

# Subsidy management: efficiency and vindication

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## 1. Introduction

Policy is the result of political decisions. Policy is a decision of a government to either do or not do something. Through its policy, a government tries to solve problems it is facing. Once a problem has been recognised, solutions can be proposed, chosen and implemented. After implementation the whole process is evaluated and if new problems have been arisen, the cycle starts anew. (Brewer 1974; Howlett & Ramesh 2003; Smith 1979).

One of the possible policy instruments a government can choose to try and solve its problems with is the instrument of subsidies. Subsidies can take on various forms, but all are meant to either provoke or reward certain behaviour (Howlett & Ramesh 2003). In a sense they are reverse fines. Where fines are a deterrent and punishment for undesired behaviour, subsidies are a reward and incentive for desired behaviour. Grants are a common form of subsidy. They are financial means delegated by a government to another government or organisation in order to achieve something (Pal 1992). The Dutch regions and provinces, for example, fund a substantial part of infrastructural projects regarding traffic, e.g. revitalisation of roads, bicycle paths, etc. They do so by means of a grant called 'Brede Doeluitkering Verkeer en Vervoer' (English: Broad Targeted Grant Traffic and Logistics), which is fully funded by the ministry of Infrastructure and Environment. Through the grant they contribute to local infrastructure and stimulate and facilitate investments therein. They do not, however, take the lead in these projects, nor do they finance the projects completely. It is up to the municipalities to propose good ideas. The region or province then reviews these proposals according to the law which lies at the base of the subsidy and either approves or declines the request for funding (Wet BDU verkeer en vervoer).

Because subsidies are a policy instrument financed by public money, scientific research on subsidies is valuable to politicians who consider using the instrument of subsidy. There are many different possible beneficiaries of subsidies, ranging from individuals to (national) governments. Municipalities have an important function with regards to subsidies. On the one hand, they use subsidies to individuals and organizations to stimulate certain behaviour or action. This can vary from an individual making his house more energy-efficient with a "green roof"<sup>1</sup>, and therewith contribution to a better environment, to cultural organisations whose performances are

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<sup>1</sup> A roof covered with plants, which enhance the isolation of the building. One of the municipalities giving out grants for this is The Hague: <http://www.denhaag.nl/home/bewoners/to/Subsidie-groene-daken.htm> (December 10<sup>th</sup>, 2010).

deemed worthy of government support. On the other hand, municipalities receive a fair share of subsidies from other levels of government (e.g. regions, provinces, Water Authority, national government, European Union).

Subsidies are financed with public money. Every taxpayer contributes to them. Nevertheless, little is known about the use, control and management of subsidies. When receiving subsidy, the beneficiary has to agree with terms and requirements. Many of these are to safeguard that the money is used in a legitimate, effective and efficient way. This is especially important as the subsidy is public money. After a subsidised project has been finished, as well as during the project, a beneficiary has to report about the progress of the project and the way the granted money has been spent. Accountants check this information on grounds of efficiency and legality.

On the other hand, little to no attention is paid to the way subsidies are acquired. Subsidy programmes often are tenders. That means that a call for proposals<sup>2</sup> is published, in which certain priorities are stated. Legal entities with projects which meet the requirements and priorities stated in the call for proposals can draft a project proposal and deliver it before the set deadline. But even if an organisation which has a project that perfectly fits into the call for proposals, if that organisation does not know the call for proposals exists, it will obviously not apply for funding. After the deadline of a call for proposals has passed, projects which do not meet the formal requirements are declared ineligible and are disregarded. Eligible projects are then measured by a committee, which ranks the proposals. If sufficient budget is available to cover the funding requirement of all eligible projects, all projects receive the subsidy. However, that is rarely the case. When the subsidy programme's budget is insufficient to cover all projects with, only the best proposals are approved and will receive subsidy. As the projects compete with one another, the proposals must be drafted to meet the call for proposals to the greatest possible extent. That requires a certain effort of the applicant.

How much effort do organisations pour into an application for subsidy, and afterwards into the accounting for the subsidy? How efficiently are beneficiaries of a subsidy in the acquisition and management of the subsidy? These are the questions I will try to answer in this research.

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<sup>2</sup> An example of a call for proposals, for the 2012 call of the European Union's Eco-Innovation programme, can be found here: [http://ec.europa.eu/environment/eco-innovation/getting-funds/application-packs/index\\_en.htm](http://ec.europa.eu/environment/eco-innovation/getting-funds/application-packs/index_en.htm)

## 2. Scope

Because the recipients of subsidies differ so much in nature among each other, I have chosen to limit my research to municipalities for their ambivalent role as a government body which both issues as well as receives subsidies. To limit the scope of the research, I will only study the efficiency with regards to the acquisition and management of subsidies by the municipalities. The Netherlands consists of over 400 municipalities. The smallest of these in terms of number of inhabitants is Schiermonnikoog, with 942 inhabitants<sup>3</sup>. Amsterdam with its 767,773 inhabitants<sup>4</sup> is the largest municipality in the Netherlands. There are numerous differences between the smaller and the bigger municipalities. In order to compare two groups of municipalities of more or less the same characteristics, I have chosen to focus on a group of three small and a group of three large municipalities. A municipality is considered to be small when the amount of inhabitants is below 60,000. The chosen range for large municipalities is between 60,000 and 150,000 inhabitants. Only twelve municipalities are bigger than that. Reason to exclude those from my research is that (a number of) these municipalities have budgets especially created for them. They can therefore access funds other municipalities cannot, even if they can access all funds available to their smaller counterparts as well. As larger municipalities have more budget and a larger organisation than their smaller counterparts, it can be assumed that they are more efficient at acquiring and managing subsidies than their smaller counterparts. I will assess whether they are indeed by comparing two groups. The choice to focus on two groups of municipalities has been made in order to be able to draw more significant conclusions and diminish the chance of coincidental exceptions which might lead to the wrong conclusions.

Hezelburcht is a company which provides full-service advice with regards to subsidy management to private companies and the government. They operate in the Netherlands. Their focus on government level lies with municipalities. It follows from a benchmark study carried out by Hezelburcht in 2010 that larger municipalities possibly acquire subsidies more efficiently than their smaller counterparts. The Hezelburcht study has a relatively small *n*. Because of that, the conclusions of the study are not very strong. In order to expand on the results of the Hezelburcht study and to add a qualitative research to the quantitative research which has already been carried out, interviews will be conducted with a selection of municipalities. These questions will regard the acquisition of subsidies and the amount of time and money it has cost and yielded. This will be done by means of in-depth interviews with the persons responsible for

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<sup>3</sup> At January 1<sup>st</sup>, 2010. Source:

<http://www.schiermonnikoog.nl/sjablonen/1/infotype/webpage/view.asp?objectID=2349>

<sup>4</sup> At January 1st, 2010. Source: <http://www.os.amsterdam.nl/tabel/5216/>

the acquisition subsidy in the selected municipalities. If no one has responsibility for subsidy within the municipality, controllers will be interviewed. As every country has its own subsidy systems and the Hezelburcht study focuses on the Netherlands as well, my research will too focus on the Netherlands. As there are various kinds of subsidy, I shall focus on grants. These are the most common type of subsidies. As grants are difficult to compare to loans and tax incentives, limiting the scope of my research will ensure that the results are fully comparable.

### 3. Theory

#### 3.1. Subsidy

In order to reach the goals it has set, a government can use various policy instruments. One way is to regulate behaviour, and to sanction the transgression of the regulations. This kind of policy instruments is metaphorically called “the stick”, because a negative sanction is used to stimulate certain behaviour. Sanctions can take different forms, ranging from fines to imprisonment, and in some countries even the death penalty. An example of regulation as a policy instrument is speed limitation on motorways. Governments want drivers to limit their speed in order to prevent accidents, to mitigate the environmental effect of greenhouse gas and to decrease the amount of traffic jams. For that reason the regulatory measure of speed limits has been taken in most countries. Drivers who exceed a speed limit are sanctioned. They are fined, and if the transgression is above a certain threshold, the driver’s license of the transgressor is also revoked or the driver is imprisoned. These negative sanctions are in place in order to deter people from driving too fast (Bemelmans-Videc et al. 1998; Howlett & Ramesh 2003).

Another way to stimulate certain behaviour is to provide information about the consequences of opposite behaviour. This is usually achieved through media campaigns. To stick with the example of speed limitation, regulation and deterrence is supported by informative campaigns. Various governments provide information on the danger of driving too fast, like the Dutch<sup>5</sup> and the German<sup>6</sup> government. Rather than relying only on the deterrence of the sanctions in place for driving too fast, these campaigns point out the dangers of driving too fast. By bringing these dangers to the attention of drivers, the government wants to influence their behaviour. Rather than being directly coercive like regulation and sanctioning, by providing information the government hopes to achieve self-regulation. Through awareness of the (possible) negative effects of driving too fast the government tries to convince drivers that it is better for everyone, including the drivers themselves, if people stick to the speed limits. This kind of policy instruments is metaphorically referred to as “the sermon” (Bemelmans-Videc et al. 1998; Howlett & Ramesh 2003).

Yet another policy instrument is using economic means in order to stimulate behaviour. This is metaphorically referred to as “the carrot”. When economic means are used as policy

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<sup>5</sup> <http://www.rijksoverheid.nl/onderwerpen/overheidscampagnes/lopende-campagnes/hou-je-aan-de-snelheidslimiet>

<sup>6</sup> <http://www.runtervomgas.de/>

instrument, they are the opposite of the sanctions in place as “the stick”. Rather than negative consequences for undesired behaviour, positive behaviour is rewarded with financial advantages (Bemelmans-Vidéc et al. 1998; Howlett & Ramesh 2003). An example is the financial advantage the Dutch government gives to people who drive cars which are eco-friendly<sup>7</sup>. The Dutch government wants to decrease the emission levels of carbon dioxide. Cars which remain below a certain emission level are therefore taxed less or, in the case of electric vehicles which have an emission level of zero, not at all. That makes it more attractive to buy such a car.

Subsidy is a “carrot-type” policy instrument, as it is a financial reward for behaviour which governments deem positive or desired. In Dutch law subsidies are defined as “the claim on financial means, provided by a Governing Body in the light of certain activities, other than the payment for goods or services provided to the Governing Body”<sup>8</sup> (Algemene Wet Bestuursrecht, article 4:21). A common form is the grant. Pal (1992) and Haider (1989) define grants as follows: “Expenditures made in support of some end worthy in itself, almost as a form of recognition, reward, or encouragement, but not closely calibrated to the costs of achieving that end”. In the case of grants, sometimes contributions also are made by putting expertise or manpower at the disposal of the beneficiary. This contribution can also be capitalised for the sake of evaluation and auditing.

Other possible forms of subsidy are tax incentives and loans. In the case of tax incentives, a tax revenue is forgone by the government which collects the tax in order to stimulate or reward certain desired behaviour (Mitnick 1980). Subsidised loans are loans issued below the market rate. The difference between the issued rate and the market rate can be considered subsidy, as an ordinary loan would yield more income out of interest (Lund 1989). A subsidised loan can be considered a hybrid form of grants and tax incentives. The money lent is directly invested in the activity the subsidy giver desires to stimulate. However, the money is paid back. Much like with tax incentives, income is foregone as the interest paid by the borrower is lower than the actual rate. In short, the various types of subsidy are:

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<sup>7</sup> <http://www.rijksoverheid.nl/documenten-en-publicaties/circulaires/2011/09/20/informatieblad-zuinige-auto-s.html>

<sup>8</sup> “de aanspraak op financiële middelen, door een bestuursorgaan verstrekt met het oog op bepaalde activiteiten, anders dan de betaling voor aan het bestuursorgaan geleverde goederen of diensten”

Subsidy subtype	Short typology
<b>Grant</b>	Direct financial contribution to organisation in order to stimulate certain activities or policy outcomes. Contribution can also be made in manpower or expertise.
<b>Tax incentive</b>	Tax revenues forgone in order to stimulate or reward something. More indirect in nature than grants, as it is not a direct investment but rather a depreciation on the income of the subsidy giver.
<b>Loan</b>	Loan with interest rate below market level. Direct investment, but paid back.

*Table 1: types of subsidy*

### **3.2. Policy evaluation, effectiveness and efficiency**

The success of public administration or a government can be measured by the degree to which it is effective and efficient. Effectiveness can be measured by the degree to which the goals of the policy which have been set beforehand, while the policy was drafted, are actually achieved. A step further would be to measure the degree to which the policy goal has instrumental or contributive value for the society as a whole. Efficiency is closely related to its effectiveness, yet of a fundamentally different nature. The efficiency of the government is the degree to which a maximum amount of output is realized with as few means as possible. The output and means can be many things. The output can be any goal which is pursued through policy. It therefore can vary from a decrease in crime to a number of houses built in a year. The means used can be any means available to the government in question. It can therefore also be a broad variety of things, ranging from financial means to expertise, personal contacts, or hours worked by officials (Bovens et al. 2001; Fisher 1995; Neelen et al. 2003). Efficiency is always inherent to the purpose something serves. Efficiency therefore must always be regarded in its context and can never be a universal value: what is efficient pursuing one goal can be very inefficient for another goal (Denhardt 2004). Efficiency can be measured by effect or achievements (Algemene Rekenkamer 2003, 2005).

Many studies conclude that public spending could be smaller and more efficient than it currently is. Privatisation of activities, i.e. the shift of activities to the public sector, is one of the ways these studies suggest to reach smaller and more efficient government spending (Afonzo et al. 2005). Wilson is one of those who argues that private suppliers of public services are more

efficient: *“The greater efficiency of private suppliers of most public services seems to be chiefly the result of three factors: lower labor costs, more effective management, and greater competition”* (Wilson 1989, pp. 351). However, Wilson points out that governments function in an environment which is fundamentally different from the environment in which private organisations function. Government agencies are constrained by several factors which private organisations do not have to take into account. These constraining factors have been put into place in order to safeguard the process. Government agencies have no incentive to maximise their profit. They also cannot allocate the factors of production in accordance with the preferences of the organisation's administrators, as they must serve politically set goals which are not necessarily the goals which the organisation's administrators would set. Because they are created to carry out policies set by politicians, and because they are not expected to maximise their profits, government agencies are risk averse. They emphasise the importance of accountability and equity rather than output. In contrast, employees of private organisations benefit directly from higher profits. Private organisations set their own goals and are output-driven. That makes them more risk acceptant and more flexible (Wilson 1989).

With Wilson's argument in mind that government agencies are more strongly influenced by constraints than they are by goals and outputs, the question of efficiency or inefficiency of the actions of government agencies becomes more multi-layered than that narrow approach often used in economics. A narrow definition of inefficiency would be excessive use of resources to reach the main goal of an organisation, does not take the constraints of government agencies into account. This is a economic cost-benefit approach. But government agencies have more factors to take into account than cost efficiency. A broader, more political, definition of efficiency and inefficiency thus is required with regards to government agencies. For government agencies this broader definition of inefficiency is the excessive use of resources to reach all goals of an organisation, including the constraints. To improve the efficiency of a government's activities, it must be assessed which constraints can be sacrificed. That can be assessed by considering privatisation of the activity (Wilson 1989). According to Waldo efficiency must always be defined in terms of the purpose being served. Therefore efficiency can never be seen as a goal in itself (Waldo 1948). Efficiency for government agencies therefore must be seen in the light of legitimacy. Legitimacy policy is policy that is in concordance with the applicable laws and rules. It is possible that magistrates or officials do not obey the laws or rules applicable to their job. This can happen because they do not know the rule, or because they willingly ignore the laws. The latter usually happens in case of fraud or corruption, when the agent or magistrate has personal gain from disobedience to the laws or rules. Other threats to legitimacy are that

laws and rules can form obstacles to solving societal problems, and that some laws can be interpreted in various way and sometimes seem to contradict each other (Bovens et al. 2001; Neelen et al. 2003). That policies and activities of government agencies need to be legitimate, is one of the constraints the public sector is facing. Legitimacy in itself however doesn't distinguish the public sector from the private sector, as the private sector has to act in concordance with the applicable laws and rules. The difference is that there are more checks in place for the public sector than there are for the private sector, mostly aimed at equity and accountability of the actions of government agencies. Private organisations are not obliged to safeguard equity within society or the organisation, whereas public organisations are. The goal of a government agency is to carry out certain activities while staying within the bounds of the constraints which have been applied to the agency. The goal of a private organisation is to carry out activities in order to make a profit. The goals of public and private organisations are therefore always different because of their very nature. As private organisations are unhampered by most of the constraints which a government agency has to take into account, private organisations are usually more efficient, using the narrow definition of efficiency, than their public counterparts.

Economic efficiency with regards to using subsidy management, means assessing how much money the acquisition of and accounting for the subsidy has cost. The money spent on acquiring and accounting for the subsidy, or in some cases multiple subsidies, could logically be spent on the project directly, if the project had been carried out without subsidies to begin with. By applying for available subsidies for an activity, the recipient of the subsidy has a legal obligation to acquire and spend the money bound by the rules set by the sponsor. Social responsibility goes one step further. Recipients of subsidies have a legal obligation to follow the rules set by the sponsor. If the recipients are (local) governments, there also is the moral obligation to spend government money, like subsidies are, in the most efficient way possibly. That way a little as possible of "society's money" is wasted (De Groot 1995; Raad voor het binnenlands bestuur 1996). Because subsidies such as grants are revoked if a recipient does not follow the applicable laws and rules, most important of which are the grant's terms and conditions, the question of legitimacy also influences the efficiency of subsidy management as a whole. After all, if the grant is revoked because the use of the grant was illegitimate all means used to acquire and account for the subsidy have been spent in vain. That is as inefficient as it gets. Efficiency and legitimacy are safeguarded by Dutch law in multiple ways. Based on article 76 of the Dutch constitution, the General Accounting Office (Dutch: Algemene Rekenkamer) has the constitutional task of auditing the efficiency and legitimacy of the national government (GW, art. 76). There are several other Accounting Offices which are charged with similar tasks for other levels of

government, like the Water Authorities and municipalities. Also, there has been a memorandum of the Dutch national government (Ministerie van Financiën 1999) called “Van Beleidsbegroting tot Beleidsverantwoording” (VBTB, from policy budgeting to policy accounting). This memorandum aims to improve the way policy is accounted for in order for the government to be controllable and to increase the government’s efficiency by better motivation and evaluation of policy. There are clauses in the Gemeentewet (which can be loosely translated to English as ‘Municipality law’) which oblige Dutch municipalities to create ordinances regarding its efficiency and effectiveness and to safeguard their legitimacy through audits (Gemw, art. 212, 213, 213a).

The Dutch subsidy consultancy company Hezelburcht has performed benchmark studies among municipalities on a yearly basis from 2007 onward. These quantitative studies focus on the question how efficiently municipalities acquire subsidies. Hezelburcht has cooperated with the Radboud University in Nijmegen, and research institute ITS which is associated to this university. The study has been certified by the Kwaliteitsinstituut Nederlandse Gemeenten (KING; Quality Institute of Dutch Municipalities)<sup>9</sup>. In order to quantify the efficiency of municipal subsidy management, the difference between the obtained amount of subsidy the municipality has obtained, and the amount of money it has cost to actually obtain it. That means the narrow, economic, definition of efficiency is used. Hezelburcht’s benchmark study investigates three characteristics of municipalities which could possibly influence the efficiency of acquiring subsidy. These characteristics are (1) the size of the municipality, (2) its having a standard operating procedure for acquiring subsidies and (3) the function of the person who has drafted the subsidy application. One of the conclusions of the benchmark study is that larger municipalities *might be* more efficient in subsidy management than smaller municipalities. The conclusion is drawn with a certain degree of uncertainty which is caused by the relatively small *n* of the study (Hezelburcht 2008, 2009, 2010, 2011, 2012). I will conduct further research on this topic, and look at it in a broader sense. Where Hezelburcht focuses on the acquisition of subsidies, I shall also take into look at another aspect that is part of subsidy management: accounting for the subsidy. Van Hulst & De Groot (2011) draw the conclusion on a more general level that the section of Citizen Affairs (Dutch: Burgerzaken) in is the highest in municipalities with more than 100.000 inhabitants. The size of a municipality therewith does seem to impact the cost efficiency of a municipality. That leads to the following hypothesis:

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<sup>9</sup> Source: <http://www.waarstaatjegemeente.nl/index.php?id=166> (December 10<sup>th</sup>, 2010).

1. Large municipalities are more economically efficient acquiring and accounting for subsidies than small municipalities.

In line with the findings of Wilson (1989), I shall assume that private organisations because of their very nature are more efficient in their actions than public organisations. This would imply that external advisors work more efficiently than employees of a government agency. External advisors after all work in an environment with lower cost of labour, more efficient management, and greater competition. Their goal is maximising the profit of the company. But does that mean that municipalities which have outsourced their subsidy management to external advisors are also more efficient themselves? I shall seek answer to this question by testing the following hypothesis:

2. Municipalities which have outsourced their subsidy management to the private sector are more economically efficient than municipalities which manage subsidies themselves.

Policy can be evaluated by looking at four phases of policy deliberation. First, a policy should empirically fulfil its stated objective or objectives. Second, the objectives should be relevant to the problem situation the policy is aimed at. Third, the policy goal should be valuable for society instrumentally or contributively. Fourth, the fundamental ideal or ideology which forms the foundation of society should provide a basis for legitimate resolution of conflicting judgements (Fischer 1995). It follows from the above that policy should be means to an end, aimed at solving a problem situation. As Marshall Dimock put it, “[for those in government] the fulfilment of communal wants is the ultimate test of all their activities” (in: Denhardt 2004, pp. 62). In the evaluation of public policy, Fischer (1995) introduces the concept of vindication. Vindication goes beyond the empirical and normative judgements which constitutes first-order evaluative discourse. Vindication requires evaluation of the consequences of a policy and its assumptions for the society as a whole. Policy can be vindicated when the policy goal addresses a valuable function for existing societal arrangements. That means that the policy goals: (1) has value for society as a whole, (2) does not result in unanticipated problems with important societal consequences and (3) does not lead to inequality in terms of consequences which are judged to be equally distributed (Fischer 1995; Mueller 1979).

Vindication focuses on the consequences of a policy. Efficiency is aimed at the use of resources to reach the goals of a policy. That makes it interesting to see whether there is tension between the two. The matter of political equality for example is one of the aspects important for the vindication of a policy. However, it can be difficult to combine political equality with economically efficient action. Okun illustrates this by referring to the American society. He

states that the political and social institutions of the United States of America provide universally distributed rights and privileges that proclaim equality of all citizens. On the other hand, Okun argues, the United States' economical institutions rely on the mechanisms of the market, which generates differences in income and living standards. Those with substantially higher incomes than others use their resources in a way which allows them, and sometimes their children or families, to create situations which makes opportunities unequal. That inequality stems from the head starts the wealthy can gain by means of their resources (Okun 1975). If elements of vindication of a policy are in conflict with economically efficient behaviour, then it can be assumed that policy that is deemed successful following the logic of vindication, is less economically efficient. In an effort to combine the question of this tension between economic efficiency and vindication with the outcome of Hezelburcht's benchmark study that larger municipalities might be more economically efficiency in the acquisition of subsidies, I will assess whether by being more economically efficient, the larger municipalities have less societal impact or more unforeseen negative effects on the society as a whole. In other words: does the logic of vindication indeed conflict with economic efficiency when it comes to subsidy management? That leads to the following hypothesis:

3. Subsidised policies of small municipalities have a relatively more positive effect on the societal system as a whole than subsidised policies of larger municipalities.

In the light of the above hypothesis, a short elaboration on the concept of "society" is required. Society is often seen as a concept which can be applied on a national level. For example: Great Britain can be described as an entrepreneurial society, while Germany usually is depicted as a more bureaucratic society (Bendix 1956; Peters 2001). As the focus of this research lies with municipalities, I regard the societal system of a municipality defined by the municipal boundaries as well as national boundaries. Municipal societies then are smaller entities within the larger national society. In addition to gauging the effect of the policy on the municipal level I will also look at the national impact of the policy. The findings will be seen in the light of the amount of inhabitants of the municipality.

#### **4. Methodology**

Subsidy is a policy instrument which can take various forms. There are grants, tax incentives and loans. Grants, tax incentives and loans are very different in nature from one another, as chapter three showed. In order to make a good comparison therefore a choice for one type of subsidy has to be made. As grants are the most common form, I have chosen to limit my research to grants. But as there are many different grants, there are also many different forms of grants. Grants are different from one another because of the field of policy they regard, for example social affairs, economic affairs or justice. They are also different from one another because a different level of government has created the subsidy programme. Subsidy programmes of the European Union for example usually have much more criteria and requirements than subsidy programmes of the Dutch provinces. The subsidy programme of the Dutch province of South Holland for revitalising business parks (the “Subsidieregeling herstructurering/ontwikkeling en planvorming bedrijventerreinen Zuid-Holland”) for example has seven pages of criteria, rules and requirements (Provinciaal Blad van Zuid-Holland 2011, nr. 68). The European Union’s LIFE+ subsidy programme for the environment, in contrast, has sixteen pages of selection criteria, rules and requirements which form the basis for a yearly call for proposals which in 2012 consisted of three pages (European Commission 614/2007; European Commission 2012/C 74/08). As with European subsidies often international partnerships are required as well, obtaining and accounting for these subsidies usually requires much more work than provincial subsidies. Because of the difference between subsidy programmes, I have chose to focus on one subsidy programme to which all municipalities have been able to apply. That enables a comparison between the acquiring and accounting for the subsidy where a comparison between similar programmes of different provinces is flawed because of the difference between the selection criteria, rules and requirements. The subsidy programme of choice is the third tender temporary stimulation programme for housing which the Dutch government created as a measure for the crisis in the housing sector (Dutch: Tijdelijke Stimuleringsregeling Woningbouw, derde tranche, abbreviated as “TSW3”). Municipalities could apply for a grant under the TSW3 subsidy programme in order to realise housing projects which had come to a halt because of the (worldwide) economic crisis. I will explain the TSW3 programme in detail in the next chapter.

I have selected five municipalities. Three of them are small (>60,000 inhabitants) and two of them are large municipalities (60,000 – 150,000 inhabitants). Initially the plan was to have three of each, but large municipalities turned out to be more difficult to approach. As the measurement will be done with regards to the TSW3 grant, which is a grant written out by the national government, the municipalities have been selected without regard for the province

they are in. Employees of the selected municipalities have been interviewed with regards to the acquiring of and accounting for the TSW3 grant or grants the municipality in question has received. In line with the Hezelburcht benchmark study, the efficiency thereof has been measured as an economical cost-benefit analysis. How efficient a municipality is with regards to acquiring subsidies is measured in the Hezelburcht study by dividing the amount of money a municipality is granted by the amount of money it has cost acquiring the subsidy. The cost of acquiring the subsidy is calculated by measuring the hours which the municipality's employees have spent on it (internal cost) and, if applicable, the cost of consultants who helped acquiring the subsidy (external cost). The hours of the municipality's employees are valued at a fixed hourly rate of € 100,-- before tax. Using the actual cost would be better, but most municipalities have proven unwilling to provide this information. The external cost is the actual cost before tax, and is supported by invoices (Hezelburcht 2012). I have adopted this methodology. The difference is that I have used it for acquisition of the grant as well as the accounting for the grant. In an effort to distinguish the effect of the constraints the public sector has to cope with, the difference between municipalities who have outsourced their subsidy management to the private sector, which is unhampered by these constraints, and municipalities which provide their own subsidy management, is also looked at. This provides an insight in the difference between economical and political efficiency of the municipalities in question. During the interviews questions have also been asked regarding the effect of the policy on the society. This provides insight in the question of whether the grant has made municipal policies that would otherwise have come to a halt possible. It also says something about the question whether the municipal policies supported by the grant have helped the achievement of the national policy goals for which the grant has been instrumental, without any negative unforeseen side-effects.

## 5. Tijdelijke stimuleringsregeling woningbouw, derde tranche (TSW3)

My research focuses on the third tender of the temporary stimulation programme for housing which the Dutch government created as a measure for the crisis in the housing sector (Dutch: Tijdelijke Stimuleringsregeling Woningbouw, derde tranche, abbreviated as “TSW3”). Municipalities could apply for a grant under this subsidy programme of the Dutch national government in order to realise housing projects which had come to a halt because of the (worldwide) economic crisis. The TSW3 subsidy programme was part of a larger set of measures with the goal to mitigate the consequences of the economic crisis for households and companies. TSW3 was specifically used as an instrument to accelerate housing projects. The demand for houses was decreasing at the time because buyers were uncertain about the chance they would sell their own house, their income or price developments in the market. Because of this, many contractors were at the time unable to start their projects for lack of buyers and increasing difficulty to fund their projects due to the fact that banks had become more cautious. The construction sector contributes a relatively large part of the Dutch GDP. With the decrease in demand for housing and utility and the stagnation of projects inherent to it, unemployment increased. One of the ways by which the Dutch government decided to try to mitigate the effects thereof, was by means of the subsidy programme TSW3. Secondary policy goals which the government wanted to achieve by means of the TSW3 subsidy programme are (1) investments related to revitalisation of older neighbourhoods and community development, (2) the realisation of as much single storey houses which are easily accessible by the elderly and the handicapped and (3) investments in sustainability and energy efficiency (Kamerstukken II 2008/09, 31 070, nr. 24; Ministerie van Algemene Zaken 2009; Staatscourant 2009, 114; Van Middelkoop 2010). These are national policy goals which are also goals of many Dutch provinces and municipalities. Examples of municipalities and provinces which have adopted these goals, or at least a number of these goals, are the municipalities of Amersfoort<sup>10</sup>, Rijswijk<sup>11</sup> and Zeist<sup>12</sup> as

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<sup>10</sup> VERBONDEN, SLAGVAARDIG, DUURZAAM. Coalitieakkoord Amersfoort 2010-2014. [http://www.amersfoort.nl/docs/Nieuwe\\_structuur/\\_bestuur\\_organisatie/\\_nieuws\\_publicaties/Stadsberichten/2011/Jan%20Feb%20Mrt/Coalitieakkoord\\_Afoort\\_2010-2014\\_18jan2011.pdf](http://www.amersfoort.nl/docs/Nieuwe_structuur/_bestuur_organisatie/_nieuws_publicaties/Stadsberichten/2011/Jan%20Feb%20Mrt/Coalitieakkoord_Afoort_2010-2014_18jan2011.pdf)

<sup>11</sup> Coalitieakkoord 2010 – 2014 gemeente Rijswijk. <http://www.rijswijk.pvda.nl/binaries/content/assets/rijswijk/verkiezingen+2010-2014/Coalitieakkoord+2010-2014+gemeente+Rijswijk.definitief.pdf/Coalitieakkoord+2010-2014+gemeente+Rijswijk.definitief.pdf>

<sup>12</sup> Dichterbij. Groen, Liberaal en Sociaal. Coalitieakkoord D66, VVD, PvdA en GroenLinks 2010-2014. <http://www.zeist.nl/bis/dsresource?objectid=48019&type=org>

well as the provinces of Limburg<sup>13</sup>, Gelderland<sup>14</sup> and Zuid-Holland<sup>15</sup>. A budget of € 100.000.000,-- was made available to the programme (Staatscourant 2009, 114; Van Middelkoop 2010).

One of the elements which complicated the grants of TSW3 was that the national government provided municipalities with a maximum of € 10.000,-- for each in a project. The municipalities, in turn, were to use that money to cover costs of the stimulation of building houses which have been delayed or halted because of the economic crisis (Staatscourant 2009, 114). The grant given by the national government to the municipalities was no state aid, as it was a sum transferred from one government to another. The municipalities, however, had to take state aid regulations into account. Should they choose to forward the money to contractors, for example in the form of a grant, this would be state aid. The European “de minimis” rule would then apply, which allows for aid of up to € 200.000,-- to be provided from public funds to a business enterprise over a rolling three-year period (European Commission 1998/2006). But many projects regarded more than 20 houses, and therefore a grant of more than € 200.000,-- for every contractor. A possible solution was to give the money to the buyers of the houses or to have the municipality spend the money in a way which would stimulate the project. Project “D’Oranjeboom” in the municipality of Rotterdam for example even counted 443 houses. The maximum grant possible for this project would amount to € 4.430.000,-- therewith greatly exceeding the state aid allowed by European state aid laws, more specifically the de minimis rules. Where the national government had ensured that they had not given state aid, the problem was forwarded to the municipalities which therefore had to be cautious about their actions as excessive state aid would cause for the subsidy to be revoked.

The use of the grant had to be accounted for with the ‘single information single audit’ methodology. That means that municipalities were to account for their project or projects with the annual reporting cycle. No separate accounting was required. In order to retain the grant, the construction of the housing project for which the grant was given had to be started on December 31<sup>st</sup> 2010 at the latest. Construction was considered to be started when the piles at the corners of every block of houses had been rammed. Some projects which were reported as having been started were checked by ministry officials. In addition the projects were checked on legality (Staatscourant 2009, 114; Van Middelkoop 2010).

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<sup>13</sup> Coalitieakkoord 2012-2015: Limburg, haal het beste uit jezelf!

<http://limburg.nl/dsresource?type=pdf&objectid=limburg:18615&versionid=&subobjectname=>

<sup>14</sup> Coalitieakkoord ‘Uitdagend Gelderland’. <http://www.gelderland.nl/smartsite.dws?id=17116>

<sup>15</sup> Hoofdlijnenakkoord 2011 – 2015. Zuid-Holland verbindt en geeft ruimte. [http://www.zuid-holland.nl/bestuur\\_en\\_politiek/c\\_e\\_bestuur-coalitieakkoord.htm](http://www.zuid-holland.nl/bestuur_en_politiek/c_e_bestuur-coalitieakkoord.htm)

## 6. Data

### 6.1. Haarlemmermeer

Haarlemmermeer is a Dutch municipality in the southern part of the Dutch province of Noord-Holland. Schiphol airport lies within the borders of the municipality. At February 1<sup>st</sup> 2012 143.893 people lived in the municipality. About half of these inhabitants live in Hoofddorp, the biggest town in the municipality<sup>16</sup>.

The municipality of Haarlemmermeer received a grant from the TSW3 programme for six of its projects. The project "Slinger Akerveld" counted eighteen houses. The project "HQ 023" counted sixty houses. The third project, "Zilvervloot", consisted of seventeen houses. Project "De Veranda" had eleven houses, "Lipsarishof" had fourteen houses and "Nova Vita" had forty-four houses.

Only the first three projects have since started construction. Only these will be elaborated upon. The other projects could not find enough buyers to start the construction within the time frame offered by the requirements of the TSW3 programme. "Slinger Akerveld" is a project in the expensive segment, with prices between € 599.000.000,-- and € 725.000.000,--. It consists of eight serial villas and ten detached villas in the town of Badhoevedorp. This project received a grant of € 126.000,--. "HQ 023" is a reconstruction of an office building called Meerveste 2. It is situated across the central station of Hoofddorp. Sixty houses were realized there, all of them apartments. The adjoining building, Meerveste 1, also is a reconstructed office building. Meerveste 1 was constructed a few years earlier than Meerveste 2. The apartments in Meerveste 1 were sold in a short time span. Meerveste 2 was sold during the financial crisis and therefore did not sell quite as fast. Before the reconstruction could commence, a substantial part of the new apartments was to be sold. Prices in "HQ 023" were € 99.500,-- and higher. For this project a grant of € 234.000,-- was received. "Zilvervloot" was a project of eleven serial houses and six duplex houses. Prices were between € 235.000,-- and € 380.000,--. This project received a grant of € 129.200,-- (Gemeente Haarlemmermeer 2010.0029597, 2010.0029649, 2010.0046618, 2010.0052345, Jaarrekening 2010).

For all three projects the municipality provided a contribution worth 50% of the TSW3 grants. These were used in the same fashion as the TSW3 grants themselves. In project "Slinger Akerveld" the money of the TSW3 grant was used to invest in the quality of the public space.

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<sup>16</sup> [www.cbs.nl](http://www.cbs.nl)

This made it easier for the contractor to sell the houses. In both “HQ 023” and “Zilvervloot” the grant money was used to give buyers the opportunity to get a so-called ‘starter credit’. These credits at low interest rates were managed by the Foundation for stimulation of the housing sector (Dutch: Stimuleringsfonds Volkshuisvesting Nederlandse gemeenten, abbreviated as SVn). Because the measures in all three projects did not come to the direct benefit of the contractors, state aid was not an issue. These three projects started within the time frame offered by the terms of the TSW3 programme. Mr. Vijfhuizen, who coordinated the TSW3 grants for the municipality of Haarlemmermeer has stated that “just giving money to contractors is not the best way to help a project”<sup>17</sup>. The proposal for project “Lipsarishof”, for which the municipality received a TSW3-grant of € 98.000,-- was that the contractor would get the grant money and the municipal contribution, a grant of € 49.000,-- if the construction of the houses would start before January 1<sup>st</sup> 2011. Regardless of this incentive, the contractor was unable to start construction timely. The TSW3-grant therefore had to be returned to the ministry of WWI (Gemeente Haarlemmermeer 2010.0029597, 2010.0029649, 2010.0046618, 2010.0052345, Jaarrekening 2010).

Acquisition of the grants cost the municipality approximately one working day for each project. Accounting for the grant also cost approximately one working day per project. All of the work was done by an employee of the municipality of Haarlemmermeer. When these internal hours are valued at € 100,-- the subsidy management for the six grants Haarlemmermeer received cost the organisation € 9.600,--. For all six projects this resulted in a total worth of grants of over a million euro. However, three of the grants had to be returned to the ministry as the projects did not start in a timely fashion. The total value of the grants the municipality was able to retain is € 489.200,--. The benefit thus was 51 times the cost for the municipality of Haarlemmermeer.

## **6.2. Nieuwegein**

Nieuwegein is a Dutch municipality in the province of Utrecht. It lies on the southern border of the city of Utrecht. At February 1<sup>st</sup> 2012 60.765 people lived in the municipality<sup>18</sup>.

The municipality of Nieuwegein received TSW grants from the first two instalments as well, which resulted in over six hundred houses under construction in the past years. The municipality of Nieuwegein received a grant from the TSW3 programme for one of its projects. The project in question, “Appartementencomplex ‘Het Eiland Blokhoeve’”, counted twenty-eight houses. The

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<sup>17</sup> Cited from interview with mr. Vijfhuizen.

<sup>18</sup> [www.cbs.nl](http://www.cbs.nl)

project was realised on a plot which previously gave place to playing fields. The municipality of Nieuwegein received a grant of € 165.200,-- for the project. It regards apartments which are situated above shops. Acquiring the grant cost the municipality approximately 36 hours. The project had already received a grant in the second instalment of the TSW-programme. In this instalment, the requirements could not be met. Therefore the money was given back to the national government. For TSW3 this meant that a shortened application sufficed. In this shortened application, the municipality could refer to the application in the second instalment and point out the differences that have since taken place. Regardless, the municipality wanted to ensure that the application was truthful and legally sound and put effort in safeguarding that.

The project started right on time, in December 2010. Supervision in the field by the executive agency has taken place in order to check whether the project, which was reported as started, had indeed started in compliance with the terms of the grant. The municipality and the project developer had agreed that the developer would get 75% of the grant (€ 123.900,--) and the municipality would get 25% of the grant (€ 41.300,--). As the developer would use the grant to lower the prices of the apartments, the municipality would get a lower amount of money for the plots of land. The price of the plots was connected with the price of the houses. Therefore the developer would apply for a grant under the general subsidy ordinance (Dutch: Algemene subsidieverordening, abbreviated as Asv) of the municipality for a grant of € 123.900,--. However, the developer applied for a grant of the full € 165.200,-- which the municipality had received from the national government. Several discussions followed, after which the developer finally decided to settle for the agreed amount of € 123.900,--. That amount has been granted by the municipality in June 2012. Because of that, the subsidy has not yet been accounted for. The grant can only be accounted for after the money has been spent. As the TSW3 grant is accounted at the same time as the financial statement of the municipality, that is in the first quarter after the end of the year, and the grant will be accounted for in the first quarter of 2013. All requirements of the grant have been met, so there are no reasons why the national government would not sustain the granted amount. The discussions with the developer and the field supervision have cost the municipality approximately eighty hours of work. Taking into account that the grant also has to be accounted for early 2013, the total amount of time which accounting for the subsidy will have cost the municipality in the end is estimated at 85 hours<sup>19</sup>.

State aid never was an issue for the municipality of Nieuwegein, as the grant given to the developer remained within bounds of the European state aid laws. The municipality has a state

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<sup>19</sup> Based on interview with mr. Versluijs of the municipality of Nieuwegein

aid specialist which has looked into this case, and all other TSW grants of earlier instalments. This is part of the time spent accounting for the grant so far. It was not considered to give the grant to the buyers of the houses.

The policy goals of the municipality of Nieuwegein were twofold. First, the municipality wants to increase the amount of houses within its borders. Second, the municipality wants to build houses suited for their demography, which contains a many young people. Therefore the choice for apartments was made. Because of these goals, the municipality wanted to help the developer make the project a success despite the difficult economic times. These goals have been achieved, which according to mr. Versluijs of the municipality is to thank in part to the TSW3 grant. The experience of the municipality with the whole TSW programme is positive. Mr. Versluijs feels that with the help of the TSW programme, the construction sector was really given a boost. However, there currently are no subsidy programmes which Nieuwegein can apply for when it comes to housing projects. As the TSW-programme helped accelerate the projects which had a fair chance of success, there is not much left anymore, if anything at all. Apart from the projects which are under construction, there are no viable housing projects in the municipality anymore. Construction has almost ground to a halt in Nieuwegein by now.

The municipality sometimes works with external advisors for subsidy management, but not for the TSW grants. The total subsidy management of the TSW3 grant has cost the municipality of Nieuwegein 121 internal hours, which is valued at € 12.100,--. The subsidy amounted € 165.200,--. That means that the benefit was fourteen times more than the cost.

### **6.3. Waddinxveen**

The municipality of Waddinxveen lies in the province of South Holland. On February 1<sup>st</sup>, 2012 it counted 25.259 inhabitants<sup>20</sup>. It lies in the countryside, surrounded by water, nature and polders.

In 2009 the municipality received a TSW3 grant for 327 houses in the centre of the town of Waddinxveen. The grant amounted to € 2.452.000,--. The project, called “Centrumplan Waddinxveen”, was a major revitalisation of the town centre. Part of the development was a shopping centre and roofed parking. In the current economic situation, it turned out that the shops were met with insufficient interest. The development could only be started when a 70% threshold of shopping space was rented or sold, and a 70% threshold of the houses would be

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<sup>20</sup> [www.cbs.nl](http://www.cbs.nl)

sold. Both the houses and the shops did not meet the threshold at December 31<sup>st</sup>, 2010 as the TSW3 programme demands. The thresholds still had not been met in June 2012, so by that time construction still had not started. Even if the grant would have been an incentive for enough houses to be sold, the project was (and is) approached as one development. So even with sufficient houses sold, at least 70% of the shops must be rented and/or sold as well. As the development still has not started the policy goal of the municipality, revitalisation of the town centre, has not been accomplished. The municipality of Waddinxveen was well aware that this might happen, but hoped that the grant would help the project on its way as it was a substantial amount.

It turned out that the grant was not enough of an incentive for the potential buyers of the houses to convince them to buy a house in the project. Therefore the grant was paid back by the municipality. State aid would not have become an issue, as the municipality planned to give the granted money to the buyers of the houses. According to mr. Oudshoorn of the municipality of Waddinxveen, both applying and accounting for the grant cost the municipality a minimal amount of time: three hours. This can be explained by the facts that all information required for the application was available already. The application itself meant assembling this information and fitting it into the format prescribed by the ministry of WWI. Accounting was easy as well, as nothing had happened and the municipality was to pay the money back.

Waddinxveen does not work with external advisors for subsidy management. Applying and accounting for the subsidy cost the municipality three internal hours, which is valued at € 300,--. There was no benefit, as the entire subsidy amount had to be paid back to the national government.

#### **6.4. Woerden**

Woerden is a city and municipality at the western border of the Dutch province of Utrecht. It lies in the eastern part of the Green Hart region (Dutch: Groene Hart). The municipalities consists of the towns of Woerden, Harmelen, Kamerik and Zegveld. The municipality of Woerden had 50.084 inhabitants at February 1st, 2012, of which about 70% lives in the city of Woerden<sup>21</sup>.

Woerden received two grants from the TSW3 programme. One for the project “Oranjestraat / Prins Hendrikkade” which consisted of twenty-six houses. The second grant was given to the project “Voorstraat 91A / Achterstraat te Woerden”, which consisted of ten houses. Project

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<sup>21</sup> [www.cbs.nl](http://www.cbs.nl)

“Oranjestraat / Prins Hendrikkade” consisted of twenty-one houses and five apartments in the historic centre of the city of Woerden. When the financial crisis hit, the municipality and the contractor agreed to add some elements to the existing plan in order to make the project more attractive for the hesitant buyers. The facades were altered in order to create more diversity, thus making the project aesthetically more attractive. In addition to that the houses would be made as complete as possible before transferral to the buyers, including measures to make the houses more energy efficient. Also the public space would be realised down in a more luxurious and attractive way than in the original plans. The municipality received a grant of € 260.000,-- which is the maximum amount of € 10.000,-- for every house in the project. The project “Voorstraat 91A / Achterstraat te Woerden” originally consisted of the construction of five maisonettes with prices between € 250.000,-- and € 450.000,--. That plan was conceived in economically good times. When the project was brought to the market, however, the worldwide financial crisis had kicked in. Because of that the demand for the original plan was quite scarce. After six months on sale, not one of the houses had been sold. Therefore the project was redeveloped. The new plan consisted of ten apartments which were meant for people who wanted to buy their first house. Prices were between € 98.800,-- and € 167.500,--. The apartments were situated in the centre of the city of Woerden. For this new project the municipality received a grant of € 6.500,-- per house, adding up to a total grant of € 65.000,--. In the application form it is written that the construction had been delayed or temporarily halted because of the economic situation.

The municipality did not have very specific policy goals for the projects. Woerden wanted to increase the supply of houses within its borders. Additionally to that there was the more practical goal of the municipality to get the projects back on track despite the economically difficult time. As both projects started before the deadline required in order to retain the subsidy, these goals have been met by Woerden.

State aid was not an issue at the project “Voorstraat 91A / Achterstraat te Woerden” as the amount of the grant remained below the threshold set in the state aid laws of the European Commission, the de minimis rule in particular. Because of that, the grant could be, and has been, given to the contractor. In the project “Oranjestraat / Prins Hendrikkade” the contrary was the case: the de minimis threshold would be exceeded if the contractor were the beneficiary. Therefore, the contractor could not receive the grant. The chosen form of stimulation was lowering the “vrij op naam” (VON; English: no legal charges) prices of the houses. This way the beneficiaries of the grant were the buyers of the houses in the project. The contractor benefited indirectly, as the houses were easier to sell with the lower prices.

The municipality of Woerden has contributed to the project “Oranjestraat / Prins Hendrikkade” by lowering the price of building land with € 100.000,-- and by investing in the quality of the public space for approximately € 45.000,--. The municipality contributed to “Voorstraat 91A / Achterstraat te Woerden” as well. This project was given a contribution of € 30.000,-- in cash.

Acquiring and accounting for the grant for “Voorstraat 91A / Achterstraat te Woerden” cost approximately ten hours. This effort was made by an employee of the municipality. As accounting for the grant the municipality received for “Oranjestraat / Prins Hendrikkade” was slightly more complicated, the acquisition and accounting for this grant cost 15 hours in total. This effort was made by an employee of the municipality as well. Reason for the extra time required to account for the TSW3-grant received for “Oranjestraat / Prins Hendrikkade” was that the municipality of Woerden encountered some difficulties in showing that construction had started timely in this project. The proof offered to the accountant was circumstantial, which meant that the accountant could not testify that the project had started on time with the certainty accountants require. After additional proof was found in the municipal archives, the accountant was convinced that the timely start was proven beyond reasonable doubt and so testified. When the internal hours are valued at € 100,-- the total TSW3 grant of € 325.000,-- was acquired and accounted for at a total internal cost of € 2.500,--. In addition to this internal cost, five hours of external support were used, at an hourly rate of € 125,--. This external support are consultancy costs for a general subsidy manager, whom is hired from a private firm. The consultant gave a second opinion on the subsidy proposal. The consultant’s comments were processed by the responsible employee of the municipality. The consultant also played a part in accounting for the grant received for “Oranjestraat / Prins Hendrikkade”. The total external cost adds up to € 625,--, making the total cost of subsidy management € 3.125,--. The benefit thus was 104 times more than the cost for the municipality of Woerden.

## **6.5. Zoeterwoude**

The municipality of Zoeterwoude lies in the province of South Holland. At February 1<sup>st</sup>, 2012 the municipality counted 8.138 inhabitants<sup>22</sup>. It is a rural municipality which low population density. The municipality consists of several small towns, of which Zoeterwoude-Dorp and Zoeterwoude-Rijndijk are the biggest two.

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<sup>22</sup> [www.cbs.nl](http://www.cbs.nl)

In 2009 the municipality of Zoeterwoude received a TSW3 grant of € 108.000,-- for its "Soetenhof". Soetenhof consists of twelve apartments and is part of a larger revitalisation plan for the town centre of Zoeterwoude-Dorp, which also includes a supermarket, an underground parking and improvements in the public space. The project could not start before December 31<sup>st</sup>, 2010 as only a third of the houses had been sold at that time. The developer required at least 70% of the houses to be sold in order to start. Therefore the grant had to be paid back to the national government. The municipality of Zoeterwoude made an attempt to buy time for the developer by requesting suspension, but no extension of time was allowed by the ministry of WWI.

Applying for the grant cost the municipality sixteen hours. Accounting for the project was almost no effort, as the project had not started on time and the grant was to be paid back. Accounting for the grant therefore cost only one hour. The municipality of Zoeterwoude was aware that this might happen, but hoped that the grant would help the project on its way.

Because the subsidy was paid back, state aid was never an issue. Zoeterwoude was aware of the state aid laws and would have used the money to subsidise the parking spots which accompanied the apartments.

The municipality had two policy goals in mind for the project, according to mr. Riethoven of the municipality of Zoeterwoude. The first and primary goal was the revitalisation of the town centre in Zoeterwoude-Dorp. A secondary goal was to build apartments for the elderly, of whom the municipality of Zoeterwoude has a relatively high amount. Despite the fact that construction could not be started within the timeframe set by the TSW3 grant, the primary goal has been accomplished. Construction has started in June 2012, after the project was sold to another developer. The secondary goal turned out to be more difficult to achieve, as the elderly have great difficulty selling the houses they currently live in, because of the economic situation and the low demand for houses.

Zoeterwoude has a contract with an external advisor for subsidy management which it incidentally calls upon. For the TSW3 grant only internal hours were made. Seventeen internal hours were spent on the subsidy management of the TSW3 grant, which is valued at € 1.700,--. There was no yield as the subsidy had to be paid back.

## 6.6. National effect

The TSW3 programme obviously was much bigger than just these two projects. A total of 15.013 houses was given a grant of the programme, a number of which had to return the grant because construction could not be started in time. TSW3 was the third and last instalment of a broader stimulation package for the Dutch economy. The first two instalments had budgets of respectively € 100.000.000,-- and € 150.000.000,--. The third round had a budget of € 101.000.000,--. The third round was unique not only in the sense that it was the final round, but also because money which was allocated to projects in the first two rounds but returned to the ministry as the projects could not meet the requirements of the grant programme, was given to projects that initially did not get selected for a grant in the third round. Of the € 48.000.000,-- which was returned to the ministry after the first two rounds, € 42.000.000,-- was given to third round projects which initially were not selected. With this additional funding, all projects which had applied for a grant in the third round received a grant of the ministry. (Koning & Mulder 2012).

Projects which received a grant were realised faster than projects which did not receive a grant in the same period. Koning & Mulder have measured the direct effect of the TSW programme. Their calculations show that the effect of the third round, TSW3, amounts to 765 houses in total. These have been delivered in 2010 and 2011. A part of this extra production has caused a delay in other projects, Koning & Mulder show. Of all projects which received a grant under the TSW programme, all three rounds that is, about 70 percent has pushed back other projects. The projects which have been pushed back by the TSW-subsidised projects did not receive a grant. That means that about 30 percent of all TSW-subsidised projects effectively added houses. That can be explained because the buyers of a house in a project which has been accelerated by the TSW programme will not buy a house in a project which is not accelerated by the programme. In cases where both subsidised and unsubsidised projects compete with one another over the same group of buyers, projects which are made more attractive by means of the grant are likely to outdo the unsubsidised projects. This effect is especially strong when the grant is used in order to create direct advantages for the buyer, such as discounts or subsidised loans. For TSW3 that effect means that 230 of the 765 houses added to the housing supply were an actual addition to all houses constructed. The other 535 houses were a substitute for projects which would otherwise have not been delayed, had it not been for the market disturbance caused by the TSW programme. The TSW programme achieved a direct effect of 16.775 houses being realised faster than they normally would in this economically harsh times. These elements combined have led to an additional effect of € 800.000.000,-- extra production was realised in

the programme period of 2009-2011. That amounts to 1,5% of the total production in construction. After 2011 these effects take a negative turn. The calculations show that the production in the construction sector will decrease in the period 2012-2015. The effect of the TSW programme is the most negative in 2012. In that year no compensation for the projects which have been accelerated by means of the TSW programme is foreseen. The construction sector will, according to the calculations of Koning & Mulder, shrink significantly. That eventually leads to a situation where the positive effects which the TSW programme has caused in the period 2009-2011 will have made place for a small decline by 2015. The effect on employment can be seen most strongly in the construction sector but also in other sectors. Here too the effect is positive during the period 2009-2011 after which it becomes negative in the period 2012-2015, as employment is directly related to production (Koning & Mulder 2012).

## **7. Analysis**

Table 2 on the next page shows the amount granted for each municipality before and after accounting. It also shows the amount of successful and failed projects including the related amount of houses built in these projects. In the paragraphs that follow, I will apply the data from my research to the hypotheses.

	Haarlemmermeer	Nieuwegein	Waddinxveen	Woerden	Zoeterwoude
Amount granted	€ 1.050.000,-- <sup>23</sup>	€ 165.200,--	€ 2.452.000,--	€ 325.000,--	€ 108.000,--
Amount granted after accounting	€ 489.200,--	€ 165.200,-- <sup>24</sup>	€ 0,--	€ 325.000,--	€ 0,--
Successful projects (+amount of houses)	3 (95)	1 (28)	0 (0)	2 (36)	0 (0)
Failed projects (+amount of houses)	3 (69)	0 (0)	1 (327)	0 (0)	1 (12)
Cost of subsidy management	€ 9.600,--	€ 12.100,--	€ 300,--	€ 3.125,--	€ 1.700,--
Cost of subsidy management as percentage of total grant amount after accounting	1,96 %	7,32%	-	0,96 %	-

*Table 2: Overview*

<sup>23</sup> Mr. Vijfhuizen could not provide me with the exact amount, nor could official municipal documents. Both in municipal document “Nota van B&W 2010.0029597” and the interview with mr. Vijfhuizen it is stated that the municipality received “over a million”. The amount projected in the table is an estimate based on those words.

<sup>24</sup> The grant has not yet been accounted, as the money has been spent in 2012. As all requirements have been met, the amount granted will be sustained when it has been accounted for.

### **7.1. Cost efficiency and size of the municipality**

The benchmark studies by Hezelburcht show that larger municipalities might be more economically efficient in their subsidy management than their smaller counterparts. I have tested this finding, which was presented with adequate caution as the *n* of the study was relatively small, by looking at the cases of Haarlemmermeer, Nieuwegein, Waddinxveen, Woerden and Zoeterwoude with regards to the subsidy management in the TSW3 subsidy programme, hypothesising that large municipalities are more economically efficient acquiring and accounting for subsidies than small municipalities are.

The largest municipality of them all, Haarlemmermeer, did get a large grant at first. As the grant had to be accounted for, though, more than half of the grant Haarlemmermeer had received had to be paid back because three of the six projects were unable to meet the requirements of the subsidy programme. For the other three projects insufficient buyers could be found. Of the 164 houses for which a grant was requested and provided, only 95 were realised within the boundaries of the grant's terms and requirements. The cost of subsidy management was 1,96% of the amount of money which the three successful projects received as a grant from the TSW3 subsidy programme.

The second large municipality, Nieuwegein, received a grant of € 165.200,--. The project met the requirements of the subsidy programme and all 28 houses for which a grant was received have been constructed. Therefore Nieuwegein will retain the entire grant. The grant has not yet been accounted for, as the granted amount of money was spent in 2012 and accounting takes place in the first quarter of the year following the last year in which subsidised expenses are made. The cost of the subsidy management was 7,32% of the amount of money which the project received as a grant from the TSW3 subsidy programme.

The municipality of Woerden, biggest of the small municipalities, received a grant of € 325.000,-- for two projects. Both projects were able to meet the requirements of the subsidy programme. All 36 houses for which a grant was requested and provided were constructed. Therefore Woerden retained the entire grant. The cost of the subsidy management was 0,96% of the amount of money which the two successful projects received as a grant from the TSW3 subsidy programme.

The other two small municipalities, Waddinxveen and Zoeterwoude, spent relatively few (internal) hours on the acquisition of the grant. Waddinxveen received the largest grant of all five municipalities in this research: € 2.452.000,--. Both Waddinxveen and Zoeterwoude had to

pay back their grant as they could not meet the requirements of the subsidy programme. The cost of the subsidy management cannot be expressed as a percentage of the benefit, as in the end there was no grant for the two. The yield for Waddinxveen and Zoeterwoude was negative, which might indicate that the municipalities have not put enough effort in the selection of projects which they would allow to apply for a TSW3 grant. However, both municipalities indicated that they willingly took the risk of having to pay back the grant in the hope that the grant would help the projects on their way.

When compared to Haarlemmermeer, Woerden has been little over twice as cost efficient with regards to subsidy management of the TSW3 grant. That is in direct contradiction with the findings of the Hezelburcht study. While Waddinxveen and Zoeterwoude both ended up with negative yields, Woerden has the highest cost efficiency regarding the TSW3 subsidy programme. However, as the  $n$  of this very study is also rather small, there is insufficient proof that smaller municipalities are more cost efficient with regards to subsidy management than their larger equivalents, especially as Waddinxveen and Zoeterwoude indicate the contrary. Two out of three small municipalities ended up with no subsidy at all and the two bigger municipality both reached a cost efficiency level of under 7,50%. With these findings, the hypothesis that large municipalities are more economically efficient acquiring and accounting for subsidies than small municipalities cannot be rejected. However, in order to provide additional support for the hypothesis additional statistical research with a much larger  $n$  will be required.

## **7.2. Cost efficiency and outsourcing of subsidy management**

Wilson (1989) pointed out that private organisations because of their very nature are more efficient in their actions than public organisations. This would imply that external advisors work more efficiently than employees of a government agency. External advisors from private firms work in an environment with lower cost of labour, more effective management, and greater competition, even if their clients are public sector organisations which are driven by other incentives and bound by more constraints. That is where my second hypothesis stems from: municipalities which have outsourced their subsidy management to the private sector are more economically efficient than municipalities which manage subsidies themselves.

This hypothesis is supported by the case study of TSW3 grants. Haarlemmermeer and Nieuwegein, and especially Waddinxveen and Zoeterwoude, were the less economically efficient of the five municipalities. No external advisors have been involved in their applications or accounting for the TSW3 grant. Woerden did have an external advisor. Even if an employee of

the municipality poured the most effort into the application, the external advisor has provided that employee with a second opinion and a checklist of points of attention with regards to the application. The external advisor also was involved in the accounting for the subsidy. When measuring the economical efficiency of the two municipalities, it can be seen that Woerden received a grant that was 104 times the cost of the subsidy management, including the cost of the external advisor. That means that the cost of subsidy management was 0,96% of the total amount of grants received under the TSW3 programme. For Haarlemmermeer this was significantly lower. Haarlemmermeer received a grant that was 51 times higher than the cost of subsidy management. That means that the cost of subsidy management was 1,96% of the total amount of grants received under the TSW3 programme. For Nieuwegein the grant was fourteen times the amount of the cost of the subsidy management. In Nieuwegein the cost was 7,32% of the subsidy received. In this case, Woerden was twice as economically efficient compared to Haarlemmermeer and 7,5 times as economically efficient compared to Nieuwegein. Woerden, Haarlemmermeer and Nieuwegein all ended up with a positive result. The same cannot be said of Waddinxveen and Zoeterwoude. These two municipalities both ended up with costs for the acquisition of the subsidy only, albeit relatively low cost when compared to the other three municipalities. Even when taking into account that the housing projects depend on third parties and therewith are at least partially uncontrollable by municipalities, that is a significant difference. The projects of all municipalities involved in this research were third party projects in which the municipality could but draw a framework. The projects of all five municipalities depended on third parties. In order to provide stronger support for the hypothesis, a larger  $n$  is required with more involvement of external advisors. Based on the results of this research, the hypothesis that municipalities which have outsourced their subsidy management to the private sector are more economically efficient than municipalities which manage subsidies themselves cannot be rejected.

### **7.3. Vindication and size of the municipality**

Fischer (1995), Mueller (1979) and Okun (1975) showed that there is tension between vindication of policy and economic efficiency. As the Hezelburcht study showed that larger municipalities might be more economically efficient in the acquisition of subsidy than their smaller counterparts, and tension exists between economic efficiency and vindication of policy, I have hypothesised that subsidised policies of small municipalities have a relatively more positive effect on the societal system as a whole than subsidised policies of larger municipalities.

Projects which have received a grant under the TSW programme, have an effect on both the municipal society as well as the national society. The municipalities of Waddinxveen and Zoeterwoude both wanted to achieve the revitalisation of a town centre. Both municipalities failed to achieve this goal within the timeframe allowed by the TSW3 subsidy programme. In the case of Waddinxveen, the development still has not entered a phase close to realisation. Zoeterwoude did manage to start construction of their project, after the first project developer sold it to another project developer. Therewith Zoeterwoude accomplished its primary policy goal whereas Waddinxveen failed to do so. Zoeterwoude has the secondary goal to provide the elderly with apartments, as the demography of Zoeterwoude contains a relatively high degree of elderly. This policy goal was not quite accomplished, as the elderly have great difficulty selling the houses they currently live in. The demand for such houses is quite small.

The policy goals which Haarlemmermeer had with regards to the projects which applied for a grant under the TSW programme are quite similar to the goals Woerden and Nieuwegein had. All three municipalities wanted to increase the supply of houses within their borders. Woerden wanted to ensure that the projects, which were ready for construction if it were not for the financial crisis, were realised regardless of the economic situation. Mrs. Bink of Woerden stated: “despite the financial crisis we wanted to help the projects to get going, [...] to increase the supply of houses<sup>25</sup>”. Haarlemmermeer’s reasoning was quite similar. The municipality wanted to prevent that projects which were ready for construction remained without buyers and therewith unconstructed. As mr. Vijfhuizen stated: “we value our housing projects, and did not want to see good projects fail so close to realisation”<sup>26</sup>. These policy goals have a twofold effect on the municipal society. On the one hand increase of the housing supply provides the inhabitants of a municipality with more choice nearby when looking for a new place to live. On the other hand it adds to the attractiveness of the municipality by refreshing building sites or obsolete neighbourhoods. Woerden realised its policy goals with both projects and therewith contributed to realising abovementioned effects on the municipal society. Woerden considers its policy goals as cited above accomplished<sup>27</sup>. Nieuwegein also wanted to realise houses which were in line with the changing demography of the municipality. Nieuwegein has relatively much youths within its borders. The municipality accomplished both policy goals with the subsidised project

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<sup>25</sup> Interview with Mrs. N. Bink, municipality of Woerden. Exact quote (Dutch): “We wilden de projecten op gang krijgen ondanks het economisch zware weer. [...] We wilden het woningaanbod vergroten”.

<sup>26</sup> Interview with Mr. J. Vijfhuizen, municipality of Haarlemmermeer. Exact quote (Dutch): “Wij hechten veel waarde aan onze woningbouwprojecten en willen goede projecten niet zien stranden in zicht van de haven”.

<sup>27</sup> Interview with Mrs. N. Bink, municipality of Woerden.

“Appartementencomplex ‘Het Eiland Blokhoeve’”. According to mr. Versluijs of the municipality of Nieuwegein the TSW3 grant, as well as the grants the municipality received in earlier instalments of the TSW subsidy programme, helped the municipality accelerate projects which were about to start but were not quite able to get going because of the economic situation. Haarlemmermeer saw three of its six projects fail to start within the time span set by the requirements of the TSW3 programme. Therewith Haarlemmermeer achieved its related policy goals in the case of three of the six projects as a (partial) result of the grant. Of the projects which did not start within the time frame set by the requirements of the grant, only “Lipanishof” has since started construction. Thus, Haarlemmermeer has accomplished its policy goals in the three subsidised projects as well as the unsubsidised “Lipanishof”. In total 109 houses of the initially planned 164 have been constructed or are under construction. That is 66,4% of the total amount. Nieuwegein and Woerden realised 100% of the houses for which they applied for a grant. Waddinxveen and Zoeterwoude, on the contrary, realised 0% of the houses for which they applied for a grant.

When looking at the national society, The TSW3 subsidy programme was part of a larger set of measures with the goal to mitigate the consequences of the economic crisis for households and companies. TSW3 was specifically used as an instrument to accelerate housing projects. Secondary policy goals which the government wanted to achieve by means of the TSW3 subsidy programme are (1) investments related to revitalisation of older neighbourhoods and community development, (2) the realisation of as much single storey houses which are easily accessible by the elderly and the handicapped and (3) investments in sustainability and energy efficiency (Kamerstukken II 2008/09, 31 070, nr. 24; Ministerie van Algemene Zaken 2009; Staatscourant 2009, 114; Van Middelkoop 2010). Both Haarlemmermeer and Nieuwegein as well as Woerden were able to accelerate projects because of the grant, therewith achieving the main national policy goal. If the amount of houses realised with the help of a TSW3 grant, we see that Haarlemmermeer, counting 143.893 inhabitants realised 95 houses with the aid of a TSW3-grant. That means Haarlemmermeer realised 0,00066 houses per inhabitant. Nieuwegein has 60.765 inhabitants and realised 28 houses. That amounts to 0,00046 houses per inhabitant. Woerden has 50.084 inhabitants and realised 36 houses. That amounts to 0,00072 houses per inhabitant. Waddinxveen and Zoeterwoude did not realise any houses despite their receiving grants from the TSW3 programme.

	Haarlemmer- meer	Nieuwegein	Waddinx- veen	Woerden	Zoeter- woude
Inhabitants	143.893	60.765	25.159	50.084	8.138
Houses realised with TSW3	95	28	0	36	0
Houses per inhabitant	0,00066	0,00046	0	0,00072	0

*Table 3: Houses per inhabitant realised with TSW3 grants*

Both Haarlemmermeer and Woerden have invested in the revitalisation of older neighbourhoods. Haarlemmermeer by redeveloping an old office building into apartments, Woerden by redeveloping houses in the old city centre. Neither Haarlemmermeer nor Woerden has realised single storey houses. Neither of the municipalities invested significantly in sustainability in the projects as a result of the grant. As the municipalities achieved the policy subgoals to the same extent, Woerden can be seen as the municipality which had a relatively more positive effect on the national society by realising a significantly higher amount of houses per inhabitant than Haarlemmermeer did. Haarlemmermeer realised more houses in the absolute sense though. Nieuwegein realised a lower amount of houses per inhabitant and a lower amount of houses in the absolute sense than the two aforementioned municipalities. Nieuwegein did realise single storey houses, but not in an older neighbourhood. Like Haarlemmermeer and Woerden, Nieuwegein has not invested more in the sustainability of the projects as a result of the grant. Waddinxveen and Zoeterwoude booked no results within the timeframe of the TSW3 programme. They aimed to revitalise old town centres, but failed to do so on time, even if Zoeterwoude managed to accomplish its primary goals later on. These findings are in contradiction with the hypothesis, except for the case of Woerden. Both of the larger municipalities achieved a positive effect on society, both municipal and national. Of the three smaller municipalities, only one managed to do so. The hypothesis must therefore be rejected.

## 8. Conclusions

I have looked into the economic efficiency of the municipalities of Waddinxveen, Woerden, Zoeterwoude, Nieuwegein and Haarlemmermeer in the light of the subsidy programme TSW3. Woerden, a smaller municipality, turned out to be the most economically efficient in its subsidy management. The two other small municipalities were unable to meet the requirements of the grant they had received and therefore were the least cost efficient. A relation between the size of a municipality and economic efficiency in subsidy management can thus not be proven due to a small  $n$  and insufficient consistency in the findings.

Haarlemmermeer, Nieuwegein, Waddinxveen and Zoeterwoude held one of their own employees responsible for the subsidy management with regards to the TSW3 programme. Woerden combined an employee of the municipality and an external subsidy manager. This combination yielded a higher cost efficiency than was the case in the other four municipalities. Woerden managed to retain a total grant amount which was 104 times higher than the cost of the subsidy management. Haarlemmermeer retained a grant total of 51 times the cost of the subsidy management and Nieuwegein retained a grant total of fourteen times the cost of the subsidy management. That still is a much higher benefit than cost, but the yield Woerden had on the TSW3 programme was significantly higher. Waddinxveen and Zoeterwoude in the end only had costs from the subsidy acquisition, no benefits.

On a municipal societal level, Nieuwegein, Woerden and Haarlemmermeer realised their local policy and its presumed effect on society. Whereas Woerden did so in two out of two projects and Nieuwegein did so in one out of one project, Haarlemmermeer achieved its policy goals and its presumed effect on society in four out of six projects. On a national societal level, Woerden also had more impact than Haarlemmermeer, but Haarlemmermeer had more impact than Nieuwegein. For each inhabitant it counts, Woerden has realised significantly more houses than Haarlemmermeer and Nieuwegein. Therewith Woerden's contribution to the mitigation of the impact of the economic crisis was relatively bigger than that of Haarlemmermeer. As Waddinxveen and Zoeterwoude could not start their projects on time, their impact and policy realisation is non-existent within the frame of the TSW3 grant. Zoeterwoude did manage to get the project started in June 2012, which means that they did accomplish their primary goal. Across the whole, the smaller municipality which did manage to get its projects going had a relatively bigger impact on society. At the same time smaller municipalities seem subject to failure more often.

In future research, I would like to expand on these findings by increasing the  $n$  of the study. It would be very interesting to see whether this variance holds true in more municipalities and if the patterns discovered now still hold true with a larger  $n$ . The first municipalities I compared were Haarlemmermeer and Woerden. That led to different conclusions than this research which encompasses five municipalities.

Based on this research the presumed relation between the size of a municipality and its cost efficiency in subsidy management can be proven right nor wrong. We can with some reservations come to the conclusion that municipalities which outsource their subsidy management, or a part thereof, to the private sector are more economically efficient than municipalities who manage their own subsidies. We cannot come to the conclusion that subsidised policies of smaller municipalities have a relatively larger positive impact on municipal and national society than subsidised policies of larger municipalities.

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- Mr. Riethoven, municipality of Zoeterwoude;
- Mr. Versluijs, municipality of Nieuwegein;
- Mr. Vijfhuizen, municipality of Haarlemmermeer.

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<sup>29</sup> <http://www.agentschapnl.nl/content/rapport-toelichting-tijdelijke-stimuleringsregeling-derde-tranche-rgo>