

Program budgeting in the Netherlands

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1. Budget reforms in The Netherlands

1. In the 1980s and 1990s two major operations regarding the budget structure were executed in the Netherlands. First a reform of the accounting system (so-called 'Operatie Comptabel Bestel') was carried out from 1985-1993 and later an on performance orientated reform (so-called 'VBTB-operation') was ignited in 1999.
2. The Accounting System Operation was conducted against the background of the 1980s. Expenditures were out of control, high deficits and a continuously growing tax burden for individuals and companies. Moreover the time-lag between budget and final accounts was increasing every year. At the end of this period the lag had reached 7 years. As a result the information about the expenditures during the budget preparation and execution phase was unreliable and therefore could hardly be used for political decisions. It was time for a 'change' to reverse this trend. The Accounting operation excited a broad package of measures: decentralisation to line ministries, increasing the responsibilities of decentralized financing directorates in line-ministries, more weight on commitments in accounting (see box 1) and orderly financial management. The aim was to get to government-expenditures under control: "not budget overruns but *unexpected* budget overruns are awful". As a result of all these measures the Court of Audits could deliver their final statement on the accounts nine months after the closing of the budget year in September the following year.
3. In this reform the responsibility of policy directors and the control directorates (FEZ) was increased.¹ Up until the 80's policy directors were responsible for their policies and the control directorate (FEZ) were responsible for recording of the expenditures. After the Accounting System Operation policy directors were held more responsible for *both*: programmes and the use of resources. As a result budget infrastructure and self accountability came more in line with each other. In addition budget-rules regarding overruns and windfalls were introduced for all spending-items. These rules try to prevent overruns and to start the discussion on measures to control them. First of all FEZ-directorates and policy directors should give information as soon as possible about a possible overrun to the line-minister and the Ministry of Finance. Secondly these organizations should start to prepare a proposal for a possible budget-cut.

¹ In the Netherlands we have a detailed multi-year budget. For every line item (and even sub items) multi-year estimates are made (in contrast of multi year estimates for instances for the total expenditures). For every line item line/spending departments have to made a multi year forecast. In the Netherlands are about 200 line-items, but the forecasts is also made for sub-line items (rather detailed exercise). The forecasts are made by the line/spending departments.

4. Because orderly financial management is an absolute condition for successful control of government expenditures, the budget infrastructure was renewed. There was a lack of a framework for central and decentralized (financial) information. In order to overcome this problem a rapid flow of high valued information must be established between the Ministry of Finance and the spending ministries. The focus must be on the budget-preparation, budget-implementation and accountability. In addition these different types of information which must be gathered the link between budget figures and information about real spending must be established. A computerised interdepartmental budget consultation system for the entire state budget was set up (see item 34). Vital was the better cooperation between the line ministries and the Ministry of Finance. Furthermore budget information-exchange between government and the parliament was upgraded. This resulted in an accounting report nine months after the budget execution year (in contrast: the report of 1978 was presented in 1985). In addition in 1992 over 90 percent of the expenditures were lawful in contrast with only 68 percent in 1987. At the moment 99 percent of the central budget expenditures are lawful (according to the independent Court of Audit). And more important for control is the link between proposals in the budget and the realization on budget-line item and sometimes on a more detailed level. This information could be generated on a monthly basis.

Box 1. Accounting base of budget in the Netherlands

To strengthen the budgetary power of the Parliament the budget administrative system (budget bills and reports for ministries and budget funds) in the Netherlands are both cash and commitment based. This is made visible due to the link between a commitments and cash payments. The budget contains a multi-annual forecast (unchanged policy and unchanged prices (forecast for 2008-2011 in prices of 2007)) for every budget line. Parliament approves the budget for one year: policy decisions about how much to allocate for each goal. A line minister is responsible for his budget. 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).

5. After the Accounting operation in the 1980s financial management innovations continued. A new form of internal autonomy was introduced (agencies) to improve managerial flexibility. Furthermore budget reforms were carried out to incorporate the premium sector in the budget. Social security outlays and health care spending are now treated on an equal basis with regular spending.
6. In the Netherlands the world-wide drive to introduce performance budgeting started in 1997. The so-called VBTB-operation was aimed at providing parliament with a more policy-oriented and transparent budget where information about the results and spending should be linked. This operation was developed at the initiative of the Lower House of Dutch Parliament. The Ministry of Finance played a role of coordination, monitoring and encouraging. After an intensive preparation process all ministries switched to the new budgetary structure during the preparations of the budget for 2002 ('big boom').

7. The new style budget would not take funds to be spent as its point of departure, but policy and what it was intended to achieve (as concrete policy objectives). The crux of the matter (in the Netherlands) is to make the political objectives visible in the underlying budget-bills and (in retrospect) reports. Focusing on questions such as: “What do we want to achieve?”, “What will we do to achieve it?” and “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 for it?” and “Did it cost what we thought it would?” (see box 2, structure budget line ‘youth-policy’, ministry of Health).

Box 2. Structure 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 are threatened in their development”;
3. “Children who are selected and their parents can make use of help form the youth-care institution”;
4. “Children who are selected and their parents receive help from the care-supplier of their choice”;
5. “Guarantee payable youth-care”.

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

8. In September 2006 the new styled budget (memorandum and bills) was presented to the Lower House for the sixth time. Looking back on this operation we must state that the operation was not painless; it took much time and effort of both the ministry of Finance and the spending departments. Secondly we were naïve regarding the time table for such a complicated reform. It was therefore only to be expected that the objectives of the performance reforms would not be achieved within six budget cycles. Finally regarding the implementation we expected too much from line ministries and policy directorates. But looking at the results: Where do matters stand now? Did we achieve with this reform what we intended?
9. On the positive side of the balance we should put the new structure of the budget. New budgets (and in retrospect the annual account) are built around strategic objectives and related policy areas. Substantial progress regarding transparency (authorization) has been made. The most important improvement in the field of accessibility is the new structure and inclusion of objectives in budgets and annual reports. There has been a reduction in the number of line items by more than 75 percent (from around 800 to around 200 line items)².

² Each ministry has one budget. Each ministry has an average of 10 budget lines per budget that are worked out systematically. Almost everywhere it was possible to categorize policy, performance and financial details systematically in a single policy line. A

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. Since 2001 the minister of Finance presents the yearly accounts and reports about the achievements of the collective sector and the financial results on "Accountability Day" (on the third Wednesday in May) to parliament. Parliament has on a general level a discussion with the Prime Minister on these results, whereas the individual spending ministers has a more detailed discussion with the spending committees.

10. Despite these improvements there are still a lot of 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 conduct of business – account for over 20 percent of the number of pages of a budget. Information about the contribution of government programmes to policy objectives is 'fuzzy'. Program budgeting (the link between goals, instruments and resources) is clearly no rocket science: many objectives are unclear. Objectives are formulated in such abstract terms that it is impossible to determine (in retrospect) whether they have been achieved. There is natural tendency of officials and administrators to hedge their bets and give veiled answers.
11. The problem with the overload of quantitative performance data is that in a lot of cases this information gives an illustration of the objectives, but is not focussed enough³. There is a huge focus on the measurability of objectives, at the costs of quality (see box 4). Among the unintended effects, reality may be represented too simply or management may be driven by inappropriate performance (the number of fines does not say anything about how safe the motorway is; and the number of graduated students does not say anything about the know-how/expertise of students). The underlying problem is that the government production is not homogeneous and very difficult to measure. The idea that government production can be compared to market production is unfortunately untrue. Good performance data about the government activities hardly exist.

budget-line is accompanied with one 'general goal or objective'. A general goal or objective can be subdivided in 'operational-goals'. The spending/line ministry is responsible for his/her own budget and report.

³ Around half of the goals are accompanied by quantitative performance indicators. Source: Policy Budgets and Policy accountability: Final Report. Lessons from practice. Inter-ministerial Consultations for Financial and Economic Affairs (IOFEZ), December 2004.

Box 4. Bad practice of performance indicators.

1. 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 clearly that citizens recognized new electricity companies not because of the introduction of a free market for electricity but because of these ‘salary-discussions’.
2. Indicators do not address certain crimes enough, for example the theft of a ‘Rembrandt’ painting. Such a theft is statistically registered as ‘one’ theft. Police are encouraged in picking the easiest criminal charges (warehouse 50 euro criminals, speed cameras and charge for no light on your bike) instead of a 50 million euro painting. Police are also not encouraged to active crime prevention: prevented crime is not appreciated in statistics.

12. Besides the above mentioned measurement problems the VBTV-operation was original not intended to improve efficiency. It was an operation aimed to provide parliament with a more transparent budget document. During the implementation process the principal aim for transparency broadened towards the efficiency of programmes. For some people the idea was that by publishing performance data efficiency could be measured easy and that like ripe apples efficiency-gains could be harvested. However, through the introducing of a second aim in the process without good theoretical underpinning the expectations of this reform were increased enormously. For the original goal of the budget (receiving authorization from parliament to spend money) a comprehensive budget is needed. The efficiency drive led to an enormous quantities of figures, which were sometimes contra-productive to this original goal. Besides that efficiency can be improved by other instruments such as encouraging rigorous evaluation ex ante and ex post evaluation on the level of objectives.

Box 5. New style budget and conclusions of IMF

The IMF has published a report on the Observance of Standards and Codes on Fiscal Transparency for the Netherlands (so-called Fiscal ROSC, IMF Country Report No. 06/124 March 2006). The new budgets are a reform with potential for transparency, accountability and allocate decision-making. Much work has been done, but the harvest still has to be reaped (mostly). Limit and focus performance information. IMF suggests to use appropriate information for level of discussion (main issues), to integrate policy analysis better in budget cycle and to raise the quality and independence of policy assessments.

13. Further work lays ahead on improving focus and accessibility of budget documents. The budget should be used for discussion on the main political issues. Budgets should perform their basic task: authorization 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 recourses are best accommodated in policy documents, not in the budget (see box 6).

Box 6. How to achieve a more transparent budget?

In the Netherlands the following activities are executed to improve the accessibility of the budget.

1. Civil servants are trained to ask the right questions, write good structured policy letters/memo and to conduct policy reviews. The course (executed by the National Academy for Finances and Economy, **Error! Hyperlink reference not valid.**) is executed in two days. One day a (real) case study is presented by a specialist. He/she tells about the process, difficulties of the memoranda etc. During the day the students will make (by themselves) a 'checklist' with questions which answers should be found in the budget documents. Day two starts with a 'checklist' distributed by the academy. This list is compounded by specialists. In the end of day two, student will receive a new case study, but now they have to make a budget document by themselves (within a time limit).
2. New technology (like internet) is used to simplify the budget. For example: very detailed and technical information about government guarantees is accessible on the website of the budget (www.rijksbegroting.nl/garanties). This means that the info in the budget can be diminished to a general table without details of all the guarantees.
3. The order on performance information is revised. Only process-criteria are enclosed. Performance indicators are not obliged any more, unless they are useful.
4. Parliament and the Minister of Finance have made an agreement that 3 budgets will be used to try to get a more comprehensive and more understandable document. For 2 years the regulations concerning the budget will be relaxed so that there is room for new initiatives. During this period the ministry of Finance supports the spending departments in structuring and writing of the budgets.
5. Together with the court if Audits a comparable experiment is run for the yearly reviews/reports of the spending. In these reports only the important policy items, which form a part of the coalition agreement are highlighted.

14. To facilitate efficiency-improvement other instruments than the budget are advised. Policy documents are the best instrument to build in information about rigorous analysis (ex ante evaluation) in the budget process. Basic questions like what is the problem and what is the role of the government should be answered. On the contrary 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. Besides that financial reform by introducing more market-elements in the financing of the supply of government activities can be very helpful.

3. Policy reviews in The Netherlands

15. The Netherlands – as many other countries – are in a continuing struggle to spend taxpayers money in a more efficient and effective manner. Since the 70's several initiatives have been carried out. Initiatives 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. In the nine-teen nineties the Government Account Act was changed and in 2002 second level legislation (so-called RPE) was introduced to provide rules for the realization and preparation (process) of policy information, like performance indicators and evaluation.
16. Since 1981 the so-called reconsideration procedure is successful to trigger discussions about the policy options itself ('large efficiency'), rather than discussions about the operational

management within the policy option ('small efficiency'). Main goal is to split the objective analysis/conclusions from the (political) policy conclusions. How? By splitting the review and the view or recommendations of the Cabinet regarding the review. Both (review and Cabinet view) are sent to the Parliament (see box 8 main characteristics of the reconsideration procedures).

17. The reconsideration procedure was already vivid in 1975. During the first years the results were disappointing. The reason was that several policy areas had a lucky escape: nobody wants to go ahead. This 'leak' is closed from the 1981 budget memorandum, when thirty subjects were chosen for reconsideration. All policy areas are taken into account.

Box 7. Main characteristics of the reconsideration procedure

- Checks and balances (chair by line ministry, secretary by Ministry of Finance, inspectorate of the budget is also a member).
- Each review should produce alternatives that should lead to 20 percent 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 description of policy, objectives and instruments, etc).

18. Also in the beginning of the nine-teen seventies the so-called Planning, Programming Budgeting System (PPBS) occurred, but failed partly. The PPBS consists of three elements: programme-, performance- and multi-annual budgeting. Only the multi-annual estimations of budget items (t+1 – t+4) are successful. Outlays of programmes after the budget year (t) are now visible, so underestimations are prevented and mid term savings are transparent. Program budgeting failed especially due to the aversion with the highly theoretical approach. The introduction of the performance budget failed due to the limitation to output. Goals were top-down defined and not in line with the organisational structure (budget responsibilities of policy directories).

19. The reconsideration procedure of 1981 (de facto 1975) forms the basis for the current system of programme reviews (interdepartmental policy reviews, or IBO's 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 reduction of service levels. Only alternatives costing the same or less can be considered. Each review has to produce at least one alternative that would lead to a 20 percent 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 percent savings alternative has been abolished (due to pressure from the spending/line ministries) and reviews have become focused on institutional changes (see box 8, procedural and organisational aspects of the interdepartmental policy reviews).

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 cooperate. A list of proposed policy reviews is included in the September budget memorandum.
- The reviews are conducted by small working groups in which the MoF, line ministries, external experts are presented.
- The chair is independent and the secretariat is provided by the MoF or shared with line ministry.
- All reports are made public and submitted to the parliament.

20. An example of rigorous analysis and more efficient policy is the reform of the welfare benefits or Social Assistance Act (Bijstand). During the end of the twentieth century 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 (Bijstandswet). Due to this assessment an interdepartmental policy review was initiated by the Ministry of Finance (see box 9).

Box 9. Example of successful interdepartmental policy review

Triggered by studies of the independent Netherlands Bureau of Economic Policy Analysis (CPB) during the end of the 90's a range of labour market redesign measures enabled substantial budgetary reductions. One of the results is the reform in the Disability schemes (WIA). An other example of successful policy review has been conducted in the field of the Social benefits (bijstand). In an effort to make social benefits more cost-effective, less complex and more aligned with decentralized 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 to finance the social benefits by local authorities. These variants were sent to Parliament, together with the Cabinets point of view. The Cabinet opinion (January 1997) was positive, but more research was needed. A new Cabinet agreement (1998) stated the decentralisation of budgets for social benefits. The right-wing coalition government of 2003 implemented the redesigned Social Assistance Act (in the so-called Work and Social Assistance Act) from 2004. Recently the survey on the new act was published by the ministry of Social Affairs. The number of social assistance claimants has diminished from 336,000 in December 2003 to 311,000 excluding 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. How does it work?

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.). Those municipalities who get claimants to (re)enter the labour market will spend less than expected. They can keep the surplus and spent it on their own priorities. Those municipalities, who are not successful and have a gap in their budgets, must finance the gap by their own resources. For each year the total amount of workless 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 a closer touch with the workless and hence devise tailor-made measures for them. Deregulation provided opportunities for the municipalities to draft their own guidelines within the framework as defined by national law.

21. In the nine-teen nineties the Government Account Act was changed, in favour of competence of the court of audit regarding the efficiency of programmes. Ministries were obliged to evaluate policy areas once every five year. Second level legislation (so-called 'order on performance data' or RPE) was introduced in 2002 to provide rules for the realization and collection (process) of policy information, like performance indicators and evaluation. The main goal to introduce the order on performance data was to guarantee the evaluation function within the central government and guarantee that the policy information to be collected for the budget and the annual report meets the applicable quality requirements.

22. In 2004 there has been a review of the second level legislation⁴ 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. (NB Spending/line ministries are responsible for their own budget, and therefore for their own performance data). The criteria stated in the order on performance data (validity, reliability and usefulness) have proved not to be adequate. How can the quality of policy information be determined on the basis of criteria? Only professionals are in a position to assess policy information (see box 10).

Box 10. Usefulness of criteria to assess 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 quite well 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 civilians.

23. To facilitate efficiency-improvement other instruments than the budget are advised. Policy documents are the best instrument to build in info about rigorous analysis (ex ante evaluation) in the budget process. Basic questions like what is the problem and what is the role of the government should be answered (see box 11).

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

To conduct policy review is it essential that all policy areas are treated equally. On 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

⁴ First level legislation is for example the General Accounts Act (GAA). In the GAA the main responsibilities (ministry of finance, spending ministries, court of audit) and timeframes of the budget process are described. With secondary legislation is meant the more detailed procedures and (time) formats for the budgets and reports.

solution in the sphere of law possible?

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 is the foundation look like?

What are the budgetary effects and the (society) costs of the solution?

5. Collecting information

How should the effects of the intended policy be estimated? Should this be quantitative or qualitative? What information should be collected? What time do we need for the collection of information? What kind of research possibilities are available (models, inquiries, policy-experiments). What possibility of research is recommendable?

6. Maintenance

Which steps should be made to evaluate the policy?

24. Towards more efficiency. The starting point for well founded policy initiatives are rigorous analysis (ex ante evaluation). This means that the basic but fundamental questions should be answered with the help of independent experts. The outcome of the review is made public. On the contrary 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. On the contrary it is essential to concentrate policy reviews (ex post) on the level of strategic objectives and policy areas, which is difficult in practice. As stated in box 6 the information in the yearly report about spending is limited for departments who participate in the experiment. The report contains only financial information for the budget-lines of these departments. Performance information is omitted. However, these spending ministries should send for one budget-line a policy review. Policy-reviews has more and better information about efficiency.

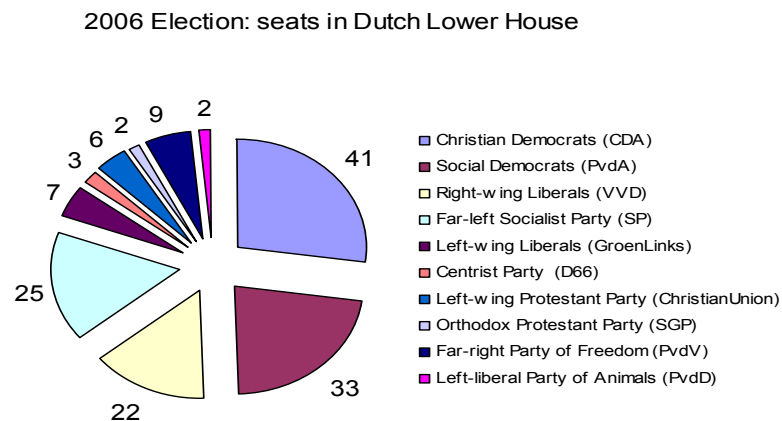
25. In 2006 circa seventeen policy evaluations are executed, on several areas such as: 'consumer-policy', 'aid to victims', 'labour and care', 'security in public transport', etc. Seven policy evaluations have been sent to parliament, five are in the end-phase of execution and five are delayed. The overall budget for these seventeen policy areas are 5 billion euros. Next year (2007) thirty-five policy evaluations are planned (on areas like reintegration and promotion of international commerce) with an overall budget value of 12 billion euros. Critical success factors for the execution of policy reviews are for example: (political) timing, involvement of independent experts (from the start) and commitment by senior staff.

Background to the Dutch budgetsystem

26. The Dutch budgetary system is unique in several aspects. The International Monetary Fund (IMF) characterized the transparency of the Dutch budgetary system as 'best practice'⁵. The main elements are the 1) well structured and openness of the budget process; 2) integrity and (political) independence of the Court of Audit, the Netherlands Bureau for Economic Policy Analysis (CPB) and Statistics Netherlands (CBS) and 3) trend based fiscal framework which establishes political agreement over expenditure ceilings and macro-economic constraints.
27. Emphasized should be the budget framework which is reliable, 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 the parliament, it is necessary to form a multi-party coalition. In the Netherlands minority cabinets are rather the exception. Currently 10 parties are presented in the Lower House of the Parliament (see box 12 The Netherlands Election on 22nd November 2006).

Box 12: The Netherlands Election on 22nd November 2006

The Netherlands parliament (Lower Chamber) has 150 members, which 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 years term in office. On February 7th 2007 The Christian Democrats, the Social Democrats and the left wing Protestant party agreed to form a coalition.



28. 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. It should be noted that the Coalition Agreements has no legal status but is

⁵ Fiscal Rosc. Report on the Observance of Standards and Codes on fiscal transparency, International Monetary Fund. IMF country report no. 06/124, 13 March 2006 (www.imf.org).

supported by the political parties of the coalition. Main new spending and cut backs are agreed in this document and in addition fiscal rules are laid down. As a result a multi-annual expenditure ceiling can be constructed. They are not simple policy ambitions about the size of public expenditure as a percentage of GDP. The ceilings have a clear and realistic underpinning through a bottom-up approach by line-item.

Box 14: The coalition agreement of 7 February 2007

On 7 February 2007 the Christian Democrats (CDA), Social Democrats (PvdA) and (left wing) Protestant Party (CU) presented a new grand coalition government with a new policy programme/agreement. The structure of the 'old 2003' and 'new 2007' coalition agreement is more or less the same (red line of 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 7 billion euro primarily in education, the environment, childcare and health, and cut taxes by 3 billion euro. Its plans assume 2 per cent annual economic growth and the programme contains an explicit goal about the EMU-balance in 2011 (1 percent surplus), the fiscal rules and an overview of all the extra expenditures.

The 'new 2007' coalition agreement "Working together, living together" is build around six so-called 'pillars'. One minister is appointed for the coordination of all the policy measures related subordinated to *one* pillar.

- I. An active and constructive position of the Netherlands in Europe and the World;
- II. An innovative, competitive and entrepreneurial economy;
- III. A sustainable environment;
- IV. Social coherence;
- V. Safety, stability and respect;
- VI. The government as partner and helpful public sector.

Each pillar contains several policy measures and goals. For example: (pillar I) → the imposing of a car levy tax for the amount of driven kilometres, air-pollution and time (cutting greenhouse gas emissions by 30 per cent); growth of public transport (train) by 5 percent each year; free distribution of schoolbooks in the secondary and pre-university education, small scale organisation of schools. (pillar IV) → increase production of houses to a level between 80,000 and 100,000 each year (with involvement of the housing corporate body), an end to the problems of disadvantaged inner city neighbourhoods within 10 years and a (pillar V) 25 per cent crime reduction by 2011 (related to 2003). Also it is intended to close down coffee shop in the neighbourhood of schools and borders. Next to these measures there is a detailed paragraph about the financial framework (see paragraph 36).

29. 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 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. 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.

30. Main element is the decentralized approach. Spending departments have a great responsibility. Each line/spending ministry is responsible for their budget line. Every spending

department has a financial-economic direction, which is responsible for the expenditures of a department⁶. This means that this direction makes the budget for a ministry. The minister of this 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.

31. They 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 subordinated in the control divisions, which is a substantial amount. They use 46 percent of their time for accounting. Administration is one of the building blocks for good financial control (see box 15 National Budget Information System or IBOS).

Box 15: National Budget Information System or 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 already exists 20 years and forms a 'spring hinge' between the financial control division of the line ministry and the budget inspectorate (IRF) of the Ministry of Finance. It 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 a chicken flu) of which the costs are estimated on 400,000 euros. An employee of the control division of the ministry of agriculture logs in IBOS. He/she accounts 400,000 euro of expenditures, regarding the relevant policy program 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 are leading (for example: setbacks have to be compensated by cutbacks). A special code for a budget change – by autonomous reasons (rise in number of students) or for policy-reasons (extra road program) – is programmed in the computerized system.

32. In the financial control division of each ministry circa 10-15 percent 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 percent 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 a separate 'evaluation division' executes 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. CPB is an integral and well-supported part of the policy-making process. For example: CPB evaluates the governments and political parties economic policies, but also executes cost-benefits analysis for big infrastructure projects (high-speed

⁶ The decentralized Financial Affairs Directorates (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).

link).

33. Circa 13-18 percent 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 Governments Accounts Act and second level legislation. The fiscal year starts on the 1st January and ends on 31st December. The budget is introduced on the third Tuesday in September (Budget-Day, see box 15). 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 memorandum⁷, but the line ministers are responsible for the budget bills (autonomy). Budget bills are operated on an integrated obligation-cash system.

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⁷ The Minister of Finance is also responsible for (macro) budgetary control and the efficiency (in general).