

# ACCOUNTABILITY IN THE PUBLIC SECTOR: THE DUTCH EXPERIENCE

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**Abstract:** *In the Netherlands, a new system of policy budgeting and accounting (VBTB) was put in practice in 2002, linking goals, budgets, means, instruments and performance. This paper analyzes both the early experience of the VBTB system and the more recent experience. Although the government monitors the progress in carrying out its policy program, it appears to have problems in developing performance indicators that are closely related to their policy goals. A compelling problem in the budgeting process is that too many policy goals are formulated in vague and/or abstract terms rather than measurable and concrete terms. The paper also identifies three lessons that can be learned from the Dutch experience.*

**Key words:** *accountability, policy goal formulation, effect-indicators.*

## 1. Introduction

Strengthening accountability in the public sector has a long history in the Netherlands (Van der Hoek, 1994). From the mid-1980s, a process of reinforcing accountability in the central government sector was set in motion. Under pressure of Parliament, the Government of the Netherlands developed major reform plans. One of the results was a change of the accounting system from a cash system to an integrated cash/commitments accounting system. In the early 1990s, further reforms were developed by creating agencies that were subject to special rules including accrual accounting.

The Dutch government followed up. First, the government published a note in 1997 entitled *From expenditure to cost* weighing advantages and drawbacks of an accrual accounting system (Ministry of

Finance, 1997). Second, the government announced in 1999 the introduction of policy accounting in a document entitled *From Policy Budget to Accounting for Policy* (Ministry of Finance, 1999). This process is usually referred to as VBTB after the document's acronym in Dutch. Obviously, the Dutch Government valued the experiences of the agencies subject to accrual accounting rules. In the Budget Memorandum 2001 it announced the introduction of a system of accrual accounting in the whole central government sector (Ministry of Finance, 2000, p. 84).

The Government considered the move to an accrual basis an important step toward a more result-oriented government, since in the VBTB-system the policy budget links means, instruments, and performance. However, the Dutch finance minister announced in June 2003 a reconsideration

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of the Government's plans regarding the budgeting and accounting system. He seemed to back away from the planned integral implementation of an accrual system and to advocate a partial implementation (Tweede Kamer, 2003, p. 11). This was confirmed in September 2003, when the finance minister informed parliament that the Government had reconsidered its decision indeed (Ministry of Finance, 2003b). On second thoughts, the Government had decided to implement an accrual system on a case by case basis by expanding the number of agencies subject to accrual accounting rules.

The VBTB-system implies a switch from financial accounting to policy accounting witness the fact that the system focuses on the following three budgeting questions:

- What do we want to achieve?
- What will we do to achieve it?
- How much can it cost?

The third question in particular calls for an accrual accounting system, since it focuses on the cost of policy implementation. A cash/commitments system does not produce full information about the cost of policy implementation if certain expenditures yield benefits over a number of years, such as investment expenditure. An accrual-based system does produce this information and can therefore contribute to a more result-oriented management.

The reform has also changed the viewpoint of the financial report. Departmental accounts now seek to make the achievement of policy goals more visible and transparent by focusing on the following three accounting questions:

- What did we achieve?
- Did we do what we thought we would do?
- Did it cost what we thought it would cost?

Thus, the VBTB system intends to link goals, budgets, means, instruments and performance in order to make accounts

more meaningful and transparent. The system is based on a measurable formulation of policy objectives, preferably in terms of social effects. Policy budgeting begins with formulating general policy goals. Subsequently, these objectives should be operationalized by detailing them in terms of products and services or, if this is not possible, in terms of activities. It goes without saying that the implementation of the new-style budgets is a learning process that can only gradually proceed. This process started in 1999 with the publication of the VBTB-document (Ministry of Finance, 1999).

The importance of accountability was emphasized by the introduction - in 2000 - of Accountability Day on the third Wednesday in May. [1] On this day, the finance minister submits on behalf of the government the national financial annual report and the departments' annual reports to parliament in order to give account of the public finances and the policies conducted over the previous year.

This paper analyzes the results of this process that have been achieved so far. The rest of the paper is organized as follows. Section 2 presents the early experiences with the VBTB-budgeting system, while section 3 describes the more recent experience. Section 4 describes and evaluates a recent addition to the accountability cycle in the Netherlands in the form of an annual Accountability Letter that the prime minister sends to parliament. Finally, section 5 presents a conclusion and some discussion.

## 2. Early Experience [2]

The Budget Memorandum 2002 (Ministry of Finance, 2000) - submitted in September 2001 - was the first that is based on the VBTB-budgeting system. It includes additional policy intensifications, [3] which are in fact additional appropriations that come on top of the

multi-year budgetary estimates that the cabinet had already agreed upon. The Dutch General Accounting Office (GAO) [4] looked at the transparency of the budgeting and accounting information (Algemene Rekenkamer, 2002). They

identified 203 additional policy intensifications in the departmental budgets for 2001. For each intensification, the GAO tried to identify a general objective as well as an operational goal (see Box 1 for an example).

*Example of a policy intensification, Ministry of Agriculture*

Box 1

<i>Art. 12.02</i>	<i>Budget 2001</i>	<i>Account 2001</i>
<i>General objective</i>	<i>Sustainable agriculture</i>	<i>Same</i>
<i>Long-term target</i>	<i>10% of farm land used for biological cultivation in 2010</i>	<i>Same</i>
<i>Operational goal</i>	<i>Switch to biological cultivation</i>	<i>Same</i>
<i>Sort-term target/realization</i>	<i>4,720 hectare in 2001</i>	<i>2,979 hectare and a number of commitments concluded in early 2002</i>

*Source: Algemene Rekenkamer (2002), p. 17*

Based on *budgets* it appears impossible in 20 percent of the cases to identify a general objective in the budget, whereas in 30 percent of the cases it is not possible to identify a concomitant operational goal. Based on *accounts* the result is poorer. In over 40 percent of the intensifications the accounts do not refer to a general objective, while in nearly 40 percent they do not refer to an operational goal. As to the *means* it is in 90 percent of the cases possible to ascertain the amount involved. The departmental accounts, however, often do not include these amounts separately, but rather as part of a larger amount. As a result, in 70 percent of the cases departmental accounts do not offer insight into the spending of the additional budgetary means. As to the *instruments*, in 75 percent of the cases budgets pay attention to the instruments to be used, but accounts do so to a much lesser extent. As to *performance* it is possible to ascertain the budgeted performance in nearly 50 percent of the intensifications. However, only 20 percent of the accounts make mention of the performance that has been realized.

Following the general elections of 2002, a new cabinet was formed on the basis of a new coalition agreement. However, this cabinet was already overthrown after 87 days. In early 2003, the GAO published a study of the coalition agreement of 2002 similar to that of the additional intensifications agreed upon by the previous coalition government (Algemene Rekenkamer, 2003a). Again, the study is based on the premise that it can only be determined whether an objective has been realized or not if goals, budgets, means, instruments and performance have clearly been defined beforehand.

The GAO looked at 107 of the 299 general policy plans, all 24 policy intensifications, 27 of the policy extensifications, [5] and the way the cabinet gave concrete form to central government wide goals with regard to efficiency, volume, subsidies, and hiring of external personnel. They conclude that 79 percent of the policy intensifications give sufficient or good answers to the three budgeting questions. In addition, 73 percent of the policy extensifications show to a sufficient or good extent the effects

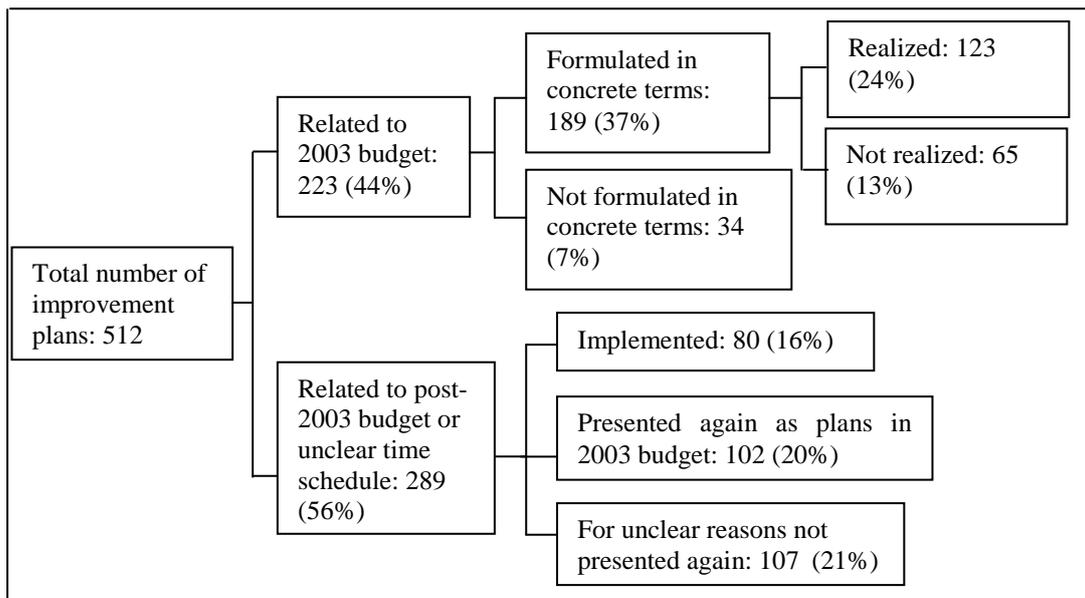
and performance aimed at. However, a smaller fraction of the general policy plans (56 percent) appears to have been elaborated sufficiently or good. Finally, only nine percent of the central government wide goals appear to have been elaborated sufficiently.

A few months later the GAO looked at the progress of the VBTB-process on the basis of plans for improvements that had been announced in the departmental budgets for 2002 (Algemene Rekenkamer, 2003b). Box 2 shows the results. Of the total number of improvement plans 40 percent [6] appear to have been realized

after one year, whereas 20 percent appear to have been presented again as plans in the budget for 2003. Unclear is why 21 percent of the plans have not been presented again though they have not yet been realized. Of the 223 plans related to the 2003 budget 123 have been realized (55 percent or 24 percent of the total number of improvement plans). In addition, 80 of the 289 plans that had been scheduled for implementation after 2003 (28 percent or 16 percent of the total) appear to have been already realized in 2003.

### Improvement Plans in 2002 Budgets

Box 2



Source: Algemene Rekenkamer (2003b), p. 14

The GAO also looked at how departments addressed the budgeting questions in their budgets. The first budgeting question is: "What do we want to achieve?" It appears that nearly three quarters of the budget articles fail to address this question adequately. [7] Only 29 percent offer a sufficient or good insight into what ministries aim to achieve,

47 percent provide a limited insight, and 24 percent do not offer any insight at all.

The second budgeting question is: "What will we do to achieve it?" Generally, departments answer this question better than the first budgeting question regarding the expected achievements. Over half (56 percent) of the budget articles offer a sufficient or good insight into the activities ministries plan to undertake and the

instruments they plan to deploy, whereas 38 percent provide only a limited insight.

The third budgeting question is: "How much can it cost?" Over two thirds (69 percent) of the budget articles provide a sufficient or good insight into the cost of the activities departments plan to undertake and the instruments they plan to deploy. Further improvements are possible by specifying the relationships of expenditures and performance. Summarizing:

- It is insufficiently clear what ministries want to achieve since many effect-indicators are lacking.
- It is insufficiently clear which performance departments want to achieve because many performance-indicators and target figures are lacking.
- It is insufficiently clear what relationship exists between goals and performance on the one hand and expenditures on the other hand.

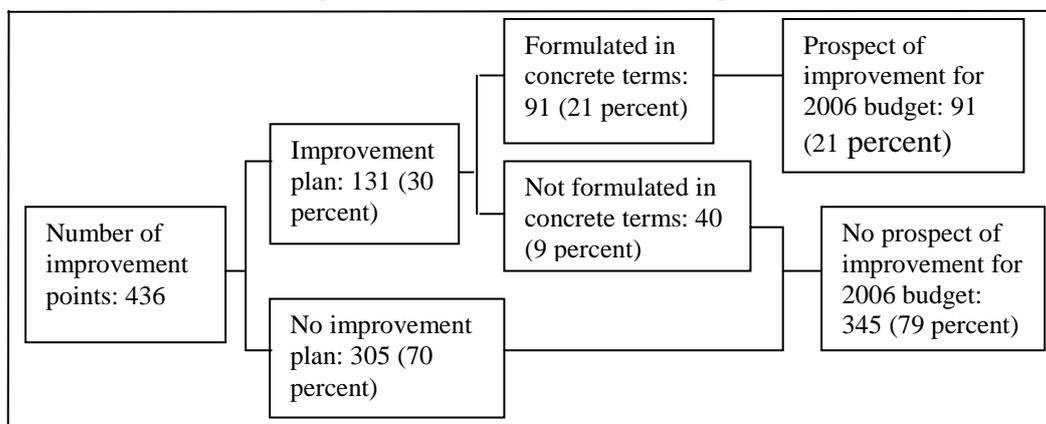
Departmental budgets give some insight into the plans for improvements that should lead to achieving the goal of full-fledged VBTB-budgets in 2006. The GAO found 437 improvement points. Box 3 specifies the number of points to be improved and the number of plans to implement improvements. In 70 percent of

the cases there are no improvement plans, while in nine percent of the cases improvement plans have not been formulated in concrete terms. Thus, in 79 percent of the cases there is no prospect of improvement for the 2006 budget. Departments did put forward improvement plans for 30 percent of the cases, but they did not phrase all of these plans in concrete terms. As a result, in only 21 percent of the cases there is a prospect of improvement for the 2006 budget.

Summarizing, the 2003 budget clearly shows that the budgeting questions have not been addressed completely. Departmental budgets provide insufficient insight into policy effects that ministries aim at and activities they want to undertake. Moreover, the relationship between expenditures on the hand and goals, instruments and performance on the other hand is insufficiently clear because expenditures have not been elucidated in terms of performance data. An important reason for these shortcomings is that the objectives have not been formulated in measurable and concrete terms in the form of effect-indicators and target figures (Algemene Rekenkamer, 2003d, p. 13).

*Improvement Plans in the 2003 Budget*

Box 3



Source: *Algemene Rekenkamer (2003b), p. 27.*

### 3. Recent Experience

As stated before, the implementation of the VBTB-system is a gradual learning process. Thus, it is not worrisome if there is widespread dissatisfaction about the results in the first years of implementation. However, the discontent about the way the government gives account of its policies through the VBTB-system did not disappear over time. Too many policy goals remained formulated in terms that are not sufficiently concrete and measurable. Moreover, in the accountability debate of 2007 a majority of parliament expressed the opinion that the accountability had too little political relevance and did not sufficiently pertain to the main issues. Also, policy accounts failed to link actual policy results to intended objectives as stated in the budget.

In response to the criticism the finance minister proposed in late 2007 to conduct an experiment with the budgets and annual reports [8] of six departments in order to enhance the accountability's political relevance. Parliament approved his proposal in early 2008. This experiment is based on the idea that fewer details and technical points on the one hand and more attention for integral policy accountability on the other will benefit the quality and informational value of a department's annual report. The departments' annual reports should focus on the government's policy priorities enabling parliament to discuss the main issues. The remainder of this section draws on a preliminary evaluation that the GAO carried out (Algemene Rekenkamer, 2009a).

Part of the experiment is that the government gives an account of the progress of its policy program. [9] Because budgets and accountability are closely related, the experiment also pertains to budgets. Departmental budgets, however, are divided into two categories: policy

articles (for policy expenditures) and non-policy articles (for administrative expenditures). The annual report normally follows this classification. Budget classifications in the form of budget articles are traditionally based on policy areas, whereas focusing accountability on policy priorities implies cross-article considerations. Thus, the experiment requires a new classification of departmental budgets.

As a result if this reclassification of departmental budgets, policy results of governmental goals have been included in the policy report, whereas the expenditures have been included in the policy articles in the budget. Financial information is no longer included in the policy articles in the annual report that are not labeled as priorities. However, by unlinking the non-financial information (in the policy report) and the financial information (in the budget's policy articles) it is no longer clear which part of the expenditures is related to policy priorities. [10] Another consequence is that budgets and reports no longer completely correspond with each other because the articles in the annual report do not include policy information. Therefore, parliament is no longer able to observe whether *all* objectives and performances presented in the budget have been realized.

Part of the experiment is that departments should include policy conclusions in the annual policy reports, so that they can be discussed at the next budget debate. Although not all departments involved in the experiment have done so, two of the departments did include policy conclusions in their annual reports. Other departments are expected to follow. However, the GAO has the impression that departments are still searching for the "right" performance indicators and the "right" way of transforming practical data into policy

information (Algemene Rekenkamer, 2009c, p. 19).

The experiment also pertains to the budgets 2009 that have been submitted in September 2008. Policy reviews have been announced to be included in the annual reports. The finance minister has issued a regulation [11] that requires departments to evaluate periodically their policies aimed at realizing general or operational objectives. According to the regulation's article 8.2, a policy evaluation consists of the following elements:

1. A description and analysis of the problem that gave rise to the policy.

2. A description and motivation of the government's role.

3. A description of the policy goals that have been reviewed.

4. A description of the instruments that have been used and an analysis of the results and outcomes.

5. A description of the budgets that have been spent.

This regulation has been issued because departments did not conduct sufficient ex-post research of policy effects and, as a result, learn to an insufficient extent. Therefore, the regulation's objective is facilitating ministers to give account and to learn from experiences.

Both the budgets for 2009 and the annual reports over 2008 present more policy information than previous budgets and reports did. In addition to this positive trend, however, also some critical observations can be made (Algemene Rekenkamer, 2009b, p. 9-10):

1. Ministers explain in their budgets and annual reports to an increasing extent that they are unable to elucidate the realization of general or operational goals. This pertains to over  $\frac{1}{3}$  of the objectives. The availability of information about expenditures is lower than in the previous year even though one would expect that ministers can indicate how much they have spent and what the results are.

2. In many cases it is unclear whether the planned performance has been realized. In over  $\frac{1}{3}$  of the goals that the GAO has looked at it is impossible to conclude whether the planned activities have been carried out.

3. Information about policy effects and performance is often not sufficient to conclude whether the objective has been realized. For approximately  $\frac{2}{3}$  of the goals that the GAO has looked at it is impossible to conclude whether the performance that has been achieved has indeed led to realization of the policy goal.

4. It is no longer always possible to trace back which financial means on the level of budget articles have been spent on which priorities.

Generally, the conclusion is that too many goals are still presented in vague and abstract terms rather than in measurable and concrete terms. As a result, parliament has only limited possibilities to check the results of the cabinet's policies.

#### 4. Enhancing Accountability

In 2008, a new element was added to the accountability process by the introduction of an Accountability Letter (Tweede Kamer, 2008) that the prime minister sends to parliament just prior to Accountability Day. The goal is enhancing *political* accountability of the progress in conducting the government's policy program. The underlying idea is that the Accountability Letter pertains to the main policy issues. As a result, it is expected that the accountability debate will be focused on priorities of governmental policy. Notably, the prime minister does not give a formal account of the government's performance as the Accountability Letter has not been audited by the GAO or ministerial audit departments.

In practice, the Accountability Letter seems to give ample room for the

government to control the accountability debate for several reasons. First, by pointing out the main policy issues the government creates the framework for the debate. The current cabinet was formed in February 2007. Thus, the 2007 budget was submitted in September 2006 by the previous cabinet. The Accountability Letter not only referred to the results of the 2007 budget, but also to the goals and projects the current cabinet had agreed upon in early 2007. As a result, the Letter counted 24 pages and the accountability was blurred by mixing the 2007 and 2008 budgets submitted by two different cabinets. Parliament is aware of the fact that in the current situation the government sets the accountability agenda. Therefore, it has suggested focusing the accountability debate on issues that parliament considers important and about which it wants to be informed in more detail (Tweede Kamer, 2009a). The first time this can be done is in May 2010. Interestingly, the Government does not want to give up its influence on the accountability agenda as it proposed to focus on two subjects selected by parliament and two subjects selected by the government (Ministry of Finance, 2009, p. 2). Parliament seems to have accepted this proposal (Tweede Kamer, 2009b).

Secondly, the Government tends to present a rosy picture of the policy results. In the Accountability Letter 2008, for example, the prime minister states that 82 percent of the goals and projects have been successful in that the results and performances are in line with the planning. However, the GAO is not impressed by this statement and observes that a visible connection between budgets and policy program is still lacking. Although it is possible to include policy information in the existing budgeting and accounting cycle the Government fails to do so in

many cases (Algemene Rekenkamer, 2009c, p. 18).

The Government monitors the progress in carrying out its policy program by using a method called delivery, while a delivery function has been established in the prime minister's office. A review based on budgeting and accounting documents as well as meetings of the prime minister with other ministers shows whether sufficient information is available and if so, whether the policy execution is in line with the planning. In addition, the review presents for each policy goal a trajectory - the planning on an annual basis - and what should be done to realize the goal by the end of the cabinet's term. This requires that ministers have performance indicators at their disposal. As observed in section 4, however, they have problems in developing performance indicators that are closely related to their policy goals.

Interesting questions are whether it is possible to phrase all policy objectives in concrete and measurable terms, whether it is possible to describe the intended social effects for each and every policy goal, and whether it is possible to determine whether a social effect is the result of public policy. The Dutch finance minister raised this latter question in the accountability debate 2008, by stating that in certain cases public policy is just one of the factors determining the outcome (Tweede Kamer, 2009c). Indeed, public policies are carried out in a complex environment with many actors and influences. Ideally, therefore, a public policy's social effects should be determined by controlling for other factors affecting this policy's goal. It seems questionable whether this is always possible.

## 5. Lessons

The change from an input to an output budget is a lengthy process and cannot be accomplished within a few years. The first

VBTB-budget submitted in the Netherlands was the 2002 budget submitted in 2001. Eight years later the process of developing a full-fledged VBTB-budget is still in progress and the link between output and input is still not always clearly explained. The first lesson to be learned from the Dutch experience is that a full switch from an input to an output budget cannot be achieved in one year or even a few years. Rather, it will take a number of years.

An important cause of the lack of insight into the social effects of governmental policy in the Netherlands is that only  $\frac{1}{3}$  of the policy goals have been formulated in the form of effect objectives that specify the intended social effects. Thus,  $\frac{2}{3}$  of the policy program has been formulated in the form of performance goals. These are characterized by the use of words like contributing to, stimulating and benefiting something. One problem is that departments are still searching for the "right" performance indicators. An instrument that in the Netherlands has been introduced to bring about more insight into the effects of policies is the policy review (see section 3). So far, however, this instrument did not present a solution for the lack of performance indicators (Tweede Kamer, 2009a). Even if adequate performance indicators would be available, performance goals imply that simply delivering the performance determines whether an objective has been achieved, irrespective of the extent to which the performance has resulted in social effects. This is unsatisfactory as it remains uncertain whether (and which) social effects have been realized. The second lesson to be learned from the Dutch experience is that as long as the Government presents a vast majority of its policy program in the form of performance goals, Parliament will be unable to check whether the intended social effects have been achieved.

In an attempt to focus the accountability debate on policy priorities an experiment is being conducted with six departments' annual reports. The experiment started in 2007 and will be evaluated in 2010. Nonetheless, a preliminary conclusion can be derived from the experience gained so far. The experimental annual reports present fewer technical details in order to advance integral accountability. Consequently, the policy articles in the annual reports no longer contain financial information, which can now only be found in the policy articles in the budget. As a result, on the level of articles it is not always possible to track which financial means have been spent on which policy priorities. The third (preliminary) lesson to be learned from the Dutch experience is that focusing the accountability on policy priorities should not be accomplished at the expense of a loss of information about the relationship between spending and policy goals.

## 6. Conclusion and Discussion

In 1999, the Dutch Government announced that it would introduce policy budgeting and accounting as opposed to traditional budgeting and accounting. After some years of preparation, the new system of policy budgeting and accounting was put in practice in 2002. The VBTB-system, as it is called, focuses in the budgeting phase on the following three questions:

- What do we want to achieve?
- What will we do to achieve it?
- How much can it cost?

In the accounting phase it focuses on three other questions:

- What did we achieve?
- Did we do what we thought we would do?
- Did it cost what we thought it would cost?

The early experience shows that the budgeting questions were not fully

addressed, while departmental budgets provided insufficient insight into policy effects aimed at and activities needed to achieve these effects. Moreover, expenditures were not elucidated in terms of performance data, so that the relationship between expenditures on the hand and goals, instruments and performance on the other hand was insufficiently clear. An important reason for these shortcomings is that policy goals have not been formulated in measurable and concrete terms in the form of effect-indicators and target figures. [12]

In response to the discontent that parliament expressed, the Dutch finance minister proposed in late 2007 to conduct an experiment with the budgets and annual reports of six departments in order to enhance the accountability's political relevance. As a result, both the budgets for 2009 and the annual reports over 2008 present more policy information than previous budgets and reports did, which is a positive trend.

However, also some negative observations can be made. Ministers fail, to an increasing extent, to explain the realization of general or operational goals. This pertains to over  $\frac{1}{3}$  of the objectives. Budgets still provide insufficient insight into policy effects and activities undertaken to achieve these effects and ministers appear to have problems in developing performance indicators that are closely related to their policy goals. As a result, the relationship between expenditures and goals, performance, and means is insufficiently clear.

The crucial problem that so many policy goals are stated in vague and abstract terms rather than measurable and concrete terms seems quite persistent. In my practice as chair of three local accounting committees I observe the same phenomenon on the local level. This calls into question whether there is a technical or some other reason underlying this problem. In other

words, is it often really difficult or impossible to formulate policy goals in measurable and concrete terms or not?

There might be an administrative and/or political reason. Measurable and concrete goals make politicians vulnerable for criticism because it is possible to conclude whether or not they have realized their objectives. Thus, politicians might be reluctant to state certain goals in measurable and concrete terms in order to avoid such criticism in future. They may consider that vague and/or abstract policy goals make them immune for criticism with regard to their achievements. Thus, scrutinizing reasons why policy goals have been formulated in vague and/or abstract terms seems a subject for future research. The question would be whether there are technical reasons that make it difficult or impossible to state policy objectives in measurable and concrete terms. If not, there is room for the hypothesis that political expediency is an explanatory factor.

So far, little attention has been paid to the question whether it is always possible to determine unequivocally the social effects of a public policy in the first place. Other factors may also affect the outcome. Ideally, an analysis of a public policy's effect should control for other factors that may affect the outcome that has been accomplished. This seems another challenge for future research in public administration.

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#### Notes

1. This is analogous to Budget Day on the third Tuesday in September, when the finance minister submits on behalf of the Government the national budget to Parliament.
2. This section draws on van der Hoek (2005).
3. The term intensification seems typical for the Dutch context. It refers to

- additional funds spent on some program has a special meaning. In the context of this article the word additional means additional relative to the coalition agreement of the cabinet that was formed in 1998. However, the definition of policy intensifications is ambiguous and can vary in different budgetary documents, in particular the (general) Budget Memorandum and the (specific) amplifications in departmental budgets.
4. The Dutch acronym is AR (Algemene Rekenkamer). For reference purposes I use the Dutch name, for other purposes I use the English acronym GAO.
  5. Like intensification, extensification also seems a term typically used in Dutch politics. An extensification is the opposite of an intensification and can be defined as a slim-down referring to a decline of projected spending levels (van der Hoek, 1994, p. 288).
  6. This the sum of 24 percent of the plans related to the 2003 budget and 16 percent related to a post-2003 budget or an unclear time schedule.
  7. The following qualifications have been used:
    - No insight: the objective is not or hardly defined in terms of effect-indicators.
    - Limited insight: the objective is partly defined by one or several effect-indicators and/or target figures are absent.
    - Sufficient insight: the objective is largely defined in terms of effect-indicators with target figures.
    - Good insight: the objective is defined in clearly recognizable effect-indicators and target figures.
  8. Note that budgets are ex ante documents (submitted prior to the budget year) and reports are ex post documents (submitted after the budget year).
  9. This should be done in the Accountability Letter (see section 4).
  10. One department has tried to solve this by adding a review table to the policy report indicating the expenditures that are related to policy priorities.
  11. This regulation is available online in Dutch (<http://www.minfin.nl/ds/resource?objectid=16175&type=pdf>).
  12. This is also signaled in Van der Hoek, 2005.