

Performance Budgeting in the Netherlands

by
Raphael Debets*

This article discusses the reforms introduced in the Netherlands since the 1980s to improve the transparency and efficiency of government programmes: programme budgeting, policy orientation, and interdepartmental policy reviews. The impact on the budget structure and process is described. An Annex explains some typical characteristics of the Dutch budgetary process.

* Raphael Debets is a senior economist in the Netherlands Ministry of Finance. An earlier version of this article was published in *Performance Budgeting in OECD Countries*, OECD Publishing, 2007.

1. Introduction

The Netherlands introduced a more policy-oriented form of programme budgeting in 2001. The initial aim of this budget reform was to provide Parliament with a more transparent budget document. During the implementation process, the objective broadened to encompass improving the efficiency of programmes.

As a result of this reform, the new structure of the budget is clearer, with strategic objectives and links to related policy areas. Regarding efficiency, however, the results are less evident. There is still a lack of clarity about the contribution of government programmes to policy objectives. In many cases, performance indicators “hit the target but miss the point” and evaluation research does not review the effects of policy. The twofold aim of budget reform – transparency and efficiency – cannot be achieved by one instrument, the budget. The budget should be used for discussion of the main political issues, but other instruments such as policy reviews are advised for facilitating efficiency improvements.

Further work lies ahead on improving the focus and accessibility of budget documents and using policy reviews to achieve improvements in efficiency.

This country report about programme budgeting is built around four pillars (shown as A through D in Table 1). At the end of this study, an Annex explains some typical characteristics of the Dutch budgetary process.

Table 1. **Four pillars for programme budgeting**

Reforms	Objectives	Short description of reform
A. Programme budgeting (Accounting System Operation in the 1980s).	A. Transparency and efficiency.	A. The policy director is responsible for the budget. Responsibility – being held accountable within a decentralised administrative organisation – provides an incentive for efficient use of resources.
B. Budget bill(s) and memorandum are policy/goal oriented (VBTB begun in the 1990s).	B. Transparency.	B. Main policy programmes are presented in a separate chapter of the budget (bill and memorandum). Line articles are formulated in terms of operational goals. Some operational goals are accompanied by performance indicators.
C. Interdepartmental policy reviews (in the 1980s). Obligatory cost-benefit analyses for special projects in the 2000s.	C. Efficiency.	C. Independent chair, scientists and specialists are brought in and a report is made public (to Parliament). Policy reviews on level of policy goals. Independent Netherlands Bureau for Economic Policy Analysis (CPB), for macroeconomic assumptions (transparency).
D. The way ahead	D. Transparency and efficiency.	D. Focus the budget (a core instrument for authorisation) on transparency. Use policy reviews (other instrument) for efficiency.

2. Programme budgeting

In the 1980s and 1990s, two major reforms were introduced: the Accounting System Operation (*Operatie Comptabel Bestel*), carried out from 1985 to 1993; and the Policy Budgets and Policy Accountability operation (VBTB, *Van Beleidsbegroting tot Beleidsverantwoording*), started in 1999.

The Accounting System Operation was conducted against the 1980s background of continuous overruns of expenditures, high deficits and a heavy tax burden. The reform sought to reverse this trend through a broad package of measures: decentralisation, more weight on commitments in accounting (see Box 1) and orderly financial management. The focus was on controlling government expenditures, especially unexpected budget overruns.

Box 1. Accounting base of the budget in the Netherlands

To strengthen the budgetary power of Parliament, the budget administrative system (budget bills and reports for ministries and budget funds) in the Netherlands is both cash and commitment based. This is made visible due to the link between commitments and cash payments. The budget contains a multi-annual forecast (unchanged policy and unchanged prices; forecast for 2008-11 in 2007 prices). Parliament approves the budget for one year: policy decisions about how much to allocate for each goal. One line minister is responsible for one budget line. Control (over the decision whether to invest in the first place) can best be exercised “up front” when the government commits itself to the full cash outlays. Possible benefits must be presented in supplementary policy documents (cost-benefit analysis).

In the Netherlands the new budget is programme-based (a combination of programme and resources).¹ Up until the 1980s, policy directors were responsible for their policies, and the control directorate (FEZ)² was responsible for the resources (“money”). After the Accounting System Operation, policy directors were responsible for both: programmes and the use of resources. Budget infrastructure and individual accountability are now in line with each other. The advantage of programme budgeting is that (in most cases) only one policy directorate is responsible for a budget line. In giving a policy directorate responsibility over a budget line, it becomes easier for a line minister to make an agreement (with a director) on the policy goals to be reached with this amount of money. In addition, budget overruns/windfalls are managed (according to the fiscal rules) by the responsible policy directorate. This means first of all giving information about a possible overrun to the line minister and the Ministry of Finance and, second, a policy decision on the way this overrun is solved (i.e. a proposal for a budget cut).

Because orderly financial management is an absolute condition for the successful control of government expenditures, the budget infrastructure was reviewed. A framework for central and decentralised (financial) information provision had been lacking, and so a rapid flow of information had to be established between the Ministry of Finance and the spending ministries. A computerised interdepartmental budget consultation system for the entire state budget was set up (see Box A.3 in the Annex). It was vital to have better co-operation between the line ministries and the Ministry of Finance. The budget information exchange between the government and Parliament was upgraded. For example, the report/account was presented nine months after the budget execution year (in contrast, the report of 1978 was presented in 1985).

After the Accounting System Operation reform, financial management innovations continued. A new form of internal autonomy was introduced (agencies) to improve managerial flexibility. Policy Budgets and Policy Accountability (VBTB) evolved from the operations of the 1980s as logical instruments to increase legitimacy and manageability of government spending. After an intensive preparation process, the new budget of 2002 (September 2001) became more policy oriented.

3. Programme budgeting is policy oriented

The VBTB operation (i.e. new budget) was aimed at providing Parliament with a more policy-oriented and transparent budget document: clear information about the results of government actions. Because the new budget enables the government to focus on policy objectives (results of programmes) instead of instruments, the budget reform is also significant for efficiency. This operation was developed at the initiative of the Lower House of the Dutch Parliament. The Ministry of Finance played a role of co-ordination and monitoring. After an intensive preparation process, all ministries switched to the new budgetary structure during the budget preparations for 2002 ("big boom").

As its point of departure, the new-style budget would not take funds to be spent, but rather policy and its concrete objectives. The crux of the matter is to make the political objectives in the coalition agreement³ clear in the underlying budget bills and (in retrospect) reports. The focus is on questions such as: What do we want to achieve? What will we do to achieve it? What will we allow it to cost? The new style of budget was accompanied by a new style of accounting – the annual report – in which the layout was the mirror image of the budget: Did we achieve what we intended? Did we do what we meant to do to achieve it? Did it cost what we thought it would? (See Box 2.)

In September 2006, the new-style budget (memorandum and bills) was presented to the Lower House for the sixth time. The operation was not painless; it took much time and effort. Therefore it is only to be expected that

**Box 2. Structure of the budget line “youth policy”,
Ministry of Health: Budget line 45 (article) “youth policy”**

A. General goal

“Children in the Netherlands grow up healthy and safe.”

B. Five operational goals

1. “Children and their parents receive help in time to grow up, bring up and care”;
2. “Children who have problems with their development: their parents will receive support”;
3. “Children who are selected and their parents can make use of help from the youth care institution”;
4. “Children who are selected and their parents receive help from the care supplier of their choice”;
5. “Guaranteed payable youth care”.

Some operational goals are accompanied by performance indicators. The goals are accompanied by a multi-annual commitment/cash table (expenditures and revenues) for funding, which will be approved in the budget year by the Lower House. For an overview of all budget bills, see www.rijksbegroting.nl.

the Policy Budgets and Policy Accountability objectives would not be achieved within six budget cycles. Where do matters stand now?

The new structure of the budget is clearer. New budgets are built around strategic objectives and related policy areas. Substantial progress regarding transparency (authorisation) has been achieved. There has been a reduction in the number of line items by more than 75% (from around 800 to around 200 line items).⁴ Also the “old” explanatory statement has been greatly condensed, and the introduction of each budget bill (explaining the policy priorities) is more political. Last but not least, accounting takes place four months earlier than it did before the introduction of the new budget.

Despite these improvements, there are still some challenges to overcome. The budget bills are thick (a high degree of overlap with information in policy documents) and hard to read (budget bills contain a lot of technical information, for example about cost prices). Appendices – containing primarily technical and detailed tables and information on the conduct of business – account for over 20% of the number of pages of a budget. Information about the contribution of government programmes to policy objectives is unclear. Objectives are formulated in such abstract terms that it is impossible to determine (in retrospect) whether they have been achieved. There is a natural tendency of officials and administrators to hedge their bets and give veiled answers.

In 2004 there was a review of the second-level legislation⁵ on reliability of policy information. The “order on performance data” (RPE) stipulates how spending/line ministries should prepare performance indicators and targets for their strategic and operational objectives. (Note that spending/line ministries are responsible for their own budget, and therefore for their own performance data.) The criteria that were stated in the “order on performance data” (validity, reliability and usefulness) have proved to be inadequate (see Box 3).

Box 3. Usefulness of criteria to assess the quality of policy information

The degree of exactness that is possible with financial information cannot be achieved in measuring expected and actual policy results. For example, it is possible to account for every single penny of the money spent by the government on reintegration of the unemployed. But the effect of reintegration policy on a person’s chance of finding a new job can be determined with much less precision. This is true of most policy areas: it is possible to determine exactly how much public money has been spent, but not what this yields precisely in terms of benefits for citizens.

Quantitative performance data can hit the target but miss the point in a lot of cases.⁶ There is a huge focus on the measurability of objectives, at the expense of quality (see Box 4). Among the unintended effects, reality may be represented too simply, or management may be driven by inappropriate

Box 4. Bad performance indicators

One of the performance indicators to measure the success of the introduction of a free market for electricity is the “acquaintance with different electricity companies” by citizens. In the Lower House there have been many discussions about the huge (tax-funded) salaries of the top management of electricity companies. It was clear that citizens recognised new electricity companies not because of the introduction of a free market for electricity but because of these “salary discussions”.

Indicators do not address the seriousness of certain crimes, for example the theft of a Rembrandt painting. Such a theft is statistically registered as “one” theft. Police are encouraged to pick the easiest criminal charges (e.g. charging for no lights on a bike) instead of investigating the theft of a painting worth EUR 50 million. Police are also not encouraged to engage in active crime prevention: prevented crime is not appreciated in statistics.

performance targets (the number of fines does not say anything about how safe the motorway is; and the number of students who graduate does not say anything about the know-how/expertise of students).

Much important research relevant to policy is done by planning agencies, universities and other research institutes. This research is frequently used in the policy preparation process. On the other hand, the state of affairs in recorded evaluations is fairly gloomy. A great deal of evaluation research takes place (more than 250 evaluations – mostly *ex post* – are executed each year), but it does not review the effects of policy. The evaluation research presents interviews, perceptions, opinions and customer satisfaction. The ideal of the “order on performance data” – to improve efficiency with scientific research – is beyond reach. Scientific research can only be conducted if there is a counterfactual (no-policy option), which is almost never the case. Hardly any research is future oriented except for some very useful cost-benefit analyses for special projects (like the Amsterdam South Axis) or jetfighters (Joint Strike Fighter). Cost-benefit analyses for special central government (infrastructure) projects are obligatory since 2000.

Box 5. New-style budget and conclusions of the International Monetary Fund

The IMF has published a report on the observance of standards and codes on fiscal transparency for the Netherlands (IMF, 2006). The new budgets are a reform with potential for improving transparency, accountability and allocation of decision making. Much work has been done, but the harvest still has to be reaped (mostly). Performance information needs to be limited and focused. The IMF suggests using information appropriate to the level of discussion (main issues), to better integrate policy analysis in the budget cycle, and to raise the quality and independence of policy assessments.

The Netherlands budget memorandum gives an overview of the main political initiatives against the background of economic development. The targets of main policy programmes and major achievements of policies are reported in a separate chapter. In the 2007 budget memorandum, there were seven main policy programmes: social and economic policy; youth; education, knowledge and innovation; safety; health; environment and transport; and international policy and defence. Each policy issue is subdivided into several targets (see Box 6). These targets are of course geared to the objectives in the policy bills of each line ministry. The “tuning” process is a joint task of the Inspectorate of the Budget of the Ministry of Finance and the control division of the line ministry.

Box 6. 2007 budget memorandum: targets for youth and safety

Youth

- Reduction of school drop-outs in 2010 (basic value: 70 500 in 2002).
- Reduction of waiting lists for youth care and bureaucracy.
- Deal with youth criminality.

Safety

- Reduction in criminality of 20-25% in the period 2008-10 (basic value 2002).
- “More blue on the street” – 40 000 extra prosecutions at the Counsel for Prosecution.
- More prison cells.
- Fight against terrorism and protection of vital infrastructure.

Major (quantitative and qualitative) achievements per policy area are also mentioned in the budget memorandum. In the area of social and economic policy, for example, these include the reduction of the corporate tax from 34.5% to 25.5%, the reduction of the bureaucracy (“red tape”) for citizens and entrepreneurs by 25%, and the reform of the Social Assistance Act (*Bijstand*), the Unemployment Act (WW) and the Disablement Act (WAO). But other achievements include a reduction of school drop-outs by 20% since 2002, a reduction of criminality by 10%, the dismantlement of 5 600 marijuana production facilities, and the employment of around 5 100 armed forces in international operations.

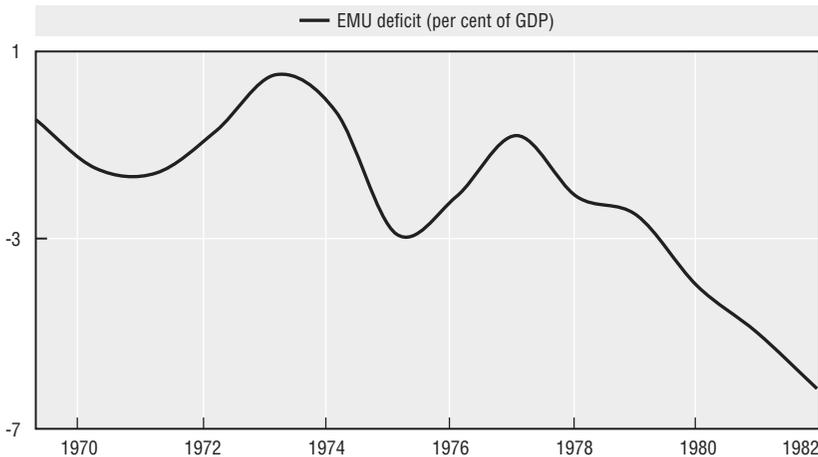
The budget reform (transparency) and legislation on policy information (efficiency) melted into each other. Both initiatives expressed themselves through the budget. The general conclusion is that the twofold aim of reform for transparency and efficiency cannot be achieved by one instrument, the budget. The phrase should be “one goal, one instrument”. A different, more limited, form of presentation is needed for the budget, to make it easier for those who are politically responsible to read it. Enormous quantities of figures can simply be weeded out. Efficiency must be improved by encouraging rigorous *ex ante* and *ex post* evaluation.

4. Interdepartmental policy reviews

The Netherlands – like many other countries – is in a continuing struggle to spend taxpayers’ money in a more efficient and effective manner. Since the 1970s, several initiatives have been carried out, like the Planning Programming Budgeting System (PPBS: programme budgeting, performance budgeting, and multi-annual budgeting), the reconsideration procedure (1981) and the development of interdepartmental policy reviews from 1995.

An important reason for new initiatives to improve efficiency was the “Dutch disease” which occurred in the Netherlands during the 1970s. “Dutch disease” is the international phrase to describe the economic problems due to the use of temporary higher government revenues for structural government outlays. As a consequence, other economic activities are pushed out and government finances become unsustainable (see Figure 1).

Figure 1. **Budget balance in the Netherlands during the 1970s**



During the 1970s, setback followed setback and the cutbacks had no real influence. The government of the time introduced a “posterity procedure”. All ministries had to identify a certain percentage of the total budget which was not vital. *De facto*, only a few ministries answered the request, so it failed.

Since 1981, the reconsideration procedure successfully triggered discussions about the policy option itself (“large efficiency”) rather than discussions about operational management within the policy option (“small efficiency”). The main goal is to separate the objective analysis/conclusions from the (political) policy conclusions by splitting the review from the opinion or recommendations of the Cabinet regarding the review. Both the review and the Cabinet opinion are sent to Parliament (see Box 7).

The reconsideration procedure was already in place in 1975. During the first years, the results were disappointing. Several policy areas escaped review. This “escape hatch” was closed by the 1981 budget memorandum, when 30 subjects were chosen for reconsideration and thus all policy areas were taken into account.

Also in the beginning of the 1970s, the Planning Programming Budgeting System (PPBS) was introduced, but failed partly. The PPBS consists of three elements: programme budgeting, performance budgeting and multi-annual

Box 7. Main characteristics of the reconsideration procedure

- Checks and balances (chaired by the line ministry; secretariat by the Ministry of Finance; the Inspectorate of the Budget is also a member).
- Each review should produce alternatives that should lead to a 20% reduction of expenditure after four years.
- No veto right (to prevent the entry of minority views).
- Uniform structure of the review and standard questions (like a description of policy, objectives and instruments, etc.).

budgeting. Only the multi-annual estimations of budget items ($t + 1$ through $t + 4$) were successful. Outlays of programmes after the budget year (t) are now recorded, so underestimations are prevented and mid-term savings are transparent. Programme budgeting failed mainly due to an aversion to the highly theoretical approach. Goals were defined in a top-down manner and not in line with the organisational structure (budget responsibilities of policy directorates).

The reconsideration procedure of 1981 (*de facto* 1975) forms the basis for the current system of programme reviews (interdepartmental policy reviews, or IBOs, from 1995). Under this system, policy reviews are conducted with the purpose of developing alternatives that would yield savings – preferably based on efficiency measures but, if necessary, based on a reduction of service levels. Only alternatives that cost the same or less can be considered. Each review has to produce at least one alternative that would lead to a 20% reduction of expenditure after four years compared to the current estimate of the last out-year. In the 1990s, the reconsideration procedure was gradually adapted to changing economic circumstances. The mandatory 20% savings alternative was abolished (due to pressure from the spending/line ministries) and reviews have become focused on institutional changes (see Box 8).

Box 8. Procedural and organisational aspects of the interdepartmental policy reviews

- Policy reviews are proposed for review by the Ministry of Finance.
- The proposals for policy reviews are approved by Cabinet, so also by the line ministries. Line ministries have to co-operate. A list of proposed policy reviews is included in the September budget memorandum.
- The reviews are conducted by small working groups with representation from the Ministry of Finance, the line ministries, and external experts.
- The chair is independent and the secretariat is provided by the Ministry of Finance or shared with the line ministry.
- All reports are made public and submitted to Parliament.

An example of rigorous analysis and more efficient policy is the reform of the welfare benefits or Social Assistance Act (*Bijstand*). There was a perception that too many people were relying on benefits while still being able to work. The independent Netherlands Bureau for Economic Policy Analysis (CPB) took up the challenge and made an assessment of the Social Assistance Act. As a result of this assessment, an interdepartmental policy review was initiated by the Ministry of Finance (see Box 9).

Box 9. Example of a successful interdepartmental policy review

Triggered by studies of the independent Netherlands Bureau for Economic Policy Analysis (CPB) at the end of the 1990s, a range of labour market redesign measures enabled substantial budgetary reductions. One of the results is the reform of the disability schemes (WIA). Another example of successful policy review was conducted in the field of social benefits (*Bijstand*). In an effort to make social benefits more cost effective, less complex and more aligned with decentralised responsibility (budgeting), the basis for this interdepartmental policy review was laid down by a CPB study (*Review Memorandum 119*) in 1995.

The interdepartmental working group worked out several variants for financing the social benefits by local authorities. These variants were sent to Parliament, together with the Cabinet's point of view. The Cabinet opinion (January 1997) was positive, but more research was needed. A new Cabinet agreement (1998) introduced the decentralisation of budgets for social benefits. The right-wing coalition government of 2003 implemented the redesigned Social Assistance Act (in the Work and Social Assistance Act) from 2004. Recently, a survey on the new Act was published by the Ministry of Social Affairs. The number of social assistance claims has diminished from 336 000 in December 2003 to 311 000 (excluding age 65+) in September 2006, under difficult economic circumstances.

Demand-driven reform

Financial responsibility (obligation to work and need to prevent fraud) for social assistance went to the municipalities instead of the central government. The new Act incorporates a financial incentive for municipalities to reduce the numbers of workless social assistance claimers.

The incentive is created by dividing the central budget for benefits between the municipalities on the basis of a set of objective parameters (inhabitants, income, etc.). The municipalities that get claimants to (re)enter the labour market will spend less than expected. They can keep the surplus and spend it on their own priorities. Municipalities that are not successful and that have a gap in their budgets must finance the gap from their own resources. For each year that the total amount of unemployed diminishes, the total state budget will be reduced. The majority of the municipalities responded positively to the changes introduced by the Act. They welcomed the decentralisation and delegation of responsibilities. They were allowed to establish closer contact with the unemployed and hence devise tailor-made measures for them. Deregulation provided opportunities for the municipalities to draft their own guidelines within the framework defined by national law.

In the 1990s, the Government Account Act was changed, to give the Court of Audit a role regarding the efficiency of programmes. Ministries were obliged to evaluate policy areas once every five years. Second-level legislation (the “order on performance data” or RPE) was introduced in 2002 to provide rules for the realisation and collection (process) of policy information, like performance indicators and evaluations. The main goals of introducing the “order on performance data” were to guarantee the evaluation function within the central government, and to guarantee that the policy information would be collected for the budget and that the annual report meets the applicable quality requirements.

5. The way ahead

Further work lies ahead on improving the focus and accessibility of budget documents. The budget should be used for discussion on the main political issues. Budgets should perform their basic task: authorisation of line items (objectives) and control. An easily accessible budget has a clear structure and uses the appropriate information for the level of discussion. More technical information about the plausible relation between performance indicators, operational objectives, instruments and resources is best accommodated in policy documents, not in the budget (see Box 10).

Box 10. How to achieve a more transparent budget

In the Netherlands, the following activities aim to improve the accessibility of the budget:

Civil servants are trained to ask the right questions, write well-structured policy letters/memos, and conduct policy reviews. The course (run by the National Academy for Finances and Economy, www.rijksacademie.nl) lasts two days. On the first day, a (real) case study is presented by a specialist. He/she describes the process, the difficulties of drafting the memoranda, etc. During the day the students will make (by themselves) a “checklist” with questions whose answers should be found in the budget documents. The second day starts with a “checklist” distributed by the academy; this list is compounded by specialists. At the end of day two, the students will receive a new case study, but now they have to draw up a budget document by themselves (within a time limit).

New technology (like Internet) is used to simplify the budget. For example, very detailed and technical information about government guarantees is accessible on the budget website (www.rijksbegroting.nl/garanties). This means that the information in the budget can be reduced to a general table.

The “order on performance data” was revised. Only process criteria are enclosed. Performance indicators are no longer obligatory, unless they are useful.

A “cup final” is held for the best policy line. Each year the interdepartmental financial affairs directorates elect the best policy line. In 2007, the Ministry of Social Affairs won the cup for its policy line “income protection and activation for disabled people” (article 34) of the budget bill of the Ministry of Social Affairs (see www.rijksbegroting.nl).

To facilitate efficiency improvement, instruments other than the budget are advised. Policy documents are the best instrument to input information about rigorous analysis (*ex ante* evaluation) into the budget process. In these documents, basic questions should be answered, like what is the problem and what is the role of the government (see Box 11).

There is also a movement towards more efficiency. The point of departure for well-founded policy initiatives is rigorous analysis (*ex ante* evaluation). This means that the basic but fundamental questions should be addressed

Box 11. **Basic questions to be answered in the policy documents**

To conduct policy reviews, it is essential that all policy areas are treated equally. In the long term, all policy areas should be reviewed. This means that the questions for assessing the areas should be uniform.

1. Analysis of the problem

What is the problem to be solved? Which goals can be formulated for the intended policy? What is the cause of the problem?

2. Role of the government

Why is the solution to the problem a responsibility of the (central) government? Is it market failure or are there external effects?

3. Possible solutions

Which alternative solutions to the problem are possible? Which instruments can be used (subsidy, tax, guarantee, benefit, etc.)? Are the government expenditures necessary, or is a solution possible in the sphere of law?

4. Policy effects of the alternatives

What contribution is delivered by the instrument to the solution of the problem? What are possible positive or negative side effects? How does the foundation look? What are the budgetary effects and the (social) costs of the solution?

5. Collecting information

How should the effects of the intended policy be assessed? Should evaluations be quantitative or qualitative? What information should be collected? How much time is needed for the collection of information? What kind of research possibilities are available (models, inquiries, policy experiments)? What research possibilities are recommendable?

6. Maintenance

Which steps should be taken to evaluate the policy?

with the help of independent experts and that the outcome of the review is made public. It is essential to concentrate policy reviews (*ex post*) on the analysis of these basic questions, on the level of strategic objectives and policy areas. In these analyses the basic questions about the foundation of new policies are answered.

Policy review works in practice (www.minfin.nl/nl/onderwerpen,diversen/beleidsonderzoeken). In 2006, some 17 policy evaluations were conducted in several areas, such as: consumer policy, aid to victims, labour and care, and security in public transport. Seven policy evaluations have been sent to Parliament, five are near completion, and five are delayed. The overall budget for these 17 policy areas is EUR 5 billion. For 2007, 35 policy evaluations are planned (in areas like reintegration and promotion of international commerce) with an overall budget value of EUR 12 billion. Critical success factors for conducting policy reviews are, for example, (political) timing, involvement of independent experts (from the start) and commitment by senior staff.

Notes

1. In the Netherlands there is a detailed multi-year budget. For every line item (and even sub-items), multi-year estimates are made (in contrast to multi-year estimates for instances for the total expenditures). For every line item, line/spending departments have to make a multi-year forecast. There are about 200 line items, but forecasts are also made for sub-line items (a rather detailed exercise). The forecasts are made by the line/spending departments.
2. A description of the decentralised Dutch financial management system is given in the Annex.
3. The Cabinet in the Netherlands is formed by a multi-party coalition. See also the Annex.
4. Each ministry has one budget. Each ministry has an average of ten budget lines per budget that are worked out systematically. Almost everywhere it was possible to categorise policy, performance and financial details systematically in a single policy line. A budget line is accompanied by one “general goal or objective” which can be subdivided into “operational goals”. The spending/line ministry is responsible for its own budget and report. Line ministries are responsible for the programming and content/quality of their evaluations.
5. First-level legislation includes, for example, the Government Account Act (GAA). The GAA describes the main responsibilities (Ministry of Finance, spending ministries, Court of Audit) and timeframes of the budget process. The use of secondary legislation is for more detailed procedures and (time) formats for the budgets and reports.
6. About half of the goals are accompanied by quantitative performance indicators (see Ministry of Finance, 2004).

ANNEX

*Characteristics of the Dutch Budget Process*Table A.1. **Overview of the Dutch budgetary system**

Main indicators Netherlands (year 2006)	
Population	16.3 million people
Gross domestic product (GDP)	EUR 529 billion
Economic growth (real)	3% of GDP
Inflation	1%
Unemployed labour force	5%
EMU balance	0.6% of GDP (surplus)
EMU debt	49% of GDP
Institutional framework	
Statistics Netherlands (CBS)	Independent
Netherlands Bureau for Economic Policy Analysis (CPB)	Independent
Court of Audit (COA)	Independent
Coalition government (February 2007)	Three parties: Christian Democrats (CDA), Social Democrats (PvdA) and Protestant Party (left-wing) (CU)
Lower Chamber of Parliament	150 members
Upper Chamber of Parliament	75 members
Line ministries	16 ministers of which two are project ministers (youth, integration and housing) and one is a minister for developing co-operation
Budgetary framework (institutions/management)	
Budget memorandum for the coming year	Third Tuesday in September (year $t - 1$)
Budget memorandum on execution of the budget	Spring and autumn (year t)
Accounts report	Third Wednesday in May (year $t + 1$)
Decentralised management system	Line minister defends budget (Parliament) Financial affairs directorates (FEZ or financial control division)
Budgetary framework (policy/rules)	
Strict separation of income and expenditures.	
A real expenditure ceiling for four years.	
Full working of automatic stabilisers on income side.	
Strict budgetary rules written down in the coalition agreement of 7 February 2007 (see Box A.2).	
Budget based on trend-based economic assumptions (<i>e.g.</i> growth).	
One main decision moment on the new budget in the spring of each year.	

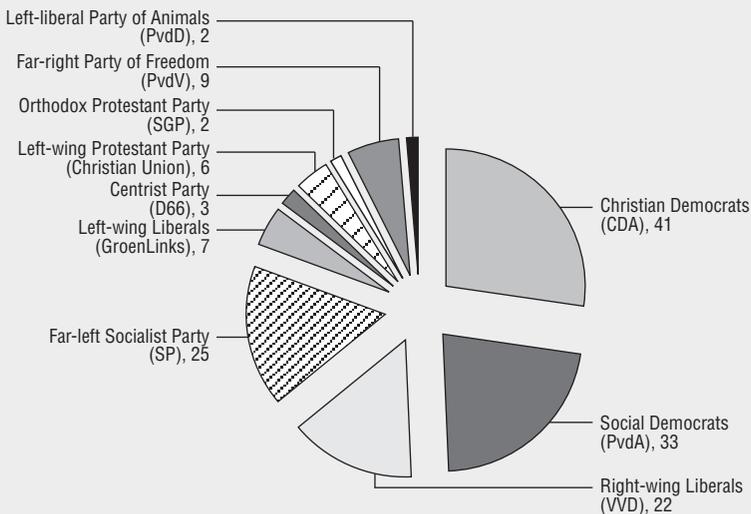
The Dutch budgetary system is unique in several respects. The International Monetary Fund characterised the transparency of the Dutch budgetary system as “best practice” (IMF, 2006). The main elements are: 1) the good structure and openness of the budget process; 2) the integrity and (political) independence of the Court of Audit, the Netherlands Bureau for Economic Policy Analysis (CPB) and Statistics Netherlands (CBS); and 3) a trend-based fiscal framework which establishes political agreement over expenditure ceilings and macroeconomic constraints.

Especially noteworthy is the reliability of the budget framework because of broad political commitment. At the same time the budget is flexible enough to withstand a change in political priorities. Essential in the budget framework is the so-called coalition agreement. Because no political party enjoys a majority in Parliament, it is necessary to form a multi-party coalition. In the Netherlands, minority cabinets are rather the exception. Currently ten parties are represented in the Lower House of Parliament (see Box A.1).

Box A.1. The Netherlands election on 22 November 2006

The Netherlands Parliament (Lower Chamber) has 150 members who are directly elected. After the 2006 election, the Christian Democratic Alliance (CDA) emerged as the biggest party (41 seats). A majority is only possible when at least three parties can agree about the key policy objectives over the four-year term in office. On 7 February 2007, the Christian Democrats, the Social Democrats and the left-wing Protestant Party agreed to form a coalition.

2006 Election: Seats in Dutch Lower House



The coalition agreement is negotiated in the beginning of a new cabinet period. The agreement contains the broad contours of policy and reforms to be followed over the four-year term in office. For example: the (old) 2003 coalition agreement contains major objectives for policy areas like: social-economic policy; education; safety and justice; health; immigration and integration; nature, agriculture and transport; and foreign policy and defence. Very explicit objectives can be agreed, for example in the policy area of education (“better connection between lower and intermediate professional education”) or for social-economic policy (“reform of the disability schemes”). See also Box A.2 regarding the (new) coalition agreement of 7 February 2007.

Box A.2. **The coalition agreement of 7 February 2007**

On 7 February 2007 the Christian Democrats (CDA), the Social Democrats (PvdA) and the (left-wing) Protestant Party (CU) presented a new grand coalition government with a new policy programme/agreement. The structures of the “old 2003” and “new 2007” coalition agreements are more or less the same (intended policy goals, initiatives and measures, accompanied by detailed financial paragraph with multi-annual funding and fiscal rules). The new policy programme includes increased spending on social policies and the environment, and a softer stance on immigration. The government will invest EUR 7 billion primarily in education, the environment, child care and health, and cut taxes by EUR 3 billion. Its plans assume 2% annual economic growth, and the programme contains an explicit goal for the EMU balance in 2011 (1% surplus), the fiscal rules and an overview of all the extra expenditures.

The “new 2007” coalition agreement “Working together, living together” is built around six “pillars”. One minister is appointed for the co-ordination of all the policy measures under a single pillar:

- An active and constructive position of the Netherlands in Europe and the world.
- An innovative, competitive and entrepreneurial economy.
- A sustainable environment.
- Social coherence.
- Safety, stability and respect.
- The government as partner and helpful public sector.

Each pillar contains several policy measures and goals. For example, Pillar 4 involves increasing the number of houses built to a level between 80 000 and 100 000 each year (with involvement of the housing corporate body) and an end to the problems of disadvantaged inner city neighbourhoods within ten years. Pillar 5 aims to reduce crime by 25% by 2011 (related to 2003). In addition to these measures, there is a detailed paragraph about the financial framework.

The coalition agreement also provides key elements on budget policy. A paragraph states that the agreement is based on trend-based economic assumptions, a split between government revenues and expenditures, details on the planned expenditures (ceiling) of the three budget sectors (state sector, social security and health care), and extensive rules for dealing with windfalls and setbacks (fiscal rules). The Annex in the agreement underlines the commitment of Dutch politicians to budget control. Even the opposition parties respect the fiscal rules; for example, a proposition of a party to increase expenditure in one policy area is always accompanied by a proposal to decrease expenditures in another policy area.

The main element is the decentralised approach. Each line/spending ministry is responsible for its budget line. Every spending department has a financial-economic directorate which is responsible for the expenditures of a department.¹ This means that this directorate draws up the budget for a ministry. The minister of the department presents his/her own budget in Parliament, defends this budget and is responsible for the budget execution. The political decisions on the budget are made by the cabinet, and the Minister of Finance is responsible for the total budget.

The financial-economic directorates are responsible for sound financial data: accounting and information regarding the budget cycle (budget proposal, execution and reporting) of each ministry. In practice, they form a “spring hinge” between the policy directorates of a line ministry and the Ministry of Finance. The Ministry of Finance is responsible for macro control of the budget and, in retrospect, the account/report. Almost 1 200 full-time equivalents are in the control divisions. They use 46% of their time for accounting. Administration is one of the building blocks for good financial control (see Box A.3).

In the financial control division of each ministry, around 10-15% of the staff is available for policy control. Policy control can be used for the improvement of efficiency and the efficiency of policy programmes, for example the check of policy letters on financial consequences and multi-annual estimations. Around 2% of the staff is available for policy evaluations. The control division concentrates on the programming (and stimulation) of good quality evaluations. Policy divisions, consultants or separate “evaluation divisions” execute the programmed evaluation. The Netherlands Bureau for Economic Policy Analysis (CPB), for example, is an independent research institute with respect to content and has its own independent external advisory body. The CPB is an integral and well-supported part of the policy-making process. For example, the CPB evaluates the economic policies of the government and the political parties, but also executes cost-benefit analysis for big infrastructure projects (high-speed link).

Box A.3. The National Budget Information System (IBOS)

The National Budget Information System, or IBOS, is used for accounting purposes: a system for the approval of budget changes. *De facto* it is a discussion system. IBOS has existed for 20 years, and it forms a “spring hinge” between the financial control division of the line ministry and the budget inspectorate (IRF) of the Ministry of Finance. IBOS gives the Minister of Finance a day-to-day macro view of the development of the budget (check and agree with budget changes).

How does it work? Suppose the Ministry of Agriculture has to employ extra personnel (because of chicken flu, for example) for which the costs are estimated at EUR 400 000. An employee of the control division of the Ministry of Agriculture logs into IBOS. He/she accounts EUR 400 000 of expenditures, regarding the relevant policy programme or line item. This proposal is presented to the Inspectorate of the Budget (Ministry of Finance). The employee of the inspectorate makes up his/her mind and authorises the budget change, of course considering the political prudence. The budget rules apply (for example, setbacks have to be compensated by cutbacks). A special code for the budget change – for autonomous reasons (rise in number of students) or for policy reasons (extra road programme) – is programmed into the computerised system.

Around 13-18% of the available time in the control division is used for budget cycle activities. The budget cycle is typified by numerous fixed procedures and actions. These have their basis in the Constitution, the Government Account Act and second-level legislation. The fiscal year starts on 1 January and ends on 31 December. The budget is introduced on the third Tuesday in September (Budget Day, see Box A.4). On this day the Minister of Finance introduces the budget memorandum and budget bills to the Lower House. The Minister of Finance is responsible for the budget memorandum² but the line ministers are responsible for the budget bills (autonomy). Budget bills are operated on an integrated obligation cash system.

Box A.4. Budget Day

Every third Tuesday of September is Budget Day. The Queen arrives at the Binnenhof of The Hague in her golden carriage to deliver the Speech from the Throne. Later that day, the Minister of Finance goes to the House of Representatives with the briefcase (made of goatskin parchment). On behalf of the government, he/she presents the national budget and the Budget Memorandum during the first meeting in the new parliamentary year. In September 2006, it was the 100th anniversary of the 1906 budget memorandum.

Notes

1. The decentralised Financial Affairs Directorate (FEZ or financial control division) of each ministry is responsible for the financial management within a ministry (expenditures, accounting, policy control, evaluations and budget cycle activities).
2. The Minister of Finance is also responsible for (macro) budgetary control and efficiency (in general).

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- IMF (International Monetary Fund) (2006), *Kingdom of the Netherlands-Netherlands: Report on the Observance of Standards and Codes – Fiscal Transparency Module, and the Aide-Mémoire Regarding the Fiscal Framework*, IMF Country Report No. 06/124, March, International Monetary Fund, Washington DC, www.imf.org.
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