Make room for renewal

Investments and spending cuts in the physical domain

July 2010

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1 Cost reductions and sustainability

Producing a coalition agreement for the new Dutch government for the period 2010-2014 requests far-reaching decisions with regard to public expenditure. As a result of both the recent financial and economic crisis and demographic developments like an ageing and shrinking population, the long-term affordability of collective provisions has been eroded to such a degree that fundamental choices must now be made. According to the Netherlands Bureau for Economic Policy Analysis (CPB), public expenditure must be reduced by €29 billion per annum (CPB, 2010a).
The financial crisis is not the only threat to our national prosperity. It is equally important to find permanent solutions to the increasing scarcity of fossil fuels and other natural resources, to mitigate the effects of climate change, and to address water management issues in order to preclude the risk of serious flooding. The quality of our living environment is under pressure while the housing market is in a state of stagnation. These developments also impact upon our prosperity, particularly when viewed in the context of the traditional broad welfare state.

In the opinion of the Council for the Rural Area, the Council for Transport, Public Works and Water Management and the Council for Housing, Spatial Planning and the Environment the necessity of spending cuts is to be seen as an opportunity to develop a more sustainable society and a national economy which can compete effectively in the international arena. Certain aspects of the physical domain (the housing market, the energy sector and infrastructure) have been subject to significant government investment and control in the past. Accordingly, any shift in policy can have major effects, both positive and negative, in terms of the financial tenability of that policy and the sustainability of society itself. Reforms which are desirable in the interests of sustainability can actually help to achieve the necessary reduction in public expenditure. Expenditure cuts alone will not resolve the current problems. There must also be a clear vision for the future, with appropriate investments to maintain and enhance national prosperity.

According to the councils the required transition to a sustainable society can only succeed with the full support and involvement of citizens and enterpreneurs who must endorse and pursue the reforms together. There are already many private sector initiatives which show an enormous power for societal change. The government can appreciate, facilitate and make use of these initiatives'. It falls to the politicians to ensure that the inevitable spending cuts and their equally inevitable effects do not lead to social fragmentation, exclusion or distrust. This can be achieved by holding out the prospect of greater prosperity in the longer term. The crisis has had – and will continue to have – many unpleasant consequences. However, the solutions offer also new opportunities. The politicians must ensure that those opportunities are apparent to all concerned.

Political visions serve to determine the nature, scope and timeline of the necessary spending cuts. The decision-making processes which underpin such visions must take the impact on the purchasing power of groups and individuals within society fully into account. As advisory bodies, the three councils will not take a direct part in the decision-making processes. The councils nevertheless find it highly desirable that the sustainable development perspective is explicitly addressed in all deliberations concerning income policy.

In producing this advisory report, the councils have devoted particular attention to the options for reducing public expenditure which were listed in the government's 'expenditure review' document, as presented to parliament on 1 April 2010 (Ministry of Finance, 2010).

In Part 1 of this report, the councils combine the dual components of sustainability and reduced expenditure to form concrete policy objectives and a set of principles for change and spending cuts, resulting in mainconclusions and recommendations.
In Part 2, we underpin the recommendations by showing how this perspective can be applied

within the main components of the physical domain.

2 Make the choice for sustainability

The transition to a sustainable society calls for a paradigm shift in the behaviour of individual citizens, social and societal organizations, the private sector and government authorities alike. This shift will need to improve the quality of the living environment, here and elsewhere, now and in the future. Only then will it be possible to meet the needs of the present generation without compromising the ability of future generations to do likewise. Based on a clear division of responsibilities, all parties – the private sector, public sector, social organizations and the general public – must create the conditions required for this behavioural shift. The steering by national government must be in tune with autonomous developments seen within society itself. In this way the reforms will be seen to be in the interests of a common future and will attract broad support. Citizens will be fully aware of their own responsibilities in creating a sustainable society.

This section sets out the objectives and principles which the councils have defined to underpin a transition towards a sustainable society which can enjoy broad societal support.

2.1 Sustainability objectives

In the opinion of the councils, the creation of a sustainable society and an innovative, internationally competitive economy requires the attainment of six essential objectives in relation to the physical living environment. These objectives have been stated in earlier advisories.

1. *Make room for a cohesive regional policy.* This entails reducing the compartmentalized steering by central government (Paragraph 4*).*
2. *Ensure an effective housing market.* The housing market is currently out of balance. Drastic policy reforms are required to encourage mobility and to ensure that everyone is able to find a home within his or her means (Paragraph 5).
3. *Safeguard accessibility.* Good accessibility is a *sine qua non* of an effective, well-functioning economy and of social participation. Road congestion is worsening, while public transport is not seen as a fully viable alternative to the private car. The physical infrastructure must be improved to create a more finely-meshed grid of connections. Usage of that infrastructure must be optimized and more effective chains for goods and passenger transport must be created (Paragraph 6).
4. *Conserve and strengthen natural values.* Nature does much to determine the quality of the living environment. Its conservation and development are important in terms of both individual health and wellbeing, and in creating an attractive (business) climate. The government's role must be that of the *guardian* who also establishes links between nature and other social objectives, ensuring a focused and effective deployment of resources (Paragraph 7).
5. *Make the changeover to renewable energy*. To mitigate the effects of climate change, and to reduce our dependence on the rapidly diminishing supplies of fossil fuels, a transition to renewable resources is now essential (Paragraph 8).
6. *Safeguard water safety and more efficient water management*. Climate change has increased the risk of flooding in large areas of the Netherlands. Adequate water safety are an essential component of national policy for the physical domain (Paragraph 9).

2.2 Principles for change

To achieve ambitious long-term objectives in times of public sector spending cuts more is needed than the mere continuation of established policy. In the opinion of the councils, radical changes – innovations – of the system of government involvement are required. Those changes will be informed by the principles set out below which, like the sustainability objectives, have been stated in previous advisory reports produced by one or more of the councils. In essence, the task in hand is to develop a flexible and future-proof system of social and societal processes.

1. *The national government must state clearly the policy objectives for which it is responsible, and for which it will use its legal power. This clear commitment is the fundament for the* national government for its cooperation with other governmental authorities and social partners accordingly. In many cases, a task can usefully be undertaken by a coalition of partners. The manner in which public administrators view their role may therefore change over time.
2. *State the precise role of the national government and the instruments it is to deploy in relation to other governmental authorities, societal organizations and the private sector*: such as provide incentives, enter into formal agreements or covenants, establish and regulate frameworks, set budgets, provide grants and subsidies, commission a project or to undertake that project itself. The choice of instrument (or a combination of instruments) will depend on the nature of the task.
3. *Use what you have before adding new resources.* Better use of existing resources is preferable to creating new resources. Space must be used as effectively as possible (which may entail some restructuring), before space elsewhere is designated for new functions. This approach is entirely in line with the principles of the 'SER Ladder', a methodology developed by the Social and Economic Council of the Netherlands to arrive at good planning decisions, as currently applied in determining whether to grant planning permission for new business parks.
4. *Organize the performance of tasks based on 'chain process integration'.* Tasks should be undertaken by a chain of actors, with the management organization responsible for coordinating the various processes. There must be also be interconnections between the chains in order to prevent new forms of compartmentalization or fragmentation taking hold.
5. *Establish transparent funding flows.* The taxpayer likes to know how his money is being spent. Transparency of the funding flows will enhance support for public expenditure. The income generated from road-pricing, for example, could be used to improve overall mobility.
6. *Adopt an adaptive policy in order to address unforeseen circumstances.* Formulate a clear and consistent long-term objective. Follow the trends and developments, adapting the actual implementation of policy accordingly. This enables an effective response to changing circumstances, while lessons can be drawn from the foregoing steps. A flexible, adaptive policy increases the opportunities for 'no regret' measures.
7. *Learn from international experience.* Remember that much regulation now stems from the European level. A number of examples are included as textboxes elsewhere in this report.

2.3 Principles for reducing public expenditure

If and when system innovations are implemented with a view to reducing public expenditure, the councils call for the following principles to be observed.

1. *Do not merely defer outgoings.* Any cutbacks must lead to structurally lower costs rather than a deferment of those costs, especially when no arrangements are in place to ensure that they can be covered in due course.

2. *Link the cutbacks to essential new investments based on a long-term vision.* An approach based solely on 'doing less' will not provide an adequate response to the crisis. A stronger society can emerge from the current situation, but only if the necessary investments in renewal and innovation are made at the same time.
3. *Opt for system changes.* Such changes are necessary to 'repair' the existing systems, which have become so complex as to lose all effectiveness. An ongoing reduction in income and expenditure should prompt consideration of changes at the level of the system itself.
4. *Optimize the 'multiplier effect'* in order to ensure that government resources are deployed with maximum societal effect. Such optimization is essential in any cutbacks, investments or modifications to the funding system with respect to public expenditure.

Sustainability objectives in the international context

Throughout the world, international institutions, governments, the private sector and societal organizations are now examining how to turn the crisis into opportunities for more sustainable development. The aims of sustainable development are embedded in various international treaties, national strategies and action plans. Below some examples of strategies and programmes by the United Nations Environment Programme (UNEP), the Organization for Economic Cooperation and Development (OECD) and the European Union are summarized.

In October 2008. UNEP launched a programme which encourages investment (both public and private) in clean technology and green infrastructure (woodlands, soil decontamination, etc.). This 'New Green Deal' is, according to UNEP, the best possible step towards ensuring sustainable growth, keeping the effects of climate change in check, and safeguarding employment opportunity in the twenty-first century.

In 2009, the OECD launched its 'Green Growth Strategy', intended to provide a long-term response to the crisis through economic integration, technological cooperation and reduced reliance on scarce natural resources. The strategy is accompanied by a formal accountability system whereby countries are required to report on their efforts and results to the OECD.

The United Nations appointed a commission, chaired by the American economist Joseph Stiglitz, to examine opportunities for a radical reform of the financial system. The commission produced its report in 2009, identifying a number of principles for far-reaching institutional reforms which will result in sustainable economic progress and greater stability throughout the world.

The 'EU 2020' strategy agreement is the successor to the Lisbon Strategy of 2000. It presents the European vision of a social market economy for the 21st century, based on the key concepts of 'smart', 'sustainable' and 'inclusive'. The outline of EU 2020 has now been finalized, whereupon discussions later this year (2010) will lead to further agreements being made with the individual member states.

Policy implementation in the European context

Efforts to safeguard the quality of the living environment involve various administrative levels, based on the principle of subsidiarity. Where European regulation is in place, it is important to ensure prompt compliance. Those who fail to take the necessary action face substantial penalties.
The Netherlands' administrative structure (as it has developed over time) and the Dutch culture determine exactly how European legislation is applied in our country. Our practice may differ from that in other countries in terms of the manner in which budgets and responsibilities are established, the form of consultation and decision-making procedures, the degree to which the market is involved in tasks which have traditionally fallen to government, and the opportunities for companies, societal organizations and members of the public to propose their own innovative solutions to social problems.
The EU is an important source of regulation (e.g. competition law and environmental requirements) which establishes governmental responsibility at the various levels. In each policy area, the further division of those responsibilities relies on EU Directives as they are incorporated into the national legislative frameworks. The resulting dynamic calls for ongoing modification of working methods and forms of cooperation.
In many policy areas, the EU strives to maintain a 'level playing field' conducive to international competition. Increasingly, the manner in which governments can intervene in societal and economic processes is determined by European frameworks and international agreements. Pricing structures, tradable rights and measures to strengthen the influence of market forces must all be viewed in a European perspective.
In developing policy, a system of international benchmarking is of crucial importance. In this advisory

report, we offer some examples which demonstrate that we can learn much from initiatives undertaken in other countries.

3 Conclusions and recommendations

In this advisory report, the councils examine opportunities for reducing public expenditure in the physical domain. We base our findings in part on the content of several prior reports. At the same time, we wish to identify possible reforms which will result in greater sustainability and which will enhance the future quality of the living environment. In Part 2, we present more detailed proposals with regard to each of the main policy areas. In doing so, we have once again drawn on several sources, including the government's 'broad review' document as presented to parliament on 1 April 2010.
To date, it has been assumed that spending in the collective sector must be reduced by twenty per cent (based on the current level of expenditure) in each of the domains. (Ministry of Finance, 2010). In the case of the physical domain, the amount involved is therefore slightly in excess of five billion euros. The councils conclude that reforms in the physical domain, implemented over a number of years, can lead to a substantial reduction in the central budgetary requirement. This reduction may indeed be significantly higher than the twenty per cent target established by the 'broad expenditure review', provided a number of important innovations are introduced at the same time.

Conclusions
Cohesive regional policy
In general terms, the councils believe that the gains in the physical domain can be substantial if the interlinkages between the various policy sectors are developed. The effectiveness of policy implementation in the physical domain can be greatly enhanced by adopting an organizational structure which is regional in character rather than markedly sectoral. The regions can implement that structure themselves. In the opinion of the councils, the current pressure on public administration is caused by over-compartmentalization of national government rather than by too many administrative levels. If the opportunities for integrated policy offered by the new Spatial Planning Act (*Wet op de Ruimtelijke Ordening*) are exploited to the full, numerous sectoral laws, rules and plans will become redundant. This will result in far greater effectiveness, although the precise effect is difficult to quantify.

Reform of the housing market
The councils see an opportunity to save at least eight billion euros (in the long term) through reform of housing policy alone. This can be achieved by aiming policy towards increasing the dynamic within the housing market, whereupon it will become easier for people to find a home which is appropriate to their needs, requirements and income.

Accessibility
While reforms to housing policy will result in substantial savings in the longer term, there are opportunities to greatly enhance the effectiveness of investments in the construction and maintenance of infrastructure, and hence to achieve substantial savings in the short term. In the councils' opinion, a system of road-pricing is essential if accessibility is to be improved with the existing budget. The introduction of road-pricing will be both quicker and more effective if a phased approach is adopted and existing ICT systems are used wherever possible. Personal privacy can be protected in an intelligent manner.
The councils suggest that attention should be devoted to the potential of a 'costs-revenue' model rather than the usual 'integrated obligations cash basis' model of governmental budgetary control. In the case of long-term investments, it is important to be able to link outgoings and receipts to the period in which the goods and/or services are actually used, and in which the benefits are derived. Within the current method of budgeting, expenditure can be reduced by postponing or cancelling investments. It must then be asked whether the social and economic effects to be expected over a number of years are taken fully into account in the relevant decision-making process. The councils believe that this question is particularly relevant when considering investments in the physical domain.

Quality of the living environment and nature
Even if the government's budgetary expenditure is maintained at the current level, the quality of the living environment will be under pressure. Due to the slowdown in economic growth, there are now fewer opportunities to attract private funding for urban development or regeneration projects. Overall, the opportunities to make any substantial reduction in

expenditure addressing the quality of the living environment are limited. Nature is of such fundamental importance to the sustainable society and maintaining biodiversity that, in the opinion of the councils, it remains essential to complete the National Ecological Network as planned. A decentralized approach will enable a closer relationship to be established between the funding of nature policy and the attainment of other societal objectives.

Energy transition
Climate change and the depletion of natural resources such as fossil fuels render a transition to renewable energy sources unavoidable. This transition must be accomplished by 2050 if we are to maintain the quality of the living environment and achieve the other objectives of this process. The councils believe that the government bears primary responsibility for making the transition, although it will of course require the support and cooperation of the private sector and the general public. There must be a clear implementation programme, accompanied by the determination to achieve the overall aims, even – or especially – in times of budgetary constraint. It then becomes essential to apply the available instruments and resources as efficiently as possible. In the opinion of the councils, any attempt to go beyond the current interim objectives, as established by the European Union, would not represent the most effective use of those resources at this time. The development of new technologies (e.g. methods of generating clean energy) is likely to reduce the long-term societal costs, especially if undertaken at the European level. It seems likely that an effective energy policy will reduce expenditure by hundreds of millions of euros, without abandoning the overall objective.

Effective water management
In terms of water management, the greatest benefits can be derived from increasing the effectiveness of policy implementation. Much work is required just to meet the current safety norms. Accordingly, the councils consider any reduction in spending on water defences to be highly inappropriate. The relevant activities should be conducted on a regional basis, by management authorities with the necessary local knowledge and specialist expertise.

Recommendations

Recommendations for the Coalition Agreement and government programme 2010-2014, in the interests of facilitating the transition to a sustainable society while also reducing government expenditure on the living environment.

- Take full advantage of the opportunities for an integrated approach offered by the new Spatial Planning Act and devolve management to the regional level wherever possible.
- Regulation of the rental sector should not focus solely on market conformity but should also consider the societal rewards of housing policy in the rental sector.
- Choose in the first instance as to the system of tax relief on mortgage interest for a system based on the annual redemption of the mortgage principal (the annuity system). Any drastic and immediate change to the current system of tax relief on mortgage interest will bring the entire housing market to a grinding halt and will therefore be counterproductive.
- Do not erode the capital of the housing corporations through taxation, but allow them to invest that capital in projects of societal value. They should do so in a transparent manner whereby results are apparent to both the government and the general public.
- Introduce a system of road-pricing. Do so in small steps, using the existing ICT-systems. Ensure that the interests of personal privacy are fully protected.
- With regard to infrastructure projects, abandon the 'integrated obligations cash basis' model in favour of a 'costs and returns' system.
- Closely monitor the effects of declining private and regional investment in (the quality of) the urban environment and take appropriate measures. If necessary, seek new (private) funding principles for the realization of urban regeneration projects.
- Continue to pursue the current objectives of nature policy and seek ways of addressing them more effectively, with appropriate links to other policy objectives.
- Increase the yield of public investment in the transition to sustainable energy by adjusting the interim objectives in line with the European level (without losing sight of the long-term objectives for 2050), by imposing appropriate pricing structures and standards (e.g. for energy efficiency) rather than awarding subsidies, and by seeking cooperation with other countries pursuing the same aims. It will be appropriate to use public funds to support the valorization of new knowledge in order to help innovative companies establish their place in the market.
- Continue to apply the current water safety policy unabated. Improving the effectiveness of water chain management will result in substantial savings for local authorities and water management authorities.

The councils base the above recommendations on the conclusions presented earlier in this chapter, as elaborated in Part 2 of this advisory report.

Part 2 Elaboration

4 Go for cohesive regional policy

4.1 Objective

The councils offer their recommendations based on an integrated view of the physical domain, whereby opportunities to reduce expenditure are sought not only within each individual sector but between those sectors as well. The councils note that, thus far, the discussions about the physical domain have centred on the savings which can be achieved by adjusting the level of ambition, by reassigning responsibility for certain expenditure or by realizing the overall policy objectives in a more efficient manner. The councils consider it preferable to adopt a more integrated approach to the various tasks and challenges within the physical domain, and believe that reducing the compartmentalization of policy areas at national government level will offer new opportunities.

4.2 Required changes

Integrate the policy fields for the physical domains better

It is important that the principles for change and for reducing expenditure (as outlined in Paragraph 1.2) are not applied within each domain in isolation. The way in which those domains interlink and interact must also be taken into consideration, since it is here that the crucial system gains can be achieved. As an example, there is a clear link between heat generation (as a by-product of water treatment, waste incineration or glasshouse horticulture) and the use of that heat by the process industry or domestic households. Similarly, we see a mutual dependency between public transport and clusters of human activity, whether in the form of housing, business accommodation or recreational facilities. There is also a link between the functioning of the housing market and the sustainability of the existing housing stock.

Interlink tasks and challenges at the regional level

In the context of spatial planning, the region is increasingly seen as the most relevant level of scale. The region now represents the dominant economic unit, and people's day-to-day lives are increasingly lived at the regional level of scale. The regions will continue to profile themselves more strongly in the cultural context, while it is at this level that ecological tasks and challenges are to be seen. Main actors, such as in housing construction, healthcare, safety and security, education, water management, energy, economics, etc., are increasingly focusing on the regional level. It is therefore crucial to establish links between the various activities at this level. However, this process is complicated by the fact that the various societal tasks and challenges are not always on the same level of scale. An effective approach to one area such as water management may not be so effective when addressing energy, economy, mobility or safety and security. The relevant spatial links will depend on the nature of the (combined) challenge, whereupon there will be a different group of cooperating actors involved and a different timeline.

Flexible coalitions are required

The councils call for greater opportunity to be created for the regional clustering of objectives (with due differentiation). The government should not determine – once and for all – the appropriate level for a specific task or challenge. Do not seek the ideal 'one size fits all approach', but allow the regions to seek their own combination of issues and relate those to the existing administrative structures. That combination should then be embedded by means of directive and democratically accountable implementation programmes, which may or may not be temporary in nature.

Use spatial planning as a switchboard

The various societal challenges within the physical domain can only be addressed effectively if the necessary spatial conditions are in place. Spatial planning therefore becomes a 'switch board'. Traditionally, the discipline of spatial planning has been concerned with the physical positioning and interaction between various functions: housing, industry, business, recreation, agriculture, nature, mobility and business environment, health and urbanism. In the transition to a sustainable economy and a sustainable society, countless new spatial challenges will arise, both within the various flows and between flows and places. (VROM-raad 2010). The new Spatial Planning Act provides an excellent basis from which to address these new challenges, applying an integrated approach at the most appropriate level of scale.

Horizontal decompartmentalization for better decentralized policy implementation
In the opinion of the councils, efficiency and effectiveness can be greatly enhanced by formulating fully integrated tasks and programmes. In recent decades, the political and administrative structure, legislation and the deployment of resources have all come to focus on sectoral balancing and sectoral accountability, the sum result being a marked compartmentalization of policy. In the physical domain, for example, a complex system of sets of criteria has emerged with respect to traffic and transport, water management, nature conservation and agricultural policy, with little or no coordination between those criteria.

The councils note that the discussions about reducing expenditure have devoted much attention to the simplification of the vertical lines within public administration, to be achieved by reducing the administrative burden at the decentralized level. However, the councils take the view that greater vertical efficiency can only be achieved through horizontal decompartmentalization. Much of the administrative burden is actually caused by the national government itself. Decentral authorities, NGOs and market parties involved in for example urban and rural development are applying an integrated approach in order to achieve their objectives in a sustainable manner. If, however, they seek cooperation with the national government, they are faced with an abundance of sectoral assessment frameworks, rules, grant conditions, co-financing structures and so on.

The councils believe that the full decompartmentalization of national policy for the physical domain will not only result in greater efficiency in terms of the national budget, but also to far better – and quicker – decentral policy implementation. Significant reductions in overall public spending can then be achieved without having to rebuild the constitutional arrangements (House of Thorbecke) or pursuing any major expansion of scale at provincial or municipal level.

Efforts to streamline legislation are already underway, the objective being to arrive at a fully integrated and comprehensive legal framework for the physical domain. The councils see this process as a positive step towards the decompartmentalization of national policy, and one which must be continued. Since the enactment of the new Spatial Planning Act, many sectoral laws, rules and plans have become superfluous. For example, the national interests established by the National Traffic and Transport Plan and the National Water Plan can now be readily reconciled with the Structure Visions and the general administrative order for spatial planning (AMvB Ruimte). The availability of space has been safeguarded. A critical review of all legislation, planning and policy implementation with respect to the physical domain will, we believe, result in a significant increase in effectiveness.

Review and enhance regional investment potential
Private and regional funding sources are of great importance in terms of the quality of the living environment. Those funding sources are now under strain. The investment in urbanization and urban regeneration has up to now chiefly been made from the revenue derived from urban growth and expansion, supplemented by relatively modest government contributions. Given the increasing urgency of inner-city regeneration and in the face of stagnating growth, the affordability of the programmes is now under threat. The transition to a sustainable society is at risk because local authorities, societal organizations and market parties will soon have fewer resources at their disposal. Although opportunities to reduce public expenditure in this area are extremely limited, there will be a major negative impact on prosperity unless a new (private) funding basis for urban projects is found sooner rather than later.

4.3 Conclusions

- Take full advantage of the possibilities for integration offered by the new Spatial Planning Act (WRO) and allow room for regional governance.
- Closely monitor the effects of declining private and regional investment on fall in demand for (the quality of) urban development and take appropriate compensatory measures. If necessary, seek a new (private) funding basis for the realization of urban programmes.

5 Ensure an efficient housing market

5.1 Objectives

Everyone wants somewhere to live. The home provides shelter and privacy. A roof over one's head is a necessity of life. This is precisely why housing enjoys so much attention in government policy, with certain rights established by the national constitution. Good housing provision for all sections of society entails availability, affordability and good quality.

Nevertheless, there are now major problems in terms of housing and housing provision. For many years, the prices of owner-occupied units continued to rise while prices in the rental sector remained relatively stable. This has resulted in a major gulf between the owner-occupied and rental sectors which impedes mobility between the sectors. The housing market is not functioning well, and it is the public who are feeling the adverse effects. There are long waiting lists for rental properties, while middle-income households have difficulty in finding a suitable home. The housing market is particularly susceptible to fluctuations in the general economy. Newbuild projects are frequently subject to rigid contracts between the property developers and the local authorities, most of the time a rise in the houses' value is anticipated. When market conditions change, these contracts make it very difficult to adapt the programme accordingly. It is also apparent that a number of groups face problems in terms of affordability (high housing costs when quoted as a percentage of the gross income) and access to the housing market (starters).

Government policy has contributed to the dysfunction of the housing market. Market failures and government failures have been mutually reinforcing. For many years, there has been a limited supply of housing, but the demand, particularly in the owner-occupied sector, has been supported by fiscal measures, notably the tax-deductibility of mortgage interest payments. There has been a lack of flexibility in the market, and the owner-occupied market was boosted. (Housing policy is not 'ownership neutral'). The resulting significant increase in house prices has greatly reduced the consumer's freedom of choice.

The housing market is now seriously out of balance. Indeed, the structural imbalances are now so great that, in the opinion of the councils, radical reforms are required as a matter of urgency. Those reforms must address both the supply side and the demand side of the market, and both the owner-occupied and rental sector. Only appropriate cohesion and a 'step by step' approach will have the desired result. The transition must be appropriate to the social and economic conditions, and must also take regional differences into account.

5.2 Required changes

Flexibility and ownership-neutral policy

First and foremost, far greater flexibility within the housing market is required. This entails smaller construction projects, more gradual growth of the overall housing stock (which must be more in keeping with the local situation) and far greater efforts to make optimum use of the existing housing stock. It will also be appropriate to redesignate existing buildings such as offices for residential usage, either on a temporary or permanent basis.

Second, an 'ownership-neutral' housing policy is required. This entails modification of the current financial support mechanisms to ensure that support is given only to those who actually need it, whereby no one form of occupancy is promoted above the others. The choice between buying and renting should not be made by the government but by the consumer himself.

Such reforms require time. Because the housing market is particularly dependent on consumer confidence, changes must be gradual. A sudden process of change will lead to a significant reduction in property values, the withdrawal of investment by market parties and local authorities, and difficulties in meeting financial obligations on the part of the consumer. It is essential to retain or restore the confidence of all parties during the transition process.

Accordingly, the government must hold out the long-term prospect of an effective, well-functioning housing market. To do so requires:

- a well-balanced housing market: a good balance between supply and demand, with no market party allowed to gain a monopoly position;
- a reasonably stable housing market which is not so susceptible to general economic fluctuations;
- an effective housing market with no wastage of space or government resources;
- a fair and just housing market, with quality and access for those in various income groups and measures to preclude social or spatial segregation.

The proposed reforms in both the owner-occupied and rental sectors are discussed in greater detail below. We then devote attention to the role of the housing corporations.

Reform of the owner-occupied sector: fresh blood and reduced debt
There is no valid reason to promote homeownership over any other form of occupancy such as tenancy. To do so is not appropriate to a more ownership-neutral housing policy. The owner-occupied sector must offer better opportunities for first-time buyers. At the same time, consumers should not be encouraged to enter into as much debt as possible, but to redeem home loans as quickly as possible. To promote mobility, a (gradual) abolition of transfer tax (also known as conveyance tax or 'stamp duty') is required.

In its report *Heroverwegingen Wonen* ('Reconsideration of Housing', 2010) the Ministry of Finance makes several proposals for the modification of the current demand-side support. They include limiting tax relief on mortgage interest payments by means of an annuity system, applying an upper threshold on deductibility against income tax (at the 42% rate), and/or an upper limit of 500,000 euros on the mortgage itself. It also proposes modifying the manner in which homeownership is treated for tax purposes by shifting the income and expenditure from Box 1 (earned income) to Box 3 (investment income). Lastly, it proposes the withdrawal of the capital insurance exemption.

Modifying mortgage interest deductibility: Sweden and the United Kingdom

The functioning of the housing market can be enhanced by changing the rules for tax-deductibility of mortgage interest. Sweden and the United Kingdom provide examples of how this can be achieved in practice.

In 1991, Sweden opted to restrict tax-deductibility in one fell swoop, but offset the financial disadvantage by introducing lower taxation rates across the board. The tax on the (notional) investment value of owner-occupied property was also abolished, and a new national property tax introduced. Prior to these reforms, Swedish homeowners could deduct interest payments against tax charged at the highest rate of over 70%. In the new regime, deductibility was restricted to the standard rate of 30%.

The four years following the introduction of these reforms saw a fall in house prices, although this was partly due to the serious economic recession of the day. Mobility (the number of people opting to move house) fell sharply as did housing production. Since the late 1990s, however, the Swedish owner-occupied sector has largely recovered.

The United Kingdom opted to withdraw tax relief on mortgage interest payments by an extremely gradual process over the course of 26 years. In 1974, the mortgage amount on which relief could be claimed was reduced to £25,000. Rising house prices meant that a shrinking proportion of the outstanding mortgage qualified for tax relief. In 1988, the highest rate of tax was reduced. Between 1991 and 2000, the rate of tax against which interest payments could be deducted was gradually reduced from 40% to 25%, with full withdrawal of tax relief in 2000. Throughout this process, both house prices and incomes rose significantly.

These examples demonstrate that any restriction of tax relief on mortgage interest should be implemented gradually, and in combination with other (compensatory) measures, in order to prevent any sudden fall in house prices.

Source: Boelhouwer et al.*, 2001*

The Ministry of Finance’s proposals are very much in line with earlier recommendations made by the VROM-raad (2004; 2007; 2010b), and with the proposals of the CPB (2010b) and the SER Socio-Economic Expert Commission (2010).

Earlier, the VROM-raad (2007) proposed a gradual withdrawal of transfer tax, mortgage interest relief and the notional investment income premium with a view to restoring the housing market to full health. Any restriction of mortgage interest relief should be undertaken at a tempo which will avoid damaging the market. If the system were to be radically changed at this moment, the market would stagnate. This would be counterproductive. In the short term, however, changing to a system which removes the incentive to borrow as much as possible is a possibility. It involves basing tax relief on the annual redemption of the mortgage principle, assuming that the overall redemption is to take thirty years. In the longer term, such a system would represent a significant cost reduction.

Reform of the rental sector: a better relationship between price and quality
In the regulated (controlled) rental sector, a better relationship between price and quality is called for. This can be achieved by attaching more weight to the quality of the surroundings and the energy efficiency of the unit when calculating the rent using the existing points system. In regions with a ‘slack’ housing market, further liberalization of the private rental sector seems appropriate. A prosperity-based rent policy and a system of (regional) reference rents, and an ownership-neutral demand-side support, will serve to modernize rental policy. (See also the VROM-raad advisory, 2007.)

In its 2010 report *Heroverwegingen Wonen* (‘Reconsideration of Housing’) the Ministry of Finance makes a number of proposals for economies in the rental sector. They include requiring households with an income higher than €33,000 to pay rent increases of 6% above the rate of inflation, the abolition of the current rent control system and a surcharge of 4.5% of the unit’s (rateable) value to be paid by the tenant, to be offset by a rent subsidy for those on low incomes. To ensure that the higher rental revenue finds its way into the national exchequer, the Ministry proposes an ‘ownership tax’, whereby it is assumed that the additional tax burden on each owner will be exactly equivalent to the increase in the rental income.
All these proposals centre on the concept of ‘effectiveness’. Rents which are below the market norm are seen as ineffective. A situation in which housing corporations apply a rent policy in which some units are let for less than the ‘maximum reasonable rent’ is therefore ineffective.

In the opinion of the councils, a broader review is now required. Housing policy is, after all, subject to many influencing factors and conditions (such as the four conditions for an effective housing market listed above). The councils further believe that an approach based solely or mainly on the aim of establishing market rents within the sector would be far too narrow. Aspects such as redistribution, quality and external effects must also be taken into account. These represent social values and therefore call for political choices to be made. Indeed, these aspects have informed deliberations for many decades, whereupon the level of housing and the distribution of housing quality among the various income groups is far higher than if market conformity had been adopted as the sole guiding factor.

It is important not to lose sight of the social benefits of rent control. Lower income groups must have full access to housing and residential environments of appropriate quality. This is important in terms of the development of neighbourhoods, districts, towns and cities. It is therefore important to restrict market influence and counter any attempt to establish a monopoly position on the part of landlords. The councils also wish to point out that the current income threshold of 33,000 euros per annum should not be seen as a hard dividing line between ‘rich’ and ‘poor’. Various analyses (e.g. WWI and CBS, 2010) reveal that the households with an income of between 33,000 euros and approximately 45,000 euros currently have an average (rather than extremely low) rental quote. The opportunities to impose an even higher financial burden on this group are therefore limited.

The VROM-raad is currently considering the production of a separate advisory addressing rent policy in the middle segment of the rental market, with particular reference to affordability and accessibility, the role of the housing corporations (in the light of agreements made with the European Union), the living environment and social segregation.

Housing corporations: investment in housing
The financial assets held by housing corporations and the manner in which they deploy those assets are the subject of much debate. One option is to encourage the corporations to increase the level of social investment in line with the government's policy vision. This option may be termed 'mobilization'. Another option is for the key role of the corporations to be given a narrower definition, whereupon those assets which are not directly required to fulfil that role will become available to the government. This option could be termed 'creaming off'.

In the opinion of the councils, the latter option is inappropriate to the belief that the societal midfield has unique strengths which enable it to join the government in pursuing certain social objectives. There is more than the government on the one hand and the market on the other. 'Creaming off' the assets of the housing corporations and reducing their role to providing accommodation for only the very lowest income groups would result in the marginalization of an institution which – as the history of public housing in the Netherlands amply demonstrates – is of immense social and societal importance. That importance can be seen in terms of providing access to mixed residential environments to broad-based groups of tenants, in preventing exclusion of tenants on the basis of default risk, in increasing the quality of housing units and neighbourhoods, and in stabilizing the housing market.

The challenges in housing policy are significant: building within the city, revival of residential estates, and countering the effects of market shrinkage in certain regions, to give but a few examples. Increasingly, the existing housing stock must be used to meet the demand for both housing and sustainability. Investments in energy efficiency in the built environment are essential. For these reasons, the investment potential of the housing corporations is a crucial asset. It will be far more productive to encourage the corporations to invest in sustainable housing and in creating a better living environment. This process must be undertaken in an extremely transparent manner to ensure that both the government and the general public can see how the corporations are deploying their assets.

5.3 Conclusions

- In reforming housing market policy, it is essential to avoid adopting an overly narrow perspective based solely on effectiveness and market conformity. Aspects such as redistribution, quality and external effects must also be taken into account. These are social values which therefore demand political choices to be made.
- There are opportunities to achieve substantial reductions in housing-related public expenditure in the housing sector in the longer term, of which the most significant savings will be derived from revising the fiscal support offered to home buyers. (At present, tax relief on mortgage interest costs the national exchequer some eleven billion euros a year). However, any restriction of mortgage relief must be introduced at a tempo which avoids damaging the housing market itself. If the system is radically changed at this moment, the market will come to a standstill, whereupon the measures will be counterproductive. However, the councils believe that tax relief based on the annual redemption of the mortgage loan represents a viable short-term solution.
- Reform of the rental sector is possible, when the market is 'slack' it is possible to expand the non-regulated segment. Within the regulated (rent-controlled) segment, a better relationship between price and quality is required (and can be achieved by attaching greater weight to the location and quality of the residential environment). The VROM-raad is currently considering the production of a separate advisory report on rental policy in the mid-segment of the rental market.
- Savings in housing-related expenditure are potentially very substantial. However, they can only be achieved over time. The relevant interventions must be made at a tempo that avoids damage to the housing market itself.

6 Guarantee accessibility

6.1 Objectives

Mobility is crucial to economic and personal development. In many parts of the Netherlands, accessibility is now less than optimal due to road congestion in and around the urban centres. Public transport does not offer a fully viable alternative to private car use, which is expected to rise significantly over the decades to come (RVW, 2010). Compared to other countries, the Netherlands has limited road capacity and the underlying network is not well developed (OECD, 2010b). The system is therefore not robust. Stagnating mobility serves to increase business costs and reduce flexibility on the labour market, a situation which poses a significant threat to the attractiveness of the Netherlands – and in particularly the Randstad conurbation – as a favoured location for (international) companies (AmCham, 2009).
The councils see opportunities to improve accessibility by making better use of the existing infrastructure, rendering the system more robust (which will entail making it less sensitive to disruptions such as traffic accidents), selectively constructing new infrastructure and expanding the existing infrastructure, and promoting 'chain mobility', whereby goods and passengers complete their journey by various transport modalities. (VROM-raad 2009; RVW, 2009a). A programme of sustainable urbanization can also do much to improve accessibility in the longer term, provided due attention is devoted to the relationship between urban centres and infrastructure during the design phase (VROM-raad 2010a; RVW, 2009b).

6.2 Required changes

Focus on the user perspective
The councils believe that accessibility policy will benefit from a new perspective in which the focus is not so much on the infrastructure at its various levels of scale or on the various transport modalities, but rather on the actual *usage* of the mobility system. This will entail establishing functional targets for throughflow and for the accessibility of locations as part of the quality requirements for the living environment. Networks at various levels of scale and involving various modalities should be created to attain these targets, and innovative solutions must be sought to address the changing mobility patterns of users (RVW, 2010). Here, the principle will be that it is the user who should pay for the additional accessibility, with the provider of that accessibility being duly recompensed.[1]

Optimize usage of networks, with an appropriate management structure
Based on the above, the councils advise strict adherence to the principle of 'optimal usage first, then expansion'. This will ensure effective use of public funds and prudent use of space. Better usage will be achieved by staggering usage of the existing road infrastructure over the day, by a more effective response to traffic incidents, and by ensuring good development of networks (RVW, 2009a). There are also substantial gains to be made through better mobility management ('smart transport') and from a far-reaching optimization of transport networks using ICT. Motorways, regional roads and public transport connections should function as a closely-knit integrated system. The councils see opportunities to enhance effectiveness by placing the management of those integrated networks at regional level under the responsibility of a single party. It will also be possible to coordinate the various forms of transport more effectively to address the requirements of both users and the various functions within the region concerned. Innovative contracting forms such as Public-Private Partnerships (PPP), Design, Build, Finance, Maintain and Operate agreements (DBFMO), or other incentives to entrepreneurship can be used to encourage market parties to offer more product for less money, thus enhancing the effectiveness of mobility policy. Implementation of these proposals will result in significant savings in the longer term. The councils advise

[1] This will also create opportunities to revise the way in which management activities are organized. A good example is provided by the outsourcing of road management and maintenance in the Canadian province of Alberta. The winning tender was submitted by the construction group VolkerWessels, which now maintains a road network totalling over eight thousand kilometres (FEM Business, 2004). Maintenance costs have fallen by over 25%, while the same level of quality has been maintained. In this model, the Canadian government retains overall responsibility for the infrastructure but delegates the relevant work to the contractor.

conducting a benchmark study examining the organization of construction, management and maintenance activities for infrastructure.

Introduce a growth model for payment based on actual road usage
The government's mobility objectives can only be achieved with reduced public expenditure if a system of payment for use is introduced. The policy document on Mobility (PKB-1), which sets out the objectives in detail, states that the proposed form of road pricing will result in savings of between three and seven billion euros in respect of infrastructural investments.[2] If road pricing is not introduced, this amount will have to be drawn from the Infrastructure Fund, from which annual expenditure is currently some 8.5 billion euros. This fund is already under strain.
In the opinion of the councils, the most appropriate pricing policy is one based on a growth model. It is important to avoid a technically over-ambitious 'grand design'. The councils therefore recommend that the first step in establishing the growth model should be to use existing, tried-and-tested technical systems. The ICT and control infrastructure currently used in road portals can be upscaled to the regional level with relative ease and in a relatively short period, thus establishing a system of peak-hour charging. An alternative would be a charge based on the number of kilometres driven annually, with some differentiation based on the environmental impact (emissions) of the vehicle concerned. Both models represent a system change: from charges based on car ownership to charges based on car usage. The councils expect that this shift will lead to changes in user behaviour. At a later stage, further development can be undertaken to result in a national system of road-pricing per kilometre, whereby the time of day, location and environmental impact of the vehicle are also taken into account. The councils believe that road-pricing can be reconciled with the interests of privacy protection by making use of 'smart' technology. Concerns that the government will know the exact whereabouts of every citizen at every moment of the day will then be unfounded.
If the revenue derived from road-pricing is used solely to improve mobility, the costs of infrastructure usage will become fully transparent and this will serve to foster public support.

Be cautious in applying a peak-hour supplement for rail travel
Improvement of public transport (and its usage) demands a different approach to that applied to road usage. In the opinion of the councils, caution must be exercised in pursuing the idea of supplementary charges for train travel during peak periods. Such supplements will reduce the attractiveness of public transport as an alternative to the private car, and will erode public support for other measures intended to improve mobility. When optimizing chain mobility, it will eventually be necessary to choose between expanding the peak-hour capacity of the roads *or* that of the railways at certain locations

Opt for 'future-proof' spatial integration of infrastructure
In the opinion of the councils, the physical and spatial assimilation of infrastructure must be fully effective and of appropriately high quality. The prospect of short-term financial gains must not result in long-term damage to the quality of the living environment. The councils therefore propose that all projects should be evaluated against the broad concept of 'social yield' which includes all aspects of economic prosperity, quality of life, quality of the living environment and environmental responsibility. Only by doing so can the cost reductions be rendered 'future-proof'.

Towards a costs-return budget system for infrastructure
The councils wish to draw attention to the fact that the Dutch national budget, unlike those of provincial and local authorities and the national budgets of most OECD countries (OECD) relies on an 'integrated obligations cash basis' model. Such a system centres around the government's obligations and financial commitments rather than the costs and returns which

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[2] Based on the objectives defined in the 2008 *Mobiliteitsaanpak* ('Mobility Action Plan') and the road-pricing proposals contained in the consultation document *Anders betalen voor mobiliteit* (A different way of paying form mobility'), a new estimate of these amounts could now be made. However, this has not yet happened. See also the responses to parliamentary questions as reported in the Proceedings of the Lower House 32 123 A, no. 9, 11 November 2009.

derive from its property and investments over time. As such, the system hampers management based on effective policy systems and the most effective deployment of resources. In 2003, the General Court of Audit advised the government to adopt a 'costs-returns' system in the interests of transparency. All expenditure would then be directly booked against the period in which the relevant goods and services are actually used, and in which the benefits are derived. (In the case of transport infrastructure, this period covers several decades.)
The introduction of such a system will result in substantial incidental reductions in public expenditure, even with a constant investment level. It therefore becomes possible to achieve significant savings in the short term. However, the councils believe that the limitations of the current budgetary system, which tends to obscure the societal consequences of cutbacks in public expenditure, provide an even more pressing reason to make the change than any short-term financial gains. Even within the current form of budgetary control, expenditure can be significantly reduced by postponing or cancelling investments, and by drawing necessary funds from the Infrastructure Fund. However, the negative societal effects will then be felt over many years, a fact which must be taken into account in any decision-making process. The physical domain demands particular attention for the consequences of the current budgetary control system, since expenditure is often in the form of long-term investments.
Precisely the same effect can be achieved by introducing the widespread use of innovative contract forms, whereby private investors receive an annual payment for operating and/or maintaining infrastructure. The advantage of this form of funding is that payment is more directly linked to actual usage.

Charging for mobility: the United Kingdom, Sweden and Germany

Charging for mobility, i.e. road usage, can bring about behavioural changes on the part of motorists, passengers and transport companies. It can result in reduced environmental impact, better throughflow in and around urban centres, and may reduce the need for new infrastructure. Moreover, the principle of 'the user pays' shifts responsibility for the functioning of the mobility system to those who use it. The United Kingdom, Sweden and Germany provide good examples of the principle in practice.
In 2003, the Mayor of London's office introduced a local congestion charge in the centre of the city, which was later expanded westwards. The charge has resulted in an 18% decrease in traffic volume, 30% less congestion and fewer harmful emissions, while accessibility has been maintained or improved. The revenue is used to improve London's public transport system.
Stockholm has also introduced a congestion charge in its city centre. Following a trial which began in 2006, a referendum was held and the public voted in favour of keeping the charge on a permanent basis. It has resulted in an 18% decrease in traffic volume (2008 figure).
In 2005, Germany introduced a per-kilometre charge for heavy goods vehicles, based on the emissions and the number of axles of the vehicle in question. Revenue is used exclusively to improve general accessibility, which has helped to foster support for the arrangement. The most conspicuous effect is that there are now 15% fewer empty or part-empty HGVs vehicles on the road.

These examples demonstrate that charging systems can indeed be effective. Charges can be differentiated by region, objective or traffic category, while the collection system can rely on existing technology. Using the revenue to improve accessibility will do much to generate public support for the measures.

Source: Ecorys, 2010.

6.3 Conclusions

- One or more forms of road pricing are necessary in order to achieve the current accessibility objectives. The introduction of a pricing system will also increase the return on investment in infrastructure.
- The introduction of road pricing will proceed more quickly and will be more effective if undertaken in phases, relying on existing ICT systems wherever possible. It will be possible to reconcile road pricing with interests of personal privacy by using 'smart' technology.
- The use of innovative contract forms will increase effectiveness in terms of the construction and maintenance of infrastructure.
- Budgeting for the costs and returns of infrastructure over the total lifetime will result in (incidental) short-term savings and is more in keeping with the principle of 'the user pays'.
- Decision-making with regard to the spatial assimilation of new infrastructure should include a broad consideration of the 'social yield', to include all aspects of economic activity, the quality of life, quality of the living environment and environmental management.

7 Conserve and strengthen natural values

7.1 Objectives

Nature does much to determine the quality of the living environment. Natural processes serve various essential ecological functions such as water purification and the absorption of CO_2. Nature also helps to create an attractive setting for both residential and business users, and promotes economic activity in the form of recreation and tourism. Biodiversity, which is essential to the complete functioning of ecosystems, is of immense intrinsic value and must be conserved. Every country bears responsibility for doing so, and that responsibility is not confined to national borders: it is an international undertaking.

The national objectives in Dutch nature policy are primarily directed to the conservation and restoration of natural values, which are specific to the Netherlands and hence part of the national identity. The international, primarily the European, objectives address the natural values, which typify Europe, some of which are now under, threat.

To conserve nature of national and international significance, efforts to improve ecological conditions and natural values in large, interconnected regions have been ongoing for several decades. The objective is to create an 'National Ecological Network', an area of 730,000 hectares complete with robust connecting zones or 'corridors'. Throughout the key areas and zones, national government will take special responsibility for the maintenance of flora and fauna. A network of 162 'Natura 2000' areas represents the Netherlands' contribution to meeting the international responsibility for biodiversity. There is a significant degree of overlap between the Natura 2000 areas and the National Ecological Network, both of which include space given over to agricultural and/or recreational usage.

The national government has only limited responsibility for nature outside these designated areas. The conservation and development of natural values elsewhere is undertaken by means of arrangements from other authorities, non-governmental organizations, private sector parties and individuals.

7.2 Required changes

The councils fully endorse the current nature objectives. For twenty-five years, national government has invested in the maintenance of biodiversity by improving the conditions for ecological processes in certain designated areas. To continue doing so is not only essential to nature itself, but also to the economic and social development of areas in which (private) parties require assurances about the future, not least with regard to the planned investment level. The current approach, with its large and interconnected areas, also enables the interests of nature development to be combined with those of climate policy.

Implementation of nature policy must be improved if the National Ecological Network is to be completed. The required system innovation entails extra attention for the government's role as 'guardian', focussing the available funds on shared objectives, and better use of private resources. This will result in a better connection between nature and the attainment of other public objectives such as flood protection, the quality of the urban environment, food production and recreation. It will also address private interests in a mutually beneficial way.

More weight on the government's role of 'guardian'

The maintenance of ecosystems and biodiversity is a collective responsibility. While the lion's share of that responsibility falls to the national government, this does not mean that the government must undertake all required activities itself (RLG, 2006). A marked decentralization of policy implementation has taken place recently, whereby regional and local authorities, private parties such as farmers and landowners, and non-government organizations play a clear role. The national government must adopt a 'hands off' approach to avoid disrupting the essential process of implementation.

To enable the government to fulfil its role of guardian effectively, the councils consider it important to continue the decentralized implementation approach. There should also be a simplification and streamlining of relevant legislation and a complete review of the legislative framework, which underlies all environmental regulations (Ministry of Finance 2010). The decentralized implementation of nature policy is part of the regional development approach in which cooperation and coordination with other users can be achieved more efficiently. Restructuring and management activities demand the deployment of funds through the ILG (Rural Area Investment Budget; see RLG, 2008d).

If nature policy is to be successful, the relationship between the interests of nature, agriculture, recreation and the private sector must be strengthened. Contrary to popular belief, there is no conflict between the public interests of these sectors. The conflict is actually between the public interest of nature on the one hand and the private interests of farmers and other businesses on the other, who see their options to be limited by the presence of nature. The government must play an active role in resolving this conflict, providing full compensation for any financial losses and amending legislation in order to provide a legal basis for the solutions agreed between the various parties (RLG, 2008a).

Focus available resources on the shared objectives
The return on investment can be significantly increased if the interests which nature shares with other policy areas (such as flood protection, food production, quality of the urban environment and recreation) are identified, and if available funds are then focused on these shared objectives. Here, we refer not only to government investments but also those on the part of local and regional authorities, area managers, nature organizations and private sector parties. The process of identification and concentration calls for each party to review its investment priorities with particular reference to the completion of the National Ecological Network.

Funds available further to the European Common Agricultural Policy can be used to link the maintenance of biodiversity with agricultural interests (crop protection) and those of recreation. The forthcoming review of the Common Agricultural Policy will expand opportunities in this regard (RLG, 2007). Nature can also be put to good use in restructuring areas to provide better water management and flood protection.
Nature compensation (whereby an area of nature destroyed in one location is replaced in another) can enhance the quality of the urban environment combined with public services (recreation, childcare, respite care, etc.) provided by farmers.

Agriculture and nature management in the United Kingdom

The conservation of ecosystems and of flora and fauna – a collective responsibility – demands effective land management by farmers and other landowners. The Common Agricultural Policy is now gradually abandoning the direct link between payments and production, shifting the focus towards public objectives such as nature management. This is a significant system change which, although introduced one step at a time, has met with some opposition.

The United Kingdom has developed a broad and adaptive programme to enable areas to be managed sustainably making use of EU funds (supplemented by national funds) and the result has been a major boost in ecosystem-based services. The direct income supplements are being replaced by a payment per hectare, which is conditional on certain basic requirements having been fulfilled. It is for the individual managers to decide whether they wish to go beyond the basic requirements of the 'Entry Level Scheme' (ELS). By 2011, some 70% of agricultural land will fall within this programme. Transaction costs have been minimized by the 'self-service' approach, which also allows a certain degree of freedom. In areas which fall under EU or national nature policy (Natura 2000, SSI), managers who have met the ELS requirements can apply to take part in a follow-up programme known as 'Higher Level Stewardship´. This programme does however entail high transaction costs.

In this system, the use of public funds to address public objectives is more transparent than in the Dutch system, in which payments are still linked to production. The Netherlands can learn much from the more modern British funding base (which addresses public goods), the one-step-at-a-time model and the voluntary approach, which engenders loyalty to the programme.

Source: Natural England, 2009; Cooper et al*,, 2009; Westerink* et al*., 2009.*

More effective use of private resources
Private parties such as agricultural companies (with sustainable products), industry (sustainable industrial estates) and research institutes ('green campuses') can provide the economic support which nature requires (RLG, 2008b; RLG, 2008c). The primary outcome will be a significant improvement to the quality of the local living environment. Under various 'red for green' schemes, private funds are being invested in nature within the urban environment. However, the decline in private investment in urban development will soon restrict the possibilities in this regard, whereupon new sources of economic support must be developed.

Attempts to generate greater private investment in nature, such as area concessions and 'self-realization' schemes (in which the landowner is permitted to develop the area himself: Ministry of Finance, 2010) call for closer examination in view of recent experience. Even in the recent 'times of excess', private investment has remained limited. The current potential of private investment therefore seems even more limited (RLG, 2009), but must nevertheless be pursued with vigour wherever possible.

System innovation alone is not enough
System innovation is certainly required but will not be enough to resolve all financial issues within nature policy, even if funds are deployed with greater efficiency. Overall, the opportunities to reduce public spending on nature are limited.

7.3 Conclusions

- National government must devote greater attention to its role as 'guardian' of nature. This will entail allowing other parties to take responsibility for implementation (the 'hands off' approach), further decentralization of policy implementation, the amendment of current legislation, and the resolution of the current conflicts between public and private interests by means of compensation arrangements.
- Focusing the available funds on the common objectives will increase the return on investment, not only for the government but for regional and local authorities, land managers, nature organizations and private sector companies. The first step will therefore be to identify those objectives which nature shares with other interests such as water management and flood protection, food production, the quality of the urban environment and recreation.
- It is possible to make better use of private resources and initiatives, although the opportunities to do so are restricted by the current economic situation. The potential of private funding must be developed further.

8 Changeover to renewable energy

8.1 Objectives

A fully sustainable energy system is of fundamental importance to the long-term robustness and sustainability of the economic system. The envisaged sustainable energy system is based entirely on renewable energy sources, with no further reliance on fossil fuels or energy from politically unstable regions. By 2050, there must be a reduction in CO_2 emissions of at least 85% to 90% compared to the 1990 level.
To achieve this target calls for a transition to alternative energy sources and far greater energy efficiency.[3] In some cases, existing technology (e.g. that based on fossil fuels) must be abandoned or modified. New and existing companies must provide the means for technological renewal. A call will also be made on the adaptive ability of the general public (certain behavioural changes will be required) and of the societal midfield. This call is likely to be heeded, since the transition offers many opportunities for new economic activity and high-level employment (VROM-raad and AER, 2004; Innovatieplatform, 2010). The government must now rise to the challenge of mobilizing and facilitating the economic forces, which will bring these opportunities to fruition.

8.2 Required changes

The council believes that a number of measures must be taken if the long-term objective is to be achieved and economic opportunities created.

A stable long-term policy is essential
The councils advise the government to adopt an energy transition policy in which there is an even clearer long-term vision of energy provision in the Netherlands in 2050 than that applied to date, and which enjoys full public support.[4] Such a vision will serve as the reference point against which all current measures and instruments are to be assessed. The vision must go further than the current *Schoon en Zuinig* ('Clean and Efficient') programme, which covers the period to 2020. The long-term policy must include, measurable short-term goals (in terms of CO_2 emissions, 'green energy', energy efficiency and spatial assimilation). Such goals are essential to stress the urgency of the policy and to encourage companies, public sector authorities and the general public to take action now rather than later. However, it will be necessary to adapt the long-term policy over time in line with changing circumstances and insights. It is also important to create a stable investment climate and to exploit the potential for 'bottom-up' change.

Maintain the current Dutch interim objectives but continue looking for the most effective means of attaining the final objective by the year 2050
In the opinion of the councils, lowering the national targets for 2020[5] to the levels applied by the European Union would be appropriate to a strategy intended to avoid unnecessary and expensive short-term measures. Investments intended to ensure that adequate sustainable energy is available at a later date will provide better returns. The councils further advise the government to commit to the realization of the energy transition by 2050. To achieve this aim, ambitious interim targets for CO_2 emissions, energy efficiency and sustainable energy are required. Adopting the European targets for 2020 will result in a short-term saving of as much as €1.5 billion per annum (Ministry of Finance, 2010). However, because the long-term objective will remain unaltered, the savings in the longer term will be somewhat lower.
The European targets for 2020 (addressing CO_2 emissions and sustainable energy) should of

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[3] The key objectives of the government's energy policy, as stated in its Energy Report (Ministry of Economic Affairs, 2008) can be summed up in three words: Clean, Reliable and Affordable. In this advisory report, the councils have devoted particular attention to sustainability ('Clean'), although the aspects of reliability and affordability have not been overlooked.
[4] Several vision documents have been published recently to which many societal parties were invited to contribute. See: European Climate Foundation, 2010; *Duurzaamheidsoverleg politieke partijen*, 2010).
[5] Current Dutch policy establishes the targets for 2020 as follows: 16% to 17% of electricity to be generated from sustainable sources, a 2% per annum reduction in electricity consumption, and a 30% reduction in greenhouse gas emissions compared to the 1990 level.

course remain the absolute minimum targets for the Netherlands. However, even these are unlikely to met by means of current policy (ECN, 2010a), and neither can the current national target for the reduction of energy consumption. If these targets are to be achieved, the government must drastically amend policy to achieve far greater breadth and depth (ECN and PBL, 2010). The more frequent introduction of new norms and requirements may form part of the new policy (see below).

Separate targets are required for sustainable energy, the reduction of CO_2 emissions and energy efficiency
The European system of tradable CO_2 emissions is imperfect. It does not provide adequate price incentives to overcome certain obstacles or to introduce transitions. Because sustainable energy and the reduction of energy consumption are essential in achieving the necessary reduction in CO_2 emissions and the energy transition itself, separate objectives and targets must be set for each aspect. Setting a separate goal for energy efficiency, quantifying the actual reduction in consumption that is to be achieved, will render this objective a more tangible priority. The targets for specific types of sustainable energy and the relevant policy instruments must focus on the valorization of existing knowledge by means of actual implementation by the market and the creation of learning effects. The lessons learnt during the investment process, together with any (technical) process innovations developed, can enhance the Netherlands' international competitive position with regard to the new types of energy.

A reduction in energy consumption is essential
There are clear opportunities to reduce energy consumption, particularly in industry and in the built environment. Price incentives, including subsidies (especially in the energy-extensive sectors) have frequently proven to be ineffective. It is therefore appropriate to shift the focus onto norms and mandatory requirements. These are likely to prove more effective, while the reduction in subsidies will relieve pressure on government resources. In (energy-extensive) industry, investments with a relatively short payback period of just a few years could be made compulsory. The councils believe that significant reductions can be achieved in the built environment by means of a cohesive package of stricter measures, geared towards removing obstacles through the use of incentives, better information provision and an approach at the local (neighbourhood) level. The package must be broad enough to convince homeowners that the government is serious about reducing energy consumption. Energy efficiency labels should be made compulsory, since they raise consumer awareness with regard to energy consumption and therefore bring about behavioural changes. Fiscal incentives can be put in place to encourage property owners, including housing corporations, to ensure that homes meet at least the requirements of Energy Label C, and these incentives could be linked to (fiscal) reforms addressing the housing market, as discussed in Section 5. Another option is a system of 'white certificates': tradable energy reduction obligations for the energy provider, which would encourage utility companies to assist their customers in reducing consumption. However, such a system demands careful design, good implementation and strict enforcement.
A reduction in energy consumption and CO_2 emissions can only be achieved by encouraging changes in purchasing behaviour, which entails broader application of the labelling system for consumer goods. Even the labels of everyday groceries could show their 'CO_2 footprint' or the energy consumption required to produce and transport them. The government can enter into agreements with the private sector in this regard. Similarly, mobility patterns in the transport sector can be influenced by stating the 'cost' of each journey in terms of CO_2 emissions (RVW, VROM-raad and AER, 2008).

Encourage promising green energy technologies by means of innovation subsidies
It will be possible to stimulate the production of sustainable energy by means of a carefully designed and implemented hybrid system of requirements and incentives.[6] The councils

[6] The system will include a mandatory minimum percentage of energy to be generated from renewable sources, in combination with a subsidy to offset the high research and development costs of even more innovative forms of renewable energy.

advise that innovation subsidies for the sustainable energy sector should primarily address the valorization of knowledge and innovative products. This can be achieved by focusing on knowledge-sharing between research institutes and the private sector, and by supporting and accelerating upscaling of production (e.g. by co-funding demonstration projects both large and small). This approach will enable promising new companies in the Dutch renewable energy and 'cleantech' sectors to enter the market. In awarding innovation subsidies, it is important that the government has the foresight and daring to invest in those sustainable technologies in which the Netherlands already enjoys an international advantage, or which are likely to result in such advantage.
In its 2010 report, the Innovation Platform identifies a number of promising sectors: the bio-chain, micro-CHP, offshore wind energy and, in the somewhat longer term, solar energy, with particular reference to the manufacture of components and associated equipment, incorporation of panels in the built environment and system integration.

No public spending on clean fossil fuel technology
There appears to be economic potential for the Netherlands in clean fossil fuel technology, such as Carbon Capture and Storage (CCS) whereby carbon dioxide emissions are 'intercepted' and stored underground. The potential is particularly great given the presence of the refinery sector which produces concentrated CO_2-based waste gases, the Netherlands' coastal location, its gas infrastructure, its (now depleted) natural gas fields and its knowledge base. However, clean fossil fuel technology will not reduce reliance on fossil fuels and does not represent a sustainable source of energy. It may even delay the development of true forms of sustainable energy and the necessary transitions, since it will maintain artificially low price levels for fossil fuels and divert innovation budgets from the development of renewable energy. Accordingly, the councils advise against using the limited government funds to encourage the use of clean fossil fuels. Investment in research and development should be a matter for the market itself. Until new measures have had a chance to take effect, the continuity of the incentive policy for (the development) of sustainable energy will then be assured.

Simplify procedures to ensure the effective spatial assimilation of sustainable energy
During the energy transition, at least two aspects of spatial assimilation are of importance. First, the energy infrastructure will be subject to different requirements in the future. There must be more international connections and those connections must be of greater capacity. At the same time, the generation of sustainable energy will take on a more decentralized (local) character than is currently the case. Second, sustainable energy (particularly that derived from wind turbines, residual heat exchange between industrial and domestic users, biogasification and biofermentation) must be assimilated into the living environment in a controlled and responsible manner. The councils therefore advise national government to join regional and local authorities in simplifying the procedures involved in spatial assimilation, opting for an approach of 'yes, provided...' rather than 'no, unless...'. The application procedures for planning permission can also be simplified (and it is possible that the recent coordination arrangements between central and regional governments will go some way towards doing so).
The gains to be had from such measures are substantial: the Offshore Wind Energy Taskforce has calculated that savings of hundreds of millions of euros can be achieved during the preliminary phase of the planning procedures for offshore windfarms alone. However, the process of simplifying the procedures will call for careful consideration of all assimilation requirements in order to maintain the quality of the living environment in all its facets, including liveability, safety and security, biodiversity and aesthetic value. It is essential to avoid the creation of industrial landscapes which must be 'repaired' at a later date.

Make use of Europe
The Netherlands can achieve its objectives at far lower cost by making best possible use of the opportunities at European level. According to ECN (2010b), the societal costs of the transition to sustainable energy can be reduced by several hundred million euros by applying

the 'flexible mechanisms'[7] offered by the EU Renewable Energy Directive. This calls for the focus on the actual production of sustainable energy on Dutch soil, part of the current national sustainable policy, to be abandoned. The councils advise that it should be replaced by cooperation with countries having similar long-term policy, relying on the Dutch incentive policy. (This may therefore entail a system of hybrid requirements.) ECN (2010b) states that cooperation with Sweden seems particularly promising. The councils recommend that the Dutch government should press the European Union to introduce further integration of the various national markets for sustainable electricity.
High priority must be given to a strengthening of the European system of tradable CO_2 emission rights. In its current form, the system serves to delay rather than promote the transition to sustainable energy because the price per tonne of CO_2 emitted is too low. If it proves impossible to repair the system, the Netherlands might press for the introduction of a European CO_2 emissions tax. The chances of success will be greatly enhanced if we provide a good example. For example, we could recommend the EU to set the lowest possible CO_2 emissions ceiling for the period 2012-2020 (and there is still time to do so in 2010.) This will serve to raise the price per tonne of CO_2 emissions, thus providing a greater incentive for innovation. Lastly, the Netherlands should endorse – and be seen to endorse – the European climate ambitions for 2050, namely an 80% to 95% reduction in CO_2 emissions compared to the 2005 level.

8.3 Conclusions

- To meet the long-term objective of CO_2-neutral energy provisions based entirely on renewable sources will required a long-term policy which offers investors the required degree of certainty.
- To avoid ineffective investments further to the Netherlands' ambitious mid-term interim objectives, it may be appropriate to adjust the targets *provided* this does not delay the attainment of the overall objective, i.e. the implementation of a sustainable energy system.
- It will be possible to promote the production of sustainable energy using a carefully designed and implemented system of hybrid requirements.
- The targets and objectives with respect to sustainable energy can be achieved at lower cost if the Netherlands seeks cooperation with countries having similar policy aims.
- Innovation subsidies for the sustainable energy sector should primarily address the valorization of knowledge and innovative products in order to help innovative companies enter the market.
- The development of clean fossil fuel technology should not attract government funding.
- The use of prudent pricing mechanisms and standards rather than subsidies will help to conserve government resources while enhancing the effectiveness of the measures. This is particularly true with regard to reducing energy consumption by industry and in the built environment, where incentives can be linked to fiscal reforms addressing the housing market.

[7] By offering the 'flexible instruments', the European Commission is creating opportunities to import sustainable energy from those countries in which it can be produced at lowest cost. The instruments concerned include statistical transfers, joint projects to build and operate generating stations, and joint funding systems. (ECN, 2010b).

9 Safeguard water safety and more efficient water management

9.1 Objectives

Water safety, i.e. protection against flooding, is clearly a national interest. It is impossible to preclude all risks, but the establishment of an acceptable level of risk forms a precondition of a good living environment. The 'acceptable' risks must be in keeping with the economic and demographic development of the Netherlands. Clear standards and targets are already in place for the country's water defences, as established by various pieces of legislation and administrative agreements.
The councils note that the Netherlands' susceptibility to flooding is increasing due to the effects of climate change. It is therefore a matter of national importance to ensure that the established objectives are maintained and consistently pursued.
Waterways and water defences serve to structure the living environment. They can help to conserve and strengthen both spatial and ecological quality, and can also support and promote economic development. In assimilating the infrastructure required to provide adequate flood protection, its contribution to the quality of the environment must be one of the main guiding principles.
The infrastructure, both above and below ground, for the collection and treatment of wastewater as well as that for the supply of drinking water also helps to structure the living environment. When attempting to increase the effectiveness of water and wastewater management, the objectives of public health, water quality and liveability must be the guiding principles. The Netherlands has a long tradition of innovation in all aspects of water and water management. Nevertheless, knowledge development within the sector, and hence its future innovative strength, can be raised onto an even higher plane.

9.2 Required changes

With respect to the entire domain of 'water', the councils are of the opinion that responsibility for safeguarding of national interests and ensuring the availability of collective provisions falls mainly to the government. The outlines of water policy are established at the European level. The national government must then translate those outlines into national policy frameworks and norms.

Maintenance of water defences must not be further postponed; the Delta Fund should not be used for this purpose
Preventive measures (such as dikes and dams, or allowing 'room for the rivers') are the most effective manner of ensuring public safety and minimizing the effects of any incident. Some of the country's water defences have not been fully maintained, whereupon the current safety norms cannot be achieved. The councils consider it highly undesirable for such maintenance to be further delayed due to budgetary considerations, since this would further erode safety in the short term. The councils further consider it inappropriate to finance overdue maintenance, in whole or in part, from the Delta Fund. The Delta Fund is intended to cover future expenditure made necessary by climate change. Its resources offer opportunities for an adaptive policy and for innovative measures to be introduced in due course. To draw on the fund to cover the costs of overdue maintenance would represent a misappropriation of funds and may render it impossible to take advantage of those opportunities.

Use the Delta Fund solely for future-proof investments
The councils believe that the government could consider bringing forward investments from the Delta Fund (whereby the returns from those investments are added to the fund) in respect of 'no-regret' measures in connection with the longer-term objectives of urbanization, nature conservation, coastal protection, water storage or the reduction of water consumption. One of the government's concerns further to the financial crisis is the loss of employment opportunity, and with it the loss of the knowledge and capacity required to

ensure the viability of the construction sector. Projects financed from the Delta Fund could go some way towards compensating for that loss. Moreover, prominent water defence projects are important in terms of 'advertising' the knowledge and expertise which the Netherlands is able to export to other parts of the world which are experiencing water-related problems. The proposals to downscale the Delta Programme (Ministry of Finance, 2010) are diametrically opposed to the councils' view that any reduction in spending on water defences is undesirable.

Devolve the implementation of water safety tasks to the regional level
The councils are of the opinion that the implementation of all tasks further to flood defences can best be undertaken at the regional level by appropriately qualified functional managers. At present, the water management authorities are the clearly recognizable functional units which undertake integrated water management in an expert manner. The system by which they are financed ensures the transparency of the funding flows. Because the overall water management system (flood safety, drought control, ground water and water quality) is closely related to the management of space, nature and landscape, and with the economic interest of agriculture, industry and the urban areas, it is appropriate to manage all aspects in combination. This can be achieved most effectively at the regional level. The water system managers should therefore enter into various functional alliances (RVW, 2009b). The councils believe that quality of the living environment should be the overriding consideration in all water management activities. The interests of quality of the living environment cannot be upheld if the ambitions for the 'main water system' projects are adjusted downwards. The councils further contend that the inclusion of quality of the living environment in an early stage of the design process will not entail any additional costs.

Ensure transparent funding flows
In the current system, national government finances all primary water defences. The water management authorities finance their activities from taxes and levies, which also finance the secondary water defences. The relationship between the authorities' income and their public expenditure is clear. This system is appropriate to the councils' desire for full transparency and should therefore be retained.

Increase the effectiveness of water management
The councils distinguish between two water management chains:
1. The water safety (flood defence) chain: 'establish norms, design, manage, finance'.
2. The wastewater chain: drinking water supply and urban water management, drainage and collection, treatment and purification.

In the case of the flood defence chain, the establishment of the norms for the primary water defences is a government responsibility. Thereafter, the councils are in favour of decentralized implementation and financing. As stated above, the councils believe that neither policy nor the current norms should be adjusted downwards. However, allowing decentralised authorities to decide when measures such as new water storage facilities should be implemented may well result in savings. We nevertheless wish to reiterate that the maintenance of water defences must not be further postponed.

In the case of the wastewater chain, bringing together responsibility for the various components at the regional level will do much to enhance effectiveness. The Association of Water Management Authorities, the Association of Netherlands Municipalities (VNG) and the Association of Dutch Water Companies (VEWIN) have drawn up joint proposals for more effective management of the entire water chain, from wastewater collection to drinking water supply. These proposals will result in structural cost reductions of up to 550 million euros against the budgets of the various parties responsible for water activities, rather than the national budget itself. With the money saved, however, the water management authorities will be able to reduce the pressure on the national budget by contributing some €100 million euros towards the costs of the flood defence programme. It seems likely that the costs involved in performing the various tasks within the water chain will increase over the coming years, whereupon the savings achieved through greater efficiency can also help to reduce the financial burden on individual taxpayers. The councils believe that full integration should form the final objective of a system change in the water chain. A system in which wastewater treatment and drinking water production are integrated will further strengthen the relationship between (public) income and expenditure, since the costs incurred throughout the chain will be more closely reflected by the price charged for the water which flows from the consumer's tap. With a view to achieving progress in the short term, an appropriate first step would be to pursue the integration of the wastewater chain, whereupon urban water management, drainage and collection, and water treatment would fall under the responsibility of one and the same party. In addition to the financial benefits, the integration of the water chain also opens up new opportunities for knowledge development and innovation. To achieve the envisaged efficiency improvement and establish a clear link between the national and local budgets, it will be necessary for national government to assume joint responsibility. It will then direct the process, establish clear objectives for effective water management and, by means of new or amended legislation, will offer regional and local authorities the instruments they need in order to bring the process to fruition. Monitoring progress is also a government responsibility.

9.3 Conclusions

- It is not appropriate to modify flood defence policy with a view to saving money, given the Netherlands' particular susceptibility to flooding and the work that remains to be done in meeting the current safety standards.
- Improving the effectiveness of water chain management may well result in substantial savings. Although the national budget will not benefit directly, water management authorities and local authorities will have additional resources with which to relieve the pressure on central funds.
- Flood defence tasks should be undertaken on a regional basis by suitably qualified functional managers.

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