
Bound in shackles, joined with links

*Dutch experiences with decentralisation: the cases
'social support and care', 'social security and
employment' and 'urban renewal'*

Jiska Nijenhuis, Hessel Boerboom en Peter Huigsloot

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1 History and background¹

1.1 Increasing social responsibilities for governments after World War II

After World War II governments have become increasingly responsible for the regulation of society, especially in Europe. This has led to great responsibilities on different social domains, such as the concern for safety, health, education, income, work and housing. Due to different causes (internationalization, ICT/internet/information provision, welfare increase and multicultural society) the awareness of a greater complexity has increased, with an increasing coherence between different domains, both in place and time. Examples are the upgrading of cities through social and physical measures; the encouraging of social participation (including work) for different social groups; the meeting of the consequences of the ageing population by facilities of welfare, care and recreation.

1.2 Classical reactions: centralization and the market

The classical reaction to this greater complexity and the need of an overall view in Europe, was centralization of control. Often the implicit assumption is that if all the information is gathered at one central point, the best solution can be found through rational consideration, after which it can be imposed.

On the opposite side we've seen a parallel and paradoxical development of increasing belief in the market: if the government withdraws from the market completely the invisible hand of individual wellbeing will create optimal behaviour.

The combination of these two brings up the question with what we are being confronted with at this conference: on one side we have to give the market room to pick up the social issues, but on the other side there is a hierarchical view of the government, which nowadays governs not merely on a national level, but also on a European/international level.

Although the obligation to have a decentralised approach is stated in the law (117 GW, 115 PW), for many years the practice has been different. Many social issues have been dealt with on a national level, or have been taken over on a national level, after being initiated on a local level. A remarkable characteristic hereby is that not only the what-question (what the government is responsible for) but also the how-question (how must this responsibility be taken care of) is often stated in detailed legislation. In this approach all flexibility and customization is missing, whereby efficiency and effectiveness become an illusion. The Dutch 'polder approach' has supported this and has resulted in detailed legislation: all interest groups assure their position in this form of laws and legislation. With continuous secularization, the firm old position of the Church charities hereby finds a its successor in these semi-government facilities.

1. About the authors:

Jiska Nijenhuis (Jiska.Nijenhuis@minbzk.nl), born in 1973, is a educated as a Chartered Accountant (registeraccountant). Early career: supervision of social insurances and project manager inner city for the city of Deventer. Present function: project manager decentralizations to municipalities and project manager design and maintenance municipal finance for the Dutch Ministry of the Interior and Kingdom relations.

Hessel Boerboom (h.boerboom@net.HCC.nl), born 1948, is educated in child-psychology. He has been councilor in Amsterdam-Osdorp, he later worked as deputy secretary in the Council for Local Finances. He now serves as Council advisor / deputy director of the Financial Organisation Division of the Dutch Ministry of the Interior and Kingdom relations.

Peter C.M. Huigslot (huigslot@cebeon.nl) holds a PhD degree in Economics from the UVA University of Amsterdam with a dissertation concerning 'Social indicators', and a Master's degree in Economics from the VU University Amsterdam. He has worked as managing director of Cebeon b.v. from 1984 and as secretary to the chairman of the Amsterdam Council of Finances of Sub Municipal Areas from 1991. Further information can be obtained from: www.cebeon.nl.

The rich natural gas revenues and the successful economic development in the last decennia ensured that, even in times of incidental economic downfall (eighties), the need for an efficient and effective approach became less urgent. In recent years, since Lehman Brothers, things have changed. The shock of the banking crisis, that predictably found its way to the real economy in the end, tested the caring government. How can government tasks be effectively and efficiently outsourced, now that the market has been proven unreliable and government sources are being exhausted?

1.3 Decentralisation

In the Netherlands, certainly in recent times it has become clear that centralisation is not only inefficient and ineffective but also lacks legitimacy.

An answer has been the decentralisation of tasks to lower government levels, especially municipalities, across a wide range of different domains. The reason for this movement is the claim for custom-made measures within horizontally connected chains, for which central governmental services are badly equipped. Often for the sake of efficiency, financial economical targets have also been connected to decentralization. Different decentralisations are combined with a substantial reduction (5% à 10%) of the provided financial means (the so called decentralisation deductions).

Through decentralisation the local government is more able to address local care needs and can give customised support which creates room for gaining efficiency advantages.

This efficiency will not be solely realised by the local authorities itself, but will be created in cooperation with local (semi-) private partners. This becomes apparent from recommendations to municipalities from the Association of Dutch Municipalities (VNG)² as well as from health care insurance companies to be able to support the efficiency discount connected with decentralisations of large care funds³: “the biggest saving and improvement possibilities are reachable through a more coherent organisation of care with other services that the municipalities offer and through a bigger focus on collective solutions, social networks and the own strength of the civilians. The aforementioned solutions are to be partly developed by health care providers but the municipalities should nevertheless put effort into working together with e.g. care organisations and housing associations. In this way municipalities provide support that is coherent with the nature and core of the local care needs. Because of the efficiency discount its vital that municipalities develop innovative new solutions.”

The goal is to create new decentralised facilities in close cooperation with the population, the corporations and health care institutions, attuned to the specific characteristics of a city, town, neighbourhood or borough. Many of the responsibilities transferred to the municipalities concern the provision of these types of facilities in combination with and attuned to the local situation, such as liveability plans for boroughs and neighbourhoods and urban renovation plans, the combination between social problems and physical measures, a borough focused spatial planning with a good coordination of availability, maintenance and management of physical and social facilities.

2. De Vereniging van Nederlandse Gemeenten.

3. See: Samen werken aan decentralisatie van begeleiding, minitoolkit voor gemeenten en zorgkantoren, maart 2011.

1.4 Decentralisation and horizontal and vertical chains

Decentralization implies a shift in responsibilities, authority and the availability of financial means. Along with that, the responsibility for the system must be re-invented, including the application of new instruments and the working together with local (semi-) private partners.

According with the aforementioned increased complexity of social issues, many governmental services belong to a chain with a diverse range of links. Within that range there are combinations of horizontal and vertical chains:

- the vertically linked chains are the chains between legislation, regulation and financial balance from the central government up to the locally levelled real execution and payment. The (central) governmentally constructed legislation and structure of finances can be global on main outlines and in detail on subdivisions;
- the horizontally linked chains are the links between coherent policy subdivisions. Examples of these are visible in the field of social services (from precautionary measures in order to prevent care up to the offering of expensive types of care) and in the field of education, work and income (from the links between education, the invention and offering of jobs up to income support to the unemployed). In most cases the execution has not only been done by the government, but also in cooperation with semi-governmental partners and the market (such as care providers; reintegration enterprises; housing corporations).

Exclusively vertical or horizontal chains are never the case in practice. There is always a combination of both. Those become more complex when there is a broadly constructed policy domain (a mix of multiple social and physical services), including a diverse range of responsibilities on (central) governmental and local level. In the last case, the construction of a very complex matrix structure is a serious threat, whereby the question rises which chain becomes the most important: the horizontal or the vertical one. Experience teaches us that more interference from central (deconcentrated) services easily leads to complicated matrix organizations, were many (official) energy has to be spent on tying together traditional scheduled services by project organizations, community based organizations, politicians, citizens and representatives of the market.

1.5 Questions

What does decentralisation mean in the light of these complicated chains en the need of realizing (central) governmental targets:

- to what extent is the achievement of central government targets still possible and which instruments are important for that purpose: the legal, the financial, the monitoring, the supervising?
- how does decentralisation work when there are broadly composed policy domains, which include the involvement of a divers range of departments and market partners?
- what is the role of the financial relationships in finding a balance between custom work at a decentralised level and the need for a certain equal level of basic facilities (types of grants, intergovernmental consultations, regulations, incentives, competition, direct democracy)?
- what are the Dutch experiences with new developed (central) instruments for intergovernmental information and control?
- is the achievement of central government targets really possible without disrupting the current properly execution and the effort for custom-made-measures on local level?
- is there a real decentralisation or are there still attempts, by both the government, the departments as well as the Lower Chamber, to manipulate by means of all kinds of legal, administrative and financial ways?
- on which scale does decentralisation take place? Is the local level the most optimal scale?

1.6 Cases

In the article these questions will be considered based on a number of large-scaled decentralisations (of tasks and means) that have taken place during the last few years:

- social support and care (chapter 2);
- social security and employment (chapter 3);
- urban renewal with social purposes (chapter 4).

2 Social support and care

2.1 The Social Support Act⁴

An important recent experience with decentralisation in the Netherlands concerns the domain of social support and care, including the care for (mentally) disabled and for children. Source of inspiration and steering for this decentralisation is the Social Support Act (SSA), which has been introduced in January 1st 2007.

The social goal of the SSA is 'participation'. The law must ensure that people can continue to live independently and participate in the society (and their own neighbourhood) as long as possible, with or without the aid of friends, relatives or acquaintances. If aid of people close by is not possible, then support will come from the community, for example from community support volunteers and informal carers ('the social midfield'). The Wmo also takes care of household assistance and provides useful information about the help and information available to people.

From an economic viewpoint this law aims to:

- change the current mindset of an outdated supply-focused organisation to a demand-focused organisation of communal support;
- make a great effort to realise communal support in an early stage (including prevention), within the own neighbourhood as long and as much as possible, which would result in a lesser need of expensive (residential) types of care (focussing on the beginning of the chain of social support and care and not at the end).

Behind the aim of an optimal efficiency and effectiveness of the SSA lies a system which is built on the earlier mentioned fundamentals of government decentralisation and local customisation, combined with attuned reorganized ('overturned') municipal organisations (attuned to the different sizes of municipalities). In this system the order of realisation is as follows:

- the SSA provides support from the municipality to people that need help in their daily life. This support features services like household assistance, a wheelchair and housing adjustment;
- the SSA supports people that serve their fellow men or the neighbourhood. For example informal carers or volunteers;
- the SSA stimulates activities that enlarge the mutual involvement in neighbourhoods and boroughs;
- the SSA provides support that prevents people from needing more serious forms of help later in life, for example parenting support and activities against loneliness.

Large care funds, traditionally controlled by the central government, are decentralised to municipalities and private health care insurances. A part of this operation has been realised in the past few years and will be followed by large decentralisations in the coming years. As a result, the associated structural resources of the municipalities (only general grants) will increase in a period of 15 years from 3 billions to about 12 billions euro.

4. Wet Maatschappelijke Ondersteuning (Wmo)

2.2 Problems and reasons for a change

About 10 years ago the field of social support and care in Holland was organised as follows:

- municipalities had access through the municipal fund (general grants) to resources for welfare (communal and social facilities) and for public health care for the youth (4-18 year). Besides the general grants they received specific funds for care for social relief, addict care and for public health care for the youth (0-4 year);
- the central government was responsible, through the Exceptional Medical Expenses Act⁵ (EMEA), for care of the disabled, home care, social guidance, care and nursing, intramural care and de judicial and mental youth care;
- provinces were responsible for (general) care of the youth.

The following problems were recognised and gave rise to big changes:

- escalating costs of the EMEA. The EMEA is in essence an open ended. Ageing population and the supply-oriented organisation of care, unconnected chains and insufficient tools for government to increase efficiency, resulted in ever increasing expenses;
- large regional differences (historically formed) in the composition of the level of care. This was partly caused by the uneven distribution of relatively expensive facilities and the irregular application of indicators;
- perverse incentives. Given the outdated organisation and the lack of 'links' between the chains, there were not sufficient incentives to change the system. In fact, there was a system of perverse incentives, focused on maintaining the status quo, as well as a lack of incentives to create measures of prevention at the front in order to prevent much more expensive facilities at back.

The changes that the SSA aimed to achieve were:

- a change in thought: a chain approach (from the front to the back);
- a change in the (municipal) organisation attuned to a change in thought;
- more efficient use of the market (promoting competitiveness and demand orientation instead of supply orientation);
- decentralisation of a large part of the resources to municipalities (a large part of the chain in one hand);
- the use of objective general grants (instead of the open ended EMEA and earmarked grants) supplied by (limited) private financial contributions;
- a specified monitoring and periodical maintenance of the municipal fund (general grants);
- reallocating the rest of the EMEA to health care insurances

The decentralisation to municipalities is realised by (see also figure 1):

- the decentralisation from EMEA of the care for disabled (more than 10 years ago);
- the decentralisation from EMEA of the home care (2007);
- changing earmarked grants in general grants (health care for the youth 0-4 year, social relief and addict care a.o.);
- the decentralisation from EMEA of social guidance;
- the decentralisation (from central government/EMEA and provinces) of youth care;
- the realisation of the aforementioned decentralisation deductions (social guidance 5% and youth care 10%);
- new developed (global) forms of intergovernmental information and control.

5. Wet Algemene bijzondere ziektekosten (AWBZ)

Figuur 1. Social care and support

+/- 2000	Municipalities		Central Government	Provinces
General grants	Earmarked grants	Exceptional Medical Expenses Act	• child care (general)	
<ul style="list-style-type: none"> • welfare • public health care 4-18 	<ul style="list-style-type: none"> • social relief • addict care • public health care 0-4 	<ul style="list-style-type: none"> • care for the disabled • home care • social guidance • care/nursing • intramural care • judicial and mental youth care 		
+/- 2015	Municipalities		Central Government	Provinces
General grants (12 billions of euro)	Earmarked grants	Health insurance companies	not applicable	
<ul style="list-style-type: none"> • welfare • social support • care for the disabled • social guidance • home care • social relief • addict care • child health care (0 -18) • general, judicial and mental youth care 	not applicable	<ul style="list-style-type: none"> • care/nursing • intramural care 		

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2.3 Results and areas of special attention

2.3.1 Results

Since the introduction of the SSA in 2007 with the decentralization of sources for home care and the decentralisation of the care for the disabled in the period before, the first preliminary findings are:

- municipalities performed the delegated tasks within the resources made available (in most municipalities the costs were lower than the funds made available through the Municipal Fund);

- this is partly achieved by buying services through (European) procurement and partly through switching to making local choices regarding the treatment selection. This was made possible because resources were allocated through the general grant of the Municipal Fund. The observed historical imbalance in the supply of services has therefore already largely diminished;
- a better and optimised demand-orientated access to services through the creation of integrated counters.

The desired reorganisation of municipalities (attuned to the differences in size) is still in the first phase. Often the allocation of resources for facilities for the disabled and household assistance is already attuned with one another (nowadays there is often no difference made between both original arrangements). Integration with the traditional welfare funds is less clearly shaped. Additional decentralisations (for guidance and child care) should greatly improve to this. As a result, more advanced forms of intermunicipal (regional) cooperation and uses of the market can be expected.

2.3.2 Areas of special attention

Areas of special attention are:

- the entire chain of social care and support still is not gathered in one system. Expensive facilities, like caring, nursing and intramural facilities are provided through the health insurance companies and not through the municipalities. From the point of view of the SSA the expectation is that the financial revenues of the new approach will strike precisely there. To motivate the municipalities to carry out an optimal policy, a link with these revenues is required. Point of focus thereby is that recourses for this non-municipal provision are not be objectified and normalised in the same way as those granted to municipalities;
- the extent to which at the central government level (lower chamber) demands are made regarding the implementation (quality demands; equality principle), which are the cause of higher expenses. This has already been the case with regarding to the home care, whereby we can see a rising in the costs of the municipalities;
- the alignment with other aspects from the policy, in particular the implantation of the in next years to decentralise different forms of childcare and the relation with the facilities for social security and employment. From the strong cutback pressure there is a danger that a part of the focus groups of policy is no longer eligible for reintegration to work, but get 'pushed' to a form of support within the domain of social care and support.

3 Social security and employment

3.1 The Employment and Social Security Act and the Ability to Work Act⁶

3.1.1 The Employment and Social Security Act

On January 1st 2004, the Employment and Social Security Act (ESSA) replaced the General Assistance Act (Abw). Starting point from the ESSA is the fact that work comes prior to income and that it is expected from municipalities that they deliver an increased effort to limit the flow into social security (gatekeeper; the reduction of embezzlement; reclamation) and to stimulate the flow out of social security (reintegration).

Until then municipalities received a general grant (Municipal Fund) for the execution of social security and for 10% of social security payments. Up to 90% of social security payments were compensated at the central government (matching grant on the basis of reimbursement).

With the introduction of the ESSA (in several phases), two separate benefits have been introduced, one for the security payment and one for the guidance to work (reintegration).

The execution costs remained compensated through the Municipal Fund. Also Municipalities traditionally received specific benefits for sheltered employment, based on the Sheltered Employment Act (SEA).⁷

In financial terms, total responsibility for the execution of ESSA and SEA lies with the municipalities. The central government is responsible for the Disability Act for Young Handicapped Persons (DAYHP)⁸, as well as for the Unemployment Law⁹ and the Disability Law¹⁰. The two last mentioned laws are in fact employee insurances.

3.1.2 Ability to Work Act

Despite the recent introduction of the ESSA, the current Dutch government maintains that even more people currently unemployed can be lead to work.

Many people with a (minor) 'work disability' should be able to work with a regular employer and provide in their own livelihood. They are not designated to a sheltered environment (SEA) or a disability scheme for their income (DAYHP).

Behind this vision rests an urgent financial need. This government must change its course dramatically to absorb the consequences of the economic and financial crisis. The new law is connected with a substantial savings goal (until 2015 about 700 millions euro). Because of the accrued rights of people within the ESA, extra budget cuts can only be realized over time.

Therefore the Ability to Work Act (the AWA) is expected to be introduced at 1-1-2013. This new law replaces the existing laws: the ESSA, the SEA and the DAYHP. For people who remain dependent on a

6. Wet Werk en Bijstand (WWB) en Wet Werken naar vermogen (WWNV).

7. Wet Sociale Werkvoorziening (WSW)

8. WAJONG

9. Werkloosheidswet (WW)

10. Wet Werk en Inkomensvoorziening naar arbeidsvermogen (WIA), successor of the Wet Arbeidsongeschiktheid (WAO)

sheltered environment and for the handicapped young that are totally and permanently disabled, the SEA and the DAYHP remain in effect.

3.2 Policy and financial responsibility of the municipalities

In the new situation (starting 2013) the policy and financial responsibility of the execution of the AWA comes to lie with the municipalities, linked to a substantial savings challenge. In exchange, municipalities get more policy freedom.

With the removal of the partitions between the current arrangements (ESSA, the SEA and the DAYHP), there will be one reintegration budget. It is expected that municipalities can use the available funds more targeted and efficiently, attuned to the knowledge of the composition of (used, unused) local and regional employment and to contacts with private companies.

Figure 2 gives an overview of the responsibilities and budgets for social security and unemployment in 2000 and 2015.¹¹

Figuur 2. Social security and employment

<p>+/- 2000</p> <p>Municipalities</p> <p>General grants</p> <ul style="list-style-type: none"> • execution costs • social security payments (10%) • social minima 	<p>Earmarked grants</p> <ul style="list-style-type: none"> • sheltered work 	<p>Central Government</p> <ul style="list-style-type: none"> • social security payments (90%) • reintegration • young handicapped persons • unemployment law • disability law
<p>+/- 2015</p> <p>Municipalities</p> <p>General grants (1,5 billions of euro)</p> <ul style="list-style-type: none"> • execution costs • social minima 	<p>Earmarked grants (7,5 billions of euro)</p> <ul style="list-style-type: none"> • social security payments (100%) • (social) employment • reintegration • sheltered work 	<p>Central Government</p> <ul style="list-style-type: none"> • unemployment law • disability law <p style="text-align: right;">© Cebeon</p>

11. In 2015 earmarked grants total 7,5 billion euro. A further reduction is expected by lower costs for sheltered work.

3.3 Results and areas of special attention

Results and areas of special attention are:

- since the open ended social security payments (90% matching grant) has been replaced by the ESSA in combination with budget responsibility related to earmarked grants, municipalities are working more efficiently;
- increased efficiency is primarily the result of the use of instruments as a gatekeeper, the reduction of embezzlements and more reclamations. There is limited success with respect to reintegration;
- the limitations to incorporate local and regional differences in economic development and employment in de earmarked grants for social security payments and reintegration, especially in a situation of economic stagnation and financial problems;
- the possibilities to replace sheltered work for regular work (in economic bad times), especially for certain groups;
- the entire chain of social security and employment is not unified in one system. There are different, non-integrated general and earmarked grants. Closely related laws within 'the chain' (such as the unemployment Law and the Disability Law) are executed under supervision of the central government.¹² The market plays a central role;
- the chain relations, mentioned in chapter 2, with Social Care and Support (youth and adults).

12. supervising body is UWV (Uitvoeringsinstituut werknemersverzekeringen)

4 Urban renewal

4.1 Decentralisation in the period 1984-2005, introducing ‘wide target’ earmarked grants

eighties: physical urban renewal

Urban renewal is one of the oldest examples of decentralisation in The Netherlands. The Law on Urban and Village Renewal (LUVR)¹³, enforced in 1984, has given an incentive to a more structured, decentralised way of city renewal.

Prior to this law, urban renewal was limited to a few ‘ad hoc’ financed city renewal projects by the central government and limited earmarked grants.

The following measures were tied to the enforcement of the LUVR:

- a national inventory of the need for physical city renewal measures (such as demolition, the building of new houses and renovation);
- the introduction of a “wide target” earmarked grant for city renewal entailing a combination of resources for demolition, new construction, renovation, monument care, relocation of companies with environmental pollution.

turn of the century: broader definition of urban renewal and a more central role for the market

In 2000 the LUVR has been succeeded by the Law of Urban Renewal (LUR). Like its predecessor, the LUR focuses on decentralised execution, but with the following changes:

- a wider range of focus: besides the traditional city renewal, the main focus came to lie on improving urban areas (and not just replacing them), including central areas and relatively new areas;
- more attention to environmental problems;
- a larger contribution from non-governmental institutions, such as housing corporations, private investors and real estate developers. This has led to changing roles: housing corporations became responsible for the quality of the public housing, private investors invested in urban projects and municipalities focussed on planning and taking care of the public space.

The social perspective of urban renewal became more important in this period: upgrading unpopular, unsafe neighbourhoods by investing in the quality of houses, public space and public (social) services.

In 2000 a new wide target earmarked grant for urban renewal was introduced. This earmarked grant works in periods of four years and continues until 2014. Characteristics are:

- broader scope in the first years with additional financial means for environmental problems (noise pollution and pollution of soil and air), green areas and the local economy. In later years the grant narrows;
- the earmarked grant takes into account differences in investing potential between municipalities. Stronger municipalities receive relatively less than weaker municipalities, in relation to the expected role of private investors and the possibilities to make profits.

13. Wet op de Stads- en dorpsvernieuwing

4.2 From 2007: focussing on 40 problem areas

In the period from 2007 the central government wanted more control over urban renewal. This was realised by choosing forty problem areas for a focused approach of urban renewal. The goal was to change these neighbourhoods into nice areas to live, work and learn, in a period of 8 to 10 years. The central government made an agreement with 18 municipalities about the joined ambitions and the efforts to be made by either party. Housing associations and certain departments were forced to invest in these neighbourhoods.

In short, three ways to finance the problem areas were introduced:

- housing corporations have to pay a special tax starting in 2008. The revenue is used for the upgrading of disadvantaged neighbourhood. By this arrangement, corporations contribute a sum of € 250 million a year, for a period of 10 years (until 2017);
- central government contributes € 375 million for the period 2008-2011, for action plans and for inhabitant participation and initiatives;
- departments with common interests in neighbourhood improvement in various ways. Examples are money for neighbourhood police officers, schools and centres for youth and family.

4.3 The road ahead

The current government aims for a further decline of input for urban renewal from the central government. In 2014 the earmarked grant will end and the special tax on housing corporations will be abolished. Cost-benefit analyses studies show that in the problem areas minor results have been reached. This is partly due to deteriorated economic conditions.

With a retreating central government, the entire (financial) responsibility for urban renewal will lay with municipalities. This will occur in a situation of economic stagnation, a diminishing role of private partners, diminishing revenues of estate developments and a restricted general grant for urban renewal from the Municipal Fund.

The situation after 2014 is unclear: both with respect to the need for governmental urban renewal plans as well as the necessary financial means. Problems and tasks remain, such as the reconstruction of neighbourhoods in new towns, areas of declining population, as well as problem areas in the big cities.

The central government has taken the initiative, together with the representative organisations of the municipalities and the provinces, to create a “Vision on urban renewal after 2014”.

More and more, urban renewal is becoming a strategy to address social problems through neighbourhood-focused approaches: neighbourhood action plans to improve the ‘quality of life’, plans for inhabitant participation etc. Different domains stimulate these developments: such as public order and safety, public infrastructure, social care and support, education and social security and employment. Hence these developments relate to different clusters of the municipal fund.

Important questions for the future are:

- is urban renewal in the future still a public domain issue? Should it be incorporated into other policy domains? Or is it ‘taken over’ by private partners?
- what is the role of the market and housing corporations
- what role has the central government in addition to the role of municipalities?
- where is government intervention still required?

- is the scope of urban renewal widening to more types of developments, such as the reconstruction of neighbourhoods in new towns and areas of declining population?

5 Answers to the questions raised

Considering the questions posed in chapter 1 we can formulate some answers:

Most importantly, central government policy targets can be achieved by means of decentralisation. At the same time, decentralisation can be an instrument to achieve more effective and more efficient government. An important condition to these goals is that policy goals are broadly defined (using general laws). This allows local authorities to make specific local choices with regard to task organisation and cooperation with local (private) partners.

The nature of the broadly defined policy goals differs per policy area. In Care en Social Security the policy goal can set both the minimum levels of care and benefits as well as the conditions under which a person is liable for them. In Urban Renewal, the question at the moment is whether it embodies a single policy area. Due to the interaction of various policy areas, urban renewal can then be seen as an entirely local affair and central government goals could be set from other policy areas.

For an effective and efficient execution of decentralised tasks by municipalities, municipalities should have sufficient stable funds at their disposal that they can spend as they see fit. At the same time, they should have sufficient influence on the relevant parts of the policy chain in broadly composed policy domains. This allows them, without large financial risks, to realise the policy goals in optimal accordance with local/regional circumstances and local (private) organisations.

The above conditions are best met with a well functioning Municipal Fund, on the basis of general grants with global cost-orientated indicators. Wide target earmarked grants have proven to be 'second best'. Such earmarked grants entail more financial risk for municipalities. Often they are less stable in terms of policy conditions and design as well as less cost oriented in their distribution. They also frequently cover only a part of the policy chain, which, despite their wide target, generates impediments for the optimal use of available means.

For the proper functioning of the Municipal Fund as well as wide target specific grants, some preconditions are important:

- the use of the aforementioned global cost-orientated indicators: in order to accommodate for differences between types of municipalities as well as for changing circumstances over time;¹⁴
- roughly shaped periodic maintenance: in which the development of expenses and incomes per policy domain are monitored and periodic adjustments of the distribution are made, in accordance with observed changes in policy and costs. In this process, special attention should be focussed on mapping perverse incentives in the finance structure and modifying the structure in order to adjust for them;
- introduction of global instruments for intergovernmental information provision and accounting. New instruments are 'a new framework for the availability of intergovernmental information'¹⁵ and SISA (Single Information Single Audit): a new arrangement in the way lower governments account for the spending and effects of earmarked grants.¹⁶ Such instruments will establish mutual trust.

14. See 'The equalised allocation of local expenditure needs in the Netherlands: an optimised mixture of objectivity and politics'; the Copenhagen Workshop 2007.

15. IBI: Interbestuurlijke Informatie

16. zie: 'Earmarked general grants and general earmarked grants in the Netherlands'; the Copenhagen workshop 2009.

Population sizes of the more than four hundred Dutch municipalities range from under 10.000 up to 770.000 inhabitants. The inevitable consequence is that municipalities often do not have the optimal scale to achieve the policy goals. In this situation, it is vital that central government concerns itself only with global policy frameworks (laws) and adequate general grants of funding and not with municipal organisation or with policy details.

This makes it possible for municipalities to seek for themselves an optimal executive organization, attuned to their own size, targets or problems, as well as to their social and regional structure. Diseconomies of scale (for both the smallest and the largest municipalities) can be compensated in a number of ways: through inter-municipal cooperation, regional cooperation, a greater role for central municipalities, outsourcing and sub municipal decentralization or deconcentration. If this is the case it's hardly necessary to incorporate into the general grant, cost differences due to scale. The key principal is that municipalities themselves can search for a solution.