. On the federal level, the use of contracts goes hand in hand with the creation of new autonomous enterprises. In this case the contract stipulates the compulsory public utility services they have to deliver and the conditions under which this has to be done. As the case of “the Post” shows, the performance contracts also allow for considerable autonomy in financial, human resource and internal organisation management. On the regional level, however, practice is diverse. Performance contracts are embedded in an overall performance management strategy of the Flemish government. But in many cases, the contract is just another way of controlling already existing para-departmental organisations as the case of the Flemish Service for Job Mediation and Vocational Training shows. The legal status of performance contracts remains an unresolved issue at both levels of government.

(*) Also refer to the synthesis document: [PUMA/PAC(99)2] *Performance Contracting: Lessons from Performance Contracting Case-Studies & A Framework for Public Sector Performance Contracting*, and to the other related case-studies of Australia, Canada, Denmark, Finland, France, New Zealand, Norway and Spain, all available on the OECD netsite (<http://www.oecd.org/puma/>).

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Performance contracting has only recently been introduced as an instrument of public sector control in Belgium. This paper gives an overview of the different practices of performance contracting in Belgium and its regions, particularly in the region of Flanders. The first part of the paper situates the different types of performance contracting in the overall performance management strategy pursued by the governments involved. It discusses the legal framework with its conditions that have to be met in the performance contracting processes. These contract management processes are dealt with in the second part of the paper, which analyses the negotiation processes and the content of the actual contracts. The third part focuses on the degree and types of autonomy that are granted to the contracted public sector organisations. The last two parts assess the effects of performance contracting and draw some lessons for future practice.

The focus of the paper is on contracts used between organisations at the same governmental level, central as well as regional. Two types of contracts are discussed in detail. The general features of each type of contract are dealt with. Subsequently, these general issues are confronted with one case for each type of contract. The first types of contracts are the performance contracts between the central government and the autonomous public enterprises. The chosen case is “the Post”, the federal postal service organisation. The second types of contracts are the management contracts between the Flemish Government and para-departmental organisations. The Flemish Service for Job Mediation and Vocational Training (denoted in the text as the VDAB) is used as an example.

1. Types and Context of Performance Contracting

Unlike many other OECD countries, Belgium has a long history of administrative decentralisation and public service delivery by (quasi-)autonomous administrative bodies. In this administrative tradition, it has been a major objective to control these administrative bodies and make them accountable for their results, although contractualisation was not always the primary means in this respect. Since the independence of the Belgian State, the traditional monolithic government bureaucracy was broken up by the creation of, for example, *régies*, parastatal organisations, public institutions which, to an increasing extent, deliver public services. These administrative bodies have some operational autonomy in order to perform their task of general interest in an efficient and effective way. *Régies*, for instance, are internal decentralised units which are hierarchically linked to the responsible minister. These organisations, somewhat comparable with the *Next Steps Agencies* in the United Kingdom, have separate operating and accounting systems which make output control possible. In practice, however, such organisations still remain heavily input controlled. Preliminary types of performance contracts were and still are used in concessions for exploitation and in the relationships between the state and, for example, the labour unions and *mutualités*. Labour unions perform public services such as the payment of unemployment benefits, for which they receive a fee from the state. Since the nineties, a new, more explicit kind of public sector contractual relationships has appeared. *Mutualités* are responsible for different social benefits related to sickness and invalidity.

Types of Contracts

In the beginning of the nineties, a first type of contractual relationship was introduced. The agreements (covenants) between the central or regional government, on the one hand, and the municipalities, on the other hand, are a form of public-public partnership and are used in the field of safety and mobility. At the same time, new types of contracting between public organisations were established.

At the **federal** level, the creation of autonomous public enterprises introduced performance contracts. Four organisations were established as autonomous public enterprises (APEs): the Post, the National Railroad Service, the Telecommunications Service (Belgacom) and the Airway Company (Table 1). Formerly, these organisations were *régies*. Autonomous public enterprises are a type of external decentralisation, with the supervisory role of the minister being regulated by law. These APEs perform two kinds of services. The contract only stipulates the compulsory public utility services that they have to deliver and the conditions under which these have to be done. The organisations may freely develop additional *commercial* activities in their field of business in a deregulated market. At the federal level, a recent Royal Decree introduced the use of contracts for the control of the para-departmental organisations dealing with social services (*parastataux sociales*), (Table 1). Until now, the law has not been implemented.

Contracts are increasingly used by the **regional** authorities to structure the relationships with existing and new para-departmental organisations. This paper focuses on the Flemish experiences, although similar practices can be noted in the Walloon region. In the Flemish region, five para-departmental organisations are working under contracts (Table 1).

Table 1: Technical data on contracts at Federal level and in Flanders

	Legal basis	Contracts	Associated documents
Federal level:			
The Post (<i>La Poste</i>)	1991 law on the creation of the autonomous public enterprises	<ul style="list-style-type: none"> • 1992-96; • 1997-2001 	<ul style="list-style-type: none"> • business plan consisting of a 5-year strategic plan (updated yearly and a yearly operational plan)
The National Railroad Service (<i>Société nationale des chemins de fer belges — SNCB</i>)	1991 law on the creation of the autonomous public enterprises	<ul style="list-style-type: none"> • 1992-96; • 1997-2001 	<ul style="list-style-type: none"> • business plan 1993-96; • business plan “Objective 2005” (1996-2005); • transport plan; • 10-year investment plan
The Telecommunications Service (<i>Belgacom</i>)	1991 law on the creation of the autonomous public enterprises	<ul style="list-style-type: none"> • 1992-96; • 1997; • 1998-2002 	<ul style="list-style-type: none"> • business plan
The Airway Company (<i>Société nationale des voies aériennes — SNVA</i>).	1991 law on the creation of the autonomous public enterprises	<ul style="list-style-type: none"> • the first contract is expected in the very near future 	
Social parastatals (“ <i>parastataux sociales</i> ”)	Royal Decree on the responsibility of the social parastatals (3 April 1997)	<ul style="list-style-type: none"> • up to this moment, no contracts are signed; • negotiations are going on 	<ul style="list-style-type: none"> • a business plan and monitoring data are compulsory
Regional level (Flanders):			
The Flemish Service for Job Mediation and Vocational Training (<i>Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding — VDAB</i>)	no legal basis	<ul style="list-style-type: none"> • 1994-97; • one-year extension for the year 1998; • new contract is in preparation and will be based on the results of evaluations and external audits 	<ul style="list-style-type: none"> • yearly business plan
The Urban and Regional Transportation Service (buses and trams) (“ <i>Vlaamse Vervoersmaatschappij — VVM</i> ”)	referred to in the Statutory Decree of the VVM (31 July 1990)	<ul style="list-style-type: none"> • yearly contracts since 1991 until 1996; • 1997-2001 	<ul style="list-style-type: none"> • strategic plan; • medium-term operational plans; • yearly action plans
The Flemish Institute for Technological Research (<i>Vlaams Instituut voor Technologisch Onderzoek — VITO</i>)	referred to in the Statutory Decree of the VITO (23 January 1990)	<ul style="list-style-type: none"> • 1994-98 	<ul style="list-style-type: none"> • technical part of the contract as business plan for the period 1994-98; • no yearly plan

	Legal basis	Contracts	Associated documents
The Broadcasting Company (Vlaamse Radio en Televisie — VRT)	referred to in the Statutory Decree of the VRT (29 April 1997)	<ul style="list-style-type: none"> 1997-2001 	<ul style="list-style-type: none"> no reference to a business plan in the contract; targets for the period 1997-2001 are set in the contract
The “Flemish Opera” (Vlaamse Opera — VLOPERA).	referred to in the Statutory Decree of the VLOPERA (5 April 1995)	<ul style="list-style-type: none"> 1997-.... (indeterminate period of time, evaluated yearly and renegotiable) 	<ul style="list-style-type: none"> yearly business plan; strategic plan 1997-2001

Strategies of Performance Management

There are several reform initiatives at **federal** level which aim at performance and quality improvement of public service delivery. Privatisation was most prominent in the eighties. In the nineties, the emphasis is on administrative reshuffling, on audits (*la radioscopie*), and on the enhancement of client-orientedness by the development of a quality charter and of client satisfaction measurement systems. Performance evaluations, project management and the flattening out of hierarchies are being introduced to motivate the human resources. Until now, these initiatives have not been incorporated in a general strategy of performance management. In this respect, the use of public sector contracting remains a rather isolated phenomenon. The contractual approach is only used for external relations of governments with peripheral organisations. Internal departmental relations are still mainly based on the extended use of input control. At the **regional** level, the Flemish Government is beginning to develop an integrated performance management strategy. Several reform initiatives in different management fields aim to make the Flemish administrative organisation ready for the 21st century. In the field of financial management, new budgeting techniques such as performance budgeting, zero-based budgeting, and budget implementation plans are being developed. The personnel statute of 1993 for the central administration introduced performance evaluation and incentives in the field of human resources management. The strategic management of the Flemish public sector is enhanced by the introduction of strategic plans and department-wide performance measurement systems. As a part of the new performance management strategy, the Flemish Government wants to restructure its relationships with the many para-departmental organisations. Contract management is already used for the result-oriented control of five organisations. The contractualisation of the relations with other, even non-commercial, para-departmental organisations is high on the political agenda of the Flemish Government. The impetus for an overall performance-oriented management change is substantially less prominent at the federal level compared to Flanders. This does not imply, however, that the Flemish experiences with contract management are more positive than those at the federal level (see below).

Objectives of Contract Management

The objectives of contract management are diverse (Pagano, 1992). First, the European competition policy has increased the pressure to deregulate public monopolies in the field of, for example, telecommunications and postal services. Full privatisation could not guarantee the continuity of basic services to the public. Second, the preoccupying budgetary position of the Belgian State has urged for better governmental control of the financial expenditure of the organisations involved in the delivery of public services. The use of contracts clarifies the role and the responsibility of the organisations in the delivery of basic services by stipulating the intended outputs against a fixed amount of financial input. A third objective is to enhance the

efficiency and the effectiveness of service delivery and management by reducing traditional input controls and by focusing on steering by results. The 1991 law on autonomous public enterprises replaced the law of 1954 which regulated the control of the parastatal organisations. This former law placed a heavy emphasis on *ex ante* control mechanisms of budgetary and human resources and on direct control by *commissaires du gouvernement* in the organisation. The 1991 law relaxed these input controls and possibilities of operational intervention to a great extent, and replaced them by *ex post* output control mechanisms such as lump sum transfers and performance measurement and evaluation. The power of the *commissaires du gouvernement* to block decisions has been considerably reduced. Moreover, long-term agreements of 3 to 5 years have ensured more stability and made possible better organisational strategic planning.

Legal Status of Contracts

Table 1 refers to the legal basis of each contract. There is some discussion on the legal status of the contracts which are based on the **federal** 1991 law. It states that the contracts are not submitted to the administrative jurisdiction, but have to be seen as mutual agreements under private law. One major restriction which contradicts this is the fact that the contractual relationships cannot be dissolved by one of the contracting parties, even if the other party does not meet its contractual obligations. It is argued that the principle of continuity of public services restricts the full implementation of private law. This impossibility to dissolve the contract reduces the possibility of using sanctions. The contract can only be dissolved by the nullification of the corresponding Royal Decree on formal grounds — and not with respect to content.

At the **regional** level practices are *ad hoc* and ambiguous. Attempts to create a solid decretal basis have failed up to this moment. The contract of, for example, the VDAB has no legal status, either by law or by statutory decree. The statutory decrees of the VVM, the VITO and the VLOPERA refer to the contracts, but there is no specification about their legal status (Abafim, 1997: 18), which implies a difficult enforcement of the mutual commitments and of sanctions in the case of failure. The lack of a clear legal basis and status for the Flemish management contracts implies that they have to be considered as administrative acts rather than mutual agreements under private law (Abafim, 1997: 20).

2. Contract Management Processes

Contract Negotiations

The negotiation procedure for the contracts of the **federal** APEs is determined in the law of 1991. The contract is negotiated between the Federal State, represented by the responsible minister, and the management board (*comité de direction*). The management board is responsible for the daily management of the APEs and the execution of the decisions of the supervisory board (*conseil d'administration*). During the negotiation process, the advice of the labour unions in the *commissions paritaires* is taken into consideration. The supervisory board must approve the negotiated contract. The first contract signed between the state and the APE must be ratified by the government in a Royal Decree, confirmed by the Council of Ministers.

As they have the necessary expertise with respect to the involved service delivery, the APEs are expected to be dominant in the negotiation process. To empower the negotiation position of the state, an advising institute in the sector of telecommunications and postal services, the Belgian Institute for Postal Services and Telecommunication, is backing the state in these contract negotiations (and evaluations) with Belgacom and the Post. In the case of the SNCB, there is no such separate policy-making organisation. The lack of expertise on the side of the government can result in less specification in contracts. But in general it ought to be emphasized that the government still has a major impact. Ultimately, the minister can refuse to sign

the contract. The refusal of the responsible minister to give the former SNVA the autonomy to determine, for example, the landing tax rate was one of the major reasons for the negotiation process failing. As a result, this organisation was again placed under the former tutelage of its minister and until now no contract has been signed (Brynaert, 1994: 776). Another form of ministerial countervailing power relates to the appointment of the members of the supervisory board pro rata the degree of governmental participation in the capital stock of the APE and in the choice of the *administrateur délégué*. In fact in some cases, the political elite influences the composition of the management board, although in theory members of this body are nominated by the supervisory board on the recommendation of the *administrateur délégué*. An example of the pressure of political parties is the composition of the first management board of Belgacom, as a perfect reflection of the political equilibrium in the federal parliament (Sels, 1995: 26). Through the process of contract renewals, there is a learning cycle, improving the position of the government as a contracting party.

In the case of the **Flemish** contracts, the contract is, in all cases, signed between the government, represented by the responsible minister, and the top of the para-departmental organisation, represented by the chairman of the supervisory board and the *administrateur délégué*. With respect to the procedure for negotiating and signing the contract, there is no general scenario, due to the lack of a legal framework or general law, as mentioned above. In the case of the VDAB, an indication of the relative power of the contracting parties is that, in the event of dispute, the Flemish Government is the ultimate decision maker. This and other observations (e.g. the contract being an administrative act) put into question the equal position of the parties involved.

Content of Contracts

Before taking a closer look to the content of the contracts in use, it should be emphasized that a contract is not on an act on its own. Contracts should be interpreted taking into consideration also the associated documents such as business plans. These business plans are in some cases an integral part of the contracts and specify the contract stipulations more in detail. Table 1 shows which associated documents have to be taken into account when analysing the contracts of the different organisations.

Content of federal contracts

Table 2 gives the different subjects that have to be regulated in the contract according to the **federal** 1991 law. The inclusion of the additional topics is dependent on the status of the APE (Sels, 1995: 20). Table 3 (Annex 1) compares the contents of the different federal and regional contracts in use.

Table 2: Topics discussed in federal contracts according to the 1991 law

Obligational topics	Additional topics
<ul style="list-style-type: none"> • tasks of general interest; • tariffication rules; • rules of user treatment; • rules of calculation of the governmental transfer; • financial compensation to the central government by the APE for monopoly rights; • sanctions 	<ul style="list-style-type: none"> • tasks of strategic importance for which the intervention of government is needed; • financial objectives, rules of profit allocation; • the content of the business plan; • maximum amount of real estate transactions without ministerial approval

The contract determines the tasks of general interest which the APE has to perform and which are a specification of the more general assignments of public service stipulated in the 1991 law for each APE. This specification is a major item in the negotiation process. If the minister wants to entrust the APE with other tasks than those agreed in the contract, these tasks have to be part of a separate contract. The APEs may develop market-related activities. Examples of tasks of general interest for the Post are the collection and delivery of letters throughout the country and the delivery of newspapers and periodicals at prices that may be lower than the real costs. For some of these tasks of general interest, the Post has a monopoly position; other services like the selling of stamps and some financial services are delivered in competition with private firms. On the other hand, the Post develops commercial activities like courier services. The contractual terms only involve the execution of the tasks of general interest.

Table 3 in Annex shows that the contracts of the APEs stipulate output and minimum capacity norms. The quality targets mostly refer to speed and timeliness of service delivery. An example of such a quality target in the case of the Post is the minimum rate of 90 per cent postal delivery within one day. Such targets make monitoring and evaluation of the services possible.

In general, the contracts of the other APEs refer to sanctions if the targets are not met, for example, a decrease of the governmental transfer or the increase of the financial compensation for monopolistic rights by the APE. But in case of the Post, it is not clear what happens if the targets are not met. There is no link between the performance and the financial transfer by the state. In the contract it is mentioned that possible sanctions still have to be determined. Because of the limitation of the legal status of the contract, only financial compensation can be used as a sanction. Moreover, neither the 1991 law nor the contract contain procedures of arbitration in the case of dispute. The contracts of the other APEs refer to sanctions such as the decrease of the governmental transfer or the increase of the financial compensation for monopolistic rights by the APE.

According to the 1991 law, the contractual terms can be adjusted yearly in the case of a changing market and technological conditions. A yearly business plan sets out the APEs' strategy for the medium term in order to fulfil their contractual obligations. The consistency of the content of this business plan with the contract terms has to be approved by the minister. Besides its yearly business plan, the Post has a strategic 5-year plan.

The contractual arrangements on tariffication and financial transactions are only related to the tasks of general interest. For the commercial activities, the APEs have to generate their own resources and may set competitive prices freely. With respect to the tariffs of the tasks of general interest, the APEs have to respect some rules. Maximum tariff increases are limited, and in some cases reduced tariffs are obligational for certain social groups. As for the calculation of the financial transfer by the government, different approaches are used for the three APEs. The financial transfer from the state to the Post is not linked to the

real cost of the tasks of general interests but is limited to a fixed maximum sum. This linkage will be determined after an evaluation of prices and costs. The Post has no obligation to compensate the state for its monopoly rights. In the case of Belgacom, there is no financial transfer to the APE, but instead the APE has to compensate the state for its monopoly rights. The costs of the tasks of general interest are deducted from this financial compensation. A possible explanation for the different treatment of the Post and Belgacom with respect to the financial transactions with the state may be the fact that since several years the Post is making considerable financial losses as opposed to Belgacom, which is quite profitable.

The APEs may retain their savings, but in some cases rules are established to allocate these gains. The Post is free to use its own profits after reallocating 5 per cent to top management and personnel (Sels, 1997: 47). The automatic reduction of the governmental transfer *pro rata* gains of the APE is forbidden under the 1991 law. It remains unclear what happens if the APEs make substantial financial losses. Considering that the APEs may borrow money under state guarantee and that they cannot be put into liquidation (Pagano, 1992: 18), it may be assumed that in the end the state may have to pay the bill.

To avoid substantial financial losses there are incentives for the individual top managers to perform. The members of the supervisory board and the management board are appointed by a 6-year mandate. Their performance influences their chance on renewal of their mandate. Moreover, in the case of the postal services, there is a kind of performance related pay (see above).

The supervisory board has to present a yearly report and a financial statement. The financial review of the APE is done by a four-member *collège des commissaires*, which is composed of two *commissaires* appointed by the Audit Court and two certified accountants. The overall control is exercised by one *commissaire du gouvernement*. His power is considerably reduced under the 1991 law. Instead of supervising the compatibility of organisational decisions with the vague notion of public interest as was the case under the former 1954 law, now they can only examine the compatibility of the decisions taken with the contract, the statutory decree of the organisation and the 1991 law. Another reduction of the intervention capacity of the government has to do with the abolishment of the *compulsory tutelage*. This form of tutelage made decision making by the government possible in matters that were reserved for the supervisory board and the management board.

Content of Flemish Contracts

In the case of the contracts used by the **Flemish** Government, there is no general framework which prescribes the content and form of the different contracts. In the statutory decrees of the VLOPERA, VITO, VRT and VVM, there is a checklist of issues which have to be mentioned in the contract between those involved and the Flemish Government. These lists reflect, to a considerable extent, the items discussed in the federal contracts with the APEs. This is not surprising, because the federal experience was a major source of inspiration. In the statutory decree of the VDAB there is no reference to contracts. Table 3 shows that there are important differences between the contracts of these organisations (see Annex 1). Before we indicate some of these differences, we will discuss in detail the contract of the VDAB, as it is our Flemish case.

The contract of the VDAB defines clearly the rights and the duties of each contracting party, the government and the para-departmental organisation. The VDAB has a first four-year contract for the period 1994-97, which is extended for the year 1998. The business plan is an integral part of the contract, but is updated yearly. This business plan, which sets yearly targets for service delivery, is presented to the Flemish Government.

The first four-year contract period starts with a one-year transformation period. The financial transfer by the government is calculated with the following formula: (1) expenses for regular tasks of the previous year,

partly adjusted for performance results + (2) expenses for new tasks and initiatives - (3) incomes, other than the transfer - (4) budget surplus (+ budget deficit) of the previous year. The total transfer, however, is limited to the indexed transfer of the previous year. The initial transfer is based on the indexed transfer for the year 1994. These rather complex stipulations imply two things. First, the rise of the transfer due to a performance improvement is *limited* to a maximum equal to the index of the previous year. On the other hand, a decreasing performance would result in a *proportional* decrease of the transfer. A second implication of this formula is that budget surpluses of one year are deducted from the next year's transfer. On the other hand, budget deficits are corrected by a higher transfer. This all leads to the conclusion that the transfer may act rather as a disincentive to perform better (and to have budget surpluses). The transfer seems to be meant primarily as an instrument to restrict the financial involvement of the Flemish Government (by putting a maximum limit to the transfer and by deducting the previous year budget surpluses).

In practice, however, extra transfers are provided in the case of drastic losses. Moreover, there is a potential of cross-subsidisation by using financial resources stemming from activities outside the contract for the execution of the tasks of general interest.

In contrast with the performance measures used at federal level which place a heavy emphasis on quality, the performance targets concerning employment mediation and training are focussed on outputs and outcomes. The level of reference is the performance of the year 1993. In times of budget reduction, target levels are lowered proportionally. This implies that the 1993 performance level is considered as the desired one. Considering the decreasing financial resources of European employment programs and the financial position of the Flemish Government, this may lead to a further performance level deterioration.

An audit of the measures used makes clear that they are not linked across programmes with equal objectives and not subdivided for each target group (Denys, 1996). Practice also shows that some measures are ambiguous. For instance, with respect to employment mediation, the number of consultant contacts with unemployed candidates is measured. In 1995, the VDAB achieved 207 per cent of their set target. A better analysis of this performance result showed that half of the contacts were not made personally, but through data bank consulting, and that this performance measure had to be refined (Schoenmaekers and Van Cleyenbreughel, 1996).

Every year the *commissaires du gouvernement* attached to the spending minister and the minister of Finances evaluate the performance of the organisation. This evaluation should be used to correct the transfer. In reality, in budget discussions by the government, there seems to be minor attention paid to this report. In this respect, the two *commissaires du gouvernement* advise an evaluation by both contracting parties as a means to avoid the contract becoming "an empty box" (Schoenmaekers and Van Cleyenbreughel, 1996). There is no such procedure for a joint evaluation.

The planned contract renewal of 1998 is postponed and replaced by a one-year extension of the old contract. A thorough, overall evaluation of the performance contract, based on external audits, will take place this year. The new contract will correct the shortcomings of the current contract.

It should be obvious that what has been said here about the contract of the VDAB should not be generalised to the other Flemish contracts. After all, each contract has its own features, and there is considerable variation in the substance of the contracts, as Table 3 (Annex 1) shows. For example, in contrast to the VDAB, the performance measures of the VITO are extensively and clearly defined. Better performance results in a limited transfer bonus, but there are no financial sanctions. The VVM may retain its efficiency gains. The transfer is still based on an indexed basic amount, because of the lack of clear performance targets and monitoring systems. In the very near future, the budgeting mechanism will be based on objective criteria and minimum norms of service delivery. The VVM contract, in contrast with others, provides the government with the ability to sanction if it does not meet its commitments. In the case of

failure of the VVM to execute several tasks, autonomy shall be limited and/or a part of the transfer will be withheld. An external audit of the contract was planned for the year 1997. The VRT is transformed into a public company with limited liability and has corresponding degrees of freedom. However, this operational freedom is controlled by means of very elaborated performance measures. The VRT even has targets with respect to financial objectives, human resources and technology matters. The contract of the VLOPERA has no time limit; it may be adjusted yearly. In contrast to the other contracts, it may even be cancelled by one of the parties.

3. Autonomy in Management

Autonomy in Federal Practices

The federal 1991 law established several types of managerial flexibility. In general, managerial practices are only limited by the principles of equality, continuity and adaptability of service delivery to users' needs.

Autonomy in Financial Management

In financial management, APEs may freely transact on financial markets. However, this is restricted with respect to transactions in foreign currencies (borrowing, capital investments, etc.). Participations in other private or public enterprises are possible. The principle of continuity implies that external creditors cannot put the APEs into liquidation. Another type of financial management freedom is carrying over funds from one year to the next, as well as retaining income (respecting price setting rules) and savings. The APEs may decide freely the allocation of funds to human resources, operating expenses or investments, the transfer being a lump sum. The APEs are obliged to have a cost analytical accounting system to underpin cost statements and prices.

Autonomy in Human Resources Management

The general personnel statute from the civil service is no longer binding for the APEs. For each APE, the respective supervisory board issues the statutes, being bound only by the decision of the *commission paritaire* in which the labour unions and the top management are equally represented. The government is no longer involved in setting the framework of APE human resources management. However, a few general rules have to be respected in drafting the new statutes. Employment relations are statutory; contractual employment relationships are possible in some cases. The new statutes also have to respect some rules with respect to pensions and salaries. The devolution of human resources management to the APEs results in the decentralisation of the labour relations. There are separate collective labour agreements for the APEs. These collective labour agreements are negotiated in a common *commission paritaire* for all APEs. Decisions of that body bind the individual organisations. The new statutes of the Post and Belgacom were implemented in 1994. The major innovations were the simplification of the grade and pay structure, individual performance evaluation, the abolishment of lifetime employment, better mobility and training, and a 6-year mandate for members of the supervisory board and the management board, regulated in a special agreement between the minister and the individual directors. In several APEs, the deficit in pension financing poses major financial problems. For instance, in the case of the railway service, the state has to contribute to pension payments on a yearly basis.

Autonomy in Internal Organisation Management

In the field of internal organisation management, there are major degrees of freedom. The APEs may constitute affiliates in which participations of private shareholders are possible. Belgacom, for instance, has created such a subsidiary company in the field of radiotelephony. Affiliates of the Post are the Postal Bank and the Assurance Company. Several APEs are experimenting with the creation of business units and internal contracts. The APEs may also change their status to a *société anonyme de droit publique* by decision of the supervisory board, but this has to be approved by the government. Belgacom has been transformed in such a way.

Autonomy in Regional Practices

Practice at the federal level indicates that the use of contracts goes hand in hand with the decentralisation of managerial competencies and the creation of new autonomous organisations, the APEs. At the **regional** level, however, practice is diverse. In some cases, the contract is just another way of controlling an already existing para-departmental organisation. For example, in the case of the VDAB, the organisation already had a certain amount of operational autonomy with its status of a para-departmental organisation. The contract did not lead to a major decentralisation of the operational decision-making power or to a considerable relaxation of existing input or process controls. In other cases, the contractualisation was preceded by the creation of new autonomous *parastatal organisations*. These *parastataux* have their own boards, their own budget, and a separate legal personality. For example, the VVM was created by the merging of three existing autonomous organisations.

Operational autonomy has increased by the introduction of contract management. The substance of this operational autonomy may vary across the different organisations. In general, however, regional operational autonomy is more constrained in comparison to the federal APEs. There is a more elaborated budget control; on the basis of the public interest criterion, the possibility of blocking the boards' decisions by two *commissaires du gouvernement* remains; the forced tutelage is not abolished; the personnel statutes are more tied to directives of the government and need to be approved. The VDAB is using its autonomy in internal organisation to decentralise some financial management authority to its local centres. For that purpose, the organisation is developing new financial instruments such as cost accounting systems (Gillebeert, 1995).

4. Effects of Contract Management

The principle of contract management provides an original combination of increased operational autonomy in the field of service delivery and a better strategic control by the government. But what are the effects of such an increase of the operational autonomy on the internal management of the autonomous organisation and its external relations? This part of the paper analyses these effects of contract management on several organisational dimensions. The final part makes a general assessment from contemporary practice and draws some lessons for the future.

Effects on Human Resource Management

The new personnel statutes have improved the performance orientedness of human resources management and increased the flexibility of allocating the right person to the right job. Incentives for the public servants to perform better are: promotions made according to performance criteria rather than to seniority, the threat of being dismissed after two negative evaluations, and limited performance-related pay. The renewal of the mandate of members of the supervisory board and the management board being dependent on performance

evaluation is a major change and may act as an important incentive. However, due to the restricted budgetary policy, and in some cases the increased competition, this resulted in shrinking personnel volumes. For instance, Belgacom has reduced its workforce (26 000 persons) by more than 3 000 jobs in one year. With the creation of affiliated companies with widespread contractual employment, there are increasing concerns about the legal position of the personnel and about the growing fragmentation of employment regimes. This may affect mobility between the different business units.

Effects on Financial Management and Cost Consciousness

In the field of financial management, the use of performance-based contracts has induced an increased cost consciousness. The organisations have to develop cost-accounting systems and provide yearly financial statements. The information provided improves the government's capacity to control the organisations' financial practices. Up to this moment, there is no direct link between the purchased amount of services and the level of the budget.

The budget is, in most cases, based on incremental adjustments (based on macro budget indexes) of historical levels, without a thorough evaluation of the real costs of the provided services (see. Table 3). Some insight into cost structures is necessary to change the contract contents concerning output quantity and quality levels. An extended audit is needed to establish the link between objectives, outputs and inputs. However, the outlook on better budget estimates, based on an increased knowledge of real costs, is realistic. Table 3 shows that, in some cases, transfers are corrected on the basis of achieved performance results. Six of the eight contracts analysed in Table 3 stipulate that a failure to meet performance targets results in a decrease of transfer. The contracts of the VDAB, VLOPERA and VITO also provide positive corrections of the transfer in case of performance results which exceed set targets. These positive corrections are dependent, however, on developments of the overall budgetary position of the government and are therefore limited. These remarks attenuate the real impact of the budget as an incentive.

There is also a need to enhance the performance orientedness of the different financial management instruments (budgets, accounts and audits) and the coherency and consistency of these instruments. More coherence and consistency would mean that budget, accounts and audits are based on the same output and cost categories. Most organisations with contracts develop accrual and cost accounting but fail to use the resulting cost information in their budget estimates. Compliance audits remain more important than performance audits.

Effects on Internal Organisation

The use of contracts and the accompanying increase of operational autonomy have also induced some developments in the internal structure. Several organisations are introducing types of internal devolution of management capacities or internal contracting. For instance, the Post has created several business units which are responsible for the development of commercial activities. These business units manage their products in a comprehensive way and are responsible for the different functions of production, marketing, selling, strategic management, financial management, human resources and logistics. The business units have their own budget and charge their services to other units of the Post. There are developments towards devolution of operational autonomy to local postal offices. Key elements in this process are differentiation, subsidiarity and communication networks. Each postal office will receive its own budget, and objectives and will be made accountable for achieving its results. Contracts will be used between the top management of each post office and the top of the Post (Janssens, 1994, Sels, 1995). In the next years, internal contracting will also be introduced in Belgacom, but central staff units fear the loss of central power resulting from such developments (Sels, 1995). At regional level, similar developments are present. The VDAB is carefully devolving financial powers to its local units, but, with respect to the overall structure, it

seems that the organisation is reluctant to adopt a radical product-based structure. It is not clear to which extent this development will reverse the internal decentralisation processes. In general, changes towards internal decentralisation and new production concepts are implemented rather slowly (Sels, 1995).

Effects on External Relations

With respect to changes in customer relations, new interfaces and instruments are installed, resulting in increased client-orientedness. Most federal APEs and several para-departmental organisations at regional level now have an ombudsman service. This channel for customer complaints is used by the ombudsmen as a valuable instrument for introducing a client focus. The ombudsman services operate with resources from the organisation and have to report to the supervisory board. In many cases, the press pays major attention to their reports. However, in some organisations (e.g. the SNCB and the Post) the top is reluctant to pay much attention to these reports or to draw conclusions from them. Moreover, the functioning of the ombudsman service is hampered, in some cases, by cumbersome complaint procedures (e.g. you have to pay for a complaint) or by the insufficiency of financial and human resources (Brynaert, 1994: 781). Another interface between the APE and the customers is the *comité consultatif*, which represents the main users and advises the minister or the APE for each matter with respect to relevant contract terms. Several organisations like the VVM are introducing instruments to monitor client satisfaction. Despite these new instruments, the user is not always better off. For instance, the SNCB closed several stations in rural areas, deteriorating the mobility facilities. The Post also closed local post offices for budgetary reasons. These examples illustrate the importance of minimum norms of public service delivery in the contracts.

5. Assessment and Lessons for Future Practice

General Assessment of Current Practices

In general, performance contracting has induced the organisations to become more oriented towards customers, markets and performance, without putting the provision of essential public services into jeopardy. The increased operational autonomy resulting from the introduction of contracts and management by results is used to increase the performance orientedness of the human resources management. The financial management systems seem to shift, although in an incoherent way, from an input focus to an output focus. First steps to create a flexible, market-oriented internal structure are taken by the introduction of business units and internal decentralisation. The organisations pay more attention to their external relations with their customers by establishing new interfaces.

However, performance-contracting practices in Belgium and the Flemish region are still in development and some shortcomings are observed. Although there are learning effects and the contracts with the para-departmental organisations and the APEs are improving in quality, some general critical remarks may be formulated (Sels in Abafim, 1997: 17).

- First, the management contract might fail to act as an effective control instrument. In most cases incentives for better performance are insufficient. The possibility of performance bonuses is limited.
- Second, the contractual arrangements lack enforcement capacities, because of the ambiguous legal status of contracts. Sanctions are limited to financial compensation and individual threats for dismissal.
- Third, the extent to which the increased autonomy is used depends on the organisational culture and the leadership capacities of the top. In some cases performance contracting has only limited effects on management, because of the lack of performance orientedness by the top and lower

levels of the organisation. Moreover, the first years of practice of the EPAs show that the organisations' autonomy may be severely restricted by continuing political interference. The political top level is, in some cases, reluctant to play its new role and to abstain from operational management intervention.

- Fourth, the relaxation of input controls has to be complemented by effective use of output controls. In practice, the use of performance contracts is not based on an integrated set of financial instruments such as performance budgets, cost-analytical accounts and performance audits.

Although performance contracting is more embedded in a general performance strategy in the Flemish region than at federal level, the diversity in individual practices is substantial. This diversity is caused by a lack of a consistent legal basis of contract management which causes *ad hoc* decision making and has a negative effect on the governmental control capacity.

A final remark is about the objectives of contract practices. In general, performance management strategies can pursue three objectives: savings; internal management improvement; and better accountability (OECD, 1997). In Belgium, the main objective appears to be a financial one— the need to save taxpayers' money dominates and endangers the motivating effect of contracts. Internal management improvements are limited by strict financial constraints. The objective of a better accountability seems to be of minor importance.

Lessons to Remember

Some lessons have to be drawn and taken into account. The following list of recommendations is not meant to be exhaustive:

- A solid legal framework which sets out the basic premises and the status of the contracts, may avoid *ad hoc* and fragmented solutions. However, such a framework should not hamper the adjustment of contractual terms to the conditions of each organisation.
- Stability of resources enhances the motivating effect of contracts.
- The political top must respect the operational autonomy of the contracted organisations. Central units should be provided with strategic management and monitoring capacities in order to play their role.
- Contract management should be accompanied by a performance-oriented change in organisational structure and management culture. Management instruments, focusing on performance and costs in the field of human resources and financial management, should be developed in an integrated way.
- There is need for a good definition of outputs and solid performance measures.
- Transfers should be based more on real costs or future initiatives than on historical budget levels.
- Long-term contracts (3 to 5 years) are to be recommended, but negotiated annual adjustments should be possible in the case of radically changing conditions.
- Performance contracting must be complemented by other instruments of control such as ombudsmen, quality charters, and regulations concerning transparency and openness.
- Contract management should be embedded in a trust-based relationship between the government and the organisation. The organisations should receive a maximum amount of autonomy within the limits of the control capacities of the government. This implies a correct use of incentives and sanctions. Evaluations should involve the two contracting parties.
- There should be regular overall evaluations and audits of benefits and drawbacks of the implemented contract in order to learn from these experiences.

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LIST OF ABBREVIATIONS

APE	Autonomous Public Enterprise
VDAB	Flemish Service for Job Mediation and Vocational Training Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding
VITO	Flemish Institute for Technological Research
VVM	Vlaamse Instituut voor Technologisch Onderzoek Urban and Regional Transportation Service Vlaamse Vervoersmaatschappij
VLOPERA	Flemish Opera Society Vlaamse Opera
VRT	Flemish Broadcasting Company Vlaamse Radio en Televisie
SNCB	Société nationale des chemins de fer belges
SNVA	Société nationale des voies aériennes

ANNEX 1

Table 3: Contents of contracts in use at federal and regional level (Flanders)

	Federal level			Regional level (Flanders)				
	SNCB 1997-2001	The Post 1997-2001	Belgacom 1992-1996	VVM 1997-2001	VLOPERA 1997- ?	VITO 1994-1998	VDAB 1994-1997	VRT 1997-2001
Tasks of general interest	tasks specified in contract (in monopoly)	tasks of general interest (in monopoly) and tasks of general interest, by contract	infrastructure (in monopoly); other services (e.g. radiotelephony)	tasks in very general terms, some specification by targets	tasks specified by targets	tasks specified in detail in technical annex	further specified in detail in business plan	specified in detail for each medium
Tarification rules	tariffs to be determined by the SNCB but maximum increase is limited; social tariffs	tariffs to be determined by the Post but some rules to be taken into account (e.g. same level as neighbour countries, based on real costs)	tariffs to be determined by Belgacom but maximum increase is limited; social tariffs	tariffs to be determined by the VVM but to be presented to the minister; maximum one tariff change per year; coordination with other transport services; tariff reduction imposed by the government to be compensated by the state; social tariffs	/	tariffs for research projects have to be equal to the marginal costs	/	/
Rules of user treatment	1991 law stipulations (e.g. ombudsman); operational quality charter, quality targets (e.g. timeliness)	1991 law stipulations (e.g. ombudsman); minimum capacity norms, speed and timeliness targets, complaints treatment procedures	1991 law stipulations (e.g. ombudsman); minimum capacity norms, speed and timeliness targets	operational quality charter, client satisfaction measurement procedure; ombudsman; information supply directives	/	/	/	quality norms, target group specifications, minimum capacity norms
Performance targets	output and minimum capacity norms; quality targets	minimum capacity norms, quality targets (speed, timeliness)	minimum capacity norms, speed and timeliness targets	only one output target (# km transport); based on 1995 level and on mobility covenants, no quality targets; more targets will be elaborated in the near future	output targets; quality indicators (not detailed)	quality, efficiency and flexibility indicators, targets yearly to be negotiated with the minister	output and outcome targets; based on 1993; with limited target group specification	many performance targets, with respect to output and quality of each medium; performance targets on financial matters, HRM, technology and process control

Table 3: Content of contracts in use at federal and regional level (Flanders) (CONTINUED)

	Federal level			Regional level (Flanders)				
	SNCB 1997-2001	The Post 1997-2001	Belgacom 1992-1996	VVM 1997-2001	VLOPERA 1997- ?	VITO 1994-1998	VDAB 1994-1997	VRT 1997-2001
Financial objectives / profit allocation	budget surpluses to be used for financial restructuring	budget surpluses to be kept	budget surpluses to be kept; compulsory contributions to pension fund (now own fund)	budget surpluses to be kept	12,5 per cent own income	/	Budget surpluses are deducted from next year's transfer; maximisation of own income; merit services have to be self-supporting	objectives concerning savings on personnel expenses and on overhead costs; financial performance targets with respect to budget deficits; budget surpluses to be kept
Governmental transfer	indexed transfer; performance deterioration results in a decrease of transfer	limited to a fixed maximum sum; incremental until evaluation of prices and costs, in future transfers based on real costs	/	indexed 1997 amount, adjusted for substantial costs or task changes; in the near future transfer will be based on objective criteria and minimum capacity norms	indexed 1998 transfer + possibly performance bonus, limited to the costs of the extra outputs	indexed 1994 transfer (corrected in 1995) + performance bonus in case of improvement of minimum 5 of the 8 performance indicators	basic expenses, partly adjusted for performance results + new initiatives - other incomes - budget surplus (or - budget deficit) of previous year; total transfer limited to the indexed transfer of previous year	incremental (1997 amount + yearly 4 per cent), dependent on some prescriptions
Financial compensation for monopoly rights	/	/	Yearly guaranteed amount, taking into account the costs of the tasks of general interest	/	/	/	/	/
Autonomy in HRM, financial management, internal organisation	1991 law stipulations, some stipulations concerning financial management autonomy	1991 law stipulations, own personnel statute	1991 law stipulations; Belgacom is a public company with limited liability with corresponding financial and organisational freedom (1994)	stipulations in Statutory Decree of the VVM; collective labour agreements have to respect governmental directives; free borrowing (state guarantee limited to maximum amount)	stipulations in Statutory Decree of the VLOPERA; maximum number of 300 full time equivalents	stipulations in Statutory Decree of the VITO	stipulations in Statutory Decree of the VDAB; guaranteed flexibility in personnel matters (not further specified)	stipulations in Statutory Decree of the VRT; own personnel statute taking into account several restrictive contract stipulations; VRT is a public company with limited liability with corresponding financial and organisational freedom

Table 3: Content of contracts in use at federal and regional level (Flanders) (CONTINUED)

	Federal level			Regional level (Flanders)				
	SNCB 1997-2001	The Post 1997-2001	Belgacom 1992-1996	VVM 1997-2001	VLOPERA 1997- ?	VITO 1994-1998	VDAB 1994-1997	VRT 1997-2001
Sanctions	performance deterioration results in a decrease of transfer	financial compensation in case of failure; sanctions for quality deficiency to be negotiated	in case of failure by Belgacom the financial compensation by Belgacom to the state will be increased (maximum to 105 per cent)	in case of governmental failure, VVM may reduce its outputs <i>pro rata</i> the reduction in the transfer; other sanctions for government; in case of VVM failure: reduction of autonomy and of transfer	in case of failure by the VLOPERA unilateral revision of transfer by the government; contract may be cancelled by one party	/	a performance related reduction of a part of the transfer	specific sanctions to be negotiated in an arbitration procedure
Procedures for monitoring and auditing	1991 law stipulations (e.g. " <i>Commissaires du gouvernement</i> "); extended reporting obligations, quality evaluation, inspections	1991 law stipulations (e.g. " <i>Commissaires du gouvernement</i> "); quality control by independent organisation, to be published	1991 law stipulations (e.g. " <i>Commissaires du gouvernement</i> "), some reporting stipulations	stipulations in Statutory Decree of the VVM; yearly evaluation, based on reports of past year; external audit in 1997; norms on content of budget	stipulations in Statutory Decree of the VLOPERA; quality reporting stipulations; audit by " <i>commissaires du gouvernement</i> " (e.g. of business plan, 4-yearly thorough evaluation)	stipulations in Statutory Decree of the VITO; stipulations concerning budget proposals; evaluation report with respect to performance indicators; external audit in 1998	stipulations in Statutory Decree of the VDAB; yearly performance evaluations by the " <i>Commissaires du gouvernement</i> "	stipulations in Statutory Decree of the VRT; yearly report on each target + quality report to be presented to the Flemish Parliament; Budget and financial statement to be presented to the meeting of shareholders
Arbitration procedures	/	/	/	/	arbitration procedure; Flemish Government makes ultimate decision in case of unsolved conflict	to be resolved by friendly arrangement on one party's initiative	arbitration procedure; Flemish Government makes ultimate decision in case of unsolved conflict	arbitration procedure involving the Flemish Parliament, the Government and the VRT
Procedures for contract renewal and renegotiation	1991 law stipulations, renegotiation in case of <i>force majeure</i> and unexpected circumstances	1991 law stipulations, (e.g. renegotiation in case of unexpected circumstances; one-year extension in case of no new contract)	1991 law stipulations, (e.g. renegotiation in case of unexpected circumstances; one-year extension in case of no new contract)	yearly adjustment possible on one party's initiative; one-year extension in case of no new contract	yearly adjustment possible on one party's initiative in case of failure to meet the obligations and after mutual agreement in other cases; contract may be cancelled by one party	yearly negotiation concerning target setting	renegotiation possible in specified cases on one party's initiative	renegotiation possible in case of market and technological changes

