

# NETHERLANDS

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Euro (EUR)

### POPULATION AND GEOGRAPHY

AREA: **33 718** km<sup>2</sup>

POPULATION: **16.864** million inhabitants (2014), an increase of 0.4% per year (2010-14)

DENSITY: **500** inhabitants/km<sup>2</sup>

URBAN POPULATION: **89.9%** of national population

CAPITAL CITY: **Amsterdam** (6.4% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **813.8** billion (current PPP international dollars) i.e. 48 256 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **48 225** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **18%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.922** (very high), rank 5

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                                                    | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|------------------------------------------------------------------------------------|--------------------|-------------------------|----------------------|
| <b>390</b>                                                                         | -                  | <b>12</b>               | <b>402</b>           |
| MUNICIPALITIES (GEMEENTEN)<br>AVERAGE MUNICIPAL SIZE:<br><b>43 540 INHABITANTS</b> |                    | PROVINCES (PROVINCIES)  |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The decentralised two-tier system of local government is recognised by the 1815 Constitution. Provinces are regulated by the Provinces Act, and municipalities by the Municipalities Act. The SNG system also includes a functional layer at the regional level comprising the regional water authorities (*waterschappen*). One of the characteristics of the Netherlands is that the heads of the provincial assembly (King's Commissioner) and municipal mayors are neither directly nor indirectly elected, but are appointed by central authorities. However since 2001, municipal and provincial councils have a role in their selection. Over the years, a municipal merger process has led to a gradual but significant drop in their number, from 913 in 1970 to 390 by January 2016. A new "Policy Framework for Municipal Redivision" was adopted recently to promote mergers. The consolidation of provinces into larger regions has been debated since the 1960s but never materialised. The last failed attempt took place in 2014. The eight city-regions, established in 1995 by the central government as inter-municipal co-operation entities, were abolished in January 2015. The law created two new metropolitan governance arrangements in Amsterdam and Rotterdam The Hague. Netherlands also has a network of 2 200 villages and community councils which are legal entities organised according to the Municipalities Act and to private law.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** A characteristic of the Dutch system is that many areas of responsibility are shared between the central government and SNGs. A decentralisation programme, started in 2007 has since transferred new responsibilities to the provinces and municipalities. Provinces' main responsibilities are traffic and transport, environmental protection and nature policy, regional economic development, spatial planning, recreation, culture and heritage as well as welfare. Moreover, they are in charge of administrative and financial supervision of municipalities and play a key role in vertical co-ordination. Municipalities have a wide range of responsibilities, with new functions transferred in 2015 in the social sector (youth health care, long-term care and employment support for young disabled people). Municipal tasks include urban development and land-use planning, employment policy, social welfare, public health, social housing, public order and safety, local roads and public transport, primary and secondary education, local economic development, culture and recreation.

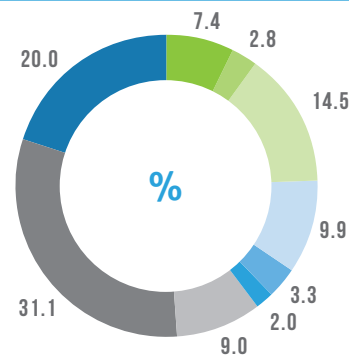
## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP        | % GENERAL GOVERNMENT (same expenditure category) | % SUBNATIONAL GOVERNMENT |
|--------------------------|--------------|--------------------------------------------------|--------------------------|
| TOTAL EXPENDITURE (2013) | <b>14.3%</b> | <b>30.5%</b>                                     | <b>100%</b>              |
| CURRENT EXPENDITURE      | 12.2%        | -                                                | 85.4%                    |
| STAFF EXPENDITURE        | 5.8%         | 62.2%                                            | 40.3%                    |
| INVESTMENT               | 1.9%         | 64.4%                                            | 13.2%                    |

The share SNG in public expenditure is in line with the OECD averages for unitary countries which accounted for 13.4% of GDP and 29% of public spending in 2013. Expenditure by Dutch municipalities and their groupings is significantly higher than by provinces and water authorities (84% of total SNG expenditure vs 16%). The share of SNGs in public staff spending is particularly significant, in line with the OECD average (63%) but much higher if we only consider the OECD unitary country average (45%). SNGs play a key role in public investment, with a higher share than in the OECD average (64% vs 59%).

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Subnational main categories of spending include education, social protection, economic affairs and transport and environmental protection (including waste and sewerage management). The share of social protection has increased significantly over recent years (approximately 13% in 2008). SNGs are responsible for the vast majority of total public spending in the areas of environmental protection, housing, community amenities (water distribution, street lighting, etc.) and recreation and culture.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|-------------------------------------------------|--------------------------|
| TOTAL REVENUE (2013) | 14.0% | 31.4%                                           | 100%                     |
| TAX REVENUE          | 1.4%  | 6.5%                                            | 10.0%                    |
| GRANTS AND SUBSIDIES | 9.9%  | -                                               | 71.2%                    |
| OTHER REVENUES       | 2.6%  | -                                               | 18.8%                    |

**TAX REVENUE.** Netherlands scores very low in terms of the share of SNG tax revenues of total public tax revenue, GDP and total SNG revenue. SNG tax ratios are some of the lowest in the OECD, well below OECD averages. A large part of municipal tax revenue (around 50% in 2013, 0.6% of GDP) comes from the property tax (OZB), based on property value and is 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 their rates but only within limits established by the central government. Other taxes are tourist tax, dog tax, sewerage charges, levies on water pollution, a tax paid for the use of municipal land, etc. Provincial taxes come almost entirely from a surtax on the motor vehicle tax the rate of which is capped by the central government.

**GRANTS AND SUBSIDIES.** The 1996 Financial Relations Act regulates the intergovernmental financial relations. Transfers to municipalities are divided between a general grant (Municipalities Fund or *Gemeentefonds*, i.e. 36% of municipal revenue), an integration grant, a decentralisation grant (including a new Fund for social affairs) and specific grants meant to cover the expenses of obligatory delegated tasks. The Municipal Fund consists of a lump-sum payment. It has a strong equalising function (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 and providing 12% of provincial revenue), allocated payments from the government funds (integration and decentralisation grants) as well as specific grants for delegated tasks.

**OTHER REVENUES.** Other major sources of revenue for SNGs are user charges and fees (14% of their revenue) and property income. Provinces receive dividends from utility companies, in particular energy companies. In addition, some provinces have recently obtained large resources from the privatisation of energy public utilities.

## OUTSTANDING DEBT

| OUTSTANDING DEBT (2013) | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 12.0% | 15.5%                |

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. SNGs are subject to a balanced budget rule. SNGs may borrow freely, including through bonds (but they are rarely used) but only to finance capital expenditure. Other fiscal rules include a short and long-term ceilings. The level of SNG debt is below the OECD average for unitary countries which amounted 15% of GDP and 12% of public debt in 2013. Outstanding debt is made up of loans (72%), other accounts payable (27%) and bonds (1%).

A joint study of:



**Sources:** OECD National Accounts Statistics • Government Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries : Key data • Council of Europe (2014) Local and regional democracy in the Netherlands, CG(26)7FINAL • OECD (2014) OECD Territorial Reviews: Netherlands 2014 • Allers M., Merkus E. (2013) Soft budget constraint but no moral hazard? The Dutch local government bailout puzzle" University of Groningen 13014-EEF • Schaap L. (2013) Decentralised autonomy? Report in preparation for the study by the Council of Europe into the state of sub-national self-government in the Netherlands • Bos, Frits (2013) "Economic theory and four centuries of fiscal decentralisation in the Netherlands", OECD Journal on Budgeting, Vol. 12/2. • Allers Maarten A. (2011) Spending and revenues of subnational governments in the Netherlands.