

## **PRESS RELEASE**

**January 2018**

### **Report to the Flemish Parliament**

#### ***Impact of the Sixth State Reform on the Flemish government***

*The Court of Audit examined the impact of the Sixth State Reform on the Flemish government. The administrative services involved have prepared and implemented this complex process pretty well in a short time, although the activities were sometimes delayed. The Court of Audit also calculated that Flanders will have to refund about 1,0 billion euro to the federal authorities in 2018 because the receipts from the personal income tax were originally overestimated, among other things. Furthermore, the Court identified a number of difficulties concerning the transfer of competencies and resources to Flanders, such as poor quality communication between the federal and the Flemish level, a limited transfer of federal staff and an uncomplete follow-up of the expenses regarding the State reform on the Flemish side. Finally, the Court of Audit noted that a number of these expenses differed from the estimates used during the negotiations on the State Reform.*

#### **Progress**

Flanders has taken steps in order to apply as efficiently as possible the institutional agreement implying the transfer of competences to the communities and the regions and a revision of the Special Financing Act (SFA). However, the communication between the federal and the Flemish level was far from optimal. The federal responses to Flemish requests for information came very late, because the federal level was working under pressure and facing many uncertainties.

Protocols were drawn up for each domain to ensure a well-organised transfer during the transition period. In some cases, this transition went less smoothly than expected, and federal authorities had to take care of or support some matters for a longer period of time, or will have to. Sometimes, the transfer of competencies was also more complex than expected and the Flemish government chose to first reform its new competencies or to integrate them in existing Flemish measures.

As with every State reform, clear agreements become more and more important. This is why the institutional agreement regarding the Sixth State Reform and the special law concerning the reform of the institutions provide for cooperation agreements. Today however, less than half of them has been completely and correctly drawn up. When asked about the practical consequences of the lack of agreements, the administration only provided the Court of Audit with few explanations.

#### **Budgetary revenues**

Mainly because of the Sixth State Reform, the Flemish ESA-consolidated revenues increased with about 10,5 billion euro in 2015. The replacement of the former budgetary allocation to the region coming from the personal income tax (per budgetary year) and the financing of 40% of the carried over tax revenues from the regional additional personal income tax (per year of assessment) prompted a transition period of three years based on estimates. Those proved to be too high; as a consequence, Flanders received an excess 937 million euro after the transition period 2015-2017. This amount will be settled in 2018.

The Flemish government decided not to compensate the revenue decrease because of the federal tax shift by increasing the regional rate. The federal reporting that should enable Flanders to correctly register the tax revenues and expenses has only been issued as prescribed in the beginning of 2017 and still does not distinguish the regional rate and the tax expenses. At this point, too, the communication of information was found to be less than optimal.

Furthermore, the SFA implies a transition mechanism that compensates the nominal amount of the annual revenue increase or decrease resulting from the new rules (+322 million euro for the Flemish Region, -153 million euro for the Flemish Community) during a transition period of ten years and then reduces it linearly until 2034. The amounts of the transition mechanism and the allocation for the tax expenses have been set after the transition period and still lead to a single revenue decrease of 68 million euro in 2018.

When it comes to the non-tax revenues, the Sixth State Reform has mainly regionalised the traffic fines revenue. However, the Flemish government could not yet register the final amount in its accounts given the ongoing discussions on which entity is competent for which traffic offences.

### **Budgetary expenses**

The Sixth State Reform also lead to new expenses for Flanders amounting to 10 billion euro. In 2015 and 2016, the federal bodies still payed for most of them. Nevertheless, they informed the Flemish government very lately, the accuracy of the figures could hardly be verified and for some policy domains, they were incompletely or insufficiently justified.

The negotiations concerning the Sixth State Reform were based on the so-called *ETP-table (full-time equivalents)*, including an overview of the budgets to be transferred for staff, policy, real estate and operations. Flanders did not organise an individual follow-up of the transactions of its own entities concerning the credits for the competences it took over. However, the Court of Audit observed that Flanders exceeded some of the *ETP* expenses budgets, such as those for the *Activa* measures of the national employment service (*RVA/ONEM*), or will exceed them in the future, as in the case of the disaster fund expenses (as from 2017). Moreover, the *ETP-table* did not mention any amount for a number of transferred competences (the mobility and public works department, the employment and social economy department). In some cases, the final registrations barely matched the estimates in the *ETP-table*, such as those regarding the former fund for collective equipment and service projects.

### **Contribution to the reorganisation of the public finances**

According to a preliminary study of the Federal Planning Bureau and proportionate to the transferred resources and competences, the Sixth State Reform has transferred part of the costs for the reorganisation of the public finances and the ageing of the population to the federated entities. At the start of the period, this contribution consisted of the accumulative withholding of substantial amounts. Afterwards, it increased because of the loss of revenues generated by the indexation and the adjustment to economic growth. When it comes to the ageing of the population, the contribution stems only from partial adjustment to the economic growth of the newly assigned allocations. The Federal Planning Bureau did not extend its study afterwards in order to assess the efforts made, but did observe that the efforts requested from the communities and the regions did not widen the sustainability gap of the federal government.

### **Transfer of staff, real estate and ICT**

Until now, 1,531 staff members were transferred to the Flemish government as a consequence of the Sixth State Reform. The federal government sent less teams in advance than planned, and some competence assignments were executed without staff transfer, which made it difficult for the Flemish entities to accumulate expertise and sometimes prompted extra recruitments. The classification of the transferred staff also generated additional budgetary costs.

For the staff and operating costs as well, the data included in the *ETP*-table constitute an important reference. Formerly, Flanders often did not spread its budgets in individual articles, so the associated costs could not be completely isolated. This is why the Court of Audit had to base its examination on the information or working documents attached to the budget, which were not always transparent. A consultation of several policy domains showed that except for some cases, the necessary budgets usually matched those in the *ETP*-table.

The transfer of buildings implied by previous State reforms was only realised after a long process of property transfers which, in addition, lead to important rehabilitation costs. The Sixth State Reform, too, generated rehabilitation costs regarding transferred buildings, although less than the previous ones. Moreover, certain transferred buildings are not registered in the balance and in the real estate database of the Flemish Community.

Generally, the transfer of federal IT-systems lead to some difficulties, most of which have been solved in the meantime. Sometimes Flemish access to the federal IT-systems was also challenging. Finally, the Sixth State Reform required considerable Flemish investments in IT-applications, the total costs of which could not yet be determined definitely.

### **Minister's reaction**

On 20 October 2017, the Flemish government provided the Court of Audit with a coordinated response. It observed that the Court of Audit accurately described the implementation of the Sixth State Reform in the Flemish government, recognising that the Flemish government succeeded in executing the competence assignments correctly in spite of the complexity of the matter and the great time pressure. Consequently, the Flemish government accepted most of the recommendations formulated by the Court of Audit, but objected to some of them. For instance, it does not consider it necessary to organise an individual follow-up of all credits regarding the transferred competences, or extra reportings on files concerning natural disaster losses.

### **Information for the press**

The Court of Audit exerts an external control on the financial operations of the Federal State, the Communities, the Regions and the provinces. It contributes to improving public governance by transmitting to the parliamentary assemblies, to the managers and to the audited services any useful and reliable information resulting from a contradictory examination. As a collateral body of the Parliament, the Court performs its missions independently of the authorities it controls.

The Report on the *Impact of the Sixth State Reform on the Flemish government* has been sent to the Flemish Parliament. The report (only in Dutch) and the press release can be found on the Courts website: [www.courtsofaudit.be](http://www.courtsofaudit.be).