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Underspending in the Investments of Municipalities

Identifying Alternative Explanations

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Abstract: Although underspending by municipalities was until recently regarded as relatively unproblematic, in recent years it has increasingly been associated with inefficiency, misallocation, and even the erosion of municipal councils' framework-setting role. Exogenous factors are often put forward as explanations for underspending, raising the question of the extent to which these external factors provide an adequate explanation. This study deliberately adopts an internal perspective in order to identify possible additional explanations for underspending. From this perspective, underspending is understood as the outcome of a decision-making process in which municipal actors may pursue different budgetary interests and hold different preferences regarding underspending. Drawing on three case studies that reconstruct decision-making concerning the renovation of primary school buildings by municipalities, the study illustrates that municipal actors may consciously encourage or, conversely, prevent underspending. In this context, the fiscal policy pursued plays a decisive role in either exacerbating or preventing underspending.

Keywords: underspending, fiscal policy, municipal decision-making, external factors

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1. Introduction

Underspending within Dutch municipalities has been a frequent subject of political debate for several years (Agustina et al., 2024; de Kruijf et al., 2026). The scale of underspending is substantial: from 2021 until 2025, Dutch municipalities collectively underspent €2.1 billion, €3.3 billion, €2.4 billion, €2 billion and €2.7 billion, respectively, in operating budgets (Budding et al., 2025; BDO, 2026; de Boer, 2026). Within municipalities, attention to underspending has been further stimulated by the announced reductions in the Municipalities Fund (Budding et al., 2025; Blankesteijn & ter Hedde, 2025). Insight into underspending may create opportunities to free up budgetary resources, thereby partially alleviating the pressure generated by the spending cuts. Some have even advocated budgeting for underspending in advance in order to absorb deficits, although this is not permitted under the current budgeting system (Tweede Kamer der Staten-Generaal, 2025; Commissie BBV, 2026).

Quite apart from the fact that underspending places the need for spending cuts in a different perspective, it may also be argued that structural underspending undermines the framework-setting role of a municipal council. Had the council known in advance that the allocated budgets would not be fully spent, it would presumably have deployed the available resources for other ambitions and objectives (Anderson, 2010; Wang, 2017; Peters, 2018; Ricciuti et al., 2019). This issue is particularly salient in times of fiscal constraint, when difficult choices must be made (Johansson & Siverbo, 2014; Andonoska & Alda, 2025).

Although management accounting contains a substantial body of research on budgetary control and budgetary slack in private organisations, comparatively little research from this discipline has examined underspending in the public sector (Johansson & Siverbo, 2014; Agustina et al., 2024). The available public administration research in this area likewise focuses on budgeting and reserve accumulation in the public sector, rather than on underspending specifically (Gore, 2009; Anessi-Pessina et al., 2012; Ricciuti et al., 2019; Andonoska & Alda, 2025; Brumm, 2026). One possible explanation is that, until recently, underspending was regarded as relatively unproblematic and was even interpreted as an illustration of prudent financial management (Rose & Smith, 2012; Wang, 2017; Andonoska & Alda, 2025). After all, underspending implies a cautious approach to financial management. The budgetary space created in this way can be used to resolve disagreements within governing coalitions, take risks, promote innovation, and cope with unforeseen external circumstances (Webb, 2002; Hendrick, 2006; Moulick & Taylor, 2017). From a public choice and agency perspective, however, underspending is associated with inefficiency, misallocation, and even less democratic decision-making (Maiga & Jacobs, 2007; Ma & Yu, 2012; Wang, 2017).

Existing research on underspending generally identifies exogenous factors as explanations for its occurrence (de Kruijf et al., 2026). Although municipalities themselves also frequently invoke these factors to explain underspending, the question arises as to why some municipalities report higher levels of underspending than others, even when they are exposed to exogenous factors to a comparable extent. This leads to the related question of whether exogenous factors provide a complete basis for explaining underspending, or whether the phenomenon can also be explained, at least in part, by internal factors.

This study therefore seeks to identify explanations for underspending from a different perspective. To this end, it adopts an internal interactionist perspective, based on the assumption that underspending is not merely the technical outcome of an externally influenced level of budget execution. Rather, it can be understood as the outcome of a decision-making process in which different internal actors hold different preferences regarding underspending and employ different strategies during their interactions in order to realise those preferences (Teisman, 1992). The study takes the form of a multiple-case study in which decision-making concerning the renovation of primary-school facilities in three municipalities is reconstructed. The degree of underspending is explained on the basis of the interactions and decisions of actors throughout this decision-making process.

This study addresses the following central research question: How can underspending on municipal investments in primary education school buildings be explained?

The article begins with a theoretical exploration of possible explanations for underspending. Following a discussion of the research design, the results are presented and analysed. The article concludes with several conclusions and provides a starting point for further discussion.

2. Theoretical exploration

Underspending can be defined as the difference between the budgets established and the eventual utilisation of those budgets (Hendrick, 2006; Agustina et al., 2024; de Kruijf et al., 2026). Underspending may occur in relation to operating budgets when regular budget allocations are not spent. It may also occur in relation to investment budgets when these budgets are not expended within the planned period.

By definition, underspending is unplanned and, in this respect, differs from the deliberate creation of reserves (Moulick & Taylor, 2017). Underspending should also be distinguished from budgetary slack. Budgetary slack occurs when a higher budget is allocated for the same performance objective, thereby making it easier to achieve that objective within the allocated budget (Dunk, 1993). The creation of budgetary slack may nevertheless explain underspending: deliberately increasing a budget may, after all, result in underspending. However, underspending may also be explained by stagnation in implementation, or under-realisation. Underspending of expenditure should also be distinguished from revenue over-budgeting. In case of revenue over-budgeting, it is not expenditure but rather revenue that is deliberately overestimated, thereby enabling higher budgets to be adopted (Jorge et al., 2023).

When actual expenditure is compared with the initial budget, municipalities do not always appear to exhibit underspending at first glance: actual expenditure generally exceeds the expenditure estimated in the initial budget (CBS, 2026). However, when budget amendments adopted during the year are taken into account, this picture changes. During the financial year, municipalities often adjust their budgets upwards, whereas by the end of the year, actual expenditure remains below the amended budget, resulting in underspending in operating budgets (de Kruijf et al., 2026). Underspending may also occur in municipal investments (Anderson, 2006).

Several explanations can account for underspending. Some explanations relate primarily to underspending in operating expenditure, whereas others relate primarily to underspending in investment expenditures.

Researchers and municipalities themselves often attribute underspending to exogenous factors. Municipal investments generally concern relatively large-scale projects, and their implementation depends partly on external actors and factors, such as developments in the labour market and the real-estate market (Klijn et al., 2010; van der Lei, 2026). Labour shortages may result in unfilled vacancies, thereby causing project implementation to stagnate. Implementation may also fall behind when project developers or other key external parties experience a decline in available capacity (Groot & van Helden, 2003; Jones et al., 2009).

In addition, investments sometimes concern new projects with which the municipality has no prior experience. However, the availability of relevant administrative expertise is essential for safeguarding the implementation of such projects (European Investment Bank, 2023). In addition, one-off investments are associated with uncertainty (ter Bogt et al., 2016). High uncertainty may lead to discretion in estimating future expenditure; overestimating future expenditure, as an act of uncertainty avoidance, may result in underspending.

Municipalities themselves identify complex regulation and uncertainty regarding future regulation as important causes of delays in implementation (European Investment Bank, 2023).

Several authors point to the influence of fiscal constraints. In periods of fiscal constraint, municipalities are more inclined to abandon or scale back planned investments. A lower level of investment results in lower capital charges and, consequently, creates fiscal space within the budget. Logically, this results in lower levels of underspending (Wolkoff, 1987; Hendrick, 2006; Breunig & Busemeyer, 2012; Snow et al., 2015).

In addition, the financing system of decentralised governments has been identified as a possible explanation for underspending in operating budgets. The central government often provides earmarked or one-off funding only at a late stage of the financial year. If a municipality subsequently increases its budgets accordingly, there is generally insufficient time remaining to spend these funds (de Kruijf et al., 2026).

Other authors situate underspending within the context of decentralisation. When the central government decentralises tasks and budgets to municipalities, this may result in underspending if municipalities lack the personnel capacity required to carry out these tasks (Wang, 2017; Andonoska & Alda, 2025).

If the external perspective is replaced by an internal perspective, other explanations for underspending come into view (Busch & Gustafsson, 2002; Snow et al., 2015).

If investments or activities are structurally not implemented within the planned timeframe, this may indicate planning optimism (Niskanen, 1994; de Kruijf et al., 2026; Pereira et al., 2026). In such cases, an alderman includes funding for an investment or activity in the budget, even though the feasibility of that investment or activity could already be questioned in advance (Groot & van Helden, 2003; Aardema, 2010; Jorge et al., 2023). Planning optimism may be driven by administrative and political ambitions, particularly when budgeting takes place in the context of forthcoming elections (Schneider, 2010; ter Bogt et al., 2016; Tribin, 2020; Brumm, 2026).

The public choice approach assumes that civil servants may achieve a certain degree of budget maximisation on the basis of their informational position and autonomy (Niskanen, 1971; Wyckoff, 1990; Busch & Gustafsson, 2002; Hendrick, 2006; Jorge et al., 2023). Budget maximisation may be directed at both operating budgets and investment budgets (Anderson, 2006). Various motives may play a role in this regard (Maiga & Jacobs, 2007; Gore, 2009; Abernethy & Wallis, 2019; Agustina et al., 2024). Budget maximisation may stem from the desire to create a certain amount of discretionary budgetary space to absorb unforeseen developments (Hendrick, 2006). However, more personal motives on the part of civil servants may also encourage budget maximisation. In the context of budget maximisation, insufficient countervailing pressure and critical reflection on planned investments are generally mobilised (Hansen & van der Stede, 2004; Burke, 2006; Merchant & van der Stede, 2012; Mutiganda, 2016; Kuroki & Sasaki, 2023). In this context, scholars point to principal–agent dilemmas and information asymmetry between budget holders, on the one hand, and financial officers or controllers, on the other (Gargan, 1987; Kiewiet & McCubbins, 1991; Niskanen, 1994; Kasdin, 2017; van Helden et al., 2023).

Authors point out that, within Dutch municipalities, no single party ever holds an absolute majority. Securing such a majority therefore requires cooperation among several coalition parties. In this process, different ambitions and interests may accumulate, exerting upward pressure on budgets and consequently resulting in underspending (Hendrick, 2006; Lapsley et al., 2011; Rose & Smith, 2012; Pedersen & Hansen, 2026).

Other scholars explain underspending through the notion of blame avoidance. Fearing that budget overruns will have to be explained at a later stage, decision-makers may set budgets too high in advance, resulting in underspending at the end of the financial year (Webb, 2002; Wang, 2017). This tendency is reinforced by the requirement that budgets may not be exceeded without prior authorisation from the municipal council – known as the budgetary criterion (Commissie BBV, 2025; Rose & Smith, 2012). In other municipalities, however, the dominant concern is precisely that budgets will not be spent. In these municipalities, lower levels of underspending are consequently observed (Aardema, 2010; Agustina et al., 2024).

The organisational culture within a municipality is also considered relevant (Maiga & Jacobs, 2007). Some municipalities are characterised by an anti-tax sentiment, whereas others are characterised by a pro-spending sentiment (Snow et al., 2015). Anti-tax sentiment may lead to lower budgets, thereby reducing the need to increase municipal taxes. Pro-spending sentiment may result in accelerated expenditure. From this perspective, both types of sentiment lead to lower levels of underspending (Rose & Smith, 2012).

Some scholars identify financial management within municipalities as an explanatory factor for underspending, although its effects are not unambiguous (Clark & Ferguson, 1983; ter Bogt et al., 2016). In addition to quantitative capacity, this concerns the quality of financial management, the professionalism of financial managers, and the political support for prudent fiscal policy (Gargan, 1987). If financial management is inadequate, budgets may be estimated too generously because budget holders receive less effective countervailing pressure (Webb, 2002; Jorge et al., 2023). A stringent financial function, however, may instead result in budgets being estimated too conservatively (Snow et al., 2015; Wang, 2017). Conversely, financial managers may deliberately encourage underspending

in operating budgets in order to preserve budgetary space during the financial year (Hendrick, 2006; Gore, 2009; Rose & Smith, 2012). Related to financial management, the management control system has also been linked to underspending (Merchant & van der Stede, 2012; Agustina et al., 2024). As management control systems become more strongly oriented towards efficiency or better able to foster trust, lower levels of underspending are expected to occur (Busch & Gustafsson, 2002; Abernethy & Wallis, 2019).

The decision-making process itself may determine the extent to which budgets are prepared realistically (Kasdin, 2017). In this regard, authors observe that decision-making perceived as less transparent may result in higher levels of underspending (Rose & Smith, 2012; Moulick & Taylor, 2017). Within municipalities, involving budget holders and managers in the design of budgets is generally encouraged, given the knowledge possessed by these actors. Budget holder participation may promote goal congruence, more realistic budgeting, and a reduction in underspending (Dunk, 1993; Maiga & Jacobs, 2007; Brown et al., 2009). On the other hand, studies have found that the participation of budget holders and managers may instead generate upward pressure on budget estimates (Lukka, 1988; Dunk, 1993; Busch & Gustafsson, 2002; Webb, 2002; Dos Santos et al., 2022).

Overbudgeting may be structural in nature. Aldermen, budget holders and controllers are aware that reducing budgets may attract political attention and trigger debate (Johansson & Siverbo, 2014; Pedersen & Hansen, 2026). They may therefore prefer incremental adjustment or the maintenance of the budgetary *status quo,* even when the budgets allocated annually are not fully spent each year (Skok, 1980; Tweede Kamer der Staten-Generaal, 2015; Hijal-Moghrabi, 2019; Kuroki & Sasaki, 2023).

3. Research design

The theoretical exploration reveals that underspending is not merely the technical result of exogenous factors, but can also be consciously induced or prevented (Hijal-Moghrabi, 2019). In this regard, underspending can be conceived as the outcome of a decision-making process in which various actors pursue different budgetary interests and hold different preferences regarding underspending (Teisman, 1992; Jimenez, 2017). This study focuses on the decision-making process that begins with budget preparation and ultimately leads to a certain degree of underspending and its subsequent treatment. An interactionist internal perspective is adopted (Wyckoff, 1990; Dunk, 1993; Teisman, 1992; Koppenjan & Klijn, 2004; Howlett, 2007; Hoque & Kaufman, 2024). Within this perspective, the various actors, their divergent budgetary interests, and the manner in which they attempt to realise these interests through interaction with one another constitute the central objects of inquiry (cf. Skok, 1980; Lewin, 1991; Teisman, 1992; Gallagher, 1993; Brown et al., 2009). Focusing on the interactions among these actors and the ways in which they seek to achieve their budgetary objectives may provide additional insight into the emergence of underspending (Greco et al., 2025).

The study takes the form of a multiple case study, with three municipalities designated as cases (cf. Busch & Gustafsson, 2002). The cases serve to illustrate the chosen perspective rather than to produce generalisable statements. To keep exogenous

factors as constant as possible, a specific investment item was selected: the renovation of primary education school building. Municipalities have a statutory task with respect to primary education housing and typically allocate annual budgets for this purpose (in the form of investment budgets).

For case selection, 22 medium-sized municipalities (i.e. 20,000–50,000 inhabitants) were approached that had recorded a comparable investment budget for the renovation of primary education school buildings in their 2025 budgets. Nine of these municipalities indicated their willingness to participate in the study. In six instances, the renovation was undertaken jointly with other municipalities, ultimately resulting in a selection of three municipalities. To identify plausible explanations for underspending, the cases were deliberately selected to exhibit varying degrees of underspending.

Using an analysis of the annual accounts and financial administration, the degree of underspending with respect to primary education school building renovation in 2025 is first determined for each municipality. This concerns underspending in investments, rather than underspending on operational costs. In Dutch municipalities, investment budgets for primary education school building renovation are included in the budget each year (i.e. the investment plan). Although these investment budgets relate to different schools in each year, the total annual investment budget approved by the municipal council remains more or less constant. The municipality does this deliberately to equalise the capital charges arising from these investments.

To determine the degree of underspending, the investments as realised and capitalised in 2025 are compared against the budgeted investments for 2025, as included in the investment plan, as part of the primary budget 2025 and the management reports for 2025.

As the investments realised for each school are generally not reported in the municipal annual accounts, the financial administration – specifically, the investment module – was consulted for this purpose.

Subsequently, the study focuses on the decision-making process concerning the 2025 primary education school building renovation. Within this decision-making process, three phases can be distinguished (cf. Teisman, 1992; Koppenjan & Klijn, 2004). The first phase concerns the budgeting phase, which begins with budget preparation in 2024 and ends with the adoption of the investment plan by the municipal council in autumn 2024. The second phase concerns the implementation phase, during which the actual renovation takes place in 2025. The third phase concerns the treatment phase: if underspending is identified at the end of the budgetary year, the remaining budgetary space may be added to the general reserve or carried forward to the following year. It is conceivable that different actors hold not only different preferences regarding the degree of underspending, but also regarding the treatment of underspending. This implies that the study cannot be limited to budgeting and implementation, but must also address the ultimate treatment of any underspending. Therefore, this treatment phase is included as the third phase in the analysis of the decision-making process. For each municipality, the decision-making regarding budgeting, implementation and result treatment for the 2025 primary education school building renovation item is analysed (cf. Tiihonen, 1990; Stenstrom & Haycock, 2015). The decision-making reconstruction method is employed, working backwards from a final

decision through various phases along a logical path to the initiative phase (cf. Menting, 1988; Teisman, 1992).

To further delimit the scope, this study initially focuses on two municipal actors as a starting point: the alderman for education and the budget holder (cf. Gerwin, 1969). From public choice and agency perspectives, it is expected that these actors have budgetary interests and preferences regarding underspending, and that they additionally hold central formal positions in the decision-making process (Koenig & Troeger, 2005; Anderson & Maks, 2012). The study traces the administrative, bureaucratic and budgetary objectives and information positions of these actors, as well as the formal and informal roles they played in the decision-making process (cf. Lewin, 1991; Brown et al., 2009; Hoque & Kaufman, 2024). In addition to this focus on the alderman and budget holder, the analysis is extended to other actors (corporate controller, head of finance, executive management, school board, etc.) where and insofar as they played an evident role in the decision-making process, thereby generating an increasingly complete picture of the interactions that occurred during the decision-making process. The influence of exogenous factors is also incorporated into the analysis to contrast the chosen internal perspective with the external perspective.

To enhance the validity and reliability of the study, a broad range of respondents at different levels within the municipalities were interviewed; namely, the alderman, the general manager, the budget holder, the head of finance and the corporate controller in each municipality. Additionally, interviews were conducted with staff members involved in the implementation of educational housing and in the development of the educational housing budget and the Integrated Housing Plan (IHP) (cf. Busch & Gustafsson, 2002). The respondents have declared in writing, in advance, that they are participating in this study entirely voluntarily and without any personal interest. It has also been guaranteed that all findings will be analysed anonymously. The interviews were semi-structured and initially focused on the administrative, bureaucratic and budgetary objectives of the alderman and the budget holder. Subsequently, questions addressed the course of the decision-making process and the interactions among these actors. The first interview took place in January 2026, and the last interview was conducted in June 2026.

In addition, the most relevant documents for each municipality pertaining to the budgeting, implementation and financial treatment of the primary education school building renovation were analysed. These include the program budget, the IHP, underlying budget calculations, management reports, annual accounts, components of the financial administration and other relevant documents (such as executive board and council proposals). Based on this document analysis, not only the degree of underspending and its treatment could be traced, but the interview results could also be verified and supplemented (cf. De Carlo, 2006).

4. Analysis[1]

The cases can be summarised as shown in Table 1:

Table 1
Summary of the three cases

	Municipality 1	**Municipality 2**	**Municipality 3**
Underspending	€3.5 million is included in the initial 2025 budget; €220,000 is realised.	€4 million is included in the first administrative 2025 report; €0 is realised.	€3.7 million is included in the initial 2025 budget; €3.3 million is realised. For the remaining work, €400,000 is paid in advance.
Accounting treatment	The remaining €3.28 million is carried forward to 2026.	The entire budget is carried forward to 2026.	€3.3 million budget is actually spent in 2025.
Objective of the alderman	To realise the ambitions concerning educational accommodation in 2025 or thereafter, as set out in the coalition agreement.	To complete the renovation for €4 million in 2025 or thereafter, as set out in the coalition agreement.	To complete two renovations in 2025, on the basis of the administrative planning and budgeting. If this proves unfeasible, to complete at least one renovation in 2025 for €3.7 million.
Objective of the budget holder	To complete the renovation for €3.5 million in a year in which sufficient capacity is available. This is in any event not 2025.	Is uncertain whether implementation in 2025 is feasible.	To complete the two renovations in 2026 within the €3.7 million budget. If this proves unfeasible, to complete at least one renovation in 2025 for €3.7 million.
Objectives of other relevant actors	**Corporate controller** Opposes carrying unspent budgets forward. Unused budgetary space can be added to the general reserve. **Executive management** At the direction of the director of Spatial Development, the principle governing the carry-forward of appropriations is not changed.	**Corporate controller** Prioritises a balanced budget. Unused budgetary space should be released and not carried forward to 2026.	**Head of finance** No underspending. If underspending occurs, the relevant funds are released to the general resources and are not carried forward.

[1] Although this analysis is based on the reconstructed decision-making process, that process itself cannot be presented in this contribution for reasons of readability.

	Municipality 1	**Municipality 2**	**Municipality 3**
Decision-making process	The budget holder determines the budget but not the schedule. The budget holder sees an opportunity to postpone implementation and carry it forward to 2026, including the remaining budget. The level of ambition is not changed.	The budget is included in the coalition agreement and is put forward by the alderman in the first administrative report. If implementation stagnates, the alderman carries the budget forward to 2026 in the third 2025 administrative report. The level of ambition is not changed.	The budget and schedule are established through consultation between the budget holder and the school boards. The alderman subsequently reduces the scope of the plan. When implementation is at risk of stagnating, almost the entire budget is used to renovate at least one school in 2025. The level of ambition is adjusted downward.
Influence and use of exogenous factors	Stagnation is caused by the budget holder's postponement of implementation. Exogenous factors do not explain the stagnation. Exogenous factors are invoked ex post to explain the delay to the municipal council.	Exogenous factors, such as unfilled vacancies, cause the stagnation. Exogenous factors are deliberately left unmentioned in order to prevent the credibility of the new schedule for 2026 from being called into question.	Exogenous factors arise in the form of delays by contractors. These exogenous factors are subsequently mitigated by engaging another contractor.
Information position	The budget holder has an information advantage over the alderman regarding the substantiation of the budget, carrying funds forward, and accumulating the remaining investment budgets.	The alderman has an information advantage over the budget holder regarding the agreements with the three school boards.	There is no clear information asymmetry between the portfolio holder and the budget holder.

Source: Compiled by the author.

If the three cases are compared, it becomes apparent that underspending occurs in all but Municipality 3: in that municipality, most of the 2025 budget is spent. Municipality 3 is also the only municipality in which, pursuant to the financial policy, unspent budgets may not be carried forward. The alderman and the budget holder therefore have no incentive to allow underspending, since unspent budgets revert to the general fund and are no longer available for school accommodation. Municipality 2 likewise permits carry-forwards, although these must be underpinned by a specific plan; underspending also

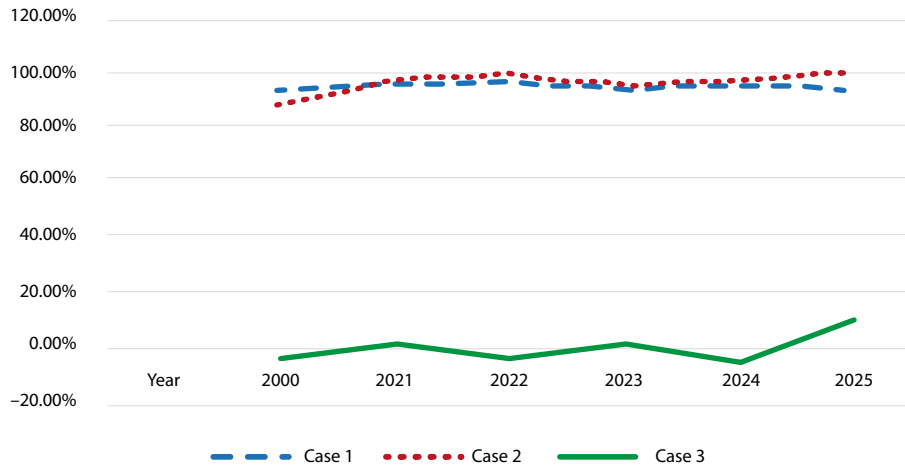

Figure 1
Underspending (%)

Source: Compiled by the author.

occurs in this municipality. The analysis demonstrates that the financial policy governing carry-forwards modifies the interests of the alderman and the budget holder with regard to underspending. Where carry-forwards are not permitted, these actors have no incentive to generate underspending. The analysis also demonstrates that where actors do have an interest in underspending, it may be deliberately created.

Figure 1 shows the percentage of underspending from 2020 onward. To calculate this percentage, the realised investments in primary education facilities were compared with the budgets established for the corresponding year. The figure demonstrates that the percentage of underspending is consistently higher in Municipalities 1 and 2.

Municipalities that permit the carry-forward of unspent budgets may expend these funds in subsequent years. Including such expenditures in the analysis yields a more nuanced picture. This analysis is presented in Table 2. For the 2026 column, the new 2026 budgets are not reported, as the 2026 realisation was not yet known at the time of this study.

In Municipality 1, the cumulative underspending rate amounts to 95%. Although carry-forward is permitted in this municipality, unspent budgets from prior years are not expended in later years either. By contrast, underspending does not accumulate in Municipality 3: the cumulative underspending rate is only 1%, indicating that nearly the entire annual budget is typically spent within the respective fiscal year. In Municipality 2, the cumulative underspending rate is 30%. While this municipality is unable to expend its budgets within the specific year, it does succeed in spending these funds in later years. This pattern may be explained by differences in carry-forward rules: in Municipality 1, carry-forward is allowed without further conditions; in Municipality 3, carry-forward is not permitted under any circumstances; and in Municipality 2, carry-forward is allowed only when supported by a detailed spending plan. Consistent with such a plan, the unspent budgets in Municipality 2 are indeed expended in subsequent years.

Table 2

Analysis of cumulative underspending in investments

Municipality 1							
	2020	2021	2022	2023	2024	2025	2026
Budget 2020	3,500,000	3,275,000	3,275,000	3,275,000	3,275,000	3,275,000	3,275,000
Budget 2021		3,000,000	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000
Budget 2022			3,300,000	3,175,000	3,175,000	3,175,000	3,175,000
Budget 2023				3,500,000	3,320,000	3,320,000	3,320,000
Budget 2024					3,500,000	3,376,000	3,376,000
Budget 2025						3,500,000	3,280,000
Budget 2026							
Total budget	3,500,000	6,275,000	9,475,000	12,850,000	16,170,000	19,546,000	19,326,000
Realisation budget 2020	225,000						
Realisation budget 2021		100,000					
Realisation budget 2022			125,000				
Realisation budget 2023				180,000			
Realisation budget 2024					124,000		
Realisation budget 2025						220,000	
Total realisation	225,000	100,000	125,000	180,000	124,000	220,000	
	Underspending budget 2020	Underspending budget 2021	Underspending budget 2022	Underspending budget 2023	Underspending budget 2024	Underspending budget 2025	Cumulative underspending
	94%	97%	96%	95%	96%	94%	95%
Municipality 2							
	2020	2021	2022	2023	2024	2025	2026
Budget 2020	4,000,000	3,550,000	1,550,000	300,000	to general fund		
Budget 2021		4,000,000	3,900,000	2,150,000	400,000	to general fund	
Budget 2022			4,000,000	3,950,000	1,775,000	–25,000	from general fund
Budget 2023				4,200,000	4,020,000	2,520,000	520,000
Budget 2024					4,000,000	3,876,000	2,001,000
Budget 2025						4,000,000	4,000,000
Budget 2026							
Total budget	4,000,000	7,550,000	9,450,000	10,600,000	10,195,000	10,371,000	6,521,000

Realisation budget 2020	450,000	2,000,000	1,250,000					
Realisation budget 2021		100,000	1,750,000	1,750,000				
Realisation budget 2022			50,000	2,175,000	1,800,000			
Realisation budget 2023				180,000	1,500,000	2,000,000		
Realisation budget 2024					124,000	1,875,000		
Realisation budget 2025						–		
Total realisation	450,000	2,100,000	3,050,000	4,105,000	3,424,000	3,875,000		
	Underspending budget 2020	Underspending budget 2021	Underspending budget 2022	Underspending budget 2023	Underspending budget 2024	Underspending budget 2025	Cumulative underspending	
	89%	98%	99%	96%	97%	100%	30%	
Municipality 3								
	2020	2021	2022	2023	2024	2025	2026	
Budget 2020	3,500,000	–100,000	from general fund					
Budget 2021		3,550,000	75,000	to general fund				
Budget 2022			3,600,000	–100,000	from general fund			
Budget 2023				3,650,000	100,000	to general fund		
Budget 2024					3,700,000	–150,000	from general fund	
Budget 2025						3,700,000	400,000	to general fund
Budget 2026								
Total budget	3,500,000	3,550,000	3,600,000	3,650,000	3,700,000	3,700,000	400,000	
Realisation budget 2020	3,600,000							
Realisation budget 2021		3,475,000						
Realisation budget 2022			3,700,000					
Realisation budget 2023				3,550,000				
Realisation budget 2024					3,850,000			
Realisation budget 2025						3,300,000		
Total realisation	3,600,000	3,475,000	3,700,000	3,550,000	3,850,000	3,300,000		
	Underspending budget 2020	Underspending budget 2021	Underspending budget 2022	Underspending budget 2023	Underspending budget 2024	Underspending budget 2025	Cumulative underspending	
	–3%	2%	-3%	3%	–4%	11%	1%	

Source: Compiled by the author.

The possibility of carrying unspent budgets forward affects not only the extent of underspending but also the adjustment of ambitions in response to delays in implementation. In the first two municipalities, stagnation in implementation is not perceived as particularly problematic by the alderman and the budget holder. The financial policy allows the remaining 2025 budgets to be written off in the final budget amendment or management report and re-entered in the 2026 budget, thereby ensuring that the funds remain available for the ambitions of the alderman and the budget holder. Aldermen therefore prefer to carry forward underspending while preserving their ambitions rather than abandoning those ambitions. In Municipality 3, however, the level of ambition is reduced from the renovation of two primary schools to that of one primary school. Notably, this adjustment is not accompanied by a budget reduction. Whereas municipalities commonly invoke exogenous factors to explain delays in implementation, Municipality 3 invokes an exogenous factor as the reason for implementation that is faster but more expensive. In Municipality 3, underspending is regarded as problematic by the alderman and the budget holder, because unused funds revert to the general fund and cannot be carried forward. This motivates them to utilise the appropriations as fully as possible. The fact that the council adopts the multi-year investment plan at a high level of abstraction and is subsequently unable to determine the extent to which the renovation was actually completed within schedule and budget creates an incentive for a more expensive renovation.

In all three municipalities, the aldermen responsible for school accommodation have ambitions in the field of renovation. In some cases, these ambitions are included in a coalition agreement and are sometimes even accompanied by a specific budget. In other cases, the initiative to undertake renovations is taken not so much by the coalition as by the alderman personally. The three aldermen initially seek to include the required budgets in the multi-year investment plan, in the 2025 annual tranche, as part of the 2025 budget. They subsequently seek to spend as much as possible of the budget included in the plan during 2025. If implementation falls behind schedule, the aldermen need a clear message that can be communicated to the council.

In Municipality 1, for example, the budget holder refers to national government regulations, a shortage of contractors and property developers, insufficient administrative capacity due to unfilled vacancies, and a prohibition on hiring external staff – imposed in part by the council itself – which prevents the shortage of administrative capacity from being addressed. The alderman adopts these exogenous factors in communications to the council to explain the stalled implementation, even though the actual cause of the delay is the budget holder's decision to slow down the schedule.

In Municipality 2, the alderman opts for a forward-looking approach and asks the budget holder to reach concrete agreements with the school boards. The message conveyed to the council is therefore that renovation will commence at the beginning of 2026. This specific commitment to commence renovation in 2026 provides the council with grounds for carrying the 2025 budget forward by one year.

In Municipality 3, the budget is spent, and the council is informed that one school building has been renovated according to schedule. The fact that a second school building can no longer be renovated is not mentioned. Since the budget does not specify how many school buildings were to be renovated in 2025, there is no reason to raise this issue.

The budget holders pursue different objectives and operate differently in the three municipalities. In Municipality 1, the budget holder within the Spatial Development department prepares the renovation budget independently. The renovation schedule is developed by the Welfare and Education Department. The two departments do not cooperate effectively, and the schedule submitted by Welfare and Education is not endorsed by Spatial Development. Consequently, Spatial Development maintains its own schedule. Projects that cannot be implemented are carried forward to subsequent years, together with the budgets available for them. In the field of primary-school accommodation, this practice results in an accumulated workload, accompanied by a budget of more than €19 million. The proposal to carry the unspent budget forward to 2026 is deliberately not coordinated with the Welfare and Education Department or the alderman, thereby depriving these actors of the opportunity to reverse the proposal in the run-up to decision-making.

The budget holder in Municipality 2 is confronted with the coalition agreement, which includes a budget of €4 million for renovation in 2025. This budget is not further substantiated, nor is it clear precisely what is to be renovated. Since no budgetary space is available for the renovation in the final budget for 2025, the budget holder is initially less concerned. This changes when the alderman succeeds in having the required €4 million appropriation included in the first management report of 2025 without informing the budget holder. Unfilled vacancies and the lack of agreement among the primary schools prevent the renovation from getting off the ground. The budget holder actively seeks support from the corporate controller and decides to release the proposed budget. Just as the budget holder was not involved in advance in including the budget of €4 million, the alderman is deliberately not involved in removing it. Understandably, the alderman responds by reversing the proposed release in the second management report. It is noteworthy that the alderman repeatedly becomes involved in the budget holder's work. Thus, the coalition agreement already includes an amount of €4 million, specified by the alderman but not calculated through an administrative process. Subsequently, the alderman includes the budget in the first management report, even though such proposals are generally initiated by budget holders. After the budget is retained in the second management report, the alderman personally enters into discussions with three school boards, although such consultations are normally conducted by budget holders and managers in the first instance. Whereas administrative processing in this municipality takes place through consultation between the budget holder and the Finance Department, the alderman in this case gives specific instructions to the head of finance.

The budget holder in Municipality 3 plays a relatively active role and is given considerable latitude to do so by the alderman. The budget holder consults with the school boards, draws up a renovation schedule, calculates the required budget, and introduces this budget during the preparatory administrative consultations. The latitude granted to the budget holder creates a sense of ownership with regard to the alderman's ambitions. When the renovation stalls, a choice must be made. The unspent budget may revert to the general fund, but in that case the budgetary claim for 2026 would have to be submitted again. The alternative is to have at least one primary school renovated by a more expensive contractor. Following mutual consultation, the alderman and the budget holder opt for this alternative. They realise that, in effect, only one of the two renovations is now being carried out for

the same budget. At the same time, the multi-year investment plan does not specify precisely what is to be delivered in return for the budget, meaning that neither the budget holder nor the alderman expects critical questions on this matter. In retrospect, this proved to be a correct assessment.

From a principal–agent perspective, an actor's information position should be interpreted not so much in absolute terms as from a comparative perspective. In budgetary matters, the budget holder in Municipality 1 has an information advantage over the other actors. This advantage concerns not only the budgetary substantiation of the proposed renovation in 2025, but also the proposal to carry the budget forward and the annual accumulation of unspent budgets. This enables the budget holder to formulate and maintain a schedule of his own. In Municipality 2, by contrast, the alderman has an information advantage over the budget holder. The alderman consults with the school boards and uses this information to instruct the budget holder and the head of finance. In Municipality 3, there is less information asymmetry between the alderman and the budget holder. Crucial information is shared on the basis of a common ambition. It can be argued that aldermen and budget holders engage in interactions based on their preferences and the information at their disposal, while particular interactions may in turn generate information and even create an information advantage. In all three municipalities, the alderman has an information advantage over the council. This information advantage is subsequently employed in shaping communications to the council.

The influence of exogenous factors on the extent of underspending is not unambiguous. In Municipality 1, exogenous factors are invoked *ex post* as arguments to explain the stagnation in implementation to the council. The actual reason for the stagnation, however, is that the budget holder considers the renovation schedule unrealistic and is able to slow down implementation, thereby maintaining his own schedule. In Municipality 2, exogenous factors, such as hard-to-fill vacancies, do constitute an actual cause of stalled implementation, but these factors are deliberately not mentioned. The alderman opts to communicate to the council that the renovation will be set in motion in 2026 and deliberately leaves exogenous factors out of the account in order not to call the credibility of the revised schedule into question. In Municipality 3, exogenous factors, such as delays on the part of contractors, also play a role, but the municipality is able to mitigate their impact in part by seeking an alternative contractor. It can therefore be argued that exogenous factors have no uniform effect on the extent of underspending and do not provide a uniform explanation for it.

A high level of ambition does not invariably result in underspending. In all three municipalities, ambitions are set at a comparable level: renovating school buildings for an amount of approximately €3.7 million. In Municipality 3, however, there is virtually no underspending. Nor does stalled implementation invariably result in underspending: renovation stalls in all three municipalities, but in Municipality 3 this prompts the municipality to accelerate implementation at a higher cost.

5. Conclusions

Although underspending by municipalities was until recently regarded as relatively unproblematic, in recent years it has increasingly been associated with inefficiency, misallocation, and even the erosion of the council's role in setting policy frameworks. Increasing budgetary pressure on municipalities has reinforced this attention to underspending. Many municipalities feel compelled to implement spending cuts in order to achieve structural budgetary balance, and identifying underspending may create additional fiscal space.

Municipalities themselves generally cite exogenous factors as an explanation for underspending. It is conceivable, however, that underspending is not merely the technical result of exogenous factors, but may also be deliberately encouraged or, conversely, prevented. This study shifts the analytical focus from an external to an internal perspective in order to identify possible additional explanations for underspending. To this end, underspending is conceptualised as the outcome of an internal decision-making process in which different actors may pursue different budgetary interests and hold different preferences regarding underspending. For three municipalities, the decision-making process concerning the 2025 budget item for the renovation of primary education school buildings was reconstructed, and the extent to which underspending can be explained by these interests and preferences was analysed.

It can be concluded that the preferences of aldermen and budget holders, the interactions in which they engage, their relative information positions, and the manner in which the decision-making process unfolds may determine the extent of underspending. Exogenous factors are more often invoked *ex post* in communications to the council to explain underspending, deliberately disregarded, or used precisely as a reason to counteract underspending.

The extent to which unspent budgets may be carried forward to a subsequent year can encourage underspending. Carrying funds forward implies that the budget and the associated ambition can be maintained and secured. Where carry-forwards are permitted, aldermen and budget holders therefore regard underspending as relatively unproblematic. Where financial policy does not permit carry-forwards, aldermen and budget holders instead have an interest in utilising the budget, since unspent funds revert to the general fund.

Hence, the financial policy governing unspent budgets can be highly determinative of the extent of underspending from a multi-year perspective. If unspent budgets may be carried forward to later years without restriction, realisation remains below budget even from a multi-year perspective, and cumulative underspending increases. If carry-forward of unspent budgets to later years is permitted only when a spending plan has been prepared, the unspent budgets are nevertheless expended in subsequent years, and cumulative underspending over the multi-year horizon remains limited. If unspent budgets may not be carried forward at all, there is virtually no cumulative underspending either on an annual basis or from a multi-year perspective.

The possibility of carrying budgets forward also affects whether political and administrative ambitions are adjusted. If budgets can be carried forward, the ambitions

are maintained. If carry-forwards are not permitted, priority is given to utilising the budget, even if this results in a downward adjustment of ambitions.

The decision-making process, which begins with budget preparation and ends with the administrative treatment of underspending, can be explained by the political-administrative and budgetary interests of the alderman, the budget holder and other actors; these actors' preferences regarding underspending; the interactions in which they engage; and the information positions they occupy. Underspending may be regarded as the outcome of this decision-making process. During the process, actors are able either to deliberately pursue underspending or to prevent it.

This may involve a complex interplay between interests, interactions and information. The interactions initiated by aldermen and budget holders are shaped by the preferences of these actors, but also by the information available to them. Conversely, particular interactions generate information in turn, and taking the initiative to engage in an interaction may, in certain circumstances, create an information advantage.

The fact that exogenous factors are sometimes invoked *ex post* to explain underspending, sometimes deliberately disregarded, and sometimes used precisely as an argument for counteracting underspending demonstrates that exogenous factors provide a less adequate basis for explaining underspending. Underspending is more readily explained as the outcome of a decision-making process in which different actors hold different preferences regarding underspending and in which underspending may be regarded as a deliberate choice.

6. Discussion

The findings of this study correspond, to some extent, with previous research, particularly research situated within the public choice approach.

For example, the alderman may be attributed an ambitious objective, which is translated into commensurate budgetary allocations (Lewin, 1991; Hijal-Moghrabi, 2019). The alderman seeks implementation that is consistent with this ambition (Kang, 2025). After all, lagging implementation may give rise to debate in the municipal council, and the alderman will seek to avoid such debate wherever possible (Anderson & Maks, 2012). The alderman therefore prefers not to be confronted with underspending (Hu et al., 2026). Where underspending nevertheless occurs, it can be observed that the alderman attempts to safeguard the ambitions and the associated budgets. Communication with the council is shaped by the alderman's information advantage over the council.

The conduct of the budget holders likewise corresponds with earlier insights. Budget holders generally prefer to calculate the budget themselves and, in doing so, tend to favour the inclusion of a certain degree of slack in the budget (Jimenez, 2017; Hijal-Moghrabi, 2019). This enables the budget holder to address unforeseen developments without having to initiate a formal budgetary decision-making procedure (cf. Gerwin, 1969; Niskanen, 1971; Wyckoff, 1990; Busch & Gustafsson, 2002; Hendrick, 2006). The budget holder subsequently seeks to prevent the funds from reverting to the general fund, either by safeguarding the unspent budget or by accelerating its expenditure (Gallagher, 1993).

This study has several limitations. First, the decision-making process was reconstructed from the perspective of two actors: the alderman for education and the budget holder. Although this delimitation was necessary to maintain an adequate analytical focus, it means that the actions of other actors remain underexamined. Future research could incorporate additional actors into the analysis in order to provide a more comprehensive account of the decision-making process. The cases serve as illustrations of the perspective adopted, with the analysis examining the extent to which an internal perspective can provide additional explanations for underexpenditure. Consequently, the findings cannot readily be generalised. This limited external validity is reinforced by the selection of a single, specific budget item. Quantitative follow-up research examining the relationship between financial policy concerning the carry-forward of unspent budgets, on the one hand, and the extent of underspending, on the other, could provide a valuable complement to this study. Such research could also include other public sector organisations, thereby enabling the influence of exogenous factors to be examined more comprehensively.

Despite these limitations, this study offers an additional perspective on underspending. Whereas explanations for underspending are often sought in the interplay of exogenous factors, underspending may also be understood as the outcome of a decision-making process in which some actors deliberately pursue a certain degree of underspending and ultimately succeed in achieving a certain level of underexpenditure.

Anticipating underspending, as some advocate, can reduce underspending. It implies that unspent budget allocations are deployed elsewhere. As a result, less budget can be carried forward to subsequent years, and the incentive to underspend diminishes.

On the other hand, this approach may instead encourage greater budget maximisation. By budgeting at even higher levels, the previously estimated amount of underspending is effectively built into the budget, so that the same surplus is retained in the end.

The principal risk of this approach, however, is that budget holders no longer have an interest in underspending and will consequently ensure that the budgets are actually spent. If underspending has already been anticipated but does not materialise, a budget deficit will arise.

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