Country

Amsterdam Netherlands

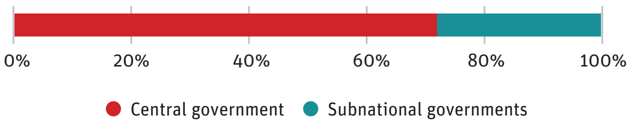
CITY:
1.0 mil. inhabitants

METROPOLITAN AREA
2.7 mil.
(+6.4% pop. change/5 years)

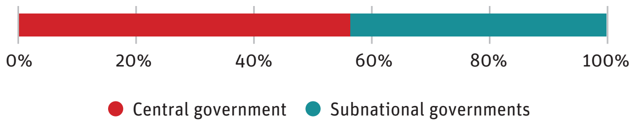
GDP: 175% of average EU28 GDP
(+0.7% average annual change in GDP/5 years)

How local public finance systems work in Netherlands

PUBLIC REVENUE



CAPITAL EXPENDITURE



Netherlands has a **two-tier system of subnational governments** (SNG). It consists of 12 provinces and 355 municipalities, including three oversea territories (Bonaire, Saint Eustatius and Saba). The SNG system also includes a functional layer at the regional level consisting of Dutch water management authorities (waterschappen). **Although government function in the Netherlands is generally centralized, SNGs — especially municipalities — have considerable budgetary and expenditure powers.**

SNG's share in total public investment is 48% (OECD 57% and EU28 51% in 2016). This is down by 17% since 2013 due to budget cuts at the regional and local level. Of this investment 52% was made by municipalities and inter-municipal cooperation bodies, 15% came from the province, 10% from waterschappen and the rest from other public bodies.

Direct investments represent 11% of the total expenditures of provinces and municipalities, in accordance with the OECD average. The majority of investments are dedicated economic affairs, local transportation and infrastructure, followed by education, environment protection and adaptation to climate change. At the regional level, a large proportion of research and development investment aims at strengthening regional competitiveness.

Dutch provinces and municipalities are financed mainly by transfers from the central government. More than 73% of the revenue comes from transfers (OECD 37%), while tax revenue represents only 10% of the total revenue (OECD 45%). The share of transfers is among the highest in the OECD. In contrast, the share of tax revenue is one of the lowest in the OECD, reflecting strong fiscal imbalances.

Tax revenue accounted for only 1.4% of the GDP and 5.9% of the public tax revenue (OECD 7% GDP and 32%). Municipalities receive 58% of SNG tax revenue and provinces 16%. The remaining 26% is the share for the water management authorities (waterschappen), which collect their own taxes and levies (waste water treatment levy, water systems levy and pollution levy).

A large portion of the municipal tax revenue comes from the property tax, which is calculated based on the value of the real estate. It is paid by owners and users of residential and non-residential property. Municipalities have the legal authority to set tax rates, but only within the limits determined by the central government. Property tax generates 52% of the tax revenue and 5.3% of total SNG revenue. It corresponds to 0.7% of the GDP (OECD 1.1% of the GDP).

Other local taxes and fees include a parking tax, tourism tax, tax on dogs, sewage fees, water pollution fee, tax for using public land, etc. Water pollution fees and sewage fees make up 29% of the local government tax revenue (2016). Provincial taxes come almost exclusively from the surtax on the motor vehicle tax, the rate of which is capped by the central government. **There is no tax sharing system in Netherlands.**

Transfers to municipalities for current expenditures are made through the Municipal fund (Gemeentefonds), and then through integration, decentralization and specific grants from ministries intended to cover the costs of delegated tasks like basic education and social services (the same system is used for transfers to the provinces). **The Municipal fund consists of one-time payments and performs a strong balancing function. Its formula takes into account the municipal tax capacity**

and expenditure needs with the aim of enabling all municipalities to finance equivalent levels of service at the same tax rate (60 different criteria are used for the allocation). Municipalities also receive transfers from the provinces (e.g. investment grants for roads and public transit).

The Municipal and provincial funds represent the largest portion of transfers and are thus the primary sources of revenue for municipalities and provinces. On the other hand, the share of integration and decentralization grants in the local government revenue is falling. In 2016 it amounted to 27%.

Other significant sources of revenue for SNGs (17%) include user fees and property income (from the lease of property and lands). **Provinces receive significant dividend income,** especially from power companies and the privatization of public services in the energy sector.

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm