Budgeting Governance in Practice: The Netherlands

Economic context

GDP growth in the Netherlands is projected to remain strong and broad-based in 2018 and 2019. Private consumption growth will peak in 2018, reflecting a strong labour market and a looser fiscal stance, before moderating in 2019. Growth in business investment should be vibrant, driven by improved economic sentiment and solid external demand. Wage growth and inflation are projected to rise gradually. The current account surplus is set to ease gradually but remain at a high level.

Fiscal policy plans

The government follows a trend-based fiscal policy within the boundaries of European budgetary agreements, which are incorporated in Dutch law. The Dutch national budgetary framework includes a multi annual real expenditure ceiling, which is set at the start of the government period for at least as long as the government period (4 years). Macroeconomic stabilisation of the economy is supported via revenues and control of the total tax burden for citizens and businesses, using a revenue ceiling based on the policy-related increase in the tax burden.

A: Fiscal Balance and Public Debt

B: Fiscal Policy Plans

C: Public Investment

D: Expenditure by function (2016)

Source: OECD National Accounts Statistics (database); Eurostat Government finance statistics (database).

Note: The graph is referring to government fiscal balance and general government gross debt as defined in the OECD National Accounts Statistics.

Note: The graph is referring to Fiscal Policy Plans that are implemented and/or officially announced as of November 2017 and as indicated by the country. Actual results in graph A may differ as the Fiscal Policy Plans are prepared by the country beforehand and as the Debt and Balance Plan reported by the country are based on the country’s own definition.

Developments in budgetary governance

The Dutch budgeting system is designed to support the government in achieving its medium-term goals, and includes many elements of good practice across the various dimensions of budgetary governance. The medium-term expenditure framework is seen as an essential tool for implementing political priorities, and performance budgeting has been refined over the years into an advanced model with heterogeneous indicators and feedback connections to policy-making.

Transparency is high and the budget includes useful distributional analyses. Parliamentary engagement is strong. There are no particular mechanisms to foster public or civil-society engagement in budgeting, and gender budgeting is not in place.

<table>
<thead>
<tr>
<th>Central Budget Authority</th>
<th>Budget coverage</th>
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<tbody>
<tr>
<td>Ministry of Finance</td>
<td>The executive’s budget covers central government. The local government level operates in a largely autonomous manner, but local tax-raising powers are limited and so this level is financed mainly from central government using a formula-based approach.</td>
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<th>Legal Framework</th>
<th>Budget cycle</th>
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<td>The Dutch Constitution specifies that the budget is to be determined by law. The Law on Sustainable Government Finances (2013) applies EU fiscal rules within Dutch national law.</td>
<td>Budget circular</td>
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<td>Pre-budget statement</td>
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<td>Negotiations with line ministries</td>
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<td>Executive budget proposal</td>
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<td>Parliamentary vote on budget</td>
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<td><strong>Start of financial year</strong></td>
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<td>In-year budget execution reports</td>
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<td>Mid-year implementation report</td>
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<td><strong>End of financial year</strong></td>
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<td>Year-end financial statement</td>
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<td>Audited financial report</td>
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<td>Parliamentary accounting</td>
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\(^{25}\) The ministry spending ceilings, which typically feature in a budget circular, are in the Netherlands’ case communicated at the start of each government’s term of office.
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<td>1. Fiscal policy objectives</td>
<td>EU fiscal rules are reflected in Dutch law. These rules are applied in a top-down manner to management of expenditures and revenues. At the start of each government term, a ministry-wide ‘budget commission’ advises on technical refinements to the rules and on the fiscal goal(s).</td>
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<td>2a. Strategic alignment</td>
<td>Budgeting is strongly aligned with political processes and reflected in the Coalition Agreement. Performance budgeting indicators are aligned with government goals.</td>
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<td>2b. MTEF</td>
<td>The multi-year real expenditure ceilings are fixed at the outset of each government and reflected in the Coalition Agreement. These ceilings are fixed, and do not change in response to revenue fluctuations, in order to provide a solid basis for budgetary management and policy planning.</td>
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<td>3. Capital and infrastructure</td>
<td>Capital management is handled via the line ministries, and project prioritisation is strongly linked to sectoral and national plans and to results of cost-benefit analysis. Central unit and departmental units in place for public-private partnerships.</td>
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<td>4. Transparency and accessibility</td>
<td>High transparency with extensive budget reporting. Citizen’s guides are not produced but information is summarised online and open data is used systematically. The budget includes distributional analyses based on household income, income inequality, and wellbeing.</td>
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<td>5a. Parliamentary engagement</td>
<td>Strong parliamentary engagement in the annual budget process. The budget must, by law, be presented to parliament on the third Tuesday of September and the parliament has three months to consider and approve the various appropriation bills. The Finance Committee of the lower house considers fiscal aggregates and the sectoral committees of both houses consider the spending bills. Budget scrutiny is supported by a small Parliamentary Bureau for Research and Public Expenditure (the BOR).</td>
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<td>5b. Inclusive public / civic debate</td>
<td>No particular mechanisms for engagement of civil society bodies and citizens directly in the budgetary process.</td>
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<td>6. Financial reporting and accounting</td>
<td>Both cash and accruals methodologies are used, in both budgeting and appropriations.</td>
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<td>7. Budget execution</td>
<td>Execution is closely monitored by each ministry’s financial department, and communicated monthly to the Ministry of Finance. These monthly execution reports are not made public, but a report on budget execution is included in the budget-related memoranda (Spring and Autumn) submitted to parliament.</td>
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<td>8a. Performance budgeting</td>
<td>Streamlined approach to performance budgeting, with different types of indicator selected in different sectors based on degree of government control.</td>
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<td>8b. Evaluation and VFM</td>
<td>Well-established system of line ministry evaluations and Ministry of Finance-led programme reviews (“spending reviews”), with independent chairing and “no-veto” rule to promote fresh thinking</td>
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<td>9. Fiscal risk and long-term sustainability</td>
<td>Good reporting on fiscal risk and long-term fiscal sustainability: the Ministry of Finance reports on its fiscal risk assessment; the CPB (see below) reports regularly on fiscal risks; a range of ad hoc commissions and agencies are tasked with identifying ad managing fiscal risks; and controls are in place regarding the incurring of contingent liabilities.</td>
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<td>10. Quality assurance and audit</td>
<td>The CPB (Bureau for Economic Policy Analysis), established in 1945, is a functionally independent expert body that prepares official economic forecasts and prepares analyses on a variety of subjects. It also has a distinctive role in pre-election costing of political party commitments. More recently the Council of State (Raad van State) has been assigned functions of independent budgetary oversight, in compliance with EU requirements. The Dutch Court of Audit is constitutionally established and inter alia plays an active role in performance audit.</td>
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*Note: Rows in **bold** represent notable international practice.*