



Tweede Kamer

DER STATEN-GENERAAL



Attention to the parliamentary right to approve and amend national budgetary policy from a European perspective

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national budgetary policy
from a European perspective**

**Report of a working group from the
Public Expenditure Committee of the
House of Representatives of the Netherlands**

Submitted to the Speaker of the House of Representatives of the States General on Tuesday 9 September 2014
Appendix to [Parliamentary Document 31 597, nr. 7](#)

Foreword

The financial and economic crisis has obviously had consequences. Solutions have been sought and found at the European level. Their consequences can be felt at the national level. For example, the European debt crisis has led to loans and guarantees through European emergency funds. At the same time, new agreements have been made within the Union with regard to national budgeting frameworks and reforms in economic administration.

The financial and economic crisis called for quick action by the executive powers. Solutions have been sought within and, in some cases, outside the existing possibilities offered by the legal frameworks. In such a crisis, the end justifies the means, but obviously in a reasonable manner.

The parliamentary right to approve and amend budgetary policy entails aspects that have been discussed for a long time and by a wide range of entities. For example, although the Netherlands has been making a net contribution to the European budget for years, effective arrangements have yet to be made for proper accounting with regard to the allocation of European expenditures by member states. Each year, the Netherlands uses the National Declaration to submit a transparent report to the European Commission and the Dutch government concerning the allocation of European expenditures in shared management.

Discussions are taking place at the national and international (i.e. European) level with regard to the national right to approve and amend budgetary policy. The Public Expenditure Committee considers it important to help provide the House of Representatives with insight into these matters. Now, in the relative calm after the storm, the Committee is able to provide a more detailed answer to questions concerning the extent to which the recent European developments affect parliamentary rights, and particularly the right to approve and amend budgetary policy. Partly within this framework, the Public Expenditure Committee decided in its procedural session of 12 December 2013 to establish a working group¹ to prepare the current report on the national right to approve and amend budgetary policy from a European perspective. The findings of the working group are contained within this document. In general, it can be concluded that situations in the Netherlands are relatively favourable with regard to the right to approve and amend budgetary policy.

On behalf of the working group,

Aukje de Vries

Chair of the working group on the National right to approve and amend budgetary policy from the European perspective.

¹ The composition and administrative support of the working group are provided in Appendix 3.

1. Executive summary and conclusions

Proceeding from the principles and assumptions of the national right to approve and amend budgetary policy, this working group from the Public Expenditure Committee has examined the parliamentary right to approve and amend budgetary policy from the European perspective (Section 2). The working group has decided to investigate three developments in greater detail: the European Semester, the EU emergency funds and accounting practices relating to the EU budget (Sections 3–5). The working group also considered the extent to which these developments are inconsistent with the national parliamentary right to approve and amend budgetary policy. The group has also discussed this with the European Court of Auditors,¹ the Netherlands Council of State² and the Netherlands Court of Audit.³ This has led to the following recommendations for coping with the European dynamics touching upon the area of national budgeting. The adoption of these recommendations by the Public Expenditure Committee helps to ensure that the House of Representatives will retain control over its parliamentary rights to approve and amend budgetary policy within the context of a changing Europe.

Conclusions and recommendations regarding the European Semester

In the general view of the Public Expenditure Committee, the European Semester does not encroach upon the national right to approve and amend budgetary policy. The Public Expenditure Committee underscores the importance of involving the House early in the European decision-making process concerning the European Semester, so that it can influence the European recommendations. In this regard, the Public Expenditure Committee deems that the involvement of the various House of Representatives committees in the European Semester has undergone positive development, partly due to the involvement of the House reporters.⁴ The Public Expenditure Committee regards the synchronisation of the schedules for drafting national budgets as advantageous to the economic policy coordination of the member states. The shared schedules enhance insight for the European Commission, the member states and other actors with regard to the manner in which other member states process the European recommendations in their national budgets.

In the general opinion of the Public Expenditure Committee, the European Semester has increased transparency within the budgeting process in the Netherlands by allowing the House to discuss and influence elements of policy resolutions that could affect the government's budgetary plans in the spring preceding the State Opening of Parliament (*Prinsjesdag*). This supplements the role of the House in the budgeting process. The Public Expenditure Committee is of the opinion that the practice of discussing the national mid-to-long-range budgetary plan and the stability programme works well. It also notes that this practice has not been formally established. The Public Expenditure Committee considers it

¹ Alex Brenninkmeijer, the Dutch member of the European Court of Auditors, and Gaston Moonen

² Piet Hein Donner, Vice-President of the Netherlands Council of State, Hans Borstlap, Sylvia Wortmann and Theo Van der Nat (all three from the Council of State)

³ Kees Vendrik, member of the Netherlands Court of Audit, Peter Van Roozendaal and Joost Aerts

⁴ Each year since 2013, the House of Representatives has appointed a reporter for the purpose of coordinating the activities and ensuring that the House of Representatives delivers effective, timely and focused input with regard to the European Semester.

important for the stability programme to be submitted to the House in mid-April, thus allowing it to be discussed in the House before 1 May. The Public Expenditure Committee recommends that the date for submitting the national mid-to-long-range budgetary plan and the stability programme to the States General be established in formal legislation.

The Public Expenditure Committee notes that the European Semester does not interfere with the trend-based budget policy of the Netherlands (coalition agreement, expenditure frameworks, annual budget). In the interpretation of the Public Expenditure Committee, the European Semester and the Two-Pack correspond to the current budgetary process in the Netherlands. In this regard, the Public Expenditure Committee is of the opinion that this European legislation has not increased time-pressure on the States General to adopt the budget. The Public Expenditure Committee is further of the opinion that there is no need to shift the State Opening of Parliament or the Parliamentary Debate on the Speech from the Throne to the spring.

The Public Expenditure Committee does not perceive any merit to the suggestion that sections of the budget should be established one at a time and sent to the Senate immediately after they are addressed in the House of Representatives. This could complicate re-allocations between sections of the budget, thereby restricting the House of Representatives' right to approve and amend budgetary policy.

The Public Expenditure Committee applauds the expanded role of the Advisory Division of the Council of State with regard to the European Semester as an independent budgetary authority, and it considers it important for the House to be aware of these new duties in order to make optimal use of them (e.g. by considering the option of, in certain cases, requesting information from the Netherlands Council of State with regard to issues relating to the implementation of the Stability and Growth Pact.

Conclusions and recommendations regarding EU emergency funds

In consenting to participate in the European emergency funds, the Netherlands has accepted treaty-based obligations, which it must honour when called upon to do so. The House has made use of its right to approve and amend budgetary policy in material terms by granting approval (through the debates) to the contributions and guarantees for the emergency fund prior to the European decision-making points. The House has made use of its formal right to approve and amend budgetary policy by also consenting to the supplementary budgets after these decision-making points.

The parliamentary control of the decisions and deployment of resources from the emergency funds should be regarded within the framework of the right to approve and amend budgetary policy in material terms. The House of Representatives attaches great value to its close involvement in the decision-making within the EFSF and ESM, which is guaranteed through agreements with the Cabinet regarding the parliamentary involvement in the decision-making of the EFSF and ESM. The Minister of Finance has stated that these agreements will be formalised in an information protocol at a later date, in consultation with the House. This process will be linked to the information protocol proposed by the temporary committee of investigation into the Financial System, headed by MP De Wit (the De Wit Committee). In reaction to the final report of the De Wit Committee, the House has

agreed to draft this information protocol. To date, the Minister of Finance has not yet submitted any proposal to the House. The Public Expenditure Committee calls upon the Minister van Finance to draft this information protocol as soon as possible.

The Netherlands has a veto with regard to the most important decision-making of the ESM. The House of Representatives exercises its right to approve and amend budgetary policy in material terms by controlling the Cabinet's position (in the debates) prior to the decision-making processes in the European forums. Decisions of the Troika to pay a new tranche to a member state facing serious financial difficulties are sent through the House in advance with unanimity and involvement. One caveat is that the ESM has an emergency procedure through which, in exceptional cases, decision-making can take place with 85% of the deposited capital. The House of Representatives has consented to this in the interest of the decisiveness that is perceived as necessary with regard to the fund in emergencies.

The Public Expenditure Committee underscores the importance of an independent audit of the management of the emergency funds. This is in the interest of proper public accounting, as well as in the interest of the administrators of the funds, whose decisions concern billions in allocations. In this regard, the Public Expenditure Committee regards the design of the accounting model of the ESM, which has an independent Board of Audit (in contrast to the ESFS), as a step in the right direction. The Public Expenditure Committee is of the opinion that the possibilities for advance democratic control over the guarantees, loans and contributions of the Netherlands have been sufficiently arranged through the national budget. Good steps have been taken with regard to retrospective democratic control, and the Committee will be carefully monitoring further progress in this area.

Conclusions and recommendations with regard to accounting on European allocations

The Public Expenditure Committee is of the opinion that responsibility for proper accounting on EU resources rests particularly at the level of the member states. Such accounting should be transparent, and it should ultimately take place at the political level within a member state. In light of this, the Public Expenditure Committee underscores the importance, utility and necessity of the National Declaration. The issuing of a National Declaration is crucial to proper accounting on European allocations. In the perception of the Public Expenditure Committee, additional attention should be paid in coming years to the elimination of political and administrative obstacles, in order to arrive at National Declarations by all member states. The simplification of Brussels legislation and the streamlining of national and European control and auditing practices appear to be the most effective routes to this end: towards Single Information and Single Audit (SISA) at the European level.

The Public Expenditure Committee requests the Minister of Finance to submit a status report to the House in the near future, concerning the results of the European Commission on the voluntary National Declaration, including a Cabinet appreciation and the subsequent steps that the Cabinet has resolved to take.

The Public Expenditure Committee emphasises that the introduction of appropriate incentives into the system is crucial to achieving proper accounting by the member states. The Public Expenditure Committee therefore calls upon the Cabinet to continue preparing itself within the EU for the introduction of more appropriate incentives into the budgeting system, in the interest of improving accounting on European expenditures.

- For example, additional transparency from the member states with regard to their actual controls should be rewarded. This would allow the European Commission to demonstrably lessen the burden of control for countries that deliver good work in this regard. The European Court of Auditors would be able to shift its control efforts towards the member states delivering poorer work in this regard, with greater effort going to member states that do not yet have their control procedures in order or that are less transparent about these aspects.
- The Public Expenditure Committee is further of the opinion that the error percentages for each member state should be accessible and open to the public. This would make it clear which member states are performing well or poorly (i.e. 'naming and shaming'). The Public Expenditure Committee sees this as a good way to identify problems and solutions. Where advisable, fewer control obligations could be imposed on countries with better scores.
- According to the Public Expenditure Committee, it is not right for member states to have the opportunity to repair the improper allocation of European subsidies. Such errors should not be rewarded, but sanctioned.

The Public Expenditure Committee is of the opinion that, although the new Financial Regulations of the EU budget are a good step in the direction of improved accounting on EU resources in the member states, further steps can and should be taken. The Public Expenditure Committee regards the improvement of accounting on European expenditures as a key priority for interparliamentary cooperation in the coming years. This means that the Public Expenditure Committee will be calling upon the national parliaments of the member states to submit the accounting documents that are required under the new Financial Regulations of the EU budget to the European Commission, while making them public and accessible. This would allow individual member states to contribute to the improvement of accounting on EU resources. The Public Expenditure Committee will strongly urge this message to be communicated in the interparliamentary forums, including the 'Article 13 Conference', COSAC and joint committee meetings organised by the European Parliament's Committee on Budgetary Control.

Appendix 1 – Functions and principles of the Dutch right to approve and amend budgetary policy

Several manuals^{5,6,7} have appeared on topics including the functions and principles of the budget. The Framework Memorandum on the Government Accounts Act (CW) offers several additional tools in this regard. The following summary overview is based on the above-mentioned sources, and it provides a good image of the various budgetary functions.

Budgetary functions

- 1) **Authorisation function:** The States General must grant formal approval for the budget (and budgetary legislation).
- 2) **Allocation function:** The States General decide where the resources will be allocated. How are the resources to be divided over the various policy topics, and which instruments are to be used?
- 3) **Administrative function:** The established budget forms the framework (authorisation) for the policy and its implementation by the government.
 - a. **Clear responsibility:** (Framework Memorandum on the Government Accounts Act). Where does the responsibility for policy and implementation lie when various ministers are involved? Tasks may be performed outside of the National Office, but the consequences for the responsibility of the minister should be clear.
 - b. **Independent financial function:** (Framework Memorandum on the Government Accounts Act). The position of the financial and auditing function within a ministry is guaranteed independently of the policy and operational functions.
- 4) **Control and accounting function:** To what extent is the policy that has been adopted consistent with the policy resolution? Parliament should be informed of how the Cabinet's policy and budgetary resolutions are being achieved. Ministers are ultimately granted discharge based on this information.
 - a. **Efficiency:** Is or was the policy efficient? What was the relationship between the resources deployed and the outcomes?
 - b. **Effectiveness:** Is or was the policy effective? Were the resources deployed in such a way that the stated policy objective was actually achieved (policy result and policy effect)?
 - c. **Legitimacy:** Were the amounts included in the account derived in accordance with budgetary legislation and other legal regulations?
- 5) **Macro-economic function:** Budget policy has economic consequences. This allows the budget to be used in order to operate according to macro-economic policy.

Budgeting principles

In addition to the budgetary functions, several general requirements can be formulated, which budgets (and budgetary systems) would have to meet in order to come into their own.

1) Unity/universality

⁵ *De Rijksbegroting in Perspectief* (The National Budget in Perspective) – Kuipers & Postma

⁶ *Toegang tot de Rijksbegroting* (Access to the National Budget) – Arnoldus, Van Nieuwamerongen, Verberne

⁷ *Toegang tot de Rijksbegroting* (Access to National Budget) – Vos, Teunen, van Hofwegen etc.

- a. **Comprehensibility:** The budget should provide a good image of the amount of governmental resources available for the duties of the government.
 - b. **Comparability:** The budget should provide a good framework for considerations concerning the deployment of government resources.
 - c. **Uniformity:** Amounts should be comparable, gross and balanced in the same manner.
 - d. **Completeness:** The government may not have any expenditures or receipts outside of the budget. Expenditures and receipts should be visible separately. Financial activities do not take place outside of the budget (guarantees?).
 - e. **Simultaneity:** Components of the budget should be simultaneous decision-making topics. The Government Accounts Act specifies that authorisation extends to the level of articles of the budget.
 - f. **Clear structure**
- 2) **Periodicity/annuality:** Budgets should be established regularly in order to achieve a workable process of consideration. The Netherlands has opted for an annual process.
- a. A **cyclical approach** is important: budget preparation, budget implementation and budget accounting;
 - b. Besides this, **'Learning capacity'** is important in order to improve the efficiency, effectiveness and legitimacy of expenditures in the course of years.
- 3) **Establishment in advance:** The establishment of the budget by the legislature precedes its implementation by the executive power.
- a. **Restraint in implementation before formal approval has been granted:** (Framework Government Accounts Act) The Senate and the House of Representatives establish the budgetary legislation before 1 January of the budget year. If this does not occur, the provision that restraint should be exercised in the implementation of the budget applies. New policy included in the model budget may only be implemented if the budget act has been passed in both the Senate and the House of Representatives. New policy that has already been announced to the House in a separate policy memorandum or brief may be implemented.
- 4) **Openness to the public:** In the interest of democratic legitimacy, a budget should be both formally open to the public and substantively accessible.
- a. When both of these conditions have been met, a 'comprehensibility question' follows. To what extent is the legal accessibility requirement applicable (i.e. to what extent should people know the law), and can steps be taken to achieve a more 'open government' (i.e. are other forms of information facilities available to citizens)?
- 5) **High-quality information:** Budget figures should be current, qualitative, correct and reliable. Policy objectives should be specific (partly due to the accounting).
- 6) **Timeliness:** This principle supports the right to decide on the amount and allocation of the budgets. The involvement of the House in the Cabinet's budgetary plans in an early phase.

Appendix 2 – European Semester and the discussion agenda of the House of Representatives

According to the European agenda, the European semester is expected to proceed according to the following process schedule. See also the [schematic overview](#).

Phase 1: From growth analysis to the establishment of the European economic priorities (December 2013 - March 2014)

Objective: The EU-wide economic priorities are established based on economic forecasts and growth estimates.

Proposal: Growth analysis + appendices

Submitting party: European Commission

Partial treatment by the EU: Competition Council, Employment and Social Policy Council, Economic and Financial Council in spring 2014.

Comprehensive treatment by the EU: General Affairs Council and European Council March 2014.

EU Decision-making: European Council, March 2014

Phase 2: Elaboration of the European priorities in the national programmes (March - April 2014)

Objective: The general priorities are elaborated in the national Reform Programmes and in the national Stability and Convergence Programmes

Proposal: National programmes (Reform, Stability and Convergence)

Submitting party: Dutch government (National Reform Programme, Minister of Economic Affairs, Stability Programme, Minister of Finance)

Decision-making/settlement: The government must submit the national programmes to the European Commission no later than 30 April 2014.

Phase 3: Adoption of country-specific recommendations (May - June 2014)

Objective: The analysis and discussion of the national programmes results in the establishment of separate macro-economic and budgetary recommendations for each EU member state.

Proposal: Proposal for country-specific recommendations

Submitting party: European Commission

Partial treatment by the EU: Economic and Financial Affairs Councils and other joint committees in May - June

Comprehensive treatment by the EU: General Affairs council, European Council June 2014

EU Decision-making: European Council June 2014

Phase 4: The establishment of the country-specific recommendations concludes the European portion of the Semester. The rest of the year, the member states are responsible for the implementation of these recommendations in their national budgets and macro-economic policies ('National Semester': September - December 2014).

Objective: The country-specific recommendations must be processed in the National Budget.

Proposal: National Budget 2015

Submitting party: Dutch government

EU Decision-making: European Commission provides advice on implementation no later than 30 November 2014.

Decision-making/settlement: Draft versions of the national budgets must be submitted to the European Commission no later than 15 October. The EC provides advice on these budgets no later than 30 November 2014. Budget negotiations must be completed by 31 December 2014.

Appendix 3 – Composition of the working group and administrative support

Chair of the working group

- Aukje de Vries, VVD

Members of the working group

- Eddy van Hijum, CDA
- Yasemin Cegerek, PvdA (as of 1 January 2014)
- Marith Rebel, PvdA (until 1 January 2014)
- Anoushka Schut-Welkzijn, VVD (involved in the beginning phase by virtue of position as European Semester reporter)

Administrative support

- Eduard Groen (clerk)
- Peter van Kessel (deputy clerk/EU advisor)
- Hans Arts (Legislation Office)
- Martijn Balster (research office and public expenditure)
- Evelien Maas (deputy clerk)
- Justin Rosing (deputy clerk)
- Jos van de Wiel (deputy clerk)

Appendix 4 – Cover letter accompanying the report

31597 **Programme of Work for the Public Expenditure Committee**

Nr. 7 **LETTER FROM THE PUBLIC EXPENDITURE COMMITTEE**

To the Speaker of the House of Representatives of the States General

The Hague, 9 September 2014

In its Programme of Work, the Public Expenditure Committee has expressed its ambition to devote efforts to strengthening the control of and accounting on European resources. The Committee also considers developments in the areas of budgetary discipline and macro-economic supervision, as realised in the European Semester. During its procedural session of 12 December 2013, the Committee decided to establish a working group⁸ to prepare the current report on the national right to approve and amend budgetary policy from a European perspective.

In its procedural session of 4 September 2014, the Public Expenditure Committee approved the adoption of the attached report and the recommendations included within it. Accompanied by an expression of thanks to the members of the working group, the Committee submits this report to the attention of the House.

Chair of the Public Expenditure Committee
Harbers

Clerk of the Public Expenditure Committee
Groen

⁸ The following members have participated in this working group through the completion of the report: Aukje de Vries (chair, VVD), Yasemin Cegerek (PvdA), Eddy van Hijum (CDA).