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Local government in times of global challenges: the implications of the financial crisis since 2007 on public finances at the municipal level in the Netherlands

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7. Local government and local government finance in the Netherlands

The municipalities, representing local government in the Netherlands, have been of major importance for centuries, and they can be considered as the roots of democracy (Voermans & Waling, 2018, p. 15). While city councils and administrations were the main governmental bodies in the early modern era before distinct levels of government emerged, the local level is a relevant part of a system of multi-level governance nowadays. The provision of public services in line with local conditions describes this level's main role and function at present.

In line with the administrative role of local entities, cities and provinces were mainly in charge of taxation in the early modern era. Already back then, a key feature of the development of the Netherlands was a fiscal system characterised by a broad tax base and stable public debt repayment (Fritschy et al., 2012, p. 39). Even though accounting was basically performed differently in every village, at least until the 18th century, local taxation can be considered as having already been relatively efficient during that period of time (Janssens, 2012, p. 69).⁹⁰ As a result of the Dutch Constitution of 1848, the Provinces Act and the Municipalities Act, both of which were also implemented in the middle of the 19th century, and newer legislation, the financial provisions for citizens as well as governmental entities converged largely until today.

Chapter 7 focuses on Dutch local government and its legal framework, including local government finance. The historical development of the local level is briefly outlined in the next sub-chapter (7.1). Then, insights into the current legal framework of Dutch local government are presented in the following sub-chapter (7.2). Local politics and the role of local parties in the democratic opinion-forming and decision-making processes are the topics of the subsequent sub-chapter (7.3). Together with the sub-chapter on municipal finance, including explanations for the different types of municipal revenues and expenses as well as their legal background (7.4), this first part of chapter 7 is intended to point out the administrative role, legal conditions, and the organisational and financial scope of decision-making of Dutch municipalities in order to provide an understanding of possible impacts of and reactions to events such as financial crises.

The second part of chapter 7, consisting of one last sub-chapter, addresses the theoretical insights into trends and developments in local government and governance, as presented in chapter 2, from a Dutch perspective (7.5). By analysing those changes that originated long before the Financial Crisis since 2007, a distinction between effects of the crisis and other separate developments is enabled at a later stage. To put the Dutch situation into perspective, a brief comparison with other countries is included in this part of chapter 7 as well.

⁹⁰ Over the centuries, the bookkeeping of local authorities has become more homogenous, which also makes it easier to compare local revenues (Janssens, 2012, p. 69).

7.1. The history of local government

Cities and towns traditionally played a key role in the Netherlands. Between 962 and 1588, the territory of present-day Netherlands was part of the Holy Roman Empire, where cities generally had a highly autonomous status. However, attempts towards a more centralised system can be observed in the parts of the country under Spanish Habsburgian rule in the Empire's later phase. During the Dutch Republic between 1588 and 1795, the provinces increased their political influence, while the overall system remained rather decentralised, and local government was further on not organised in a uniform way. However, already during the 17th century, Dutch local governments developed into "highly diversified organizations providing a variety of services" (Raadschelders, 1994, p. 433). During the Batavian Republic (1795–1806), the structure of the Netherlands changed from a confederation to a unitary state. As a consequence, municipalities became more uniform, and the role of the provinces decreased extensively. The Batavian Republic was replaced by the Kingdom of Holland (1806–1810) and French occupation (1810–1815). However, while the rule over the territory and the designation of the state changed, local government remained an important level within the territorial subdivision (Toonen, 1994; Hendriks & Schaap, 2010, p. 96 f.; Backes & van der Woude, 2013, p. 235 f.).

In 1815, the Constitution for the Kingdom of the Netherlands was adopted. However, in 1848, Johan Rudolph Thorbecke, a liberal politician and later Prime Minister, was commissioned to draft a new constitution, and he laid the foundation for the Dutch decentralised unitary state, which is still in place today. His basic idea "is not that state authority is necessary to create unity, but, to the contrary, that a certain degree of unity – read consensus-building or will-formation – is necessary to generate state authority" (Toonen, 1994, p. 112). Therefore, the orientation towards consensual decision-making,⁹¹ also in line with the understanding of consensus democracy according to Lijphart (1999), within a political-administrative system consisting of three⁹² governmental layers – municipalities, provinces plus water boards, and central government – is also largely based on the suggestions by Thorbecke (Thorbecke, 1841; Toonen, 1990; Toonen, 1991; Toonen, 1994; Hendriks & Toonen, 2001; Toonen & Hendriks, 2001; Hendriks & Schaap, 2010, p. 96 f.; Backes & van der Woude, 2013, p. 236; Voermans & Waling, 2018, p. 72 ff.). From a legal perspective, the ideas of Thorbecke were implemented with the Constitution of 1848, the Provinces Act of 1850, and the Municipalities Act of 1851. Despite various revisions, this basic legal structure still applies today.

Based on these historical developments, today's Dutch governmental system is characterised by the interaction among municipalities, provinces, water boards, and central government as well as the interaction between those entities and the citizens. Regarding the frequency of interactions between public authorities, a steady increase can be observed in recent decades.

⁹¹ Sometimes described as the three Cs: consultation, consensus, and compromise (Hendriks & Schaap, 2010, p. 98; Hendriks & Toonen, 2001). In the context of labour condition negotiations between employers, unions, and the government, as well as the involvement of non-governmental representatives in the policy process more generally, consensual decision-making in the Netherlands is also known as the *polder model* (Dutch: *poldermodel*) (Hendriks & Toonen, 2001; Toonen & Hendriks, 2001; van der Meer & Raadschelders, 2007, p. 101).

⁹² Or four, depending on the classification of the water boards.

Apart from the informal search for consensuses, supported by multiple linkages between political-administrative decision makers at all levels of government (van der Meer & Raadschelders, 2007, p. 110), the policy areas of formal co-operative and consultative governance also increased. Taking public finance into account, the administrative system is partially characterised by the mutual dependence between central government and the municipalities: Central government provides financial means, and the municipalities conduct public services (Hendriks & Schaap, 2010, p. 110 f.).⁹³

In summary, the importance of the Dutch municipalities in relation to the provinces has changed widely since the end of medieval times. However, despite regular changes in the division of responsibilities, the municipalities have been considered to be the more important level of government in terms of the scope of assigned tasks, in comparison with the provinces, for longer than the last century. In addition, it can be observed that the orientation towards consensus between the actors involved in policymaking has a long history at all levels of government. These reflections on the history of Dutch local government lead to the question of today's legal framework, which will be addressed in the next sub-chapter.

7.2. The current legal framework of local government

Article 124, paragraph 1, of the Dutch Constitution (Dutch: Grondwet) states that provinces and municipalities have the right to regulate and administer their own affairs. This tradition of local self-government is also described as the backbone of democracy (Voermans & Waling, 2018, pp. 23, 75, 189 ff.). However, the degree of autonomy, in combination with the lack of a definitive list of powers at the sub-national levels of government, enables variation in the carrying out of tasks across the local level as well as over time. In other words, provinces and municipalities can regulate whatever they believe needs to be regulated within their territories as long as there is no conflict with other legislation, especially by central government; this is an overall approach originating from Thorbecke's conception of consensual decision-making at relatively independent levels of government. However, central government is generally entitled to suspend or annul decisions by lower levels of government if those decisions are considered to conflict with Dutch law or public interest (Thorbecke, 1841; Toonen, 1990; Toonen, 1991; Toonen, 1994; Alkema, 2006, p. 336; Backes & van der Woude, 2013, p. 232; Denters, 2011, p. 318).⁹⁴

Article 124, paragraph 2, of the Dutch Constitution determines that tasks can be assigned to provinces and municipalities by law. From a practical perspective, most municipal tasks are

⁹³ See Raadschelders (1994) for a study on the developments of tasks and employees of four selected municipalities (Alkmaar, Beverwijk, Purmerend, and Zaandam) from the 16th century onwards. According to his analyses, the number of municipal functions increased about eightfold over the last 400 years. The same applies to the number of employees. Various shifts can be observed regarding the types of tasks (p. 415 f.).

⁹⁴ An extensive legal commentary on Dutch municipal law was published by Dölle, Elzinga, and Engels (2004). However, the latest edition dates back to 2004.

delegated by central government nowadays (Backes & van der Woude, 2013, p. 233). Furthermore, according to the Dutch Civil Code (Dutch: Burgerlijk Wetboek) book 2, article 1, as the basis for own legal transactions, central government, the provinces, the water boards, and the municipalities are endowed with legal personality. From a legal perspective, general local regulations (Dutch: algemene plaatselijke verordening, APV) are the most common way for municipalities to regulate certain affairs within their territories (Backes & van der Woude, 2013, p. 232 f.).

The Municipalities Act of 1851, which was continuously updated, including a major update in 1992, is the main legal source regarding the structure and functions of Dutch municipalities. It stipulates that every municipality has a municipal council (Dutch: gemeenteraad), an executive board (Dutch: college van burgemeester en wethouders), and a mayor (Dutch: burgemeester) (Municipalities Act, article 6) as the three main governing organs. The autonomy of municipalities regarding their internal organisation can be considered as relatively limited because of numerous further provisions (Backes & van der Woude, 2013, p. 238).

The municipal council, as the legislative power and highest governing organ of each municipality, represents the entire population of the municipality (Municipalities Act, article 7). The number of councillors depends on the number of inhabitants and ranges from nine (for municipalities with less than 3,001 inhabitants) to 45 (for municipalities with more than 200,000 inhabitants) (Municipalities Act, article 8, paragraph 1). The mayor is the chairman of the municipal council (Municipalities Act, article 9), but not a formal member thereof (Municipalities Act, article 13, paragraph 1 k.).

Legislation in the form of municipal regulation is in general decided by the municipal council, as long as it does not concern certain policy areas with exclusive powers of the mayor or the executive board (Municipalities Act, article 147, paragraph 1). From a historical perspective, it can be observed that these powers and decision-making outside the municipal council increased over time (Backes & van der Woude, 2013, p. 238) and that today, the municipal council mainly focuses on monitoring political-administrative processes in its municipality from a more practical perspective (Vollaard et al., 2018, p. 19 f.).

The mayor and the aldermen (Dutch: wethouders) are the members of the executive board (Municipalities Act, article 34, paragraph 1), with the mayor as chairman (Municipalities Act, article 34, paragraph 2), and their main formal task is to prepare and execute the decisions of the municipal council. Furthermore, the executive board is in charge of the daily management of the municipality, among other responsibilities (Municipalities Act, article 160, paragraph 1). However, in practice, the executive board can be considered as more influential in terms of policymaking than the municipal council itself in some municipalities (Hendriks & Schaap, 2010, p. 105). The aldermen are appointed by the municipal council (Municipalities Act, article 35, paragraph 1), and the number of aldermen cannot exceed 20% of the number of councillors. Also, a minimum of two aldermen is predefined by law (Municipalities Act, article 36, paragraph 1).

The mayor of each municipality is appointed with a Royal resolution based on a nomination by the minister of the interior for a period of six years (Municipalities Act, article 61, paragraph

1). An exchange of views between the King's Commissioner, as the head of the relevant province, and the municipal councillors regarding potential candidates for the position of the mayor, in the light of the personal requirements for the position, takes place before the nomination by the minister of the interior (Municipalities Act, article 61, paragraph 2). While a mayor can be reappointed (Municipalities Act, article 61a, paragraph 1), he can also be dismissed (Municipalities Act, article 61b, paragraph 1) or suspended (Municipalities Act, article 62, paragraph 1) at any time through a Royal resolution based on the recommendation by the minister of the interior. Given the appointment by Royal resolution, the mayor was traditionally considered to play a supervisory role on behalf of central government. However, nowadays the municipal council decides on the person who will become mayor in practice, which makes the position more political (Backes & van der Woude, 2013, p. 236).

According to his formal role, the mayor oversees the timely preparation, adoption, and implementation of municipal policies and the co-operation with other municipalities as well as other public authorities, among other duties (Municipalities Act, article 170 paragraph 1). In addition, some exclusive powers are granted to the mayor by law, which mainly comprise the policy areas of safety and public order (Municipalities Act, article 147 paragraph 1).

The municipal council can also appoint members of a municipal auditing office (Dutch: gemeentelijke rekenkamer) (Municipalities Act, article 81a, paragraph 1; Municipalities Act, article 81b; Municipalities Act, article 81c, paragraph 1). Evaluating the municipal spending regarding its legitimacy and efficiency is this independent body's general task. Furthermore, every municipality has a city manager (Dutch: gemeentesecretaris) (Municipalities Act, article 100 paragraph 1), who is appointed by the executive board (Municipalities Act, article 102), and a municipal clerk (Dutch: griffier) (Municipalities Act, article 100 paragraph 1), who is appointed by the municipal council (Municipalities Act, article 107). The city manager advises and assists the executive board in the performance of its duties (Municipalities Act, article 103, paragraph 1), and the same relationship exists between the municipal clerk and the municipal council (Municipalities Act, article 107a, paragraph 1).

Taken together, the Municipalities Act specifies many legal provisions concerning local authorities' structure and functions that are obligatory for all Dutch municipalities, supplemented by other laws and decrees. As part of the Municipalities Act, the municipal council, the executive board, and the mayor are determined as the three main governing organs of each municipality, including specific rights and obligations. Additional roles, such as a city manager, are also mandatory, according to the Municipalities Act. Following this general overview of the legal framework with regard to Dutch local government, the next sub-chapter addresses local politics and the role of political parties at the local level.

7.3. Local elections and local politics

Democracy at the Dutch local level includes elections to the municipal councils without threshold and citizens organised in political parties for electoral purposes. While the major parties

at the national level usually nominate candidates at the local level as well, further local parties with a usually restricted interest in the affairs of a certain municipality or region are also active in local politics. However, the freedom of parties to manoeuvre in line with political and ideological beliefs is relatively limited at the Dutch local level, according to common critics; the high rate of executive coalitions and the need for compromises are seen as the main reasons. Apart from political parties, the role of citizens as a “hidden power” with the capacity to delay or abandon political decisions with organised protests, should also not be underestimated in the Dutch context (Tops, 2001).⁹⁵

In recent decades, the turnout at Dutch municipal elections has generally declined, as table 10 illustrates.

Table 10: Voter turnout at Dutch municipal elections, 1986–2014 (Data sources: Kiesraad, 2017; Kiesraad, 2018)

Year	1986	1990	1994	1998	2002	2006	2010	2014	2018
Voter turnout	73.23%	62.29%	65.28%	58.88%	57.90%	58.56%	54.13%	54.00%	54.97%

While 73.23% of the people entitled to vote cast their ballots in 1986, the number has decreased relatively continuously until today. In the latest municipal election in 2018, the participation rate was only 54.97%. Party membership and party identification experienced a similar development. Territorial and organisational reforms of the 1980s are seen as the main reasons for these changes. As a consequence, new reforms in the 1990s partially aimed to improve the relation between citizens and local government, including initiatives focused on implementing and promoting various forms of citizen participation (Denters & Klok, 2005, p. 71; van der Meer & Raadschelders, 2007, p. 116). However, the trend regarding a declining voter turnout in municipal elections was not stopped.

The number of independent local parties increased extensively in recent decades; this development benefited from widespread disappointment with traditional parties and an electoral system without a threshold.⁹⁶ Compared to local branches of parties at the national level, whose performance is mostly judged by the electorate based on national rather than local politics (Coenradij & Allers, 2017), independent local parties have also become more successful in recruiting candidates for local elections and involving citizens on an ad hoc basis in recent years (Boogers & Voerman, 2010; Voermans & Waling, 2018, p. 114 ff.). Since these parties mainly focus on local interests, their general political orientation – if present – is subject to broad variation (Hendriks & Schaap, 2010, pp. 99, 107; Boogers et al., 2018, p. 167 f.).⁹⁷

⁹⁵ See Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2016, p. 20 ff.) for detailed statistics on political parties at the local level in the Netherlands as well as members of the municipal councils, aldermen, and mayors, including personal characteristics.

⁹⁶ However, to gain a seat in a municipal council, the parties must reach the necessary vote share, which is calculated as the total number of valid votes divided by the total number of seats. Since residual seats in the process of assigning seats to parties are distributed with the D’Hondt method, which calculates highest averages, smaller parties are relatively unlikely to gain one.

⁹⁷ This circumstance also makes it difficult to include local parties in research designs, where the impact of different parties and their political preferences on certain policy decisions is analysed.

Table 11 provides an overview of the vote shares of the major political parties to the municipal councils in the Netherlands in the last four elections. While the data provide insights into the relevance of the different parties at the local level by assessing all municipalities combined, a broad variation across the municipalities needs to be taken into account.

Table 11: Distributions of vote shares of the municipal council elections in 2006, 2010, 2014, and 2018 (Data sources: Kiesraad, 2017; Kiesraad, 2018)⁹⁸

	2006	2010	2014	2018
Local parties	22.10%	23.66%	27.77%	28.65%
Christen Democratisch Appèl (CDA)	16.83%	14.80%	14.43%	13.41%
Volkspartij voor Vrijheid en Democratie (VVD)	13.87%	15.68%	12.21%	13.50%
Democraten 66 (D66)	2.71%	8.18%	12.06%	9.18%
Partij van de Arbeid (PvdA)	23.58%	15.74%	10.25%	7.52%
Socialistische Partij (SP)	5.68%	4.13%	6.60%	4.44%
GroenLinks (GL)	6.03%	6.73%	5.38%	8.87%
ChristenUnie (CU)	3.64%	3.76%	4.06%	3.83%
Staatkundig Gereformeerde Partij (SGP)	1.64%	1.77%	1.96%	1.90%

In addition to the importance of local parties, table 11 also illustrates the influence of the main Dutch parties at the local level. Considering the developments in the last decade, a decreasing vote share of the Partij van de Arbeid and an increasing share of the Democraten 66 can be observed in particular. However, the often relatively high fragmentation of the composition of the municipal councils makes formal coalitions and informal agreements common. A recent study (Allers et al., 2018) has also found empirical evidence that political parties, which are represented in the executive board of a municipality, often lose votes in the following local election in the same municipality.

Organised representation of Dutch municipalities' interests is provided by the Association of Dutch Municipalities (Dutch: Vereniging van Nederlandse Gemeenten, VNG), of which all municipalities are members. Apart from interest representation towards other levels of government and societal groups, the association provides services to the municipalities, such as legal advice, and serves as a platform for co-operation and the exchange of knowledge (Vereniging van Nederlandse Gemeenten 2016a; Backes & van der Woude, 2013, p. 249).

Regarding the members of the municipal executive boards and municipal councils, it needs to be taken into account that politicians and civil servants from other levels of government are common members. Former Members of Parliament in particular are often recruited to municipal executive boards, while civil servants at all levels of government are regularly members of municipal councils. This accumulation of offices can lead to various conflicts of interest (van der Meer & Raadschelders, 2007, p. 106).

In summary, Dutch local government is characterised by the influence of numerous local parties, usually focusing on topics that are relevant in a certain municipality or region without a pronounced political orientation based on a specific ideology. Following the often relatively

⁹⁸ Parties with more than 100,000 votes in 2014.

high fragmentations of the municipal councils, the overall importance of consultations, consensuses, and compromises can be understood. After the general insights and reflections on Dutch local government in this sub-chapter and the previous ones, the following sub-chapter will pay attention to municipal finances and their typical structure on both sides of the budget.

7.4. The composition of municipal finances

To fulfil its functions, a state needs financial means. These are mainly collected via taxes and charges, and they are assigned to the various policy areas, ranging from defence to social security. All of this requires reliable financial planning. In a system of multiple levels of government with differentiated responsibilities, this necessity naturally applies to all public authorities at all levels. In terms of financial planning and budgeting, different approaches can be distinguished in theory and practice.

As a result of overly optimistic budgetary predictions that did not take economic cycles explicitly into account, in the past, a trend-based budgetary system was introduced at the Dutch national level in 1994. The new system works with more cautious analyses and should enable more balanced and stable budgets in theory. However, the exact budgetary schemes are not defined by law, but mainly decided upon when a new cabinet is formed; nevertheless, budgetary discipline can be considered as relatively high. This method of operating is supported by a broad societal consensus regarding budgetary discipline (de Vries & Degen, 2015, pp. 151 f., 171; de Kam et al., 2015, pp. 265-281).

In practice, the Central Planning Bureau for Economic Policy Analysis (Dutch: Centraal Planbureau, CPB), which was established in 1945 within the area of competences of the Ministry of Economic Affairs, plays an important role in the Dutch budgetary system as an independent advisor analysing the potential effects of government policies and publishing economic forecasts. By doing so, the bureau contributes to budgetary discipline as well. The national budget for the following year is usually drafted by the cabinet in spring, debated in parliament thereafter, and presented in September (de Vries & Degen, 2015, pp. 149, 160; van der Meer & Raadschelders, 2007, p. 111).

Dutch local government is also responsible for the provision of a relevant share of public services, thereby implying corresponding public spending (Wolman & Hincapie, 2014, p. 48 f.), receives transfers from the national level, and has the right to generate own revenues. Each municipality consequently needs to plan its intentions for expenditures and revenues for an annual or multi-annual period of time. However, according to Article 132, paragraph 6, of the Constitution, the local taxes that municipalities can levy, as their main source of own income, are limited to the types mentioned in the Municipalities Act (Dutch: Gemeentewet); this circumstance substantially limits the leeway for shaping own revenues. Therefore, the fiscal autonomy of the Dutch local level can be considered as relatively low (Overmans, 2017, p. 173

f.), also from an international comparative perspective (Blöchliger & Rabesona, 2009; Blöchliger & King, 2006; Wolman & Hincapie, 2014, pp. 3, 48; Overmans & Timm-Arnold, 2016, p. 1053).

While municipalities generally have the right to regulate and administer their own affairs, the provinces and central government are also legitimated to oversee and supervise their policy-making and hence finance planning, according to article 132 of the Constitution. In normal circumstances, given that the members of municipal councils do not necessarily have a broad knowledge on financial matters and legal requirements, financial supervision is a task of the provinces. Three forms of oversight can be distinguished in this context: (1) preventive oversight, also known as ex-ante supervision, (2) repressive oversight, also known as ex-post supervision, and (3) oversight in light of neglect or non-compliance. Preventive oversight includes all forms of supervision by provinces or central government conducted before the decision-making by municipal bodies. In other words, prior approval is required to take a decision. Financial supervision of municipalities with unbalanced budgets is an example in this context. However, while a province can try to convince a municipality of the necessity of certain changes in the financial planning, no legal possibilities exist to enforce certain changes. Furthermore, the criteria for preventive oversight vary across the 12 Dutch provinces and are not always explicitly defined in each detail, thereby implying a certain decision-making scope of the provinces. From an empirical perspective, approximately 2% of the Dutch municipalities were under preventive oversight in 2014, after a significant decrease from about 16% in the mid-1990s. Considering the possibility of negative press reports concerning municipalities under preventive oversight as a result of unreliable financial planning, a certain political pressure on local officials might also be applied to avoid the occurrence of such a measure.⁹⁹ Repressive oversight, on the other hand, takes place after a municipality has made a certain policy decision, and it can be considered as the regular form of supervision. Depending on the type of decision and policy areas, a complete annulation or time-restricted suspension by central government is possible. Finally, oversight in light of neglect or non-compliance is a possible measure, especially in the context of delegated tasks. If municipalities do not provide certain services that the national levels advise them to, then other levels of government can be commissioned with the service provision (Rijksoverheid, 2014b; Backes & van der Woude, 2013, p. 246 f.; Allers, 2015, pp. 454, 457, 462 f.; van der Woude, 2018, p. 252 f., 255; van der Lei, 2014; de Widt, 2017, p. 210 ff.).

Next to constitutional provisions, part IV of the Municipalities Act (article 186 to article 258) is the main legal source in the context of municipal finances in the Netherlands. Article 187 of the Municipalities Act stipulates that expenses can only be imposed on municipalities by law. The annual budget (Dutch: begroting), including the expenses for all tasks and activities as well as indications on the available resources, needs to be prepared by the municipal council (Municipalities Act, article 189, paragraph 1). In general, this council shall ensure that the budget is structurally balanced and realistic (Municipalities Act, article 189, paragraph 1, sentence 1).

⁹⁹ However, according to empirical results (Allers, 2015), preventive oversight or bailouts did not significantly lower the vote shares of a municipality's governing parties. In addition, local government bailouts did not significantly increase the number of aldermen leaving their positions.

Deviations from this requirement are only acceptable if it can be assumed that a balanced budget will be achieved over a period of the next few years (Municipalities Act, article 189, paragraph 1, sentence 2). In other words, a relatively strict balanced budget requirement applies to Dutch municipalities (Allers, 2015; Overmans, 2017, p. 175), which, together with supervision by the provinces and central government, excludes the option of major deficit spending in the long run. However, since budgetary supervision focuses on the balance between revenues and expenses, an accumulation of municipal debt is not completely excluded (van der Lei, 2014). Further requirements regarding certain financial instruments with which the municipalities and other lower levels of government are generally permitted to trade, as well as provisions in the context of borrowing and debt, are specified in the law on decentral government funding (Dutch: Wet financiering decentrale overheden) (Rijksoverheid, 2013b; de Widt, 2017, p. 201 ff.).

In 1985, accrual accounting was obligatorily introduced at the Dutch local level, replacing the traditional cash-budgeting system (ter Bogt, 2008b, 211; Overmans, 2017, p. 176). General instructions concerning the budget calculations in accordance with the associated general rules of administration (Dutch: Algemene Maatregel van Bestuur), which form a type of executive decree enacted by royal order, are stated in article 186 of the Municipalities Act. More precise instructions on the budget compilation of provinces and municipalities, as well as minimum requirements on information provided, are also defined in a decision by national government on the budget and accountability standards of provinces and municipalities (Dutch: Besluit begroting en verantwoording provincies en gemeenten) (Rijksoverheid, 2003; van der Woude, 2018, p. 251 f.; de Widt, 2017, p. 203).

In the process of planning the annual budget, the executive board sends the municipal council a draft version of their considerations for the budget, including explanatory notes on the general situation of the municipality and estimations of the budgetary situation for at least the next three years to come (Municipalities Act, article 190, paragraph 1). Based on this draft version, the municipal council decides on the budget in the year prior to the year it concerns (Municipalities Act, article 191, paragraph 1). Once the budget is established, amendments can be made until the end of the financial year in question (Municipalities Act, article 192, paragraph 1). This option allows the municipalities a certain amount of room to manoeuvre in the case of unexpected events, usually implying the need for higher expenditures than anticipated, while unexpected revenues cannot be ruled out either.

Article 193 of the Municipalities Act states the compulsory expenditures of municipalities. These are interest on loans, expenditures that are established by legislation, and costs arising from the implementation of laws. Further compulsory expenditures might arise from existing contracts between a municipality and private partners providing certain services to the municipality or for the municipality in the long run.

The annual budget requires the approval of the province confirming a structural and realistic balance (Dutch: structureel en reëel evenwicht) in a multi-year estimate¹⁰⁰ (Municipalities Act,

¹⁰⁰ Apart from the annual budget, the financial planning for the three following years is usually taken into account.

article 203, paragraph 1). An approval can just be refused because of conflicts with the law or general financial interests (Municipalities Act, article 206). Approving the annual budget under certain conditions, such as changes regarding a specific expenditure item or the preparation of an austerity plan, is also an option for the provinces (Municipalities Act, article 208, paragraph 4). Based on these legal requirements, the Ministry of the Interior and the provinces developed a number of guidelines in 2014, named Common Financial Monitoring Framework “A Question of Balance!” (Dutch: Gemeenschappelijk financieel toezichtkader “Kwestie van evenwicht!”), building upon a previous version from 2008. In addition to the guidelines, recommendations in case of financial problems are also part of the document (Rijksoverheid, 2014b). However, because of a lack of legally enforceable and measurable standards, the judgments by the provinces regarding a structural and realistic municipal balance are always based on more or less well-founded estimations, thereby also enabling variation across the local level and over time. If a province is not convinced of a municipality’s financial planning, especially regarding the balanced budget requirements, or if a municipality does not submit the annual budget in time, then the province can also decide to undertake preventive oversight on the municipality’s financial planning in the future (Allers, 2015, p. 462 f.).

Once the financial year is over, the executive board must deliver the following to the municipal council: accounts on the administrative activities, an annual financial statement (Dutch: jaarrekening), and an annual report (Dutch: jaarverslag), focusing on the activities and developments of the municipality from a non-financial point of view (Municipalities Act, article 197, paragraph 1). The annual financial statement includes all revenues and expenditures of the municipality, and it shall be approved by the municipal council in the year following the financial year (Municipalities Act, article 198, paragraph 1).

If the council has doubts concerning the lawfulness of any of the revenues or expenditures mentioned in the annual financial statement, then it informs the executive board about these (Municipalities Act, article 198, paragraph 2). Within two months, the executive board needs to send an own assessment of the doubts and a proposal for an indemnity resolution (Dutch: *indemniteitsbesluit*) to the council (Municipalities Act, article 198, paragraph 3). In the case of such a proposal of an indemnity resolution, the council needs to decide on the proposal before approving the annual financial statement (Municipalities Act, article 198, paragraph 4). If the annual financial statement is approved by the municipal council, then the executive board sends it to the province for informative purposes (Municipalities Act, article 200); if not, then the board sends it to the province, requesting an alternative approval (Municipalities Act, article 201).

To control the financial management of the municipality in general, the municipal council should decide on suitable regulations (Municipalities Act, article 213, paragraph 1) and appoint one or more auditors to assess the annual financial statement (Municipalities Act, article 213, paragraph 2). These options can be considered as additional measures to ensure balanced budgets.

On the revenues side, following article 216 of the Municipalities Act, the introduction, modification, or abolition of a municipal charge must be decided upon by the municipal council by accepting a fee regulation (Dutch: *belastingverordening*). This decree needs to include certain

information, such as the amount that needs to be paid, the criteria that a person or company must fulfil to be charged, and the underlying time period (Municipalities Act, article 217). In general, the amount of municipal taxes should not depend on the income, profits, or capital of the person or company charged (Municipalities Act, article 219, paragraph 2).¹⁰¹

Considering municipal finances, a specific total debt ceiling for Dutch municipalities is not defined by law (Peters & Vriesendorp, 2002; van der Lei, 2014). However, the implementation scheme financing decentralised authorities (Dutch: Uitvoeringsregeling Financiering decentrale overheden) regulates the term structures of debt by sub-national authorities. The ceiling for the average net short-term debt (Dutch: kasgeldlimiet) for municipalities is limited to 8.5% of the budgeted expenditures in each quarter of the fiscal year. Regarding long-term debt, a ceiling (Dutch: renterisiconorm) expressed by a maximum of 20% of credits with a duration of more than one year and flexible interest rates in relation to the budgeted spending applies to the municipalities as well. Since these requirements focus on new borrowing in relation to the municipal budget, an accumulation of debt over time is not prohibited. Furthermore, an empirical study (Allers, 2015) has demonstrated that 38% out of a sample of 100 Dutch municipalities did not comply with the short-term debt ceiling in at least one quarter of 2010. On the other hand, 73% of the municipalities under investigation could at least double their long-term debt before reaching the structural ceiling (Rijksoverheid, 2009; Allers, 2015, p. 461 f.; Allers & Merkus, 2013; de Widt, 2017, p. 201 ff.).

If all the checks and balances do not prevent municipal budgets from being considerably unbalanced, then article 12 of the Financial Relations Act (Dutch: Financiële-verhoudingswet) provides the legal framework to apply for supplementary payments from central government in order to maintain a municipality's solvency, mainly since the national level is interested in guaranteeing the provision of public services by the municipalities.¹⁰² While local government bailouts were first legally introduced in the Netherlands in 1933, the current legal framework dates back to the year 1960 and has not undergone far-reaching changes since then. On closer inspection, the additional financial resources are not provided as loans, but as subsidies, even if a municipality can be considered as self-responsible for its own financial troubles. The financial means are provided from the municipal fund (Dutch: gemeentefonds), which is the regular source of general grants, thereby implying that bailouts entail burdens on the fund set up for all municipalities (Allers, 2015, pp. 451, 456; Peters & Vriesendorp, 2002; Allers & Merkus, 2013; de Widt, 2017, p. 217).¹⁰³ In line with the underlying legal norm, the municipalities receiving additional funds are often referred to as article-12 municipalities (Dutch: Artikel 12-gemeenten).

An additional allocation of funds is usually combined with requirements by the Ministry of the Interior to increase revenues and/or to decrease spending and therefore limitations of the

¹⁰¹ Taxes depending on income or corporate profits are charged by other levels of government.

¹⁰² In addition, the options for Dutch municipalities to increase their own revenues are relatively limited; however, this possibility can be considered as a pre-condition for a no-bailout policy with reference to the municipalities' own responsibility (Allers, 2015, p. 453).

¹⁰³ As a side effect, the guaranteed bailouts also enable Dutch municipalities to borrow money from banks at relatively low interest rates (Allers, 2015, p. 452).

municipality's autonomous decision-making. However, mandatory increases in local tax rates can be considered as rare measures, occurring 10 times since 1967 – four cases took place between 1998 and 2014 (Allers, 2015, p. 457). Overall, it can be concluded that municipal insolvencies are not intended in the Netherlands, while municipalities might be further restricted in their decision-making leeway if their budgets are largely unbalanced. Increased inter-municipal co-operation or municipal amalgamations, arranged by central government, can thus also be considered as strategies to improve the financial situation.

From an empirical perspective, considerably unbalanced municipal budgets have not been a widespread problem in Dutch local government in recent years. Between 1999 and 2016, the annual number of article-12 municipalities ranged between 3 and 5 out of approximately 400 municipalities and was comprised of the following ones: Lelystad (since 1987)¹⁰⁴, Winschoten (1999–2003), Boskoop (2000–2010), Simpelveld (2003–2007), Neder-Betuwe (2004–2006), Nieuwkoop (2004–2006), Ouderkerk (2008–2009), Loppersum (2008–2013), Millingen aan de Rijn (2011–2014), Boarnsterhim (2012–2014), Ten Boer (2014–2016), Muiden (2015), and Vlis-singen (2015–2016) (Rijksoverheid, 2016f).¹⁰⁵ Also, the scope of the financial assistance can be considered as relatively low in recent years (Allers, 2015; Allers & Merkus, 2013).

In comparison with other countries, it is surprising that guaranteed bailouts for Dutch local government in case of largely unbalanced budgets did not lead to a higher necessity of these measures, since this policy does not include any direct incentives for sustainable financial activities. In addition, there is empirical evidence that municipalities improve their financial situations relatively quickly after receiving additional funds from central government (Allers, 2015, p. 451 f.; Allers & Merkus, 2013). However, while the average number of article-12 municipalities has not increased in recent years, Dutch municipalities have experienced some moderate budgeting pressure, at least since the early 1980s (van Helden, 1998, p. 100). From a more practical perspective, many municipalities had to find strategies to deal with a decrease in revenues and an increase of tasks.¹⁰⁶ How these challenges were addressed in the context of the Financial Crisis since 2007 is one of the main questions analysed at later stages of this study.

Taken together, various laws and decrees, including the Municipalities Act, specify the budgeting rules at the Dutch local level. Relatively strict balanced budget requirements for local authorities and supervisory routines by the provinces are also part of the legal framework, with the intention of excluding major deficit spending in the long run. Considerably unbalanced budgets have been observed only in a relatively small number of Dutch municipalities

¹⁰⁴ Lelystad has received financial contributions according to article 12 since 1987 to compensate for additional costs related to spatial structuring decided upon by central government. Therefore, Lelystad is an exception, since financial difficulties are not the reason for the additional funds (Rijksoverheid, 2016f).

¹⁰⁵ Back in 1967, when the first bailouts were undertaken, about 15% of the Dutch municipalities were affected. As a result of amalgamations of relatively small municipalities, as well as changes in the general distribution of financial means to the municipalities, this share has decreased considerably since the 1970s (Allers, 2015, p. 456 f.).

¹⁰⁶ Expectations on the future developments of municipal finance are also published by the Centre for Research on Local Government Economics (Dutch: Centrum voor Onderzoek van de Economie van de Lagere Overheden, COELO). See Allers and Steiner (2015) for the latest version.

in recent years. However, the development of municipal debt will be analysed later in this study. In line with the typical structure of a balance sheet, the following sub-chapters address the role and requirements of municipal revenues (7.4.1) and municipal expenses (7.4.2) in the Netherlands in more detail.

7.4.1. Municipal revenues

Municipal revenues in the Netherlands are composed of three different types: *general grants* (Dutch: Gemeentefonds), *specific grants* (Dutch: Specifieke uitkeringen), and *own income* (Backes & van der Woude, 2013, p. 248; de Kam et al., 2015, p. 274 ff.). While the first two describe transfers from central government, the latter is generated by the municipalities directly. The amount of specific grants per municipality correlates with the amount of general grants (Allers & Kwakkel, 2016, p. 112). In recent decades, the composition of these three types of municipal revenues has changed widely. While the share of specific grants as part of the total municipal revenues has decreased, the share of general grants and own income have increased (Hendriks & Schaap, 2010, p. 104; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2014, p. 41).

The design of the system of Dutch state revenues assigns the responsibility to levy taxes mainly to central government. Since the legal possibilities of generating own income are relatively limited for local government, municipalities largely depend on regular grants provided by national government (Allers, 2015, p. 455; Overmans, 2017, p. 173 f.; Denters & Klok, 2005, p. 67; Allers, 2009, p. 283; Vollaard et al., 2018, p. 19 f.; van der Woude, 2018, p. 242). Within this system of financial compensation between different levels of government, local authorities are, in theory, autonomous regarding the use of their financial resources, apart from the grants provided for specific tasks. In practice, however, their autonomy is sometimes limited, since the specific grants do not cover the expenses for obligatory tasks in all cases, which means that other municipal revenues need to be used to fill the gap (Hendriks & Schaap, 2010, p. 103). In accordance with the types of municipal revenues, the following sub-chapters address the role and determination of general grants and specific grants, representing the two types of transfers from central government (7.4.1.1) as well as own municipal resources (7.4.1.2) in more detail.

7.4.1.1. General grants and specific grants

The Financial Relations Act (Dutch: Financiële-verhoudingswet) is the legal basis for the general and specific grants that Dutch municipalities receive. *General grants*, which are distributed from the so-called municipal fund (Dutch: gemeentefonds), are subdivided into four types of possible payments: general allowances (Dutch: Algemene uitkering), article-12 allow-

ances (Dutch: Artikel 12 uitkering), decentralisation allowances (Dutch: Decentralisatie-uitkering), and integration allowances (Dutch: Integratie-uitkering) (Vereniging van Nederlandse Gemeenten, 2014, p. 9 f.; van der Woude, 2018, p. 242; de Kam et al., 2015, p. 276 f.).

The annual change in the overall budget of the municipal fund was proportionally linked to the changes in expenditures at the national level by an agreement between central government and the Association of Dutch Municipalities in 1987. This implies that if cutbacks are considered to be necessary, then they will be realised equally at the central and local levels. However, certain exceptions are possible, for example in the case of expenditures by central government, which are considered to be outside the regular budget (Denters & Klok, 2005, pp. 67, 73; Bos, 2013, p. 43; Allers, 2009, p. 285; van der Woude, 2018, p. 245 f.).

In terms of the four above-mentioned types of payment in relation to general grants, first, general allowances refer to the share of funds that are not earmarked, and the usage is decided upon by the municipal council (Financial Relations Act, article 6 f.). Second, article-12 allowances are additional payments solely provided to municipalities with financial difficulties (Financial Relations Act, article 12). Third, decentralisation allowances are only distributed to certain municipalities with facilities of importance beyond municipal borders, such as sea-ports and municipal museums (Financial Relations Act, article 13, paragraph 4). Fourth, integration allowances are paid to all municipalities in order to balance financial advantages or disadvantages that are caused by the distributions of other funds (Financial Relations Act, article 13, paragraph 3) (Vereniging van Nederlandse Gemeenten, 2014, p. 9 f.).

The exact amount that a municipality receives from the municipal fund is calculated by taking into account factors such as the number of inhabitants and the size of the territory, as well as socio-economic factors (Financial Relations Act, article 8). This also implies variation across the local level in terms of the scope of grants from central government both in absolute numbers and in relation to other sources of income (Allers, 2009, pp. 283, 290; van der Woude, 2018, p. 243 ff.). An overview of all factors is provided in table 12.

Table 12: Categories and factors of relevance for the distribution of funds to the municipalities according to article 8, paragraph 1, of the Financial Relations Act (Own translation)

Categories	Factors
a) Taxation capacities of the municipalities in respect of property taxes (OZB)	<ul style="list-style-type: none"> • Taxation capacities in respect of housing • Taxation capacities other than housing
b) The inhabitants of the municipalities	<ul style="list-style-type: none"> • Age • Place of residence • Income • Entitlement for benefits • Belonging to a minority group • Employment at municipal facilities
c) The territories of the municipalities	<ul style="list-style-type: none"> • Surface area • Soil conditions • Historical core
d) The buildings in the municipalities	<ul style="list-style-type: none"> • Built-up area • Living space • Historical living space • Need for renovation of buildings • Density of building development

Categories	Factors
e) Fixed amounts for municipalities	<ul style="list-style-type: none"> • Fixed amounts for the four largest cities • Fixed amounts for the Wadden Sea municipalities • Fixed amounts for all municipalities
f) Temporary support for municipalities in connection with redeployment	---

Own taxation capacities are taken into account when the amount of a municipality's general grant is determined, and this might cause unwanted side effects when municipalities consider themselves to be disadvantaged because of their comparably high taxation capacities, which could potentially lead to low efforts to keep these capacities. Furthermore, local authorities might attempt to change the composition of the local population by domiciling persons with certain social characteristics in order to maximise transfers from central governments, as long as the costs arising from this measure are not higher than the additional earnings.

In addition to grants from the municipal fund, a VAT compensation fund (Dutch: Btw-compensatiefonds) offers municipalities the opportunity to reclaim VAT expenditure for services or goods that are purchased externally. The law on the VAT compensation fund (Dutch: Wet op het BTW-compensatiefonds) is the legal basis hereof. The variety of examples that fulfil the necessary criterion range from the acquisition of office supplies to the construction of roads and the outsourcing of public services, such as waste collection (Vereniging van Nederlandse Gemeenten, 2014, p. 11).

According to article 108, paragraph 3, of the Municipalities Act, central government must reimburse all the costs if it requests that municipalities perform certain tasks. Against this background, *specific grants* are provided for the execution of certain delegated tasks, primarily in the policy areas of employment and social affairs. In practice, the financial means are allocated by the responsible ministries at the national level. Compared to general grants, the share of specific grants that are not spent must be repaid to central government (Vereniging van Nederlandse Gemeenten, 2014, p. 11; van der Woude, 2018, p. 247 f.; de Kam et al., 2015, p. 278).¹⁰⁷

Detailed provisions on specific grants are regulated in the Financial Relations Act (article 15a ff.). Regarding this type of fund, a distinction between regular, temporally limited, and unique payments is made, and it is also linked to the necessary legal requirements in order to initiate the payment (Financial Relations Act, article 17). With respect to the determination of the amount of specific grants, the Ministry of the Interior and Kingdom Relations depends on information about expenditures in the context of each municipality's delegated tasks. Therefore, the executive boards of the municipalities are obliged to report these costs annually (Financial Relations Act, article 17a). While the number of specific grants has increased over time, initiatives to merge certain types of these financial allocations led to a reduction to 22 specific grants in 2016 (van der Woude, 2018, p. 248).

¹⁰⁷ A detailed biannual overview of general and specific grants is published by the COELO. See Kwakkel and Al-lers (2015) for the latest version.

Overall, general grants and specific grants typically constitute the largest shares of revenues for Dutch municipalities. While specific provisions determine the amount of both types of revenues that each municipality receives, an own influence on the scope of the financial means obtained is hardly possible. This is different in the case of the municipalities' own income, which will be considered in the next sub-chapter.

7.4.1.2. Own income

The municipalities' *own income*, as a further source of revenue alongside transfers from central government, can be subdivided into local taxes and other own resources (Dutch: Overige eigen middelen, OEM) (Vereniging van Nederlandse Gemeenten, 2014, p. 12). Local taxes, on the one hand, can be levied on property, among a limited number of other purposes, and other own resources, on the other hand, result from, for example, ticket sales for a municipal swimming pool, museum, or theatre. Decisions regarding the introduction, adjustments, and abolition of local taxes and local fees are made by the municipal council. Therefore, a strategic use to reach certain policy objectives is possible (Vereniging van Nederlandse Gemeenten, 2014, p. 12 f.; van der Woude, 2018, p. 248 f.).

According to article 132, paragraph 6, of the Constitution, the types of local taxes are limited to those mentioned in the Municipalities Act. With regard to the autonomy of the different sources of municipal income, the highest degree of independence from other levels of government is given for local taxes and other own resources. Within the possible types of local taxes, the municipalities can decide upon which ones they consider to be reasonable for their territorial communities by taking local conditions into account. Municipalities are also autonomous concerning the use of financial means originating from own revenues (Backes & van der Woude, 2013, p. 248 f.).

The types of local taxes in line with the Municipalities Act include a tax on immovable property within the municipality (Dutch: onroerendezaakbelasting, ozb), such as real estate (Municipalities Act, article 220). A second property tax can be levied on movable housing or business space (Dutch: roerende woon- en bedrijfsruimten belasting) that is permanently located within the municipality, such as caravans and houseboats (Municipalities Act, 221). A further benefit charge (Dutch: baatbelasting) can be collected for property within a certain part of the municipality that benefits from facilities established by the local level (Municipalities Act, article 222).

Municipalities can levy a commuter charge (Dutch: forensenbelasting) for persons whose main residence is not in a certain municipality but who spend more than 90 nights per year there (Municipalities Act, article 223). Furthermore, municipalities are allowed to charge a tourist tax (Dutch: toeristenbelasting) for persons who are not registered in a certain municipality. In this regard, those offering accommodation can be charged in place of the persons staying there (Municipalities Act, article 224). In the context of parking regulations (Dutch: parkeerregulering), charges for vehicles can be collected by local government. The law distinguishes

between two possible cases: first, a fee for parking a vehicle at a certain place during a certain period of time and, second, a fee for permission to park a vehicle with a certain licence place in a certain area (Municipalities Act, article 225).

Dutch municipalities are also allowed to charge dog owners a dog fee (Dutch: hondenbelasting). The tax needs to be levied depending on the number of dogs being kept (Municipalities Act, article 226). Advertising tax (Dutch: reclamebelasting) for advertisements that are visible from public roads is a further type of tax that municipalities can levy in the Netherlands (Municipalities Act, article 227). Municipalities are also allowed to charge a fee for using public spaces (Dutch: precariobelasting) (Municipalities Act, article 228). A restaurant using the public space in front of its building for serving food and drinks would be an example of a taxable case in line with the Municipalities Act. Furthermore, municipalities can levy two types of sewage charges (Dutch: rioolheffing): one for the collection and transport of domestic and industrial waste water, and another for the collection and process of rainwater as well as the avoidance of negative effects of the groundwater level (Municipalities Act, article 228a). In the case of the sewage charge, as a charge linked to a certain purpose (Dutch: bestemmingsbelastingen), the charge may not exceed the costs of providing the service (Vereniging van Nederlandse Gemeenten, 2014, p. 14).

Taken together, the Dutch Municipalities Act lists 10 explicit types of taxes/charges/fees¹⁰⁸ that a municipal council can choose to introduce. None of these local taxes need to be levied by local authorities. An overview of the types of municipal taxes according to the Municipalities Act is provided in table 13.¹⁰⁹

Table 13: Types of taxes and charges according to the Municipalities Act

Name of the tax or charge (English)	Name of the tax or charge (Dutch)	Main legal source within the Municipalities Act
Property tax on immovable property ¹¹⁰	Onroerendezaakbelasting, ozb	Article 220
Property tax on movable housing or business space	Roerende woon- en bedrijfsruimten belasting	Article 221
Benefit charge	Baatbelasting	Article 222
Commuter charge	Forensenbelasting	Article 223
Tourist tax	Toeristenbelasting	Article 224
Parking fee	Parkeerregulering	Article 225
Dog tax	Hondenbelasting	Article 226
Advertising tax	Reclamebelasting	Article 227
Public space usage fee	Precariobelasting	Article 228
Sewage charge ¹¹¹	Rioolheffing	Article 228a

¹⁰⁸ While the terms taxes, charges, and fees are not always used consistently, the 10 types introduced are usually labelled as local taxes.

¹⁰⁹ A detailed annual overview of the tax revenues from a citizens' perspective is provided by COELO. The reports include a comparison of the municipalities, as well as the developments since the previous year. See Hoeben et al. (2017) and Allers et al. (2016) for the latest versions. For the latest versions with a focus on the largest municipalities and housing costs, see Hoeben and de Natris (2018), Hoeben and Kwakkel (2017), and Hoeben and Kwakkel (2016).

¹¹⁰ Within its statistical publications, the CBS uses a further distinction between property tax on immovable property for users and owners.

¹¹¹ Within its statistical publications, the CBS lists sewage charges in the category of municipal fees.

In practice, the tax on immovable property usually generates the largest share of the municipalities' own income (Vereniging van Nederlandse Gemeenten, 2014, p. 14). However, the nature of taxes implies variation in the amount that is generated with each type across the municipal level and over time. Compared to taxes on income and corporate gains, the objects and activities taxed at the Dutch local level are generally less influenced by economic developments. However, the building of houses by private persons, as well as settlement in a certain region in the first place, the number of persons commuting to another city for work, and the number of tourists are examples of factors that are also linked to the economic situation, among other conditions.

Article 229 of the Municipalities Act regulates that fees (Dutch: retributies) for the use of municipal property and public services can be charged and thus constitutes the legal basis for the municipalities' other own resources. The fees need to be fixed and generally based on the costs incurred (Municipalities Act, article 229b).

Ticket sales for leisure activities are an example of a common way in which other own resources are generated. For many years, land development (Dutch: grondexploitatie) was also a typical source of income for municipalities. By making land ready for building and selling, municipalities were able to gain profits. However, as a result of the Financial Crisis since 2007, the situation has changed in recent years, and some municipalities also suffered losses from land development. In addition, other own resources can be generated with financial operations (Vereniging van Nederlandse Gemeenten, 2014, pp. 16, 39). Compared to local taxes, where 10 permitted types are defined by law, the types of local fees are subject to broader variation.

Within its statistical publications, the CBS distinguishes between the following types of municipal fees:

- Sewage charges domestic/industrial (Dutch: Rioolheffing huishoudelijk/bedrijfsafval)
- Sewage charges groundwater and rainwater (Dutch: Rioolheffing grond- en hemelwater)
- Cleaning fees and waste disposal (Dutch: Reinigingsrechten en afvalstoffenheffing)
- Cemetery fees (Dutch: Begraafplaatsrechten)
- Building permits (Dutch: Bouwvergunningen)
- Public affairs secretary fees (Dutch: Secretarieleges burgerzaken)
- Market fees (Dutch: Marktgeld)

In summary, Dutch municipalities' permitted additional sources of income, next to transfers from central government, are also defined by law. In this context, the list of possible local taxes is definitive. Furthermore, municipal fees needs generally be based on the actual costs. Both provisions contribute to the difficulty that municipalities face in generating a substantial share of own revenues. Following these insights on the income side of local balance sheets, the expenditure side will be addressed in the next sub-chapter.

7.4.2. Municipal expenses

Performing mandatory or voluntary tasks is linked to expenditures. As outlined before, Dutch municipalities are responsible for social services, city physical planning, housing policies, and sewage services, among other duties. Additional costs arise from maintaining the local administration, including personnel and office space.

While municipal income via specific grants from central government is earmarked for certain expenditures, the municipality can decide on the use of the rest of its budget. However, various mandatory tasks and existing commitments might considerably limit the decision-making scope. From an accounting perspective, a further general distinction between one-time costs and regular expenses is possible. As outlined before, certain municipal expenditures are also compulsory by law in the Netherlands. These are the interest on loans, the expenditures that are established by national legislation, and the costs arising from the implementation of laws (Municipalities Act, article 193).

From a more practical perspective, public expenses are typically divided into types of spending, such as personnel costs, subsidies, pensions, and depreciation costs, or across policy areas. As at other administrative layers and in other countries, a large part of the budget is spent on municipal personnel at the Dutch municipal level (Vereniging van Nederlandse Gemeenten, 2014, p. 22). In the Netherlands, the official categorisation of municipal expenditures by the CBS is based on the so-called Information for Third Parties (Dutch: Informatie voor Derden, Iv3) system, which the municipalities also use to report their finances to central government and which includes the following main policy areas or categories (Rijksoverheid, 2017b; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2017b):¹¹²

- General administration (Dutch: Algemeen bestuur)
- Public order and safety (Dutch: Openbare orde en veiligheid)
- Traffic, transport and water management (Dutch: Verkeer, vervoer en waterstaat)
- Economic affairs (Dutch: Economische zaken)
- Education (Dutch: Onderwijs)
- Culture and recreation (Dutch: Cultuur en recreatie)
- Social services (Dutch: Sociale voorzieningen en maatschappelijke dienstverlening)
- Public health and environment (Dutch: Volksgezondheid en milieu)
- Spatial planning and housing (Dutch: Ruimtelijke ordening en volkshuisvesting)
- Financing and means for universal coverage (Dutch: Financiering en algemene dekking-smiddel)

Regarding the distinction between policy areas, the categorisation is also employed to indicate municipal revenues in order to calculate the balance within each policy area. At a later stage, the categorisation will be used for the analyses in this study.

¹¹² See appendix 2 for a list of all sub-categories.

Taken together, Dutch municipalities are also restricted to a certain extent regarding their finances on the expenditure side because of mandatory tasks and services largely corresponding to financial transfers from central government, as well as partially fixed expenses, for example in areas such as personnel and office costs. From an analytical perspective, the subdivision of expenses into policy areas with municipal competences, including sub-categories, can be considered as useful when aiming to examine financial developments over time. However, before the analyses of local public finances in times of the recent Financial Crisis at a later stage of this study, the following sub-chapter assesses general trends and developments at the Dutch local level to gain an insight into developments taking place relatively independent of the Crisis.

7.5. Trends and developments at the local level of government in the Netherlands

This chapter assesses general trends and developments at the Dutch local level in recent decades. The main question is as follows: How have local government and local governance in the Netherlands changed since the late 1970s? These insights will help to understand the impact of and responses to the Financial Crisis since 2007 in a later step, since all developments that are identified as already ongoing by the time of the emergence of the crisis are not caused by the crisis. However, a major crisis is certainly able to influence ongoing developments. Those interactions will also be analysed at a later stage of this study.

Since the theoretical insights from chapter 2 are applied in order to assess recent trends and developments at the Dutch local level, the following sub-chapters are subdivided into decentralisation of tasks (7.5.1), municipal amalgamations and municipal co-operation (7.5.2), management changes (7.5.3), Europeanisation (7.5.4), citizen participation (7.5.5), and digitalisation of public services (7.5.6). A final sub-chapter summarises the developments in the Netherlands, with a focus on mutual dependences and a comparison with the general developments identified in chapter 2 (7.5.7).

7.5.1. Decentralisation of tasks

As is the case in many Western countries, the Netherlands has followed the common trend of shifting responsibilities from central to local government in recent years. According to article 117 of the Municipalities Act, central government is even obliged to promote decentralisation in favour of the municipalities. However, compared to various other Western European countries, many public utilities in the Netherlands have already been located at the municipal level since their foundation (van der Meer & Raadschelders, 2007, p. 108 f.).

From a historical perspective, the Netherlands has experienced phases of both centralisation and decentralisation over the centuries (Bos, 2013, p. 27 ff.). In this context, Bos (2010, p. 35)

distinguishes three major periods since 1848 regarding the main governmental authority within the Dutch system of multi-level governance. The first is a *unitary and decentralised state* between 1848 and 1928.¹¹³ Municipalities played a major role in education, infrastructure, safety, and social policies during this period. Increasing expenditures in these policy areas were financed by levying higher local taxes, thereby leading to major gaps between the financial affairs of different municipalities and hence substantial differences in the quality and scope of local-level service delivery. These differences increasingly incentivised citizens to move from one municipality to another for reasons of either lower taxation or better services, or both. This type of rational behaviour on the side of citizens undermined local-level solidarity and had an overall negative impact on local-level financial affairs and quality of service delivery (Bos, 2010, p. 35 ff.).

In 1929, the national municipal fund was introduced to address these problems, which marks the beginning of the second period, namely a *centralised welfare state*, lasting till 1982. Based on the factors of income and need, a compensation mechanism between the municipalities was created. However, with the reduction in tax revenues and the increase in spending on social policies during the 1930s' economic downturn, financial problems at the local level were exacerbated. Additional funds from the central level were introduced to improve the financial situation of Dutch municipalities. While local taxes remained an important source of revenues, the autonomy of municipalities to determine their own taxation policies was largely restricted over the next decades. By taking over more responsibilities, especially for social security and healthcare, the Dutch national government gradually became more important than the other administrative levels. This trend towards a more centralised state continued until 1982 (Bos, 2010, p. 37 f.; van der Woude, 2018, p. 242).

Increasing public expenditure and decreasing employment rates, combined with a stagnating economy, partially dating back to the second oil crisis, put the welfare state under pressure both in the Netherlands and in most other industrial countries (Bos, 2010, p. 38; Taylor-Gooby, 2001; Van den Berg et al., 2015). A *smaller and more decentralised welfare state*, which characterises the third phase since 1983, was seen as a way to address these challenges. This development towards a more decentralised provision of public services, also in connection with the rise of an enabling state, still continues today.

In the 1980s and 1990s, desires to downsize central governments and to reduce government expenditure in general stimulated decentralisation measures. As a consequence, Dutch municipalities received additional responsibilities in the policy areas of public housing, urban renewal, education, social security, social work, child care, and youth work, among others (Denters & Klok, 2005, p. 72). Furthermore, larger cities increased their involvement in local economic development (Denters & Klok, 2005, p. 73). However, to realise savings, the compensation payments by central government to local government were lower, compared to previous expenditures on the provision of the corresponding public services. These savings were justified as efficiency gains from the decentralisation measures (Denters & Klok, 2005, p. 72). In the 1990s, partially negative experiences in the context of decentralisation measures were

¹¹³ Before 1848, the Netherlands was mainly characterised by its federal and decentral state system. The period of French occupation deviates from there (Bos, 2013, p. 27 ff.).

observed in the area of healthcare. Weak administrative control and a lack of political interest led to relatively negative evaluations of the municipal fulfilment of tasks (de Vries, 2000, p. 209).

In 2006, central government transferred a number of tasks related to the care of elderly and handicapped people to the municipalities as part of a continuous process of increasing responsibilities at lower levels of government (Bos, 2010, p. 38 f.). However, more extensive decentralisation measures, also involving these policy areas, followed in more recent years. Additional financial pressure from the beginning of the Financial Crisis since 2007 led to various budget cuts and the search for further saving potentials at all levels of government (Vermeulen, 2015, p. 2). The Dutch central government consequently announced far-reaching decentralisation measures in the area of social policies in their 2012 coalition agreement (van Nijendaal, 2014, p. 85 f.). The measures came into effect on January 1st, 2015 (Rijksoverheid, 2015a; Sociaal en Cultureel Planbureau, 2016) and are perfectly in line with the developments towards a more decentralised state since 1983 as well as the developments in neighbouring countries (Van den Berg et al., 2015).

According to the Central Planning Bureau for Economic Policy Analysis (Centraal Planbureau, 2013; Centraal Planbureau, 2014), on the one hand, expected economies of scope and a more effective task fulfilment are the main opportunities of the measures. On the other hand, possible diseconomies of scale and differences in the quality and level of services are stated as the main risks. By making the municipal level the main supplier of social services, a better tailoring of the services to local needs and an overall increase in efficiency through prevention and early intervention are also expected (Vermeulen, 2015, p. 2). A large group of those receiving social services will now receive only services provided by the municipal level, which simplifies responsibilities and contacts, and which might generate further economies of scale as a result of interaction effects between the different types of services (Vermeulen, 2015, p. 7 ff.) Apart from increasing the effectiveness and efficiency of public services, strengthening the role of local democracy was an additional goal of the reform (Hendriks & Schaap, 2010, p. 117).

On closer inspection, the latest decentralisation measures focused on three sub-sections of social policies: social support, labour market participation, and youth care (Rijksoverheid, 2015a; Sociaal en Cultureel Planbureau, 2016). First, the 2015 Social Support Law (Dutch: *Wet maatschappelijke ondersteuning*) transferred responsibilities related to long-term care services to the local level. With the aim of enabling people to live in their own homes instead of a care institution for as long as possible, the municipalities provide relevant services to chronically ill, disabled, and elderly persons (Rijksoverheid, 2015b; van Nijendaal, 2014, p. 90 f.; Sociaal en Cultureel Planbureau, 2016).

Additional responsibilities for the municipalities were also implemented in the policy area of labour market participation as the second element of the reform. While the local level was already in charge of the support of people with low income and low labour market access for disabled persons, the 2015 Participation Law (Dutch: *Participatiewet*) expanded the responsibilities of the municipalities. The local level now organises the provision of benefits and job

search assistance for all citizens (van Nijendaal, 2014, p. 93; Sociaal en Cultureel Planbureau, 2016).

Third, decentralisation reforms included the pooling of youth care policies at the municipal level. Various public authorities at different administrative levels were previously in charge of youth-related public tasks, partially resulting in long waiting times, increasing costs, and various cases of serious incidents involving children in multi-problem families, which have been ascribed to co-ordination failures between the authorities in charge. Having the municipalities as the single point of contact in a unified legal and financial framework is expected to simplify the responsibilities and to increase efficiency also in this context. With the new 2015 Youth Law (Dutch: Jeugdwet), the municipalities will be in charge of all responsibilities regarding the support and care of young people (van Nijendaal, 2014, p. 95; Sociaal en Cultureel Planbureau, 2016).

Taken together, the 2015 decentralisation reforms can be considered as relatively extensive, compared to the changes in previous years. With the transfer of social services to the local level, budget cuts were realised, since the budget for the provision of the services was reduced, compared to the budget available for the service provision by central government. This approach was already chosen in previous decentralisation reforms in the Netherlands. In the context of the measures implemented in 2015, the intended budget cuts amounted to approximately 10% in general and considerably more for some separate tasks (Vermeulen, 2015, p. 3 f., 9 f.).

In summary, decentralisation measures have largely changed the distribution of tasks between the administrative levels in the Netherlands in a continuous process in recent decades. As a result, the municipal level in particular has gained additional importance (Allers & Steiner, 2015, p. 7). When considering the various reform initiatives in the Netherlands in the last decades, the decentralisation measures implemented in 2015, which partially relate back to the Financial Crisis since 2007, are among the largest in scope regarding the financial responsibilities transferred to a lower administrative level. Another important trend in Dutch local government is the formation of larger public authorities by municipal mergers, accompanied by municipal co-operation. These developments will be addressed in the next sub-chapter.

7.5.2. Municipal amalgamations and municipal co-operation

From a comparative perspective, the Netherlands is mid-ranging in terms of the scope of *amalgamations* in recent decades. Between 1950 and 2007, the number of municipalities decreased from 1,015 to 443, or 56%. Table 14 provides a long-term view of the development of the number of Dutch municipalities between 1851 and 2018. The data illustrate that territorial reforms including a decreasing number of municipalities because of amalgamations have been a continuing process since the establishment of the Kingdom of the Netherlands, and the pace of the reduction in that number has risen in recent decades. While the territorial boundaries of the municipalities experienced many changes, the borders of the provinces have remained

almost unchanged in recent decades (Backes & van der Woude, 2013, p. 234; Denters et al., 2014, p. 3; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2016, p. 15 f.; Voermans & Waling, 2018, p. 207 ff.).

Table 14: Development of the number of Dutch municipalities, 1851–2018 (Data sources: Centraal Bureau voor de Statistiek, 2018a; De Ceuninck et al., 2010, p. 810)

Year	1851	1880	1900	1928	1960	1970	1990	1991	1992	1993	1994	1995
Count	1,209	1,126	1,120	1,079	994	913	672	647	647	646	636	633
Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Count	625	572	548	538	537	504	496	489	483	467	458	443
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Count	443	441	431	418	415	408	403	393	390	388	380	

Regarding the size of the municipalities in terms of inhabitants, a wide variation can be observed, existing already since the introduction of the current municipal structure in 1851 (Backes & van der Woude, 2013, p. 233). Geographical conditions, such as a number of islands, describe unusual difficulties in the context of municipal amalgamations. Taking into account the Dutch population of roughly 17.081 million people in 2017 (Centraal Bureau voor de Statistiek, 2018b), a municipality consisted of an average of approximately 44,023 inhabitants. As a result of the continuous process of amalgamations, this figure increased significantly from approximately 2,500 inhabitants per municipality in 1851 (Backes & van der Woude, 2013, p. 234; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2016, p. 16 f.).

In the debates on municipal reforms, amalgamations in the Netherlands were generally justified by the lack of space and the need for larger areas for further industrialisation and urbanisation, without the possible interference of diverse political interests and administrative burdens, as well as the power to govern more efficiently and effectively at the local level (De Ceuninck et al., 2010, p. 815). The need to increase the municipal level’s ability to address local and regional problems was also indicated when municipal amalgamations were discussed (Hendriks & Schaap, 2010, p. 113). In general, amalgamations were always encouraged by national government, while the municipalities involved were often not in favour of mergers. From a legal perspective, Cabinet and Parliament have the authorisation for territorial reorganisation, according to article 123, paragraph 1, of the Constitution. Provinces or municipalities do not need to approve intended territorial changes. However, in 1984, a law on the process of territorial reforms at the local level was introduced, which includes regulations on formal consultations of the municipalities if municipal mergers are intended (Rijksoverheid, 2014a).

In a government declaration in November 2012, Prime Minister Rutte justified the plans of “municipalities with populations of at least 100,000 inhabitants in principle” (2012), as stated in the coalition agreement by “considerations of cost and efficiency and to ensure continuing high quality” (2012). Taking into account the current Dutch population of about 17.081 million people (Centraal Bureau voor de Statistiek, 2018b), these plans imply a maximum of 170 municipalities – less than half the current number. Considering the current government’s position, as well as the developments since 1851, it appears likely that the process of municipal

amalgamations and a decreasing number of Dutch municipalities will continue over the next years.

Allers and Geertsema (2016) recently conducted a quantitative analysis regarding the question of whether municipal amalgamations affected local government spending, taxation, and service provision in the Netherlands.¹¹⁴ They have concluded that “there is no significant effect on total per capita municipal spending before or after amalgamation” (p. 678) and that “property tax revenue is not affected by amalgamations either” (p. 678). However, a reduction of expenditures on administration affairs after amalgamations is a statistically proven result. Overall, economies of scale in the context of municipal mergers appeared to be relatively limited following this study. The question regarding the optimal size of a Dutch municipality was recently addressed by Bikker and van der Linde (2016). Based on an analysis of local-level expenditure in relation to the population, they found an optimum size of municipalities of 66,260 inhabitants in 2014, and hence unused economies of scale of 17% for an average municipality. Interestingly, this suggested number of inhabitants deviates significantly from the ideas of the current coalition government.

Apart from municipal amalgamations, *inter-municipal co-operation*, as a more flexible approach, has been a long-standing tradition in the Netherlands, and it can still be considered as increasing in recent years, especially regarding relatively expensive infrastructure services, such as waste collection and disposal (Niaounakis & Blank, 2017; Denters & Klok, 2005, p. 69; Steen et al., 2017, p. 60; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2016, pp. 15 f., 86 f.; Voermans & Waling, 2018, p. 226 ff.). The Municipalities Act of 1851 has already permitted co-operation between municipalities, but a narrow legal interpretation has prevented a broad dissemination (Hulst & van Montfort, 2007b, p. 143). Today, the Joint Arrangements Act (Dutch: *Wet gemeenschappelijke regelingen*, WGR), first issued in 1950 and largely revised in 1985, provides the main legal framework for co-operation between public authorities on the same administrative level as well as across different levels of the administrative sub-division. The introduction of the act also led to a high increase in inter-municipal co-operation in practice (Rijksoverheid, 2016d; Hulst & van Montfort, 2007b, pp. 143; 146 ff.; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2016, p. 86 f.).

While co-operation is generally voluntary, and given that single-purpose arrangements dominate, in some areas, such as fire and ambulance services, inter-municipal co-operation is required by law (Hulst & van Montfort, 2007b, p. 145 ff.; Allers & de Greef, 2018, p. 131; Vereniging van Nederlandse Gemeenten, 2014, p. 41). The decentralisation measures implemented in 2015 can also be considered as intended to increase municipal co-operation, since many municipalities are hardly able to perform the additional tasks alone and at relatively short notice (Vereniging van Nederlandse Gemeenten, 2014, p. 48). In recent years, co-operation in the form of networks of multiple municipalities, aiming to provide certain public services together, has become more common in Dutch local government as well (Backes & van der Woude, 2013, p. 242 f.). However, as in many other countries, inter-municipal co-operation

¹¹⁴ Previous empirical studies, conducted in the 1980s and 1990s, questioned the efficiency gains realised as a result of municipal amalgamation in the Dutch case as well. A negative impact of territorial reforms on the relation between citizens and local government was also pointed out (Denters & Klok, 2005, p. 68).

often lacks democratic accountability in the Netherlands. Partially related to the low political profile and often technical questions in relation to most of the municipal tasks concerned, the co-operations are mainly managed by civil servants. Elected representatives are hardly involved in the decision-making processes in practice (Hulst & van Montfort, 2007b, p. 162; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2016, p. 88).

From a statistical perspective, Dutch municipalities maintained 779 inter-municipal partnerships in 2016. Each municipality is part of 16 partnerships on average, and the average number of participants in each partnership is eight. However, a wide variation concerning the number of participants in inter-municipal co-operations can be observed. While the smallest co-operation includes two partners, the largest one has 54. Among the different policy areas with local competences, spatial planning, environmental affairs, and social services are most common in terms of co-operative agreements. Overall, approximately 16% of all municipal expenses were realised as part of inter-municipal co-operations in 2013 (Boogers et al., 2016, pp. 26, 29; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2016, p. 87 f.).

While increases in efficiency are the main argument for inter-municipal co-operation, the results of a recent empirical study (Allers & de Greef, 2018) do not support this assumption based on analyses at the Dutch local level between 2005 and 2013. On closer inspection, there was no evidence that total spending reduced in the case of inter-municipal co-operation. On the contrary, while this form of co-operation left expenditure in medium-sized municipalities largely unaffected, expenditure in small and large municipalities seemed to increase as a result of the co-operation. However, in the area of tax collection, efficiency gains could be observed; however, considering a municipality's overall balance sheet, the share of this field is generally relatively small. While increases in the public service quality might provide an explanation for additional costs in the case of inter-municipal co-operation, the authors did not find evidence for this hypotheses when measuring the quality of public services indirectly by observing trends in house prices, which are considered to be indicators of the citizens' willingness to pay for housing in a certain municipality, partially linked to the municipality's provision of public services.

Another recent study (Niaounakis & Blank, 2017) has addressed the effects of inter-municipal co-operation in the Netherlands by solely focusing on collaboration between municipal tax departments and cost efficiency. In this regard, economies of scale were identified. While the provision of the related public services for roughly 10,000 inhabitants was calculated as about 30% less efficient, compared to the optimal value, it has also been concluded that additional efficiency gains are largely not given if the services are provided for more than 60,000 inhabitants. In this context, it needs to be noted that tax collection is a rather repetitive type of public service, and possibilities to increase efficiency might largely differ for other types of services.

Taken together, municipal amalgamations and municipal co-operation are long-standing traditions in the Netherlands. As a result of central government's intention to increase the administrative efficiency at the local level, municipalities were merged in a continuous process since the early days of the Kingdom of the Netherlands. This development can be expected to continue as long as there is no change in central government's position on this policy, which

is so far hardly ideologically influenced. Following these insights into territorial reforms and municipal co-operation in the Netherlands, changes in the management approaches within the municipalities' administrations are the topic of the next sub-chapter.

7.5.3. Management changes

In recent decades, local governance in the Netherlands has widely been influenced by two reform waves: the first one in line with NPM and the second one characterised by the partial abandonment of previous reform efforts. Apart from variation in the scope and the time period, both trends were common at various levels of government in many Western countries. Based on new financial-economic rationales, NPM-related ideas were adopted at the Dutch local level from the late 1970s onwards. As a result, the administration of many municipalities was slimmed down by the use of privatisation measures and the outsourcing of tasks. This was mainly realised by transferring municipal tasks to third-sector organisations, especially in the areas of culture, sports, and education, to private firms or newly established production units, together with other municipalities, for example in the context of waste collection and the maintenance of municipal property, and to local administrative agencies. A shift towards performance-based management is also recognisable at the Dutch local level. In the context of public services, attempts to measure customer satisfaction and to further improve services based on feedback also took place. While all the initiatives had similar intentions, the designs varied widely in practice (Denters & Klok, 2005, p. 78 f.; Kickert, 2003, pp. 378 f., 382; ter Bogt, 2008a, p. 31; Bekke, 1991).

Before NPM, local governance in the Netherlands was particularly characterised by the Dutch tradition of consensus, consultation, and compromise, and local government was organised according to the clerk-service model (Dutch: *secretarie-dienstenmodel*). It included a secretary (Dutch: *secretarie*), who was responsible for policy preparation, and public service departments that were in charge of the policy implementation. Already since the 1970s, an increasing politicisation was observed within the administration of the local level (Hendriks & Tops, 2003, pp. 303 f., 312), which might have challenged a purely bureaucratic functioning in some municipalities. The search for alternatives to the clerk-service model began in the late 1970s, where various models were discussed in academic literature, and some of these were implemented on an experimental basis. The global economic downturn of the early 1980s, in the context of the second oil crisis, increased the financial pressure on various nation states, including the Netherlands and its local level. In addition to financial constraints, the inefficiency and the lack of transparency within the administration were also used to justify the need for reforms (Hendriks & Tops, 2003, p. 305, 308 f.).

Privatisation was another prominent and partially contested topic in the reform rhetoric of the 1980s. However, the overall scope of privatisation measures in the Netherlands was relatively limited (Pollitt & Bouckaert, 2011, p. 294; van der Meer, 2008, p. 184), and privatisations were generally dealt with in a relatively pragmatic manner. Furthermore, privatisations were not realised for ideological reasons, but to increase efficiency (Bekke, 1991, p. 126 f.). Since

state-owned public service providers, for example in the areas of energy, transport, and infrastructure, were traditionally run more like private companies than public sector organisations, changes in ownership – partially realised through privatisations in the 1980s and 1990s – did not result in far-reaching management changes (van Damme, 2006). Moreover, further privatisation measures in these areas did not always imply the development of market systems (van der Meer, 2008, p. 183 f.). Apart from private entities, a number of autonomous (semi-) public organisations (Dutch: zelfstandige bestuursorganen, ZBO's) were established in the 1980s.¹¹⁵ Then, in the 1990s, a departmental agency became a common way in which to decentralise administrative authority (Pollitt & Bouckaert, 2011, p. 294). Overall, the contracting-out of public services became more common at the local level in the Netherlands, compared to the national one (van der Meer, 2008, p. 184).

While many Dutch municipalities reformed their administration in line with NPM, the city of Tilburg and the *Tilburg model*, implemented in 1985, became famous for their initiative – in the Netherlands as well as abroad.¹¹⁶ In this context, it needs to be noted that the Tilburg model was “exemplary rather than exceptional” (Hendriks & Tops, 2003, p. 308). Just as in many other municipalities, improving the quality, efficiency, and effectiveness of public services was the overall goal. The decentralisation of tasks within the administration, the professionalisation of management, and political control at key positions were the principles chosen to achieve the set targets (Hendriks & Tops, 2003, p. 308 ff.). While the city was certainly not a particularly unique case, “Tilburg was widely recognized as a paragon of a modern well-governed municipality” (Denters & Klok, 2005, p. 65).

From a more practical perspective, the Tilburg model focused on two elements: The first focus was on the reorganisation of the administration according to the concern-division model (Dutch: concern-diensten model), which is an organisational approach focusing on highly autonomous sectoral departments responsible for certain policy areas, in combination with the general decentralisation of powers and responsibilities. The second focus was on changes in the annual budgetary cycle. As a consequence, tasks were defined in a product-based manner, with a general focus on the output. As a further consequence, the number of staff members of the municipal administration was downsized noticeably. Some public services were also privatised, and others were phased out completely. In addition, practical attempts towards measurable policy goals were undertaken (Hendriks & Tops, 2003, p. 308 ff.). As a reaction to the various reform efforts of individual municipalities, including Tilburg, and also mostly in line with the general elements of NPM, the Ministry of the Interior and Kingdom Relations initiated a local-level *Public Management Initiative* (Dutch: Beleids- en Beheers Instrumentarium) in the late 1980s (van Helden, 1998; ter Bogt, 2008a; ter Bogt, 2008b; van Helden & Jansen, 2003). The initiative pursued the following three main goals: (1) strengthening the position of

¹¹⁵ Also known as quasi-autonomous non-governmental organisations (quangos) in the United Kingdom.

¹¹⁶ In fact, the Tilburg model became more famous abroad than in the Netherlands. Especially in Germany, the approach became popular, since the Communal Joint Office for Administrative Management (German: Kommunale Gemeinschaftsstelle für Verwaltungsmanagement, KGSt) (Kommunale Gemeinschaftsstelle für Verwaltungsmanagement, 1992) promoted it as a role model. In the Netherlands, the Tilburg model was often considered to be one approach out of many.

elected politicians, (2) improving the planning and control processes within the municipal administration, especially by introducing output budgeting, and (3) making municipalities more customer-oriented, partially by decentralising the municipal administration internally (van Helden, 1998, p. 86). In other words, the objectives were “to make political and administrative decision-making more transparent and effective, and to bridge the gap between authorities and citizens that was found to exist at the local level” (ter Bogt, 2008a, p. 32). To reach these goals, the Public Management Initiative had the three premises of (1) tailor-made information as the basis of decision-making, (2) a focus on information about the relation between policies and finances, and (3) an orientation towards specific tasks instead of broader goals (Kickert, 2003, p. 383). From a more practical perspective, output budgeting was the key component of the Public Management Initiative (van Helden 1998, p. 87).

A few years later, in the early 1990s, the management style in Dutch municipalities came under pressure once more. Apart from criticism from many quarters, also in line with weaknesses and newer approaches discussed in political-administrative theory, including concerns about the legitimacy of increased administrative powers, the turnout at local elections dropped considerably, especially in larger cities. This development was interpreted as the population’s general dissatisfaction with the administrative reforms implemented at the local level, including the ones initiated by the Ministry of the Interior and Kingdom Relations (Hendriks & Tops, 2003, pp. 311, 314). Subsequent changes were characterised by a mitigation and partial revision of the reforms a decade earlier. The focus was increasingly oriented back towards the external interaction of the municipal administration rather than the internal organisation. Citizens were again considered in their role as citizens rather than customers. Furthermore, the previous priority of budgetary discipline and management orientation was moderated, and political accountability and control were strengthened (Hendriks & Tops, 2003, p. 311; Kickert, 2003, pp. 378, 387 f.). However, in summary, NPM did not disappear at the local level in the Netherlands, but it became less prominent and more modest from the 1990s onwards (Hendriks & Tops, 2003, p. 313).

Another development of the 1990s is the attention private-public partnerships received in many Western countries, including the Netherlands, as an organisational approach. However, not many private-public partnerships were implemented at the Dutch local level (ter Bogt, 2008a, p. 44 ff.). The fact that public services outside the core administration were traditionally run more like private companies can be considered as the main reason that additional benefits from this type of agreement were assessed as being relatively low, similarly to privatisation measures in general.

In the late 1990s, central government began the initiative *From Policy Budgets to Policy Accountability* (Dutch: Van beleidsbegroting tot beleidsverantwoording), with the aim of implementing performance-based budgeting in the public sector. While the initiative focused on the national level, some municipalities changed their budgeting practice towards performance indicators and outcome-orientation as well (Rijksacademie voor Financiën, Economie en Bedrijfsvoering, 2013; Pollitt & Bouckaert, 2011, p. 294; van der Woude, 2018, p. 251). After recent developments towards the moderation of earlier NPM-related changes at the Dutch local

level, this measure can be interpreted as a renewed management change in line with private sector standards to increase the efficiency of local authorities.

Empirical evaluations of the various municipal reform initiatives in the Netherlands are generally rather critical regarding the achieved results in terms of gains in efficiency and effectiveness, and they noted, for example, that organisational changes often implied costly external advice, and that performance indicators are often of limited relevance for decisions in practice (ter Bogt, 2008a; ter Bogt, 2008b). Furthermore, it was pointed out that the usage of output-oriented planning and control instruments is often limited to larger municipalities (van Helden & Jansen, 2003, p. 72). In addition, it was mentioned that performance-related payments are still relatively uncommon in the Dutch civil service (van Helden & Jansen, 2003, p. 75). However, apart from personal incentives, other personnel-related factors, such as personnel management, were gradually shifted towards private sector standards (Pollitt & Bouckaert, 2011, p. 294).¹¹⁷

In summary, over the last four decades, as in many other countries, the public management reform rhetoric in the Netherlands, including at the Dutch local level, has been more extensive than the actual managerial and organisational changes. Compared to the reform waves in other countries, the implementation of management changes was also a rather incremental process in the case of the Netherlands (Pollitt & Bouckaert, 2011, p. 295). Considering the reform initiatives in line with NPM, mainly during the 1980s, and the partial attempts to moderate previous changes in later years, it can be concluded that discussions and new concepts for managerial reforms at the Dutch local level will also remain a topic in the future. Europeanisation is another issue that is likely to remain relevant in the coming years given the increasing influence of the EU as the supranational level of government of its member states. This aspect will be assessed in the Dutch context in the next sub-chapter.

7.5.4. Europeanisation

In the Netherlands, which is one of the founding members of the European Economic Community – created by the Treaty of Rome and becoming effective in 1958 – European co-operation has been a long-standing tradition. After more than 50 years of further steps towards European integration and the renaming of the supranational entity to the European Union, the Netherlands is still part of the community. Interestingly, when Dutch citizens were asked if they are for or against the Netherlands' approval of the Treaty establishing a Constitution for Europe in the context of the Dutch referendum in 2005, 61.5% rejected the proposal (Kiesraad, 2005). Together with the refusal of the French population, the Treaty establishing a Constitution for Europe did not enter into force, but was replaced by the Treaty of Lisbon in

¹¹⁷ See van der Meer and Dijkstra (2011), van der Meer and Raadschelders (2007), van der Meer et al. (2016), and van der Meer et al. (2012) for more details on the development of the Dutch civil service over time, especially at the national level.

2009. However, despite all reservations by the population, the general importance of the EU has increased at the Dutch local level over time (Denters & Klok, 2005, 73 ff.).

As in all other member states of the EU, the Dutch local level is mainly responsible for the execution of European legislation. A particularly strong influence of EU law can be observed in the policy areas of physical planning, environmental protection, and migration (Backes & van der Woude, 2013, p. 244 f.). Furthermore, various voluntary networking activities are a prime opportunity for the local level to strengthen its role within the system of multi-level governance. In the Netherlands, participation in the variety of European (knowledge) networks is promoted by the Association of Dutch Municipalities (Vereniging van Nederlandse Gemeenten, 2012). New contacts and ideas, as well as additional financial resources from European funds, are identified as the potential main benefits for the municipalities (p. 5 f.).

In addition to the formal representation of the Dutch local level in the Committee of the Regions, informal channels are also used to influence European legislation. In this regard, individual efforts, mainly restricted to lobbying by larger cities and their representatives in Brussels, and co-operative efforts, usually carried out by the Association of Dutch Municipalities, can be distinguished (Denters & Klok, 2005, p. 74).

Research on the Europeanisation of Dutch municipalities is relatively limited so far. De Rooij (2002) has examined the impact of the EU on the Dutch local government and the use of EU-related opportunities of eight municipalities (Rotterdam, Eindhoven, Haarlem, Enschede, Kerkrade, Delfzijl, Kersteren,¹¹⁸ and Renswoude). Following his interviews and document analyses, EU affairs did not play any role in the smaller villages under investigation, whereas they played a passive role in mid-sized municipalities and an active role in large cities. Apart from the size of the municipalities, as the main factor substantiating the level of Europeanisation, the socio-economic position is a further, but less strong factor explaining variation in EU-related activities. The worse the positions, the more the municipality attempts to use EU opportunities, such as the Structural Funds and the Cohesion Fund, if entitled. The level of urbanisation and the location in a border region were not suitable to explain variation in the use of EU opportunities at the Dutch local level. While a wide variety of EU-related associations were mentioned by local officials when asked for associations to which they are affiliated, only Eurocities – an informal network of major European cities founded in 1986 (Eurocities, 2016) – seem to play an important role in the support of EU fund matters at the municipal level and the expression of local views at the European level (de Rooij, 2002, p. 458).

In the context of a more general analysis of the impact of the EU at the local level of government in terms of opportunities and constraints, Fleurke and Willemse (2006, p. 92 ff.) have examined the situation in the municipality of Lelystad as a single case study. While focusing on the policy areas of physical planning and ground affairs, environment, as well as sanitation and green, the scholars analysed all relevant available files, which were created as part of the policymaking process. In addition, various interviews were conducted with senior officials to gain better insights into the interests of the municipality. Overall, a direct influence of the EU was identified in roughly 60% of the files investigated; in the policy area of environment in

¹¹⁸ In 2002, Kersteren was merged with two other municipalities and was later renamed Neder-Betuwe.

particular, this share was even higher at about 70%. Considering different types of influence, opportunities and constraints were detected in approximately 80% and one third of the files respectively.

A more recent study on the Europeanisation of Amsterdam and The Hague throughout the 1990s and 2000s has been conducted by Dukes and van der Wusten (2014). The research is based on the analysis of documents and interviews with officials. As a result of the increasing influence of the EU on local government, Amsterdam and The Hague, together with Rotterdam and Utrecht, intensified their co-operation on European affairs in 2001. As of 2012, the authors describe the Europeanisation of Amsterdam as “mostly [...] provisional and fragile” (p. 633). Furthermore, they characterise it as “strongly embedded in a much wider emphasis on international orientation, always present and now again foregrounded” (p. 633). Regarding The Hague, they have seen an intensification of EU activities, with a focus on the acquisition of subsidies and participation in international city networks, since the early 1990s. While the political representatives want to position The Hague as an international city, the authors attest “a lack of awareness and knowledge of Europe within the municipal organisation at large” (p. 634). Dutch cities’ engagement with the EU is generally described as a development from a formal practice with low priority, executed in various parts of the administration in the 1990s, towards a more active behaviour, including an identification with the topic, in recent years.

Taken together, the influence of the EU has increased at the Dutch local level over recent decades. While the local government’s lobbying activities, which are aimed towards the EU in the opposite direction, are mainly limited to larger cities or municipal networks, some relatively small villages have also begun to look into the options that the EU provides, especially regarding additional financial resources. However, particularly in the context of European regulation in policy areas with municipal competences, it must be taken into account that Europeanisation also implies an additional workload for local government. In general, the future developments of the relationships between the European and the local levels are certainly linked to the future of the EU, and further steps of integration and a dissolution in the longer run cannot be excluded as prospective scenarios. As a result of the sometimes stated alienation between politics and citizens, which is partially also related to the increasing influence of the European level, new approaches to involve the general public in municipal affairs beyond regular elections has emerged as well. These developments will be discussed in the next subchapter.

7.5.5. Citizen participation

Co-operation and consensuses are long-standing traditions in the Netherlands. Involving citizens in decision-making is an important aspect to reach broad societal support in democratic policymaking. In this regard, the number and variety of initiatives are generally growing in the Netherlands (Michels, 2018). Some new initiatives can also be considered as reactions to the general perception that Dutch citizens have become less interested in politics in recent years, partially also indicated by decreasing numbers of political party members (van der Meer &

Raadschelders, 2007, p. 116). Participatory projects are especially common in the context of city planning and are mostly present at the local level (Michels & de Graaf, 2010, p. 481). From a legal perspective, local referenda are permitted as long as they are not binding (Hendriks & Schaap, 2010, p. 109). This implies an advisory role, while a variety of other, more active forms of citizen participation can be found at the Dutch local level as well.

Additional impulses for citizen participation emerged in the 1990s in the context of the attenuation of NPM-related reforms of previous years, and they call for strengthening public responsiveness (Denters & Klok, 2005, pp. 65, 79). Municipalities aimed to involve citizens more actively by establishing citizen polls and citizen panels, among other participatory instruments. Compared to previous initiatives, municipalities also began to involve citizens from the beginning of new projects, and not at a point where the options had already been formulated and only a decision needed to be taken between a small number of alternatives (Hendriks & Tops, 2003, p. 312; Kickert, 2003, p. 387 f.; Denters, 2011, p. 319). However, until today, the number of citizens taking part in participatory initiatives is still lower, compared to the voter turnout in municipal elections (Volgaard et al., 2018, p. 14).

A number of studies have analysed citizen participation in various Dutch municipalities in recent years. Michels and de Graaf (2010) have researched initiatives in Eindhoven and Groningen. While projects in Eindhoven focus on collaborative governance, participatory budgeting is the main attempt chosen to include the population of Groningen. First, the authors have concluded that citizen participation did not change the roles of citizens and politicians in general. The projects regarded were mainly limited to the consultation of citizens in order to collect their ideas and insights. In Eindhoven, it also became apparent that social organisations were more influential in the policy process than groups of unorganised citizens. While the influence of the attendees of participatory budgeting meetings in Groningen was considered to be relatively high, it has to be mentioned that mainly representatives from professional organisations participated in the projects. Taken together, independent citizens played a minor consultative role in both cities.

The actions that local government usually takes to facilitate citizens' initiatives have been researched by Bakker et al. (2012) in the case of 15 Dutch municipalities. They have concluded that local authorities have mainly employed network structuration and process management strategies to stimulate citizens' initiatives and to recruit participants in recent years. In contrast to the different local initiatives under varying conditions, the mobilisation strategies were relatively similar in all the municipalities under investigation.

A single case study on citizen participation has been presented by Geurtz and van de Wijdeven (2010). Their analysis of the experiences in Hoogeveen – a town in the north-eastern part of the Netherlands, with some more inhabitants than the Dutch average – and far-reaching programmes to involve citizens in policy decisions, such as participatory budgeting, focused on factors leading to successful initiatives. The authors have concluded that combining arrangements in the form of official committees, professional connectors, represented by individuals who connect parties and people, and steady political support are crucial for participatory democratic elements.

Also, in the context of an own research project on the transparency of Dutch municipal websites (Wille & Porth, 2015), data on the availability of information and services in relation to citizen participation were collected in November 2014 and November 2015. While focusing on specific content, such as contact information of the municipal council, descriptions of formal procedures for citizens' initiatives, and annual citizens' reports, an overall tendency towards the provision of more information online and therefore higher transparency was observed.

However, looking at citizen participation at the Dutch municipal level from a more long-term perspective, it can be stated in summary that a broad number of instruments, such as advisory committees and participatory budgeting, have been developed and implemented in recent decades. Especially in line with technological progress and digital communication, the costs to inform and to include citizens has decreased extensively, which has enabled new forms of participation. In general, it needs to be noted that, according to recent studies, various lobby groups have identified participatory instruments, usually originally addressed to unorganised citizens, as possibilities to spread their opinions. Digitalisation, as one enabler of initiatives to increase the involvement of citizens in municipal affairs, will also be addressed in the next subchapter, this time regarding rising attempts by the municipalities to provide their public services digitally.

7.5.6. Digitalisation of public services

From a global perspective, the Netherlands is among the leading nations in terms of the digitalisation of public services and e-government. In 2016, the United Nations (2016) ranked the country seventh (fourth within Europe) in its biannual E-Government Development Index. The associated 2016 E-Participation Index rates the Netherlands fifth (second within Europe). Furthermore, the Netherlands is one of the countries with the highest percentage of households (98%) connected to the Internet (Eurostat, 2017c), which is an important requirement for the digitalisation of public services provided to citizens. With the support of the national government, all levels of government have implemented initiatives to make public information and services available online in recent years. Initiatives to digitalise the communication within the administration have also been launched.

In 2012, the Council for Public Administration (Dutch: Raad voor het openbaar bestuur, Rob) claimed that governmental information should be more easily accessible online. From this council's perspective, in addition to laws and other juridical decisions that are already commonly available, citizens should also be able to find detailed information on the decision-making, implementation, and evaluation of policies, as well as research reports and advisory opinions online. In this context, from the Council for Public Administration's perspective, all levels of government, including the municipal level, should take a more active role (Raad voor het openbaar bestuur, 2012).

At the local level, the *Digital Agenda 2020* (Dutch: De Digitale Agenda 2020), which was agreed upon in June 2015, describes the intended digitalisation of public services and information for the period until 2020 (Rijksoverheid, 2015c, p. 40). With the support of the Association of Dutch Municipalities, all municipalities are motivated to participate in projects in the field of digital public services. The overall goals and strategies of the initiative are to make government more transparent and to make the administration more efficient, by largely expanding digitalisation, while taking local conditions into account. With the financial support of central government, separate projects focus on innovation, standardisation, and collective implementation from a more practical perspective (Vereniging van Nederlandse Gemeenten, 2016a; Kwaliteitsinstituut Nederlandse Gemeenten, 2016).

While the Digital Agenda 2020 is the guideline for municipalities to digitalise public services in the coming years, the *Implementation Agenda Digital Services 2017* (Dutch: Implementatieagenda Digitale Dienstverlening 2017) sets the focus on a number of specific initiatives and adds some further targets in this subject area to be implemented until 2017. The intentions include, for example, the identification of the 20 most relevant public services for citizens and companies in order to have a clear focus for future digitalisation measures, the purchase and distribution of software to receive and process digital invoices, and the development of a platform for co-operation between municipalities and ministries at the national level (Rijksoverheid, 2015c, p. 40 f.).

While the intention to digitalise public services at the Dutch local level is given, a question arises regarding the achieved degree of digitalisation. According to TNS Nipo, which is a survey agency, 18% of Dutch public services were available online in 2006. This share is expected to increase to 85% in 2017 (TNS Nipo, 2014). From a practical perspective, most digital public services can be accessed with a so-called DigiD, a special ID system to access Dutch governmental services.¹¹⁹ As of 2015, over 12 million people out of the Dutch population of 16.8 million were registered as DigiD users (Rijksoverheid, 2015d). Regarding governmental websites, as a potential source of various types of information, 2,093 websites and 3,889 domain names were counted in 2015, taking the official web presence of all types of governmental bodies into account (Open State, 2015).

The general availability of digital information has also been researched in an own project on the transparency of Dutch municipal websites (Wille & Porth, 2015). By conducting two consecutive content analyses in 2014 and 2015, the websites of almost all Dutch municipalities were evaluated based on the availability and findability of 100 items across four dimensions, namely (1) the composition of the municipal board, (2) the activities of the board, (3) municipal policies, and (4) general information on citizen participation. While the information provided on Dutch websites varied, some general patterns could be observed. General information on politicians and top-level bureaucrats were widely available, while detailed information on administrative activities were often not presented digitally. Especially information on the composition of political committees, policymaking, policy performance, and details on

¹¹⁹ This nationwide standard for digital interaction between citizens and government can already be considered as a technical advantage, compared to many other countries.

citizen participation were often not part of the content that municipalities presented on their websites.

The diffusion of personalised e-government services, describing services with an individual interaction between a citizen and government, has been analysed by Homburg and Dijkshoorn (2013) in the case of the Dutch local level. They have concluded that pressure to develop digital services further originates horizontally and vertically within the political-administrative system. In this context, the relevance of personalised e-government services is usually pointed out by referring to its essentiality for service delivery, contribution to efficiency, and an increase in reputation and organisational control (p. 195).

Considering the statistical data presented above and the performance of the Netherlands in international rankings, such as the E-Government Development Index and the E-Participation Index rates, it can be stated in summary that the country is among the leading nations in terms of digitalisation and the provision of public services and information online. However, specifically at the local level, and particularly in small municipalities, further potential exists to expand the opportunities for citizens to settle their public affairs online. As pointed out before, the six trends and developments in local government and local governance that were reflected upon in this chapter and in chapter 2 did not occur completely separate – neither in the Netherlands, nor in other Western countries. Common interactions, especially mutual reinforcements, will be discussed in the last sub-chapter hereinafter.

7.5.7. The interactions of trends and developments at the local level of government in the Netherlands and the accordance with general developments in local government and local governance

In recent decades, Dutch municipalities have undergone far-reaching changes. While some trends can be considered as part of overall developments in government and governance, such as an enabling state and multi-level governance, others solely concern the local level. One major aspect is the continuous process of *decentralisation measures*, which involves the transfer of tasks, primarily in the policy area of social affairs, from the national to the municipal level. In this regard, the scope of efficiency gains realised, as the main argument used to promote the provision of services at lower levels of government, is relatively difficult to assess. Alongside some smaller steps towards more public services provided by the local level, the decentralisation measures implemented at the beginning of 2015, partially as a reaction to financial pressure from the Financial Crisis since 2007, describe the most important development in the context of transferring responsibilities to the local level in recent years. A question that remains to be answered in a few years is whether the ambitious long-term savings intended by the 2015 reforms will be achieved.

From a comparative perspective, the Netherlands is among the European nations with a relatively high degree of decentralisation, measured by the share of local tasks and expenditures. Considering the share of own local income, in contrast to transfers from central government,

the country appears to more centralised than others (Kuhlmann & Bouckaert, 2016, p. 11 f.). This traditional, rather unusual relation between local dependence and independence at the revenues and expenditures side has not been essentially affected by the decentralisation measures of recent years. However, since the tasks of Dutch municipalities have increased in recent years, while legally authorised options to generate own revenues did not, a tendency towards a greater financial dependence of the local level on the national level can be concluded. Since shifts of tasks to lower levels of government do not change the fact that services are often provided more efficiently for a larger number of clients, decentralisation measures have promoted co-operation across the local level.

In the Netherlands, to increase the efficiency of the local administration by the formation of larger units, *municipal amalgamations* have a long history. Those territorial changes, mainly promoted by central government, have been implemented as a steady process over the last centuries. Compared to other European countries, the Netherlands is positioned in the upper middle range, with a 55.3% decrease in the number of municipalities between 1973 and 2013. Considering today's average number of inhabitants per municipality, the Netherlands is among the countries with the largest local government units in Europe (Steiner et al., 2016, p. 29). However, the country's relatively small area and dense settlement certainly foster the formation of larger units in comparison with the conditions in other countries.

As a closely related development and a potentially preceding step of a merger of local government units, *municipal co-operation* is a similarly long-standing tradition in the Netherlands, with an increasing tendency. In some policy areas, municipalities are even obliged to co-operate by law. However, a recent empirical study (Allers & de Greef, 2018) has concluded that inter-municipal co-operation has not led to lower total spending in Dutch municipalities in recent years. On the other hand, the necessity of working together has also recently been demonstrated with the decentralisation measures, which came into effect in 2015, and it has implied that the municipalities had to organise the provision of additional public service with a relatively short preparation time.

Apart from territorial changes, regular *managerial and organisational reforms* are long-standing traditions at the Dutch local level as well as elsewhere. In recent decades, the attempts to renew the public sector relate to two major reform waves. First, NPM, originating in the late 1970s, and, second, reforms aiming to moderate previous changes. From a theoretical perspective, the reform initiatives at the Dutch local level during the 1980s largely corresponded to the ideas of NPM; only the flexibilisation of personnel policies played a minor role in the Dutch case (van Helden, 1998, p. 98).

Compared to other European countries, the Netherlands was in the upper mid-range in terms of NPM (Hood, 1995), and the Dutch local government followed the trend relatively early, extensively, and closely linked to international, especially Anglo-Saxon, developments (John, 2001, p. 102 f.). In this context, Dutch municipalities can be considered as trendsetters in terms of NPM reforms at the local level, compared to municipalities in other countries. However, when criticism of NPM-related reforms gained broader attention and public authorities began to moderate previous changes, the Dutch local level followed this second development comparably early as well (Hendriks & Tops, 2003, pp. 301, 306). In addition to attempts to

increase the local level's accountability, further measures were taken to increase the involvement of citizens in municipal affairs as part of the second reform wave in the Netherlands.

The *Europeanisation* of the Dutch local government follows the general tendency of an increasing influence of EU legislation at all levels of its member states in recent decades. While legal requirements usually affect all municipalities from a top-down perspective to a similar extent, lobbying at the European level is mainly limited to larger cities or municipal networks from a bottom-up perspective. Compared to the Europeanisation of the local level in other European countries, no major deviations are recognisable when assessing the developments in the Netherlands.

In recent years, various local initiatives, involving, for example, advisory committees or participatory budgeting, have been launched to increase the *participation of citizens* in municipal affairs in the Netherlands. Often benefiting from technological developments, especially regarding digital communication, a large number of new instruments were developed. While the actual influence of the average citizen is often questioned, the development towards a general increase in attempts to involve citizens in governmental affairs can be observed in various other Western countries as well. However, it must be taken into account that this trend differs from the other ones discussed in this study, since it is not necessarily linked to the general motivation to increase efficiency. On the contrary, increased citizen participation might lead to higher costs, while other aspects, such as transparency in municipal decision-making and satisfaction with local politics, might benefit.

In the field of *digitalisation* and in relation to the provision of public services and information online, the Netherlands is among the leading nations from a global perspective, especially regarding the services provided by the national level (United Nations, 2014; United Nations, 2016). At the local level, especially in smaller municipalities, further potential exists to expand e-government-related activities. As a frequent enabler, digitalisation at the local level is also closely related to attempts to increase citizen participation. Apart from the digitalisation of communication with parties outside the municipal administration, major changes along the same lines have been implemented for communication within the administration in recent decades.

In summary, the Netherlands can be considered as a leading nation from a European or even global perspective regarding various aspects of public sector modernisation, thereby illustrating the country's progressive nature. Especially in terms of NPM-inspired reforms and digitalisation, the country and its local level are among the global trendsetters. Considering recent decentralisation measures and municipal mergers, as well as increased co-operation between municipalities over the last decades, more changes in local government and local governance took place in the Netherlands than in many other countries. However, the eventual effects of various reform initiatives, generally aiming to increase the efficiency of the public sector, are debated in the Netherlands – the same as elsewhere. The role that the already ongoing trends and developments played during the time of the Financial Crisis since 2007 will be assessed at a later stage in this study. In the following chapters, the events and implications of the recent Financial Crisis will first be addressed from a global perspective, before focusing specifically on the Netherlands.