

NETHERLANDS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 33 688 km²
Population: 17.127 million inhabitants (2017), an increase of 0.3% per year (2010-2015)
Density: 508 inhabitants / km²
Urban population: 91.1% of national population (2017)
Urban population growth: 1.1% (2017)
Capital city: Amsterdam (6.6% of national population)

ECONOMIC DATA

GDP: 899.5 billion (current PPP international dollars), i.e. 52 521 dollars per inhabitant (2017)
Real GDP growth: 3.2% (2017 vs 2016)
Unemployment rate: 4.8% (2017)
Foreign direct investment, net inflows (FDI): 316 541 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.3% of GDP (2017)
HDI: 0.931 (very high), rank 10 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Netherlands is a parliamentary constitutional monarchy. The Kingdom of the Netherlands consists of four countries: the Netherlands, Aruba, Curacao and Saint Maarten, and the three special municipalities Bonaire, Saint Eustatius and Saba. The Kingdom is governed by the Kingdom Statutes; however, every country within the Kingdom is autonomous and has its own constitution (within the framework of the Kingdom Statutes).

The Netherlands is a decentralised unitary state with a three-tier system, which consists of local government, provincial government and national government, without hierarchy between the three levels. The hierarchy only exists in the decision making powers of the three levels of government. The country has a bicameral parliament, which consists of the House of Representatives and the Senate. The 150 members of the House of Representatives are elected by direct popular vote on the basis of party-list proportional representation for four years. The 75 members of the Senate are elected by the members of the Provincial Councils and three Electoral Colleges from the Caribbean part of the Netherlands every four years, following the provincial council elections. It does not however formally represent local and provincial governments.

Decentralisation is enshrined in the 1848 Dutch Constitution, last revised in 2002. Chapter 7 of the Constitution (Art. 123 to 133) is dedicated to provinces, municipalities, water boards and other public bodies. Provinces and municipalities both have deliberative assemblies elected by direct universal suffrage for four-year terms. Councils elect members of their own executive councils, which are collegial boards, each headed by mayors (for municipalities) and King's Commissioners (for provinces), appointed by royal decree based on the recommendations of local councils. In 2002 and 2003, the clear-cut separation of powers between the deliberative assemblies and executive councils was set, which strengthened the subnational administration system.

The Provinces Act (1992) and the Municipalities Act (1992) provide a legal framework for vertical coordination between the three levels of governments. The General Administrative Law Act and the Decree on the Legal Status for Council and Committee Members also frame the subnational system. At the central level, the Ministry of Interior and Kingdom Relations, is in charge of decentralisation reforms, multi-level and public-private cooperation and support to the municipalities.

Reinforcing decentralisation has been a continuous trend for several years, based on the idea of better governance and that the allocation of tasks and functions to the right levels of government is crucial for the efficient use of resources and the creation of an environment conducive to social and economic development. Therefore, since the 1950s government functions and services have gradually been decentralised in the Netherlands. However, the decentralisation process has accelerated recently. Since the 2007-10 Coalition Agreement and the 2010-2012 Coalition Agreement, several tasks and powers have been decentralised to provinces and municipalities and greater autonomy has been given to them. In 2012, a new impetus was given to this process by the 2012-2017 Coalition Agreement. Decentralisation has been high on the Dutch agenda for many decades. In 2015, the latest decentralisation process was formally carried out, which resulted in the transfer of large responsibilities to municipalities in the social sector (youth health, long-term care and employment support for young disabled people). The reform also aimed at revitalising and strengthening the role of the provinces with more focused powers in regional planning, economic development and coordination.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	380 municipalities (<i>Gemeenten</i>)		12 provinces (<i>Provincies</i>)	
	Average municipal size: 45 071 inhabitants			
	380		12	392

OVERALL DESCRIPTION. The Netherlands two-tiers of provincial and local government comprise of 380 municipalities and 12 provinces in 2018 (355 as of January 2019), including three overseas entities (Bonaire, Saint Eustatius and Saba). The SNG system also includes a functional layer at the regional level comprising the Dutch water authorities (*waterschappen*).

MUNICIPALITIES. Municipalities are the basis of the Dutch decentralised unitary state. Over the years, a municipal merger process has led to a gradual but significant drop in the number of municipalities, from 913 in 1970, to 443 in 2007, 380 in January 2018 and even 355 in January 2019, after several mergers of municipalities in the North and West of the Netherlands at the end of 2018. A new "Policy Framework for Municipal Revision" was adopted in March 2019 to

structure the process of municipal mergers. Today, the municipal average size is large, especially compared to the OECD or EU average (respectively 9 700 and 5 900 inhabitants in 2017) as well as the median size (26 500 inhabitants). Only 2% of municipalities have less than 5 000 inhabitants (vs 44% on average in the OECD).

The urban areas of Amsterdam, Rotterdam, Den Haag and Utrecht, which combined reach 2.3 million inhabitants, form a metropolitan area referred to as “*Randstad*”. Around 700 inter-municipal cooperation structures were created in the period from 2010 onwards under the Joint Regulations Act (WGR Act), such as joint bodies for levying taxes, or in the areas of public health, waste processing or even social services. Regional partnerships led to the creation of sub-regions with competences in specific sectors, such as youth-care regions, and social-support regions. Eight city-regions were established in 1995 by the central government as inter-municipal cooperation entities, but they were abolished in January 2015. Subsequently, new metropolitan governance arrangements have emerged in the two large urban areas, of Amsterdam, and the Metropolitan Region of Rotterdam-The Hague. To strengthen urban areas, the Dutch government also developed a National Urban Agenda in 2015, which is still active in 2019. However, no specific mechanisms for metropolitan governance have been created yet at the country level.

The Netherlands also has a network of 2 200 villages and community councils that are legal entities organised according to public law (Sections 83-84 of the Municipalities Act) or according to private law (as an association or foundation). In 2012, 53% of Dutch municipalities had at least one village council or one community council.

PROVINCES. Regional organisation has remained stable for many years. The consolidation of provinces into larger regions has been debated since the 1960s but never materialised, due to the opposition of provinces. The last project of provincial consolidation was presented in 2013-2014. It consisted of a first phase to merge the three provinces of Utrecht, Flevoland and Noord-Holland, called the “North Wing Province” as a top-down process and, in a second phase, to promote a gradual consolidation as a bottom-up process. This proposal failed in April 2014 because there was a lack of majority in the Parliament to support the law. The inter-provincial association proposed the abolition of the water authorities in 2010 yet the idea was also abandoned. The subnational level also comprises de-concentrated central government agencies, which are controlled and financed by central government units and have a local function (regional labour market offices, regional police services or regional healthcare services).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

A characteristic of the Dutch system is that many areas of responsibility are shared between the central government and SNGs. The central level is entitled to intervene at the local and regional level; however, the local and regional level enjoy autonomy and have substantial leeway, as long as they comply with national law.

The decentralisation process started in 2007 has since transferred new responsibilities to the provinces and municipalities, along with important implementation and enforcement powers. Besides key responsibilities in spatial planning and urban development, provinces are in charge of administrative and financial supervision of municipalities and water boards, and play a key role in vertical coordination. Municipalities have a wide range of responsibilities, either entrusted by laws, or assigned by higher levels. In 2015, they were transferred new functions in social services (youth healthcare, long-term care and employment support for young disabled people). Discussions are currently ongoing on the role municipalities will have to play regarding energy shift policies and responsibilities in the years to come (a ban on the use of natural gas is planned for 2030).

Finally, regional water authorities (*waterschappen*) are responsible for flood control, irrigation and drainage, (municipal) waste water purification, and water quality.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	MUNICIPALITIES
1. General public services	Supervision of municipalities and regional water authorities	Municipal administration; Administrative duties (passports, identity documents and driving licences)
2. Public order and safety		Public order in the municipality and relationships with police forces; Criminality prevention; Public safety; Disaster management (shared)
3. Economic affairs/transport	Provincial roads, cycle paths and bridges; Regional public transport (bus, regional trains); Inland water transport and infrastructure; Regional development agencies; Promotion of the region and coordination of touristic local policies	Municipal streets and roads; Traffic and parking regulations; Local tourism strategies and policies; Public transport and school buses (only the cities Amsterdam, Rotterdam and The Hague)
4. Environmental protection	Environmental protection plans and policies; Water (groundwater plans and regulation); Energy and climate; Renewable energy; Air quality; Soil protection and cleaning; Noise; Production and transport of hazardous; Supervision of municipal environmental policies; Nature areas	Parks & green areas; Waste management; Sewerage; Local environmental policy; Soil protection and cleaning
5. Housing and community amenities	Spatial planning	Land-use plans; Planning permission; Urban planning (shared); Civil engineering (shared); Street cleaning; Public lighting
6. Health		Municipal medical services (vaccination, prevention, hygiene); Youth health care; Elderly health care; Long-term care
7. Recreation, culture & religion	Environmental and recreational planning; Financial support of cultural activities; Protection of cultural heritage; Provincial museums	Financing of cultural activities; Cultural facilities and recreational areas; Local sport policies and subsidies
8. Education		Public primary and secondary education (school buildings only)
9. Social protection	Social housing grants	Income support for less than fully disabled persons; mediation, training Assistance to the unemployed, people with disabilities and the elderly in their home environment Youth care services Social assistance and local employment schemes

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SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces, public water boards, municipalities, communal arrangements at the municipal level (inter-municipal structures), special schools and private non-profit institutions with a local function.

SNA 2008

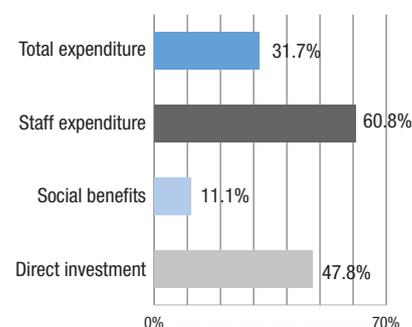
Availability of fiscal data:
High

Quality/reliability of fiscal data :
High

GENERAL INTRODUCTION. Article 132 of the Constitution, which covers the organisation of the provinces and municipalities, determines the taxes that may be levied by each SNG level. The 1996 Financial Relations Act regulates the intergovernmental financial relations. The Municipalities Act and Provinces Act include extensive provisions on municipal and provincial finances. Overall, government functions in the Netherlands are mostly centralised, but SNGs, especially municipalities, have significant budgets and spending responsibilities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	6 965	13.8%	100%	
Incl. current expenditure	6 130	12.1%	88.0%	
Staff expenditure	2 668	5.3%	38.3%	
Intermediate consumption	1 892	3.7%	27.2%	
Social expenditure	1 215	2.4%	17.4%	
Subsidies and current transfers	302	0.6%	4.3%	
Financial charges	17	0.0%	0.2%	
Others	37	0.1%	0.5%	
Incl. capital expenditure	834	1.6%	12.0%	
Capital transfers	68	0.1%	1.0%	
Direct investment (or GFCF)	766	1.5%	11.0%	



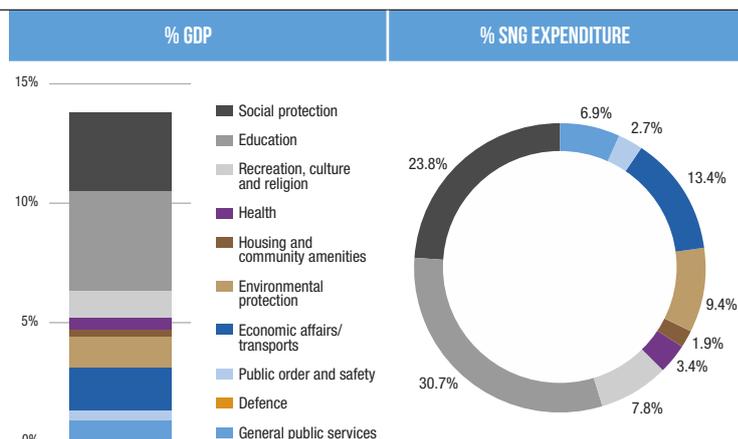
EXPENDITURE. The share of SNG in public expenditure in the Netherlands is below the OECD average (16.2% of GDP and 40.4% of public spending in 2016). However, the share of Dutch SNGs in public staff spending is significant, close to the OECD average (62.9%) and above the OECD average for unitary countries (43%), reflecting important administrations, especially at the municipal level (there are on average 185 000 civil servants working in municipal governments compared to 13 000 officials working in provincial government). Within SNG expenditure, provinces accounted for 7% of SNG expenditure in 2016, municipalities and inter-municipal bodies 67%, the remaining part being composed of public water boards and other local government bodies.

DIRECT INVESTMENT. In 2016, 47.8% of total public investment was carried out by SNGs in the Netherlands compared to an OECD average of 56.9% and to an EU average of 50.9%. This figure has plummeted 16.6 percentage points since 2013, in line with budget cuts at regional and local levels. However, direct investment remains a key function of Dutch provinces and municipalities, representing 11% of their total spending in 2016, in line with the OECD average. 52% of SNG investment is carried out by municipalities and inter-municipal cooperation bodies. The share of the provinces is lower (15%). Other SNG investors are public water boards (10% of SNG investment) and other local government bodies.

Most SNG investments are dedicated to economic affairs, local transport and infrastructures, followed by education, environment protection and adaptation to climate change. At the regional level, high levels of investments on research & development aim at strengthening regional competitiveness. Investment projects to be co-funded by the central government are subject to review by the Ministry of Infrastructure and the Environment according to several criteria.

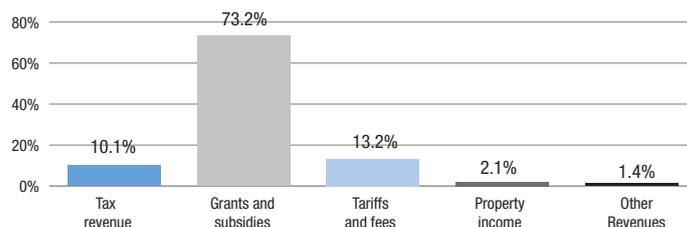
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education and social protection were the two largest spending items for SNGs in the Netherlands in 2016: together they represent 54.5% of subnational expenditure compared to 39% in the OECD area. Education is the main spending sector for SNGs, given that they are in charge of providing primary and secondary education, but also of the management of buildings and related facilities. The share of social protection has increased significantly in recent years. From 13% in 2008 and 20% in 2013, it accounted for 24% of SNG spending in 2016, in line with the policy of decentralisation of healthcare at the country level. Besides, SNGs are responsible for the vast majority of total public spending in the areas of environmental protection, housing and community amenities (water distribution, street lighting, etc.) and recreation and culture, especially since they include infrastructure projects.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	7 003	13.9%	31.6%	
Tax revenue	706	1.4%	5.9%	10.1%
Grants and subsidies	5 124	10.1%	-	73.2%
Tariffs and fees	923	1.8%	-	13.2%
Property income	150	0.3%	-	2.1%
Other revenues	100	0.2%	-	1.4%



OVERALL DESCRIPTION. Dutch provinces and municipalities are mainly funded by grants from the central government. More than 73% of Dutch SNG revenue comes from transfers, whereas SNG tax revenue represents only 10.1% of SNG revenue. The share of grants in SNG revenue is one the highest in the OECD where it amounted to 37.2% on average. By contrast, SNG tax ratios are some of the lowest in the OECD, well below OECD averages (44.6% of subnational revenue in 2016), reflecting strong fiscal imbalances. Municipalities represent the greater share of SNG revenues, with a budget on average ten times higher than the budget of provinces.

TAX REVENUE. SNG tax revenue accounted for only 1.4% of GDP and 5.9% of public tax revenue, two ratios that are below the OECD averages (7.1% of GDP and 31.9% of public tax revenue). In 2016, municipalities accounted for 58% of SNG tax revenue and the provinces for 16%. The remaining 26% is the share of public water boards as they collect their own taxes and levies (waste water treatment levy, water systems levy and a pollution levy).

The taxes that may be levied by SNGs are listed in the Province Act and the Municipality Act. A large part of municipal tax revenue comes from the property tax (OZB), based on property value, and paid by owners and users on residential and non-residential properties (since 2006, owners of residential properties only have to pay owner tax). Municipalities have the power to set tax rates, but only within limits established by the central government. The property tax accounted for 52.3% of SNG tax revenue and 5.3% of total SNG revenue. It amounted to 0.7% of GDP in 2016, a level which is below the OECD average of 1.1% of GDP. Other local taxes include the parking tax, the tourist tax, dog tax, sewerage charges, levies on water pollution, a tax paid for the use of municipal land, etc. Taxes on water pollution and sewerage charges accounted for 28.7% of SNG tax revenue in 2016. There is no tax sharing system. Provincial taxes come almost entirely from the surtax on the motor vehicle tax, the rate of which is capped by the central government. Water authorities can tax within their individual territory.

GRANTS AND SUBSIDIES. Transfers to municipalities are divided between a general grant (Municipalities Fund or *Gemeentefonds*), an integration grant, a decentralisation grant (including a new Fund for social affairs to accompany the decentralisation in the social sector) and specific grants from departments meant to cover the expenses of obligatory delegated tasks. The Municipal Fund consists of a lump-sum payment. It has a strong equalising function and the formula takes into account spending needs and tax capacity of municipalities, with the aim to enable all municipalities to finance equivalent service levels at equivalent tax rates (60 different criteria are used for its allocation). Municipalities also receive transfers from provinces (e.g. investment grants for roads and public transport).

Transfers to provinces also include a general grant (Provinces Fund or *Provinciefonds*, also redistributed on the basis of an equalisation system), allocated payments from the government funds (integration and decentralisation grants) as well as specific grants for delegated tasks.

The two Municipalities and Provinces Funds have become the main source of revenue for municipalities and provinces. On the other hand, earmarked funds (integration and decentralisation grants) are meant to cover the expenses of obligatory delegated tasks in areas such as primary education and social services. Their share in local income has been decreasing, and in 2016 they represented on average 27% of municipal income, with variations among municipalities.

OTHER REVENUES. Other major sources of revenue for SNGs are user charges and fees and income from property and land leases. Provinces receive significant revenues from dividends from utility companies, in particular energy companies, and from the privatisation of public utilities in the energy sector.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	4 862	11.2%	14.4%	100%
Financial debt*	3 427	7.9%	11.0%	70.5%

* Currency and deposits, loans and bonds

FISCAL RULES. New budgetary rules, agreed in the Coalition Agreement and the 2013 Sustainable Public Finances Bill stipulate that SNGs must make similar efforts to those of the central government to comply with public finance targets, including a multi-annual budget balance requirement. The same year, a deficit limit of 0.5% of GDP was applied to local authorities: 0.38% for municipalities, 0.07% for provinces and 0.05% for the water boards. This is enhanced by vertical financial supervision of municipal finances by provinces, and the legal obligation of SNGs to balance their budget.

DEBT. SNGs may borrow freely, including through bonds, but only to finance capital expenditure ("Golden Rule"). The level of SNG debt is below the OECD average (24.5% of GDP and 20.7% of public debt in 2016). Outstanding debt is made up primarily of financial debt (70%), followed by other accounts payable (30%). Bonds as a percentage of total financial debt remain very limited (2.8% in 2016), loans making up the bulk of the financial debt stock (97.2%). The Municipal Bank of the Netherlands (BNG) is a funding agency established by the Dutch Association of Municipalities in 1914 in order to help municipalities access credit markets. Around 90% of its assets are loans to municipalities and other public bodies. Half of the bank's share capital is held by the State of the Netherlands and the other half by municipal authorities, provincial authorities and water boards. The *Waterschapsbank* is another Dutch bank specialised in loans to local governments.