The equalized allocation of local expenditure needs in the Netherlands

an optimalized mixture of objectivity and politics

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Report

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1 General features of governmental and financial relations in the Netherlands

1.1 The Dutch municipalities: uniformity in competences; variety in costs

In the Netherlands there are 443 municipalities with a varying number of inhabitants stretching from 1000 to 750,000. Despite these differences in the number of inhabitants, all municipalities are – with the exception of the four largest cities – uniform in competences and they have the same tasks to fulfil. These tasks are supposed to be realized with a considerable degree of municipal autonomy.

Among the municipalities there are large dissimilarities in the volume, composition and costs of services related to the own discretion in respect of the fulfilment of tasks in combination with objective differences in demand, based on physical, social and regional features (see figure 1).

In the *social* structure the composition of the population in cohorts of age, health and socio-economic status (income, employment) is determining. In the *physical* structure the features of an urban or rural structure (a thinly populated rural authority versus a congested city authority), the kind of development (dense/thin, old/recent) and the soil condition are determining factors. In the *regional* structure the functions performed by larger municipalities outside the scope of their own municipal area are of particular importance. These functions are mainly related to policy areas like art, sports and entertainment.

Figuur 1.   Diversity of features of social, physical and regional structure
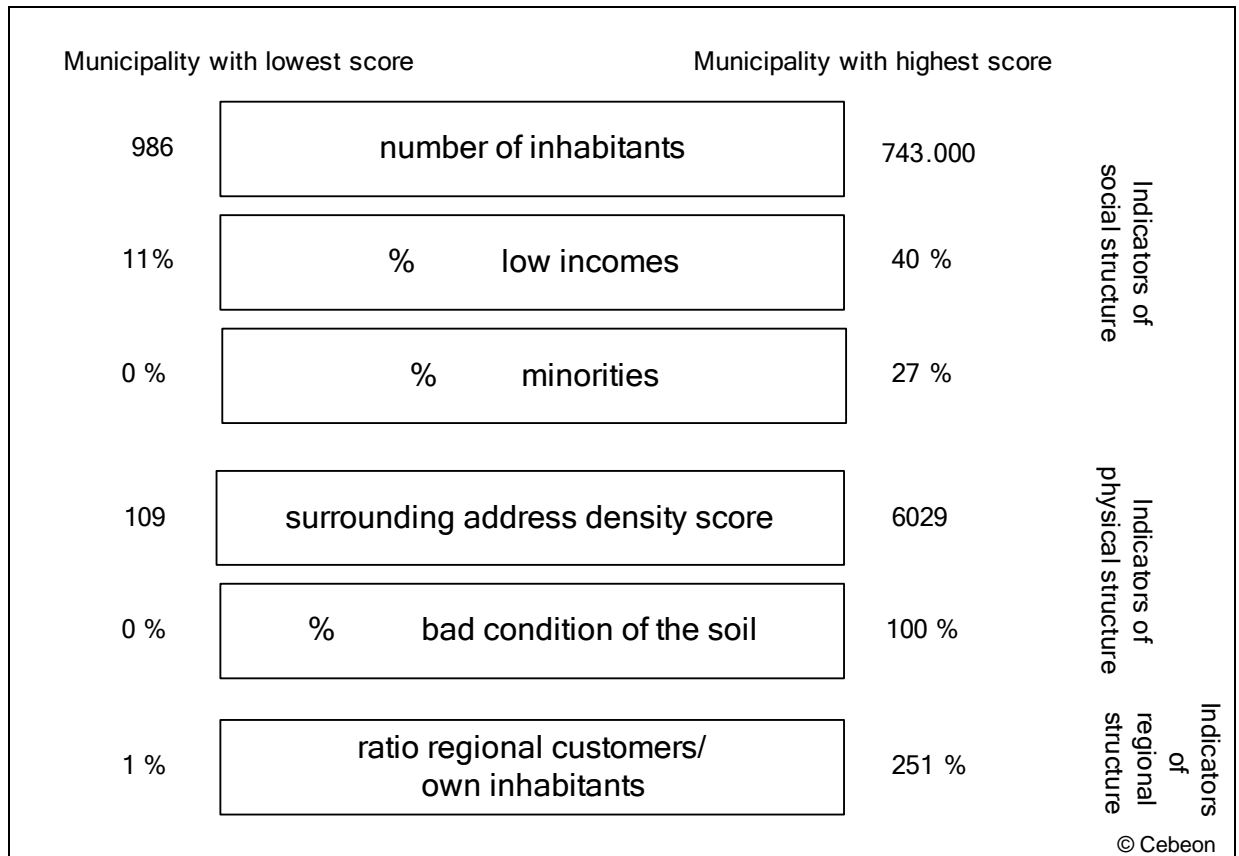
1.2 Equal level of services, autonomy and decentralisation

Despite the dissimilarities based on social, physical and regional structures, the Netherlands have high ambitions regarding the equalization of services. All municipalities, despite their differing social, physical and regional features, must possess the financial potential to realize an equalized level of services, emphasizing on equality and not on uniformity.

Equalized levels of services are supposed to be realized according to the municipal autonomy as set out below. Limiting conditions by the central government in regard with the composition of services and spending are in particular realized by means of legal instruments (laws, general rules of government) rather than by means of financial instruments.

The autonomy of the municipalities has been increased in the last few years due to the decentralisation of tasks, for which purpose financial means are provided by general means (municipal fund) or by specific 'wide target' grants. Examples are the decentralisation of school accommodation, benefits under the recent Social Support Act (benefits for domestic care, for the disabled) and employment and income benefits.

1.3 The financial allocation with a pivotal role for the municipal fund

general grants, specific grants and autonomous income of municipalities

The aim of equal levels of services in combination with a large degree of municipal autonomy is also expressed in the allocation of financial means from central - to local government[1]: as many general grants as possible, reducing the number of specific grants and specific grants should have a wide target. The autonomy of the Dutch municipalities as regards taxes is limited.

municipal fund and general grants

The most important instrument for the allocation of general means, the municipal fund, is based on a system of objective criteria applied to each municipality. Only the four largest cities receive supplementary grants because of their exclusive tasks as large cities.

specific grants

Apart from general means, municipalities also receive specific grants. In the past few years the purpose of the policy was to reduce the number of specific grants or to cluster the existing specific grants as much as possible into 'wide target' grants. Important specific grants are the benefits for employment and income (social security), urban renewal and the problems of large cities (in particular for public security), benefits for youth and family and for youth healthcare.

In the last decades the number of specific grants decreased significantly: starting with more than 500 in 1980 to less than 200 at present. The aim is to decrease the number even further to just a few dozen. The reduction of the number of specific grants did not, incidentally, go side by side with the same reduction of the amount of the corresponding allocation. Most of the time existing smaller specific grants were clustered into wider ones. The amount of allocated specific grants did actually not decrease very much. Meanwhile a large part of the means from specific grants is not directly provided to municipalities but to regional authorities (including general law areas). Furthermore there are differences in the significance of specific grants for individual

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1. The same applies to the provinces

municipalities. Some of the specific grants are only given to some municipalities, as regards urban renewal for instance.

Similar criteria (indicators) may be used for the allocation of specific wide target grants as for the general grants within the municipal fund. The range of spending possibilities is restricted and municipalities are obliged to justify their spending to the central government.

autonomous municipal incomes

The fact that municipalities have their own specific resources is taken into account when allocating general grants through the municipal fund.

Municipalities can only generate their own income from property taxes by applying a higher rate than the central standard on which the municipal fund is based. The municipal fund corrects dissimilarities between municipalities in valuing property by means of a negative allocation formula. This negative allocation formula varies between municipalities from 6% until almost 30% of the general means.

Municipalities, moreover, are supposed to be able to cover approximately 4% of their general spending by means of other independent resources, including, in particular, revenues of investments, participations or land exploitations.

Besides these independent general resources, municipalities are also authorized to charge cost-effective contributions to civilians (administrative charges, taxes or duties, etcetera) on account of the provision of specific services. Examples of such contributions are waste collection levies, sewerage charges, charges for services provided by the population register and the granting of building and other permits.

relative limited volume of general grants, specific grants and independent incomes

At present the volume of the allocation of general means is approximately similar to the volume of the allocation of specific means (approximately 17 billion euro). The own municipal incomes (in particular from taxes, investments en charges) amount to approximately 30% of the general municipal means. There is a large variety in the volume of the allocated means between the municipalities, both in regard to general means (see the next chapters) and to specific grants.

2 Compartments and clusters in the Municipal Fund: volumes and features of allocation

2.1 Survey of municipal tasks: 14 clusters of expenditure in four compartments

The municipal fund distinguishes 14 clusters of expenditure, subdivided into four compartments.

The compartments and clusters have been logically arranged (see figure 1):
- the compartment of public area includes the clusters of public parks and gardens, roads, water and sewerage;

- the compartment buildings and environment includes the clusters of public order and security, museums etc., public housing, spatial planning and urban renewal, physical environment and garbage collection;
- the compartment public services includes the clusters education, employment and income, social care (including for the disabled and children), art, sports and entertainment and civil registry;
- the cluster local government.

relation with the condition of the soil, physical, social and regional structure

Figure 2 shows the nature and intensity of tasks within the clusters, which vary between municipalities as a consequence of the effect of the features of social, physical and regional structures. Depending on their composition, the tasks and costs within a cluster depend on features of the physical structure (i.c. the condition of the soil, low or high density and the quality of the buildings), features of the social structure (i.c. the composition of population) and features of the regional structure (i.c. services in particular for art and entertainment used by citizens from outside the municipality).

Figuur 2. Compartments and clusters of the Municipal Fund and the relation with features of social, regional and physical structure
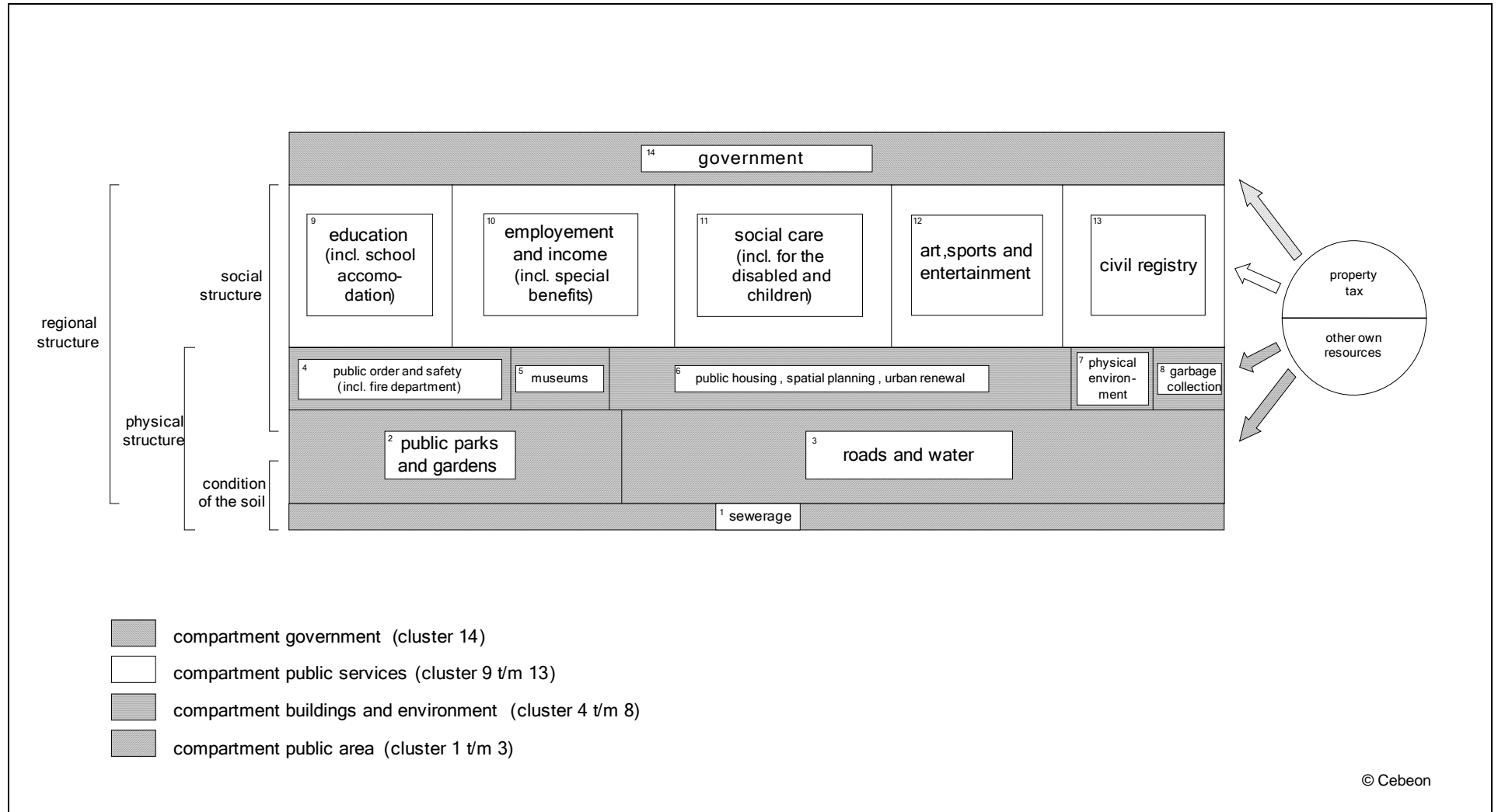
2.2 Survey of means and criteria of allocation by compartment

The Municipal Fund with its system of indicators for the allocation of the majority of municipal financial means (the general means) is structured in accordance with the 14 clusters mentioned above. Each cluster has a formula of allocation, made up of one or more objective criteria (indicators). Figure 3 gives a survey of the volumes of compartments including the distinguished clusters and the criteria of allocation that have been applied.

Figuur 3. Compartments, clusters and indicators of the Municipal Fund

Compartments / clusters	Indicators
Government (approx. 1,8 billion)	1. fixed amounts 2. (West)Frisian island municipalities
Public Services (approx. 9,5 billion) • education • empleement and income • social care • art,sports and entertainment • civil registry	3. inhabitants (according to age) 4. low incomes 5. persons on social security 6. benefit recipients 7. minorities 8. single-parent households 9. special and secondary school students 10. customer potential 11. surrounding addres density
Buildings and Environment (approx. 2,3 billion) • public order and safety • museums • public housing, spatial planning, urban renewal • physical environment • garbage collection	12. business establishments 13. urban renewal-code 14. inhabited regions 1931 15. housing accommodations 16. historical centres
Public Area (approx. 3,2 billion) • sewerage • public parks and gardens • roads and water	17. historical waterways 18. surface area of buildings 19. multiple centres 20. land 21. internal waterways 22. external waterways 23. shoreline length 24. condition of the soil

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Figure 3 shows that different kinds of criteria are applied within the compartments.

public area

The compartment public area shows physical criteria, including the condition of the soil, the surface area of land, the surface area of buildings, the volume of internal and external waterways, the length of the shoreline and the number of isolated areas within municipalities. These criteria are applied to the allocation of means for the clusters roads and water (in particular) and sewerage (just the condition of the soil).[2] The means for public parks and gardens are not allocated on the basis of the latter criteria, but on the criteria of inhabitants and housings (see also chapter 4).

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2. The major part of the means for sewerage charges is supposed to be paid from the proceeds of sewerage charges

buildings and environment

In regard to the allocation of means within the compartment buildings and environment and their distinguished imbedded clusters the following criteria have been applied: the number of homes, the density of the building structure within a specific area (the number of addresses), the number of business establishments, the code for allocation of means for the benefit of urban renewal and several criteria in relation with the historical features of municipalities: inhabited regions 1931 (museums) and historical centres and waterways.

social services

Within the compartment social services the following criteria have been applied: the number of inhabitants subdivided into cohorts of age, features of social structure (low incomes, persons on social security, persons drawing benefit(s), minorities, single-parent households), the number of pupils in specific and secondary education and criteria of centre functions like art, sports and entertainment (i.c. local and regional customer potential).

government

Relevant criteria for the allocation of means for the local government are the criteria of inhabitants and the fixed amount.[3]

fixed amounts and scale effects

The fixed amounts are related to different compartments and are meant to compensate the various scale effects for the smallest and the largest municipalities:
- the smallest municipalities are compensated for negative scale effects (fixed costs, indivisibilities) of setting up the municipal administrative organization;
- the largest municipalities are paid for typical major city and provincial tasks that are exclusively carried out by the four largest cities.

relation with the VAT Compensation Fund

Within the municipal fund it is taken into account that municipalities can claim the taxes they paid for governmental tasks from the so-called VAT-compensation fund. The compensated amount is approximately 8% of their general means. The VAT-compensation fund was created to stimulate the outsourcing of work. In the past, outsourced work was subject to VAT, whereas tasks carried out by the municipality itself were not or to a much smaller degree. As a result of being able to claim VAT, both options are now in the same financial position.

2.3 The results of the allocation of general grants to different kinds of municipalities

Because the municipal fund recognizes the differences in costs on account of the varying exogenous factors for municipalities (features of structure in combination with legal regulations) there are large differences between municipalities in the spending per inhabitant.

In figure 4 a survey is presented with the spending per inhabitant per compartment (cluster) for a number of municipalities.

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3. Exclusive criteria are used for the (West)Frisian islands.

Figuur 4.   The composition of the general grants in four municipalities (in euro per inhabitant)

Amsterdam 743.000 inhabitants	189 / 136 / 853 / 353 / 284
Haarlemmermeer 135.000 inhabitants	77 / 441 / 105 / 186
Wassenaar 25.500 inhabitants	83 / 482 / 113 / 174
Winschoten 18.500 inhabitants	86 / 755 / 155 / 182

Legend:
- Fixed amounts
- Government
- Public services
- Buildings and environment
- Public area

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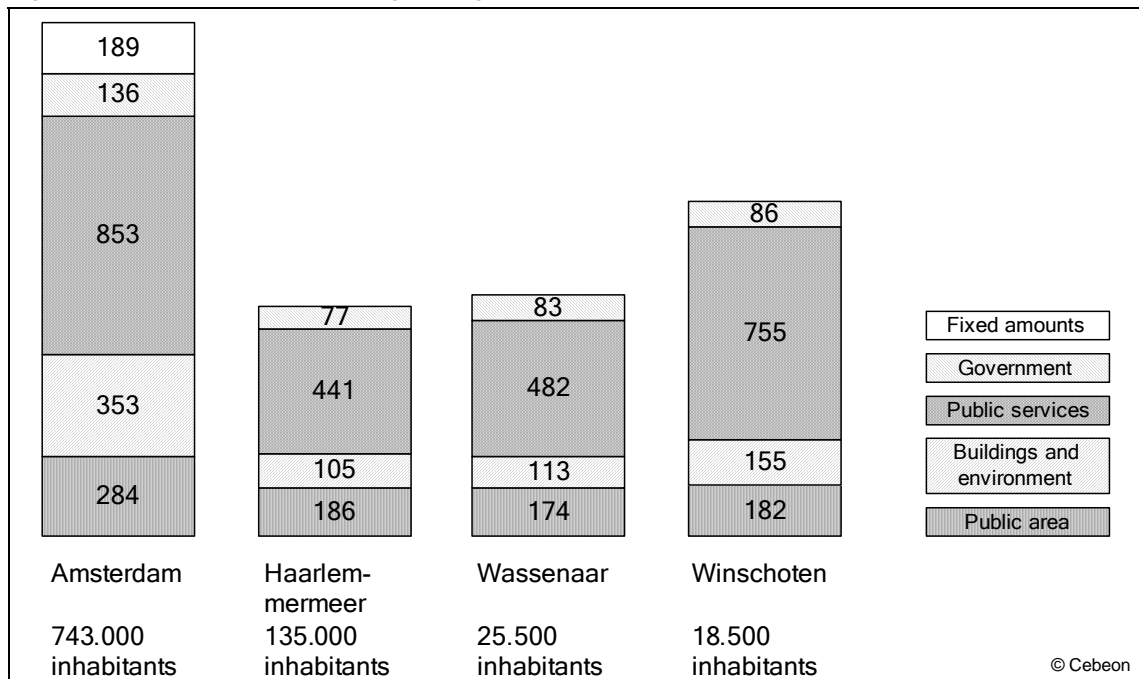
remarks about figure 4

Figure 4 shows that:

- the volume of the general means is not related to the number of inhabitants. It is possible that smaller municipalities receive – dependent of their features of structure – a higher amount per inhabitant than larger municipalities (see the municipality of Winschoten versus Haarlemmermeer);
- the relative shares of the compartments within the total payment can vary significantly between municipalities;
- the major differences are shown within the compartment social services (as a result of differences in social structure between municipalities);
- the negative criterion that compensates the differences in property taxes capacity leads to substantial corrections between municipalities;
- Amsterdam (as one of the four largest cities) receives an extra fixed amount for its large city tasks. Apart from that, and as a consequence of the other criteria, the payments to Amsterdam are also rather high in comparison with other municipalities (for a large part due to the social structure).

3   The way indicators are selected: the Difference Analysis

3.1   Experiences in the nineties

Since the nineties of the last century the criteria (indicators) applied in the municipal fund have been selected by another method than before.

This new method is directly related to the shortcomings observed in the nineties by the then '*Raad voor de Gemeentefinanciën*' (Municipal Finance Council), nowadays the '*Raad voor de Financiële Verhoudingen'* (Financial Relations Board), regarding the allocation of the general grants of the municipal fund and the opportunities for revision.

At that time the following was observed:
- the allocation of the municipal fund was imbalanced (i.e. not in keeping with the differences to be compensated in financial needs between municipalities based on objective circumstances);
- there was an unclear and implausible relation between the criteria of allocation and financial needs;
- these failings were observed shortly after a recent revision of the municipal fund;
- there was no method to correct the shortcomings observed, in particular concerning the issue of the acknowledged 'chicken-egg'-problem: an imbalanced allocation has an effect on municipal spending in which event this spending is no longer a proper basis for tracing differences (by means of econometric methods of research) in financial needs between municipalities as a result of features of social, physical and regional structures.

imbalanced growth

The imbalanced growth of the municipal fund was caused because features of social structure, and to a lesser extent of regional structure, were not properly incorporated in the system:
- there were large dissimilarities between municipalities in the social structure of the population (low incomes; migrants). The economic stagnation at the end of the eighties/early nineties resulted in larger unemployment for, in particular, people with a low income or migrants. As a consequence of the varied spreading of these groups of population across different municipalities, the financial consequences in regard of income support, the support for employment and all different kinds of services for social care, varied in the same way between municipalities. The allocation of the municipal fund of that day hardly made any allowance for those differences;
- differences in the composition and the level of regional services between municipalities (art, sports and entertainment) were not properly incorporated in the system: the larger municipalities had to finance services for people from outside the municipalities for which they were only partly compensated in the municipal fund. Neighbouring municipalities were able to benefit from this situation as 'free riders'.

origin of imbalanced growth: the use of statistic/econometric techniques for the selection and weighing of criteria (indicators)

The imbalanced growth was even more remarkable considering the revision the system had recently undergone (within the framework of the Allocation of Finances Act 1984). The origin of the imbalanced growth turned out to be the method for defining the weights and their criteria which had been used until then. These criteria along with their corresponding weights were based on statistic-economic techniques (regression). This method turned out to have serious shortcomings:
- the criteria selected by way of econometric techniques did not have a proper cost-oriented connection (they did not have the proper cost drivers) with differences in spending based on exogenous factors between municipalities;
- the imbalanced allocations were actually reproduced because of regression techniques and correlations based on municipal levels of spending (the so-called chicken-egg problem);
- only technical statistical links were established, as opposed to plausible links in connection with the dynamics of the system. The means for social services, for instance, were allocated with physical criteria (such as the number of homes). The economic changes referred to, with large differences in financial consequences between municipalities with a varying social structure as a result, were not expressed in

these (physical) criteria. The consequence was that the municipal fund did not respond adequately to the changed circumstances;

- the problem became even worse because of the differences in the potential between municipalities to generate their own incomes, in particular those from property taxes.

3.2 Response to the observed shortcomings

The response to the determined imbalanced growth by the then '*Raad voor de Gemeentefinanciën*' (Municipal Finance Council) was the request to a number of universities and institutions to develop an alternative method of research to compensate the shortcomings observed.

In the end the council commissioned the development of three methods for the revision of the allocation system:

- further implementation of statistic/econometric techniques;
- the definition of levels of services per task area and the corresponding costs as a fundament of the system;
- elaboration of the so-called 'difference analysis', in respect of 'wide target' tasks areas (clusters of services) specifically focusing on the most significant cost drivers resulting from exogenous circumstances.

3.3 The choice for a new method: the Difference Analysis

Based on the comparison of the above three methods, the method of analyzing differences, developed by Cebeon, was chosen for reassessing the municipal fund.

Features of this method are:

- the starting point of the analysis is the 'analysis of expenditure': the expenditures of municipalities are corrected for differences in definitions and registering. In practice this always turns out to be essential because tens of percents of the differences in expenditure may be related to dissimilar definitions and registrations;
- unravelling differences in spending according to different backgrounds;
- for these backgrounds a distinction is made between differences in expenditure (costs) in relation with municipal exogenous factors (distinguished features of social, physical and regional structure combined with the implementation of legal laws) and municipal endogenous factors (policy, priorities, organisation);
- the differences in costs related to exogenous factors in principle qualify for being rewarded (cost orientation). This does not apply to differences in costs related to policy and organisation. In this manner an answer is found for the aforementioned 'chicken-egg' problem.
- the exploration of the meaning of the different explaining factors is an iterative process among groups of municipalities with varying and more homogenous features of structure (see below);
- the analysis of differences is rather global: it is applied to 'wide target' connected task areas, i.c. the existing clusters in the municipal fund (see chapter 2) and use is always made of a selection of a limited number of explaining variables;

- the volume of the clusters is always connected to the collective spending of municipalities (as the expression of a joined collective priority);
- in order to provide a clear and not too complicated system of allocation, various connected factors are in general clustered in just one criteria, with the restriction that these criteria have to meet a number of technical requirements before they can be applied as a criteria for allocation;
- an important condition for the criteria of allocation is that they accurately follow the changes in financial municipal needs, also in relation to time. A plausible connection must therefore have been observed between the development of financial needs and the changes of the criteria due to exogenous factors.

3.4 Analysis of differences as an iterative process of investigation: the example of domestic care

The analysis of differences can be described as an iterative process trying to explain exogenous factors among municipalities with varying and similar features of structure.

Below a description is given of the searching process with an example of the cluster 'domestic care' for old and disabled persons). This cluster has recently been decentralised to municipalities for which the means were added to the municipality fund in 2007.

After identifying the relevant expenditure related to the domestic care (analysis of expenditure), the backgrounds of the differences in actual spending were investigated. The analysis was made in two different ways.

comparison between 'homogenous' groups of municipalities with varying features of structure
Starting point is the supposed similarity of spending among municipalities with similar features of structure. At the first stage of analysing, the differences in spending were investigated between 'homogenous' groups of municipalities, in this example the group of municipalities with a large extent of ageing population versus the group with a relatively younger population (examples in other clusters may be municipalities with a solid social structure or a good condition of the soil versus the group of municipalities with a weak social structure or a bad condition of the soil). By comparing the levels of spending between homogenous groups of municipalities the influence of the distinguished features of structure can be quantified.

analysis of differences within homogenous groups
Next the differences within homogenous groups of municipalities were analyzed, for instance within the group of highly aged municipalities. These differences in spending may be caused by additional features of structure. By comparing different homogenous groups the plausibility of a possible additional feature of structure as an explanation of the differences in spending can be tested.

exogenous circumstances and other explanatory factors
The analysis of differences does not imply that all the differences in expenditure between municipalities are or must be related to exogenous factors (features of structure). Alternative explanations for the differences within a homogenous group of municipalities are the incidental fluctuation of spending in an individual municipality and regional practices of implementation (before the decentralisation to municipalities, domestic care was carried out by regional care centres). The effect of regional implementation practices can be confirmed by looking at the results of municipalities with different homogonous groups but located in the same region (i.e. with similar bodies of indication, care centres or care providers) in comparison with the average of the homogenous group.

An example: the level of spending of municipality X (highly aged population, low average income) and of the neighbouring municipality Y (with a relatively young population and a high average income) is low in comparison with the average of their own homogenous groups. X and Y make use of the same care provider. Other neighbouring municipalities with another care provider do not have such a relatively low level of spending. This indicates the influence of the care provider in X and Y. This influence can be verified by obtaining information about the mode of operation of the care provider involved which may show, for example, that poorly qualified domestic workers are assigned or that relatively few hours are provided per client.

iterative process

The abovementioned steps of research were repeated several times, until the research process resulted in a formula of allocation with a restricted effect of re-allocation for homogonous groups and with effects of re-allocation for individual municipalities in relation with backgrounds not to be awarded (in particular differences in the way work is carried out). After the first round a rough model of explanation was available for features of structure along with global weights. By repeatedly investigating the remaining differences by means of supplementary features of structure, this model could be refined both as regards the relevant features of structure and as regards the weights. At this stage the differentiation between cohorts of ages (<65;65-74;75-84;>84) was added, among other matters, and the weights were outlined. This procedure was continued until no municipality could be identified with an incomprehensible outcome (i.e. with differences in spending without a connection with features of structure, executing practices or incidental fluctuation of spending).

3.5 Other considerations for the design of indicators

For the selection of the indicators of allocation within the municipal fund, other criteria or rules are also employed besides a sound cost orientation following on the meaning of exogenous factors.

technical quality

First there are several criteria for the technical quality of the data: the data should be objectively measurable and generally available. This quality is monitored because most of the criteria originate from the central office for statistics (CBS).

the level of target-orientedness

The criteria must have a global relation with the financial needs of municipalities (also in relation to time) and should not focus too heavily on targets. These criteria must always be balanced (see chapter 4 for some examples).

'hard' versus 'soft' tasks

When implementing the criterion 'cost-oriented' in relation with exogenous factors, it is important whether the expenditure is 'hard' and required by law or whether the expenditure is largely autonomous . Examples of 'hard' spending are the income supplement from the social services and the means for education. For these examples the chosen indicators must have a close connection with differences in costs between municipalities as a result of exogenous factors (including the effects of the economic conjuncture and structure in regard with the needs of social security; or the presence in municipalities of schools for secondary and special education). For the tasks with a large degree of autonomy in spending there is less need for a close cost orientation. An important example of the latter is the cluster 'public parks and gardens'.

At last, but not least important, is the relevance of political policies. The 'Difference Analysis' explains the backgrounds of relevant exogenous factors and indications for the relevance of more or less highly target oriented indicators. Politics decide whether and which factors will be chosen. In chapter 4 some examples of these choices will be provided.

4 Examples of a better connection with local needs for expenditure using the Difference Analysis

4.1 Revision and maintenance of the municipal fund by means of the analysis of differences

In 1997 approximately two-third of the municipal fund was revised, on which occasion the indicators and weights were not defined using techniques of regression but on the basis of the 'Difference Analysis'. In 2001 the remaining part underwent a revision in the same way.
Large changes of the municipal fund – related to the decentralisation of new tasks and means, for instance – have also been applied using the Differences Analysis.

The method of the Differences Analysis was also applied for the allocation of the financial means for a number of wide target specific grants. This does not apply to all the specific grants.

The Differences Analyses has resulted in a better connection between the selected indicators and the differences in local needs, also if exogenous factors were only relevant for a limited number of municipalities. The plausible connections are also made in a dynamic sense. A clear cost orientation is incorporated into the allocation system – also in a dynamic sense – for each compartment and for each cluster. Incorporated differences in costs are related to exogenous factors, based on features of social, physical and regional structure.
As a result the indicators of the Municipal Fund form an 'automatically working system': the system works with relatively limited efforts of maintenance and without imbalances in the long term.

4.2 Examples

Next a number of examples are presented of the more explicit and plausible connection between the system of allocation and local financial needs by means of the Differences Analysis as well as of political policies.

differences in costs due to differences in conditions of the soil
The system of indicators of the Municipal Fund consists of indicators for the allocation of differences in costs related to differences in the condition of the soil (subsiding peaty soil). Such criteria could not be determined by way of regression techniques, because the problem is concentrated in a limited number of municipalities and the expenditures are hidden in a variety of clusters.

Politics became involved as to whether the Municipal Fund had to compensate higher costs because of houses and roads being constructed on subsiding peaty soil. The answer was positive because of the influence of national environmental planning on this subject.

Because of the own responsibility of municipalities for building on this type of soil, the Municipal Fund does not give a full compensation for all kinds of costs.

introducing a number of highly target-oriented indictors

The indicators for 'students in special and secondary schools' are introduced in the Municipal Fund. Education is incorporated because of the fact that this kind of schools (and costs) are unevenly spread across municipalities and are not expressed in other – more global - criteria. Besides, the choice of founding a school is not exclusively made by municipalities, but also by other bodies. As a result the spreading of specific and secondary schools is mainly an exogenous factor for municipalities.

The same argument holds for the use of the highly target-oriented indicator 'persons drawing benefits'. The number of these benefits is strongly related to changes in economic conjuncture and structure in combination with differences in social structure between municipalities. These factors are for the major part exogenous for municipalities.

introducing a number of more global working indicators

Related to other clusters (such as art, sports, entertainment and public parks and gardens), more global working indicators (in the form of the number of inhabitants of houses) are introduced instead of more target-oriented indicators like the areas of roads and parks or the presence of a theatre.

The Differences Analysis on the cluster 'Public parks and gardens' reveals that the volume and composition of spending on public parks and gardens can largely vary between municipalities. This is partly related to a rural structure (with a lot of extensive forms of green) or a more urban one (with less but intensively used parks and gardens). Partly it is obvious that the actual implementation is strongly related to the individual policy preferences of municipalities. For this reason the choice was made for a global way of allocation of the financial means for public parks and gardens by way of the indicators inhabitants and housings.

choices related to the costs of the fire brigade

In several communities (in particular the smaller ones) the Dutch fire brigades are manned by volunteers. Other communities (in particular the larger ones) have their own professional fire brigade. The indicators of allocation of the Municipal Fund reflects these differences in a global way.

In the last years the costs of fire brigade and public security have been rising because of different reasons. In respect to the allocation of extra financial means a choice is made between the use of the indicators of the Municipal Fund or the use of the autonomous municipal incomes related to property value.

no compensation in the Municipal Fund for exemptions

To a certain degree municipalities are authorized to grant exemption from local taxes and charges.

Because of the municipal responsibility in this matter, politics decided not to compensate these exemptions by way of the Municipal Fund.

the introduction of several indictors related to different kinds of geographical and building structure

The Differences Analysis explains and makes explicit the background of differences in costs related to different kinds of geographical and building structures of municipalities. As a result several indicators are

introduced, such as multiple centrism, the historical centres and the historicity and volume of internal and external waters.

indicators for new municipalities

The reference dates of indicators are in general one or two years behind reality. Most of the municipalities have not had (financial) difficulties concerning this matter, except for new municipalities with a fast growing population. These (financial) difficulties for new municipalities are recognized by way of the Differences Analysis, which led up to a form of compensation in the Municipal Fund.

correcting endogenous factors related to differences in costs of domestic care

In chapter 3 the process of 'Differences Analysis' was described for the costs for domestic care (for old or disabled persons). This analysis made clear that differences in costs are for tens of percents related to endogenous factors such as systems of indications or the chosen levels of services.
Politics decided to compensate only for real exogenous factors (like the number of old, disabled persons) and not for the abovementioned endogenous factors.

difficulties with systems of allocation for specific grants, build-up with regression techniques

Not all wide target specific grants are built up using the Differences Analysis. An important example is the system of allocation for the specific grant for 'Work and income'. This specific grant has been developed using regression techniques. In respect to this specific grant we see large difficulties to introduce a cost-oriented, plausible and 'automatically working' system of indicators. The effects of these difficulties are yearly adaptations with large effects of reallocation and a continuing discussion (also with the government) in respect with the working of the system.

5 The Municipal Fund: a mixture of objective substantiation and political policies

Thanks to the Differences Analysis the equalized allocation of local expenditure needs in the Netherlands by means of the Municipal Fund is a well-balanced mixture of an objective substantiation of local financial needs and political decisions.

This mixture is realized and protected by the following institutional environment:
- the availability of an objectified fundament: research (Differences Analysis); qualified data in a technical sense (CBS); periodic maintenance by way of yearly scanning the development of the spending versus the allocation system, if needed continued with more detailed research on the backgrounds of differences between the expenditures of municipalities and the working of the allocation system;
- monitoring the rules and quality by the administrators of the municipal fund (the Ministries of Interior Affairs and Finances) and the "*Raad voor de financiele verhoudingen*" (Financial Relations Board);
- a well-balanced decision-making procedure for adaptations of the system:
  1. research;
  2. supervision of the (results of) research by an advisory counsel. This counsel includes, along with the administrators of the municipal fund, the Association of Dutch Municipalities (*VNG*);

3. a proposition for a change from the government i.c. the Ministry of Interior Affairs;
4. the final decision made by the Lower Chamber of Parliament;

- the input of the bodies concerned is fundamental for any adaptation (individual municipalities; Association of Dutch Municipalities (*VNG*);
- in general the Lower Chamber only deals with the outlines of the allocation and in particular monitors the effects of reallocation and specific circumstances of certain types of municipalities (also as an effect of municipal lobbying). In the past few years, for instance, the Lower Chamber asked for new research regarding the problems of a bad condition of the soil, of municipalities with urban growth, of rural, multiple centred municipalities and of the major cities.