

The “Control” of Public Social Security Institutions in Belgium

by

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The Belgian government delegates some of its tasks to semi-public bodies in what is known as functional devolution. There are 15 public social security institutions in the sectors of employment and unemployment, pensions, family allowances, health and disability insurance. To increase the accountability and efficiency of these institutions, a new management method was introduced in the mid 1990s: the administration contract. This article discusses how this contractual arrangement has worked in practice: the legal framework; negotiations with the government and the responsible ministry; the budget implications; the use of business plans and scoreboards (indicators); the role of the Court of Audit. The administration contract system is a clear move towards a results-based management approach. Lessons learned from the first round of contracts (2002-05) have resulted in guidelines for the second round and improvements for the future.

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1. General background

Belgium is a federal state comprising a federal entity funded by fiscal and non-fiscal revenues and sub-federal units, the Regions and Communities, all of which are autonomous within the limits of the powers vested in them. The latter are funded by non-fiscal revenues, the Region's own fiscal revenues, an allocated proportion of taxes (VAT and personal income tax) and borrowing.

Alongside these entities are the decentralised authorities, the provinces and the municipalities, whose resources come from taxes and transfers. These authorities have autonomy in the management of provincial and local matters.

Social security is another key pillar of the state. Table 1 shows the aggregate expenditure account for federal government and social security.

Table 1. Aggregate expenditure account for federal government and social security

	In billions of euros		Percentage of GDP	
	2004 estimated	2005 adjusted	2004 estimated	2005 adjusted
1. Primary expenditure	76.59	79.49	27.0	26.8
Federal government level	29.96	31.34	10.6	10.6
Social security	52.93	54.54	18.7	18.4
Transfers from federal government level to social security	-6.31	-6.39	-2.2	-2.2
2. Other government levels	32.37	34.34	11.4	11.6
3. Consolidated expenditure	108.96	113.83	38.4	38.4
Federal government level	23.66	24.95	8.3	8.4
Social security	52.93	54.54	18.7	18.4
Other bodies	32.37	34.34	11.4	11.6

Source: Preamble to the Act adjusting the general expenditure budget for budget year 2005.

2. Semi-public social institutions

The Belgian government delegates some of its tasks to semi-public bodies in what is known as functional devolution. The public social security institutions are decentralised authorities. There are a total of 15 such institutions with corporate body status in the following sectors: employment and unemployment, pensions, family allowances, health and disability insurance (see Table 2). These institutions are subject to the supervisory authority of the responsible minister (Employment, Pensions, Social Affairs, etc.) and, for decisions that have an impact on budget or finances, to the Budget Minister. The Minister for the Civil Service steps in when provisions of the administration contract affect personnel.

Table 2. Public social security institutions

Social Security Crossroads Bank
Occupational Accidents Fund
National Institute for Health and Disability Insurance
National Office for Family Allowances for Salaried Employees
National Pensions Office
National Social Security Office
National Annual Holidays Office
National Social Security Office for Provincial and Local Administrations
National Employment Office
National Institute for Social Security Insurance for the Self-employed
Unemployment Benefit Auxiliary Fund
Health and Disability Auxiliary Fund
Mariners Benevolent and Social Security Fund
Occupational Disease Fund
Overseas Social Security Office

Prior to the introduction of the administration contracts mentioned above, the legal status of public social security institutions, called semi-public social institutions, was governed by two acts:

- **The Law of 16 March 1954 concerning the audit of certain public service institutions.** Although it has been amended, sometimes substantially, this law is still the main basis for the audit of semi-public organisations other than those concerned here, of course. It essentially contains financial and budgetary provisions applicable to the four categories of institutions (A, B, C and D), the last of which was introduced in 1986 for public social security institutions. The budget of semi-public social institutions was set by their managing bodies and approved by the relevant minister and the Budget Minister. Five accounts had to be drawn up every year. Audits were carried out by a government statutory auditor.
- **The Law of 25 April 1963 on the management of public interest social security and social welfare bodies,** which relates more specifically to administrative levels (management committee, person responsible for day-to-day management) and the powers and functioning of the management committees of the bodies to which the law applies. It introduces joint management.

Following the work conducted by the Royal Commission on Social Security from 1981 to 1985, a preliminary draft social security code was produced and plans were made to computerise the social security system. They culminated in the Crossroads Bank project.

In 1990 and 1993, the *Collège des administrateurs généraux* (the senior civil servants who head the semi-public social institutions) presented two memoranda to the government. The memorandum of April 1990 concerned the conditions required for the efficient management of the social institutions. The memorandum of April 1993 presented a solution to the efficiency issue based on the “management contract” and scoreboards as management tools.

In February 1995, Belgium’s Council of Ministers approved a bill for reforming selected public social security institutions based on the use of **administration contracts** as the most suitable management method. The bill was incorporated virtually in its entirety into the Royal Decree of 3 April 1997 on measures to increase the accountability of public social security institutions (*Arrêté royal du 3 avril 1997 portant des mesures en vue de la responsabilisation des institutions publiques de sécurité sociale*).

3. Administration contracts

3.1. Legal framework

Administration contracts date back to the Law of 26 July 1996 on social security and pension reforms which incorporates the initiative by the *Collège des administrateurs généraux*. With a view to increasing the accountability and efficiency of the semi-public social institutions, that law provided for the option of designing a new functional framework for these bodies by issuing a royal decree subject to consultation in the Council of Ministers. According to Article 47, the objectives to be achieved were to:

- Clearly define, in the form of an administration contract between the government and the body concerned, the tasks to be undertaken by that body in order to fulfil its legal duties, measurable targets, efficiency and quality, and the method of calculating the management appropriations to be allocated to the performance of these tasks;
- Grant these bodies broader managerial autonomy within the framework of the administration contract by:
 - revising administrative rules and procedures for budgets and accounts, the personnel framework, recruitment and employment of statutory and contract staff and the allocation of management funds;
 - strengthening the role of management bodies;
- Focus administrative and budget control on compliance with the legislation and with the objectives of the administration contract by strengthening the role and responsibility of government auditors;
- Make these bodies more accountable by introducing a system of incentives and penalties in line with the extent to which administration contract objectives are achieved.

The new framework described in the Law of 26 July 1996 was implemented by the Royal Decree of 3 April 1997 on measures to increase the accountability of public social security institutions. When that Decree was presented for Royal Assent, it was made clear that while the political authorities had been and continued to be jointly responsible with the social partners for framing social policy, the semi-public social institutions should, in contrast, have greater decision-making power as well as greater accountability, which would allow them to achieve the objectives defined by

policy makers in an efficient manner and to adapt to a changing environment as appropriate.

Having outlined the solution to the challenges of saving the social security system and its level of performance, the Royal Decree went on to introduce, among other things, administration contracts between the political authorities and the institutions. These are outlined in greater detail below. Fifteen semi-public social institutions (out of 20) signed administration contracts (Royal Decree of 3 April 1997 which entered into force on 1 January 2002).

3.2. The administration contract in detail

3.2.1. Definition

An administration contract is an agreement between a delegating body (the state) and the agency (social security institution) which performs the task. The latter must provide a certain number of products (services) and in order to do so is given sufficient freedom in its internal organisation and in the use of its allocated budget. By applying this method, a clear commitment is made to contractual accountability.

3.2.2. Contents

Administration contracts set out the rules and special terms and conditions under which a public social security institution is to carry out the functions attributed to it by law. In practical terms, administration contracts regulate the following (Article 5 of the Royal Decree of 3 April 1997):

- the tasks that the institution carries out in the exercise of the duties attributed to it by law or by a government decision;
- quantified targets for efficiency and quality in relation to these tasks;
- rules of behaviour when dealing with the public, where there is direct contact with the public;
- methods enabling the measurement and monitoring of progress on objectives and rules of behaviour;
- the method of calculating and determining the management funds to be made available for these tasks;

- the method of calculating and determining the maximum amount of funds for staffing reserved for statutory agents;
- rewards for meeting commitments under the administration contract, to be specified by Royal Decree subject to consultation in the Council of Ministers;
- possible solutions or penalties in the event of failure of one party to comply with the commitments arising from the administration contract.

3.2.3. *Aims and innovations*

The aims of the administration contract are to determine the (financial) contribution the government will make to the objectives set out in social legislation and to give the public social security institutions the chance to develop a whole new management culture. Changes to the previous system include:

- formally defined outputs;
- allocation of the necessary inputs;
- allocation of wider discretion in the use of resources;
- agreement on monitoring progress and accountability;
- explicit contracts which spell out all of the above.

It is worth noting that administration contracts apply only to the management of public social security institutions (management budget including income and spending on running the institution, such as staffing and operation). They do not apply to the budget for the institution's duties, *i.e.* income and expenditures for the duties they are required to carry out by law, which are more of an issue of what social security covers or of spending on social benefits.

3.2.4. *Negotiation of administration contracts*

The parties to the negotiations are:

- the government, represented by the responsible minister assisted by:
 - the Budget Minister regarding any provisions with a budgetary or fiscal impact;

- the Minister for the Civil Service regarding any provisions that relate to matters pertinent to public social security institutions for which the Minister is responsible;
- the public social security institution, represented by senior management and by the person responsible for day-to-day management and that person’s deputy, on the understanding that the administration contract will be submitted to the management committee for approval.

The administration contract does not come into force until it has been approved by Royal Decree subject to consultations in the Council of Ministers, who ensures that it conforms to government social, fiscal and economic policy. The first contract was concluded for a period of three years and subsequent contracts can be concluded for at least three years and not more than five years.

3.2.5. *Business plan and scoreboard*

In accordance with Article 10 of the Royal Decree of 3 April 1997, each institution is required to draft a **business plan** which shows the objectives and short-term strategies for each service of the institution and sets out how each of its allocated tasks will be carried out, and will thus contribute to achieving the objectives defined in the administration contract. The business plan covers a period of one year. It is an internal document and is not contractual.

Article 10 of the Decree also provides for a **scoreboard** that measures progress towards achieving objectives using indicators that are calculated periodically. Prior to the Law of 26 July 1996, the agencies had developed “scoreboards” with the aim of improving the management and quality of their services. These scoreboards are management tools that are intended to show the relationship between objectives (in terms of operating norms), the resources allocated and utilised (in terms of costs) and the services delivered (in terms of outputs)¹. These scoreboards entail the concepts of indicators and norms. They enable management to take whatever corrective action is needed to achieve the objective within the given timeframe. They are a crucial management tool for monitoring, reviewing, assessing and correcting performance against the objectives that have been set. The scoreboards and indicators should not be drafted in the sole aim of measuring but should contribute genuine added value (Eraly, n.d.). The indicators are used to measure or assess how much progress has been made towards achieving the objective or, in other words, to show results quickly and clearly. A Royal

Decree can determine the fields for which common indicators must be included in the scoreboards of all public social security institutions.

3.2.6. Budget

The principle introduced by the Royal Decree of 3 April 1997 is to allow for greater financial and budgetary flexibility, but also for financial investment. Finance should be linked to variables that reflect the objectives. It must be possible to set programme budgets and, for multi-year planning, to establish an overall budget of resources for personnel, operation and investment.

The budget is annual and includes all revenues and all expenditure for one calendar year. It consists of a "mission" budget covering the statutory duties of the institution and a management budget covering the management of the institution (payroll, operating and investment expenditure). As outlined above, administration contracts relate solely to the institution's management budget.

The draft budget drawn up by each management committee is approved by the responsible minister after a favourable opinion by the relevant government budget auditor, who verifies that the budget complies with legal and regulatory provisions and also with the provisions of the administration contract relevant to budget and finances. Double-entry bookkeeping rules apply.

The rules for budgeting, bookkeeping and accounting are set out in a Royal Decree of 22 June 2001 regulating the budget, the accounting and the accounts of public social security institutions subject to the Royal Decree of 3 April 1997 on measures to increase the accountability of public social security institutions (*Arrêté royal du 22 juin 2001 fixant les règles en matière de budget, de comptabilité et de comptes des institutions publiques de sécurité sociale soumises à l'Arrêté royal du 3 avril 1997 portant des mesures en vue de la responsabilisation des institutions publiques de sécurité sociale*).

3.2.7. Supervision and monitoring: contract evaluation

The public social security institutions are subject to supervision by the responsible minister and, in the event that decisions have an impact on the budget or finances, by the Budget Minister. This day-to-day supervision is the responsibility of two government statutory auditors, one representing the responsible minister and the other the Budget Minister. These auditors have

the right to take action if any of the decisions taken do not conform to the law, the statutes, the administration contract or the general interest.

The two supervisory ministers jointly designate one or more corporate auditor(s) to check the accounts and certify their accuracy and integrity for each institution. Performance evaluation (qualitative and quantitative) is conducted by the responsible minister. A strictly budgetary evaluation is conducted by a social security management committee.

The administration contract is re-evaluated each year and, if necessary, adapted to changing conditions by applying the planned objective parameters. This process takes into account socio-economic aspects and/or new objectives: index, number of social security beneficiaries. The re-evaluation process is conducted jointly by the government auditors, the institution’s management committee and the person in charge of the day-to-day management of the institution. The joint evaluation process focuses on the execution of the contract and produces a joint report.

An overall evaluation is conducted by the Belgian Court of Audit.

4. Evaluation of administration contracts (2002-05)

4.1. Critical analysis of the first administration contracts for the period 2002-05

Experience with the first administration contracts suggests that the contractual arrangements set up under the contract system suffer from two drawbacks:

- Difficulty in entering into the “contract” approach. For the government, the temptation is to impose across-the-board savings measures, reducing proposed budget envelopes, or to impose further tasks without adjusting the envelopes accordingly.
- Difficulty in committing to strategic negotiations.

4.2. Audit by the Court of Audit

The Court of Audit conducted an audit of the first contracts (Court of Audit, 2005), which it submitted to the Chamber of Representatives. The audit, conducted to assess the government’s ability to use administration contracts as a management tool, pointed out the strengths and weaknesses of the process and identified ways to improve it, which the Court set out in the form of recommendations. The Court highlighted the following points.

- Role of the state: One inadequacy pointed out was the government's inability to adapt its organisation to this new mission.
- Quality of administration contracts:
 - Resources were not determined on the basis of the results to be achieved or of the successful completion of tasks.
 - The state did not assure itself of the quality standard of the objectives and indicators proposed by the institutions when negotiating the first administration contracts.
- Monitoring and evaluation of administration contracts:
 - The state had not issued any regulations in this area; hence the reports were patchy in quality, and cross-comparisons between the different institutions posed problems.
 - The system of results-based rewards or penalties provided for under the law was not always implemented.
 - Nevertheless one important positive point, in addition to the phasing in of a cost accounting system (or cost calculation), was the development of fine-tuning tools (scoreboards).
 - Despite the fact that the public social security institutions had voiced the need to revise objectives, no changes had been made to agreed contract objectives apart from some budget adjustments.
- General recommendations: The Court concluded its audit with some general recommendations on the points highlighted in its report.

5. Current situation

Currently administration contracts for the period 2006 to 2008 are being re-negotiated with the responsible minister and the Budget Minister. The expectations of the federal government regarding the 15 contracts that are to be re-negotiated, according to the Social Security Administration, are worth noting:

- Social Security Charter to be more fully incorporated and implemented;
- Introduction of provisions to optimise transparency, readability and clarity of information contained in the administration contract and in future reports on its implementation;

- A margin for improving the planning of objectives to be built in for the full term of the contract.

The same Administration has also set guidelines for drawing up management budgets which are intended to address certain issues:

- Ensure the degree of budget stability necessary for carrying out the core duties of social security institutions;
- Ensure the necessary linkage between the funds allocated and the objectives to be achieved;
- Incorporate activities that would develop and modernise public social security institutions by developing projects spanning several years and defining long-term investments.

In addition to these guidelines, some other matters for attention were highlighted:

- A better match between objectives and performance indicators;
- Stronger linkage between objectives and costs;
- Better selection and planning (more realistic) of projects;
- Wider use of cost accounting;
- Strengthening of internal control systems;
- Effective implementation of internal audit activities.

6. Conclusion

Contractual arrangements emerged in public governance as an alternative to privatisation and decentralisation methods (Eraly, n.d.). The theoretical basis is as follows: relations between the government and bodies accountable to it are governed less by the supervision and control approach and more by the *ex post* control of results.

The administration contract system is a clear move towards this type of contractual approach, a results-based management approach. In this system, public social security institutions are encouraged to make a series of commitments to government, to set objectives and to achieve results. In exchange, they have greater management autonomy over their funds, their operations and their staff.

Following a first round of contracts, it has to be said that all is not yet perfect: for instance, the legislation on the introduction of rewards and

penalties, which are the keystones of greater accountability, has not yet been implemented. As is clear from the report by the Court of Audit, this is not the only point that could be improved upon. In this respect, the guidelines established for the second round of administration contract negotiations suggest that the new contracts will be another step forward.

Notes

- ¹ Report to the King on the Royal Decree of 3 April 1997 on measures to increase the accountability of public social security institutions, in application of Article 47 of the Law of 26 July 1996 on social security reforms (*Rapport au Roi de l'Arrêté royal du 3 avril 1997 portant des mesures en vue de la responsabilisation des institutions publiques de sécurité sociale, en application de l'Article 47 de la Loi du 26 juillet 1996 portant modernisation de la sécurité sociale*).

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