



National Academy for Finance and  
Economics  
Ministry of Finance

# The art of public financial management in the Netherlands

*The Dutch way to manage public expenditures*





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This book provides general information on public financial management in the Netherlands.  
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**The National Academy for Finance and Economics**  
*Ministry of Finance*

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# Foreword

With a longstanding tradition of strong public financial management, the Netherlands aims to stay in control of the state budget. Mechanisms, procedures, laws and regulation, (independent) institutions and most importantly staff with the right competences and knowledge are the key success factors. There are always challenges ahead that can undermine the ground of solid public finances. For instance, in the last couple of years there were several crises that put a heavy demand on the fiscal framework, such as the financial crisis (2008), Eurocrisis (2010) and COVID (2020). Though these challenges have a high impact, the practice is that we succeeded to restore the balance and tranquillity in the public financial management system with relatively low public debt as an outcome.

Besides the challenges, we focus on continuous improvement and modernisation of our budgetary process. There are three recent developments in this field. Firstly, the budgetary process is improved in order to connect better to other processes (e.g. European Semester) and to the needs of the main stakeholders (Parliament). Secondly, the standardisation and digitalisation of the financial bookkeeping is initiated, which will lead to more insight in budgetary information. Finally, the link between evaluations and the budgetary process will be strengthened.

Many other countries have the same aims and challenges to deal with. In the same time some countries are in a reform process – with different underlying triggers – where more systematic and institutional changes have to be implemented in their public financial management. To refine their own systems these countries are in search of best practices in fiscal policy formulation, budgetary processes, auditing, risk management, performance-based budgeting, parliamentary oversight etc. For many years the Ministry of Finance of the Netherlands shares its knowledge and experiences on public financial management with civil servants from countries abroad. It does this among others through the National Academy for Finance and Economics, mainly by technical assistance, EU-twinning projects, workshops, trainings and conferences.

This book, initiated by the National Academy for Finance and Economics, describes the Dutch approach in public financial management. Each chapter focuses on some specific part and gives detailed insight. Many experts from all the relevant Dutch institutions contributed to the content of this book. The authors work at these institutions and shared the latest developments in their field.

I hope that everyone who is interested in the Dutch model can benefit from the comprehensive insights in this book, and hopefully it can contribute and inspire to further strengthen the public financial management in their country.

Joost Clerx  
Budgetary Affairs Director  
Ministry of Finance of the Netherlands  
December 2024





# 1 Introduction to Public Financial Management in the Netherlands

By Melek Öncü and Arjan Vos

Reliable budgetary figures and estimates of expenditures and revenues, a smooth budgetary process, policy evaluations and spending reviews that help to make policy more effective and efficient, clear public financial management laws and regulations. These are the core of a good functioning government. However, at the same time regular maintenance is needed. Also in the Netherlands we are aware of this need. In the last few years different developments have necessitated a rearrangement of public financial management in the Netherlands. This book describes the functioning of financial management, its new developments and challenges.

As is the case in most countries, a major underlying trend for these developments are digitalization and transparency processes which make it easier to follow the policy and budgetary activities of government. Open data, a parliament that wants to be better informed and in some cases irregularities of government activities triggered financial management in the Netherlands. The debate within central government concentrates on finding the best way to keep high standards.

*“It was important but less spectacular work. I have the impression that many do not fully appreciate the budgetary significance of this successful operation”<sup>1</sup>*

Former Minister of Finance Onno Ruding about the Government Accounts System Operation in the 80’s

A similar process took place in the Netherlands in the 80’s when there was a need to intervene in public financial management, because of high budget deficits and uncontrollable budget management. The reform was carried out under the name ‘Government Accounts System Operation’. It took a couple of years to execute and was mainly aimed at bringing back fiscal discipline, better internal control and audit functions supported by increased training capacity.

Although the current situation is not as pressing and urgent as in the 80’s, and the base of financial management in the Netherlands is still high, there is awareness that continuous work is needed to make improvements and to keep up to the latest standards.

This book presents a picture of the Dutch public financial management approach and system.

## 1.1 Constitutional setting

The Netherlands is a decentralized unitary parliamentary constitutional monarchy. This nice terminology explains the political and constitutional setting in which the government operates. The monarch, King Willem Alexander, is the Head of State. His powers are written in the constitution and have been very limited since the end of the 19<sup>th</sup> century. The King is part of the government, together with the

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<sup>1</sup> Clerx, J.M.M.J.; Griensven, P.G.T.W. van; Stevens, R.J.J., *De macht van ministers van financiën: en hoe collega-ministers de schatkist ledigen*. p.59, Stichting Maatschappij en Onderneming, 1993, p.59

ministers, but the latter are responsible for execution. Ministers are responsible to parliament, everything the head of state does or expresses included. The monarch has a formal role but has no formal political influence. It is therefore more seen as a symbolic role. Parliament has the ultimate power in the Netherlands.

#### *Government levels*

There are 4 administrative levels of government within the Netherlands: European Union, central government, provinces and municipalities. A special fifth level, which is at the same time the oldest Dutch administrative level, consists of the water authorities. As a large part of the Netherlands lies below sea level, in Dutch history these were the first democratic bodies established in order to cooperate in water management. Nowadays they have mainly a technical role in regulating the water levels and water quality in their region. The European Union is considered as a separate administrative level that has to be named as such, due to the fact that the European integration is now at such a level that many EU laws and regulations have to be implemented nationally.

Each level has its own sphere of activity with autonomous powers as well as tasks related to the execution of (central government) legislation and policy. They all have a representative assembly (in)directly elected. In the Netherlands there are currently 342 municipalities (2024). Municipal Council elections take place every 4 years. The municipalities are governed by the Council of Mayor and aldermen, with the mayor appointed by the Minister of Interior Affairs on the recommendation of a confidential committee of the municipal council. The aldermen are appointed by the municipality council after negotiations by the elected members.

The Netherlands is on the intermediate level divided in 12 provinces. Provincial Council elections also take place every 4 years, after which via a procedure comparable with the municipalities a provincial government (Council of Deputies) is formed. A Commissioner of King or Governor is appointed by the State.

At central level the representative assembly is parliament, which in the Netherlands consists of two houses: the House of Representatives with 150 members directly elected once every 4 years and the Senate with 75 senators indirectly elected by the members of the Provincial Council once every 4 years. An important role of parliament is to set the budget (budget right). Whereas the House of Representatives has the right to accept, amend or reject the budget, the Senate can only accept or reject. The focus of this book is limited to the national level.

#### *National elections*

At central level, after elections take place, a process starts where a coalition is formed. Politics in the Netherlands is characterised by a multi-party system. Not one party has been able to win the majority of the votes in the past, which means that in practice coalitions have to be formed. After elections, the forming of coalitions starts with parliament first installing a so-called *'informateur'*. He has the task to search if a possible coalition of certain parties is feasible and if so also drafts a coalition agreement. This process is followed by the nomination of a so-called *'formateur'* – usually also the prospective Prime Minister – who forms a Cabinet of Ministers and State Secretaries. It is notable that until 2012 the Head of State (King/Queen) nominated the *'informateur'*.

### *Ministries*

There are 15 ministries in the Netherlands, but this number as well as the names can slightly change with each new ruling government. Each ministry has a minister. Depending on the choices made by the coalition, there might also be 'ministers without portfolio', who oversee a certain field or topic of the ministry. They fall under a certain ministry, but the end responsibility lies with the minister. Besides ministers, there are state secretaries, who are part of the cabinet but not of the government, which consists only of the King and ministers. State secretaries execute some of the tasks of the minister. The role of a State Secretary can best be compared to a deputy minister.

### *Ministerial responsibility*

In the Dutch political context the ministers are collectively and individually responsible for their actions that are part of their duties. They are held accountable to parliament, which also has oversight on the work of the state secretaries. For the overall policy and laws of their ministry the minister is accountable. In the case of a budget this means that the minister concerned has to defend and debate on this in parliament. Whereas in many countries the Minister of Finance has the task to submit and defend the total budgets in parliament, in the Netherlands the individual ministers bear this responsibility. The Minister of Finance has a coordinating role for the budgetary process and presents the Budget Memorandum accompanied by the individual budgets, but he only is accountable for his coordinating role, the Budget Memorandum and his own ministerial budget.

## 1.2 The public financial and audit function in the Netherlands

The content of this book cannot be understood without a proper explanation of the field in which our public financial management takes place. The main results achieved in public financial management can only be attained with a qualitatively high functioning staff working in this field. It is not a coincidence that in the Netherlands we put a lot of effort in the development and quality of the financial and audit function, not in the least by organizing a solid curriculum, conferences and traineeships via the National Academy for Finance and Economics, the training institute of the Ministry of Finance.

After a successful implementation of the Governments Accounts System Operation at the end of the 80's, public financial management in the Netherlands was again on track. The investments made have been fruitful and a solid base was regained. The thinking and efforts shifted now to more efficiency and effectiveness of public policy. Privatization, decentralization, establishment of agencies (cost-efficient model leading to more result-oriented government services) and more focus on policy output and outcome were some of the new developments within financial management. These developments led to inevitable changes in the way the employees working in the financial and audit function had to do their job.

### *Financial function*

For the financial function it meant that they were no longer purely involved in the budget in terms of money budgeted and spent, they also had to make the connection to the policy departments. Roughly said, the bookkeeping departments within ministries transformed into full financial economic departments that executed a controller role. In search of efficiency and efficacy, the task of the financial economic



department was to search for ways on how to organize the policymaking and execution process in the best way. The financials had to connect more with the policy departments within their ministry in order to connect budget and policy. In the end the aim of each public institution is to attain policy goals in the most efficient and effective way. This thinking resulted in some cases in the establishment of agencies, that function from a distance with pre-agreed outputs to be delivered for a substantiated price. In other cases, sharp discussions on the policy outcomes, targets etc. between financial department and policy department and between financial directorate and the Inspectorate of the Budget of the Ministry of Finance take place.

The financial function within the Netherlands is decentralised. Spending ministers are responsible for financial management within their ministry, due to the way ministerial responsibility is arranged in the Dutch State governance structure. Ministers discuss and defend both the (supplementary) budget and annual report in parliament. The minister is supported by its Financial Economic Affairs Directorate,

the tasks of which are described in a government decree. The Minister of Finance is responsible for the budgetary process and financial management and control of the central government. He has a so-called system responsibility. The Budgetary Affairs Directorate of the Ministry of Finance has a supporting role in executing the role of the minister, as well as the Inspectorate of the Budget of the ministry. The Inspectorate has a day-to-day role in controlling budget expenditures and execution. They mainly have contact with the Financial Economic Affairs Directorates of (line) ministries.

#### *Audit function*

For the audit function, the developments after the Government Accounts System Operation meant that also their role changed. They no longer only focused on the figures in the annual reports. The developments lead to more non-financial information in budget and annual reports. They had to develop professional standards on how to give assurance to non-financial information. From then on operational auditing has become a regular task within the audit function.

The audit function is currently centralized in the Central Government Audit Service (CGAS), but was until 2012 also decentralized within each ministry. Its tasks are also laid down in a government decree. The CGAS is the internal auditor within the Dutch central government and formally part of the Ministry of Finance, but its functioning is formally independent. Its role is to audit the accounting information and provide assurance reports on the financial information in the annual reports of government (statutory task). Compliance of expenditures with the rules are audited. The CGAS also assesses budgetary and financial control and operational management.

### 1.3 Capacity building as a building block

The National Academy for Finance and Economics is already for many years the training institute for Public Finance Trainings of the Ministry of Finance of The Netherlands. Until 2003 it operated within the ministry delivering some core base audit and financial management trainings. Since 2003 it has continued as an institute, located in its own building with qualitative high training facilities. The Academy was opened by Princess Maxima (the later Queen) with a formal ceremony.

The Academy delivers training courses and conferences in the broad field of public finance: budgeting, control, audit, economics, procurement, operational management. Its activities are aimed at civil servants in different positions at the central government level in the Netherlands. The Academy not only works for the Ministry of Finance, but also for line ministries, agencies and other organizations in the central government administration. Aim of the Academy is to professionalize the financial function in a broad sense. By doing so, the Academy also supports the attractiveness of this function, something that is even more important in times where the labour market is tense such as at the time of publishing this book.

The main target groups are civil servants of the central government on financial, audit and operational management positions. Other groups can also participate in the Academy's courses, such as from policy departments or higher management that want to know more about public finance backgrounds. As described above, the linkage between policy and budget is interwoven in the Netherlands.



A special target group, which has expanded in the last few years, are the participants of different traineeships for which young professionals who are at the start of their career are eligible. The Academy initially started together with another department of the Budgetary Affairs Directorate with *financial traineeships*. Young professionals can apply for this starting position and will receive a contract for two years. During this term on the one hand, they will receive trainings at the Academy and on the other hand obtain working experience at three different central governmental organizations. At the end of their contract, if both parties are satisfied, it will in principle lead to a fixed position within government. In the last few years also the execution of training within the Central Government traineeship is organized by the National Academy. A recent renewal is the specialized traineeship for procurement officers, which has been developed and executed by the Academy.

#### *International department of the Academy*

In addition to these national activities, the Academy also has a department for international cooperation and technical assistance. This department organizes bilateral activities, such as trainings, workshops, etc. on request of the partner countries of the Academy. Also international conferences and joint activities for countries that have related requests are organized. A main part of this work is delivered in the context of the Constituency Programme of the Netherlands Ministry of Finance for the IMF/WB/EBRD. Another main part is delivered to the Middle East and North Africa region.

The topics dealt with are the same as in the Academy's national activities, with a focus on the broad field of public finance. Modern budgeting, internal control and internal audit are topics that have been frequently requested in the past years. Needs analysis, design, development and evaluation are

important steps in the work of the Academy's staff. Also the implementation of the trainings is part of their task, but for delivering the actual trainings, experts are found from practice: civil servants from ministries perform the trainings, instructed by the Academy's staff, at the Academy, sharing their own practical experience (peer-to-peer principle). This principle is both for the national and international activities of the Academy.

For the international cooperation activities, the Academy also delivers Trainer-of-Trainer (ToT) sessions, to make sure that the knowledge transferred can be followed up by the counterparts in the countries themselves. This is aimed to make the assistance delivered sustainable within the partner countries.

# 2 Organic Budget Legislation

By Aynur Baran and Bas Verberne

## 2.1 The Government Accounts Act (2016)

In the Netherlands, the budget process is characterised by statutory procedures and agreements. These have their basis in European directives, the Dutch Constitution, the Government Accounts Act (which is in fact the Dutch Organic Budget Law), lower-level legislation, and in the knowledge and capacities of the government and people with the right expertise. This chapter is partly written from the perspective of the applicable laws and regulations and current developments around them. The moments at which the policy process and the budget process follow each other are outlined. This means that tasks, roles and competences are made visible on the basis of the practical functioning of the process.

Based on Articles 78 and 105 of the Dutch Constitution, the Government Accounts Act (GAA, in Dutch: *Comptabiliteitswet 2016*) regulates the parliament's budget right, control function and the organisation of central government finances on:

- the budgetary process, budget management and accountability of the State (*requirements for the presentation of budgets and annual reports, dates of presentation to parliament*);
- the standardisation of budget management and financial management (*budget preparation, budget execution and budget amendments*);
- the duties and responsibilities of the Minister of Finance and line ministers (*e.g. responsibility for own budget, budgetary oversight, budget management and performing private legal acts on behalf of the State*);
- managing public liquid assets outside the State (*holding them in the Single Treasury account for public funds*);
- the supervision of management of public financial resources outside the State (*on-site control powers at legal entities*);
- the duties and powers of the Netherlands Court of Audit as external auditor (*on-site examination of all parts of the State*).

The GAA outlines rules and contributes significantly to safeguarding parliament's budget right.

This budget right means that parliament:

- authorises the estimated expenditures and commitments of central government; and
- afterwards grants discharge on the basis of the ministers' annual reports on the expenditure and revenue realised. The Netherlands Court of Audit thereby provides an unqualified opinion on the national accounts and national balance sheet.

The main actors of the GAA are:

- both Houses of Parliament - as democratic controller and co-legislator that, among other things, authorise budget laws (budget right);
- the Minister of Finance - coordinator and regulator of the State Budget, represented by the General Directorate on the State Budget;
- the line ministers - responsible for their own budgets and annual reports. With powers to perform private-law legal transactions;
- the Financial-Economic Affairs directorate within each line ministry (in Dutch abbreviated as FEZ), the - as internal advisor to each ministry and advocate of the budget on behalf of the line ministries towards the Ministry of Finance/Directorate General on the State Budget;



- the Central Government Audit Service - as internal auditor of central government;
- the Netherlands Court of Audit, i.e. the Netherlands Supreme Audit institution, - as independent auditor on behalf of parliament.

## 2.2 Key components of the Dutch budget process

The central government budget comprises the ministerial and non-ministerial budgets, the budget of the King and High Councils of State budgets.

Each individual budget statement must be adopted by an Act of Parliament, reflecting the prevailing decentralised concept, see box 1. Authorisation of a budget statement must take place at policy article level: a policy article contains the part of the budget related to a particular, well-defined policy area for which a minister is responsible. The amounts of financial commitments and cash expenditures to be authorised at the policy article level serve as a maximum. The basic principle is that no financial commitments are to be made and cash expenditure incurred before parliament has authorised the budget bill. Amounts committed and/or cash expenditures incurred before parliamentary authorisation may be deemed unlawful by the Central Government Audit Service and/or the Netherlands Court of Audit.

Another extremely important component of the way the budget process is organised in the Netherlands is the decentralised concept at central government level as depicted in box 1.

### Box 1 – Decentralised concept at central government level

The Government Accounts Act 2016 stipulates this concept as follows:

Section 4.1 Budget management and operational management: general

1. Each of Our Ministers is responsible, in relation to the policy underlying his budget, for:
  - a. developing, adopting and implementing the policy;
  - b. supervising implementation of the policy;
  - c. performing regular audits of the effectiveness and efficiency of the policy;
  - d. the information included in the budget;
  - e. the information included in the annual report.
  
6. Each of Our Ministers who heads a ministry is responsible, in relation to the budget for which he is accountable, for:
  - a. the ministry's operational management;
  - b. performing regular audits of the effectiveness and efficiency of that operational management;
  - c. budget management and the records kept for this purpose;
  - d. financial management and the records kept for this purpose;
  - e. material management, in so far as this relates to movable property and the records kept for this purpose.

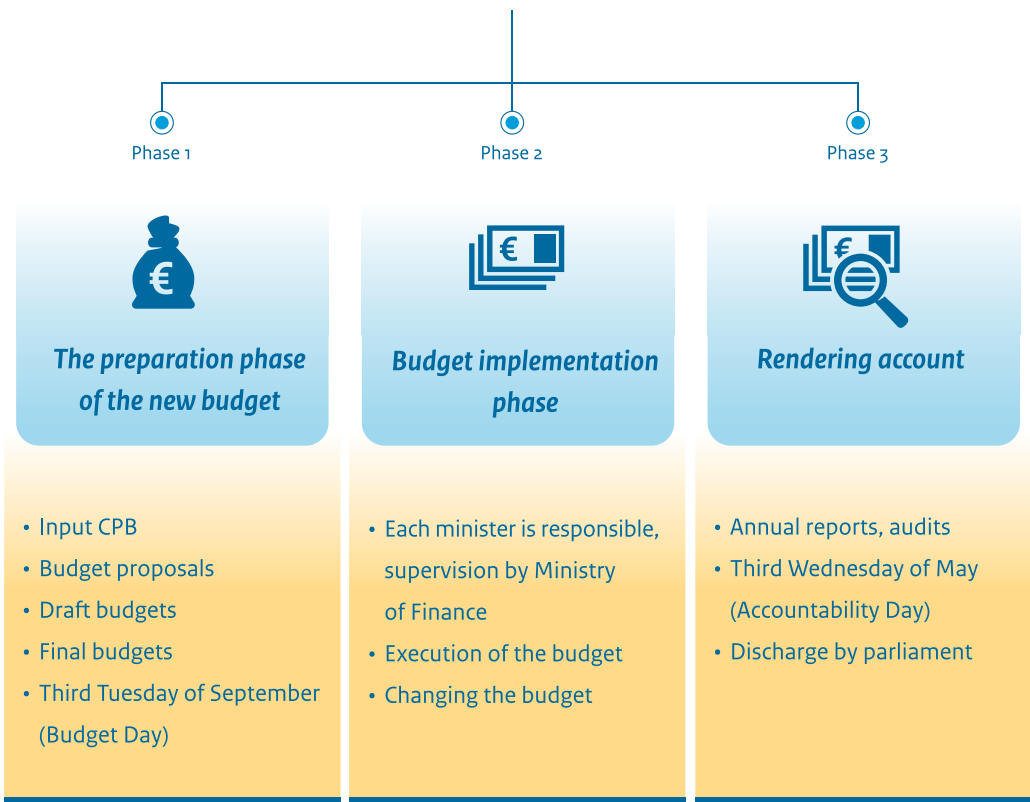
## 2.3 Outline of the Dutch budget cycle

Conceptually, most countries' budget cycles are similar to one another. They all subdivide into a preparatory phase, the execution phase and the phase of rendering account. So does the Dutch budget cycle. However, there is much to tell about the "Dutch way". Concrete procedures, timing, the responsibilities of the stakeholders involved, the way the budget negotiations are conducted, the performance orientation of budgets including the connections with the policymaking process are specific for each country according to the specific historical path each country has followed.

### 2.3.1 Budgetary guidelines

Almost one and a half year before a fiscal (= calendar) year starts, the Minister of Finance issues guidelines which prescribe the structure and annexes of the new budget as well as the time schedule governing the budgeting and reporting process. On behalf of this minister, the Director-General of the State Budget takes the lead in preparing the guidelines. Other ministries are consulted on the changes they would like to propose. Also the Central Government Audit Service and the Court of Audit are consulted. In case of major changes, the Public Expenditure Committee of the House of Representatives may be consulted as well.

## Budgetary process



The budgetary guidelines cover a 3-year period, which corresponds with the budgeting, execution and reporting phase of three respective fiscal years. So, for instance the budgetary guidelines 2025 contain rules about how to prepare the budget for 2026, about how to give account on the fiscal year 2024 and about how to report on the budget execution of the fiscal year 2025. In other words, the budgetary guidelines 2025 apply to budgetary documents to be sent to Parliament in the year 2025.

Line ministries, i.e. the Financial Economic Affairs Directorate in each line ministry, translate these guidelines into their own internal guidelines. Each minister is responsible for his or her internal budget process and getting the right information at the right time.

### **2.3.2 The preparation phase of the new budget**

In the preparation phase the ministries are all working on collecting the new budget proposals for the new fiscal year. In the Dutch system there are spending ceilings for each ministry (central government), healthcare, social security and, since 2022, at the start of the Rutte IV cabinet, also for investments. These ceilings are defined on the basis of the Coalition Agreement, which in the Netherlands is a document stating the main policy goals of the parties constituting the cabinet including the budgetary implications of these goals. Since a government term of each coalition cabinet is four years in principle, the absolute expenditure level in real terms (or ceilings) for the next four fiscal years is determined in a document called the Starting Memorandum.

#### **Input CPB**

In recent years, as early as in February/March, the Netherlands Bureau for Economic Policy Analysis (CPB) issues an economic outlook (in Dutch abbreviated as CEP). It contains the most recent macro-economic developments including estimates of key variables, e.g. inflation and unemployment rate. These are weighed and translated by the Ministry of Finance into measures to be taken for each ministry's budget appropriations. The result is a framework letter (in Dutch: Kaderbrief) sent to cabinet. The actual ceilings for the upcoming budget year are set by this letter. After the cabinet's approval, the outcome of this so called "principal decision moment" is recorded in this "Budgetary decision-making memorandum". As of this moment in principle there will be no discussion any more about the amounts allocated to each minister's commitments and expenditure budget for the upcoming fiscal year. The CPB has in that sense a major and independent role in Dutch fiscal policy.

#### **Budget proposals**

In March, each minister sends a policy letter to the Minister of Finance. This letter is the result of internal negotiations of the ministries' budget proposals. So before this letter arrives at the Ministry of Finance a first rough filtering has been made and different departments within each ministry know what policy area their minister has given priority to. Ministries in general bring in more claims than their ministerial ceiling permits them to.<sup>2</sup> Even if they would not do this, the Ministry of Finance has the role to scrutinise each claim from the perspective of effectiveness and efficiency in relation to the underlying policy instrument. The usefulness and the necessity of each claim in relation to the goals have to be clear. If not, the budget inspectors at the Ministry of Finance have a good cause to advise to allocate the budget

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<sup>2</sup> The general central government budget ceiling is detailed by a ceiling per ministry.

corresponding to that claim for solving problems on other budgets, either from this ministry or even other ministries or simply to reduce the state budget deficit.

### Draft budgets

After the aforementioned principal decision moment, ministries work (further) on the text and figures of their budget. In June, they have to submit a draft budget to the Ministry of Finance. The draft budget gives detailed information per budget item, i.e. per policy article. It explains where the appropriations go to, what the cash expenses will be and estimates of non-tax revenues to be received. A large share of the budget focuses on SMART-ly formulated objectives of the policies, their operational goals and the instruments which the minister is to employ to achieve those goals. Accompanied by supportive indicators, the attainment of these goals can be monitored from budget to annual report. This makes the explanation of the figures and policy fields complete and forms an important base for parliamentary debate. In the end, its power of the purse implies parliament's right to amend and approve the budget.

### Final budgets

In the process of finalising the budgets, there is one other moment in which the new macro-economic indicators will be updated by the CPB. These updates can reflect changed circumstances, new updates of the premium financed institutions (social security and health) and the calculated macro-economic consequences of the bilateral meetings with the Minister of Finance and other ministries on the draft budgets. The Minister of Finance finalises the Budget Memorandum, in which the main points of government's financial economic policy and a summary of the policy intensifications and expansions are presented.

After the final meeting (mid-August) of the Council of Ministers on the Budget Memorandum, the budgets and the draft Macro Economic Outlook of the CPB (this time abbreviated as MEV), the Council of State will give its compulsory advise. The Council of State will look at the Budget Memorandum and the respective budgets from a legislative point of view: are they in line with the laws and do they show inconsistencies?<sup>3</sup>

### Third Tuesday of September (Budget Day)

Every third Tuesday of September on behalf of government, the Minister of Finance offers the Budget Memorandum and the budgets of the respective ministries to parliament. The Budget Memorandum as an explanatory note to the draft budget statement includes:

- the budget overview for the budget year concerned and the four following years of the central government budget and the public sectors not forming part of the central government budget;
- the budgetary considerations regarding the proposed policies for the public sector; and an overview of the commitments, expenditures and non-tax receipts in the budgets for the coming budget year and the four subsequent years. Also the estimated tax receipts are presented for the coming four years.

The submitting of the Budget Memorandum and the budgets of the respective ministries to parliament is done with a special ceremony. On behalf of government, the Head of State, as of 2013 His Majesty King Willem Alexander, delivers a speech to the united assembly of both Houses of Parliament and can be viewed on television by the public in general. After this, the House of Representatives takes over the process and starts their scrutinizing, amending and approving part of the budget process.

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<sup>3</sup> The Council of State also has a role as the Independent Fiscal Institution in the budgetary process. See Chapter 10.

## Box 2 – Provisions for assessment of effective and efficient policies

Article 3.1 of the GAA prescribes ex-ante policy research to assess whether policy proposals, intentions and commitments contain sufficient information about the intended goals, the policy instruments (including financial instruments such as subsidies) to be deployed and the financial consequences for central government or sectors like local government, social security and health. (See also Chapter 7 Evaluation Framework).

This article was also evaluated as part of the review of the GAA in 2023 (see under GAA 2016 review). Relevant questions here were to what extent this article has contributed to good spending and distribution of resources and to what extent it has promoted the evaluability of policy? Respondents have found Article 3.1 effective. The vast majority of respondents think that Article 3.1 contributes to the allocation function of the budget. Relatively slightly fewer respondents think Article 3.1 contributes to improving evaluability. The landscape of Article 3.1, with everything around the policy and evaluation cycle, has changed significantly in recent years with the Strategic Evaluation Agenda, the Policy Compass, the revamped Periodic Evaluation Research Regulations (RPE) and Policy Choices Explained. For more background on these developments see Chapters 4 and 7).

It is expected that in five to seven years, the bulk of policies will normally have gone through a policy cycle including ex-ante, durante and post-evaluation. The evaluation's recommendation was therefore: don't change anything substantive, communicate about it, and give this initiative time to mature. Until then, focus on integration of the products within the landscape, understanding, learning, attention and awareness, to allow enforcement, supervision, implementation and professionalism to grow. Learning-wise, points for improvement are bound to surface in the coming years that will be included in the Policy Compass or in Policy Choices Explained. Another recommendation is that in the event of a legislative amendment, the definitions of effectiveness, efficiency and evaluation and the evaluation function in general, including an overview of instruments and references to other regulations, should be included in the general part of the explanatory memorandum of each law or its amendment.

### 2.3.3 Budget implementation phase

#### Minister is responsible, supervision by Ministry of Finance

The central government draft budgets must be authorised by parliament and enter into force on 1 January of the year to which the budget statements relate. Once the budget has been approved by both Houses of Parliament, following the decentralized concept depicted in box 1, the ministers are responsible for managing their own budget and they are entitled to execute the budget. In the Ministry of Finance, the Inspectorate of the Budget<sup>4</sup> supervises on a day-to-day basis what ministries realize with their budget and what mutations they make. The cash needed for budget execution is estimated each month, so that the Treasury can provide sufficient cash every day, if and when necessary by borrowing on

<sup>4</sup> In this case, the term *inspectorate* is not used in its usual meaning, but merely in the sense of “the eyes and ears” or “the watchdog” of the Minister of Finance during all phases in the budget process.

the capital market. In the end, the role of the Ministry of Finance is supervising and approving the mutations within a budget item.

What if parliamentary approval of a budget is late (Article 2.25 of the GAA)?

As long as a proposed law establishing a budget statement has not become law and entered into force, current policies underlying that budget statement shall be implemented with restraint. For new policies, the GAA demands that as long as a budget law proposal has not been adopted and entered into force, new policies underlying the budget statement shall not be implemented unless, in the opinion of the minister whom it may concern, postponement of implementation is not in the general interest of the State and he has notified parliament accordingly.

### Changing the budget

If a minister would like to transfer amounts from one budget item, i.e. policy article, to another, this has to be approved by parliament. After all, shifting public funds from one budget article to another is parliament's prerogative. Based on Article 2.26 of the GAA, the government can update the Draft Budget Acts. There are two regular official moments during the year in which parliament has the opportunity to approve budgetary adaptations and propose supplementary budget statement amendments: in spring and in autumn. By 1 June, the Spring Memorandum and the ministries' supplementary budgets will have to be submitted for parliamentary approval. The Spring Memorandum shall in any case contain the changes in the budgetary totals and an overview of the changes in expenditures and revenues in the budgets for the current fiscal year and the four years to follow. Likewise, by 1 December, the Autumn Memorandum and connected supplementary budgets have to be presented. The Autumn Memorandum shall contain, like the Spring Memorandum, in any case the changes in the budgetary totals, specified in terms of commitments, expenditures and receipts. However, the proposed changes in the Autumn Memorandum will mainly reflect technical-administrative changes since the year is almost over. In addition, in exceptional cases occasional budget bills are submitted (in Dutch abbreviated as ISBs, Incidental Supplementary Budgets). ISBs could be submitted if additional commitments or expenditures are required to supplement the relevant draft budget bills. This can be done before, between or after submission of the first and second supplementary budget amendments. This possibility exists because it is not always feasible for the government to wait until the authorisation of the respective first or second supplementary budget bills by parliament. It is important to realise that the submission of an ISB is an exceptional situation: the cabinet is committed to the budget rules and therefore has a main decision-making moment. If there is a possibility to wait until a regular budget moment (1<sup>st</sup> or 2<sup>nd</sup> supplementary budget bill in spring or autumn), this is strongly preferred, as it will bring calmness and regularity into the budget process. ISBs were, however, extensively applied during the Covid pandemic given the need to spend public money on short notice.

Still, even after the submission of the second supplementary budget bills (i.e. after 1 December of the current year) it may be the case that planned commitments expenditures and receipts for the financial year so far have not landed in any (supplementary) budget bill. Following the parliamentary right to be informed in due course, in such a case a so-called sweeping letter is sent to parliament according to Article 2.28 GAA and the Government Budget Regulations. This means that an overview of major changes in commitments, expenditure and receipts has to reach parliament no later than three days before the start of the recess.

### Box 3 – Recent developments and innovations under consideration

The principal decision moment by cabinet in spring which leads to next year's expenditure ceilings of each budget is under criticism in the sense that information on the decisions is only dispersed to the general public and parliament on the Third Tuesday of September. As a consequence, an innovation under consideration in the Dutch budgetary process is in fact to expedite the political debate on the Budget Memorandum and next year's budget proposals and present a 'see-through' of the proposals considered significantly sooner in the Spring Budget Memorandum. In 2024, this Memorandum was even published mid-April instead of at the end of May. One of the consequences of this new development may be more emphasis on the multiyear perspective of the budgets, including supplementary budgets during the running fiscal year.

A point of attention is monitoring parliament's budget right during the budget process when it comes to urgent measures taken by the government, e.g. as a result of wars or crisis situations. Likewise, confidentially informing parliament on price-sensitive information when state participations are purchased have attracted attention. The Minister of Finance regards it important to improve the quality of the budget process and budget law, at the same time promoting legitimacy of central government commitments and expenditures.

For this reason, working arrangements have been agreed upon with parliament on price-sensitive information, for example when purchasing Air France/KLM shares. Other working arrangements are aimed at speeding up the adoption of budget bills in order to attain further improvements. A procedure with working agreements on the application of Article 2.27(2) GAA in practice, where there is a possibility to deal with urgent matters between two formal budgetary moments, is currently being developed by parliament.

An expansion of the number of regular supplementary budgets with an extra occasion on the Third Tuesday of September (Budget Day), i.e. coinciding with the submission of next year's central government budget to parliament, was for the first time experimented with in September 2023. The aim is to reduce the all too frequent filing of separate ISBs. An example of such a special reason was the granting of NOW support measures at the time of the Covid pandemic. The NOW measure was aimed at temporarily supporting businesses to keep their personnel and be able to pay their salaries. The cabinet took these measures outside the regular main decision-making moment in spring (2020). The Covid pandemic required sizeable budgetary efforts instantaneously which were previously not anticipated in the adopted budget laws and could not wait until the next regular moment. The budgetary impact of providing support measures (under the title NOW) falls under the budget right of parliament and was therefore authorized through an ISB.

## 2.3.4 Rendering account

### Annual reports, audits

Each ministry starts the process of the closure of the year somewhere in January. In his/her annual report, each minister has to look back on the policy objectives, operational goals and the indicators as stated in the budget. Did (s)he achieve the goals? Were activities performed as planned? And did it cost what was thought it would cost? The annual report is checked by the internal audit directorate of the ministry, which by government decree has an independent position. The annual report will be sent to the Ministry of Finance in mid-March together with the audit report on the lawfulness and efficiency of the ministry's spending. The Council of Ministers will hold meetings to discuss the annual reports.

After approval by the Council of Ministers, these documents are sent to the Netherlands Court of Audit by 31 March. The Netherlands Court of Audit is the Supreme Audit Institution in the Netherlands. As such, it is independent. It can choose to investigate financial management issues at ministries as it sees fit. Though they can do this, much of the findings of the Court rely on the audit reports and on reviews of the work of the ministries' internal audit directorates. See Chapter 9 for more information on the Netherlands Court of Audit.

### Third Wednesday of May (Accountability Day)

The mirror image of the "budget day", the Third Tuesday of September, is "accountability day". The Minister of Finance presents the State Financial Annual Report, the ministries' annual reports and the concluding acts to parliament. At the same time the president of the Netherlands Court of Audit presents his conclusions and assessment of the financial management and of the annual reports (legitimacy and efficiency). Parliament can use the findings of the Netherlands Court of Audit for debate with each individual minister and/or the Minister of Finance in the general Accountability Day debate.

## 2.4 Budget presentation according to "Accountable Budgeting"

The Budget Memorandum summarizes the government's budgetary policies. In turn, the budgets of ministries and the Councils and Offices present specific policies, priorities and financial consequences for the coming year.

Dutch budgets are presented according to "Accountable Budgeting"<sup>5</sup>. This budget presentation ensures a balance between both financial information and targeted policy information given the responsibility and role the minister is to play. The reason is that the budget is primarily a financial document on the basis of which the budget right is exercised by parliament. It is therefore necessary for the budget to contain more information on the minister's actual policy commitment linked to the financial instruments and deployment of the budget, including through apparatus expenditure. The starting point, therefore, is that only policy information is included in the budget that can be directly linked to the minister's role and responsibility. For other policy information, reference is made to the policy documents parliament

<sup>5</sup> See "Introducing accountable budgeting: lessons from a decade of performance-based budgeting in the Netherlands", OECD Journal on Budgeting, Vol. 12/3, <http://dx.doi.org/10.1787/budget-12-5k45512vs37>



has already received on other occasions. This should lead to more readable and compact budgets, without going back to the budgets before the era of “From Policy Budget to Policy Accountability” (in Dutch abbreviated as VBTB, in use until 2012). One of the criticisms on this VBTB era was that the budget contained too much information without a clear link to the task and responsibility of the minister. The budget, however, will remain a policy budget, i.e. characterised by a clear performance orientation and will not become an input budget as was the case before VBTB.

At the heart of Accountable Budgeting is a dichotomy between apparatus expenditure and programme expenditure. This first step was made in the 2012 budgets. Since 2013, parliament has also been given a more detailed breakdown of apparatus expenditure (own staff, external hiring, equipment, IT and contributions to shared service organisations within central government) in the budget. This makes more clear how much money is spent on policy and how much on personnel and equipment. For programme expenditure, the general objective of the policy area and the minister’s role and responsibility are included for each policy article. To explain how the minister fulfils these roles, the financial instruments (grants, loans, guarantees and contributions to accredited departments) are explained for each article in a budget table. The table shows which financial instruments the money is spent on. Key figures and policy results are included per policy article if the minister has an active role in this policy area. This is accounted for in the policy conclusions in the annual report. Furthermore, policy changes in the financial year are presented. The budget also includes a summary table of policy audits and more information on policy evaluations is included in an evaluation annex. An annual grants overview is also presented with the budget. This overview is enhanced with information on the last evaluation carried out (year and hyperlink to the finding place) and the planned evaluation. This budget presentation leads to more compact budgets, as less “redundant” policy information is included. This is in line with wishes of, among others, the House of Representatives and international experiences within the Organization for Economic Cooperation and Development (OECD) on results-based budgeting.

Recent years have also seen a shift towards a more digital presentation of budget and financial information in the form of open data. This is in line with the open data programme of the Ministries of the Interior and Kingdom Relations and Economic Affairs, Agriculture and Innovation. A first step being taken now is to offer budget statements in the form of open data.<sup>6</sup>

## 2.5 Why does the Dutch system work well?

Actually, the answer is quite simple: because the Dutch budget cycle suits the Dutch! In our attempt to unravel this, we identified the following factors.

### **Emphasis on budget preparation phase**

One complete budget cycle comprising all phases from start to finish takes approximately 2 years and 9 months. Our impression from a small international comparison is that the Dutch dedicate a relatively long period of time to the preparatory phase. This reflects the fact that Dutch democracy is principally

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<sup>6</sup> See [www.rijksfinancien.nl](http://www.rijksfinancien.nl)

targeted towards consensus, continuously trying to reach win-win situations. Once an agreement is reached, the Dutch tend to stick to it. Indeed, trying to take many different views into account and reconciling them as good as possible is time-consuming. On the other hand, the quality of the decision-making process, including allocative decision-making, is improved. For one example, the multiyear expenditure ceilings are in the end undisputed in cabinet.<sup>7</sup> For another example, the fact that budgetary guidelines are widely discussed before being issued by the Minister of Finance, contributes to smooth application of these guidelines by the other ministries. Especially the platform of assembled Financial Economic Affairs Directors (IOFEZ) of each ministry chaired by the Director General of the State Budget of the Ministry of Finance is highly effective in the Dutch case.

### Independency of important information providers

In all phases of the budget cycle and indeed throughout the entire budget process, objective and more or less scientific information is an important input. To put it another way, the provision of “politically convenient” information should be avoided because in the long run it is detrimental for the reliability of government. For instance, a multiyear time series of estimated economic growth which consistently shows an upward trend is probably too good to be true.

In the above, we already mentioned the independency by law of the Netherlands Court of Audit. The CPB (Netherlands Bureau for Economic Policy Analysis) and Statistics Netherlands (CBS) are also two other important independent institutions in the Dutch system.

### Different regulations for different circumstances

The budgetary guidelines mentioned earlier are an example of a ministerial regulation, in this case by the Minister of Finance. The GAA contains a delegation provision allowing the Minister of Finance to prescribe further rules in the lower regulations on different hierarchical levels. This has resulted in nine ministerial regulations in which the main lines of the GAA have been fleshed out into implementing rules and two regulations that rank between a law and a ministerial regulation, namely government decrees (*Koninklijk Besluit, Algemene Maatregel van Bestuur*).

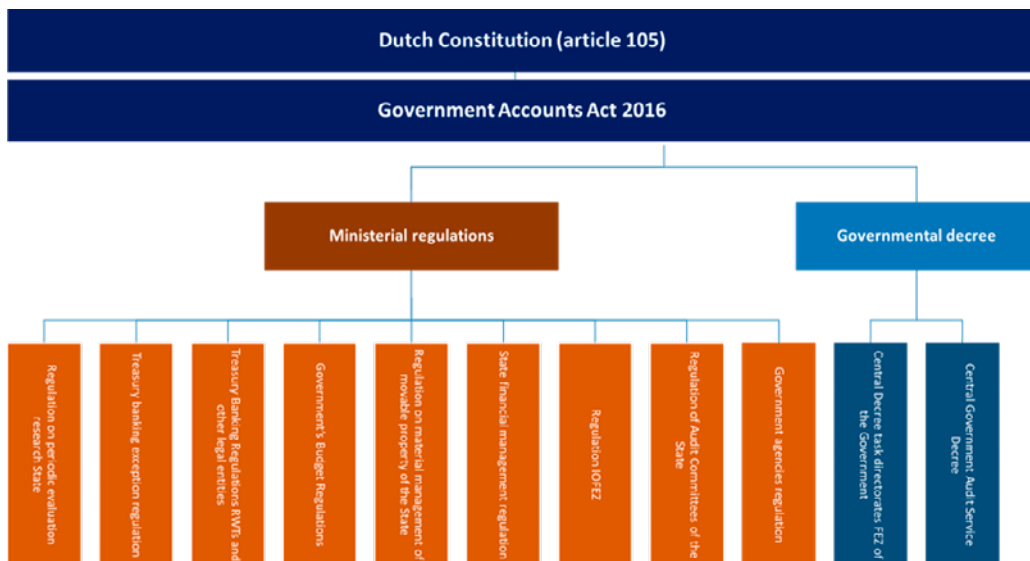
And yes, we have a written Constitution, which dedicates about 5 articles to the basics of public finance in the Netherlands.

Given the democratic tradition and the pragmatic nature of the Dutch, we should not forget to mention the Coalition Agreement, which is fundamental for any government consisting usually of at least two political parties. Formally the Coalition Agreement is not a law, but it certainly has the force of a law for the duration of the coalition term and it is as binding for coalition partners as a law. Especially the Fiscal Rules, which are part of the Coalition Agreement, exert an extremely disciplining force (see Chapter 3 Fiscal Policy).<sup>8</sup>

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<sup>7</sup> *Though in practice have been challenged by the different crisis such as Covid and the war in Ukraine.*

<sup>8</sup> *In the end however, parliament has the power of the purse and can set aside the budgetary rules as agreed upon by the coalition.*



In short, following the principle that decisions should be made at the level where its consequences can and should be assessed best, the variety of types of regulations is quite large in the Dutch case. This implies a high degree of flexibility to solve problems.

### Strong link between policy and budget

The link between policy and budget is quite strong. In fact, this is illustrated by the evolution of the basic questions the budgetary documents try to answer.

Before the turn of the century, the buildup of budgetary information was primarily input-focused. As of 2002, the first stage of serious performance orientation of a line ministry's budget consisted of answers to the questions in the column on the left in the table. As of 2013, as earlier mentioned in section 2.4 under Accountable Budgeting, the second stage of the performance orientation was introduced by having budgets giving answers to the questions in the right column.

Budget (VBTB, 2002-2012)	Budget (VB, 2013-...)
What do we want to achieve?	What does the <b>minister</b> intend to achieve?
What will we do to achieve it?	Which <b>financial instruments</b> is the minister going to apply?
What will be the cost of our activities?	What are the costs of these <b>instruments</b> ?

Of course, the consecutive annual reports during these respective periods tried to depict the results corresponding to the questions raised.

However, the link between policy and budget is not only strong in the sense of content, it is also strong from an organisational point of view. To explain this, it is important to mention two clear distinctions. First, as mentioned before, each minister in the Netherlands is integrally responsible for his/her policies

and the budget connected to these policies. Second, within each ministry, an organisational distinction is made between policymaking and policy execution. These two distinctions together constitute a clear point of departure for the successful application of the concept of managerial responsibility as well as managerial accountability. Therefore, within a certain ministry, generally speaking, it is clear what part of the policy's area is connected to what portion of the budget and which general director or managing director is responsible/accountable for a certain "policy/budget" combination. In other words, internal mandates are consistently and unambiguously linked to the role of a minister presented in the budget. In the Dutch case, this requires a high level of professionalism and political independency on the side of civil servant top management, since these officials are not replaced when a new government minister takes office.

### **Budget information system RIS/IBOS**

There is one central information system in which all budget changes are monitored and approved: the IBOS system. This is a National Budget Information System. It was introduced 30 years ago. By this system the Inspectorate of the Budget of the Ministry of Finance communicates digitally with the Financial Economic Affairs Directorate of the respective ministries on proposed budget changes in any phase of the budget cycle. The budget classification level of digital communication is at least one level below the level of policy articles, which is the level of parliamentary budget approval. In other words, each proposed budget change on the level of operational goals has to be approved by the Inspectorate of the Budget. The Inspectorate scrutinizes proposed budget changes on political priority and compliance with the fiscal rules.

In addition, the budget records are registered both by each line ministry as well as by the Central Accounts Department of the Budgetary Affairs Directorate. It keeps track of actual outlays via the Treasury with a very small delay only (one day). This information is digitally integrated with the budget information in IBOS.

In short, the budget information system reduces budgetary paperwork on figures to a minimum, it enables real-life monitoring by the Ministry of Finance and also serves as input for the cash/debt management of the Treasury.

### **Capacity building: training, seminars, traineeship**

Training efforts have been supportive to successfully operating financial staff. Actually, all major developments affecting the financial function since the mid-eighties of the last century have been accompanied by consistent training efforts for several target groups. So, much attention is paid to the quality of personnel working in the financial field. All ministries consider it a good custom to send all new employees who just finished university to a financial training in which all aspects of the financial function are elaborated. Within the framework of permanent education, also for experienced employees many trainings are available.

In 2007 the Ministry of Finance set up a financial traineeship programme for which graduates of several disciplines can apply for. They follow a two-year programme in which they will work one year at the Ministry of Finance, six months at a ministerial Financial Economic Affairs Directorate and six months in a policy execution institution, i.e. an agency. During this two-year period they follow a training programme in parallel. The ultimate goal is the continuous influx and conservation of sufficient staff, both quantitative as well as qualitative.

All of these training activities are organized by the National Academy for Finance and Economics, which is a department of the Budgetary Affairs Directorate of the Ministry of Finance. This Academy fulfils an important role in linking knowledge, recent developments and skills in the financial field. Most of the trainers of the Academy work in the financial or audit function within a ministry or are policy officers. This means that practical knowledge is being shared. This concept of an Academy has drawn much interest in countries in Central-Eastern and South-Eastern Europe (e.g. Romania, Bulgaria, Ukraine, North-Macedonia, Moldova).

### The Netherlands is a wealthy country

In absolute as well as in relative terms the Netherlands is a wealthy country and there is no denial that this makes life sometimes easier. Therefore, in a sense, a lot of problems in the Netherlands seem luxury problems. The income side of the State Budget is relatively stable thanks to the proper functioning of tax collection. In fact, compliance, defined as the percentage of taxpaying citizens who voluntarily meet their tax obligations, is very high. Under such circumstances it should be less hard to have a well-functioning budget process and budget cycle. Consequently, other things being equal, reliability and predictability of government conduct should pose a lesser problem.

## 2.6 Review of the GAA 2016

The GAA 2016 is the modernized version of the GAA 2001. The GAA 2016 came into force on 1 January 2018. Article 10(1) of the GAA states that the Minister of Finance shall evaluate the act five years after its entry into force and send a report on the effects in practice to parliament.

The action plan of the evaluation was sent to parliament in January 2022. The evaluation involved all the stakeholders in the budget process, including university academics.

The findings of the evaluation were sent to parliament in November 2023. The evaluation concluded that the GAA's main objective, i.e. the effective and efficient organisation of the budget process is served well in terms of transparent budget decision-making and budget allocation. Furthermore, the GAA allows for effective implementation of fiscal policy, including fiscal control. On the operational level, however, measures to improve awareness on the functioning of the GAA in practice is recommended. More concretely, improvements can be achieved in the areas of:

- increased knowledge of GAA through communication, examples, case studies, education and training of civil servants, both at starter level and experienced level of staff;
- clarification of certain concepts;
- increased focus on budget compliance.

To a large extent, the cabinet's response to the findings of the evaluation is expected to set the agenda of adaptations of the GAA, specific regulations and the provision of supportive financial information to parliament in the medium term. In fact, both the Council of State and the Netherlands Court of Audit have also called for a slightly innovative agenda. The topics of budget process and transparency, broad welfare and sustainable development goals, climate and sustainability reporting, administration and management will at least be addressed in the cabinet's response. The formal response will therefore

provide guidance on important points of attention, such as the logical organisation of the budget process, illustrative of a balance between safeguarding the budget right on the one hand and realizing a workable budget process for the line ministers on the other. This in close connection with social (policy) developments that sometimes demand speed.

The evaluation of the GAA will for sure lead to new developments and maintenance of the Dutch budgetary process in the coming years. In that sense, it is always under construction with the aim to live up to the high-quality standards of Dutch budget cycle.

# 3 Fiscal policy

By Abraham Miro

## 3.1 Trend-based fiscal policy and fiscal rules

### Trend-based fiscal policy

A clear budgetary framework, with well-defined rules and processes, is essential for effective political decision-making and the creation of sound and predictable policies for citizens and businesses.

To institutionalize this approach, the Netherlands has implemented a trend-based fiscal policy since 1994. This policy leverages the budget to stabilize the economy by accumulating buffers during economic upturns and mitigating the economic impact on society during downturns by maintaining spending and not increasing taxation. Under this policy, expenditure ceilings and a revenue framework are established at the beginning of the cabinet's term and set for the entire cabinet period. All decisions on the budget need to be taken within these boundaries, which necessitates prioritization. This in turn leads to efficient allocation of scarce resources. The budget contributes to the overall objective of government policy, namely enhancing overall well-being in the present, the future, and elsewhere in the world.

The Sustainable Public Finances Act (Wet Hof) requires that the government should pursue trend-based fiscal policy. The same act also states that budgetary policy should be implemented taking into account the European budgetary rules from the Stability and Growth Pact.

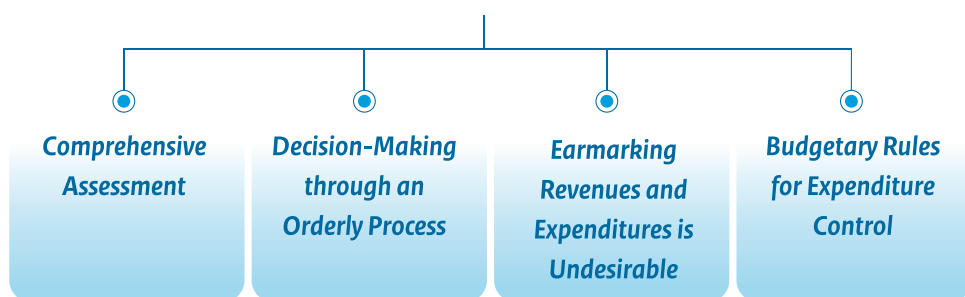
The fiscal policy is founded on three fundamental principles:

- I. **Efficient Allocation of Public Resources:** Fiscal policy contributes to the effective and efficient expenditure of public resources and tax revenues. The fiscal rules create the conditions that allow the government to allocate every euro as efficiently as possible, given the goals it pursues. In doing so, a cabinet carefully weighs various options against each other. To reach a good overall balance between different policy objectives, a structured and predictable decision-making process is crucial for political stability, predictable policy, and effective spending of tax revenues.
- II. **Sound Public Finances:** Maintaining sound public finances primarily means that a cabinet has control over the development of revenues and expenditures and adheres to the agreed (budgetary) commitments. By controlling public finances throughout its term, it prevents future generations from facing an excessive debt burden or being forced to cut back on their collective provisions or raise taxes simply because the current generation has lived beyond its means.
- III. **Macroeconomic Stabilization:** The government budget plays an important role in stabilizing the economy. Tax revenues automatically increase in good times. The cabinet does not spend these extra revenues; instead, they are used to reduce debt for less prosperous times. Conversely, in bad times the budget balance and debt are allowed to deteriorate. Thus, the cabinet allows the budget to move in tandem with economic development as part of trend-based fiscal policy. This principle provides predictability and stability and mitigates the negative impact of an economic downturn on society. This has positive effects on people's income and well-being: citizens and businesses feel less of the negative effects during periods of economic decline. On the expenditure side, changes in expenditure on unemployment benefits and social assistance as a result of economic developments are not taken into account in the enforcement of the expenditure ceiling. This means that an increase in unemployment in economic bad times does not trigger budget cuts in other areas.

## Trend-based fiscal policy



## Fiscal rules



In the end, those principles are set to avoid passing on a financial burden to future generations, the cabinet makes clear agreements at the beginning of its term about the maximum allowable expenditure in a year (the expenditure framework) and a revenue framework, which is aimed at keeping the tax burden (not actual tax receipts) constant. These agreements on revenues and expenditures provide clarity about the boundaries within which fiscal policy can be implemented.

### Fiscal rules

Fiscal policy contributes to the effective and efficient expenditure of public resources and tax revenues. The fiscal rules create the conditions that allow the government to allocate every euro as efficiently as possible, given the goals it pursues. During a cabinet term, there may be (unexpected) developments or new political priorities that have budgetary implications. The fiscal rules provide guidelines on how to handle these. The cabinet can adjust priorities and allocate resources differently as needed based on these established rules.



- I. **Comprehensive Assessment: One Main Decision-Making Moment in Spring and Decision-Making on Purchasing Power and Associated Burdens in August:** To make a good comprehensive assessment between different policy objectives and associated costs, there is one main decision-making moment in spring concerning expenditures. During this so-called main decision-making moment in spring, various political desires, problems, and financial windfalls and shortfalls can be assessed integrally with a multi-year outlook. The independent economic forecasts of the Netherlands Bureau for Economic Policy Analysis (CPB), namely the Central Economic Plan (CEP), underpin the spring decision-making. Ideally, decisions on the revenue side of the budget (taxation) are also taken in spring as much as is feasible. This is desirable for policy areas where the expenditure and revenue decisions can't be separated, such as climate policy, which uses a wide array of financial instruments. Also, the Tax Administration needs advance notice for some measures in order for them to be implemented next year. The decisions on the revenue side of the budget are typically finalized in August, taking into account calculations on purchasing power of household types by the CPB.
- II. **Decision-Making through an Orderly Process:** Intentions, commitments, and proposals with financial implications must be coordinated with the Ministry of Finance prior to decision-making and implementation and must go through the regular process of deliberation in the Council of Ministers. This follows from the legal role of the Minister of Finance as regulated in the Government Accounts Act (*Comptabiliteitswet*, CW). Additionally, the budgetary process is a responsibility of the cabinet as a whole (under the direction of the Minister of Finance). This requires collectively agreed principles, mutual discipline, and a balanced information position between departments.
- III. **Earmarking Revenues and Expenditures is Undesirable:** To make a good assessment between the (costs of) different policy objectives, earmarking revenues for expenditures is not desirable, even in the case of (budget) funds. The objectives of policy should determine the level of expenditures, not how much money comes in from a particular source.
- IV. **Budgetary Rules for Expenditure Control:** For the expenditure side of the budget, agreements are made at the beginning of the cabinet term about what can be spent annually over the cabinet's budget horizon (the current year and the five following years): this is the expenditure framework. Each minister is responsible for his or her budget. A framework forces choices to be made because ministers cannot spend more than what was previously agreed upon. If ministers want to set new priorities and spend more (policy-wise), they must reallocate from other policy expenditures. This way, the cabinet keeps total expenditures under control.

If new policy from one minister affects the expenditures of other ministers, the initiating minister will ensure the necessary funding is organized. If there is a call on local governments, the new policy proposal includes a justification of how the local governments are enabled to do this, including a proposal on how the financial consequences for local governments will be managed. Here too, the initiating line minister will ensure the necessary funding is organized.

### Box 1 - Expenditure ceilings

It is not desirable to reduce other expenditures due to the spending on emergency and support packages. Therefore, the expenditures for these measures are excluded from the regular expenditure ceiling. An example of this is the expenditures related to the Covid crisis. Partly due to these

expenditures, the national government's spending has significantly increased, amounting to approximately 72 billion euros in total. The cabinet manages national expenditures by using fixed expenditure ceilings, which set the maximum level of spending for a given year. The year 2020 saw extraordinary expenditures due to the Covid crisis. Covid-related expenditures were placed outside the ceiling to prevent them from reducing the funds available for other purposes.

## 3.2 Macroeconomic forecasting and the role of the independent fiscal institution

The CPB's (Netherlands Bureau for Economic Policy Analysis) role as an independent economic expert aligns with the Dutch tradition of broad consultation and coalition governments. Established immediately after World War II, the CPB benefitted from a director of exceptional qualities and charisma, Jan Tinbergen, and the economic and political circumstances of that period. This unique position has been safeguarded through formal laws and protocols, regular external review committees that assess the policy relevance and scientific quality of the CPB's work, and the existence of a free press.

This allowed the CPB to play a central role in financial and economic decision-making in the Netherlands. Its independent macroeconomic forecasts and projections for public finances are fundamental to Dutch fiscal policy and the budgetary process. These forecasts form the basis for political decision-making at the start of a government term and during major budgetary decision-making moments.

### Medium-Term and annual Economic Forecasts

At the beginning of each election cycle, the CPB delivers a medium-term economic forecast (MLT) covering a four-year period. This forecast assumes unchanged policies and calculates the economic and budgetary baseline for the period. Political parties base their election manifestos on these projections, and the new government's coalition agreement, which contains a detailed financial section on all expenditure and revenue measures, is based in the CPB's medium-term forecast. The annual expenditure ceilings for the government's four-year term are set based on this agreement. Since 1986, the CPB has calculated the effects of election programmes at the request of political parties, allowing voters to compare party programmes more objectively. Also, the CPB provides analyses of policy proposals during coalition discussions or those of the coalition agreement.

In addition, the CPB publishes two key annual economic forecasts on the development of the Dutch and global economies. These forecasts serve as the foundation for the government's budget:

- The Central Economic Plan (CEP), published in spring.
- The Macro Economic Outlook (MEV), published on Budget Day in September.

### Strategic Studies and Advisory Roles

Strategic economic thinking and decision-making are influenced by CPB studies, including long-term scenario analyses and specific studies on the welfare state, education, innovation, and healthcare. Decision-making on major investment projects, such as infrastructure, is guided by CPB cost-benefit analyses, where the CPB plays a significant role both directly and indirectly. The CPB is also represented in various important advisory groups for the government, such as the Social and Economic Council (SER) and the Advisory Group on Fiscal Policy (SBR).

### Forecasts by the Ministry of Finance

Furthermore, the Ministry of Finance in the Netherlands makes forecasts of national expenditures and revenues, which are essential for the budgeting process. Expenditure forecasts are based on macroeconomic data and actual figures, while revenue forecasts predict tax revenues and other government income. Both sets of forecasts are regularly updated.

## 3.3 Advisory Group on Fiscal Policy

The Advisory Group on Fiscal Policy (SBR) is an ad hoc advisory body consisting of civil servants that provides recommendations on the fiscal space and fiscal rules for the upcoming cabinet term. One year before general elections, or less if the government falls before serving its full term, the government, represented by the Minister of Finance, requests the advice of the SBR. Established back in 1971, the SBR plays an important intermediary role. Its reports preceding general elections and the start of a new government bridge the gap between external experts – most notably from the Netherlands Bureau for Economic Policy Analysis (CPB) and the Dutch Central Bank (DNB) – and the ministries most involved with fiscal and economic policy. The Advisory Group, which is composed of high-level civil servants from six key ministries and representatives from the CPB and DNB, operates independently from politics, including the incumbent government. Its reports are sent to parliament by the incumbent government, represented by the Minister of Finance, without the government's opinion. The report is published and generally gets ample media attention. In practice, the next government adopts the recommendations on fiscal rules, sometimes with minor adjustments. The advice on fiscal space plays an important role in debates, but is not always followed. In 2023, the 17<sup>th</sup> report of the Advisory Group was issued.

## 3.4 Current EU developments concerning the Stability and Growth Pact

The Treaty of Maastricht in 1992 paved the way for the European Central Bank to assume responsibility for monetary policy and laid down that national fiscal policy should comply with the European rules on government deficits and government debts. The deficit should not exceed 3% of GDP and debt must be below 60% of GDP, thus creating the necessary room to accommodate economic downturns and reduce government debt at a satisfactory pace, thereby contributing to the long-term sustainability of public finances.

The European budgetary rules are further specified in the Stability and Growth Pact. These rules were recently revised. The Council of the European Union and the European Parliament reached an agreement on this on February 10, 2024. The revision aims to simplify the fiscal framework, ensure ambitious and realistic debt reduction, stimulate reforms and investments, and promote counter-cyclical fiscal policy. The framework focuses on the medium term and the debt sustainability risks of member states.

The new framework retains some old rules but also introduces new ones. The well-known reference values for government debt (60% of GDP) and budget deficit (3% of GDP), falling under the so-called

corrective arm, remain in place. The medium-term objective for the structural budget balance from the preventive arm is replaced by a country-specific expenditure path for, in principle, four years. This expenditure path aims to ensure that government debt levels remain at a prudent level (below 60% of GDP) or, if higher than 60%, credibly decrease over the medium term. This expenditure path must also ensure that the deficit remains below 3% of GDP. Whether the debt is credibly decreasing is assessed using a debt sustainability analysis.

All member states must draft a multi-year plan outlining the expenditure path (including projected demographic developments and aging costs), public investments, and reforms for the next four years. An ambitious set of investments and reforms grants the right to extend the expenditure path to seven years, resulting in a more gradual budgetary adjustment. Member states will publish an annual progress report. These reports will replace the current Stability Programme and National Reform Programme and should, in principle, be submitted to the European Commission in spring. The ambition is to align domestic spring decision-making with this new European Semester and to bring forward the publication of the multi-year Spring Memorandum, including an ex-ante calculation by the CPB (Netherlands Bureau for Economic Policy Analysis) and the opinion of the Council of State.

Each year, it will be assessed whether member states adhere to the expenditure path. Exceeding the expenditure path, like exceeding the 3% deficit norm, can be grounds for establishing an excessive deficit and imposing a corrective path. As long as the realized figures for debt remain below 60% and the deficit below 3%, the European Commission cannot impose binding measures.

# 4 Performance-based budgeting: an evolving exercise

By Maarten de Jong and Wim Kooij

Like most OECD countries, the Netherlands converted its traditional line-item budget to a programme budget that included goals, objectives and performance indicators. The Netherlands turned to performance-based programme budgeting (referred to as PB in this chapter) as a way to increase value for money for citizens and to be more transparent about government spending. Under the acronym VBTB, translated as 'From Policy Budgets to Policy Accountability', the traditional structure of the budget was extensively revised into a performance-based budget at the turn of the 21<sup>st</sup> century. Although this reform was implemented as a big bang reform at the time<sup>9</sup>, gradually some changes were made to the original outcome-focused approach in response to unmet expectations. Over time performance-based budgeting is increasingly viewed as being part of a broader ecosystem used for performance assessment, budget control and policy evaluation.

## 4.1 History of programme and performance budgeting in the Netherlands

In 2001, the Netherlands moved the budget from a traditional line-item budget to a programme budget where funds are authorized according to general policy objectives. At the heart of the performance budget were three simple questions that required an answer that formed the basis for budget programme template (see Figure 1). The simple and logical appeal of these questions was valued greatly for building and enhancing a performance dialogue as part of the budgetary process. In combination with an extensive effort in capacity building and communication, the Ministry of Finance made a point of consistently stressing the importance of these so called 'WWW questions' to financial and policy staff.

Especially during budget formulation and budget execution, these questions are used as challenge questions by financial staff facilitating a critical dialogue in support of prioritization and improvement of policies and spending. The questions are applied selectively by Ministry of Finance staff when assessing a proposal by line ministries to test how well substantiated proposals are and to seek clarification on certain aspects. If answers are unsatisfactory, they can be used to formulate a negative advice on the proposal, providing a powerful incentive to ministries (including agencies) to pay attention to performance issues. The introduction of this set of simple questions in the dialogue between the Ministry of Finance, line ministries and agencies provided an important incentive for more performance analysis. From a performance management point of view, this can be considered one of the most successful results from this reform.<sup>10</sup>

<sup>9</sup> OECD, *Performance Budgeting in OECD Countries*, OECD Publishing, Paris, 2007

<sup>10</sup> Podger A. and De Jong M., *The Evolution of Performance Budgeting Amidst Other Public Financial management Reforms: The Experience of Australia and the Netherlands*. In Ho A.T., de Jong M., Zhao Z., (Eds.) *Performance Budgeting Reform: Theory and International Practice*. New York: Routledge, 2019

Figure 1 Questions from 2001 Netherlands programme budget reform: a structure based on three questions (figure by authors)

'CLASSIC' PERFORMANCE BUDGETING	What do we want to achieve?		What will we do to achieve it?		What are the costs of our actions?	
	01 jan	31 dec	01 jan	31 dec	01 jan	31 dec
	Outcome Target	Actual Outcome	Output Target	Actual Output	€ Budget	€ Spent
<b>Goal A</b>						
<b>Objective a1</b>						
<b>Objective a2</b>						
<b>Objective a3</b>						
<b>Goal B</b>						
<b>Objective b1</b>						
<b>Objective b2</b>						

Initially a number of positive effects were reported regarding improved design of government policies, a more intense dialogue between financial and policy units within government and increased budget transparency.<sup>11</sup> But there was also criticism. Ministries started to view the reporting of performance indicators as a compliance exercise and parliament showed little interest in performance data in practice.

## 4.2 The Programme budget structure – adjusted approach

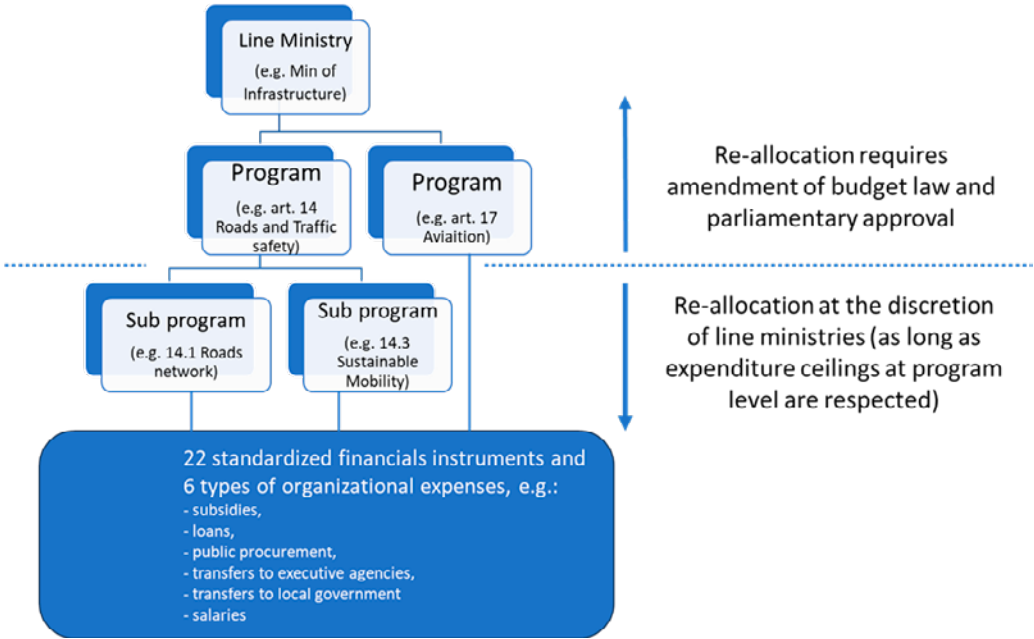
In the aftermath of the Great Financial Crisis (2007-2010), the Ministry of Finance noticed that performance budgets were often used by line ministries in a way that inhibited rather than rewarded efficiency and effectiveness. This dynamic involved overpromising of politically desirable outcomes in the budget preparation and budget authorization phase. By the time performance reporting was due, successes were attributed to successful policy and failures were blamed on circumstances beyond the control of the minister. The vital links between spending, government activities and outcomes seemed to be increasingly ignored. Moreover, parliament found the extensive and technical budget documentation inaccessible and often lacking usefulness for their oversight.<sup>12</sup>

<sup>11</sup> IOFEZ, Interministerial consultations for financial and economic affairs, *Policy budgets and policy accountability: evaluation – lessons from practice (Self Evaluation of NL performance budgeting effort by Ministries)*, 2004

<sup>12</sup> De Jong, M., I. van Beek and R. Posthumus, *Introducing accountable budgeting: lessons from a decade of performance-based budgeting in the Netherlands*. OECD Journal on Budgeting, vol. 12/3, 2013,

For the PB system to remain relevant, some drastic changes had to be made. The insights gained resulted in a comprehensive reform of performance budgeting starting in 2012. ‘Accountable Budgeting’ was intended to retain the advantages of programme budgeting while toning down unrealistic expectations about how performance data would be used. The changes made to the system involved simplification of the programme budget structure and a more selective use of performance information. The reason for this was that the number of performance indicators continued to increase resulting in higher administrative burdens and inaccessible budget documentation. As many of these indicators saw little use for either programme management or political oversight, the PB reform that started off successfully risked turning into a compliance exercise lacking further impact. In order to make budgets more factual and realistic, the new ‘Accountable Budgeting’ structure required ministries to be explicit about the role they fulfilled with regard to achieving outcome goals. In addition more input information was included in the budgets and comprehensive and systematic policy evaluation was seen as the primary tool for assessing policy effectiveness.<sup>13</sup> From 2013, the PB structure was revised into its current form, which is illustrated below.

**Figure 2** The current programme budget structure



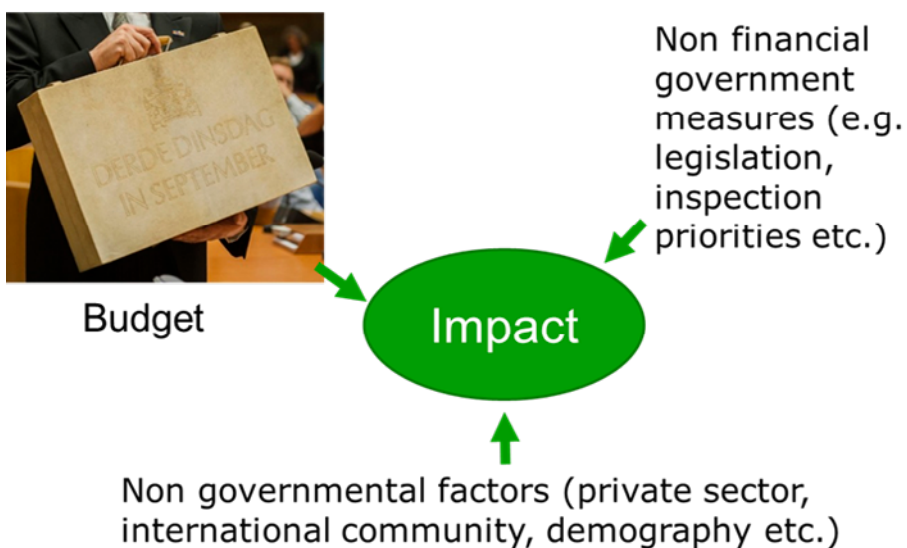
<sup>13</sup> Moynihan D.P., Beazley I., *Toward next-generation performance budgeting lessons from the experiences of seven reforming countries*. Directions in Development: Public Sector Governance Washington D.C.: World Bank, 2016

As budget authorization occurs at the level of budgetary programmes, line ministries and programme managers have a high level of discretion to flexibly re-allocate resources to achieve performance targets. The programme budget contains about 250 programmes, some of which are divided into sub-programmes. At the lowest levels, the budgeted amounts are divided into financial instruments. Requests by line ministries for re-allocation within programmes are usually granted by the Ministry of Finance as long as the legally binding programme ceilings will continue to be respected.

In addition to a high level of ministerial and managerial discretion, the Dutch PB system is characterized by a distinction between performance indicators and performance targets. Different roles of government are recognized when it comes to government’s contribution to the realization of outcomes in society. Sometimes government takes an active role and its funding can be considered vital to the realization of an outcome. In such a case performance targets should be formulated for which ministers can reasonably be held accountable. In many other cases government’s contribution has a more passive character (e.g. inspection, regulation or a small subsidy to the private sector). In these cases performance indicators are as interesting for analytical use but are considered less suitable as targets for accountability.

About a decade after introduction of the ‘Accountable Budgeting’ reform, many of the underlying problems it tried to address still seem far from solved. The political dynamics of ‘throwing money at a problem’ remains unaltered. Further strengthening of the system to promote performance and transparency in budgeting in the Netherlands consisted of a number of additional initiatives. These are covered in sections 4.3 to 4.5. Other recent tools for ex-ante and ex-post policy evaluation are the Strategic Evaluation Agenda and the Policy Compass which will both be described in Chapter 7.

**Figure 3** The Accountable Budgeting framework to assess the role of government in achieving the stated outcomes of budget programmes (Source: Netherlands Ministry of Finance)



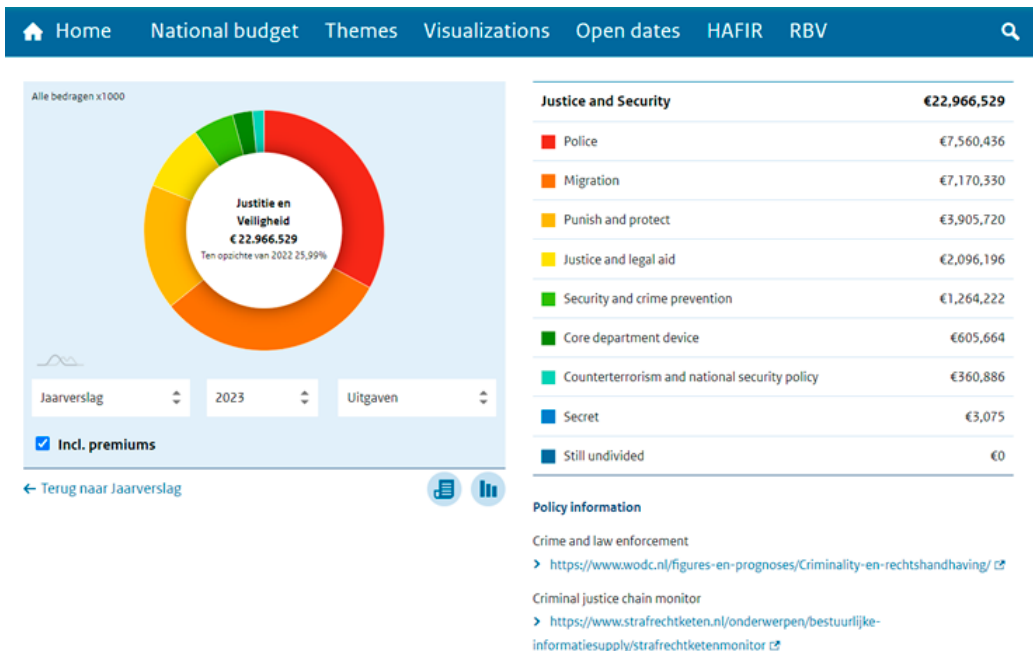


### 4.3 A comprehensive open budget portal: Rijksfinanciën.nl

With the increased data availability and more government organizations launching their own data portals, a requirement was felt to disseminate information about spending and results for the whole of government in a more user-friendly way. Much information is already out there but is scattered across many websites along the traditional stovepipes of organizational and budget accountability. Citizens who seek information, however, cannot be expected to be knowledgeable of these internal arrangements of their government.

Building on this notion, Rijksfinancien.nl was launched in 2017 by the Ministry of Finance. On this portal, open data about public spending is visually displayed and linked to programme objectives, policy evaluations, performance indicators and contextual data. The site has gradually expanded since to include or relate to more information. Data quality issues soon surfaced during the creation of the platform leading to process improvements in assessing and consolidating financial data. It should be acknowledged that only a limited number of well-informed citizens (e.g. journalists, academia) will invest time in navigating a portal like this, let alone use the data. The existence of a permanent digital place where one can go to look at government information about spending and results may, however, be an important asset in a world where citizens and journalists are encouraged to influence public opinion with seemingly fact-free claims. The most important users turn out to be civil servants themselves. This way, the open budget portal may contribute to bridging the gap between government silos.

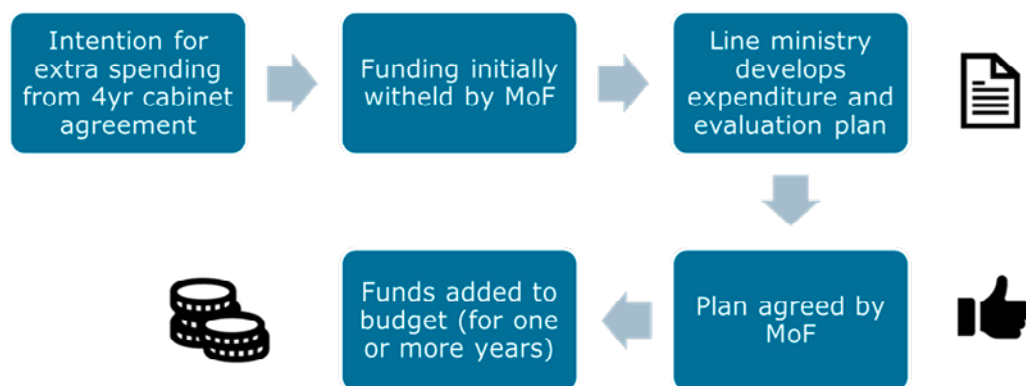
**Figure 4** Digital portal combining amongst others: financial open data, performance information, evaluation reports, spending reviews and statistical data. The figure shows the budget programmes of the Ministry of Justice. (Source [www.rijksfinancien.nl](http://www.rijksfinancien.nl))



## 4.4 Ex-ante performance controls for priority funding

In a latest attempt to leverage the budget to create value for money, the government introduced a new procedure in 2017 for the extra funding allocated to priority goals from the government's Coalition Agreement. According to this procedure (de 'aanvullende post' procedure) the Ministry of Finance only releases the extra funding to a line-ministry's budget after there is agreement about an expenditure plan that contains details about effectiveness and efficiency, including goals, indicators and evaluation. The Inspectorate of the Budget of the Ministry of Finance oversees these plans as part of their budgetary oversight.

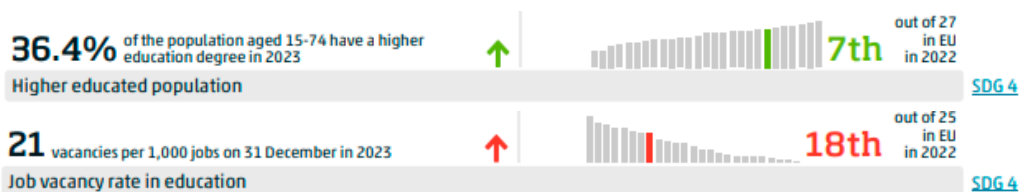
Figure 5 Assessing the impact of extra spending



## 4.5 Integration of budgeting and a national well-being framework

A recent development is the gradual integration of key national indicators measured by the National Wellbeing Framework of Statistics Netherlands (CBS) into the budget cycle. Synchronized with the publication of the draft budget and the annual reports of government these figures are released as the Wellbeing Monitor ('Monitor Brede Welvaart') in May or as factsheets with every ministerial budget in September. The outcome based statistics also match with the Sustainable Development Goals (SDGs) of the United Nations. An advantage of these figures over the key performance indicators (KPIs) reported by ministries is that they are measured and collected completely impartial and that they are measured in a consistent way for long period of time. The data were contextualized using the ranking of the Netherlands compared to the other EU countries as well as the multi-annual trend in the data. Although causal effects between the indicators and the budget can be complex, it is hoped that parliament and society will increasingly use these objective data in the dialogue on budget and results.

**Figure 6** Example of indicators from the National Wellbeing Framework sent to Parliament together with the Education budget. The arrow represents a favourable (green) or unfavourable (red) trend over the previous 8 years while the bar represents the relative position of the Netherlands among other EU nations.



## 4.6 Use of performance information and evaluation by parliament

It can be argued that the main audience of performance budgets and annual reporting is parliament. At the same time, the political dynamics do not often seem to favour analytical and strategic use of performance and financial figures. Insofar performance indicators are used in the political debate, it is often merely referenced as the phenomenon of performance measurement itself, without attaching specific policy consequences to it.<sup>14</sup> Furthermore non-financial information use is often aimed at legitimizing one's own positions or debunking those of opponents.<sup>15</sup> The lack of political interest in performance information by politicians may be blamed on insufficient quality and relevance of this information, but the opposite may also be the case: lack of quality stems from low use of the information. One of the most influential attempts made to break this pattern was introduced by former Member of Parliament (M) Pieter Duisenberg. As member of the Education Committee and later chairman of the Finance Committee in parliament, he introduced a method to more routinely and systematically scrutinize ministerial budgets and annual reports. A key characteristic of this 'Duisenberg method' is that each sectoral committee in parliament appoints a 'rapporteur', or preferably two: one MP of the opposition party and one of a ruling party. They are tasked with preparing the debate between the committee and the minister by providing answers to this set of questions:

1. What is the general picture of this particular policy?
2. Which goals have been achieved?
3. Which achievements have been made?
4. How much did it cost?
5. What can be said on legality, effectiveness and efficiency?
6. Which conclusions and recommendations can be made?

<sup>14</sup> Moynihan D.P., *The dynamics of performance management: constructing information and reform*. Washington D.C.: Georgetown University Press, 2008

<sup>15</sup> Demaj, L., *What Can Performance Information Do to Legislators? A Budget-Decision Experiment with Legislators*. *Public Administration Review*, Vol. 77: 3, pp. 366–379, 2017

The rapporteurs assess different sources of information to obtain answers to these questions and present the results to their colleagues by way of preparing for the debate with government. The 'Duisenberg method' continues to be practiced by parliament. Although its success depends on the time and effort of individual MPs, it is valuable that a routine for utilization of performance information in budgeting has been developed and practiced.

## 4.7 Conclusion

Contrary to almost all other countries, in the Netherlands spending reviews (see Chapter 7) became common practice well before performance budgeting was introduced. The Dutch PB experience started out as a fairly linear approach to comprehensively link outputs and outcomes to budget expenditure. The initial approach was successful in the sense that it raised awareness in the civil service about the objectives and results of policies and expenses. The reform can also be credited by enhancing transparency about the aims and results of expenditure.<sup>16</sup> After 10 years however the limitations of the initial approach became more and more apparent. These included a weak causal link between many government activities and outcome targets, high administrative burdens, low use of performance information and inaccessible technical budget documentation. The budget structure was streamlined and performance indicators were used more selectively: not every indicator is suited to be a target and a reduced number of performance indicators were included in the budget.

While PB and spending reviews were the main instruments aimed at promoting value for money, over the years a wide array of additional practices and procedures were introduced. Whereas budget authorization and annual reporting still represent major linking pins to assessing value for money, it was increasingly acknowledged that PB (like spending reviews) is part of a single value-for-money ecosystem along with ex-ante evaluation, ex-durante monitoring, programme assessment, policy evaluation and performance audits.

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<sup>16</sup> IOFEZ, *Interministerial consultations for financial and economic affairs, Policy budgets and policy accountability: evaluation – lessons from practice* (Self Evaluation of NL performance budgeting effort by Ministries), 2004

# 5 The Directorate of Financial Economic Affairs

By Björn Teunen and Jos Klink

## 5.1 Introduction

A basic feature of the budgetary process is the clash between endless policy wishes and the limited amount of money available. Within each line ministry (and also the Ministry of Finance), the main players on the battlefield for policy prioritization and budget allocation, in addition to senior management, are policy departments and the Financial Economic Affairs Directorate (hereinafter: FEZ). The latter coordinates the budgeting process internally, acts as the central controller of the ministry and also represents each ministry in negotiations with the Ministry of Finance.

The counterpart of the FEZ is the Inspectorate of the Budget at the Ministry of Finance. This chapter will discuss the role and position of FEZ in particular.

Although the organization of FEZ within the line ministries can be different, it mostly consists of the following sub-departments:

- Budget affairs;
- Policy control;
- Financial frameworks and risk management.

The task of FEZ is legally prescribed in the ‘Besluit taak FEZ van het Rijk<sup>17</sup>’ (the Decree on the Tasks of the Financial Economic Affairs Directorate within central government). The main tasks of a Financial Economic Affairs Directorate are, according to this Decree:

- Drawing up the budget and annual report of the ministry;
- Supervising the effectiveness and efficiency of policies;
- Supervising the execution of risk analyses;
- Supervising the execution of financial management, material operational management and the administrations used for this.

## 5.2 Tasks of FEZ

FEZ is the most important advisor on budgetary affairs and controlling issues to its respective minister, with supervision of the lawful and efficient planning and use of the budget, responsibility for central financial administration and supervision of decentralized financial administrations and, finally, with improving within its ministry the application of modern budgetary and financial management techniques.

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<sup>17</sup> Decree on the Task of the State FEZ, The Hague, January 2019

### **5.2.1 Drawing up the budget and annual report**

This task is preceded by budget coordination. Vis-à-vis the Ministry of Finance, FEZ will defend the policy proposals of its own ministry. FEZ is charged with the co-ordination of the budget process within its ministry and with respect to the Ministry of Finance.

After negotiation with decentralized units within the line ministry and the Ministry of Finance (the Inspectorate of the Budget), FEZ prepares the budget documents, including multi-annual forecasts and annual reports regarding the results of a ministry's policies and financial management. In addition, FEZ acts as the first point of contact for the Central Government Audit Service (CGAS) and the Netherlands Court of Audit. For a further elaboration of these audit organisations reference is made to Chapter 8 and 9 of this book.

### **5.2.2 Policy control**

FEZ fulfils the role of central controller for the entire ministry. This means that FEZ critically assesses all policy proposals of the policy directorates and service units and advises the central board and the minister. This review and advice concerns the lawful, effective and efficient implementation of the budget. That is why FEZ advises on all memoranda and letters to parliament with (potential) budgetary consequences. FEZ is also responsible for internal and external accountability. For an elaboration of policy control and specifically policy evaluation reference is made to Chapter 7 of this book.

### **5.2.3 Supervising financial management and administrations**

FEZ also coordinates and supervises the resolution of shortcomings in financial management and operational management identified by the CGAS and Court of Audit. FEZ is also responsible for overseeing the departmental management control system, which includes the budget cycle, the departmental planning and control cycle and risk management. In addition, FEZ is formally responsible for supervising the administration of expenditures, revenues and commitments. Within the ministries of Dutch central government, the actual administration can be carried out by different departments on different hierarchy levels, sometimes even by shared service organizations in which different ministries work together.

### **5.2.4 Supervising risk management**

The Decree on the Financial Economic Affairs Directorate within central government ('Besluit FEZ van het Rijk', Article 4, 1d/3 of) provides that FEZ supervises departmental risk analyses' execution.

In addition, Article 4, 1f/2 also gives FEZ the task of advising on the risk analysis. Within almost all departments, it is FEZ that develops various instruments with the aim of stimulating risk management; e.g. guidelines, manuals, leading taskforces, but also providing information about risk management through meetings with employees and managers, and organizing knowledge sharing. For a further elaboration of risk management reference is made to Chapter 6 of this book.

## 5.3 FEZ and the organization of financial and policy control

### 5.3.1 Central and decentral control

The financial function of the central government includes the control function of FEZ, the agencies and other parts of the ministries. In addition, the Central Government Audit Service fulfils the internal audit function and the Netherlands Court of Audit carries out the external audit. The financial function ensures that the financial processes are controlled and run as a going concern. The control function is decentralized, but departments work together for the benefit of financial management. To this end, various consultation structures between ministries have been set up at different levels within the national government.

### 5.3.2 Three lines of defence in financial management

In recent years, in the design of the control, financial and audit function more and more attention has been paid to the 'Three Lines of Defence' model. All departments of the Dutch government use this model, which does not mean that it is applied and implemented in the same way everywhere.

The essence of the model is that a form of control already takes place in the primary process; this can relate to policy proposals, but also to the financial processes. This is the first line in the model. The second line is the countervailing power of the first line and is located at the first higher hierarchical level in the organization.

The third line is generally seen as an independent audit organization that assesses whether the control system is functioning properly, by conducting specific investigations on substantive subjects but also on the organization of the control function.

The three lines of defence model can be expanded to a level of four or more lines, depending on the size of the organization and existing risks. In the model, depending on the risks and the structure of the rest of the organization, FEZ can fulfil the position of the second line controller, but also of an independent system supervisor of the model. In that case the model, not only in terms of organization, but also in terms of risks, e.g. in financial management, is periodically monitored and evaluated. In Chapter 8 the three lines of defence are explored in more detail.

## 5.4 Second-line spending organizations/agencies

### 5.4.1 Introduction

Within ministries there are second-line spending organisations responsible for policy execution. Most of these are so-called agencies. Agencies were introduced in the Netherlands in the 1990s, based on the model of executive agencies in the United Kingdom. After its introduction, the agency model was further developed and adapted to the characteristics of Dutch government and culture. This section will discuss the Dutch agency model in more detail. Agencies are one way of ensuring that service delivery and therefore policy execution takes place at arm's length. Agencies are allowed to use an alternative financial management and administration system. FEZ will have to ensure it will be able to full its tasks regarding those agencies.

### **5.4.2 Organizational framework**

In the Netherlands, decision-making in matters concerning public service delivery takes place within the confines of a framework. This framework comprises a number of steps, the outcomes of which lead to the conclusion whether existing national government tasks can be placed at a greater distance from policy and if so, how this can be done. The first question in that framework is whether a particular task involves a collective interest. If not, then it is not reasonable for the government to take any responsibility and the task can be hived off. If there is a collective interest, then the government has a responsibility. The next question is whether the government should carry out this task itself. If this is not the case, and the task can be carried out by market parties, then privatization is the next step.

However, if the government should carry out the task itself, the next question is what tier of government should do so (the central government or lower tiers of government, like municipalities). If the task is one for the central government, the administrative organization is important. This leads to the question whether there are urgent reasons to transfer the administrative powers of the minister. This means deliberately limiting ministerial accountability.

If there is a reason to limit ministerial powers, then the task must be placed with an independent administrative organization (in Dutch: Zelfstandig Bestuursorgaan, ZBO). This is termed external autonomization, which is not the same as privatization. If the ministerial powers cannot be restricted but it is important that the executive tasks are placed at some distance from policy, the choice goes to service delivery by an agency or a more regular department for policy execution and service delivery.

### **5.4.3 Governance model**

The specific characteristics of the agency model are intended to create optimal conditions to promote result-oriented management. The goal of result-oriented management is to increase efficiency of the service delivery process. To achieve this, a specific governance model was developed in which different roles can be distinguished; the role of owner, the role of the principal (or in this case client) and the agent itself. The role of owner is in most cases assigned to the highest civil servant of a ministry, the secretary-general or his/her deputy. The owner has to secure the long-term viability of the agency. In practice this means that the owner assesses the financial position in the long run, including its investment and recruitment policy. FEZ is one of the departments of the ministry that supports the owner to fulfil this task. The role of principal is assigned to the policy directorates of a ministry, which order the agency to execute policy and mostly pay the agency for these activities. Finally the agency itself in the role of agent, which is the specialized organization to fulfil specific policy execution. In most cases, owner, principal and agency meet to talk about actual and future developments.

### **5.4.4 Financing and handling of the budget**

Dutch agencies have the possibility to use cash accounting or accrual accounting to fulfil their financial accountability and financial governance. In 2024, all agencies use accrual accounting.

The way agencies are presently financed was only introduced in 2000. Until then, both operational and investment expenditures were financed from the budget of the parent ministry. Three important changes were made to the financing and the asset management of agencies in January 2000. The first was the introduction of an internal loan and deposit facility. Agencies are obliged to conclude loans with the Ministry of Finance for investment expenditures. Only the Minister of Finance is allowed to borrow



directly on the capital market; agencies have no such option. Funds which an agency will not need in the near future can be placed on deposit with the Ministry of Finance, which pays interest on these deposits. The meaning of this is to encourage sound cash management by agencies and to improve the quality of their investment policy. The second important change was that, upon starting out, an agency first has to settle up with the parent ministry in respect of the holdings and liabilities to be acquired. The object of this is to give all agencies a fair and equal starting position. Past experience has shown that the negotiating power of the policy directorates was often too great, and that their deficits were passed on to agencies. This made it very difficult for agencies to work cost effectively and even led to a negative position in their internal capital. Investments that are thus acquired are financed by the loan facility. The effects of interest upon starting out are neutralized by the ministry in the form of corrections to the budget of the commissioning parties. The third change fixed the internal capital of agencies at a maximum of 5% of their volume of operations. Since the introduction of the loan facility, internal capital no longer serves in a financing capacity. The internal capital of an agency now only acts as a buffer in the sense that it can be used to compensate negative operating results on an incidental basis. Adequate pricing determines the development of the internal capital. Finally, the following can be remarked about the financing and handling of the budget. The agencies are covered by ministerial accountability. This means that the ministry's budget and annual report devote attention to their financial flows and statements.

Expenditures by the policy cores for the products and services of an agency are estimated on the items in the budget and accounted for in the annual report. In this respect, agencies do not differ from independent administrative bodies. Their budget and annual report also make up a separate part of the ministerial budget and annual report. These documents discuss the income and expenditure account, cash flows and balance positions. Attention is also given to the growing efficiency of agencies.

## 5.5 The role and task of the public controller within Dutch central government

*A development during the last decades*

The quality of the control function within the Dutch government is well known at the IMF and the OECD. Although it is always nice to receive a compliment, there remains a lot of work to be done to further professionalize the position of controller within the government.

This section first discusses developments in the financial function since the 1980s. This shows that the quality of the financial function has improved significantly, especially when it comes to financial administration, control of expenditure and accountability. New challenges for the controller have arisen, for example, a substantive need to deepen the controller's role but also a desire to reduce the accumulation of controls in the financial column.

### 5.5.1 What is the task of the public controller?

Within the central government, the public controller often works at the Inspectorate of the Budget, at the central FEZ directorates of the line ministries, as staff member of the directorates-general, at the policy directorates and at agencies and independent administrative bodies (ZBOs). The controller's tasks are

extensive: from maintaining (financial) administration, drawing up a budget, distributing budgets, monitoring and reporting on budget implementation to coordinating the accountability process. The public controller is also responsible for the department's planning and control cycle. Finally, the public controller also supervises agencies and ZBOs that are more distant from the department. Reduced to its core, financial control involves three tasks: legality, efficiency and effectiveness. The controller takes on different roles; the controller as administrator, the controller as manager of budgetary frameworks and the controller as a strategic thinker. The public controller therefore plays an important role in ensuring that taxpayers get value for their money.

### **5.5.2 The 1980s: improvement of financial administration and control**

In the late 1970s and early 1980s, government finances were not only out of balance, but also financial management was not on an acceptable level of quality. The Court of Audit noted in that times that the financial management of the departments showed major shortcomings. This conclusion led to the Government Accounts System Operation in the mid-1980s. The Operation concentrated on four issues:

- A good administrative organization to establish the link between financial commitments and cash expenditures;
- Fast and efficient provision of information between the Ministry of Finance and the line ministries and between the cabinet and parliament;
- An improved budget presentation leading to greater accessibility of the documents;
- More attention to accountability.

The Operation started in 1985 and took about 7 years, but it had results. The administrative organization improved substantial, an interdepartmental budgetary consultation system was introduced and financial registration which not only contains cash expenditure, but also financial commitments.

An important part of the Government Accounts System Operation was also to strengthen the financial function in the line ministries. Until then, the control function has largely been vested in the Inspectorate of the Budget of the Ministry of Finance. As a result of the Operation, FEZ-directorates were established in each department.

### **5.5.3 The 1990s: deepening the concept of tasks and decentralization**

#### **Deepening the view of tasks**

A new development in the 1990s was the introduction of commercial working and thinking. This means that, under the influence of New Public Management (NPM), government management will rely more heavily on businesslike instruments. Under the influence of this movement, developments were emerging such as the introduction of the results-oriented management model and, by extension, the introduction of the agency model. These innovations changed the role of the controller, which became more involved in management relationships and strategic choices.

A second development was that, in the wake of the Government Accounts System Operation, the renewal of the budget design and accountability continued. This last development is better known as "From Policy Budget to Policy Accountability", abbreviated VBTB. Although VBTB originally focused on increasing the accessibility of the budget, asking and answering the WWW questions ('What are our

goals, What must we do to reach them and What will this cost’) almost automatically led to more attention to the efficiency and effectiveness of policy. As a result, the controller is automatically drawn into the policy process. After all, the controller must form an opinion about the use of resources, the organization of the policy process and implementation and the results to be achieved, preferably in terms of social effects (the chain of input-throughput-output-outcome).

A third development that is in line with VBTB concerns the impact of all kinds of new insights, especially in microeconomics, in the operational design of policy. In general terms, this involves more attention to the operation of (financial) incentive structures. In the beginning, this mainly concerned social security, but these insights have gradually penetrated all areas of government policy.

### **Decentralization**

The financial function within Dutch central government - also in comparison with neighbouring countries - has been extensively decentralized as a result of, among other things, the Government Accounts System Operation and more business-oriented working and thinking. In the 1990s, many of the tasks of the FEZ directorates were decentralized to directorate controllers and to controllers of the executive services. Functionally, these controllers have a functional relationship with FEZ, but hierarchically they are positioned in the line organization. The positioning of the control function in the organization influences the role of the controller. A controller at a policy directorate is closer to the policy, while a controller of FEZ, under a Secretary General, can operate more independently (more countervailing power), provide more integrated advice due to the overview of all policy areas. Departments make different choices when considering central or decentralized positioning of the control function.

#### **5.5.4 Early 21st century: reducing regulatory and control pressure**

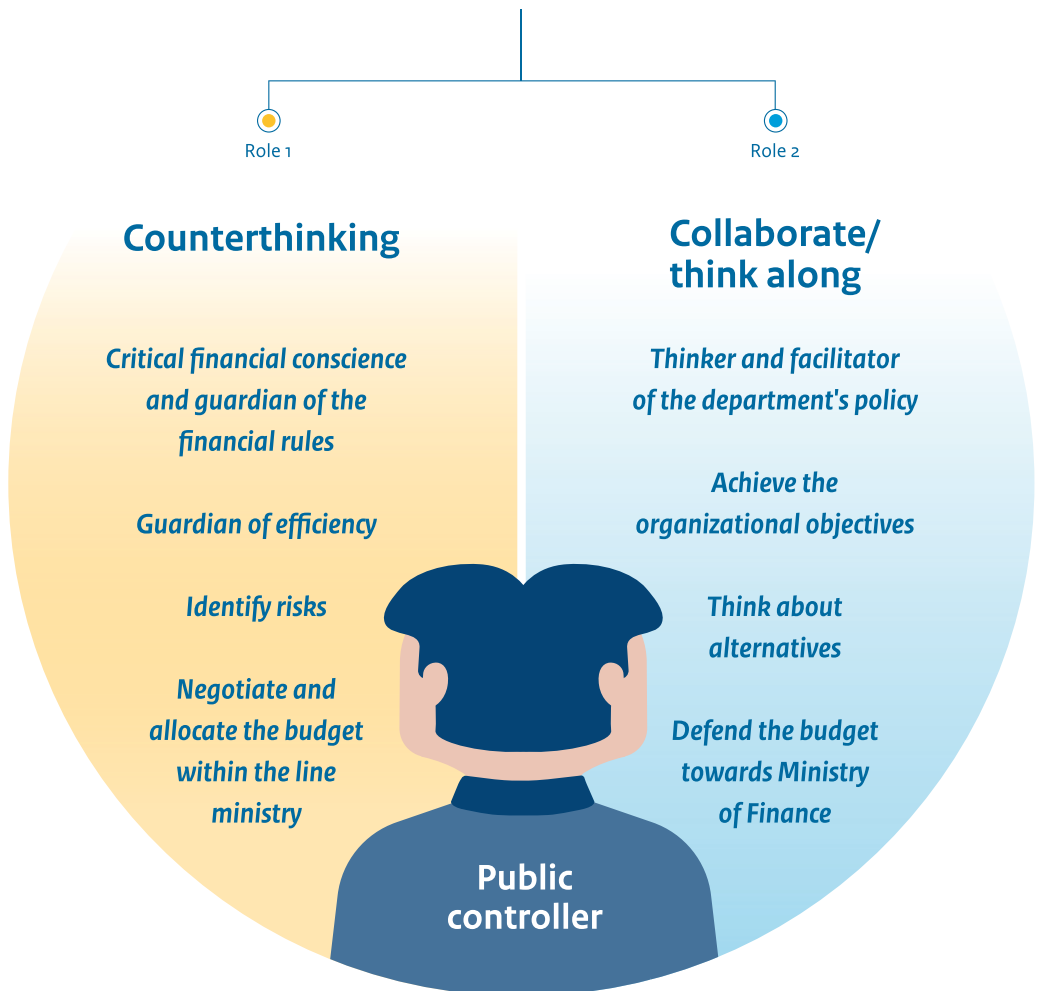
An Interdepartmental Policy Research (IBO, also known as spending review) on the burden of control regulations and the execution of control was already casting its shadow in 2004. The IBO concluded that there was no single cause for the regulatory and audit pressure. It concerned too many and too complex rules, too little use of risk management and the accumulation of controls. To relieve the pressure, efforts were being made to reduce (internal) rules and a stronger role for management itself, including through the application of risk management: “control for matters” for “risks that matter”.

#### **5.5.5 What does this mean for the public controller?**

The substantive role of the public controller requires thinking along at one moment and counter-thinking at other times. This double role is also characterized as that of a Janus head: after the two-faced Greek god. The two faces are that of a critical financial conscience and guardian of the financial rules and at the same time that of a thinker and facilitator of the department’s policy. In this role, the controller can easily get caught between loyalty to his own minister and the department on the one hand and conscience as the guardian of efficiency on the other.

A good controller is analytical, has thorough knowledge of micro-economics and business economics, is an independent thinker who can withstand pressure from higher up. But a public controller is also a networker who can operate administratively within a playing field with all different interests. A good controller defends positions towards the minister and department management and has a proactive and positive attitude. It requires a flexible person who can quickly switch between the co-role and the counter-role.

# The role of the public controller



In a more general sense, it can be said that the change within the position requires a more positive approach. Does that mean saying “Yes” more often? No. It means that simply saying “No” turns into a “No, unless ...” or a “Yes, provided ...”. This requires the controller to further elaborate the preconditions that you set as a controller, to be able to clearly identify risks and to map out the consequences of proposals. As the foregoing suggests, a controller must actively and creatively think about alternatives to be used instead of merely blocking proposals. Ultimately, you do not help the customer, a director-general or minister with such a result. By thinking actively and creatively, you can help manage the results, achieve the organizational objectives and thus provide added value as a public controller instead of being seen as an irrelevant mandatory number.

## 5.6 Recent and oncoming developments regarding FEZ and its environment

This section introduces some recent developments that each and every FEZ will have to deal with in the present and/or the upcoming years.

### 5.6.1 Transparency: spending reviews

With Interdepartmental Policy Research (IBOs), central government develops policy options for important policy areas. The government commissions IBOs and interdepartmental working groups carry them out. IBOs are official investigations that are carried out independently of politics.

### 5.6.2 Central government reporting system: suggestions for improvement

An evaluation of central government's reporting showed that the reporting system is functioning adequately, but also contains two proposals to improve the provision of information.

The first proposal concerns information (provision) in the field of (future) financial risks arising from ongoing legal procedures. The criteria for reporting these risks in the annual report are as follows:

- These risks are ongoing court cases;
- The claimed amount is 25 million euros or higher;
- The risks may only be disclosed if confidentiality permits;
- The risks may only be mentioned if this does not harm the State's negotiating position and legal position.

In addition, this proposal has been further elaborated in the context of the 2024 Government Budget Regulations.

The second proposal concerns the provision of information in the field of investment projects and assets, which is also included in the 2022 Annual Financial Report. The latter proposal is an alternative to a government-wide introduction of accrual accounting instead of cash accounting which is still used as the main reporting system of Dutch central government, except – as mentioned before – central government agencies which all use accrual accounting in 2024.

### 5.6.3 Taskforce 'Verbetering Financieel Beheer' (Financial Management Improvement Taskforce)

In 2022, the Minister of Finance established the Financial Management Improvement Taskforce (hereinafter: "the Taskforce"). The establishment of the Taskforce follows from the Minister of Finance's systemic responsibility to support the quality of financial management. Nevertheless, each minister is responsible for financial management in his own department.

On 29 September 2023, the House of Representatives received a detailed schedule of the Taskforce's action plan, including all actions that the Taskforce will take in 2023/2024. The Taskforce works along five lines, namely:

1. increasing the focus on financial management;
2. the screening of government-wide regulations;

3. accelerating the understanding of shortcomings;
4. strengthening expertise and information exchange.

The main activities and results of the Taskforce include:

- Continuing to draw the attention of the departments on the importance of sound financial management. As a result, the focus on financial management has grown within the departments.
- Analysing shortcomings in procurement management and tackling the causes. By analysing the bottlenecks, it becomes clear which solutions are possible. However, solving the problems within procurement management is complex due to complex legal prescriptions. However, by taking a collaborative approach, procurement management can be improved.
- The further development of a government-wide legality dashboard. The dashboard will be further developed in collaboration with the departments and should provide faster insight into the legality of a department's financial transactions.
- Embedding financial management in training courses.
- Developing a simulation on financial management. This simulation will help to prevent illegalities when policy choices are made.

## 5.7 Conclusion

The control function of Dutch central government is in a continuous state of development, depending on but also influencing new trends and insights in financial management, policy control and budget coordination. We will never be sure what the future will bring, but one thing is sure: it will develop into a continuous stream of renewing accounting and supervision based on fast developments in information technology.

# 6 Risk Management

By Jos Klink and Björn Teunen

*One of the management tools available to organizations of Dutch central government is risk management. This chapter describes this instrument, the way it can be applied, but also what problems we encounter when using it.*

## 6.1 Introduction

Like any other government organization, Dutch central government develops policies with the aim of bringing about social change. However, not only the development of policy but also its implementation rarely runs smoothly. Despite the fact that people work as rationally as possible by choosing the measures with the highest expected benefit or value, in practice the road to goals and results often turns out not to be without problems. Side effects of policies can frustrate intended results and sometimes achieve the opposite of what was initially intended. Risk awareness and an active attitude towards managing risks is therefore essential: what undesirable behaviour can policy evoke, what undesirable social effects can policy bring about and what problems can arise in implementation? It is therefore important to identify risks not only in policy development, but also in the implementation of policy. Risk inventory and the resulting risk analysis form the basis of risk management and control: *risk management*.

However, risk management does not guarantee success, but it does increase the chance that objectives will be achieved by applying targeted measures to avoid undesirable results, limit losses and seize opportunities.

## 6.2 Responsibility for Risk Management

Risk management is a responsibility of the entire organization, but of course it does not happen by itself. That is why, under the regulations of Dutch central government, a special task has been assigned to the Financial Economic Affairs Directorates (FEZ) of the ministries.

In this regard, the Decree 'FEZ van het Rijk' provides that the Financial Economic Affairs Directorate supervises the execution of departmental risk analyses. The explanatory note to the specific article in the Decree makes clear what this means, namely that *'FEZ ensures that line management periodically carries out departmental risk analyses by mapping out the risks and control measures. This is important to prevent possible incidents and to promote the success rate of change initiatives through more effective and efficient use of available resources.*

In addition, the Decree also gives FEZ the task of advising on the risk analysis. Within almost all departments, it is FEZ that develops various instruments with the aim of stimulating risk management; e.g. guidelines, manuals, leading taskforces, but also providing information about risk management through meetings with employees and managers, and organizing knowledge sharing.

## 6.3 Implementation of Risk Management<sup>18</sup>

Risk management starts with identifying the risks that threaten the objectives of the organization; *risk assessment*. This inventory should preferably be carried out by all departments of a ministry, programmes or projects. This prevents relevant risks from being overlooked. By aggregating the results of the inventories at the parent organizational level, the existence of risks and their extent for the organization as a whole becomes clearer. The outcome of the risk assessment is further shaped on the basis of the steps in the table below.

**Table 1** Steps in Risk management

Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7
What can go wrong? (Risk)	How do I signal if something is going wrong? (Causes)	What is the estimated probability in % that things will go wrong?	What are the consequences if things go wrong? (Impact)	Can we prevent it ourselves?	What can I do to prevent it? (Control-measure on the causes)	What can I do about it if things go wrong? (Consequence control measure)
Risk A						
Risk B						
Risk etc.						

### Step 1 What can go wrong?

For this step to be properly implemented, the objectives of the policy must be clear, but also what tasks or activities should be carried out to achieve them. The next question is ‘what can go wrong?’, either through one’s own actions or through external causes. If the achievement of an objective is in jeopardy, something goes wrong. The government is obliged to achieve its goals in a lawful, efficient, effective and honest manner. Summarized the question that needs to be answered, is:

*What can go wrong, and what is not yet sufficiently controlled so that our objectives are not achieved in a lawful, efficient, effective and honest manner?*

### Step 2: Causes

For all the risks to be worked out, the next step is to determine the causes for each individual risk. Sometimes it is possible to determine exactly what can cause a certain event. However, it can happen that the situation is complex or contains many uncertainties, so there are several possible causes. Then, for example, possible causes can be collected in a brainstorming session. The next step is to weigh the

<sup>18</sup> This section is an adapted summary from the Risk Management Handbook of the Ministry of Finance. The Hague, October 2023.



causes found against each other and decide which one seems most plausible. This cause or combination of causes is then chosen as the most likely cause of the risk.

#### *Step 3: Probability*

If the causes for the individual risks have been identified, the probability of their occurrence can be estimated. Estimating the probability of things going wrong can be defined as the occurrence of the event within, say, 10 years. If it will occur once every 10 years, or has occurred in the past, then the chance is 10%. If it occurs twice during 10 years, the chance is 20%. If it will occur one or more times a year, the chance is 100%. If it occurs once every 100 years, the chance is 1%.

The observation of one or more causes is often an important signal function for the occurrence of an event, or the risk. How often the causes occur determines the probability. This sounds obvious, but it takes a considerable effort to determine this in a reasonable way.

#### *Step 4: Impact*

For each individual risk, it must be determined (or estimated) what the direct and indirect consequences (effect or impact) are for the achievement of the objective(s) or the failure to perform a (legally) imposed task or obligation. If a risk has occurred earlier, the previously occurring effects can be used to estimate the consequences of the event. If there is no reference material, knowledge of the subject and the application of logic will go a long way.

#### *Step 5: Can we prevent the risk ourselves?*

It is important to know whether the occurrence of an individual risk can be prevented. It indicates that control measures can be implemented on the causes. The designation is to determine whether a risk occurs within or outside the department as a result of its own actions, whether it is a result of the actions of external parties over whom the department has influence, or whether a risk has another cause. In the first two situations, a risk can often be influenced, and in the latter case, a risk is virtually impossible to influence.

#### *Step 6: Control measures on the causes*

Once a risk and its causes have been clearly and completely described, it is necessary to investigate how the risk can be controlled. The first step is to see whether the risk can be prevented. For each individual risk, in the penultimate column, one can choose between three basic solution directions to prevent the occurrence of the risk, depending on the risk appetite of the organizational unit. These basic solutions are:

1. Reducing or preventing risks by identifying the causes in a timely manner and implementing preconceived control measures in a timely manner.
2. Expanding the ministry's sphere of influence through (statutory) supervision, enforcement, or by influencing the policy of other organizations or making new regulations.
3. Eliminate or exclude the risk by deprecating policies or activities that cause the risk or applying a lower-risk alternative. This is possible if the occurrence of the risk is deemed socially or financially unacceptable or if other control measures will be too costly and drastic for the Ministry.

#### *Step 7: Mitigation measures*

Finally, measures are planned or implemented to reduce or mitigate the consequences and impacts that arise after the occurrence of a risk.

## 6.4 Bottlenecks and Implementation

Although the technical implementation of risk management, as described in the previous section, is generally easy to follow for everyone, its implementation and use is more complex. Everyone agrees on the usefulness of the instrument, but its use requires time, energy and the will to actually use it. Several ministries experience the implementation as complicated. There are several explanations for this:

- a. *Solving acute problems*, with a strong emphasis on operational action rather than tactical and strategic action.
- b. The hectic pace of the political decision-making process, which is nowadays strongly dominated by acute social problems and issues, requires rapid operational action. Tactical and strategic issues are certainly discussed, but more in-depth analyses of the risks of the solutions are often lacking. The urgency of politics is therefore the motive for giving risk management a low priority, and that is a risk in itself.
- c. *Acting defensively* with a strong need to deny criticism and associated problems. In recent years, a development has become visible in which the attribution of blame for social problems that arise is becoming more and more commonplace. By emphasizing the concept of 'guilt', defensive behaviour is increasingly present in official action and therefore risk-denying action will be taken, which stands in the way of analysis and learning.
- d. *Not expressing criticism*. Risk management is a tool you can't oppose. This means that no-one will start a discussion on the usefulness of the instrument, even if they don't feel the need to use it.
- e. *Perfunctory performance of work*. The perfunctory execution of risk analyses (and then proceeding to the order of the day). This has a strong relationship with the previous point. If you can't be against the instrument, you (temporarily) cooperate in incidental actions to perform the instrument. However, there is no real support.
- f. *Denial of necessity*. This is often done by pointing out that the instrument has been around for a long time and has been applied ('it's in our heads'). Here, too, there is a strong link with point c) combined with the desire not to have to carry out new activities for the introduction of a new instrument. After all, the latter takes extra time and energy at the expense of the urgency of tackling acute problems referred to under a).

The importance of the instrument is quickly lost in a stream of good intentions or the hectic pace of everyday life. The implementation of risk management and execution is therefore not as easy as it seems to be.

The Ministry of Finance has, regarding its own risk management policy, opted for a so-called theme-based approach. This is an attempt to counteract the negative effects of institutionalizing the instrument. By 'institutionalizing' a new instrument, we mean that it is explicitly named as a new instrument within the organization and is further developed in special projects. As a separate institution, however, such an instrument can evoke various forms of resistance. Successful implementation, on the other hand, can be achieved by using risk management as part of already existing tools. For example, in the case of financial management instruments, where financial processes are also analysed for specific risks in the existing supervision. Another example is the policy document, which already prescribes fixed elements such as various scenarios, the financial consequences and the publicity consequences. In this case, management can encourage the use of risk management by always drawing attention to the possible risks associated

with policy proposals and implementation choices, and by including them in a specific risk section, when policy is made or renewed. This can be further strengthened by assigning employees specific tasks, e.g. by not giving some a task in the inventory of risks but by having them develop the policy proposal. At the same time, certain individuals may be tasked with explicitly identifying risks that could frustrate the implementation of the policy proposal (as well as the side effects of the proposals). By gradually making risk identification and analysis a part of the regular work, the chance of a successful intervention is perhaps greatest. In other words, the changes associated with the introduction of the new instrument will be minimized. In doing so, we want to create more support.

## 6.5 Future Development

Risk management in the Netherlands is still in development. The coming years will be marked by further growth and use of the risk management instrument. Issues of policy development and implementation will increasingly be seen in the context of digitalization, computerization and internationalization, but also aspects such as the human dimension, the rule of law and accessible government will be given a central place. Important developments where risk management should have continuous attention.

# 7 Evaluation framework

By Michel van Dalzen, Odette van de Riet, Tara Smid, Laurens Triesscheijn and Johan Vonk.

## 7.1 Introduction

In the Netherlands, policy evaluations are carried out in every stage of the policy cycle, from agenda-setting to ex-post evaluations. The essence of policy evaluations is to form an assessment of the implementation, effectiveness and efficiency of policy interventions: Does the government do the right things?<sup>19</sup> And does the government do these things well, in an effective and efficient manner? Since 1991, policy evaluations have been legally embedded in the Government Accounts Act.<sup>20</sup> Ministers are not just responsible for developing and executing policies, but also for monitoring and evaluating their effectiveness and efficiency.

As a result, policy evaluations are firmly established within the political-administrative landscape. More than a thousand policy evaluations are scheduled to be conducted in the period 2024-2030.<sup>21</sup> However, this systematic approach to policy evaluations forms a logistical challenge that demands structural effort and attention from all stakeholders.

### 7.1.1 The policy evaluation system in the Netherlands

Different instruments have been developed to support policy evaluations throughout the policy cycle. In this chapter, three of these instruments are highlighted: spending reviews (Interdepartementale Beleidsonderzoeken, IBOs), the Government Accounts Act 3.1 (Comptabiliteitswet art. 3.1, CW 3.1) with its “Policy Choices Explained” (Beleidskeuzes Uitgelegd) and the Strategic Evaluation Agenda (Strategische Evaluatie Agenda, SEA).<sup>22</sup>

- Spending reviews: Spending reviews generate policy options for political decision-making on important issues. These are commissioned by the cabinet, but are independently executed by an interministerial working group.
- Government Accounts Act 3.1: CW 3.1 safeguards the justification of proposals sent to parliament. Policy proposals include an explanation on the policy instruments, objectives, financial implications and expected effectiveness and efficiency. Substantial policy proposals also need to include how the proposal will be (monitored and) evaluated.
- Strategic Evaluation Agenda: The objective of the SEA is to contribute to and better understand the effectiveness and efficiency of policy interventions by programming ex-ante, ex-durante and ex-post evaluations to ensure that the right information is available at the right time. In the SEA, evaluations are clustered in themes around important social and budgetary policy areas. Every four to seven years, all insights based on the evaluations carried out concerning a specific policy theme are synthesized in a Periodic Review.

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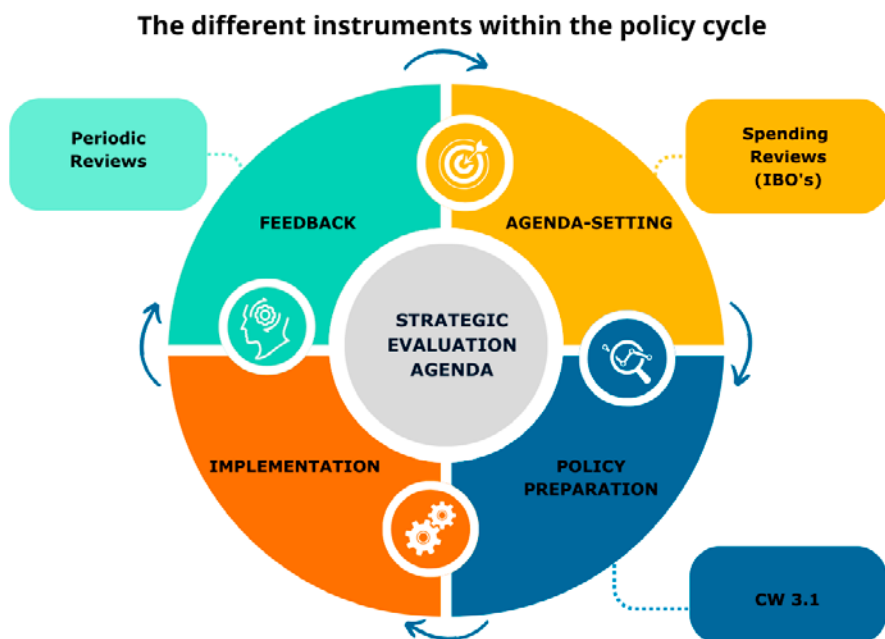
<sup>19</sup> Van der Knaap et al. (2023) explain the nature of policy evaluations as: “Policy evaluations have both a normative and an instrumental purpose within the policy cycle, namely to make statements about the (expected and proven) validity of a given policy theory based on systematic, methodologically sound research into the effects of these policies. It is about discovering which interventions can help or have actually helped to achieve a desired objective and with which instruments and means exactly those interventions should be deployed.”

<sup>20</sup> To be precise: [Government Accounts Act, article 4.1](#).

<sup>21</sup> In 2023 alone, more than 320 policy evaluations were successfully executed.

<sup>22</sup> The main instruments of the implementation phase are ex-durante evaluations and monitors. This chapter explicitly focuses on the distinctive instruments of the Dutch evaluation framework.

**Figure 1** The policy evaluation framework in the Netherlands, with the main instruments within the policy cycle.



### 7.1.2 Governance and consultative bodies

In the Netherlands, policy evaluations were grown from a budgetary root and are, therefore, embedded within the financial pillar, with a leading role for the Ministry of Finance. The overall oversight role lies with the Inspectorate of the Budget (Inspectie der Rijksfinanciën, IRF), part of the Ministry of Finance. The Inspectorate is responsible for setting and overseeing the framework of policy evaluations, and their continued development. The line ministries are responsible for the policy evaluations, coordinated (in most cases) by the Financial Economic Affairs Directorates (Financieel-Economische Zaken, FEZ).

There are several consultative bodies which promote policy evaluations within the ministries. These interministerial groups form a joint body for continued development of instruments and implementation, and compliance within line ministries. This inter-ministerial cooperation facilitates both formal decision-making and informal knowledge sharing.

- The Interdepartmental Policy Evaluation Platform (Interdepartementaal Beleidsevaluatie Platform, IBP), on the level of evaluation coordinators from the Financial Economic Affairs directorates.
- The Monitoring, Evaluating, Learning pool (Monitoren, Evalueren, Leren-pool, MEL pool), on the level of policy advisors.

### 7.1.3 Distinctive characteristics of the Dutch policy evaluation system

The Dutch policy evaluation framework is characterised by several distinctive elements:

- Policy evaluations are embedded within the financial pillar, with a supervisory role for the Ministry of Finance, and are decentralised, with the responsibility allocated to the line ministries and a coordinating role for the Financial Economic Affairs Directorates (see section 7.1.2 and 7.2).
- The evaluation framework is institutionalised within the civil service, and its operation and continuity is relatively autonomous from political leadership. Dutch spending reviews are particularly distinguished internationally because of their political independence.
- There is a high degree of transparency regarding policy evaluations, with disclosure to parliament and public integrated into the process. For example, due to the [Regulation Periodic Evaluation Research \(RPE\)](#),<sup>23</sup> it is mandatory to share the research design of Periodic Reviews with parliament in the year before the evaluation is conducted to allow for amendments. The RPE also requires that the finalised Periodic Review is sent to parliament, accompanied by a cabinet response and an evaluation of the quality of the evaluation by an independent expert (see section 7.4.2).
- Policy evaluations combine accountability with learning for the future, closely aligned with the existing knowledge gaps and leading to even more effective and efficient policies. “Policy Choices Explained” (see section 7.5) ensures that the thinking about evaluations is already part of the policy development phase. Moreover, the ‘strategic’ element of the Strategic Evaluation Agenda holds that evaluations are not only carried out ex-post but throughout the policy cycle, matching the insight needed at the time. Policy evaluations are not only carried out at the policy article or (financial) instrument level within each budget but also by policy theme. Since different instruments do have similar social goals (outcomes in the Logical Framework), it helps to consider effects as a whole.

### 7.1.4 Reading guide

In the next section, the historical path that has led to the current framework of policy evaluations in the Netherlands is briefly sketched. In section 7.3, the Dutch practice of developing alternatives to existing policy through spending reviews in the agenda-setting phase is explained. In section 7.4, the structure of the policy evaluation system in the Netherlands with the Strategic Evaluation Agenda and the role of Periodic Reviews is laid out. Section 7.5 details how and why the Government Accounts Act requires that all policy proposals that have to pass the House of Representatives include an explanation of goals pursued, policy instruments used, financial consequences, effectiveness, efficiency and intended evaluations. In the final section, a reflection is given on the major practical challenges with fully implementing the new policy evaluation system in the Netherlands, and the introduction of the latest instrument, the Policy Compass, which intends to integrate different ex-ante elements of policy development.

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<sup>23</sup> Regulation Periodic Evaluation Research (RPE), <https://wetten.overheid.nl/BWBR0046970/2022-07-27/0>

## 7.2 History of policy evaluations in the Netherlands

The practice of evaluating past decisions to learn from them and do better next time is as old as humanity itself. Evaluating policy specifically emerged with the advent of the rational-scientific worldview, during the Enlightenment. Fundamental is the underlying idea that men are not just subject to natural conditions, but can try to improve these conditions themselves. Policy and policy evaluations are thus strongly oriented towards solving societal problems.<sup>24</sup> The first modern policy evaluations are related to the maturing education, poverty, and development cooperation policies in the United States, led by President Lyndon B. Johnson's Great Society and the War on Poverty (term 1963-1969). Growing governmental spending called for the requirement to properly justify and evaluate this spending.<sup>25</sup>

The call for systematic policy evaluations in the Netherlands started from the 1970s onwards. This call originated in the rise of cost-benefit analyses in the economic and civil engineering domain. In the 1980s, the emphasis was on the affordability and controllability of public spending. A good example of this is the introduction of the spending reviews in 1981 - see the section "Spending reviews" (section 7.3). From the 1990s, this shifted to efficiency and effectiveness, in line with the New Public Management philosophy. With the call for effectiveness and efficiency, the importance of evaluation grew and an 'evaluation system' emerged in the Netherlands. In 1991, legislation was introduced to make evaluations part of every policy process.<sup>26</sup> The ministerial budgets have to provide insight into planned evaluations and the costs involved. In addition, ministers are responsible for the effectiveness and efficiency of policies. Finally, in 1994 a 'Reference Framework for Evaluation Instruments' was drawn up for the first time with quality requirements for evaluations.

From the early 2000s onward, a synthesis study had to connect the dots regarding the effectiveness and efficiency of every policy article of the national budget, based on the outcomes of individual evaluations, once every four to seven years. Although these evaluations were firmly rooted as the final step of the policy process, several evaluations of the evaluation framework concluded that many of the policy reviews were falling short of answering key questions about the effectiveness and efficiency.<sup>27</sup> The main issues were (1) a lack of sufficient data and evaluations for synthesis, (2) a heavy emphasis on accountability (ex-post focus) but insufficient recommendations for policy improvement, and (3) a mismatch with the policy cycle.

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<sup>24</sup> Rossi, P. H., M. W. Lipsey, & G. T. Henry, *Evaluation: A systematic approach*, Thousand Oaks, CA, SAGE Publications, 2019, p.2 and Van der Knaap, P., V. Pattyn, & D. Hanemaayer, *Beleidsevaluatie in theorie en praktijk: Het ontwerpen en uitvoeren van evaluatie- en rekenkameronderzoek*, Den Haag, Boom Bestuurskunde, 2023, p.18

<sup>25</sup> Van der Knaap, P., V. Pattyn, & D. Hanemaayer, *Beleidsevaluatie in theorie en praktijk: Het ontwerpen en uitvoeren van evaluatie- en rekenkameronderzoek*, Den Haag, Boom Bestuurskunde, 2023

<sup>26</sup> Houppermans, M., P. van Hoesel, & F. van Nispen, "De geschiedenis van beleidsonderzoek in Nederland," *Kennis voor beleid: Beleidsonderzoek in Nederland*, Assen, Koninklijke van Gorcum, 2014, p.15

<sup>27</sup> Ape, *Tussenevaluatie beleidsdoorlichtingen*, Ape rapport nr. 570, 2008; Algemene Rekenkamer, *Effectiviteitsonderzoek bij de rijksoverheid*, 2012; Algemene Rekenkamer, *Effectiviteitsonderzoek bij de rijksoverheid: vervolgonderzoek*, 2013; Algemene Rekenkamer, *Inzicht in publiek geld*, 2016; De Witte, N., C. Klein Haarhuis, R. Rouw, & O. van de Riet, *Strategic Evaluation Agendas: A case study from the Netherlands*, 2024

Between 2018 and 2021, the programme “Insight into Quality” (Operatie Inzicht in Kwaliteit, OIJK, also referred to as “the Operation”) was initiated to evaluate and reform the Dutch evaluation system. Three tasks were central to the programme: (1) strategic evaluation to gain more insight throughout the full policy cycle, (2) continuous improvement to make full use of insight for adjustment, and (3) learning together to gain and use more insight in cooperation.<sup>28</sup> The Operation reformed the evaluation landscape in the Netherlands and introduced new and adjusted regulations and evaluation instruments.<sup>29</sup> Firstly, the evaluation framework was revised, with the development of the Strategic Evaluation Agenda that intends to synergise all above-mentioned, three tasks (see section 7.4). The SEA has been phased in gradually, starting from 2021, and has been fully operational since 2024. Secondly, ex-ante evaluations and justification of policy proposals sent to parliament, with ‘Policy Choices Explained’, have been given a more important role (see sub-chapter ‘Policy choices explained’). Thirdly, the Public Value Scan (Publieke Waarde Scan, PWS) was launched as a completely new tool to find ways to increase the efficiency and effectiveness of the policies, inspired by the British example.<sup>30</sup> Finally, the Operation intended to further stimulate government-wide evaluation culture by launching new policy evaluation training programmes and making the Toolbox policy evaluations (Toolbox beleidsevaluaties) publicly available. Although the Operation is completed, the implementation is still a work in progress, as getting used to working with the new framework and tools takes time. The eventual success of the Operation hinges on the use of evaluations within political-administrative decision-making, which depends on continuous support by all stakeholders involved, from policy advisors to ministers.

## 7.3 Spending Reviews

### 7.3.1 Introduction

In the Netherlands, the tradition of spending reviews stems from the ‘comprehensive spending reviews’ (Brede Heroverwegingen) introduced in response to the 1973 oil crisis and subsequent recession. These comprehensive spending reviews aimed to fundamentally reconsider all policies and their related public expenditure.

In the 1980s, annual “ordinary” spending reviews for specific policy areas were introduced in addition to the occasional comprehensive spending review. The position of spending reviews was strengthened by the introduction of a new governance structure, which was codified in a list of ground rules (see text box 1). This development was assisted by a high degree of political interest.

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<sup>28</sup> De Witte, N., C. Klein Haarhus, R. Rouw, & O. van de Riet, *Strategic Evaluation Agendas: A case study from the Netherlands*, 2024; Rijksfinanciën, Operatie Inzicht in Kwaliteit, <https://www.rijksfinancien.nl/beleidsevaluatie/oijk>, 2024 (Retrieved on April 9, 2024).

<sup>29</sup> Klein Haarhus, C., “De Nederlandse operatie Inzicht in Kwaliteit (2017-2021),” *Vlaams Tijdschrift voor Overheidsmanagement (VTOM)*, 23-34,

<sup>30</sup> Barber, M., *Delivering better outcomes for citizens: practical steps for unlocking public value*, 2017, ISBN 978-1-912225-21-7



In the 1990s, when the need for large savings had declined, the focus of the reviews shifted from budget cuts to efficient management and doing “more with less.” This is when Dutch spending reviews acquired their current form.<sup>31</sup>

### 7.3.2 Key Characteristics

The current Dutch spending reviews are known as “IBOs” (Interdepartementale Beleidsonderzoeken), which translates to Interministerial Policy Research. These spending reviews include an analysis of current policies and their corresponding budgets. This analysis is used to develop a range of policy options across the political spectrum. Politicians can then choose from these options. There is no fixed number of annual spending reviews. In practice, there are about 3- 7 per year, and in total well over 300 spending reviews have been completed, on topics ranging from public transport to development aid.

The Dutch spending reviews are praised for their strong institutional integration and their independence, which are enshrined in the ground rules (see text box 1).

Dutch spending reviews is coordinated by the Ministry of Finance, but topic selection and the execution of spending reviews are done in close collaboration with the line ministries. The terms of reference are prepared by the Ministry of Finance and the most relevant line ministries. They are formally decided upon by the government and published in the yearly budget memorandum.

#### Box 1- Ground rules (selection)

The governance of spending reviews is codified in a list of ground rules, which are published in the annual budget memorandum. Below, a selection is presented.

##### *Independence*

One of the most important principles ensured by the ground rules is the independence of the spending reviews. One measure to ensure this independence is the independent chairperson. The independent chairperson is typically a high-ranking civil servant not responsible for the policy area under review. Additionally, members of the working group from the different line ministries participate independently. This means they operate without having to consult with or report to their line ministry.

##### *Separate government's response*

The non-political nature of the report is emphasized by the fact that it is published separately from a government's response. The separate government's response underscores the difference between the recommendations in the report and actual policy proposals inspired by the report. Both the report and the government's response are sent to parliament and made public.

<sup>31</sup> PEMPAL BCOP (2022), *Spending Review Practices in the Netherlands*. [https://www.pempal.org/sites/pempal/files/knowledge\\_public/2023-01-06/pempal\\_bcop\\_netherlands.pdf](https://www.pempal.org/sites/pempal/files/knowledge_public/2023-01-06/pempal_bcop_netherlands.pdf)

### *Non-veto principle*

Another rule that characterizes the Dutch practice is the ‘non-veto principle’. The non-veto principle entails that members of the working group cannot veto policy options brought in by other members. Instead, all information and options (together with their effects) are included in the report, in a balanced, factual and neutral manner.

### *Mandatory savings option*

Another important ground rule is the mandatory savings option. In principle, the policy options in an IBO are budget-neutral, but there is at least one savings option of 10 to 20 percent. The savings option forces the working group to develop creative solutions which do not necessarily follow the beaten tracks. If relevant and desired, the terms of reference can also include the development of a policy option which steps up the expenditure.

## **Box 2- Governance**

### *Secretariat*

The spending review report is written by the secretariat. The secretariat usually consists of four civil servants, two from the Ministry of Finance and two from the most relevant line ministry. There is no prescribed methodology for the underlying analysis; the approach is tailored to the topic at hand.

### *Working group with an independent chairperson*

The working group is composed of high-level civil servants of the Ministry of Finance and a number of line ministries, complemented by experts from public research institutes. The working group meets on average once every three weeks to discuss the drafts made by the secretariat and provide data and facts, and possible policy alternatives. The working group is chaired by an independent chairperson.

### *Official Committee for Spending Reviews*

The official completion of a spending review is marked by the approval of a steering committee, the Official Committee for Spending Reviews (Ambtelijke Commissie Heroverwegingen; ACH), which assesses whether the final spending review report conforms to the assignment set out in the terms of reference. The steering committee has members from different ministries, usually the directors of the knowledge directorates.

### *Cabinet response*

The approval by the steering committee is the last step before the report gets published and sent to the House of Representatives. This is followed by a cabinet response sent by the most relevant line ministry. At this point, the spending review becomes input for the political decision-making process.

### 7.3.3 Added value

Independence is a key success factor of the Dutch spending reviews because this contributes to their perceived legitimacy and their ultimate impact. This impact can materialize in various ways: spending reviews can both propose new policies as well as impact existing policies, by proposing adjustments or even the cancellation of some policy. These adjustments can be “no-regret” options, which are relatively straightforward to implement and do not involve significant trade-offs, or more politically sensitive options that require more elaborate political trade-offs. The latter type of options typically informs political decision-making in a later stage through their inclusion in election programmes of political parties and, subsequently, coalition agreements. Another moment when spending reviews can have an impact is during annual budget negotiations. Thus, there are different routes to impact and it may take a long time after publication before policy alternatives provided in spending reviews are implemented.

In order to monitor and extend the impact of spending reviews, the Ministry of Finance has recently resumed reporting on the implementation of policy options proposed in spending reviews in the annual budget memorandum and annual report. Previously the initial government’s response was the only exposure of spending review recommendations. Since the impact of spending reviews can take some time to materialize, this additional reporting helps return attention to the outcome of earlier spending reviews and the policy alternatives provided.

### 7.3.4 Challenges

A challenge for Dutch spending reviews is the selection of topics, since there is no fixed programme of policies to be reviewed. For example, the obligatory saving target may be met with some resistance when selecting topics, as according to the spending review ground rules, spending reviews present at least one savings option of 10 to 20 percent. It should be noted, however, that the careful preparation of the topic selection by civil servants ensures that the topics and terms of reference are widely supported once they are affirmed.

## 7.4 Strategic Evaluation Agenda: Stimulating the relevance of policy evaluations

The policy evaluation framework based around the Strategic Evaluation Agenda (SEA) has been gradually phased in, starting from 2021. In July 2022, the new [Regulation Periodic Evaluation Research \(RPE\)](#) was installed, laying out the (rules of the) new evaluation framework in the Netherlands. In 2024, the ministries were officially required to deliver an annual SEA, marking the end of the transition period that spanned the years 2022 and 2023.

### 7.4.1 Key characteristics

The SEA is a systematic planning of evaluations, in which (line) ministries schedule the type and scope of *ex-ante*, *ex-durante*, and *ex-post* evaluations per policy theme for a time horizon of four years. The SEA is published annually, as part of the ministerial budgets. The ‘strategic’ in SEA refers to the following. Firstly, evaluations should address the existing knowledge gaps at that point in the policy cycle – ‘which insights are needed to better understand (the working mechanics of) and improve the policy? Secondly, the timing of evaluations has to be aligned with the decision-making process – ‘getting the right insights at

the right time.’ Thirdly, policy should be improved based on the lessons learned. The identification of the knowledge gaps is based on an analysis of the current knowledge base, the underlying theory of change, the demand for insights from policymakers and parliament, and social development.

Every 4 to 7 years, the insights gained per policy theme have to be synthesized and reported to parliament in a Periodic Review. Periodic Reviews provide a review of the findings of relevant evaluation studies, an assessment on the overarching (conditions for) effectiveness and efficiency, recommendations for improving effectiveness and efficiency, and an analysis of any remaining knowledge gaps. The evaluation planning in the SEA ensure that sufficient evaluation studies are available to make a thorough assessment.

However, sometimes, it can be challenging to draw firm conclusions on effectiveness and efficiency. For example, because policies have not been in place long enough to observe effects yet, or because in some policy areas, it is difficult to examine effectiveness and efficiency directly. In these cases, the Periodic Review at least reveals the so-called ‘conditions for effective and efficient policy.’ With conditions for, the following questions have to answered:

- What is the foundation and reasoned substantiation of the policy theory? What assumptions are made about why the policy works? What are the objectives of the policy?
- What is known about how the policy theory works in practice? Are the assumptions about why the policy is effective correct? What signals are there that the policy is delivering, or not? Under what circumstances does the policy function?
- The coherence between policy instruments: Are the instruments complementary, overlapping, reinforcing, or conflicting?
- The design of policy implementation.

The House of Representatives is made part of this process. In the year prior to the start of the Periodic Review, ministries have to inform parliament about the proposed evaluation approach. When the Periodic Review is completed it is sent to parliament in combination with a reflection on the evaluation’s findings by the government and an assessment by an independent expert. In 2024, 18 Periodic Reviews have been pledged to parliament and more than 120 are scheduled for the years until 2030.

### **Box 3- Foundational principles of the Strategic Evaluation Agenda (SEA)**

Each line ministry constructs an annual SEA organised by coherent policy themes:

- An individual theme can be set for four to seven years. Annual updates are possible, as part of the yearly government budget process.
- The SEA is published, as a part of a ministry’s budget. The form requirements for the SEA are therefore included in the Government Budget Regulations (Rijksbegrotingsvoorschriften, RBV).
- Key ministerial stakeholders are involved in the process, including the top of the ministries.
- Evaluations target the entire policy cycle, from ex-ante, ex-durante to ex-post evaluations.

The SEA contains a summary of the knowledge gaps and an appropriate agenda for evaluation research per theme:

- A theme is larger than an individual policy instrument but smaller than the overall mission of a ministry.
- These themes are defined to be closely aligned with societal, parliamentary and budgetary policy issues;
- For each theme, the connection to the national budget is made transparent in terms of the relevant (sub-)articles. The themes on the SEA together cover all annual financial resources.

Once every 4 to 7 years, the total insights gained are gathered per theme using a Periodic Review.

- The research proposal of a Periodic Review is sent to the House of Representatives in the year before evaluation. The House can make amendments to the proposal.
- The finished Periodic Review is presented to the House of Representatives, together with a reaction of the responsible Minister on behalf of the government and an evaluation of the quality of the evaluation by an independent expert.

#### 7.4.2 Added value

The SEA is an instrument to increase the relevance and utility of policy evaluations for evidence-informed policymaking. It is a tool for initiating discussions with relevant stakeholders on what evidence is needed in the policymaking process and bridging the gap between evaluation and policymaking. Moreover, the instrument aims to enable line ministries to plan evaluations more ‘strategically’ during the policy cycle, by aligning them with the knowledge gap, and by shifting the focus from accountability to learning. Along the same line, the SEA allows for tailored evaluations to further increase the learning potential for line ministries and to do away with the idea of evaluations as merely a ‘mandatory box-checking assignment.’

#### 7.4.3 Challenges

The first experiences with the SEA were predominantly positive, but it is also still a work in progress.<sup>32</sup> Ministries recognise the added value of the SEA for policymaking. A mandatory SEA strengthens the ministerial processes that, as a whole, shape the evaluation function. It stimulates line ministries to take a more strategic and anticipatory approach to planning evaluations and helps foster an internal learning culture. There is more focus on structured planning, strategic themes and demand-driven evaluations. The line ministries particularly value the possibility of customisation and the emphasis on learning rather than accountability. They also recognise the importance of the interdepartmental consultative bodies (see section 7.1.2) to align and learn from each other.

Since 2021, gradual progress has been made in implementing the way of working of the SEA throughout line ministries.<sup>33</sup> A major lesson is that realising the intended outcome of the SEA requires a tailored approach per ministry and policy area. Most ministries have been able to choose themes that are well-aligned with their policy priorities and budget articles. However, for some ministries, adequately choosing themes and formulating the existing knowledge gaps is a process that will take several rounds. Similarly, making the SEA really strategic, in terms of the timing of evaluations, requires some more practice. The SEA also does not

<sup>32</sup> Berenschot, *De eerste ervaringen met de Strategische Evaluatie Agenda: Nulmeting, good practises en leerpunten*, 2022

<sup>33</sup> Berenschot, *De eerste ervaringen met de Strategische Evaluatie Agenda: Nulmeting, good practises en leerpunten*, 2022

play a major role in the dynamics between the government and parliament yet, but several stakeholders are putting effort into this exercise. For example, in 2024, the Parliamentary Commission Government Spending (Commissie voor de Rijksuitgaven, CRU) has filed requests to parliament, the Court of Audit, and the Ministry of Finance to (1) increase understanding of implemented and planned evaluations, (2) strengthen parliament's role in (monitoring) evaluations, and (3) improve the functioning of the evaluation system.<sup>34</sup> Moreover, as the first generation of Periodic Reviews is finding its way to parliament, members of parliament will get more familiar with the SEA bit by bit.

Therefore, the SEA needs to be accompanied by dedicated resources for evaluation and ownership from policymakers for not only funding evaluations but also for using them to inform the policymaking process. Policymakers need to move from seeing evaluation as a separate function to viewing it as part of the policymaking process. Thus, consistent efforts are needed to ensure the relevance and use of evaluations to support evidence-informed policymaking. See also De Witte, N., C. Klein Haarhuis, R. Rouw, & O. van de Riet, *Strategic Evaluation Agendas: A case study from the Netherlands*, 2024

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<sup>34</sup> The actors involved are currently working on these requests, this is work in progress.

## 7.5 ‘Policy Choices Explained’

The main objective of article 3.1 of the Government Accounts Act is to provide sound information and reasoning for budget allocation decisions and to justify policy decisions with budgetary consequences in a standardized manner. For new policy proposals with financial consequences exceeding 20 million euros in any given year a standard format is used to summarize the requirements from article 3.1 Government Accounts Act. This format is named ‘Policy Choices Explained’ (Beleidskeuzes Uitgelegd).

### 7.5.1 Origins

Ministries must facilitate scrutiny by parliament and public in each phase of the policy cycle. This requires not only reporting on results achieved and expenditures made in the past (*ex-post*), but also transparently stating and justifying policy choices going forward (*ex-ante*). Key to this from the financial perspective is to make future allocation of funds transparent, explain what effect policy proposals are expected to produce, and why the policy proposals are the most effective and efficient way of utilizing tax payers’ money to achieve certain objectives. To this end, since 2016 an article has been included in the Government Accounts Act demanding ministries to accompany each policy proposal to be discussed in cabinet or parliament to include explanations of:

- a. *objectives, effectiveness and efficiency being pursued;*
- b. *policy instruments being utilized;*
- c. *financial consequences to the state and, if possible, financial consequences for other public and semi-public actors.*<sup>35</sup>

In 2018, parliament passed a motion adding the additional demand that proposals also explain how their success will be evaluated.<sup>36</sup>

### 7.5.2 Key characteristics

To increase visibility of these aspects of the policy proposal – and to make it easier to scrutinize compliance – it is government policy that all proposals with financial consequences exceeding 20 million euros in any given year use a standard format to summarize all required explanations in a single table of six sections (see Figure 2). This format has been labelled ‘Policy Choices Explained.’ The table is included in letters sent to parliament or attached to bills being put forward.

**Figure 2** Policy choices explained

<b>1. Pursued objectives</b>	What objectives are being pursued with the proposed policy?
<b>2. Policy instruments</b>	What policy instruments are being utilized to accomplish these objectives?
<b>3a. Financial repercussions for the state</b>	What financial repercussions are there (positive and negative) for the state?
<b>3b. Financial repercussions for other public or semi-public sectors</b>	What financial repercussions are there (positive and negative) for other public or semi-public sectors (local government, healthcare, education, etc.)

<sup>35</sup> *Comptabiliteitswet 2016*, <https://wetten.overheid.nl/BWBR0039429/2023-09-26>

<sup>36</sup> *Kamerstukken II, 2016–2017, 34 725, nr. 8.*

<b>4. Effectiveness</b>	In what way and to what extent are utilized policy instruments expected to contribute to the pursued policy objectives?
<b>5. Efficiency</b>	Why are the utilized policy instruments the most efficient way to accomplish the pursued objectives?
<b>6. Evaluation</b>	Will the policy be monitored and evaluated, and if so, how?

### 7.5.3 Added value

The evaluation of the Government Accounts Act<sup>37</sup> found that civil servants and members of parliament alike agree that this practice facilitates the efficient allocation of public funds, and that it makes *ex-post* evaluation of policy success easier. After all, when clear objectives and expected effects have been stated in advance, they provide a basis for determining criteria of success.

### 7.5.4 Challenges

As with each policy, 'Policy Choices Explained' faces some challenges towards realizing its full potential. For example, following the Policy Choices Explained-framework is not always prioritized by civil servants in the, often hectic, policy-making process. This results in parliament not always receiving the required 'Policy Choices Explained'-table. Furthermore, it can be complex for civil servants to provide the required information as clear objectives, an elaboration on effectiveness and efficiency, and evaluations are not always explicitly part of the policy process and political decision-making. This can complicate finding substantive arguments to explain a policy proposal. How decisions like these can be substantiated in the 'Policy Choices Explained' framework is a matter requiring further thought and is work in progress. Currently, the focus is on providing information for political deliberation. Maturing of the practice will reveal whether the requirement's focus on effectiveness and efficiency has reverberating effects towards the earlier stages of the policy-making process.

## 7.6 Conclusion

### *The value of the Dutch system and the road ahead*

The previous sections described the three instruments that form the backbone of the Dutch evaluation system: Strategic Evaluation Agendas, spending reviews and Policy Choices Explained. What facilitates the uptake of evidence from evaluations in the policy-making process is that the Netherlands recently introduced a government-wide framework for policymaking: the Policy Compass (Beleidskompas).

<sup>37</sup> Attachment to Kamerstukken II 2022/23, 31 865, nr. 230.



#### Box 4- Policy Compass

The Policy Compass is the central method for policymaking within the central government in the Netherlands. It focuses on the development of new policies (including new laws and regulations) and

policy revisions at the national level. It contains everything that is essential for good policy preparation. The Policy Compass offers a structure for policy development in five steps:

1. What is the problem?
2. What is the policy goal?
3. What are the policy options?
4. What are the likely impacts of policy options?
5. What is the preferred option?

Each step is accompanied by an assessment of the stakeholders to be involved. For each step the Policy Compass provides practical guidelines, best practices and details of contact persons who can help.<sup>38</sup>

With all these instruments the Dutch system is considered to be mature. According to a recent EU Joint Research Centre report<sup>39</sup> the system in the Netherlands functions on quite a high level. Important enabling structures, conditions, and competencies seem to be overall in place.

Nevertheless, there are still some challenges. Although the importance of evaluations seems uncontested, it is not self-evident that the outcome of evaluations are used for policymaking purposes. This is not only related to the (political) nature of policymaking processes, but also to the nature of evaluation systems. Existing evaluation systems have often emerged for accountability reasons, and the evaluation practices they generate are not necessarily designed for learning and improving policymaking. There is a fear of being held accountable for failure while learning and adjusting policies require accepting trial and error as indispensable.<sup>40</sup> In short, evaluations are often perceived as mere accountability exercises, which pose the risk of missing opportunities to learn and improve policies where needed.

Key actors in the central government in the Netherlands are now exploring how learning could be made a more integral part of accountability practices. For example, by including questions about how the policy was improved based on the outcomes of evaluations (or other types of evidence).

<sup>38</sup> <https://www.beleidskompas.nl/>

<sup>39</sup> Joint Research Centre (JRC) (2024), *Building Capacity for evidence-informed policymaking in governance and public administration in a post-pandemic Europe; Country analysis, policy recommendations & implementation roadmap. The Netherlands.*, European Commission.

<sup>40</sup> De Witte, N., C. Klein Haarhuis, R. Rouw, & O. van de Riet (2024), *Strategic Evaluation Agendas: A case study from the Netherlands.*

# 8 Internal Audit

By Rodney Betorina and Manfred van Kesteren

## 8.1 Introduction

This chapter highlights the roles and tasks of the Central Government Audit Service (CGAS), which serves as the internal audit function in the Netherlands public sector. The first section sets out the broader government structure of risk management and internal governance and the position of the CGAS in this structure. The next section underlines the institutional setup and the development of the audit function over the years. In the sections that follow, risk management from the perspective of the auditor and the audit disciplines within the CGAS are elaborated on. Finally, the new developments as a means of continuous innovation are highlighted, because in the audit profession, standing still means going backwards!

## 8.2 Governance Structure: Set-up of the Three Lines in Central Government

### **The three lines model in Central Government in The Netherlands**

The 3 lines model is defined by the Institute of Internal Auditors (IIA) and based on the idea that the three lines must cooperate to provide an effective and efficient structure for risk management and internal governance in an organisation. The model clearly defines the roles of management (first line) the supportive functions for management regarding Governance, Risk and Control (second line), the role of internal audit as independent assurance provider (third line) and finally the role of the Audit Committee as Governing Body (in the context of a governmental setting).

### **The responsibilities of the 3 lines are in general the following:**

#### *First line (Management):*

- The realization of the organizational strategy and the objectives derived from it.
- Good management and control of the organisation.
- Managing the risks associated with business operations.
- The completeness and reliability of the accounting information.
- Responsible for adequate internal control within the realm of its responsibilities.

#### *Second line (Control):*

- Supports the first line in identifying and monitoring risks.
- Develops systems for process management, planning & control and processing of information.
- Communication and reporting, to support the first line.
- Acts as a collective of “architects” for shaping the structure, systems and procedures required to design and operate strategic, tactical and operational processes.

#### *Third line (Internal Audit):*

- Provides senior management with additional assurance about the quality of management and control and is therefore not directly responsible for the quality of the internal control of the organisation.
- Is responsible for the extent to which it can analyse and make visible the inconsistencies in the design and existence of the control frameworks.

In the Dutch central government context, the role of the first line is fulfilled by the Director-Generals (and in their respective Directorates by Directors/Head of Departments) in the Ministries. Whereas the second line role is executed by the Financial Economic Affairs Directorate (FEZ), being present in every Ministry in the Netherlands. The independent assurance of the third line is provided by the Central Government Audit Service (CGAS), the independent audit function centralized under the (Secretary General of the) Ministry of Finance. The role of the Governing Body is executed by the Executive Board (Secretary General and Director Generals) and the (obligatory) Audit Committee (AC), being the Executive Board and external members. The AC has an oversight role regarding the most important Governance, Risk and Control issues in the Ministry. The Netherlands Court of Audit, not being part of the 3 lines, is the external auditor and assurance provider for the Dutch parliament.

The accounting/reporting, delegation/oversight and the coordination/collaboration between the 3 lines is very important for the effective functioning of the Governance, Risk and Control structures within a Ministry.

For this chapter the focus will be on the third line, the CGAS. The role and tasks of this department are described in the Task Decree CGAS<sup>41</sup> and the Audit Charter of CGAS.

#### **Financial Inspection**

In some countries a financial inspection is (still) present, as an ex-post activity for controlling the regularity of transactions and other activities with financial consequences performed within the entities in which the inspection takes place. In the Netherlands such a financial inspection is not established, due to the reliance of the proper functioning of the internal control system, the first and second line, and the third line as assurance provider. A separate financial inspection would not add value from the perspective of effectiveness and efficiency. In some countries there could still be a need for a separate financial inspection complementary to internal audit. If so, it is very important that there are safeguards in the system that the financial inspection does not hamper the development of internal audit by carrying out internal audit activities by nature, as also described by SIGMA in their Policy Brief "Guidelines for PIFC-compliant financial inspection"<sup>42</sup>. In this context, it is important to mention that, according to these guidelines, financial inspection should only be an ex-post, compliance-related control activity with the focus on individual cases and specific financial transactions.

#### **Netherlands Court of Audit**

The Netherlands Court of Audit (see also Chapter 9) fulfils the role of external auditor and checks whether the Dutch central government spends public funds economically, efficiently and effectively and in a legal and regular way meaning in compliance with rules and regulations. The statutory task is to audit the revenue and expenditure of central government. The Court reports on their work once a year to parliament on

<sup>41</sup> Besluit van 19 juni 2018, nr. 2017001795, houdende regels over de Auditdienst Rijk (Besluit Auditdienst Rijk)

<sup>42</sup> SIGMA Policy brief: Guidelines for PIFC-compliant financial inspection; Guidance for SIGMA partners. March 2023

Accountability Day (the third Wednesday in May). Parliament can use the audit opinion of the Court to grant the government discharge, thus releasing it from responsibility for its implementation of policy. Also, separate reports are sent to parliament so that its members can decide on the effectiveness of each minister's actions during the previous year.

For the statutory task the Court relies on the (financial) audit work of the CGAS, agreeing on the work of the CGAS to be carried out and thoroughly reviewing the planning, fieldwork and reporting phase.

To address the feedback from an international peer review on the audit work of the Court, several strategies are currently being explored to enhance overall accountability and audit governance.

The peer review highlighted the strengths of the Court, including its broad mandate, skilled staff, and innovative audit methods, while also providing valuable recommendations for improvement. Key among these recommendations was the need for the Court to increase its financial audit work and risk assessments to safeguard its independence and fulfil its mandate effectively.

### 8.3 The Third Line: Introduction to the Central Government Audit Service (CGAS)

Internal auditing in the public sector of the Netherlands has undergone significant evolution, reflecting broader changes in governance and accountability. Historically, the roots of internal auditing in the Dutch public administration can be traced back to the early 20<sup>th</sup> century, with a focus on financial oversight and compliance. Over the years, the scope and function of internal auditing have expanded considerably. In the latter half of the 20<sup>th</sup> century, the introduction of new public management principles emphasized efficiency, effectiveness, and risk management, transforming internal auditing into a vital tool for organizational improvement and transparency. Recent developments have further integrated modern technologies and data analytics into auditing practices, enhancing the ability to provide insightful and timely assessments. Today, internal auditing in the Netherlands' public sector is characterized by a proactive approach, aligning closely with international standards and best practices to ensure robust governance and public accountability. This chapter covers the contemporary set-up, governance, and key focus-points and developments of public sector internal auditing in the Netherlands.

#### Box 1 - Mission of the CGAS:

The CGAS is the independent internal auditor of the Dutch government and the Audit Authority in the Netherlands for the European Commission. The professionals at the CGAS actively contribute to the quality of the Dutch government by conducting research on governance, control, and accountability. To enable this, the CGAS is organized closely to the client and administratively positioned under the Ministry of Finance. In its judgment, the CGAS is independent to all ministries.

### Institutional set-up of the internal audit function

The internal audit function in the public administration of the Netherlands is executed by the Central Government Audit Service (CGAS). The CGAS is the internal auditor for all ministries and subordinated agencies, inspectorates etc. Local government bodies are not covered by the CGAS. The 'C' in CGAS is somewhat deceiving since it might trigger the impression that the internal audit function is not embedded in the deconcentrated public sector bodies and therefore functions on a distance from the management it serves. The contrary is the case. The CGAS has deconcentrated units in virtually all sizeable central government bodies and has direct reporting lines with management and the Audit Committees within those entities. However, all CGAS internal auditors, as well as staff functions and management, are hierarchically part of the Ministry of Finance. Hence, the Central Government Audit Service.

## Central Government Audit Service (CGAS)



### *In the early 20th century*

A focus on financial oversight and compliance.



### *In the latter half of the 20th century*

The introduction of new public management principles emphasized efficiency, effectiveness, and risk management, transforming internal auditing into a vital tool for organizational improvement and transparency.



### **Recent**

- Integrated modern technologies and data analytics into auditing practices, enhancing the ability to provide insightful and timely assessments.
- Proactive approach, aligning closely with international standards and best practices to ensure robust governance and public accountability.
- Comprehensive approach that also emphasized: performance, the efficient and effective use of funds and resources, and an expanded attention to IT risks.

### **A brief history of the pathway towards the CGAS**

The journey towards the current structure of the CGAS began in the 1980s and 1990s, a period marked by the broadening of the audit function due to the influence of new public management principles. This era saw a shift from a sole focus on financial discipline and compliance to a more comprehensive approach that also emphasized performance, the efficient and effective use of funds and resources, and an expanded attention to IT risks. This evolution aimed to enhance accountability and governance within the public sector. The internal audit function in the Netherlands incorporated the broader comprehensive approach into its assurance and advisory activities. However, it did so in a fragmented way in which every individual internal audit unit embarked on its own path.

By the early 2000s, there was a growing tendency to streamline the government apparatus to boost efficiency and effectiveness. This period saw significant government initiatives aimed at integrating shared services across various government processes. One key initiative targeted the internal audit function, striving for a more efficient and effective system by combining forces across different entities. This consolidation was intended to increase efficiency, unify approaches, address cross-governmental risks, and improve coordination and planning.

The culmination of these efforts occurred in 2012/2013 when all central government bodies merged into the CGAS, forming a unified internal audit service. Today, the CGAS consists of a team of roughly 600 internal auditors and supportive staff who work together to maintain high standards of governance and accountability across the central government. The key roles and tasks of the CGAS are described in the Government Accounts Act, which serves as the Organic Budget Law of the Netherlands.

### **The CGAS at the end of the first quarter of the 21<sup>st</sup> century**

The CGAS nowadays conducts several types of audits to ensure comprehensive oversight and accountability within the central government. These include financial and compliance audits, which are performed annually to provide an audit opinion on the financial statements and adherence to relevant laws and regulations. Additionally, the CGAS undertakes audits on demand, conducted at the request of management to address specific concerns or areas of interest, resulting in detailed reports to inform decision-making. Furthermore, the CGAS performs audits for the European Union, ensuring that the use of EU funds complies with stipulated regulations and guidelines. To address specific audit needs, the CGAS has several in-house specialisms, including IT audit, operational audit, financial audit and the auditing of EU-funds, allowing it to effectively handle a diverse range of auditing challenges. The in-house specialisms are partially pooled in centralized units, making it easier to allocate these specific knowledge areas where these needs might appear throughout the public sector.

As mentioned, the CGAS operates through deconcentrated units embedded within each central government body, enabling it to stay closely aligned with managerial audit needs. This structure ensures that the CGAS remains responsive and attuned to the specific requirements of each entity. Audit needs are gathered through comprehensive risk analyses and in-depth risk dialogues with management, resulting in a tailored annual audit plan for the CGAS. This annual plan not only outlines audit and resource planning for each central government body but also incorporates a government-wide risk analysis. This analysis highlights thematic risk areas that require special attention in the upcoming reporting period, ensuring that the CGAS addresses both entity-specific and broader governmental risks with foresight.

### **(Semi-)centralization while maintaining client focus: valuable lessons can be drawn from the Dutch case.**

The establishment of a (semi-)centralized internal audit function with decentralized client relations has significantly enhanced the overall effectiveness of internal auditing in the Dutch public sector. This approach has led to substantial efficiency gains, as resources are overall better allocated, and specialized knowledge is readily available across different entities. Additionally, the (semi-)centralized structure offers employees more diverse career opportunities, allowing them to work in various environments within the public sector and periodically rotate to different assignments, fostering professional growth and skill development.

However, when countries decide to move towards (semi-)centralized internal audit solutions, it might lead to some perceived negative effects. The large size of the organization can sometimes result in bureaucracy, planning challenges and slower decision-making processes, potentially reducing the agility and responsiveness of internal audit teams. There can also be a sense of detachment or lack of focus on individual employees, which may affect morale and engagement. Furthermore, centralized structures may lead to a one-size-fits-all approach, which can overlook the unique needs and risks of specific entities within the public sector. In the perception of managers, it can feel that the internal auditors are more at a distance, which might impact the immediacy and effectiveness of interactions. This perception can lead to initial resistance from managers who might feel that their internal audit department is becoming more distanced and less attuned to their specific needs and challenges.

Despite these challenges, in the Netherlands, these potential side effects were largely managed effectively. This is achieved through a process of trial and error, as solutions were refined and improved along the way. By maintaining robust communication channels and ensuring that decentralized client relations are prioritized, the potential for bureaucracy was mitigated. Regular feedback mechanisms and employee engagement initiatives helped address any feelings of detachment or lack of focus on individual employee's needs. Tailoring audit approaches to the specific contexts of different entities ensured that the unique risks and requirements were adequately addressed. Addressing managerial concerns through regular dialogue and demonstrating the tangible benefits of a (semi-)centralized structure helped alleviate initial resistance and foster a more collaborative environment.

The streamlined operations and cohesive strategy have strengthened the internal audit function, ensuring more consistent and thorough oversight. The Dutch experience with its specific internal audit structure provides valuable lessons for other countries seeking to enhance the efficiency and effectiveness of their internal audit capacity within central government. The balance between centralization for efficiency and decentralization for client-focused service has proven to be a successful model worthy of consideration. Finally, it is important to mention that the (level of) centralization of the internal audit function in any country has to be well coordinated with the set-up of the first- and second-line functions to come to a tailor-made approach from the perspective of effectiveness and efficiency of the internal audit function.

## 8.4 Risk Analysis: Basis for the CGAS Audit Planning and Core Activities

The CGAS of the Netherlands leverages a comprehensive risk analysis framework to ensure its audit activities and audit priorities are aligned with the key risks faced by the ministries it serves. This alignment occurs through a multi-tiered approach encompassing the planning process, individual audit assignments, and efforts to enhance risk awareness throughout the public sector.

### **Risk Analysis as a Basis to Set the Priorities for Internal Audit planning.**

For planning purposes, the Central Government Audit Service (CGAS) allocates its resources into three main categories: fixed demand, variable demand, and auditing of EU funds.

- **Fixed Demand:** This primarily includes statutory tasks and routine audits that the CGAS is required to perform by law.
- **Variable Demand:** These are audits based on specific requests from management and are tailored to address emerging risks or managerial needs.
- **EU Funds Auditing:** This category focuses on auditing the use of funds provided by the European Union, where the CGAS operates as the designated Audit Authority.

For each of these categories, as well as for the respective clients (ministries, agencies, etc.), the CGAS allocates audit capacity in terms of ‘audit hours’. Planning for the variable demand category requires particularly close alignment with ongoing risk analyses and the specific needs of management to ensure that audit activities are both relevant and timely.

Each summer and autumn, the CGAS engages in thorough discussions with each Ministry’s management to identify significant risks and outline the necessary audits for the upcoming year. This process is enriched by incorporating risk information from second-line functions, such as Financial Economic Affairs Directorates (FEZ), and historical audit data from both internal and external sources, providing a comprehensive picture for the risk analysis. With available resources in mind, the CGAS develops a proposal for each Ministry’s Audit Committee, which then sets the audit priorities. By November or December, these Committees finalize and approve the Ministry’s audit plans, which are subsequently presented to the highest levels of management. The annual internal audit plan of the CGAS outlines the audits to be performed in general terms, allowing for adjustments with management throughout the year. This flexibility not only ensures responsiveness to emerging risks but also contributes to the development of a multi-annual perspective, enhancing strategic planning and resource allocation.

Simultaneously, the CGAS compiles a state-level risk analysis, identifying critical topics and overarching risks. This comprehensive document, alongside the Ministry-specific risk analyses and audit priorities, forms the overall annual audit plan. This plan is reviewed and discussed in December by senior management representatives from all ministries, ensuring a cohesive and comprehensive approach to risk management and audit planning.

### **Continuous Improvement and Technological Advancements**

Given the CGAS’s extensive scope, continuous attention to planning is essential. In 2024, significant initiatives were launched to enhance the planning function by utilizing advanced IT solutions and centralizing the planning process. Additionally, the risk analysis for the fixed demand category was



bolstered by integrating IT tools and comprehensive data analytics techniques, enabling more effective prioritization of audit focus within statutory tasks. The risk dialogue with managers is pivotal for setting internal audit priorities, facilitated by the CGAS's organizational structure, which includes account managers maintaining close connections with management and Audit Committees. This structured process ensures that the CGAS delivers precise, impactful audit services while fostering a proactive risk management culture within the public sector.

### **Risk analysis in single audit engagements**

At the level of single audit engagements, the audit manual of the CGAS outlines, in line with national and international standards<sup>43</sup>, the mandatory requirements to assess in every audit engagement risks related to the audit itself as well as a detailed risk analysis related to the audit object or objective. This detailed risk assessment for single audit engagements not only highlights immediate audit priorities but also provides valuable insights that guide management in mitigating future risks. Throughout the engagement, the CGAS maintains close collaboration with the entity's management and/or the auditee, enabling the audit function to remain proactive and flag potential issues before they occur. By increasingly leveraging IT tools, data analytics, and artificial intelligence (AI), the CGAS enhances the precision and efficiency of its risk analyses, ensuring a more effective audit process.

### **Enhancing risk awareness throughout the public sector**

The CGAS plays a vital role in increasing risk awareness across the public sector through its advisory services. A standout initiative is the Risk Assessment Sessions, where the CGAS auditors facilitate risk prioritization for managers. These sessions are designed as qualitative dialogue forums, prioritizing meaningful discussions about risks and evaluating them in terms of impact and probability. This approach helps managers better understand the uncertainties their organizations face, promoting a proactive approach to risk management and enhancing decision-making.

The collaborative environment of these sessions encourages diverse perspectives and comprehensive risk assessments. By fostering open dialogue, managers gain clearer insights that aid in making informed decisions. CGAS auditors facilitate these sessions without taking over managerial responsibilities, ensuring that managers retain control over their risk management processes. This facilitative role helps flag potential issues before they occur, maintaining a proactive audit function.

While the qualitative nature of these discussions can be time-consuming, potentially slowing down immediate decision-making processes, the benefits often outweigh the drawbacks. The effectiveness of the sessions can vary depending on the engagement and risk literacy of the managers involved, but overall, they significantly enhance risk awareness and management capabilities.

In addition to these sessions, CGAS auditors conduct audits specifically focused on risk management practices within public sector organizations. When these audits uncover weaknesses, the CGAS provides actionable recommendations to enhance risk management. This dual approach —facilitating risk

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<sup>43</sup> The audit manual of the CGAS 'Handboek Auditing Rijksoverheid (HARO))' aligns itself with: the global internal audit standards set by the IIA, specific national standards for IT-audit set by the professional body for IT-auditors in the Netherlands 'NOREA', and the National Accounting Standards set by the professional body for accountants in the Netherlands 'NBA'.

dialogues and auditing risk management practices — ensures that public sector managers and staff not only become more aware of risks but also better equipped to manage them effectively.

By integrating advanced IT tools, data analytics, and AI into their risk analysis processes, the CGAS is transforming how risks are identified and managed. This strategic use of technology not only improves the accuracy and efficiency of audits but also supports the continuous development of a proactive risk management culture within the public sector.

## 8.5 Audit Disciplines within CGAS

The audit resources within the CGAS contain a variety of different audit disciplines that contribute to the integrity and efficiency of public sector operations. The variety of audit disciplines within the CGAS are utilized in different ways, depending on the specific needs of management and statutory requirements. These disciplines can be deployed as stand-alone audits or combined to address complex issues comprehensively. For instance, a financial audit might be complemented with IT and compliance audits to provide a holistic view of the organization's operations and ensure all aspects are covered effectively. This flexible approach allows the CGAS to tailor its audit processes to the unique requirements of each audit, enhancing the overall integrity and efficiency of public sector operations.

### Financial Audits

Financial audits performed by the CGAS are crucial for ensuring the integrity and accuracy of financial statements. These audits offer a professional opinion on several key aspects: true and fair view, which ensures that all financial information presented is accurate and factual; fairness, which guarantees that the financial statements provide a clear and unbiased view of the entity's financial position; legality, ensuring that all financial transactions comply with relevant laws and regulations; and regularity, confirming that financial operations are conducted according to established guidelines and procedures.

In the Netherlands, the CGAS holds the unique responsibility of issuing audit opinions (hereby complying with the standards of the International Federation of Accountants) on the financial statements of various ministries, a role typically handled by independent external audit bodies in other countries. This approach signifies a significant deviation from international practices, where such certifications are usually the responsibility of either a Court of Audit or independent audit firms. By embedding this function within the CGAS, the Netherlands aims to maintain a consistent and high standard of financial scrutiny across the central government.

The CGAS's financial audits cover a comprehensive range of assignments including the assessment of financial management and control systems, the examination of accounting records and financial reports, and the verification of compliance with budgetary laws and financial regulations. These audits not only verify the accuracy and legality of financial statements but also enhance the transparency and accountability of public funds management. This thorough auditing process supports the Dutch government's commitment to fiscal responsibility and public trust by ensuring that taxpayers' money is used efficiently and effectively.

## Box 2- Examples of financial audits:

**Audit on Financial Management at the Ministry of Justice and Security:** This audit reviewed the financial management practices at the Ministry of Justice and Security. The focus was on the accuracy and completeness of financial reporting, compliance with financial regulations, and the effectiveness of internal controls.

**Audit on Financial Oversight at the Central Government Real Estate Agency (CGREA):** This audit assessed the financial oversight and management of assets at the CGREA. It included a review of the internal financial statements, financial administration, and material management.

## Operational Audits<sup>44</sup>

Operational audits are thorough, independent examinations of public sector processes, systems, operations, programmes, activities, or organizations. These audits are designed to assess whether these operate adequately with an eye on risk management, governance and (internal) control, and they identify potential areas for improvement to enhance the optimal use of public resources.

In the Netherlands, the CGAS conducts operational audits with a comprehensive approach. These audits extend beyond mere compliance checks, aiming to add significant value by providing actionable insights into how governmental operations can be optimized.

As mentioned, the operational audits undertaken by the CGAS focus on key areas related to governance, risk and control. When conducting operational audits, the CGAS employs a systematic, evidence-based methodology that includes planning, execution, reporting, and follow-up phases. This approach ensures a thorough understanding of the audited entity's operations and the provision of clear, actionable recommendations.

The CGAS's operational audits cover a wide range of areas within the public sector. These audits assess operational efficiency, and examine the management of financial, human, and material resources to ensure their optimal use. Specific topics addressed in these assignments include environmental laws, change management, unwritten rules, and subsidy systems. Governance, Risk management, change management, and (the internal control of) programmes and projects are critical focus areas. The overarching theme of culture and behaviour often runs through these audits, highlighting their importance in organizational success and improvement. Performance/operational audit expertise is partially pooled in a centralized pool (see above) as well as embedded at deconcentrated audit level.

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<sup>44</sup> In the Dutch context of the CGAS, the term 'operational audits' is used to describe assessments of internal processes and controls. In contrast, some countries use 'performance audits' for evaluations of overall programme performance, emphasizing economy, efficiency, and effectiveness. Despite differences in terminology, both aim to improve organizational performance and ensure accountability.

### Box 3- Examples of operational audits:

**Audit on the Efficiency of Procurement Processes at the Ministry of Defense:** This audit evaluated the procurement processes within the Ministry of Defense, focusing on the efficiency and effectiveness of procurement activities, adherence to regulatory requirements, and identification of areas for cost savings.

**Audit on the Implementation of Environmental Policies at the Ministry of Infrastructure and Water Management:** This audit assessed how well the Ministry of Infrastructure and Water Management implemented environmental policies and regulations. The focus was on evaluating the effectiveness of policy execution, monitoring mechanisms, and the impact of these policies on sustainability goals.

By leveraging the insights from operational audits, the Dutch government can enhance its operational efficiency and effectiveness, ensuring that public resources are used in the best possible manner to serve the interests of its citizens.

### Box 4- Examples of IT audits:

**Audit on IT Security Measures at the Dutch Immigration and Naturalization Service (IND):** This audit evaluated the effectiveness of IT security protocols at the IND. The focus was on assessing the adequacy of security measures to protect sensitive personal data and ensuring compliance with relevant cybersecurity standards.

**Audit on Data Management Practices at the Ministry of Justice and Security:** This audit reviewed the data management practices within the Ministry of Justice and Security. It aimed to assess the accuracy, integrity, and security of data handling processes, as well as compliance with data protection regulations.

**Framework for auditing Algorithms:** The CGAS developed a practical framework to assess the control of algorithms used in government processes. This includes evaluating the ethical and operational aspects, ensuring transparency, and mitigating biases in algorithmic decision-making.

## IT Audits

IT audits within the CGAS encompass a broad spectrum of specialized areas critical for ensuring the security, compliance, and efficiency of information systems within the public sector. These audits play an essential role in safeguarding the technological infrastructure and data integrity of government operations. Cybersecurity audits focus on assessing the protection of information systems against cyber threats. These audits involve evaluating the robustness of security measures, identifying vulnerabilities, and recommending improvements to prevent unauthorized access, data breaches, and other cyber incidents, ensuring that the government's information assets are secure and resilient against potential cyber-attacks.

Auditing enterprise resource systems, such as SAP and Oracle, is crucial for verifying their effectiveness and compliance. These systems are essential for managing and integrating core business processes. IT audits in this area assess whether these systems operate efficiently, comply with relevant regulations, and support the organization's operational and strategic objectives. This includes examining system configurations, data integrity, and access controls to ensure they meet the required standards.

Ensuring adherence to data protection regulations, particularly the General Data Protection Regulation (GDPR), is a critical component of IT audits. These audits evaluate how well government entities protect personal data, manage data privacy risks, and comply with legal requirements. This involves assessing data handling practices, privacy policies, and the implementation of data protection measures to safeguard individuals' privacy rights.

Evaluating the integrity and fairness of algorithmic processes is an emerging area of focus in IT audits. With the increasing use of algorithms in decision-making processes, it is essential to ensure that these algorithms operate transparently and fairly. IT audits assess the design, implementation, and impact of algorithms to identify any biases or inaccuracies and ensure they comply with ethical standards and regulations.

Reviewing IT general and application controls within financial systems is vital for ensuring their reliability and security. IT audits in this area examine controls over data processing, system development, and access to programmes and data. This includes evaluating backup and recovery procedures, change management processes, and user access controls to ensure that financial systems operate securely and effectively.

### **EU Audits**

In this category, the CGAS operates as the Audit Authority on behalf of the European Commission, auditing the legality and regularity of EU funds spent in the Netherlands. This role is vital for maintaining trust and accountability in the management of EU financial activities within the country.

### **The Integrated Approach to Auditing**

Beyond categorizing audits, the primary objective is to resolve the issues faced by the auditee, regardless of the audit type. In the Netherlands, there is a strong emphasis on integrated auditing, which combines financial, operational, compliance, and IT audits. This holistic approach enhances efficiency and provides comprehensive assurance to ministries and directorate generals, aiding them in achieving their objectives.

### **Specialized Audits and Strategic Focus**

In addition to the main audit types, the CGAS also engages in specialized audits tailored to specific needs and contexts. These include for example:

- **Environmental Audits:** Evaluating the impact of governmental activities on the environment.
- **Social Audits:** Assessing the social implications and outcomes of public policies and programmes.
- **Follow-up Audits:** Reviewing the implementation of recommendations from previous audits to ensure corrective actions have been taken.

### Box 5- Examples of specialized and strategic audits:

**Environmental Audit:** Interim Audit Report 2023 on the Ministry of Economic Affairs and Climate Policy: This audit evaluated both the financial and environmental aspects of the Ministry of Economic Affairs and Climate Policy. It reviewed the integration of climate policies within financial oversight, especially regarding the National Growth Fund.

**Government Sector-Wide Audit on Risk Management:** This strategic audit aimed to provide a comprehensive overview of risk management practices across various ministries within the Dutch government. The audit focused on evaluating the effectiveness of risk management frameworks, identifying common risk areas, and assessing the overall maturity of risk management processes.

The CGAS's strategic focus involves not only traditional auditing practices but also proactive engagement with emerging issues such as information security, risk management, and large-scale governmental transitions. The service aims to provide actionable insights and support for continuous improvement within the public sector.

By embracing these diverse and integrated audit types, the CGAS not only ensures adherence to regulations and standards but also supports the continuous improvement and effective governance of public-sector entities. This comprehensive approach is instrumental in helping the Dutch government operate transparently and efficiently, ultimately benefiting the broader public.

## 8.6 New Developments: Continuous Innovation

As a professional organization working across all government departments, the CGAS proactively, promptly, and thematically informs both administrative and political leaders about the outcomes of its investigations. This approach supports the Dutch government in achieving its ambitions by providing actionable insights that inspire learning and improvement across departments. By being a key partner in financial, organizational, and IT matters, as well as in managing European funds and change processes, the CGAS helps prevent control issues and legal compliance errors upfront, making post-audit controls less complex and time-consuming. The CGAS is dedicated to leading audit innovations by incorporating the latest technologies and methodologies into its core functions.

Some key innovations worth mentioning:

### IT Innovations

The CGAS is expanding its expertise in several critical IT areas to strengthen its audit capabilities:

- **Data Analytics:** By employing advanced data analytics tools, the CGAS enhances its ability to analyse large datasets, uncovering patterns and insights that inform audit findings and recommendations. This capability allows for more comprehensive and accurate audits, enabling the identification of trends and anomalies that might indicate underlying issues.

- **DigiD Assessments:** These assessments ensure the security and reliability of DigiD, the digital identification system used by Dutch citizens to access government services. Regular evaluations help maintain the integrity and trustworthiness of this crucial system, ensuring it remains secure against potential threats.
- **Penetration Testing (Pentests):** The CGAS conducts pentests to identify and address vulnerabilities in government IT systems. These tests simulate cyber-attacks to expose weaknesses, providing valuable information for enhancing the security posture of these systems and protecting against actual cyber threats.
- **Privacy Audits:** Ensuring compliance with privacy regulations is a key focus. Privacy audits evaluate how government entities manage and protect personal data, safeguarding citizens' privacy rights. These audits help ensure that data protection measures are robust and in line with legal requirements.
- **Red Teaming:** This practice involves simulating cyber-attacks to test the effectiveness of an organization's security measures and response capabilities. By adopting the perspective of an adversary, the CGAS can identify weaknesses and improve defensive strategies, thereby enhancing overall cybersecurity resilience.
- **Responsible Use of Artificial Intelligence (AI):** The CGAS assesses the deployment of AI systems to ensure they operate ethically and fairly. These assessments ensure AI systems adhere to legal standards and mitigate risks associated with bias and transparency, ensuring AI is used responsibly in government operations.

### Sustainability

In response to the Corporate Sustainability Reporting Directive (CSRD) of the European Union that came into force in 2024, which mandates that stock-listed companies report on Environmental, Social, and Governance (ESG) issues in their annual reports, the CGAS is taking proactive steps to incorporate sustainability into its audit practices. Recognizing the importance of ESG reporting, the CGAS is developing initiatives to add assurance to the sustainability reports of ministries. This effort aligns with the evolving Global Internal Audit Standards framework, which is increasingly focusing on environmental reporting. As public institutions may soon be required to report on ESG issues, the CGAS is preparing to provide the necessary assurance for this information, ensuring transparency and accountability in public sector sustainability efforts.

### Contract Auditing

Contract auditing is an innovative audit discipline in which auditors assist procurement organizations in evaluating supplier bids, especially in single-source tenders, before finalizing contracts. These auditors analyse the pricing of supplier offers and review contract terms to provide valuable insights. By advising procurement teams on negotiations, contract auditors contribute to strengthening the organization's bargaining position and ensuring more favourable contract outcomes.

### Central Audit Planning

The CGAS is introducing a transformative advancement in its operations through the implementation of central audit planning. This innovative process aims to optimize resource and audit planning, establishing a unified strategy across all government entities, including ministries and agencies.

By leveraging advanced IT tools, the CGAS is enhancing its audit planning processes. These tools facilitate

more precise and dynamic scheduling, driven by real-time data and comprehensive risk assessments. This centralized approach ensures that audits are conducted efficiently and effectively, concentrating efforts on the areas that demand the most attention. Additionally, central audit planning improves resource planning by ensuring that human, financial, and technical resources are allocated optimally.

This leads to better utilization of resources, reducing redundancy, and increasing the overall effectiveness of audit activities.

By integrating these new developments and leveraging advanced IT tools, the CGAS aims to enhance its audit capabilities, ensuring that the Dutch government operates efficiently, transparently, and securely.



# 9 The Role of the Netherlands Court of Audit

By Abdel Elabassi and Midas Dutij<sup>45</sup>

## Change, to stay the same

The Netherlands Court of Audit (hereinafter: NCA) is the Supreme Audit Institution (SAI) in The Netherlands. Its position in the Dutch system of checks and balances dates back to the Dutch Constitution of 1848. The Constitution guarantees the NCA's independence to 'examine the State's revenues and expenditures'. As the external auditor, it presents an unqualified opinion on the central government accounts of each budget chapter to the Dutch House of Representatives. This forms the foundation on which the Dutch parliament can discharge ministers from their responsibility for the financial management of their ministries.

In this chapter we will discuss the position of the NCA in the Dutch rule of law system, the external relation it has to other public budget stakeholders, such as the internal auditor and the Fiscal Monitoring Advisory Division of the Council of State. Further, we will discuss strategic issues concerning the NCA in the future.

## 9.1 The Netherlands Court of Audit

Formally speaking, the NCA is a small organization consisting of only 5 persons: the members of the Board. According to the Government Accounts Act (in Dutch: Comptabiliteitswet 2016) the Board 'is the Court of Audit'. However, to fulfil its task, it has a supporting staff of 295 people (section 9.2). The Board consists of three permanent members, of which one is President. The other two permanent board members are vice-presidents. Currently, the Board consists of

- Pieter Duisenberg, President
- Ewout Irrgang, Member of the Board
- Barbara Joziassse, Member the of Board

Next to the permanent members, the law prescribes the possibility of 'members in extraordinary service' who act as part-time substitute members to guarantee continuity .

Members of the Board of the Netherlands Court of Audit are appointed for life. This guarantees independence of the board from political interference, as the executive and/or legislative branch of government has no means of replacing installed board members. Also, in practice, the average board members' lifelong tenure outlasts most political majorities.

There is no formal law written on the appointment of members of the Board, but in practice a tradition has created 'soft law' for appointing board members. When there is a vacancy in the Board, the remaining

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<sup>45</sup> Both authors are working for the Netherlands Court of Audit. This chapter is written on a personal title.

board members set up a profile for a new candidate. This profile is based on political and/or managerial track record, specific competencies such as IT or audit expertise, or some other professional knowledge area such as diplomacy or scientific research. The vacancy is published through different channels, such as newspaper advertisements. Every citizen is able to apply.

After a first letter and resume selection of all applicants, two rounds of interviews are performed with the top tier candidates by the members of the board and secretary-general of the NCA organization. The NCA then formulates a list of 4 candidates in preferred order, as a recommendation to the Public Expenditure Committee of Parliament. The Public Expenditure Committee of Parliament will then interview these candidates, after which the committee formulates its own preferred top-3 candidate list to the general assembly of Parliament. Parliament takes a majority vote on the list. The top 1 candidate of the list is then recommended to the minister of the Interior. The minister of the Interior decides whether the candidate is proposed to the whole cabinet. If the cabinet formally votes on the top 1 candidate, the candidate will thereafter be formally sworn in by the Crown.

### **Decision-making and responsibilities**

The formal protocol for decision-making within the NCA describes that decisions are made in a majority vote, in case there is no unanimous decision. However, in practice, a culture of decision-making by consensus has evolved. Of course, board members have different perspectives, and hence do not always agree on every matter. In case where differences of opinion remain, the board takes a vote. The president has an extra weighed vote of 2 votes.

The three permanent board members each have their own portfolio, in which specific policy areas are divided as the first responsibility for that particular board member. For example, one board member focuses on economic and financial affairs, whilst another will focus on environment and social policy. The President is the first and foremost representative towards the outside world. Cross-cutting and institutional issues are mainly the responsibility of the president.

### **Institutional position and dilemmas**

Members of the board tend to have a background in politics or in government. Advantages of these backgrounds are in-depth and personal experience with political processes, familiarity with the media, a good network of relevant stakeholders, and the professional skillset to speak truth to power, whilst remaining diplomatic. Therefore, party political affiliations are usually an asset in recruiting new board members.

Whilst in office, despite most of the past and present board members have a political background, a member of the board has to act according to important SAI values, as proscribed in the ISSAI 130 Ethical standards, such as impartiality, neutrality and objectivity. A Supreme Audit Institution is not an explicit political actor, but a normative actor, playing within the political arena. Verdicts by SAIs are usually used by politicians to evaluate policy. Therefore, issues addressed by the SAI are indirectly influencing policymaking by politicians. However, it is not a goal in itself to be political. Also, the role of an SAI is to address the whole of Parliament, and not a specific political side of party. Impartiality is paramount in maintaining public trust in the NCA, and these are fine lines to walk.

## 9.2 Organization and output

The NCA is supported by a larger organization of 295 employees. The organization consists of 7 directorates: 6 audit directorates and 1 staff directorate. The directorates have one director, who is member of the management team. The organization is headed by a Secretary, who is chair of the management team.

Five of the six audit directorates are divided based on related policy themes:

- Directorate Finance and institutional
- Directorate Public administration and digitalization
- Directorate Audit and Data
- Directorate Security and international affairs
- Directorate Social affairs
- Directorate Economics and environment

Directorate Audit and Data is a specific unit dedicated to the Financial and IT audit and works across all policy areas. The staff directorate is concerned with HR, IT, security, support, housing, catering, but also international contacts and communication. The organization consists of people with diverging backgrounds, but, as to be expected of a Supreme Audit Institution, there are recurring backgrounds, such as political science, public administration, finance and accounting.

The NCA had an annual budget of 39,3 million euros in 2023. The NCA has its programme in the national budget but is funded by the minister of the Interior. Although parliament is ultimately responsible for authorizing, allocating and approving budgets, the minister of the Interior could propose budget cuts or budget increases for the NCA. This has happened in recent history, as the NCA had to deal with budget cuts by the Dutch government following the Financial crisis in 2009, in which government decided to reduce its wage bill and reduce in size. In consecutive years, the NCA shrunk its organization. Recently, the NCA had consecutive increases in budgets. This was partly motivated by a call for strengthening checks and balances in the Dutch Rule of Law following a large government scandal in the Netherlands that lead to the Rutte III cabinet to resign.

### **NCA audit output**

The NCA's primary task by law is financial audits on state expenditures and revenues. Also it is tasked with audits on effectiveness and efficiency of government organizations. It is no surprise that the main output of the NCA therefore consists of audit reports. In 2023, there were 59 reports in total.

At the NCA, two separate audit cycles function throughout the year:

1. A financial, compliance and IT audit on line ministries and their annual reports
2. Throughout the year, performance audits on effectiveness and efficiency on a variety of organizations and policies

The Netherlands has an Accountability Day, every 3<sup>rd</sup> Wednesday of May. On this day, the Minister of Finance presents all annual reports of state government and the ministries to Parliament. The NCA performs financial, compliance and IT audits on these reports and their ministries, the audit findings of

which are simultaneously presented to Parliament.

Parliament receives all accountability documents on Accountability Day. Forming a unique characteristic of public finance in the Netherlands, this day has grown to be a tradition in which different state branches simultaneously, and together, reflect on the last fiscal year. Next to the technical aspects of good public accounting, it has gained a symbolic function. After Accountability Day, there is a plenary debate in parliament on the annual reports and audit findings. Also, separate committees in parliament discuss the annual reports for their specific line ministries. In total, 24 NCA reports are discussed plenary and in all individual sectoral committees.

The reports of the NCA contain multiple types of audits: Financial audits on the ministries' annual reports, Compliance audits on Financial regularities and IT, and small performance audits on specific policy results.

Parliament can use the NCA's audit opinion to grant the government discharge, thus releasing it from responsibility for its implementation of policy. The NCA also reports separately to parliament so that its members can decide on the effectiveness of each minister's actions during the previous year.

### Other output

Almost 50% of employees is concerned in some capacity in working on Accountability Day. The other half of the organizational capacity is used for other types of audits, mostly performance audits of larger policy or organizational questions. Parliament can formally request the Board of the NCA to audit specific organizations or policy issues. However, most performance audits and other products are initiated through repetitive risk analysis and strategic dialogues, that are organized throughout the year.

In 2023, the NCA published:

- 7 Performance Audits
- 3 Focus audits
- 5 Letters to Parliament

In the performance audits, the NCA audits in-depth specific policy questions, such as long waiting lists for psychological care, administrative burdens and red tape in education, or the quality of financial forecasts. Performance audits can take up to 2 years, and often are meant to contribute to complicated policy issues.

The Focus audits are the opposite: short, factual audits on a current policy issue. For example: the bird flu, in which the key question is: "What measures is the government taking to control the spread of bird flu and how and by whom are they being funded?" These Focus audits are meant to supply Parliament with factual, relevant policy information to help decision-making and lawmaking.

Besides these types of audits, the NCA writes letters to parliament. Sometimes, the NCA sees issues recurring in its audits, in which they think that there is a relevant underlying pattern of which they have to inform parliament on. Also, NCA produces overview studies in these letters. Furthermore, NCA has done audits for 15 – 20 years on a particular topic, and has gained some general insights into that issue. Then NCA can share those insights by a letter to parliament.

## 9.3 Relationship with public budget stakeholders

The NCA maintains important relationships with different relevant Budget and Finance stakeholders in The Netherlands, such as the internal audit organization of the Central Government Audit Service (CGAS) (see Chapter 8), the Fiscal Monitoring Advisory Division of the Council of State (see Chapter 10), and parliament, specifically the Public Expenditure Committee. In this section we will briefly describe relationships between these stakeholders.

### Relationship towards CGAS

The financial management of ministries in the Netherlands is designed in accordance with the three lines model of the Institute of Internal Auditors (IIA). The Central Government Audit Service (CGAS) is the third line. The CGAS is an independent internal auditor which is positioned under the Ministry of Finance and also issues audit opinions on the annual report for each budget.

The Government Accounts Act stipulates that the NCA can make use of audits performed by others, especially the Central Government Audit Service. Therefore the NCA has direct access to CGAS's working files and can perform extensive review activities. NCA and CGAS teams organize meetings on a frequent basis during the audit year.

The NCA strongly relies on the audit findings of the internal auditor. Besides that additional audit work is performed on significant risks and follow-up on the previous year's audit findings.

### Relationship with the Council of State

The Council of State is the main fiscal and budgetary authority in the Netherlands. It provides advice for parliament on proposed budgets. Both the Council of State and the Court of Audit are 'Hoge colleges van staat' (high councils of state), which shapes an important bond between both institutions. The vice-president of the Council of State and the president of the Court of Audit have regular meetings, to discuss fiscal, budgetary, and institutional affairs that concern both institutions. The main difference is that the Council of State advises on budgets before they go to parliament, and can comment on substantive choices in the budgets, where the Court of Audit controls after the fiscal year if budgets were spent in compliance with rules and regulations.

### Relationship with Parliament

The NCA maintains a close relationship with parliament, especially the House of Representatives, which holds the right to amend and approve budget bills. The NCA present each year the financial reports of each budget chapter to Parliament (Accountability Day) and during the year independent audit reports. Examples of activities are briefings that NCA provides to the committee on public expenditures on Accountability Day and standing committees in following weeks. Furthermore NCA holds conversations with rapporteurs of parliament. Parliament can request the Board of the NCA to conduct audits into topics that concern parliament. The board of the NCA is independent, and makes its own decisions regarding its audit programming. However, to perform a relevant role towards parliament, the NCA tries to include these requests in its programme.

## 9.4 Strategic development for the NCA

The Netherlands Court of Audit dates back to 1848 in its current role, and even further in pre-dating forms before the Netherlands was a unified country. An old institute, that has grown its own traditions, methods, ways of working. It is located on the premises of an old monastery, that symbolically encapsulates the NCA's historic roots. However, as the famous saying by painter Willem de Kooning goes: 'you have to change to stay the same.' Despite traditional ways of working, changing societal issues are posing questions to the NCA for innovation and change. And the NCA always finds new and innovative ways to carry out its audit. The development of de Design Audit Studio, the Data Hub and the Focus audits are recent examples of these types of innovations.

### Societal challenges to the NCA

Two examples of emerging societal changes that challenge the NCA, are digitalization and climate change. First, society's digitalization also leads to a digitalization in government. The use of AI and algorithms in policy has grown, and therefore poses new questions of good governance and policy. The NCA has started auditing algorithms, by a new ethical framework for the use of algorithms in government.

A second example of emerging topics is that the Dutch government has set itself goals for reducing greenhouse gases in its own operations, of which the government has started to account for in annual reports. The NCA has started auditing the emission reduction numbers put out by governments in their annual reports. In a government landscape like the Netherlands, where ministries form strong silos that are used to operate independently from each other, the NCA can fulfil a unique role to oversee cross-cutting policy issues such as climate change policy.

### Citizens and the NCA

In the NCA's Strategy 2021-2025 the 'Citizens perspective' is prioritized. In recent years, the NCA has seen a sharp decline in public trust in politics, and to a lesser extent in institutions, in the Netherlands. As an SAI, the NCA wants to make a difference in the lives of citizens. Therefore, the NCA wants to audit policy topics from the perspective of citizens: what are issues that they are concerned with, what experiences do they have with public service delivery, and how are they affected by policies? An example of this strategy is the audit of special debt payments and government debt collection schemes, that multiple government institutions have. Up to 100 citizens who have made use of these arrangements were interviewed, in order to audit how effective these policies are.

## 9.5 Future of the Dutch accountability and audit system

Who audits the auditor? Who supervises the supervisor? As a Supreme Audit Institution, the NCA has no external scrutiny, because of its independent position. Therefore, in accordance with international standards set by the INTOSAI community, the NCA asks its 'peers' to perform 'peer reviews', to evaluate its own work.

INTOSAI is an international body representing SAIs, of which the Netherlands Court of Audit is also a member. The Netherlands Court of Audit makes use of the professional standards developed by

INTOSAI. These standards, which are widely accepted and used throughout the world, are valuable tools for all SAIs.

In 2020 the NCA was peer reviewed by the Supreme Audit Institutions of Sweden, United Kingdom, and Canada. An important recommendation in the peer review is that the NCA is too dependent on the work of the internal auditor CGSA. The NCA has to rely on the audits that the CGSA performs, in order to give its own opinion. This is seen as undesirable by the NCA's peers, as the NCA should have an independent role in auditing, without being too dependent on the internal auditor (as described in section 9.3).

This recommendation set in motion a process to determine the future of the Dutch control system. Currently there are different scenario's the Minister of Finance has presented in a letter to parliament. With the writing of this chapter, there is no precise idea how the future of the NCA and the broader Dutch audit system will look like. However, in the upcoming years, the future of the NCA has to change. In order to stay the same.

# 10 Parliamentary Oversight in Public Finances

By Jacob Pot and Susan van Velzen<sup>46</sup>

The Parliament of the Netherlands, the States General, consists of two Houses: the House of Representatives (Tweede Kamer der Staten-Generaal) and the Senate (Eerste Kamer der Staten-Generaal). The main duties of the House of Representatives are co-legislation and scrutinizing the work of government.

General elections for the 150 members of the House of Representatives are held at least every four years. Important issues on general political or financial considerations and final decision-making on bills, amendments and motions take place in plenary sittings, but a lot of preparatory work takes place in the committees of the House of Representatives. These committees are composed of members of the various parliamentary parties<sup>47</sup> represented in the House and deal with a particular policy area or with a specific subject.

In total, more than 1000 people work for the House of Representatives to ensure that the House can do its work well. Parliamentary parties have staff members. The House as a whole is supported by an administrative staff that for instance prepares meetings, ensures security and maintains the internet site. The committees of the House are supported by staff from the registry and from the Analysis and Research Department of the House.

## 10.1 Rights of parliament within the budget cycle

### 10.1.1 Parliamentary rights of the House of representatives

The important role of parliament in adopting the budget is symbolized by Budget Day, the start of the budget discussion for the new year, each year on the third Tuesday of September (see section 2.3.2).

#### Box 1- 'Prince's Day' = Budget Day

The name Prince's Day (Prinsjesdag) harks back to the 18th century, and the time of Prince William V. His birthday (8 March) was known as Prince's Day. During the French occupation, supporters of the House of Orange-Nassau demonstrated their loyalty to the prince by continuing to celebrate this day.

No one really knows why, many years later, the name Prinsjesdag was given to the day on which the King delivers the Speech from the Throne, officially opening the parliamentary year, and announcing the plans of the government for the coming year to Parliament. The same day the National Budget and the Budget Memorandum are presented. It is the start of the budget discussion for the new year.

<sup>46</sup> Both authors are working for the Analysis and Research Department of the House of Representatives of the Netherlands. This chapter is written on a personal title.

<sup>47</sup> A parliamentary group (in Dutch: fractie) is created after the elections due to the fact that its members have been elected from the same list of a political party. Other parliamentary groups can only be formed afterwards by merger or split. In what follows, parliamentary groups will be referred to as 'parliamentary parties'.



Parliamentary budget rights are enshrined in the constitution (see Box 2). In principle, the budget can only be implemented if parliament has approved it. In addition, the House of Representatives can amend the budget and has therefore an important role in adjusting the budget. Finally, parliament grants the ministers discharge for their financial management of the budget.

Unlike the House of Representatives, the Senate does not have the right of amendment. It can only approve or reject a law.<sup>48</sup> This also applies to the budget bills.

### Box 2- Budgetary rights of parliament and the Dutch Constitution

Every year on the third Tuesday of September a 'statement of the policy to be pursued by the government' is given to a joint meeting of both the House of Representatives and the Senate (Article 65 of the Constitution).

According to Article 105

- The budget for public revenues and expenditure is submitted on Budget Day and is established by law.
- A statement of public revenues and expenditures, and the accounts approved by the Court of Audit are submitted to parliament.
- The law sets rules for the management of public finances. In practice, this is mainly set by the Government Accounts Act (in Dutch: Comptabiliteitswet, the organic budget law).

The House of Representatives can amend laws (Article 84).

State taxes shall be levied pursuant to an Act of Parliament. Other levies imposed by the State shall be regulated by an Act of Parliament (Article 104).

Article 68 guarantees the information position of parliament.

## 10.1.2 Role committees in public finance

### Plenary sittings and committees of the House

Important issues in the House of Representatives are almost always dealt with in plenary sittings, for instance general political or financial considerations, debates about important topical issues, and the deliberations on bills and budgets. Final decision-making always takes place in plenary sittings, e.g. voting on bills, amendments and motions. However, most of the parliamentary work takes place in the committees.

<sup>48</sup> With the caveat that the Senate can enforce a novella: no further consideration of a bill until an amendment has been submitted that, after consideration by the House of Representatives, can be included in the bill.

## Standing committees

In line with the decentralised concept of the Dutch budget process discussed in Chapter 2, all standing committees, including the Finance Committee, and the Public Expenditure Committee are relevant from a public finance perspective. Although the final vote on the national budget and related amendments and motions takes place in the plenary session of the House of Representatives, the budgets of the different ministries are discussed with the line ministers in the standing committees on Education, Defence, et cetera.

## The Finance Committee and the Public Expenditure Committee

The Finance Committee and the Public Expenditure Committee are tasked with more general financial and public finance topics. The two committees are closely intertwined. The Finance spokespersons of the various parliamentary parties are often also the spokespersons for their party in the field of public expenditure. The planning of the activities of both committees is therefore coordinated. In addition, the staffs of both committees work closely together and have a personnel overlap.

Topics typically dealt with in the standing Finance Committee are e.g. financial markets and state holdings, international financial relations, tax policy and (European) monetary and fiscal policy. The budget of the Minister of Finance is also discussed in this committee, and its spokespersons participate in the General Financial Debate on the Budget Memorandum and the debates on the Spring Memorandum and Autumn Memorandum (see section 10.4).

The Public Expenditure Committee has a system-oriented, horizontal role. The committee can both address the Minister of Finance, for example by consulting on accounting legislation, as well as the House, for example by advising on the handling of budgets and annual reports. In line with Article 7.4 Rules of Procedure of the House, the committee:

- **deals** with matters of legality and effectiveness regarding expenditure, public resources, the reporting system, accountability, financial management and evaluation. The spokespersons of the Public Expenditure Committee participate in the plenary Accountability Debate (see section 10.5).
- **advises** the House and its committees on the budget and accountability process and on budgetary and accounting aspects of government policy intentions and decisions.
- **informs**. Every year, parliamentary oversight meetings are held around main moments in the budget cycle (Budget Day and Accountability Day), mostly in cooperation with the CPB Netherlands Bureau for Economic Policy Analysis, the Court of Audit and the Council of State.
- **supports**. Members of the committee often promote budgetary and accounting issues within their own parliamentary party. On the administrative side, this role is mainly fulfilled by the Analysis and Research Department (see section 10.9).

### Box 3- Re-establishment of the Public Expenditure Committee

The Public Expenditure Committee was founded in 1923, partly as a response to the establishment of the National Austerity Inspectorate in 1921 (currently: Inspectorate of the Budget (IRF)), whose task was “to promote the most economical and frugal management of the country’s resources.”

Between 2016 and 2021, the committee’s tasks were assigned to the Finance Committee. In February 2021 however, the House adopted an amendment on the reintroduction of the Public Expenditure Committee. The authors of that amendment referred to the report of the Parliamentary Investigation Committee on Childcare Allowance. According to them, this resulted in the need for more attention to be paid to the House’s supervisory task.

Shortly after the elections of March 2021, the Public Expenditure Committee was re-established.

## 10.2 Authorization budget bills and budget amendments

### 10.2.1 Characteristics budget bills and budget amendments

The national budget includes the departmental and non-departmental budgets of the ministries and the High Councils of State. In addition to a small number of procedural articles, budget bills contain budget statements that set out the intended financial obligations, expenditures and receipts of the central government for a specific financial year.

Like any bill, budget bills require approval (authorization) by the House of Representatives and the Senate. The authorized amount applies as a maximum and may not be changed without the cooperation of the States General. Each budget bill is accompanied with an explanatory memorandum which sets out the objective(s) to be achieved, the activities that are undertaken, the instruments used to achieve the objective(s) and the costs incurred for this. It is therefore part of the parliamentary deliberations on the budget.

The amounts in the budget statement can be amended, but the objectives in the explanatory memorandum cannot. Amendments ‘only’ indicate where more or less money should be spent. If amendments allocate more budget to a specific purpose, they usually also indicate where that money should come from: the coverage. The explanation to the amendments clarifies the intention of the member of parliament submitting it.

If an amendment is adopted by a majority of the House, it becomes part of the budget bill and, once passed by the Senate and ratified, ‘is’ therefore law.

Motions can also be submitted during the plenary debates on the budget. Although the House of Representatives makes an explicit political appeal to the cabinet, motions do not directly affect government proposals.

If a draft budget has not been approved on time, i.e. before the start of the new calendar year, new policy must not be implemented, unless in the opinion of the minister concerned delaying implementation

would not be in the interests of central government and the States General have been informed accordingly (Article 2.25 GAA).

#### Box 4- Different types of amendments

- Within the same budget bill

Proposals to shift budget from one spending purpose to another that do not change the size of the overall budget. The explanation memorandum of the amendment indicates which other distribution is proposed between different budget articles or within a budget article.

- Between budget bills

Proposals to shift budget between two budget bills. This requires submitting two separate amendments of the relevant budget bill, each dealt with in the standing committee involved.

- Multi-year amendments

Budget bills are only authorised on the level of budgets for the coming year. However, it is possible to explicitly indicate in the explanatory memorandum that the amendment provides for a multi-year adjustment. In accordance with Article 2.3 GAA, once approved, these amendments will be incorporated in the budget for the coming years unless there is a compelling reason not to do so.

### 10.2.2 Restrictions to parliamentary budgetary rights

There are various restrictions on the exercise of the budgetary rights of parliament.

Many expenditures are already legally obligatory prior to the budget year and cannot be changed without significant consequences for those involved (e.g. in society or contracts with businesses). This constitutes a practical obstacle to the House's room to amend budget bills. The House needs a proper understanding of the – mostly quite limited - actual part of the budgets available for reallocation; this information is set out in the explanatory memoranda of the budget bills.

The House may only amend the budget at the level of budget articles, and therefore cannot shift budgets from one purpose to another within a given budget article. In recent years, these budget articles are generally speaking relatively high-level and comprise a large size of a minister's budget. To overcome this limitation in a practical way, amendments within the same budget article are always implemented by the cabinet. In addition, parliament is informed about budget shifts within articles.

Although MPs have the right to submit draft laws, this right of initiative does not apply to budget bills submitted on Budget Day. Article 105 of the Constitution prescribes that these bills are submitted by or on behalf of the King, that is, the government.

## 10.3 Parliamentary debates on Budget Memorandum, Budget Bills and Tax Bills

### 10.3.1 General Political Debate; General Financial Debate

To ensure the (more than 20) different budget bills are coherent, the parliamentary debate on the budget starts with overarching debates.

Firstly, the General Political Debate on the Budget Memorandum by party leaders and the Prime Minister takes place on the two days following Budget Day. The entire cabinet is present, as well as, in principle, all MPs.

The financial spokespersons of the parliamentary parties in the House of Representatives and the Minister of Finance participate in the General Financial Debate, usually two weeks after Budget Day. This debate focuses primarily on the Budget Memorandum and associated advices and reports, including tax bills regarding the upcoming budget year.

The documents are usually provided in advance under embargo to MPs, staff and journalists on the Friday before Budget Day. The embargo applies until the Speech from the Throne is delivered.

### 10.3.2 Debates on budget bills

In the following months, all the ministers defend their own budget bills in parliament within the corresponding standing committees. The process roughly starts with a round of written factual committee questions, followed by a debate between the spokespersons of the parliamentary parties and the relevant ministers. The debate can be a plenary debate or take place in a legislative consultation.

The budget discussions of the House of Representatives are as a rule held from September to November. The discussion largely amounts to a policy debate, where members can raise any topic related to the policy area in question. Motions can be submitted during the debate. Amendments can be submitted from the moment the bills are submitted to the committees (Budget Day).

Votes on motions usually take place in the week after the plenary discussion of the relevant budget. This is also the case with regard to parts of the budget that are discussed in legislative consultations.

To ensure all budgets and amendments can be assessed in conjunction with each other, all voting will take place in one week, mostly a few weeks before the Christmas recess. This procedure enables the Senate to authorize the budget bills before the end of the year. According to the GAA, budget bills enter into force as of January 1.

The ministers concerned give their view (appreciation) on the amendments (budget amendments as well as tax amendments) before those amendments are put to the vote.

### Box 5- Committees may appoint budget and accountability rapporteurs

In preparation for the consideration of budget and accountability documents, the standing parliamentary committees may appoint one or more<sup>49</sup> budget rapporteurs, in order to analyse the documents more thoroughly. The rapporteurs report on their findings on behalf of the committee and coordinate their input with the committee. Sometimes rapporteurs also provide their input into a plenary debate, not only in a committee context.

Rapporteurs are supported by the staff of the standing committees (see also section 10.9). The Public Expenditures Committee organizes joint kick-off meetings for all the appointed rapporteurs in order to exchange ideas and share experiences. The Public Expenditure Committee also suggests standing committees to ask their rapporteurs to consider a specific topic, for example the quality of policy evaluations or financial management.

### 10.3.3 Parliamentary debates on tax bills and premiums

Every year on Budget Day, not only the budget, but also the annual Tax Plan is submitted: a package of tax proposals that have budgetary consequences.

Like any other bill, tax bills can be amended. MPs sometimes submit tax amendments to provide the means for the costs of an amendment to a budget bill.

Voting on the Tax Plan generally takes place in the House of Representatives no later than mid-November, in order to enable a timely discussion in the Senate. Much tax legislation is designed to come into effect on January 1 of the coming year.

The Tax Plan may contain components that come into effect at later times, for example July 1 or even January 1 of the following year, especially when time is needed to prepare a careful implementation.

Expenditures on social security and healthcare are largely covered by premiums specifically levied for this purpose. Although the explanatory budget memoranda provide parliament with relevant information, premium financed expenditure is not part of the budget bills as such. Making changes to this type of expenditure requires an amendment to the specific legislation involved.

## 10.4 Parliamentary debates on budget adjustments

The most important regular adjustments to the current year's budget are the Spring Memorandum and the Autumn Memorandum (see also section 2.3.3). The associated budget bills are called supplementary budgets, which have to be authorized by parliament. The House can amend these budgets. However, this only applies to adjustments for the current year.

<sup>49</sup> When two MPs are appointed, it is usually one from a coalition party and one from an opposition party.

The Spring Memorandum will be sent to parliament no later than June 1. Since the Spring Memorandum recently also contains information about the outcomes of the cabinet's so-called main decision-making moment (draft budget and policy-plans regarding the following year), the memorandum nowadays usually is presented in April. The process starts with a round of written factual committee questions, followed by a plenary debate, usually by the Finance Spokesmen. The vote on the first supplementary budget bills and corresponding amendments is held shortly before parliamentary summer recess.

A plenary debate about the Autumn Memorandum usually takes place in December, preceded by a factual round of committee questions. The House of Representatives votes on the associated supplementary budgets prior to the Christmas recess.

Since 2023, the government also sends a round of supplementary budget bills in between the Spring and Autumn Memorandum, on Budget Day (see Chapter 2, box 3). The House deals with the September supplementary budget bills in the weeks discussing the Budget Memorandum. Voting is scheduled before the start of the Autumn recess.

As outlined in Chapter 2, in addition to the regular adjustments to the budget in the current fiscal year, incidental budget bills may also be relevant: expenditures that, due to special circumstances, cannot wait for authorisation at regular moments of the budget cycle.

The House does not process the so-called December Letters: 'major changes' (policy changes) that have occurred after the Autumn Memorandum. It takes note of them, unless in the opinion of the House they contain important changes. Nevertheless, receiving this information in a timely manner is important in view of Parliament's budgetary rights. See also section 2.3.3.

## 10.5 Accountability debates

### 10.5.1 Accountability Day

The final part of the budget cycle starts with Accountability Day, on the third Wednesday in May. Government then presents the National Financial Annual Report as well as all annual reports from the ministries and the final budget bills to Parliament. The same day, Statistics Netherlands (CBS) presents the annual Monitor of Well-being and the Sustainable Development Goals (see also section 10.10).

#### Box 6- Monitor of Well-being and the Sustainable Development Goals

The Monitor of Well-being and the Sustainable Development Goals of Statistics Netherlands describes the well-being of the population living in the Netherlands today ('here and now'), and the impact of their present level of well-being on future generations in the Netherlands ('later') and on people living in other countries ('elsewhere'). The monitor starts out from the United Nations' 17 Sustainable Development Goals (SDGs) to describe well-being themes.

The National Financial Annual Report is the counterpart of the Budget Memorandum. The annual reports on the budgets contain accountability information on the policies and operational management pursued, financial statements and a trial balance. The Netherlands Court of Audit must express an opinion on the documents before they are sent to parliament and reports for each annual report on the regularity of expenditures, the quality of the information and the results of the policy. The Netherlands Court of Audit also publishes an overarching report, the State of central government accounts (see Chapter 9).

### Box 7- Accountability events

On Accountability Day, the Public Expenditure Committee organizes an **Accountability Breakfast** for MPs, members of the Netherlands Court of Audit and the Director-General of Statistics Netherlands (CBS). The purpose of this event is to use lessons from the past to improve policy and budgeting for the future. Every year a guest speaker is invited to reflect on the importance of accountability. Shortly after Accountability Day, the Public Expenditures Committee organizes the **'V100'**. The V stands for 'Verantwoording' (Accountability) and the number 100 stands for hundred citizens. Supported by the staff of the House and the Netherlands Court of Audit, these citizens engage with MPs and come up with questions about the annual reports of the ministries, based on themes pre-selected by the House. The answers of the ministers can be taken into account in the following debates. The committee has been organizing this participative event since 2017 in order to involve citizens in budgetary scrutiny and at the same time empower public understanding for fiscal realities.

### 10.5.2 Parliamentary accountability debates

The plenary accountability debate mostly takes place a few weeks after Accountability Day, after the answers to factual questions about the above-mentioned overarching documents have been received. In addition to the plenary debate, the individual annual reports and reports from the Netherlands Court of Audit are discussed in the standing committees, preceded by factual questions. If needed, a technical briefing can be provided by the Court of Audit. Committees may appoint rapporteurs (see box 5).

The House then votes in plenary on any motions submitted during the discussion of the annual reports and on the final budget bills. The findings of the Netherlands Court of Audit, and the advice of the Public Expenditure committee are taken into account. Only when the annual reports and final budget bills have been adopted and discharge for the financial management has been granted, will the ministers no longer be responsible for their budget of the closed year.

Accountability Day was introduced in 2000. It was hoped that the debate on the overarching accountability documents would be held with party leaders and (particularly) the Prime Minister. In practice, the spokespersons on Finance and/or Public Expenditures usually conduct the parliamentary debates. Budget Day receives more attention than Accountability Day. More focus on accountability still remains a challenge.



## 10.6 Macroeconomic forecasts

Every year, CPB Netherlands Bureau for Economic Policy Analysis (CPB) publishes four estimates of the development of the Dutch and global economy and of expected expenditure and income in the coming year. The two most important estimates are the Central Economic Plan (CEP), which is published in spring, and the Macro Economic Outlook (MEV), which is published every year on Budget Day.

The publications contain expectations regarding a broad set of indicators, including in the field of the international economy; prices, wages and purchasing power; the labour market; and the EMU balance and the EMU debt. Based on these calculations, a budget can be adjusted to achieve a different distribution of the effects.

The CPB, likewise, analyses election programmes of the political parties (on request) and coalition agreements.

### Box 8- Developments

The core indicators in the CPB analyses are socio-economic in nature. However, Gross Domestic Product (GDP) is not a measure of prosperity and does not take into account aspects such as unpaid work and informal care, the environment and climate, leisure and well-being. At the request of the House of Representatives, the three planning agencies (CPB, the Netherlands Environmental Assessment Agency (PBL) and the Netherlands Institute for Social Research (SCP)) are working on a methodology for anchoring the broad prosperity perspective in the budget cycle.

To gain insight into the effects of policy measures on several themes and dimensions of broad prosperity, the planning agencies consider eight themes and three dimensions. The eight themes are: 1) subjective well-being, 2) health, 3) consumption and income, 4) education and education, 5) spatial coherence and quality, 6) economic capital, 7) natural capital and 8) social capital. The three dimensions considered are: here and now, later and elsewhere.

The planning bureaus also look at distributional issues. Influenced by the Monitor of Well-being and the Sustainable Development Goals, the Budget Memorandum has in recent years included reflections on developments that are central to this Monitor: economic capital, human capital and natural capital and preconditions for well-being, such as the rule of law and global challenges. See also section 10.10.

## 10.7 Fiscal supervision

### Council of State

As with 'normal' legislation, the Council of State has an advisory role in the budget, focusing on its legislative, legal and policy quality. This advice may be omitted for bills to adjust the budget (supplementary budget bills).

Although the Budget Memorandum is not a bill and advice is therefore not prescribed, the Council of State has been issuing advice on it for years. Line ministers respond to the advice on their own budget; the Minister of Finance responds to the advice on the Budget Memorandum.

The Advisory Division of the Council of State also conducts independent supervision of compliance with (European) fiscal rules, according to the Sustainable Public Finances Act, and issues a report on fiscal monitoring two or three times a year.. The Advisory Division offers its assessment of the so-called Stability Programme (Spring Report) to the European Commission and the Council of Ministers before May 1. The government submits the reports to the House of Representatives.

## 10.8 Advisory role of the Netherlands Court of Audit

The Netherlands Court of Audit plays an important role in accountability. However, it also issues so-called budget letters related to the Budget Memorandum and associated budgets, based on points of interest that have emerged from previous (accountability) studies.

Additionally, the Netherlands Court of Audit advises on guarantees and loans and in the case the central government considers to establish a private legal entity (Article 4.7 GAA).

The Netherlands Court of Audit, being a High Council of State, decides independently what it wants to investigate. Requests for investigation can come from the House, ministers and state secretaries. Requests from the House to the Netherlands Court of Audit require a positive advice from the Public Expenditures Committee, and approval from the plenary meeting. Recently the Netherlands Court of Audit conducted research into productivity developments at central government implementation organizations (2024). An earlier study (2020) was devoted to special budgets for the Caribbean Netherlands.

## 10.9 Parliaments Budget Advisor: the Analysis and Research Department

In 2017, the Analysis and Research Department (in Dutch: DAO) was established by the House. Amongst other tasks, the DAO supports the House in exercising its budgetary rights and can be regarded as its 'budget advisor'. The service provides expertise, non-partisan information, analysis and support and works closely with the registry and (when public finance is concerned) with the Public Expenditures Committee.

In doing so, DAO

- informs. DAO provides courses to MPs and faction staff on the budget, annual reports and amendments and offers accessible information on the budget cycle and the budget process, e.g. desk books on the budget, the budget calendar and the motions and amendments dashboard.
- analyses. MPs and their staff receive DAO debate guides and notes on Budget Memoranda, and on topics, such as national or EU fiscal rules and the reporting system. DAO budget notes for committees often include suggestions for factual questions.
- supports. DAO supports budget and accountability rapporteurs, advises on budget amendments (in cooperation with the registry) and responds to questions about budgeting and accounting.
- organises. DAO supports the Public Expenditures Committee in organizing the V100 shortly after Accountability Day (see section 10.5.1).

## 10.10 Challenges

In principle, Parliamentary Oversight in Public Finances is firmly anchored in the constitution and underlying organic laws. Parliament's budgetary rights are guaranteed and the House appears to use these rights frequently. Nevertheless, many challenges remain. Debates on this subject will therefore not cease for the time being. To conclude this chapter, we highlight some challenges in this section.

### **Public finances and major crises (Covid, energy, war)**

Dutch fiscal policy has proven itself during the Covid crisis. Extensive support for all kinds of economic sectors was possible without outbalancing public finances. However, this policy appears to have left a fertile ground for other calls for compensation, for example, to moderate energy prices that sharply increased due to the war in Ukraine. The existing fiscal rules were regularly violated in the process, including in particular the rule to cover expenditure setbacks through cuts and not to cover them by increasing deficits or increasing taxes.

Politicians also came to realise that major policy challenges cannot be solved simply by allocating enough billions. First and foremost, it is necessary to make clear policy choices.

### **Exception clause regarding incidental supplementary budgets**

Normally, incidental supplementary budgets (ISBs) are used as little as possible to keep the budget process predictable, transparent and coherent. However, especially during the Covid crisis, many incidental supplementary budget bills were sent to the House, with a peak of 62 in 2021. In almost all cases, the exception clause of Article 2.27 GAA was invoked: the possibility to incur expenditures for new policy without prior authorization of the States General, if in the opinion of the minister concerned, delaying implementation would not be in the interests of central government and the minister has notified the States General accordingly.

Especially in the beginning of the Covid crisis, parliament was not informed in a timely manner. And in retrospect, the exception article was sometimes used unnecessarily. To prevent excessive and unnecessary use of the exception clause, the GAA was amended at the initiative of the House (2023). It now states new policy may not be implemented unless the minister concerned has substantiated its urgency and has properly informed the States General in the immediate opinion of the States General.

### **Oversight in an election year or when having a caretaker government**

If parliamentary elections take place in the months following Budget Day, orderly processing debates on the budget becomes considerably more difficult. Given the parliamentary elections of November 2023, budget bills were partly dealt with before the elections, and partly afterwards. As a result, there was no single, integral moment at which all budgets, including amendments, could be voted on, contrary to the Rules of Procedure of the House. In addition, a large part of the budget was not authorized by parliament before January 1 of the new year. As a result, restraint in the implementation of current policy had to be exercised for a number of months, according to Article 2.25 GAA and – with exceptions - new policy could not be implemented (see also section 10.2.1).

When a cabinet resigns, after elections or after the fall of the cabinet, the fiscal rules it has established for itself lapse. Exercising fiscal discipline easily loses out in such times. Parliamentary majorities in favour of additional expenditure are easy to find, but prove to be much more difficult in favour of cuts.

### **Cash-based vs accrual accounting**

The Dutch national budget predominantly uses a commitment cash-based system, as opposed to accrual accounting. The latter systematically maps out the size and composition of assets (financial position) and results (operating balance), as well as the origin and expenditure of the financial resources and is therefore more complete.

The decisive factor in a cash system is the date on which the payment was made or the transaction was entered into (Article 2.15 GAA). This can give a distorted picture of public finances, because it leaves certain financial obligations out of the picture. To overcome this, the budget memoranda and the explanatory memoranda of the budget bills contain all kinds of appendices to provide this information. However, this tends to lead to an abundance of budgetary information, in which parliamentarians can easily lose their way.

### **Tax expenditures**

Tax expenditures are exceptions within the tax system - such as deductions, exemptions or tax credits - that affect the amount of tax paid. They are often not only allocated to the Minister of Finance, but also to the line ministers concerned, because of their specific policy objectives. This means a close coordination between the substantive spokesperson and the financial spokesperson is necessary when dealing with tax measures. The large number of tax expenditures and their complicated design make tax legislation complex and lead to implementation problems. Furthermore, many tax expenditures appear to be ineffective. However, eliminating tax expenditures appears to be a complicated and politically difficult task.

### **Incorporating key indicators of Well-being into the budget process**

The aim of the integration of well-being indicators in the budget process is to map out the connection between policy proposals, their effect on broad prosperity and the economic structure. There is more and more information available about the current state of broad prosperity. However, analysing broad prosperity in such a way that it can adequately be incorporated in the budget process and allows for insight into the consequences of current budget choices for the longer term, appears to be no easy task.

# How the House of Representatives monitors government spending

THE EIGHT STAGES OF THE BUDGET CYCLE



**Tweede Kamer**  
DER STATEN-GENERAAL



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# List of Abbreviations

<b>ACH</b>	Ambtelijke Commissie Heroverwegingen (Official Committee for Reviews)
<b>AI</b>	Artificial Intelligence
<b>CBS</b>	Centraal Bureau voor de Statistiek (Statistics Netherlands)
<b>CEP</b>	Central Economic Plan (of CPB)
<b>CGAS</b>	Central Government Audit Service
<b>CGREA</b>	Central Government Real Estate Agency
<b>CPB</b>	CPB Netherlands Bureau for Economic Policy Analysis
<b>CSRD</b>	Corporate Sustainability Reporting Directive
<b>CW</b>	Comptabiliteitswet (Government Accounts Act)
<b>DAO</b>	Dienst Analyse en Onderzoek (the Analysis and Research Department)
<b>DG</b>	Director General
<b>DNB</b>	De Nederlandsche Bank (the Central Bank of the Netherlands)
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EMU</b>	European Monetary Union
<b>ESG</b>	Environmental, Social and Governance
<b>EU</b>	European Union
<b>FEZ</b>	Financieel Economische Zaken (Financial and Economic Affairs)
<b>GAA</b>	Government Accounts Act
<b>GDP</b>	Gross Domestic Product
<b>GDPR</b>	General Data Protection Regulation
<b>HOF</b>	Houdbare overheidsfinanciën (law on European and National fiscal rules)
<b>IBO</b>	Interdepartementaal Beleidsonderzoek (Interdepartmental Policy Research/spending reviews)
<b>IBP</b>	Interdepartementaal Beleidsevaluatie Platform (Interdepartmental Policy Evaluation Platform)
<b>IIA</b>	Institute of Internal Auditors
<b>IMF</b>	International Monetary Fund
<b>IND</b>	Immigratie en Naturalisatiedienst (Immigration and naturalisation Service)
<b>IOFEZ</b>	Interdepartementaal Overleg met betrekking tot financieel-economische aangelegenheden. (platform of assembled Financial Economic Affairs Directors)
<b>IRF</b>	Inspectie der Rijksfinanciën (Inspectorate of the Budget)
<b>ISB</b>	Incidental Supplementary Budgets
<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>KPI</b>	Key Performance Indicator
<b>MEL</b>	Monitoren, Evalueren en Leren-pool (Monitoring, Evaluating, Learning pool)
<b>MEV</b>	Macro Economische Verkenningen (Macro Economic Outlook of the CPB)
<b>MLT</b>	Middellangetermijneraming (medium-term economic forecast of the CPB)
<b>MP</b>	Member of Parliament
<b>NCA</b>	Netherlands Court of Audit
<b>NPM</b>	New Public Management
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OIIK</b>	Operatie Inzicht in Kwaliteit (Operation Insight into Quality)
<b>PB</b>	Performance-based programme budgeting
<b>PBL</b>	Planbureau voor the Leefomgeving (The Netherlands Environmental Assessment Agency)



<b>PFM</b>	Public Financial Management
<b>PIFC</b>	Public Internal Financial Control
<b>PWS</b>	Publieke Waarde Scan (Public Value Scan)
<b>RPE</b>	Regeling Periodiek Evaluatieonderzoek (Regulation Periodic Evaluation Research)
<b>SAI</b>	State Audit Institution
<b>SBR</b>	Studiegroep Begrotingsruimte (Advisory Group on Fiscal Policy)
<b>SCP</b>	Sociaal Cultureel Planbureau (The Netherlands Institute for Social Research)
<b>SDG</b>	Sustainable Development Goal
<b>SER</b>	Sociaal Economische Raad (Social and Economic Council)
<b>SIGMA</b>	Support for Improvement in Governance and Management
<b>SMART</b>	Specific, Measurable, Achievable, Relevant, Time-bound
<b>VBTB</b>	Van Beleidsbegroting Tot Beleidsverantwoording (From Policy Budget to Policy Accountability)
<b>WB</b>	World Bank
<b>ZBO</b>	Zelfstandig Bestuursorgaan (independent administrative bodies)

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