



Local government finance in the Netherlands

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Topics

1. Facts and figures local government finance in the Netherlands
2. Financial arrangement for decentral government
3. Impact of the financial and economic crises:
 - the impact on national and decentral level
 - the measures
4. Concluding remarks



1. FACTS AND FIGURES



Structure of Dutch Public Sector



Decentralised Unitary State

Three main layers:

- National / Central
- Provinces (12)
- Municipalities (431)

Water boards (27)

European Union

Basics: coöperation and agreement by consultations



Legislation

Provinces and municipalities are named in the constitution



Specification in lower legislation

(Municipality Law and Province Law)

finance: taxes



Financial arrangements: Financial Relations Law

grants



Competences

Distinguish between:

- Shared powers
- Autonomous powers
- *Note: own competences, but still part of the unitary state!*

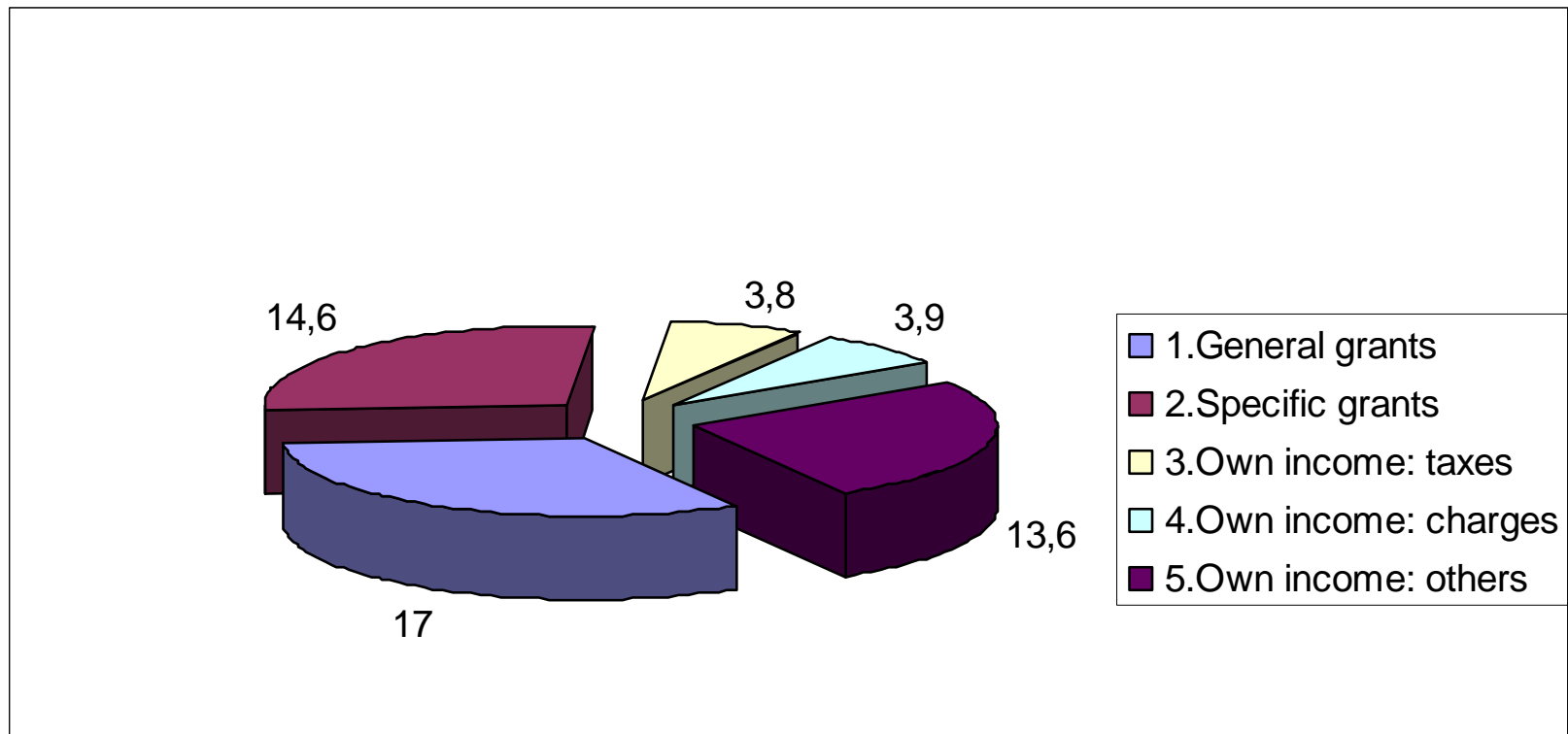


Main tasks:

- Provinces: spatial planning, environment, nature/landscape, traffic, financial supervision
- Municipalities: public order, safety, housing, employment, social security, social welfare

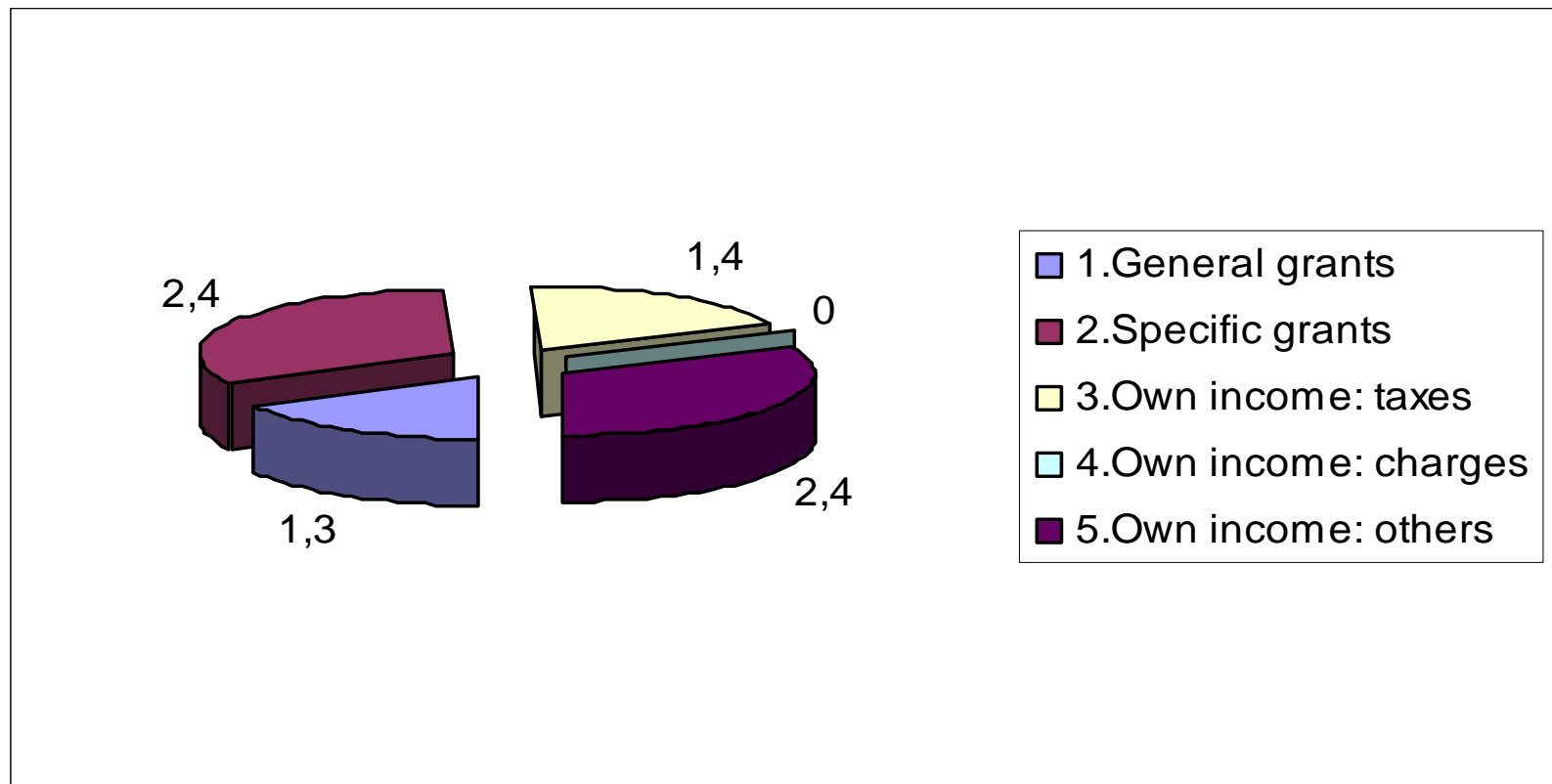


Finance: income categories Municipalities (in € bln; budgets 2009)





Finance: income categories Provinces (in € bln; budgets 2009)





Finances – the sum up

Income categories - in € bln (budgets 2009) *and % of total income*

	Municipalities	Provinces
1. Own income: taxes	3,8 7%	1,4 19%
charges/fees	3,9 7%	-
other	13,6 26%	2,4 32%
2. General grants	17 32%	1,3 17%
3. Specific grants	<u>14,6</u> 28%	<u>2,4</u> 32%
<i>Total income</i>	52,9	7,4
<i>GDP 2009: € 575 mld</i>	9,2%	1,3%



2. FINANCIAL ARRANGEMENTS



System of financial relations

Two main players at national level:

Minister of the Interior and minister of Finance

System responsibilities:

- Adequate funds for local responsibilities
- Adequate distribution of funds
- Adequate consultations / information





Amount of money

Adequate funds for local responsibilities

- > Set base of the funds
- > Annual autonomous growth in general grant: 'together stairs up and down'
- > Rules for new tasks
- > Yearly monitoring and administrative consultation





Distribution of the money

Adequate distribution of funds

- > Objective criteria for distribution
- > Carefull change/introduction of criteria
- > Distribution general grant factors in standardised tax-revenues
- > Yearly monitoring and administrative consultation

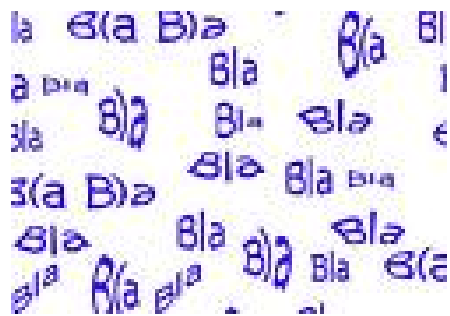




Regular consultation

Negotiations and information

- > administrative consultation twice a year:
new tasks and system-outcomes
- > regular information by circular letters and website





Control and support

Control

- Obligation for budget balance
- No balance = financial supervision



Financial support

- Only temporarily extra financial support
- Goes with structural financial reforms
- Comes upon the municipality fund





Special rules for ...

Taxes

- agreement on maximum yearly growth
- yearly monitoring and consultation



EMU-deficit:

- own share of municipalities and provinces
- obligation to calculate in budget/accounts
- statutory possibility for a fine when exceeding



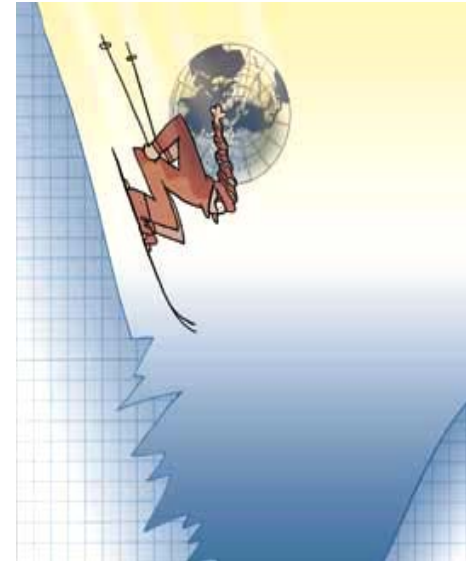
3. IMPACT OF THE FINANCIAL AND ECONOMIC CRISES



Impact on public finance – change for the worse

National public finance deteriorated:

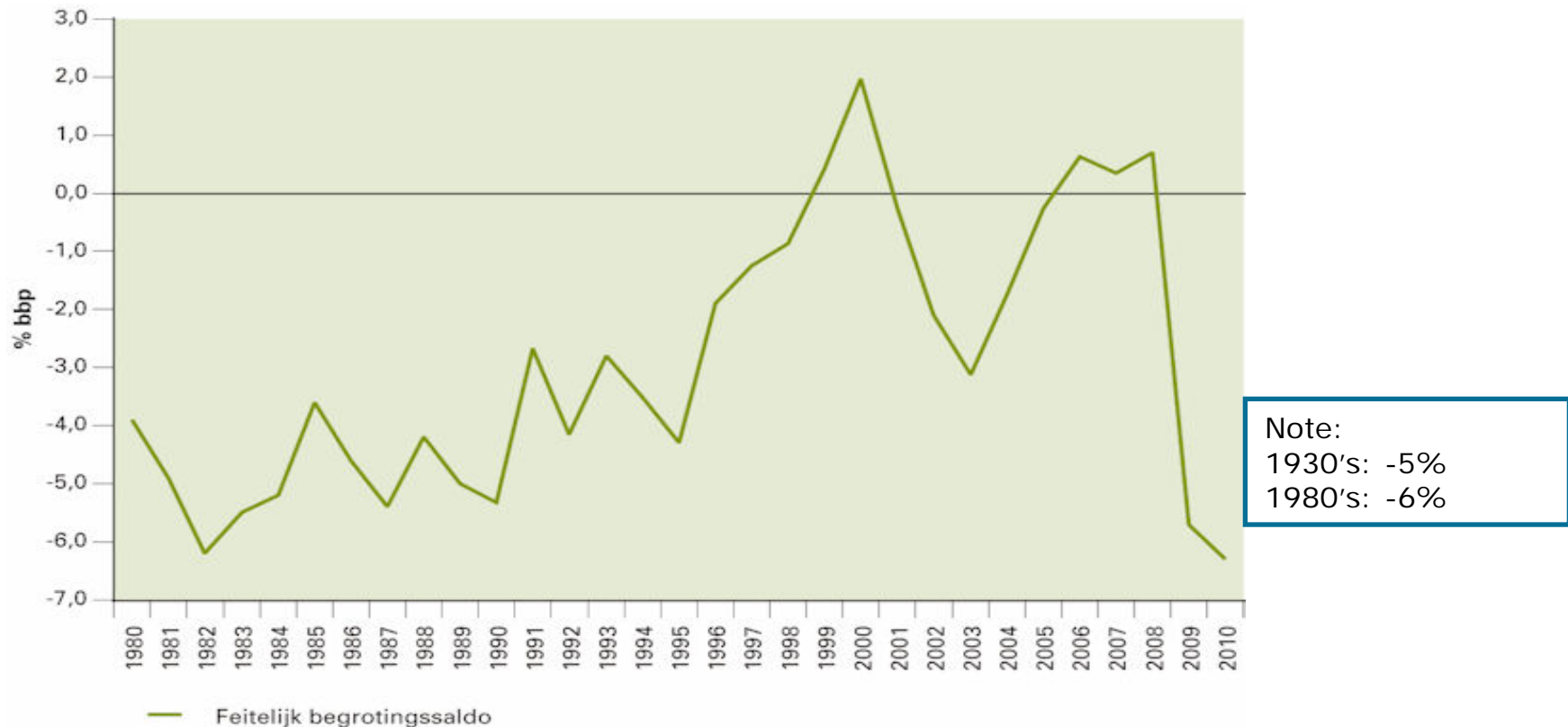
- Financial support banking sector (*around €50bln*)
- Extra economic impuls 2009/2010 (*over € 6 bln*)
- Less taxes-income and rising expenditures (*€ 60 bln*)





Impact on public finance – EMU-balance

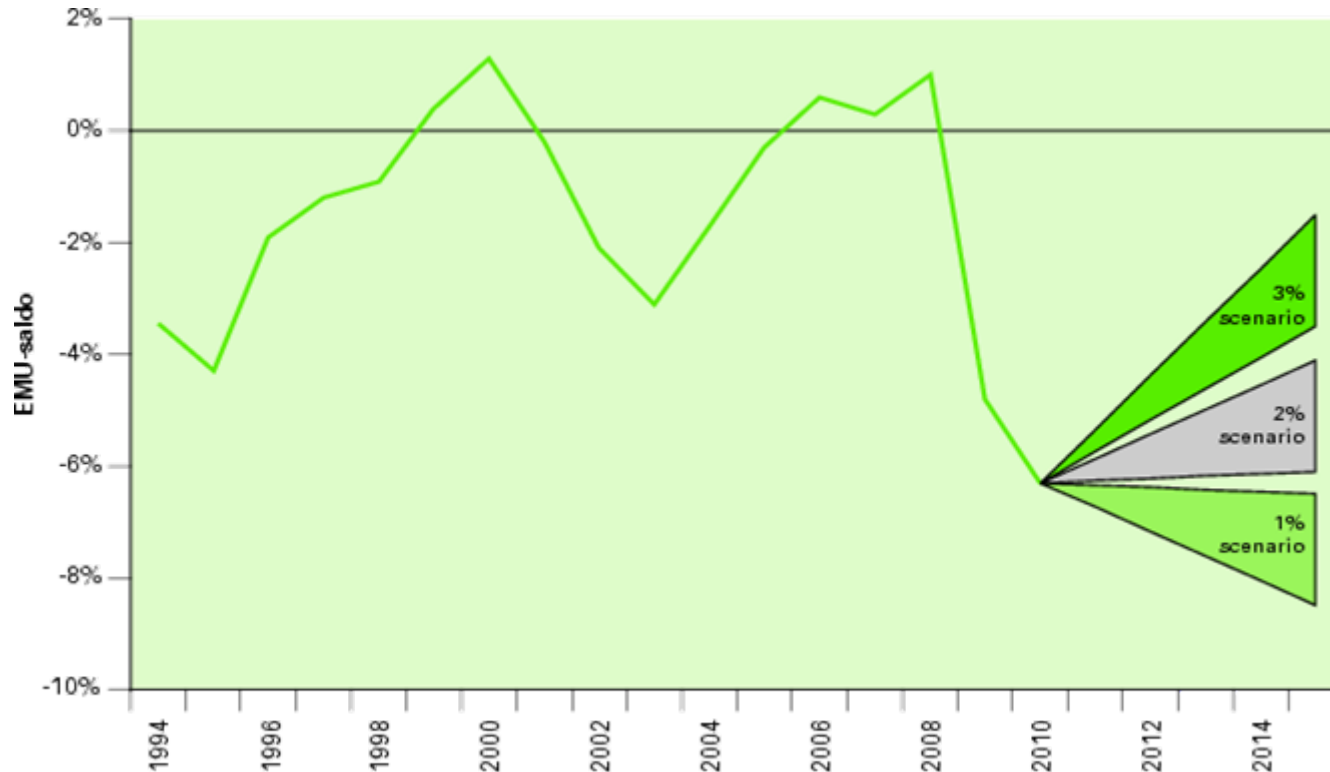
Decrease of EMU-balance (percentage GDP)





Impact on public finance – no automatic recovery!

Development EMU-balance: dependent on growth-scenario's



Note: 1% improvement = nearly € 6 bln



Central Budget 2010: extra measures

- Effort on recovery central government finance by:
 - o Act on Deficit-reduction Central and Local governments
 - o Reconsiderations in 20 working groups (covering whole public sector)
 - > each group 20% reduction in costs
 - o Long term measures (f.i. increasing age for Old Age Pensions Act)



NB. 1% GDP = nearly € 6 bln, 6% deficit = around € 35 bln!



Consequences for local government finance

Shortterm measures municipalities/provinces:

- Combined investments 2009/2010 (€ 1,5 bln)
- Annual growth of funds frozen for three years
- No extra raise in local taxes
- Development of banking at the Treasury





Challenges for the near future

- Effect of 'reconsiderations' on decentral budget and policy: from 2012 negative growth
- Severe adjustments necessary for municipalities and provinces
- Impulse for decentralisation (?)
- Big uncertainties at upcoming decentral elections





4. CONCLUDING REMARKS



Conclusions

- Public finance in disbalance
- Big budget-uncertainties; cuts necessary
- Enormous challenges for local governments
- Hold on to the system and arrangements: they work!
- Rely on strength of decentralised unitary state!

