



The Great Disappearing Act

“It’s virtually impossible
to say whether our
taxes are spent wisely”

Are you getting value for money from your taxes?

Accountability | Arno Visser, President of the Netherlands Court of Audit, on the disappearing public euro. It's hard, if not impossible, to say whether billions of euros are being spent wisely.

By Arno Visser

Municipal property tax assessments will soon be dropping onto doormats throughout the Netherlands. Letters will no doubt be sent to the newspapers again, employer organisations will be unhappy and indignant, MPs will voice their opposition. A repeat of the outrage seen in previous years is expected.

“Deceiving voters with policy on the hoof,” screamed the headline in the *Gooi- en Eemlander* newspaper in 2016 when the municipality of Gooise Meren raised the property tax rate. In the same paper, the local Labour Party said the increase was “offensive and incomprehensible”.

The House of Representatives also got involved in municipal taxes. In March 2016, *De Telegraaf* newspaper quoted a Liberal Party MP saying “If necessary, Ronald Plasterk [Labour Party Minister of the Interior] should cut payments to the Municipalities Fund.” A Christian Democratic MP claimed local politicians were relying far too heavily on property tax.

A recent survey found that members of the Homeowners Association thought property tax was being used to plug holes in municipal budgets. They wanted to know what municipalities were doing with the money.

This is not an unreasonable request. But what prompts the annual outcry? It's probably not the amount of

money involved. Property tax accounts for just 2.4 cents out of every euro the average Dutch person pays in tax. In Woerden – the most average municipality in the country – everyone owning a 250,000-euro house pays 318 euros in municipal tax. Increasing the tax rate by a couple of percentage points costs just a few euros a year, the price of a latte macchiato in a trendy coffee bar. Next year, the average property tax assessment will increase from 273 to 276 euros. Conversely, property tax is just a small proportion – less than 10 per cent – of a municipality's total revenue.

We pay far, far more to the Minister of Finance in petrol, alcohol and tobacco duties and in income tax and social insurance contributions. But councillors run into a brick wall when they try to explain this to their voters.

Apart from the waste disposal levy, property tax is the only financial bond between local administrators and residents. The rest of the municipal budget comes from The Hague. And just like MPs voicing their indignation about the hike in property tax, local politicians get hot under the collar when The Hague imposes budget cuts. This is illustrated by the recent debate on the cuts to welfare services for young people. Who can taxpayers turn to if they want to know what happens to the taxes they pay and who spends them?

It's getting harder to answer this question and I think that partly explains the outrage about property tax. Not knowing what happens to the public euro leads to confusion and suspicion. Even if they try to understand, the public can't fathom how their taxes are collected and spent, and by whom.

The confusion and suspicion should never be underestimated. In the history of democratic revolutions, three of the biggest had their origins in taxes and government spending. You could even say we owe our independence to an unwanted assault on our purses.

The Dutch Revolt was triggered by a new tax, the tithe, that the King Philip II of Spain tried to raise in the Low Countries in 1569. Philip ignored the agreement that taxes could not be raised without the approval of the States General. He was deposed as Lord of the Netherlands and the Eighty Years War ensued. And freedom of conscience became a founding ideal of the Dutch Republic.

Two centuries later, Louis XVI (1754-1793) attempted to impose new taxes on France's hungry masses and the resentful nobility to pay for his opulent lifestyle and stave off national bankruptcy. He totally misjudged the mood of the country and the consequences: the collapse of the ancient regime, Robespierre's Reign of Terror and Napoleon Bonaparte's military coup. The protagonists were eventually deposed and their political ideologies were replaced with *liberté, égalité* and *fraternité*.

George III of Great Britain was restricted by a Charter and parliament, but taxes lost him his American colonies. The British government steered several tax laws through parliament in London but they were rejected by the colonies. "No taxation without representation," cried the colonists and the subsequent War of Independence (1775-1783) ushered in a democratic republic.

These examples might sound dramatic but freedom, equality and fraternity and the American taxpayers' call for representation have lost none of their eloquence. The achievements of these three revolutions form the bedrock of our modern parliamentary democracies, and public accountability is the touchstone of every politician who spends public money.

Arno Visser (50)

is President of the Netherlands Court of Audit. Before becoming a member of the Court he was the finance portfolio holder on Almere municipal executive (2008-2013) and a member of the House of Representatives for the VVD liberal party (2003-2006). Born in The Hague, Visser studied literature at the University of Groningen. As an MP he chaired the parliamentary inquiry on the system of secure psychiatric institutions.

How taxes are spent is still subject to scrutiny in the 21st century. Parliament must approve the collection of all taxes, hold politicians responsible for expenditure and oversee their use of public money.

The politicians subsequently have to account for the expenditure again at the end of the financial year and parliament cannot discharge them of their responsibilities until their accounts have been verified by an independent audit body. These democratic achievements are at the heart of parliament's right to approve the budget. No taxation without representation!

So why don't we know what happens to the public euro? Today, taxes are collected on the basis of complicated tax laws that are drafted not only to share the burden fairly on both strong and not so strong shoulders but also to encourage desired behaviour and discourage undesirable behaviour. Those who earn more pay more. Those who drive an electric car, for example, pay less. Mathematical formulas are then used to allocate the billions to where they are needed: benefit recipients and students, asphalt, railways and lampposts, hospitals and youth centres, the police and regulatory authorities, and so on. The money does not stay in The Hague, where it was collected. Much of it is allocated to other tiers of government or autonomous administrative authorities.

One such "formula" is the interminably complicated system central government uses to allocate money to the Municipalities Fund. It uses dozens of indicators to share out tens of billions of euros among the 390 municipalities in the Netherlands and award general grants and special purpose grants. Financially,

this system is far more important to a municipality than a local property tax that raises just a few hundred euros from each homeowner. This is explained in the reports of the Financial Relations Council and the publications issued by Professor Maarten Allers of the Local Government Economics Research Centre (Coelo) in Groningen.

Another example is Ministry of Education, Culture and Science's financing of schools and universities. A raft of variables is used to calculate their budgets. In such a system, often only a few insiders know which levers have to be pulled and bureaucracy gains the upper hand over democracy.

A school's budget, for example, will include money to pay for day-to-day building maintenance, but municipalities receive funds for the construction and renovation of school buildings. Who should a teacher, pupil or parent turn to in order to complain about the state of a building? The school, the municipality or the ministry? Which MP can answer questions about the budget and what it covers? Thorough knowledge of the law is required to answer these questions.

The Constitution states that education is a "constant concern of the government". Everyone in the Netherlands wants the very best education for their children. A recent OECD study again confirmed that Dutch education enjoys a very good international reputation. Yet the quality of education and the available budget are subject to endless debate. Is there enough money? Is the money spent economically, efficiently and effectively? The answers are not clear.

Education has had to bear relentless criticism on the radio and television and in the papers for at least 20 years. Teachers are not good enough, buildings are not fit for purpose, teaching materials are out of date, courses do not meet the needs of business, the quality is unacceptably low. The complaints are usually justified by claims about lack of money and swingeing spending cuts. The solution seems simple: more money for education.

First the good news. The extra money has already been provided. The education budget has nearly doubled in recent years. Expenditure per pupil or student has also risen sharply in the past 15 years. This information is readily available to anyone who visits Statistics Netherlands' website.

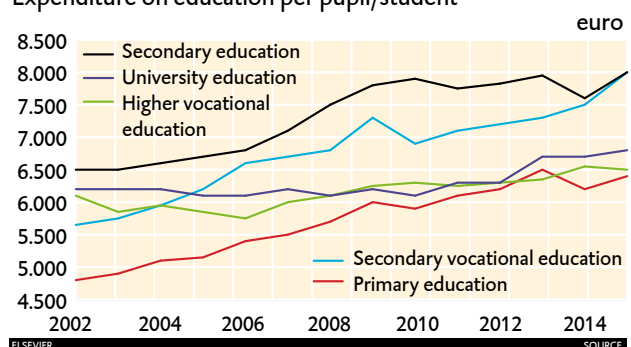
What is the Netherlands Court of Audit?

The Netherlands Court of Audit is an independent High Council of State with offices on Lange Voorhout in The Hague. In its current form it dates back to 1814. Its task is to audit the regularity and efficiency of government expenditure. Expenditure must be in accordance with the regulations and money must be spent to achieve the intended goals. The Court is also increasingly auditing the effectiveness of government policy. The Court of Audit's Board is made up of three members. Arno Visser has been President of the Board since 2015. The Court has a staff of about 270.

Despite the significant increase in spending on education there has been no let-up in the grumbling. All parties across the political spectrum from left to right argue in their election manifestos that more money must be spent on education. The Christian Democrats write, "The next investment in quality will give teachers more time, money, consideration and respect." The Socialist Party wants smaller classes and a reintroduction of student grants. The Labour Party says it will invest billions more in education in the years ahead, as much as 10 billion euros more per annum for the next 15 years. The Christian Union will release an extra billion euros to bring education into line with the practical skills that are needed today. Democrats 66 are calling for life-long learning and higher investments in teachers.

More and more money

Expenditure on education per pupil/student



Whether or not more money is spent on education is a political decision. It is not for me to say. What concerns me is what happens before the decision is taken. Shouldn't we first know what all that extra money has been spent on in the past 15 years? Has the taxpayer received value for money?

The difficulty we have answering this question highlights the problem of the disappearing euro. The temporary parliamentary inquiry committee on educational renewal (the Dijsselbloem Committee) issued its concluding report, *Time for Education*, in 2008. The Court of Audit carried out an audit for the committee and found that the House and government had wanted educational renewal to be budgetarily neutral, but it had cost an additional 2.2 billion euros between 1990 and 2007 and it was impossible to say how schools had spent the money.

The Ministry of Education's annual report provides little insight into the use of educational funds collected and allocated in The Hague. To find out how primary and secondary schools, regional training centres and universities spend their budgets, you have to knock on every individual institution's door, because apart from more money, the schools and universities were also given more autonomy in how they spent their lump sum funding.

How much they receive is calculated by a mathematical model but the decision on how they should spend it theirs alone. The thinking behind this is that the professionals know best how pupils and students can be taught most effectively. It is not such a strange thought. The need for more highly qualified teachers or more support staff differs from one school to another.

In summary, the situation is as follows: parliament decides that "The Hague" must collect the money necessary for education and allocate it to the schools, and the school administrators then decide how it is spent during the year. But how are those choices subsequently justified to the public? The school administrators account to a board or governing body and via consultative bodies to the pupils, teachers and parents. There is no structure in place to inform parliament, however, so that it can tell taxpayers what has been done with their money. You really do have to knock on each school and university's door and ask.

What if parliament wanted to know whether an additional budget had improved education? In 2015, the Court of Audit investigated what had happened to the extra 1.2 billion euros released to professionalise teaching in primary and secondary schools. We concluded that it was not known how much extra money school administrators had received to professionalise their teachers. Nor could we determine whether the quality of education had improved.

As a result, parliament cannot say whether the extra money has been spent effectively. There is no accountability. What's more, as we cannot make comparisons, we cannot learn from each other's experiences. School administrators do not know whether their school made better or more effective choices than other schools. The government has hived off responsibility for decision making but has forgotten to standardise accountability for the outcomes.

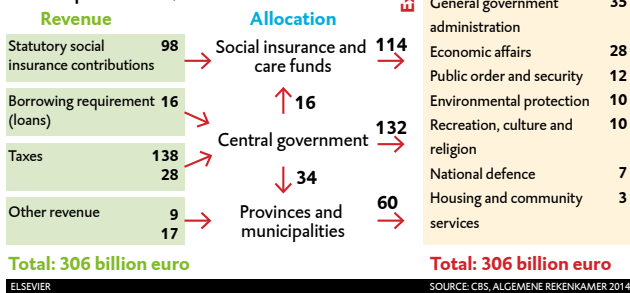
Education is not the only sector with a lack of democratic insight. To give just a few examples: What added value did the Ministry of Economic Affairs' innovation grants have in the market sector? Did the funds released by Social Affairs and Employment actually help the elderly unemployed? And what became of the Security and Justice's reorganisation of the police force. It is virtually impossible to conclude that the money was spent economically, efficiently and effectively. The 11 billion euros central government transferred to the municipalities in 2015 were not accompanied by democratic rules to make their use more transparent.

This is a concern because a lot of money is at stake. Public expenditure amounts to 200 billion euros a year. More than half the euros collected in The Hague are spent and accounted for elsewhere, by provinces and municipalities and by organisations such as the Employee Insurance Agency, the State Forest Service, care institutions, and private companies that are grant funded, such as ProRail and Dutch Rail. With virtually no link between collection, payment and use, the audit trail breaks down. Who is in control? Who believes it will all turn out for the best? Lack of insight has never been a solid foundation for confidence.

Has it always been like this? Is nostalgia justified? Was there ever a golden age when accountability was a public good? No, it's not that simple. When the

Funding flows

Public sector revenue, allocation and expenditure, in billions of euros



We still have taxation but representation has gradually slipped from view. A civil right has been lost and parliament has no insights to share with the public.

An eerie silence has descended on this lack of accountability. For three decades we have been reorganising public tasks without protecting the attendant public rights, and no one has complained. It is as though we were 17 million frogs sitting in a pan of slowly boiling water, refusing to jump out until the property tax assessment lands on our doormat in the spring.

Kingdom of the Netherlands was founded more than 200 years ago, there was no centralised tax authority. All levies and taxes were local or regional. The Hague received money from the regions to carry out certain tasks, such as national defence. Step by step, central government assumed more and more tasks. New ones were created and old ones were harmonised to create a unitary state. The collection of taxes and contributions slowly gravitated to the centre.

The direction has been reversed in the past 30 years but it has not been consistently followed through. Expenditure has been decentralised but collection has not. More and more tasks have been hived off to smaller-scale administrative tiers, returned to provinces and municipalities, autonomised or privatised.

Tax collection has remained centralised and become increasingly complicated, and reorganisations have rarely if ever been accompanied by central agreements to ensure that comparisons can be made between expenditures and outcomes. The Netherlands has become a decentralised unitary state that does not speak the same language when it discusses public spending. At best it speaks in dialects, but we don't really understand each other. The principle of accountability has faded from view.

Today, in 2017, we have arrived at the point where no democratically elected institution still has oversight, can follow public funds and receive relevant information. Who must the taxpayer turn to in order to ask why the property tax has increased? And all those municipalities, provinces, schools and hospitals are not in a position to learn from each other; there has been no systematic harmonisation of insight into the outcomes and impacts of public spending. Nobody speaks the same language, everyone does their own thing.

Is it time for a revolution? No. We must take the pan off the stove, let the water cool down and make some simple agreements. It is time to reflect on public accountability. We need a democratic form of accountability that is in step with modern society, with real time information on the performance of public tasks. The public and politicians should work together to ensure that traditional accountability and modern information systems reinforce each other.

This is not a plea to go back to how things used to be. The implementation of government policy and public expenditure are not the exclusive prerogative of ministers and their civil servants. They are increasingly performed by networks of public and private actors.

And this is certainly not a plea for more controls and checklists. Technological advances are rapidly succeeding each other. They are not only transforming the provision of public goods and services, they are also making public information systems better, faster and more versatile. They can help recast traditional ideas of public accountability in a more modern mould so that the public know they are getting value for money.

Everyone has a part to play in this. Hospitals can publish their information as open data so that it can be used by interest groups and studied by universities. In combination with patient satisfaction data, such information could serve as input for supervisory boards tasked with supervising public organisations. The boards could also have far more direct contact with the public. In education, too, administrators could adopt the same principle that public money and public accountability go together like tomatoes and mozzarella.

This information would strengthen parliament's duty of oversight. The public themselves can actively participate in focus groups or become actively involved via their smartphone apps. Another example of how the public can help enhance insight is the healthcare cost comparison site set up by the Consumer Association and the Open Data Foundation so that consumers can compare the information on their hospital bills.

Organisations that spend public money and publish open data on their policies and results are paving the way for new forms of public and civil society involvement, using apps that find the best route or the nearest parking space, that answer questions on the zoning, ownership and use of land and buildings or that cut domestic energy consumption.

Governments can use the internet to disclose who receives public grants and why. The European Commission is already doing this. If this information can be followed by the public, it will make a meaningful contribution to our understanding of where the public euro is spent and to what effect. It will then be clear whether grants are having their intended impact in the form of a communal barbecue, a company's technological innovation or whatever.

Is technology the solution and will letters to the editor be consigned to the history books? No, public spending decisions and outcomes are still matters of political debate. But the public, organisations and businesses will have more confidence in the government if they have a deeper and better insight into public finances; confidence is built on insight. More insight can be gained into expenditures and impacts if the same standardised definitions are used throughout the public sector. Standardisation of public finances and of the published information will increase insight without having to establish new organisations to achieve the same goal.

Whether this insight will arise and the data will be opened up is a question of willing. We have to be willing to speak the same language. Hospitals, schools, universities, municipalities and provinces must not cry wolf about their "autonomy" because it is not really at issue. Nor will the control burden increase. But there will be more questions from the public about how public money is spent.

The question that is and will remain the alpha and omega of democracy is: are you getting value for money from the property tax, salaries tax, income tax and levies you pay? It is easier to ask questions than it is to answer them. But a serious democracy must come up with an answer. A general election is being held this year. By definition, an election year is the perfect time to call for change. The first question is whether there will be an improvement in our understanding of public finances. The second question is whether the Senate and House of Representatives, the provincial executives, municipal executives or, indirectly, the Court of Audit and the local and regional audit offices know whether we are getting value for money.

A national committee will be set up in early 2017 to reflect on the parliamentary system. The Senate and the House of Representatives asked the government to establish it last summer in order to determine whether the parliamentary system was future-proof and, if not, to identify necessary changes. Accountability is an inextricable aspect of any question about the future of parliament and therefore about any question concerning the disappearing public euro.

The question about taxation and representation extends all the way from central government to provincial and municipal government. Do we want to be ruled by mathematical models or by a representative parliament? It all began with parliament's right to approve the budget, and that is still what it's all about. No taxation without representation.