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(Saba) 031/2024

Subject: Joint Response St. Eustatius and Saba – Ideeversa Research into Island Tasks and Resources CN

St. Eustatius/Saba January 31, 2024

Dear Mrs. van Huffelen,

On October 23, 2023 the Public Entities of the Caribbean Netherlands, Bonaire, St. Eustatius, and Saba (BES), received the report of IdeeVersa, regarding the island tasks and resources of the Caribbean Netherlands. The Public Entities of St. Eustatius (OLE) and Saba (OLS) have worked together to provide a joint response on this report.

Primarily we would like to thank BZK for arranging this research and we would like to thank Ideeversa for the thorough work they have done. The OLE and OLS agree with the general conclusion of the research, that structural funding is needed for structural tasks and that the structural free allowance of the islands is too low to fully carry out their tasks, however we share common concerns which are outlined herein after.

1. Determination of a Realistic Free Allowance

The main objective of the research was to determine the level of financial resources needed to carry out the island tasks of the BES. To determine this, research was conducted over prior year budgets and financial reports. In the opinion of the OLE and OLS this method is not the best method in determining the financial needs of the islands. The prior year's budgets and costs were based on the funding available and not on the actual financial needs for BES to fully execute the island tasks. The public entities operated at a bare minimum because of financial constraints, so using this method as the base, creates the wrong foundation for the end result. Additionally, as a small island, not only are we responsible for the

daily management of the island, but we are also accountable for the provincial level, the waterschap, etc. In a regular municipality, these entail completely different levels with distinct responsibilities, budgets, and leadership structures. OLE and OLS agree that a more forward-thinking approach should have been taken to determine a realistic free allowance. The tasks of the island and the costs associated with them should have been used rather than reliance on old data.

In addition, the report advises that the increase in free allowance should be offset by any increase in the income generated by the island (e.g. accommodation tax). OLE and OLS do not agree with the settlement of own income, which is nil for Saba and St. Eustatius, on the free distribution. Such practice diverges from the norms observed in the European Netherlands as well.

Although OLE and OLS agree that an increase in the free allowance is necessary, we do not agree with the calculated recommended amounts. In the opinion of OLE and OLS, the calculated amount simply reflects a shift from incidental to structural funding whereas the islands struggle to achieve balanced budgets, build the necessary reserves such as the resistance capacity, maintain healthy liquidity positions, make the necessary investments or invest in new policy. In addition, this does not take into consideration building a robust and skilled capacity, which is needed to properly execute the island's tasks. This also brings to question how the RCN budgets are determined, are these also based on outdated models and budgets or are they structured on a growth model? This currently is not the approach for the islands.

2. Structural Funding for Structural Tasks

OLE and OLS agree with the research that structural funding is needed for structural tasks. We do, however, disagree that the needed structural funding can be based on old data. By clearly identifying the island tasks and determining the costs associated with it to adequately carry these tasks out, we can come to a more accurate and realistic calculation of the funding needs of the islands. In the current system many structural tasks, including structural salary costs, are covered by incidental special grants which require the islands to request new funding on an annual basis. In the opinion of OLE and OLS, all structural costs should be covered via structural free allowance and not incidental or special grant funding. This opinion has also been echoed by both CFT and the accounts for the sustainability of the budgets.

3. Special Grant (Incidental) Funding

OLE and OLS agree that incidental funds should be for incidental costs and needs. OLE and OLS are not against receiving special grants or incidental funding however, we agree that this should be only in the case that the expenses are of an incidental nature. OLE and OLS agree that a uniformed approach from the ministries should be taken in granting special or incidental funding with clear set criteria and standard request and reporting guidelines. These guidelines should take into consideration the budget cycles of the OLE and OLS to accurately budget all income and expenses for the coming year to comply with the FINBES. OLE and OLS are not in agreement with the report to further complicate the administration by creating additional types of grants and funding options. By including the special grants that are currently provided for structural tasks in the free allowance, we can facilitate implementation and increase freedom of action. In addition, this will greatly reduce the administrative burden for both the OLE and OLS and the ministries. This will especially be a huge relief for the OLE and OLS, given the limited availability of qualitative capacity.

4. Task Division and Resource Clarity

This report is based on 44 tasks identified by the researchers. OLE and OLS agree that a clear list and division of tasks needs to be established between the central government (the Ministries) and the BES. Without a clear division of tasks agreed upon, an accurate estimation of costs is not possible. A transparent task allocation is essential for aligning financial resources appropriately.

5. Implementation Power and Freedom for Decision Making and New Policy

The Public Entities of Saba and St. Eustatius need sufficient implementation power and decision-making autonomy, along with the necessary financial resources to execute their duties effectively. The entities are responsible for upholding democratic principles and ensuring transparency and accountability in their actions. Certain recommendations within the report appear to complicate implementation processes and constrain the entities' freedom of action. In light of these challenges and recognizing limitations in implementation power OLE and OLS advocate for streamlining implementation procedures. Any adjustments should be accompanied by clear accountability agreements and where applicable defined start-up periods, to ensure responsible governance. In the current system the OLE and OLS do not have the financial means to implement new policy. In addition, existing policy is not always fully financed however is carried out by the OLE and OLS with limited financial means or capacity. In the report, the distinction between "policy options" and "minimum necessary" to perform a task well is hardly described. This should be subject to further consultation with the relevant Ministries. The Public Entities need to be empowered to fulfil their responsibilities adequately, consistently and autonomously.

6. Human Resource Challenges and Geographical Constraints

The OLE and OLS can be compared to small European Dutch municipalities, with the difference that a Public Entity cannot easily attract the necessary expertise to carry out its tasks due to its geographical location. In concrete terms, attracting the necessary implementation power is a complicated task. This is even more pressing due to the difficult accessibility for Saba and St. Eustatius. OLE and OLS have an understaffing of approximately 25% in the budgeted staffing plan, with the higher positions being very difficult to fill. In practice, this means that all (administrative) implementation activities in relation to the decisions issued must be carried out by a limited group of employees.

7. Uncertainty in Key Areas

Several policy areas within the OLE and OLS, including the NEPP, are still in their early stages and pose challenges in accurate estimation. These areas encompass expenditures related to wastewater management, waste collection and processing, nature conservation, and climate policy. The current report cannot comprehensively account for these areas, thereby limiting the overall precision of assessment.

8. Strategic Investment Planning

The report indicates a present investment requirement for the BES totaling USD120 million. However, the methodology employed to arrive at this figure remains unclear. The state of the basic yet essential infrastructure on all three islands were grossly underestimated from the very beginning. This has been an ongoing discussion even before 10-10-10. The research does not offer a solution to clear the backlog in maintenance on infrastructure, nor does it address the necessary funds needed to close the gaps in projects that are of utmost importance for our islands' development such as schools, proper government housing,

harbors and airports etc. Until this issue is properly addressed, the islands will remain stagnated in their ability to grow and as such, will continue to depend on relying on small budgets to address problems that get worse and more expensive by the day. In response, the OLE and OLS recommend conducting a comprehensive inventory of the immediate investment needs, encompassing all outstanding maintenance backlogs. This process aims to strategically address all planned investments, gradually elevating them to the standards observed in the European Netherlands over consecutive phases.

9. Incorporation of Labor Agreement and Inflation in Basic Model

The Basic Model incorporates considerations for wage and price developments. A separate communication will be provided to present the proposal for a collective labor agreement (CLA) for the BES. Regarding price dynamics, it is essential to underscore the impact of inflation. The incorporation of both the wage costs associated with the anticipated BES CLA and the inflation rates specific to the BES in the Basic Model is deemed a fundamental prerequisite ("conditio sine qua non") and should be structural as it is for RCN.

10. Interest Free Loans

The OLE and OLS agree that it should have the capability to seek interest-free loans, like European Dutch municipalities, specifically for essential sustainable investments. In such instances, the subsequent capital costs, including depreciation and interest, must be incorporated into the long-term budget, alongside the associated maintenance expenses. However, OLE and OLS advocate for this borrowing privilege only if the available free allowance provides ample structural financial capacity to accommodate loan repayment, sustain maintenance operations, manage depreciation, and facilitate the replacement of the investment. In the current calculation, the OLE and the OLS, would not have the financial freedom to be able to obtain an interest free loan.

11. Boosting Resilience through Surplus Budgets

Achieving the desired level of resilience within the public entities necessitates the availability or swift conversion to liquidity. This objective is attainable through budget surpluses. However, it's crucial to recognize that without sufficient free allowance, attaining surpluses in the budget would not be feasible. The report does not take this into consideration however it is the opinion of OLE and OLS that this needs to be taken into consideration when determining the level of the free allowance.

12. Improved Relationship between Ministries and BES

The OLE and OLS embrace knowledge sharing and cooperation within the BES and with and between the European Dutch municipalities. To enhance the relationship between the ministries and the BES, the following steps can be taken. (1) Clear communication Channels should be established between the Ministries and the public entities to ensure efficient and effective information flow and encourage open dialogue and transparency to address concerns and resolve issues promptly. This could include a stronger coordinating role of BZK with the ministries. (2) The unique needs and challenges of the islands need to be acknowledged and the public entities should be allowed to take the lead in identifying and prioritizing these requirements. (3) Clear timelines and legal frameworks need to be established between the ministries and the public entities to ensure that coordination efforts are streamlined and that projects progress smoothly. (4) Simplified and streamlined financing mechanisms need to be established by

identifying where bureaucracy can be reduced and processes made more efficient. (5) Continual communication and feedback is needed to evaluate the effectiveness of the relationship between the ministries and the public entities. By implementing these strategies, we can improve relationships and promote greater cooperation between the Ministries and the public entities and work towards the common goal of supporting the island's development and financial standing.

Conclusion

The Public Entities of St. Eustatius and Saba acknowledge that the report is a necessary first step in improving the financial situation and the level of the free allowance. We would like to further discuss the above points with you.

We hope to have informed you sufficiently.

Sincerely,

