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Budgeting in the Netherlands

by

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1. Budget formulation process

1.1. Introduction

The budget formulation process in the Netherlands operates in two very distinct phases. The first phase occurs when a new government takes power and it establishes its overall budgetary policy for its term of office. This is done in explicit terms, rather than being a general statement of intent. The second phase then occurs annually, as the government's overall budgetary policy is translated into operational terms for all of the government's various activities.

Budget deficits increased dramatically in the early 1980s. In 1983, the government embarked on a new course with the aim of major reductions in the budget deficit. Initially, this policy was successful in bringing down the deficit: it fell from more than 8.9% of GDP in 1983 to 5.7% in 1986. In the period 1986-90, however, at a time when the cyclical economic situation improved considerably, budget overruns and additional expenditure were easily financed by cyclically high tax revenue without violating the actual deficit targets. As a result, the positive change in the cyclical component of the budget balance was, for a large part, offset by a negative change in the structural component. In the subsequent downturn, the opposite happened. The high structural deficit limited the scope for allowing the automatic stabilisers to work and required the government to take discretionary measures to respect the actual targets. From 1989-1994, budget projections were overtaken four times by downward revisions in economic activity, forcing the government to introduce fiscal packages additional to the initial budget. In terms of

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budget savings measures, these additional packages were of greater importance than the original budget.¹

This system of “continuous budgeting” had its costs. From a political point of view, previous multi-party agreements on budget policy had to be frequently re-opened, which created a fragile environment for governing. From a budget management point of view, the system became very tumultuous with major decisions made on an *ad hoc* basis and at the last possible minute. As a result, it was increasingly recognised that the framework for budgeting had to be reformed.

In 1993, the Minister of Finance appointed a *Study Group on the Budget Margin* to recommend a new budget formulation system.² The Study Group was composed almost exclusively of senior government officials from the key ministries within the field of economic policy. Based on the recommendations of the Study Group, fundamental changes were made to the budgeting process in the Netherlands. They impacted both phases of the budgeting process in the Netherlands, the first directly and the second indirectly. They are discussed in the following two sections respectively. The chapter concludes with commentary on various aspects of the Dutch budget formulation process. It should be noted that the new results-based budgeting initiative is discussed in Chapter 5.

1.2. Phase 1: Setting overall budget policy – The coalition agreement

No political party enjoys a majority in the Dutch Parliament. As a result, it is necessary to form coalitions between two or more political parties in order to form a majority government. When a new government is created, it announces its major policy objectives in a document known as the *Coalition Agreement*. Budgetary policy is a key focus of the multi-party Coalition Agreements, with very explicit objectives agreed upon for the conduct of budgetary policy for its four-year term of office.

The framework for the budgetary policy aspects of the Coalition Agreements was fundamentally altered following the recommendations of the Study Group. The major conclusion of the Study Group was that the government needed a more solid budget policy anchor. In practical terms, this meant that the focus should be on the *level of expenditures*, rather than the *level of the deficit*.³ They should also be based on cautious economic assumptions. This created more stability as extra revenue would not automatically translate into extra expenditures and the cautious economic assumptions would reduce the inherent risks. The following box summarises the key elements of the Study Group's recommendations.

For historical reasons, the Dutch budget is divided into three separate sectors. These are: *i*) the “core” budget sector; *ii*) the health care sector; and *iii*) the social security and labour market sector. The separation of the latter two sectors from the “core” budget sector is in part due to the fact that they have their own

Box 1. Key elements of the coalition agreements on budget policy

- Valid for the government's entire term of office – four years.
- Fixed maximum caps for expenditures in each sector.
- The maximum caps are established in real terms.
- Transfers are permitted between different sectors.
- Maximums are based on cautious economic assumptions.
- “Firewalls” exist between revenues and expenditures.
- Explicit rules apply for dealing with windfalls and shortfalls.

dedicated financing sources. The latter two sectors are each the responsibility of a single minister respectively. The “core” budget sector, however, is the responsibility of a number of ministers. Each minister is politically responsible for his own budget and presents it to Parliament himself. All in all, 23 separate budget bills are presented to Parliament. Officials emphasised, however, that for budget formulation purposes, all of these are considered one and that their separation causes no problems. In the Coalition Agreements, separate caps on expenditures are established for each of the three sectors. The Coalition Agreements also incorporate the multi-year expenditure projections of each ministry as the basis for sub-caps for each minister within the “core” budget sector. As the Coalition Agreements encompass all the government's major policy initiatives, this will mean more expenditure in certain areas, and less in others. All of these are integrated into the multi-year estimates for the respective area and their respective caps.

The expenditure caps are established in real terms, and adjusted annually for inflation. This serves to preserve the key decisions made irrespective of price fluctuations. This is primarily to prevent the Coalition Agreements from having to be re-opened during the course of the government's term of office, which previous experience has shown to create a fragile environment for governing.

Transfers are permitted between the sectors, and between sub-caps established within the “core” budget sector. For example, the social security and labour market sector is currently in strong surplus due to a more favourable economic situation than assumed. This surplus is being used to finance additional expenditures in other sectors, principally the health care sector. Surpluses in one area can, however, only be used to fund *existing* policies that are experiencing higher costs than projected. The consent of the entire Cabinet is required to finance *new* proposals. This is often a grey area as the next section on the annual budget process discusses.

If a budget over-run occurs in any area, it is the primary responsibility of that respective minister to prevent or deal with it. This is in line with the principle that each minister is responsible for his own budget. In practice, this means that a minister will have to reduce another part of his budget in order to finance the over-run. In exceptional cases, the cabinet may decide that more than one ministry, or all ministries, should contribute to financing the overrun in one ministry. In essence, this is the equivalent of a transfer between spending caps as described above.

Box 2. The economic structure enhancing fund

The Netherlands enjoys sizeable deposits of natural gas resources and the government receives significant revenues from them. At their peak, these revenues had a great expansionary influence on government expenditure in the Netherlands. In due course, when these revenues dropped, the government had to increase taxes very markedly in order to sustain the added expenditures. This was at the core of what became known as "Dutch Disease".

Today, gas revenues and the *ongoing* effect of the sale of government property* go in their entirety into a special *Economic Structure Enhancing Fund*. This Fund is used exclusively to improve the economic infrastructure of the Netherlands; high-speed rail links and highways being prime examples. Expenditure financed by the Fund is excluded from the maximum expenditure caps in the Coalition Agreements, as the Fund's ability to spend is dependent on the amount of money it receives from gas revenue and other revenue from the sale of government property.

The objective of the Fund is two-fold: first, to remove these revenues from the general budget debate and thus their expansionary impact. Second, to guarantee that significant money would be spent on improving the country's economic infrastructure, an area that had borne the brunt of many budget cuts in the 1980s and early 1990s. Economic infrastructure projects generally do not involve added operating costs in future years and they enhance the efficiency of the economy.

* The proceeds of the sale of property are applied to retire outstanding government debt; the resulting lower levels of annual interest payments are applied to the Fund.

The expenditure caps are based on cautious economic assumptions for the economy. The *Study Group* viewed this as an "insurance policy" for shifting the focus from the deficit to expenditures, *i.e.* the risk of the budget out-turn being worse than expected is mitigated. Any "surprises" are likely to be positive. During the Coalition Agreement negotiations, the Central Planning Bureau (see Box 3) will

Box 3. Central Planning Bureau

The Central Planning Bureau (CPB) plays a key role in the development of the budget policy contained in the Coalition Agreements. The CPB is a very unique institution. It is a government institution but is completely independent; it commands the trust of all political parties and the public at large.

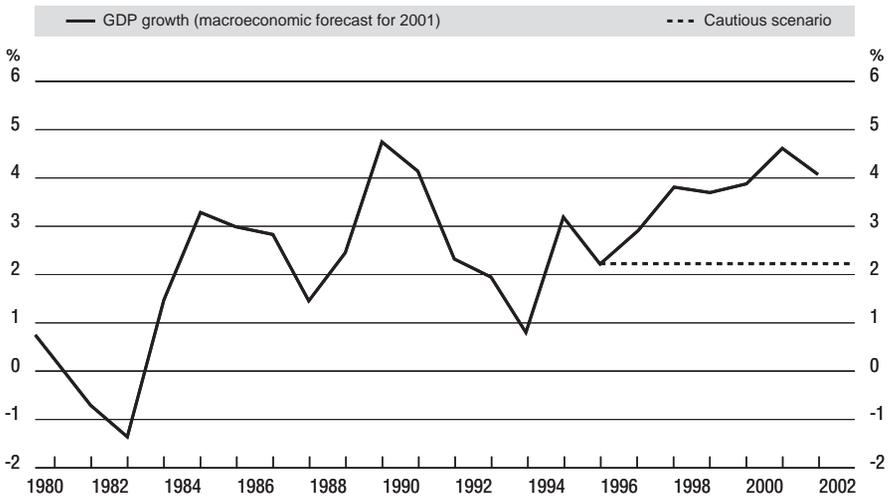
Prior to elections, the CPB will issue its economic forecast for the coming four years. All political parties use the CPB economic assumptions as the basis for their policy platforms. The larger political parties submit their policy platforms to the CPB ahead of elections for costing and to assess their economic impact. These policy platforms are generally very detailed. Although there is no legal obligation for political parties to do so, it is part of the Dutch political culture. In fact, the analysis by the CPB has often clarified the political platforms of political parties as the CPB has pointed out inconsistencies or errors in the proposed programmes.

As the CPB economic forecasts are taken as a “given” and the fact that the CPB has already costed and assessed the economic impact of the policy platforms of different political parties, the Coalition Agreement negotiations go much smoother than would otherwise be the case. When new policies, or policy compromises, are being negotiated, the CPB will assess their impacts as well.

present to the political parties two economic scenarios. The first one is what it considers to be the most likely level of economic growth for the new government's term of office. The second one is what it considers to be a cautious level of economic growth that should be used for budget policy purposes. The political parties will then decide to use the cautious scenario. The differences between the two are shown in Figure 1. In political terms, the parties would rather be faced with “good surprises” during their term of office rather than with “bad surprises”. Also, the Netherlands has a previous history of relying on overly optimistic economic assumptions as the basis for budget policy.

It is important to reiterate that there are strong “fire-walls” between revenue and expenditures. This means that should the economy perform better than expected, this does not automatically lead to increased expenditures. There are specific rules in place for how to deal with such “windfalls” in the Coalition Agreement. If the budgetary situation is turning out to be more favourable than the government anticipated, *i.e.* higher economic growth, then the following applies: If the deficit is greater than 0.75% of GDP, 75% of windfall goes to reducing the deficit and 25% on tax cuts. If the deficit is less than 0.75% of GDP, then 50% of windfall goes on reducing the deficit and 50% on tax cuts. The Netherlands is currently enjoying a budget surplus, so the 50-50 split applies.

Figure 1. Economic growth between 1980 and 2001



Although this new framework for the Coalition Agreements only dates to 1994, it appears to have become a very entrenched part of the budget formulation process in the Netherlands. There is no serious questioning of the new framework *per se*, only how it is applied. This is especially the case for the rules for how any windfalls are used, *i.e.* paying down debt, lowering taxes, or increasing expenditure as some are now advocating. The specific rules for how the windfalls are dealt with are more recent (1999) and are not as entrenched or as tested.

1.3. Phase 2: The annual budget process

As can be seen above, the key features of the government's budget policy are set at the time it takes office. This relieves a lot of tension from the annual budget process. As one official remarked: "The key role of the Minister of Finance and the Ministry of Finance each year is to ensure that the Coalition Agreement's budget rules are adhered to." This is especially important today with budget surpluses.

The annual budget process starts at the beginning of the preceding year. The Ministry of Finance begins updating its multi-year expenditure projections based on the latest data. The Ministry of Finance maintains comprehensive projections for four years beyond the next budget at the level of each vote. These are published and any changes from year to year are reconciled and fully explained.

Box 4. Annual budget formulation timetable

January-March	Finance Ministry updates multi-year expenditure projections. Spending ministries compile policy (expenditure) proposals. Finance Ministry and spending ministries in frequent contact.
March	Spending ministries send Policy Letters to the Finance Ministry outlining new policy (expenditure) proposals.
April	Cabinet meets to decide budget framework. Finance Ministry sends Letters of Totals to spending ministries stating their maximum level of spending for the coming year.
May-June	Negotiations between Finance Ministry and spending ministries on detailed composition of their budgets.
August	Cabinet meets to make decisions on revenue and make any final adjustments to the expenditure side of the budget.
3rd Tuesday in September	Minister of Finance presents budget to Parliament.

At the same time, spending ministries assemble their policy (expenditure) proposals for the coming year. The Ministry of Finance will have sent a letter outlining the format to be used for these proposals the previous November. Although the *Policy Letters* from ministries, where they formally request new expenditures, arrive in early March, there will have been frequent contacts between the Ministry of Finance and the spending ministries. The Policy Letters focus only on any changes from previous multi-year forecasts for existing policy and on any new policy initiatives. These letters are generally about 10-12 pages in length for each ministry.

The major decision moment in the budget process is the Cabinet meeting in late April. As stated earlier, the key decisions regarding budget policy will have been made in the Coalition Agreement at the beginning of the government's term of office. The issue at the Cabinet meeting is how to apply under-spending in any category for other activities, how to distribute windfalls in concrete terms, and whether the Coalition Agreement should be revised. The discussion at the Cabinet meeting is based on a note from the Minister of Finance. The Finance Minister will have had bilateral discussions with Cabinet members to settle issues prior to the Cabinet meeting, but the Cabinet meeting can take on great urgency if there are large issues outstanding. The Finance Minister will propose a maximum level of expenditure for each ministry in his note and this note can be quite detailed if, for example, the Finance Minister's expenditure assumptions are based on changes in specific programmes.

Shortly following the Cabinet meeting, the Minister of Finance will send to all ministers a formal *Letter of Totals*, which is the maximum level of expenditure that each ministry is permitted for the coming year. This Letter of Totals is generally not as detailed as the note presented to the Cabinet meeting as the minister will already have explained the key assumptions underlying it.

Box 5. The Budget Inspectorate of the Ministry of Finance and the Internal Budget Directorates of Spending Ministries

Each spending ministry has its own Internal Budget Directorate. They are part of each spending ministry and have no formal ties to the Ministry of Finance. They are responsible for the finances of each ministry, including compiling the ministry's budget proposal and negotiating with the Ministry of Finance. These are quite sizeable directorates: for example, the Internal Budget Directorate in the Ministry of Education has a staff of 80. In many cases, the Internal Budget Directorates are headed by former officials of the Ministry of Finance.

At the Ministry of Finance, there is a special Budget Inspectorate. It is organised to shadow each of the spending ministries. It is responsible for scrutinising each budget proposal, and the underlying policy proposal, coming from the spending ministries. It has a staff of 100.

In the late 1980s and the early 1990s, considerable effort went into identifying areas for expenditure cuts in each ministry. Spending ministries generally were not willing to volunteer cuts in any of their programmes and the Ministry of Finance developed over this time a comprehensive knowledge of each ministry's programmes. It was common for a significant share of all savings proposals to originate from the Ministry of Finance.

This hands-on "mindset" would appear to still be in place at the Budget Inspectorate of the Ministry of Finance. They scrutinise proposals at a great level of detail and any transfers from one programme to finance another one within a ministry requires the approval of the Budget Inspectorate. The negotiations in May and June between the Ministry of Finance and the spending ministries focus on this level of detail.

The comment was made that the Internal Budget Directorates have a good relationship with the Ministry of Finance, but that their relationship with policy directorates within their own ministries was not always good. They were often

viewed as being *de facto* part of the Ministry of Finance. This, of course, applies in varying degrees in different ministries.

Following these discussions between the Ministry of Finance and the spending ministries, the final step in the budget formulation process is a Cabinet meeting in August. At this meeting, the revenue side of the budget is decided and any adjustments to the expenditure side are made. It is rare for any changes to be made to the expenditure side at this stage. The budget documentation, *i.e.* commentaries on individual spending programmes, will be prepared by each ministry for its own respective programmes, but the Ministry of Finance has to consent to it.

1.4. Conclusions

The budget policy aspects of the Coalition Agreements have been the key to the successful turnaround of public finances in the Netherlands. They have proven to be an excellent instrument for the control of public finances and are exemplary as such.

There are signs that the discipline inherent in the Coalition Agreement is under strain in the current environment of budget surpluses. In this context, it is important for policy-makers in the Netherlands to highlight the future fiscal pressures associated with the ageing population and the concomitant expenditures for health and social security programmes.

The Central Planning Bureau (CPB) plays a key role in the budget formulation process. Its role is unique among OECD Member countries. It is important to maintain its independence and the trust that it commands from all political parties and the public at large.

As budget policy plays such an important role in the Coalition Agreements, consideration should be given to the Ministry of Finance having a formalised institutional role in advising the political parties in this area when the Coalition Agreements are being negotiated.

Consideration should be given to reassessing the role of the Budget Inspectorate of the Ministry of Finance *vis-à-vis* the Internal Budget Directorates in spending ministries. The challenge is to find the correct balance between “steering” from the Budget Inspectorate and permitting the Internal Budget Directorates more flexibility in managing their own budgets, and also for the Internal Budget Directorates to integrate themselves more with the policy directorates in their respective ministries.

All in all, the budget formulation process in the Netherlands is on par with the best found in any OECD Member country.

2. The role of Parliament

2.1. Introduction

There are no constitutional restrictions on the role of Parliament in the budget process in the Netherlands and a vote on the budget is not automatically considered a vote of confidence in the government. Parliament does in fact amend the government's budget proposal each year, but these amendments are generally minor. This is primarily a function of the Coalition Agreements. As they are agreed by the political parties forming the government, they *by definition* establish the framework for Parliament's deliberation of the budget and its room for manoeuvre in this area. The current political environment of strong majority government reinforces this as well.

This chapter outlines the formal parliamentary budget process in the Netherlands. Dutch officials emphasised, however, that much of Parliament's discussion of the budget took place in various internal political party gatherings. These are, however, beyond the scope of this paper.

Box 6. Dutch Parliament

The Dutch Parliament consists of two chambers. The Lower Chamber has 150 members, which are directly elected on the basis of proportional representation. The Upper Chamber (Senate) has 75 members, which are not directly elected. Rather, they are elected by the 12 provincial state councils. In practice, the Lower Chamber enjoys pre-eminence in budget matters. The Upper Chamber can only accept or reject the budget in total; it can make no changes. The discussion in this chapter focuses exclusively on the Lower Chamber.

The Netherlands has many political parties, which is a direct function of its proportional representative electoral system. The threshold for parties gaining a seat in Parliament is only 0.66% of the national vote. Eight parties currently sit in the Lower House. As noted earlier, no single political party enjoys a majority in Parliament and the current government is a coalition of three political parties. The next elections must take place no later than 2002.

2.2. The parliamentary budget process

It is useful to divide the parliamentary budget process into two stages. The first stage coincides with the opening of each session of Parliament and consists of general policy deliberation in plenary session. The second stage consists of

specific deliberation of each ministry's budget proposal. Much of this work takes place in committees before being brought to plenary session for final approval.

Box 7. Budget approval process

3rd Tuesday in September	Opening of Parliament by the Queen (Princes Day). Minister of Finance introduces the budget.
End September	General Policy Debate – Plenary Session.
Early October	General Budget Policy Debate – Plenary Session.
Mid-October	Committees begin scrutinising each budget bill.
Late October-End-December	Individual budget bills approved one by one in two-round plenary session.
1 January	Start of fiscal year.

2.3. First stage – general deliberations

The introduction of the budget is the outstanding event in the annual parliamentary calendar and coincides with the opening of Parliament's annual session. In accordance with provisions of the Constitution, this takes place on the third Tuesday of September each year and is known as Princes Day. The Queen formally opens Parliament in Joint Session in the morning with an address. The Queen's Speech is written by the Cabinet and highlights the government's plans for the coming year. Immediately following the Queen's speech, the Minister of Finance introduces the budget to the Lower House.

The budget is a term used broadly to encompass a *budget memorandum* and 23 separate *budget bills* introduced in Parliament. The Minister of Finance's budget memorandum contains an overview of the budget and major policy initiatives. The memorandum is not enacted into law. The Minister of Finance then introduces 23 separate budgets to Parliament on behalf of the ministers responsible for each policy area. As noted in the previous chapter, the practice of having separate budgets is to reinforce the principle that each minister is personally responsible for his budget. This, however, does not diminish the role of the Minister of Finance in any way. He must consent to each budget; otherwise they cannot be introduced in Parliament. Each of these 23 separate budgets is individually enacted into law.

In the days after Princes Day, a General Policy Debate takes place on the basis of the Queen's Speech and the government's budget proposal. This is the

most important “confrontation” between the Cabinet and Parliament. Practically all members of Parliament and Cabinet ministers are present at this time. Normally, this debate on government policy takes two days.

Following this debate, members of Parliament have two weeks to submit written questions to ministers. The number of questions is very large, ranging up to 400 questions asked of each minister on average. This was even greater in the past with over 1 400 questions typically being asked of each minister. This is the primary opportunity for members of Parliament to gain additional information on the government’s policy objectives. Most of the questions are technical in nature and relate directly to the budget. In fact, the questions are generally dealt with in the context of the committees of Parliament as they review each budget.

Box 8. Shadow Budgets

Opposition political parties have presented their own *Shadow Budgets* shortly after the government has presented its budget proposal. These were not comprehensive documents but rather highlighted 10-20 specific measures that differed from the government’s proposal. The Shadow Budgets were generally three to four pages in length.

What made the Dutch Shadow Budgets quite unique, however, was that all the specific measures contained in each of them were fully costed and their impact assessed by the Central Planning Bureau prior to being made public. (See Box 3.) This highlighted the culture of fiscal responsibility that generally typifies the budget debate in the Netherlands. A political party that would not have the Central Planning Bureau review its proposals would not be deemed responsible.

It is an unwritten rule in the Netherlands that a political party would identify sources of financing for any new proposal, either by reducing another item in the budget or by identifying specific revenue sources for the new proposal. The fact that the Netherlands is now enjoying a budget surplus may, however, be straining this unwritten rule.

Two weeks following the General Policy Debate, a General Budget Policy Debate takes place. This is in effect a continuation of the General Policy Debate, although formally it is to look specifically at the financial aspects of policy. The Cabinet is represented by the Minister of Finance at this debate.

It must be emphasised that these general deliberations are not a comprehensive examination of the budget in any sense. They focus on several politically sensitive issues for the most part. There is simply not enough time for members of Parliament to be acquainted with the budget at anything more than a superficial

level in the weeks immediately following the introduction of the budget. It should be noted in this context that there are no pre-budget reports, or pre-budget consultations in the Netherlands. The more comprehensive examination is reserved for the second stage of the parliamentary budget process.

No votes on the budget are taken at the end of these general deliberations. This is, however, the last opportunity for all practical purposes to reallocate funds between the 23 separate budget bills that were introduced, as the second stage of the parliamentary budget process focuses on each budget bill in isolation. There have been examples of Parliament voting on non-binding resolution at the end of the general deliberations. These non-binding resolutions can contain proposals for reallocation, but this is exceptionally rare. For all practical purposes, reallocation between the separate budget bills simply does not occur.

2.4. Second stage – specific deliberations

As noted above, the more specific deliberations of each budget bill is reserved for the second stage of the parliamentary budget process. This stage starts with each budget being referred to a committee for scrutiny. It is quite noteworthy that there is no specific budget committee in the Dutch Parliament that has overall responsibility for scrutinising the budget in aggregate terms and allocations between different sectors. In practical terms, this means that the aggregate allocation to each sector is taken as a given.

Each sectoral committee will scrutinise the budgets under its mandate. For example, the Committee on Education would scrutinise the budget for the Ministry of Education. There are 14 sectoral committees in the Dutch Parliament, so most committees will receive one or two budget bills for scrutiny. Each committee consists of 25 members with an equal number of alternates. Each committee is assisted by a clerk (most often with a legal background), and by a secretariat staff member specialised in the relevant policy field.

Somewhat paradoxically, the Parliament does have a special Committee on State Expenditure. The Committee, however, does not discuss the budget. It is responsible for general oversight of expenditure management systems, such as the basis of accounting to be applied and the presentation format of the budget documentation. In fact, this Committee played a leading role in the development of the planned accrual-basis, outcome-focused budget reforms that are discussed in Chapter 5 of this report. The Committee on State Expenditure has three secretariat staff members – all of whom are specialists in budget related issues. These staff members provide technical advice to the other committees during their examination of each individual budget bill.

The examination of the budget by the sectoral committees consists of the *Budget Investigation Session* that most committees conduct. This is a two to four hour

session whereby the minister responds to the committees' questions. This session is prepared extensively by the staff member serving the committee and the staff of the Committee on State Expenditure. Specifically, they prepare a 10-15 page report highlighting main points of inquiry. Issues for committee members to discuss will often have emerged from the general deliberations and the written questions asked of ministers. The minister formally receives notification of the main issues that the committee would like to discuss with him. Following this session, a verbatim (word-for-word) report is issued of their discussions with the minister. Dutch officials emphasised that it would be incorrect to characterise the committees as only devoting this two-hour hearing to scrutinising the budget. The committees meet frequently and budget issues are often raised during their meetings, although that is not explicitly the focus of the meetings.

The relationship between Parliament and the government is very formal. It is a basic principle that no member of Parliament, or employee of Parliament, will speak to an official of a ministry without the minister or state secretary (deputy minister) being present as well. Officials (career civil servants) of ministries do not appear before the committees. This, *inter alia*, explains the large number of written questions to ministers. This is a function of the principle of ministerial responsibility, as practised in the Netherlands.

Following the report of the committees, each budget bill is discussed separately in plenary session in two rounds before being approved as law.

During the first reading of each budget bill in plenary session, the spokesmen for the different political parties on the committee make detailed comments concerning the contents of the budget and propose amendments, if deemed necessary. Following the intervention of each spokesman, the minister responds. These sessions tend to last for four to five hours and are generally only attended by the spokesmen and the minister.

The second plenary session follows a few days later. It follows a similar format, although it is more interactive with not only the spokesmen making interventions. It tends to last for 10-15 hours and is generally attended by a greater number of parliamentarians, although it varies greatly from one budget bill to another.

There are no restrictions on the ability of members of Parliament to propose amendments to the budget. It is not uncommon for a total of 60-120 amendments to be proposed for the budget bills and for about 5 to 10 of them to be approved. The monetary value of these amendments is generally not great.⁴ Again, there is the unwritten rule that members of Parliament should identify another area for reduction in funding, or a new revenue source, in order to finance any new proposal.

It must be emphasised that these amendments concern each budget bill in isolation; it is *extremely* rare for any reallocation to occur between different budget

Box 9. Netherlands Court of Audit

The mission of the Court of Audit is “to audit and improve the performance of the state and its associated bodies. To this end, it provides the government, the [Parliament] and those responsible for the bodies audited with information based on its audits. Such information consists of audit findings, conclusions and recommendations on organisation, management and policy.”

The Court of Audit devotes about one-third of its time to traditional financial compliance audits and two-thirds of its time to value-for-money performance audits. The relatively small time devoted to traditional financial compliance audits is explained by the fact that each ministry has its own Internal Audit Directorate.

The Court of Audit has been a very vocal critic of the governance arrangements in place for certain semi-autonomous public bodies, as discussed in the next chapter.

The Court of Audit is not actively involved in Parliament’s deliberations of the government’s budget proposal.

bills. All of the bills will be passed into law at different times during the session. The first ones will be approved in late October and the last ones in December.

2.5. Conclusion

Parliament is not a very active player in the annual budget process, despite there being no restrictions on its role. As noted earlier, this is primarily a function of the Coalition Agreements. As they are agreed by the political parties forming the government, they *by definition* establish the framework for Parliament’s deliberation of the budget and its room for manoeuvre in this area. The current political environment of strong majority government reinforces this as well. It must, however, be emphasised – as Dutch officials do – that much of Parliament’s deliberations of the budget takes place outside of the formal parliamentary processes, *i.e.* in internal political party meetings.

The very disaggregated manner for discussing the individual budgets makes it very difficult to get an overview of the budget as a whole and to shift funds from one area to another. The discussion in plenary session at the time the budget is introduced are not effective for an in-depth analysis of the budget, especially allocations between the different budgets. The detailed deliberations on each budget in its respective sectoral committee would appear to be a very productive method of work. Consideration should, however, be given to the establishment of a co-ordinating committee that would deal with the budget aggregates and the

allocations between the different budgets.⁵ Such a system would imply additional resources being made available to Parliament for deliberating the budget.

It should be emphasised that Parliament has been very supportive in general of the various reforms being planned to the Dutch budget process, which are discussed in Chapter 5. It is, however, too early to assess what impact these will have on Parliament's deliberation of the budget.

A final feature, which is quite striking, about the operations of the Parliament is the very formal nature of its relations with the government, as best exemplified by the tradition that an official would not give information of any kind to Parliament without his minister (or deputy minister) being present. This would appear to have resulted in the large amount of written questions presented to ministers each year.

3. Managerial flexibility

3.1. Introduction

Following the strengthening of expenditure controls as described above, the late 1990s have been characterised by an increasing focus on achieving lower output prices, increased output quality and "quality of the organisations" through changes in management practices (Van Oosterom 2001:3).

Several management reforms have been undertaken. Agencies have been established; ministries and their agencies have been given increased financial flexibility; central control of personnel policies have been somewhat relaxed. Specifically, the establishment of agencies has been undertaken with the aim of establishing elements of a purchaser-provider split and increasing the focus on results in public policy implementation. In these respects, the Netherlands has followed international trends.

3.2. Ministries, agencies and semi-independent public entities

The public sector in the Netherlands has three key elements: Ministries, Agencies and Semi-Independent Public Entities.

3.2.1. Ministries

There are 13 ministries in the Netherlands. Each ministry is headed by a politically elected minister. Strong emphasis is placed on the accountability of the minister and they are ultimately held accountable by Parliament and the general public for all activities within the ministry's purview.

Box 10. Reform approach, roles and responsibilities

Development of overall management reform policies is the responsibility of the *Ministry of Finance*. In the Netherlands, the Ministry of Finance is strong but this strength is used selectively and line ministries have a relatively large degree of freedom in regard to how they want to manage themselves. Responsibility is thus shared with spending ministries. This is a reflection of strong ministerial responsibility and accountability, giving the line ministers a primary role in policy implementation.

The value of more freedom for line ministries is that it allows them to adapt general approaches and tools to their particular organisational and political context. The downside is that there is no built-in incentive to reform and therefore to promote effectiveness and efficiency. In the Netherlands, officials point to professional satisfaction and the general will of civil servants to serve the public good as the primary factors driving reforms in ministries and agencies.

Policies related to human resource management, including remuneration, is the responsibility of the *Ministry of the Interior and Kingdom Relations* (hereafter the Ministry of the Interior). During the 1990s, a number of personnel responsibilities have been devolved to the line ministries and line managers. However, many fundamental characteristics of personnel management remain the prerogative of the Ministry of the Interior. Until 1993, the ministry acted as the only central government employer. In 1993, the minister was replaced by eight separate "employers", each representing one of the following sectors: central government, defence, education, the judiciary, the police, the municipalities, the provinces, and water control corporations. However, these "employers" still reside within the Ministry of the Interior.

The 13 ministries employ about 80 000 people in full-time equivalents, or 70% of the total central government personnel. Total expenditure was around 172 billion guilders (78 billion euros) in 2000.

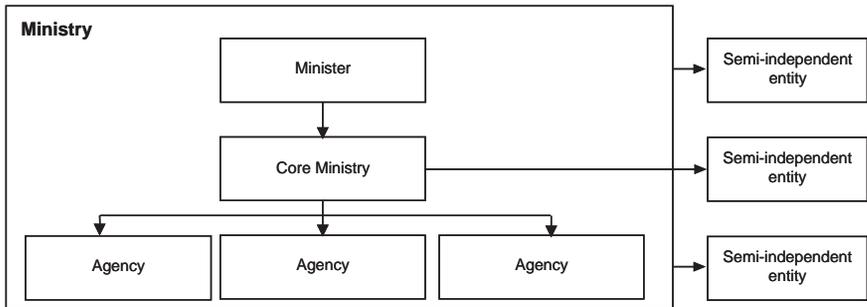
Until recently, ministries were the sole element of central government and they consequently were in charge of policy development as well as implementation. Ministries were consequently comparatively large.

Since 1994, an increasing number of agencies have been carved out of the core ministries, dividing the policy formulating function and the policy execution function.

3.2.2. Agencies

An agency in the Netherlands is an organisation with a separate corporate identity under direct ministerial control, subject to supervision and instruction by its core ministry. An agency publishes separate financial accounts and managerial

Figure 2. Ministers, core ministries, agencies and semi-independent public entities



freedoms are negotiated with the parent ministry. The first four agencies in the Netherlands were established in 1994 within the areas of Justice, Agriculture, Defence and Economic Affairs. The total number of agencies is now 23. It is expected that about 25 more agencies will be established in the near future. This development, which will include agencification of the very large tax and public works areas, is expected to bring the share of government employees working in agencies to approximately 80% of total government employment.

Total expenditure for agencies was around 7 billion guilders (3 billion euros) in 2000, or 7% of the total government expenditure. The number of agency employees in 2000 was 30 000 full-time equivalents, or 30% of total central government employment. The largest agency is the Judicial Institutions Service (prisons), which has around 16 000 employees, whereas the smallest is the Centre for Promoting Import from Developing Countries with only 17 staff. Five agencies have more than 1 000 employees.

Since the minister is held accountable for activities in agencies, agencies do not have boards.

3.2.3. *Semi-independent public entities*

Semi-independent public entities can be defined as “organisations which... are charged with the implementation of one or more public policies, and which are funded publicly, but which operate at arms-length of government.” These entities have been in existence in the Netherlands since the beginning of the 20th century, but the number increased markedly in the 1960s and 1970s. No exact count of semi-independent public entities exists, but several analyses converge around

Box 11. Conditions for establishing agencies

A new agency has to fulfil 12 criteria set down by the Ministry of Finance and approved by the Council of Ministers.

1. The organisation must have an unambiguous management model.
2. Products, services and quality indicators must be quantifiable.
3. Operational processes must be described.
4. A cost-price model must have been set up.
5. A system of stimuli for efficiency must have been put in place.
6. The organisation must set up an internal results-oriented planning and control cycle and a suitably external planning and control cycle.
7. A risk management model must be in place.
8. An opening balance scenario must have been drawn up.
9. A campaign plan for enhanced financial management must have been established.
10. There must be access to a statement of approval from an accountant.
11. The potential agency must have had a trial-run of a results-oriented management model.
12. The potential agency must have undergone a trial-run with accrual accounting.

The part of a ministry, which is potentially being transformed into an agency has to adhere to these 12 requirements. The Ministry of Finance determines whether this is so. Several potential agencies have had their implementation schedules prolonged because they did not live up to all 12 requirements. The difficulties with establishing new agencies are probably the same as before, but they are now being resolved before the establishment of the agency. Establishment of agencies has to be approved by the Council of Ministers, the Ministry of Finance, the Ministry of the Interior and Parliament.

Source: Ministry of Finance.

the number 600 as the total in the 1990s.⁶ There is no official overview as to their level of employment, expenditure or number.

These entities have considerable managerial and financial freedom and the ministerial responsibility for the operations of the entities is limited to that explicitly defined by law. Almost all semi-independent public entities operate on an accrual basis.

Most services and social insurance programmes, which are organised and entirely or partly financed by central government, are delivered by semi-independent public entities, who in many instances are supervised and regulated by a combination of ministerial oversight and a web of semi-independent supervisory bodies. Some semi-independent public entities are fully financed by central government, while others include an element of either direct user charging or indirect charging through insurance arrangements. In some sectors, these insurance arrangements are in themselves organised as semi-independent public entities.

There is no uniform approach in the Netherlands to issues of performance control, accountability and transparency of semi-independent public entities in regard to financial management, reporting or implementation evaluation. The fact that a major part of public expenditure and government service delivery is provided under such conditions has given rise to concern.

Addressing the heterogeneous mass of semi-independent public entities in the Netherlands in-depth is beyond the scope of this analysis. However, the application of the principles behind the establishment of agencies – *i.e.* enhanced disclosure of performance information coupled with clearer procedures for holding managers accountable – might be considered in addition to the very serious issues already raised by the Court of Audit in the Netherlands (see Box 12).

It has recently been decided to transform two semi-independent public entities into agencies under ministerial responsibility. It is expected that more semi-independent entities will follow suit in the coming years.

3.3. Input controls

Principally, government entities have been given discretion over accommodation issues in recent years and some aspects of human resource management have been decentralised.

3.3.1. Human resource management

Until 1993, the Ministry of the Interior acted as the central government employer. In effect, the Ministry of the Interior employed all staff in all other ministries under a single collective agreement. In 1993, this construction was modified by splitting the employer function into eight separate wage sectors: central government, defence, education, judiciary, police, municipalities, provinces, and water control corporations. This is to reflect the differences in working conditions between the different sectors.

Wage negotiations in the eight wage sectors, however, are still undertaken within the auspices of the Ministry of the Interior, which now acts as eight different employers instead of one. The elements of pay and working conditions that are

Box 12. The Court of Audit on semi-independent public entities

In a recent report by the Netherlands Court of Audit, a number of concerns were raised about semi-independent public entities:

- *Reporting* on the use of public resources is not uniformly in place although plans are under way to improve reporting in the health care sector from 2001.
- Ministers form an opinion on these reports in only a limited number of cases, notably in the social security and labour market sector.
- Semi-independent public entities do not generally report on their *financial management* and ministries consequently generally do not have a “clear idea as to the orderliness and verifiability of the financial management conducted by institutions”.
- With some exemptions, ministries have generally not developed *supervisory systems* in regard to substance.

On this background, the Court of Audit has recommended that adequate reporting and supervisory procedures be set up and that decisions on the appropriate level of detail in this reporting and supervision be established. The Court of Audit has acknowledged that the upcoming budgeting and accounting reforms have the potential to form a good point of departure. However, it notes that ministers have not determined who will ultimately hold semi-independent public entities accountable. Furthermore, it is unclear whether ministers accept the proposition of the Court of Audit that a larger degree of uniformity must be applied to reporting and accounting procedures throughout the semi-independent sector.

Some steps towards harmonisation will be taken in a forthcoming “Framework Act for Autonomous Administrative Authorities”, but this framework law is expected to be rather flexible.

A self-assessment by ministries of their supervisory arrangements on semi-independent public entities, which was to be published in late 2000, is still awaiting publication.

Source: Court of Audit.

negotiated at ministerial or agency level remain very limited. As one official in the Netherlands summarised: “those paying wages are not negotiating them.”

The Ministry of the Interior also establishes the job classification system, the systems of pensions and social security, and general conditions of employment. Furthermore, the ministry has defined actions to establish a representative public service in regard to gender, ethnic minorities and disabled citizens.

Direct central determination of the number of staff in each government entity has been abolished, so that each line ministry has degrees of discretion in regard to the number of employees in the organisation. Control systems on the overall number of employees are set up through the budget (*i.e.* the limit on wage expenses), and every ministry has to report the number of staff to the Ministry of the Interior annually.

With the exception of senior positions, each organisation selects its own personnel, often through external public advertisement. Staff in ministries are employed as civil servants proper, whereas newly employed staff in agencies are hired on contractual terms not very different from the private sector. New staff transferred to agencies remain civil servants.

For the Senior Public Service, the Ministry of the Interior plays a significant role in recruiting and/or transferring them.

The legal framework allows ministries to introduce performance related pay and to undertake performance reviews of personnel. The decision on whether to introduce such systems is delegated to each ministry. Ministries negotiate with their associated agencies on which degrees of freedom the agencies will have in this regard.

Generally, ministries and agencies have not chosen to introduce systematic reviews of individual staff performance and performance related pay is not widespread. The actual amounts paid are symbolic where they have been introduced – 100 € annually is cited as a typical amount in one agency.

The framework for human resource management in agencies is identical to that of the parent ministries.

3.3.2. *Accommodation*

Agencies pay a charge for accommodation. If the accommodation is publicly owned, payments are transferred to the parent ministries who in turn pay the central accommodation agency. If office space is rented from private providers, rents are paid directly from the agency to the private landlord.

Rents for publicly owned accommodation are set at modified market rates in accordance with a procedure approved by Parliament, based on the assessed value of the building, provisions and financing costs.

The payment of rent is related to managerial freedom for agencies to change accommodation as they see fit within the limits of rental contracts. After some initial lack of clarity when charging was introduced in 1997, agencies are now in principle not required to move into empty facilities owned by government. In practice, however, agencies are reported to be under very strong pressure not to leave government-owned buildings.

3.4. Financial management

3.4.1. Reallocation of appropriations

Government organisations generally receive one appropriation for all their operating expenditures. This implies that it is not specified how an appropriation must be distributed among different operating expenditures. Contrary to practice in most other countries, Dutch Government organisations are allowed to transfer expenditure between operating, capital and transfer programmes.

In some countries, this flexibility implies that management in government agencies can freely allocate expenditures between, for example, wages, consultants and accommodation. This is generally not the case in the Netherlands. In practice, agencies will have to allocate resources in close consultation with their parent departments and the Ministry of Finance has to approve them. Similarly, the Ministry of Finance has to approve changes in resource allocation internally in ministries. The budgetary flexibility is thus generally implemented rather cautiously.

Programme expenditure is generally budgeted and managed by ministries even if the activities are implemented by agencies.

3.4.2. Savings and loans

Before 1999, agencies had two sources of finance for capital investments: an agency could accumulate the money (unused appropriations and other sources of funding), or it could receive an extra appropriation as part of the annual budget process. This system was held to be too inflexible. First, an agency would not always have sufficient savings. Second, investment needs might be out of sync with the budget process. Third, investments might be incompatible with overall annual funding possibilities and policies.

As of 2000, a loan and deposit facility has been established allowing agencies to borrow capital for fixed assets (investments) from the Ministry of Finance at rates somewhat below the market rates. As regards operating costs, a current account facility has been established. This account is allowed to stay in deficit for one million NLG at the end of the year, and unlimited throughout the year. In principle, a very limited borrowing facility has thus been established for operating costs as well.

The borrowing facility does not apply to ministries. It is not yet decided whether this will change with the introduction of accrual accounting and budgeting.

In the Netherlands, ministries can carry 1% of a year's budget over to the following financial year. Agencies can only borrow only up to 1% of operating costs.

Loans by agencies have to be approved by the parent ministry and the Ministry of Finance. The justification for having the parent ministry approve a loan is that it is the ministry that in the end funds the agency through “purchases” of the agencies’ services. The approval by the Ministry of Finance is justified with reference to the need for macroeconomic balance, including the EMU requirements. The total amount of borrowing and saving are approved by Parliament through the regular budget procedure.

Savings facilities occupy an ambiguous position in budgeting practices. On the one hand, savings facilities can be seen as a necessary mechanisms to increase efficiency and to avoid waste because the public organisation with possibility of keeping its savings will have an incentive to minimise the use of resources, other things equal. In particular, saving facilities tend to reduce excessive end-of-year spending. On the other hand, savings – especially savings recurring year after year – can be seen as indicating that the public organisation in question receives more funding than it needs. Why should an agency keep receiving a higher level of funding than is apparently necessary to deliver the desired outputs and outcomes?

In the Netherlands, this conflict became tangible in the case of one agency having accumulated substantial savings. When the savings reached a level where it attracted political attention, the savings were transferred to the Ministry of Finance and included in the annual budget negotiations. Furthermore, it was established as a general rule that a maximum of only 5% of an agency’s equity can be accumulated as reserves. All amounts above this threshold will be transferred to the parent ministry. This threshold is justified with reference to the possibility of taking loans for investments, which is supposed to reduce the need to generate large savings.

It is not possible to say yet whether this will turn out to be a good or a bad change. On the one hand, this event will reduce the efficiency promoting effect of the savings facility. Furthermore, the fact that agencies saw the transfer as a sudden policy change might influence agencies’ expectations in regard to the duration of management and budgeting reform initiatives in the future. On the other hand, large savings do constitute a political problem and can be seen as results of unnecessary funding.

3.4.3. *Accrual accounting*

Since 1994, it has been a requirement that agencies operate with accrual accounting and budgeting. At the same time the rest of central government continues to budget and account on a cash basis. In practice, this has meant that accrual based budget and accounting documents for agencies have been translated to a cash basis and included as such in the whole of government documents. This

“co-habitation” of cash and accruals is reported to have operated without substantial problems.

3.5. Conclusion

Line ministries and their agencies enjoy increased flexibility in regard to savings and loans for capital investments and can carry over funds. Furthermore, they have some discretion in regard to the use of appropriations. However, the degrees of freedom in this regard are less generous in the Netherlands than in other OECD Member countries having introduced similar reforms. The degree of freedom for agencies is determined between the agency and the parent ministry and consequently differs from one agency to another.

Decisions in regard to financial management, whether in ministries or their agencies, have to be approved by the Ministry of Finance.

A substantial part of public expenditure and employment is undertaken at arms-length from government in semi-independent public entities. This continues to give rise to concerns about accountability and transparency.

Following reforms in the 1990s, line ministries exercise discretion in recruiting, training, developing and placing their own employees.

Control over wage determination and working conditions is maintained at central level. Consideration should be given to decentralisation of these responsibilities.

The purpose of the reforms mentioned in this chapter was to lower output prices, increase output quality and strengthen quality of public sector organisations. It is not possible to assess whether this has been achieved since time-series data on these items is not available. Furthermore, it is not established up front how and when reforms will be assessed and whether intended goals are accomplished. Consideration should be given to formalised procedures in this area.

4. Accountability

4.1. Introduction

As outlined in Chapter 3, management flexibilities have been increased for agencies in regard to financial management and accommodation, and to a certain degree in regard to human resource management.

This development has been accompanied by a restructuring of accountability mechanisms through quasi-contractual arrangements between “parent” ministries and agencies. The use of such contracts is not mandatory and some ministries and agencies have chosen not to adopt this approach. Agencies established in recent years, however, have entered into contractual relationships and all future agencies will adhere to the 12 principles for agency creation outlined in Box 11.

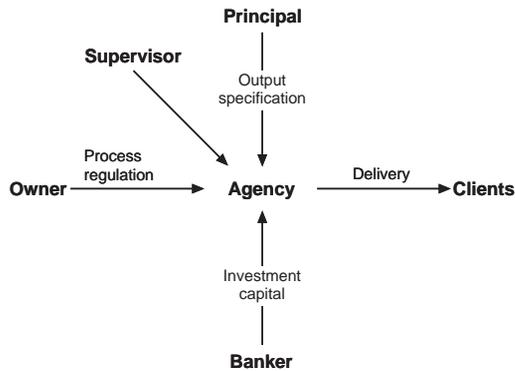
Expenditures for agencies are included in the appropriations for their parent ministry. They consist of one lump-sum line in the budget for each agency to cover their operational expenditures. The details of the use of this lump sum are negotiated between the “parent” ministries and their respective agencies.

The minister is accountable for the activities of agencies in the same manner as he is accountable for the activities of his core ministry. Agencies outputs are reported to Parliament in the budget and accounts of the respective ministries. Audit is undertaken by the internal audit functions of each ministry and by the Court of Audit, which may scrutinise the financial management of agencies in the same manner as it scrutinises ministries.

4.2. Specifying results and processes

Setting targets and specifying processes for agencies is *in principle* undertaken in a process involving parent ministries on the one hand and agency management on the other. This is outlined in Figure 3 below.

Figure 3. Roles in the Dutch agency model



The *principal*, which in practice equals the responsible policy office in the respective ministry, makes agreements with the agency about the quality, quantity and price of outputs to be produced by the agency and subsequently assesses the degree to which this has been achieved. In principle, a split between providers and purchasers has been established constituting an internal market. The market-like character of this arrangement is underlined by output costing being an explicitly formulated goal for the relationship between agents and principals. However, only a minority of agencies at present operate with output pricing and charging

according to quantity delivered. Operating with output pricing has been required since January 2000 and all new agencies are therefore expected to be operating with output pricing.

Agencies and parent ministries (as principals) will annually enter into a separate contract on outputs.

The *owner*, which in practice is the Deputy Secretary General of the parent ministry, must approve cost pricing models, investment policies, risk management policies, reporting requirements and general management control systems in the agency. The “owner role” is introduced with reference to the goal of increasing the “quality of the organisation”. In practice, this involves regulating a number of processes in agencies.

Agencies and parent ministries (as owners) will enter into a separate contract on these processes. This contract typically concerns a period of three to four years.

In the model, the *banker* equals the Ministry of Finance, which supplies investment capital and approves concrete investment projects. Furthermore, the Ministry of Finance establishes borrowing and current account facilities as described above.

The *supervisors*, which consist of the internal audit, personnel and finance units in the parent ministries, ensure that the activities of agencies are in accordance with the two contracts and other general regulations. The supervisors provide the ownership function, either directly or in an advisory capacity to other parts of the ministry exercising this function.

In sum, the framework used for the creation of agencies aims at clarifying management roles and their relations and thereby establishing a transparent division of labour. It is expected that the contracts and the framework will make it visible that parent ministries as well as agencies have to change their management practices.

The contracts on outputs and processes respectively are accessible to the general public but are not formally presented to Parliament. Prior to publication, the Ministry of Finance will receive the contracts for information and they will be used as part of that ministry’s budgetary oversight. There is thus an external scrutiny of the quality of the individual contracts.

Reporting to Parliament on the activities of agencies is part of the overall reporting of each parent ministry. In addition, agencies produce annual reports but these are not formally presented to Parliament.

Whereas the individual contracts are scrutinised, there is no overview of the general quality and number of contracts in the Netherlands. It is not known how

many agencies actually operate with contracts and how the quality of the contracts is evolving over time.

Dutch officials unanimously report that the degree of actual implementation of the general framework with owners, principals, supervisors, agencies and clients, varies significantly between ministries.

4.3. Reporting on results and processes

Reporting on results and processes of agencies is undertaken in four principal manners:

- Actual compliance with the two contracts mentioned above is reported upon in the annual reports of agencies. As noted above, annual reports are publicly available but not presented formally to Parliament. The annual reports may contain quantitative information on agency performance but in many agencies this is still in its developmental phase.
- Key results of agency performance are included in the budget and accounts of the parent ministries as presented to Parliament. In this context, no distinctions are made in regard to which part of the ministry has produced the outputs – *i.e.* whether the output is attributable to an agency or to the parent ministry itself.
- Every fourth year, the agency system is evaluated and assessed whether the agency model needs adjustments. The focus of the first evaluation in 1998 was on the organisational quality of individual agencies. The upcoming evaluation in 2002 will be supplemented by assessments of cross-cutting themes as for example the implementation of the split between owners and principals as described above. The first evaluation led to the establishment of the criteria for agency formation as outlined in Box 11. The evaluations are undertaken by the Ministry of Finance with assistance from private consultancy firms and supervised by an independent commission. These evaluations are presented to Parliament.
- It is mandatory for individual agencies to be evaluated after three years of existence and thereafter every fourth year. The purpose of these evaluations is to assess whether they are meeting the performance criteria set out at their establishment. These evaluations are typically undertaken by external private consultants hired by the agency in question. The Ministry of Finance is often consulted on the framework for evaluation, though this consultation is not mandatory.

Generally, no financial sanctions are applied for non-performance – neither in regard to the overall budget of the organisations involved nor in regard

to the management of that organisation. The public reporting of the assessed performance of individual agencies is considered as sufficient in this context.

4.4. Conclusion

The introduction of agencies and the accompanying accountability mechanisms can generally be judged to be a success. The rule of thumb in the Dutch Ministry of Finance is that the first three years of new agencies are difficult. Problems encountered in this implementation phase are generally not larger in the Netherlands than in other countries.

It should be noted that some of the more troubled agencies were judged to be “bad apples” even before they were made agencies. Problems encountered in these new agencies existed in their previous organisational forms, but are now being exposed with greater transparency as part of the agency model.

Changes in agencies need to be accompanied by parent ministries understanding their new roles: they will have to build capacity, devote resources and change business processes like agencies have to. Continued input-oriented management within a framework that is officially results-oriented will lead to frustration on the part of both parties.

It is acknowledged in the Netherlands that a weak point of the introduction of a performance focus in the agency model is the motivation of ministries in taking on their new roles as owners, supervisors and principals. And it is unclear if things are improving in this regard. In this regard, it can be raised as an issue whether the right balance in regard to individual ministerial responsibility and central devices have been found.

The conceptual model for specification and reporting on results in the Netherlands is inspired by principal-agent theory. One assumption within this approach is that the different actors in the model are separate and have different needs for control.

In the Dutch approach, the different control and delivery roles are integrated in the same ministry:

- The owner, principal and supervisory functions are integrated in the same relatively small organisational unit – the parent ministry.
- Agencies and their parent ministries are in many respects occupying a classical hierarchical relationship due to the strong emphasis on ministerial accountability. The umbilical cord seems to be in tact in most ministry-agency relations.

This gives rise to several questions: in the long-run, will it be feasible and effective to maintain the two separate roles of owner and principal? Will internal

supervision be effective? Will equal attention be given to the ownership and principal functions?

5. Outcome-based budget reform

5.1. Introduction

In May 1999, the Minister of Finance announced to Parliament that the government intended to introduce an outcome-based budget system to replace the present input-based one. The first official outcome-based budget was presented to Parliament in September 2001. In September 2000, the Minister of Finance further announced to Parliament that the government intended to introduce accruals as the accounting basis of budgeting to replace the present cash basis. The exact date for introducing the latter reform has not been finalised but the budget for 2006 is cited as the most likely deadline.

The impetus for these reforms would appear to be two-fold. First, there is strong political support. The Minister of Finance and the Prime Minister, who is himself a former Minister of Finance, are both strong proponents of these reforms. Parliament – especially the Committee on State Expenditure – has also been a strong proponent of the reforms. Second, and the apparent reason for the strong political support, is that the present system of budgeting is viewed as providing insufficient information on the government's activities and their true costs. The objective of the reforms is to make the budget more policy-oriented, recognising it as the government's primary policy document. This means that a link between policy, performance and resources must be made. It is also important to note that

Box 13. Minister of Finance on the reforms

“The Budget should tell us:

- What do we want to achieve?
- How do we want to achieve it?
- What should it cost?

The Annual Report should tell us the corresponding accountability questions:

- Have we achieved what we wanted?
- Have we done what we should have done in achieving it?
- Did it cost what we expected?”

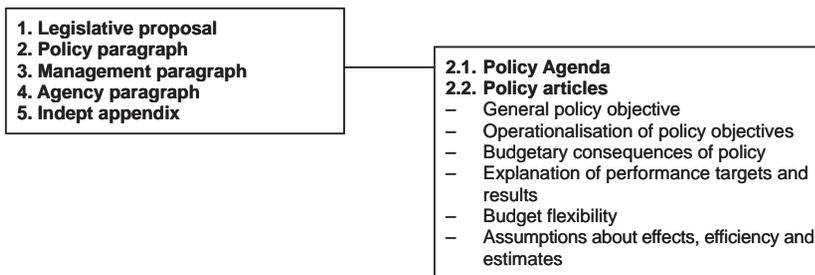
corresponding changes will be made to the *ex post* annual reports, where performance information will be audited on an *ad hoc* basis by the Court of Audit.

Among OECD Member countries only Australia is implementing reforms that are as far-reaching as the Dutch proposals in regard to the integration of outcome targets and evaluation in the policy and budget process. Countries like Canada, France, the United Kingdom and the United States are all working on enhancing the outcome focus of their budget procedures but generally this is not integrated in the actual budget document and expenditure is not linked directly to outcomes. Furthermore, the outcome documents are not systematically integrated in budget negotiations.

5.2. The structure of the new budget

In concrete terms, a fundamental reconfiguration of the budget documents will take place and for each ministry the budgets and annual accounts will be reorganised according to the structure outlined below.

Figure 4. The new structure of the budget and accounts



Besides the Policy Paragraph, which will be explained below, the budget will have the following elements:

- The Legislative Proposal, which will integrate the expenditure and the revenue under each department, though separate votes on expenditure and revenues will be upheld.
- The Management Paragraph, which will give an overview of major expected organisational changes in the ministry, such as creation of an agency or change of accounting standards.

- The Agency Paragraph, which will contain basic financial information on agencies connected to the ministry in question. Besides financial information, the inputs, outputs and outcomes of agencies will be integrated in the budget and accounting documents as if it was any other expenditure, *i.e.* they will be included in the Policy Paragraphs. This approach is justified with reference to the ministerial responsibility for agencies' activities. Every agency will still be treated as a section of the ministry to which it is part.
- The Appendix, which will include necessary technical information.

The key focus of the new budget, however, is the Policy Paragraphs, which will be divided into a Policy Agenda and a number of Policy Articles.

In the Policy Agenda, which will be no longer than 10 pages, the government's policies will be stated as well as the means that will be applied to achieve them and the financial resources allocated to them. It is hoped that this will reduce the need for publishing separate policy papers. There will be one policy agenda for each ministry.

Each Policy Agenda will be followed by a number of Policy Articles. These articles will replace the present sub-articles in the budget and will be restructured so that administrative and programme expenditure will be grouped under the policy targets to which they contribute. Expenditures, such as general management, that cannot be attributed to specific policies can be indicated under a general article for each ministry.

The first section of each policy article will be the General Policy Objectives. Here, outcome targets, including timing of expected achievement *i.e.* outcomes, will be stated and target groups for policies will be identified. Where possible, results on outcome realisations in two preceding years will be included.

If the General Policy Objectives cannot be operationalised directly into measurable outcome targets, the objectives will be translated into second order – or intermediate – targets. These targets will often have the character of output targets. Some policy articles will thus include a section on Operationalisation of Policy Objectives whereas others will not.

The next section in the Policy Articles will be the Budgetary Consequences of Policies, which will include an overview of financial information for the last two years and the forthcoming four years, including the budget year. Authorisations by Parliament (votes) are given at the total level of a policy-article. The number of votes will be reduced from about 600 to about 200. This will give ministries increased freedoms in regard to allocation of expenses and revenue.

This information will be supplemented by information on targets and results for outputs in the section on Explanation of Performance Targets and Results.

A particularly interesting part of this new structure will be the following section on Budget Flexibility. Here, the legal bindings on expenditure will be explained (international treaties, contracts, laws, commitments) and the percentage of the appropriation that can be reallocated should Parliament wish to is indicated. This section will also include a government proposal as how to allocate these “free” resources. The successful introduction of this section would represent international best practice for informing decision-makers on their room of manoeuvre.

The last section of the policy article will outline the budgetary assumptions as for example macroeconomic performance, demographic changes and structure of consumption.

5.3. Cross-cutting issues

The new budget will be structured around ministries, *i.e.* organisations. Organisational anchoring is deemed necessary for accountability purposes. However, this approach can imply that outcomes to which many organisations contribute (*i.e.* integration of immigrants, improvements in large cities or health) will appear in many places in the budget. This implies a danger that cross-institutional contributions to the realisation of such outcome targets are not adequately recognised.

To a certain extent the quest for clear accountability on one hand and policy-coherence across organisations on the other is a trade-off and there is no objective best balance. It is, however, important to make the choice explicit and to identify the risks connected with the choice taken.

This issue is partly addressed in the Netherlands with the introduction of the so-called “overview constructions” which are created in cases where several ministries contribute to policies. It is expected that the first new style budget will have four “overview constructions”. The constructions are not part of the budget bill but they are presented to Parliament for information. The types of overview constructions are shown in Box 14 below whereas an example of a draft overview construction is depicted in Annex 1.

A related issue is coherence across levels of government. This issue is not addressed in the reform, which leaves out activities of municipalities and provinces. The present rule that local governments automatically receive a fixed share of central government spending is being upheld. Though this focus might not be seen as in total harmony with the principles of the reform, addressing “vertical coherence” at the same time as a restructuring of the national budget would probably overload the reform process.

Box 14. Types of overview constructions

Type 1. A collective policy objective

In this type, two or more ministries formulate a shared policy objective, including performance targets, target group and time horizon. In addition, the overview construction contains, for each ministry sharing the objective, a strategic policy objective and an operationalised objective. These can be regarded as a statement of how the ministry in question is contributing to the shared policy objective. This type of overview construction includes financial information, operational objectives and performance information for a five-year period for each contributing ministry. This type of overview construction will, for example, be used for expenditures related to international co-operation.

Type 2. Inventories of parts

No shared policy objective is formulated in this type of overview construction but policy areas which are thought to be related to each other are presented in the same construction. Ideally, this type of overview construction should include financial information, operational objectives and performance information for a five-year period for each contributing ministry. This type will, for example, be used for the area of asylum and immigration.

Type 3. Reference to policy articles

The most uncomplicated type of overview construction is a document compiling references to policy objectives of the ministries relevant to the policy theme in question. In this type, no long-term financial or performance information will be included. It has not been decided whether this type will be used in the first round of the new budgeting system.

5.4. The budget reform and the three budgets

As noted in earlier sections, there are three central budget documents in the Netherlands: the Core Budget Sector, the Health Care Sector and the Social Security and Labour Market Sector.

The description above concerns the core government budget but the reform is intended to be applied to the other two budget documents as well.

The operation of three budget documents must be understood on the background of the existing governance setting of the three budget sectors. In the long-run, there might be room for considerations on whether the operation of three budgets fully allow for the desired alignment of inputs, outputs to outcomes.

5.5. Semi-independent public entities in the new budget

At present, semi-independent public entities are only included in the budget documents as regards financial flows to and from these entities. In the future, the semi-independent public entities will take a more prominent place the budgeting as well as in the accounting documents.

Principally, the financial contribution of a ministry to a semi-independent entity will be treated as a “subsidy” from a ministry to individual citizens or companies. The accountability of the minister for the transfers will thus be like accountability for transfers to citizens and companies.

5.6. Conclusions

The move towards an outcome-based budgeting and accounting system is innovative and ambitious and has the potential of putting the Netherlands at the cutting edge of budgeting and management among OECD Member countries. The implementation, however, will be challenging and require substantial input and motivation from all stakeholders. Especially the formulation of outcome targets and the subsequent alignment of outputs and inputs will be challenging.

The question of issues cutting across organisational boundaries is addressed in the reform but generally the structure of the budget will remain faithful to the distribution of portfolios between ministers. The outcomes approach is thus not taken to its full “extreme”. This is justifiable with reference to the need for political accountability but entails the risk of not adequately addressing issues of policy coherence. This problem is a genuine trade-off and much will depend on the role given to “overview constructions”.

The main issue to be raised in regard to the reforms is the partial inclusion of the social security and labour market sector and the health care sector, which seems to be built more on existing governance arrangements than the principles behind the overall reform efforts.

The inclusion of semi-independent public entities in the main budgeting and accounting document has a potential of making accountability relations in that area clearer. However, the sorting out of these relations will probably be politically challenging and it is unclear if reformers have made up their mind in regard to what changes, if any, the new budgeting and accounting documents will have in this regard.

The internal audit directorates and the Court of Audit already have a substantial role in auditing performance information and this role will be further institutionalised with the new budgeting and accounting system. This has the potential of enhancing the quality of information provided in the budget.

Notes

1. This discussion draws on the annual OECD *Economic Surveys* of the Netherlands, especially the 1994 *Survey*.
2. "Study Groups" are typically appointed every four years by the Finance Minister to prepare a report on a specific topic prior to a new government taking office.
3. This is similar to the caps on discretionary expenditure applied in the United States, except they apply to all expenditure in the Netherlands. For a discussion of the United States experience, see Anderson, B. "*Surplus Budgeting in the United States*", OECD, 2000.
4. Amendments can be presented at any time during Parliament's discussion of the budget. There are no procedural regulations designed to restrict them.
5. For a discussion of such a system, see Blöndal, J.R. "Budgeting in Sweden". *The OECD Journal on Budgeting*, 2001. Vol. 1, No. 1.
6. For an overview of these analyses and definitions see Sandra Van Thiel, *Quangocratization: Trends, Causes and Consequences*, Interuniversity Center for Social Theory and Methodology, Utrecht, 2000.

Annex I. **Draft overview construction on asylum and migration**

	Policy article	Operational goals	Performance indicator
Ministry of Interior and Kingdom Relations: Police	<p>Issuance of a residence permit</p> <ul style="list-style-type: none"> • Ladder for police-regions with asylum tasks • Testing regular applications • Issuing decisions on asylum and regular decisions <p>Prevention of illegal stay</p> <ul style="list-style-type: none"> • To deport aliens who are considered to leave 	<ul style="list-style-type: none"> • To implement properly the tasks in the sphere of issuance of a residence permit, supervision of aliens and deportation as a consequence of the arrival of asylum seekers in a police-region • To test certain regular applications within the allowed period and to consider regular objections and to make decisions within the given budget • To issue decisions on asylum and regular decisions within the allowed period • To deport aliens who are considered to leave 	<ul style="list-style-type: none"> • Amount of regular applications that have been considered • Time needed to consider regular applications • The percentage of withdrawal of regular applications • The percentage of nullification of regular applications • The average costs to consider a regular application • Amount of asylum procedures that are relevant to the police • Amount of taken decisions • The period that is needed to take a decision • The number of people who are considered to leave • The period that is needed to decide about leaving
Ministry of Interior and Kingdom Relations: Directorate for Co-ordination of Integration and Minorities Policy	<p>Receiving asylum seekers</p> <ul style="list-style-type: none"> • To accommodate asylum seekers with a permit of residence 	<p>To accommodate in time asylum seekers and holders of permissions of temporary stay in the regular reception</p>	<ul style="list-style-type: none"> • The number of people that is accommodated • The average time that is needed to accommodate
Ministry of Defence (Royal Military Constabulary)	<p>To prevent illegal stay</p> <ul style="list-style-type: none"> • On behalf of the Ministry of Justice to maintain the legislation about aliens 	<ul style="list-style-type: none"> • To patrol at the borders • To deport illegal aliens • To supply visa at the border • To superintend at the border to prevent illegal stay • To determine the identity of aliens by verifying documents in the Application Centre-phase 	<ul style="list-style-type: none"> • The number of aliens that are withhold to enter the Netherlands • The number of aliens that is expelled • The number of visa that is supplied at the border • The number of illegal that are found at the border-area • The number of identities that are determined during the Application Centre-phase

Annex I. **Draft overview construction on asylum and migration** (cont.)

	Policy article	Operational goals	Performance indicator
Ministry of Foreign Affairs	Issuance of a residence permit <ul style="list-style-type: none"> • Reports that are provided by the outposts (country and individual) • Consideration of authorisation for temporary stay-applications and visa-applications Prevention of illegal stay <ul style="list-style-type: none"> • Assistance • Return-organisation 	<ul style="list-style-type: none"> • To publish yearly high-quality country reports about main countries of origin • To publish, within three months, high-quality individual (about persons) reports • To further the return of non-permitted asylum seekers to their country of origin 	<ul style="list-style-type: none"> • The number of country reports • The number of individual reports • The number of applications for a visa • The time that is needed for visa-application • The number of applications for authorisation of temporary stay • The time that is needed for authorisation of temporary stay • The number of people that return