

## Chapter 2: Improving Local Service Delivery: Increasing Performance through Reforms

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### 2.1 Introduction

This chapter explores institutional changes in organizational forms and operating logics of local service provision in the context of New Public Management (NPM) and post-NPM. According to research findings from this LocRef research programme, local service delivery in Europe has gone through a radical transformation since the 1980s, particularly due to ideas and practices of market liberalisation and business-inspired managerialism associated with public sector reforms and EU legislation. Whereas NPM-inspired local government reform has received extensive attention from researchers, reforms from the more recent post-NPM period are conspicuously under-researched. One of the main purposes of this research project has been to bridge this knowledge gap.

There are significant differences between European countries and between groups of European countries in terms of content, speed and direction of institutional change. Classification of countries varies in different studies depending on which variables they focus upon. In this study, we limit ourselves to two dimensions, east-west and north-south, although we are aware of important variations across these dimensions, e.g. differences between the UK, the continent and former Communist countries (the so-called CEE, Central East European countries). There is

also a clear difference between how public utilities and personal social services are organized and run.

By using metaphors, researchers try to define the overall pattern that characterize the development of reform. First, the metaphor *trajectory* describes a chronology of reform ‘packages’ in terms of pre-NPM, NPM and post-NPM, one following the other, and correcting or substituting the preceding reform ‘package’. The second metaphor, *pendulum* conveys a picture of oscillation between reform ideas, e.g. practising contracting out in local service provision for a period, then re-municipalizing it before returning to contracting out at a later stage. Lately, a third metaphor has emerged, *hybridization*, which seeks to describe how reform ideas blend and create new patterns of local service provision. Social entrepreneurship is one example of how to mix market with social purpose. Another example is the mixture of government (hierarchy) and market through municipally owned enterprises (MOEs).

This chapter’s sections deal with different approaches towards improving local service provision. One describes the transformation of organization and governance in local service provision. It looks at the trend of ‘externalizing’ local services and the phase after NPM. The influence of NPM has been considerable, although quite varying in strength between countries and services, leading to (varying degrees of) ‘hiving off’, contracting out and privatization. Lately, in the post-NPM period we find some indications of re-municipalization, but without a full retreat to pre-NPM organizational forms and operating logics. Instead, there is an increasing tendency to blend public and private service delivery, which leads to hybrid forms and logics consisting of public entities collaborating with for-profit businesses and non-profit associations.

Further research explores the possible effects of internal management reforms in local government on local service delivery. Since clear evidence of success or failure is difficult to establish, most of the research seeks to identify the conditions that seem to influence the success of reforms. The reforms include integration/coordination-oriented joined-up government and strategic planning instruments aimed at counteracting fragmentation, as well as more internally oriented approaches like human resource management and performance management. Incremental reforms based on trial-and-error learning, competence building at the local level and use of information and communications technology (ICT) seem to work better than swift, across-the-board changes, especially if these are compulsory and linked to tightening control by central government.

Further, this chapter discusses whether inter-municipal cooperation (IMC) offers a solution to the deficiencies in local service provision. Con-

trary to the 'hard' approach of a merger, IMC is seen as a 'soft' approach with which to overcome limitations of size and economies of scale problems. The advantage of IMC is that it does not disrupt established communities, loyalties and democratic identities. However, IMC is vulnerable when exposed to disagreement and unwillingness to compromise. Amalgamation offers a 'hard' approach, and is weak where IMC is strong, and strong where IMC is weak. Nonetheless, the subsidiarity principle should be followed as a golden rule, securing proximity, efficiency and flexibility, the main reasons why local government may succeed in improving services.

Moreover, this chapter will raise the question of whether there is an 'ideal' size for municipalities in terms of local service delivery and performance. Its answer is a conditioned no, with researchers arguing that the issue of size belongs more to the political than the scientific sphere. The 'ideal' size, to the extent that it exists, is highly dependent on a large number of circumstances, e.g. political, financial, social, infrastructural, geographical/topographical, conditions that vary extensively inside and across countries. Amalgamations are highly controversial in many countries and may carry high political costs, but if they are properly planned and implemented, opposition to them will usually wane and new local identities will develop.

Finally, how to use participatory instruments to improve local services is another matter of concern. In light of increasing austerity, downsizing and ensuing demands for higher cost efficiency, local governments have to include and actively involve citizens in planning, designing, delivering and evaluating local services. Empirical findings indicate that this may improve not only the quality of user-oriented services, but also trust and confidence in local government. It may even improve accountability and the functioning of local democracy due to the educational effect of increased participation on citizens. However, democratic and legitimacy gains from citizen involvement must be balanced against losses of efficiency, equity and accountability.

The following table 3 provides an overview of the information bases used for chapter 2 and shows the countries under investigation.

☰ Table 3: Overview of the evidence-base for lessons and advice formulated in chapter 2

Section	Countries (additional references)
2.2	Belgium, Croatia, the Czech Republic, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Lithuania, Norway, Poland, Slovakia, Slovenia, Spain, Sweden, the Netherlands, United Kingdom (various chapters in the three volumes edited by Koprić/Wollmann/Marcou 2017; Kuhlmann/Bouckaert 2016; Wollmann/Koprić/Marcou 2016)
2.3	Austria, Belgium, the Czech Republic, France, Finland, Germany, Hungary, Ireland, Italy, Israel, Lithuania, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Turkey and the United Kingdom (Bjørnå et al. 2017 (all chapters); Bleyen et al. 2016; Mussari et al. 2016; Proeller et al. 2016; Salm/Schwab 2016; Ticlau 2015 (chapters 1, 2 and 3); Turc et al. 2016)
2.4	Belgium, the Czech Republic, Finland, Germany, Greece, Iceland, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, United Kingdom (Hlepas et al 2017; Teles, 2016)
2.5	Austria, the Czech Republic, Finland, France, Germany, Iceland, the Netherlands, Norway, Poland, Portugal, Romania, Spain, Slovenia, Switzerland, (Baldersheim/Rose 2010; Teles/Swaniewicz 2017)
2.6	Estonia, Germany, Slovakia, Spain (Kersting et al. 2016)

## ■ 2.2 Public, private or hybrid? Redesigning local service delivery after NPM

Since the 1990s, the NPM agenda has put strong pressure on local governments to ‘hive off’ a wide range of services, through different forms of external service delivery: corporatization, contracting out and privatization. This relates not only to internal activities (e.g. maintenance of buildings, provision of IT-support, legal advice), but also to services delivered to citizens and users such as waste collection and disposal, local public transport, housing, water provision, sewage systems, health and sanitation, social services, and care for the elderly and for children. In addition, such changes in service delivery have called for a rethinking of scale and coordination, both in terms of inter-municipal cooperation, private provision or hybrid solutions. A consortium of municipalities for example, can cooperate or issue tenders for contracting out, instead of each individual municipality providing services alone, thus possibly increasing efficiency, the appeal to private investors, technical capability and regulatory capacity.

Issues of scale are thus central to the implementation of the NPM agenda in service delivery, and imply complex strategies of coordination

– both technical, organizational and political. While cooperation and externalization of service delivery require effective horizontal coordination, vertical coordination is still needed: the reduced role of local governments in direct service delivery and their increased role as a purchaser and regulator of services necessitates a renewed system of competence building, central supervision, and local cooperation.

Post-NPM trends trigger new and further challenges. Limited privatization, partial re-municipalization, increased corporatization (or ‘formal privatization’) and growing use of hybrid solutions all call for rearranging coordination and regulation, and for the development of new tools and skills. In addition, inter-municipal cooperation and amalgamations are issues attracting much attention now as a way to overcome scale limitations.

In this section, we address the following questions:

1. The NPM agenda promoted the ‘hiving off’ of municipal service delivery to externalized municipal and inter-municipal companies and to private sector organizations: has this trend reached its peak and started to retreat?
2. What comes after NPM? More of the same, re-municipalization, contracting in, or hybridization?
3. To the extent that NPM and post-NPM elements blend into hybrid forms and logics of service delivery, what are the main characteristics (risks, opportunities, trends) of the diffusion of these forms and logics?

In the pre-NPM phase, local government played a key role in the provision of local services. This was especially true in the 1970s, when the modern welfare state had reached its peak in West European (WE) countries. Public utilities (water, sewage, waste, public transport, energy) were predominantly provided by national or local government, either directly in-house or increasingly more indirectly through public/municipal companies. In the same period, personal social services constituted one of the main, if not the main function of local government in the UK and the Nordic countries, while in Germany and Italy these services were still provided by non-profit voluntary organizations (often church-affiliated). In the Central East European (CEE) countries, local service provision was predominantly controlled by the communist state, except for Poland, where the Catholic Church retained its traditional role as an important provider of person-related social services.

In the NPM phase of the 1980s and especially the 1990s, local governments started to separate their service providing entities from the

municipal structure, increased their autonomy and gave some of them a separate legal personality, although many municipalities retained both ownership of provider organizations and formal responsibility for the provision of the services (decentralization). It also became quite common to provide local services through municipal or inter-municipal companies, organized according to public or private law (corporatization). This was especially true for public utilities. In some cases, these utilities were nationalized, opened up for and sometimes sold to private owners (e.g. UK, France, and Italy). In other countries, municipalities have retained ownership and control, at least partially (e.g. Germany, the Netherlands, the Nordic countries). As far as person-related social services are concerned, municipalities have increasingly contracted out service delivery to private non-profit or for-profit entities, and some have even sold their service units to private firms. Thus, the degree of arm's length steering or 'hiving' off (known under many names, like for instance agencification, externalization, corporatization, and privatization) varies between countries and between services. The UK seems to be a frontrunner in this respect, with CEE countries after the fall of communism ranking a solid second. However, the development since the 1990s transition varies significantly within the CEE group. Poland, for instance, left waste collection and disposal to the free market, and only in 2013 did the municipalities receive the formal responsibility for organizing this service, based on compulsory competitive tendering. Croatia and Hungary instead experienced centralization of service provision and a significant weakening of the role of local government. As for the operating logics of this phase, managerial freedom ('let the managers manage') and competition seem to be taken for granted as the best mechanisms for improving efficiency and service quality. However, competition has not been applied to the same extent in all countries, although EU competition laws make it difficult to avoid it altogether.

In some countries, for example Italy, local government has experienced indirect pressure from the national government to adopt NPM-inspired reforms. One strategy has been to reduce financial support to municipalities, without increasing their ability to raise taxes or other forms of revenue. Another strategy has been to induce municipalities to transfer their service provision to other levels of government or to private agents in order to avoid managing complexity, and to stave off the political drawbacks of service reductions. Privatization 'by default' appears to be at least as frequent as, if not more than, privatization 'by intelligent design'. When a grand design has been pursued by the central level of government, however, as was the case in Italy, lack of coordination, moni-

toring and support for and from local governments has resulted in piece-meal and inconsistent implementation. Further, research findings indicate that political and administrative issues may be at stake, and not only economic, legal or managerial ones; equity, justice, effectiveness, and the quality of democracy are all highly dependent on scale, coordination, and chains of authority devised for the regulation and delivery of social services and public utilities. Lack of competence in regulatory policymaking, political conflicts and localism, diversity of organizational cultures, and lack of accountability in decision-making processes may lead to failure or political crisis. In the so-called post-NPM phase, tendencies towards re-municipalization have been observed in Germany, primarily in relation to energy provision and, on a minor scale, water supply, and in France related to water supply, whereas in other services and in other countries there are few convincing signs of a development in this direction. Neither in Croatia, Hungary, Norway, Spain and Sweden, nor in the Netherlands do we find strong evidence of re-municipalization. Once they are implemented, NPM-inspired organizational forms and operating logics seem to survive. To the extent that post-NPM tendencies are observed, they may come more from local resistance, adaptation and reaction strategies than from the expressed central political will to reverse the course of reforms, at least at the local level. A notable exception appears to be the UK, where the Localism Act of 2011 sponsored by the former coalition government seems to point to more collaborative and developmental strategies. However, NPM features, such as horizontal de-concentration and pluralization now seem to mix with governance features like negotiation, cooperation, citizen involvement and soft power steering. Instead of the expected trajectory from pre-NPM, through the NPM phase to the post-NPM phase, we observe an increased blending of different providers, forms and logics, leading to hybrid solutions and a complex mix of converging and diverging tendencies. This development raises serious concerns and new challenges for democratic governance, transparency and accountability. Hybridization may lead to complexity, fragmentation and rapid exchange of service providers, stressing the governance capacity and capability of traditional representative democracy and local government, leaving citizens with opaque options for influencing political processes. In addition, based on research evidence and experience from all parts of Europe, the risk for growth in illicit business practices and corruption should not be underestimated.

However, NPM-inspired organizational forms and operating logics do not easily disappear in the post-NPM phase. Ideological disagreement between political parties on provision of social services does not chal-

lenge competition as the ‘taken for granted’ mechanism for improving the efficiency and quality of local service delivery. Even in the Nordic countries with strong social democratic traditions, use of tender, competition and contracting out is relatively widespread in local government, and there are few if any signs that the tide is turning. Research findings from Slovakia and the Czech Republic concerning competition and contracting out are contradictory, but if this practice is properly implemented and managed, it can be effective in some specific situations. However, contracting out depends on the existence of a private market, which is not always the case. If then local governments want to put some of their services out for tender, they may have to stimulate the creation of that market themselves. However, there are concerns, and there is research evidence that this practice runs the risk of stimulating corruption. In some countries, for example Norway and the Netherlands, inter-municipal cooperation has become an important strategy for creating economies of scale, especially for expensive infrastructure services, like for instance waste collection and disposal. Further, recent performance scrutiny measures in Sweden do not seem to lead to higher levels of citizen satisfaction.

### *Lessons and Policy Advice*

From this research, we may extract the following lessons:

**Lesson 2.2.1:** Metaphors like ‘trajectory’ and ‘pendulum’ may be helpful in describing and understanding the institutional changes in local service provision. However, research has shown that the reform development is much messier than expected, with tendencies and counter-tendencies going back and forth and blending into mixed solutions, or ‘hybrids’. ‘Hybridization’ may therefore be added as an additional and empirically more accurate metaphor.

**Lesson 2.2.2:** Research has uncovered significant variation between how local service provision is organized and run in different countries and within different services. On the other hand, market liberalisation promoted by NPM and EU regulation and the collapse of communism have stimulated processes of isomorphism, which seem to reduce these differences gradually. However, the ongoing political developments in Europe may counteract these isomorphic tendencies and lead to more differentiation.

**Lesson 2.2.3:** The expected trend towards post-NPM re-municipalization is only partially confirmed, primarily in Germany and France. The growing importance of municipalities in local service provision in most CEE countries does not contradict this lesson since the legacy of Communist regimes was provision by central government, not by NPM-inspired organizational forms and operating

logics. However, today we observe increased centralization in some CEE countries.

**Lesson 2.2.4:** Competition may increase economic efficiency of local service provision, be it through internal contracting (contracting in) or external outsourcing/contracting out. However, transaction costs may reduce this advantage, so may lack of institutional factors such as legislation, rule of law, competitiveness and lack of internal competence in monitoring and contract management. The risk of corruption is another disadvantage.

**Lesson 2.2.5:** To the extent that local governments try to implement reform agendas using the ‘copy and paste’ method, taking beneficial effects for granted without genuine and open discussion, they should expect resistance, opposition and competing reform proposals. This approach may make implementation difficult or impossible.

**Lesson 2.2.6:** When central governments pursue reforms of grand design and try to push them onto local governments, implementation will be half-hearted, partial and inconsistent.

**Lesson 2.2.7:** Arm’s length service provision and externalized organizational forms especially may reduce transparency and create legal, financial and political accountability problems.

Based on the scientific findings presented above and formulated in seven lessons, we suggest seven recommendations, each of which align with the lessons given.

**Advice 2.2.1:** Make an evidence-based choice of how to blend organizational forms and operating logics (‘hybridization’), balancing pros and cons, when faced with a new mix of public/semi-public/private non-profit/private for-profit actors in local service delivery. Avoid looking at this as a merely technical matter, and accept this as an issue of high political consequence.

**Advice 2.2.2:** Utilize the opportunities created by isomorphic organizational forms and operating logics to learn more about the pros and cons of these forms and logics from local government in other countries.

**Advice 2.2.3:** Evaluate the political and economic advantages and disadvantages of that approach if you want to retain municipal service delivery or re-municipalize. Opt for inter-municipal cooperation when municipalities are small. This may be an effective approach for building internal capacity and competence and to balance democracy and (scale) economy in local service provision. An alternative approach could be amalgamations.

**Advice 2.2.4:** Assess systematically the specific conditions and environments under which services are to be provided, and remember, there is no optimal organizational form or operational logic of service delivery. In order to achieve better results of contracting out, improve mechanisms for financial management, legal procedures, control, political transparency and debate, communication with citizens and accountability. If you do have a tender, make sure market

mechanisms can operate effectively, for instance by creating a well-functioning, transparent market for public service delivery.

**Advice 2.2.5:** Provide opportunities for critical analysis and discourse on reform narratives in light of current actual evidence. Accept alternative views as legitimate expressions of other interests and values. In addition, uncover values hidden in ‘neutral’ concepts, like for instance competition. Create opportunities for collaboration among researchers and practitioners in order to obtain a more critical and constructive approach to reforms. Make sure to involve citizens.

**Advice 2.2.6:** Cooperate and create alliances with other municipalities (e.g. through national associations of municipalities) in order to communicate with the central government when confronted by grand design reforms. Seek to negotiate goals, strategies and tools during the implementation process to adapt it to local needs, preferences and resources. Try to implement reforms step-by-step to make organizational learning and innovation possible.

**Advice 2.2.7:** Develop effective, transparent and legitimate mechanisms and processes to secure political, financial and legal accountability, whether reforms are inspired by NPM or post-NPM agendas. Build administrative competence and capacity so that local governments are able to draw up contracts and tenders and are able to monitor, evaluate and regulate the actions and activities of private for-profit and non-profit partners. Such competence may also support decisions on whether to re-municipalize or contract-out/privatize activities again. Make sure to involve strategic interests (e.g. interest groups, associations of municipalities, municipal companies) in these processes.

## ■ 2.3 Modernizing internal management: Making a difference for performance

LocRef research focused to a significant extent on describing, understanding and assessing local governments’ efforts to reform internal structures and improve the functioning of local government entities. Questions related to (post-) NPM reforms and instruments of internal management include the extent to which they trigger results, what are key success and fail factors, and what is their impact on local service delivery. However, most of the research did not focus so much on formulating general claims regarding the overall success or failure of the reforms examined, mostly because no reform measure can be deemed as ‘successful’ or ‘unsuccessful’ as such. Rather, research sought to *identify the conditions – external as well as internal – that are likely to influence the success of reforms*. Moreover, side effects, either intended or unintended, appeared on the horizon of the empirical investigations, too. Research was conducted in different areas of local government reforms, including joined-up govern-

ment reforms, human resource management reforms, strategic planning, and performance management.

‘Joined-up government’ (JUG) is an umbrella term reflecting a move towards increased coordination within (local) government. JUG is a response to the perception that there is increased fragmentation in delivery of public services caused by earlier, NPM type reforms. This fragmentation has created challenges and presented difficulties for intra-administrative coordination as well as for citizens. JUG involves a range of responses that should lead to greater coordination – both horizontal and vertical – to increased integration of service delivery (‘seamless services’), and to increased support for policy implementation at local government level. Research focused in particular on shared services and shared service centers.

A second stream of research focused on human resource management (HRM) reforms taking place within large, metropolitan local governmental units. In selected cases of ‘best practice’, city reforms were compared in terms of their approaches. Research examined not only the process of these reforms, but also whether the implemented institutional change (organizational, personnel and instrumental) affected organizational performance. Correlations between change management and HRM reforms and their (presumed) effects were highlighted and insights into ambiguities, tensions and problems inherent within change processes are shown.

Also, the research assessed the extent to which strategic planning at local level represents an integral component of recent public administration reforms following different – partly and possibly contradictory and/or overlapping – reform paradigms, and whether local public authorities have the capacity to design and implement a proper strategic planning process.

Finally, the research tackled the connection between instruments of internal management and local service delivery, management and performance. The relevant instruments of internal management analyzed include the establishment of performance-oriented pay regimes and their inter-connectedness with motivation and organizational performance, the implementation and use of performance information in the budgets of the municipalities as new instruments of strategic control, steering, accountability and learning, and the implementation of austerity management plans and cutback programmes.

## Lessons and Policy Advice

As with most research, findings in the different problem areas outlined above partly corroborate, partly supplement, and partly contradict one another. In order to offer some synthesizing view of the findings, we present them in terms of three cross-cutting dimensions: *diffusion of reform, factors triggering change, and assessment of reform results*.

### *Diffusion of reform*

**Lesson 2.3.1:** Diffusion and implementation practice shows significant differences and leads to heterogeneity and variance of implementation of instruments of internal management. Additionally, there is a variance between local governments in terms of what is considered to be accepted, legitimate, appropriate and expected implementation and development of the reform.

**Lesson 2.3.2:** With regard to instruments of internal management, several tactics or typologies are identified which can be applied at the whole local government level or which can be selectively applied to specific services or departments.

Examples of reforms studied included, amongst others: joined-up-government reforms in Austria, Germany, Hungary, Ireland, Italy and Norway; HRM reforms in Finland and Germany, more specifically, the implementation of performance-oriented pay regimes in Germany, France and Italy; the use of performance information in municipalities' budgets in Belgium, the Netherlands, Poland, Germany, Italy, Lithuania, Ireland, the Czech Republic, Norway and Slovakia; and austerity management plans and cutback programs in Belgium, France, Germany, Ireland, Italy, Portugal, Slovenia and the United Kingdom.

### *Factors triggering change*

**Lesson 2.3.3:** Local service delivery in Europe has gone through a radical transformation since the 1980s, particularly due to ideas and practices of market liberalization and business-inspired managerialism associated with NPM and EU legislation. External shocks or trends (e.g., economic crisis and fiscal tensions, aging population) and major shifts in central governmental policy related to these trends, frequently play a crucial role in inducing change. Additionally, more 'incremental' types of factors, such as a desire to improve policy performance and coordination, or the influence of state-of-the-art reform ideas, may play an important role in initiating reforms.

**Lesson 2.3.4:** Economic and fiscal stress and the central government's (possibly latent) political motives seemed to play a larger role in the peripheral, more vulnerable European countries. Other types of longer-term socio-economic pres-

sures and concerns about policy performance appeared to a larger extent in the bigger and/or central states of the European Union.

*Examples* include Irish and Hungarian JUG reforms induced by the economic crisis, HRM reforms in Finland stimulated by an aging population, or fiscal tensions triggering reforms in Spain. In both the Irish and the Hungarian shared service type, JUG reforms examined in LocRef research showed that central governmental policy was another triggering factor; in the former case the central policy change was directly related to crisis management, whereas in the latter case other, presumably more political motives played the major role. In Norwegian JUG reforms, ‘incremental’ type of factors included a desire to improve policy performance and coordination; in German HRM reform, state-of-the-art reform ideas helped initiate reforms.

#### *Assessment of reform results*

**Lesson 2.3.5:** Reforms – especially those initiated by central governments – frequently affected broad areas of local governmental structures and processes extending far beyond the particular reforms examined. In a majority of cases, these policy shifts included divesting local governments of institutional, financial or political resources, narrowing their autonomy and/or scope of responsibility, and tightening central control over them.

**Lesson 2.3.6:** The overall outcomes of the reforms include numerous elements which created actual or potential improvements in operations. These include helping organizations to focus retained resources on core activities, creating economies of scale and scope, developing new areas of expertise by specializing in certain activities, and improving the quality and cohesion of service delivery (in the case of shared services), improving morale and staff motivation (especially with the selected HRM reform cases), and overall developing coordination among service fields as well as improving service levels.

**Lesson 2.3.7:** Likewise, strategic planning presents numerous advantages irrespective of the characteristics of a certain local administration, including stimulating a culture based on performance and managerial learning. Herein, coordination is a central element: national governments need to make sure that a certain degree of coherence and coordination exist among the European, national, regional, and local levels. If properly designed and implemented by closely involving the actors and layers affected, strategic planning can contribute to tackling coordination problems.

**Lesson 2.3.8:** The limited evaluative accounts that exist today with regard to instruments of internal management point out that actual improvements resulting in motivation and efficiency gains fall short of expectations in almost all national contexts.

**Lesson 2.3.9:** For the JUG reforms examined, a trade-off was identified between stronger vertical coordination and increased horizontal coordination. If central government focuses on vertical coordination and tightens its control over the local units, then these reform steps may decrease the inclination of local governments to horizontally cooperate to solve wicked problems, since they may develop the perception that central government will solve these problems anyway.

Reform of performance management and measurement systems specifically were seen as somewhat controversial. On the one hand, research conducted in Hungary and Israel indicates that performance management in local government carries potential or even actual improvements in service performance, customer satisfaction and, possibly even citizens' trust in local government. On the other hand, research conducted in Finland, Germany and Spain concluded that performance assessment regimes measuring individual, as opposed to organizational or policy level performance, may trigger counterproductive effects such as high administrative and transaction costs, over-steering and under-utilization. This suggests that while organizational or policy area level performance management can be seen as relatively uncontested in terms of positive outcomes, individual level performance assessment requires careful consideration and design in order to avoid harmful consequences.

Recommendations derived from our scientific conclusions relate to the introduction of different instruments and reforms, and to the need for taking into account the conditions needed for successful reform.

**Advice 2.3.1:** Implement realistic instruments of internal management that pay attention to the quality of service delivery and include information about citizens' expectations and perceptions. Induce a move towards creating shared services, but guarantee that adequate resources (material as well as expertise) are ensured as these are critical to underpinning the success of shared services initiatives.

**Advice 2.3.2:** Introduce strategic planning initiatives to help tackle vertical and horizontal coordination problems.

**Advice 2.3.3:** Consider not implementing a specific instrument of internal management if it is not able to achieve its aim. At the same time, also consider the value of implementing imperfect instruments of internal management. Those instruments have the potential to provide local governments with useful information, if transparency is ensured at all times and if they are assessed regularly in a critical way.

**Advice 2.3.4:** Design and implement reform with a reasonable extent of incrementalism in mind, as opposed to initiating swift and across-the-board changes.

It may be wise to rely on ‘best practices’ or ‘lighthouse projects’ combined with ‘seed funding’ or other (financial) incentives.

**Advice 2.3.5:** Pay attention to the design of instruments of internal management, so that practitioners can directly use and benefit from the instrument. Employ ITC as a key factor with which to improve public service delivery. As reforms usually aim to modify organizational culture, it is not enough to finance the hardware and software part of the project. Success rests on the thoroughly planned education of civil servants.

**Advice 2.3.6:** Hire a ‘hero actor’ to ensure successful implementation. Stronger horizontal coordination which usually means stronger network type coordination, does not mean that there is no need for a key actor to foster the cooperation and to lead the cooperating team. Involve units from the beginning. In a project which has an aim to strengthen the vertical coordination over local units, involve these units already in the planning phase. This can decrease their organizational resistance.

## 2.4 Inter-municipal cooperation: a proper solution for improving service provision?

Local service delivery is inevitably linked to different approaches to territorial rescaling (thus also organizational rescaling), which can, in many ways, affect effectiveness and efficiency of local service delivery. Implementation of different measures of territorial rescaling can significantly influence local service delivery, by overcoming its most common problem: the size of the locality.

There are many reasons why public service delivery should be provided by the lowest level of government, which can still provide these services efficiently:

- a) *Proximity* - local government is closer to citizens, and thus can respond to their needs and adopt tailor-made policies; these are in turn more effective and cost less; proximity also creates room for democratic accountability of local politics;
- b) *Efficiency* - overlapping with proximity, it also encourages fiscal responsibility and efficiency, as local politicians are directly accountable for the performance of local services, and local decision-making can produce tailor-made policies; and
- c) *Flexibility* - local decision-making is more responsive to the local services users, also due to the homogeneous nature of locality.

The *subsidiarity principle* should be followed as a golden rule. It states that higher level authorities should perform only those tasks that cannot be performed effectively at a more immediate or local level.

One can overcome the issue of size (too big or too small) with 'hard' mechanisms, like amalgamation, where localities are merged to form new political, functional and territorial entities; or, alternatively, 'soft' mechanisms, such as Inter-municipal cooperation (IMC) or sub-municipal units (SMU), that allow functional optimisation without interfering in the territorial or political status of the locality. Amalgamation reforms can have positive effects on service delivery regarding economies of scale; however, they dramatically influence local government structures and presuppose great political and citizen consensus.

'Soft' mechanisms offer politically more plausible territorial rescaling for local service delivery, as they do not interfere with existing territorial structures. In those cases, where localities are too small to effectively and efficiently deliver services, there is the option of cooperation. IMCs are widely used in Europe and exist in many forms. The type of IMC depends heavily on the purpose of cooperation, the size of localities and the legal framework in the country.

On the other hand, if localities are too big to ensure citizens' voices are heard, SMU can be implemented to overcome participation deficits. This is directly linked to satisfaction with local service delivery, since in smaller communities, in which citizens are more likely to express their needs, tailor-made services are easier to obtain. Besides this, the non-bureaucratic model of decision-making makes public policymaking in small communities easier and more efficient. Thus, a smaller community makes the population more homogeneous, participation in decision-making easier and increases citizen satisfaction with public policy.

Under the umbrella of the categorisation of 'soft' and 'hard' mechanisms presented for territorial rescaling regarding local service delivery, many policies have been implemented, allowing us to scrutinize numerous subtypes and ad-hoc solutions that exist in practice.

### ***Lessons and Policy Advice***

Research has suggested that the relationship between size and efficiency of local service delivery (measured through citizen satisfaction) does not grow linearly, but that there is an *inverted U-shape relationship*. Satisfaction with local public services rises, prevails at a certain point, and then starts to fall (principle of decreasing marginal utility).

**Lesson 2.4.1:** Citizens in very small and very large localities are in general less satisfied with local public services. The question is to which point the satisfaction level rises, and where the optimum point lies. There is no indisputable scientific proof that a specific type of territorial (or functional) rescaling affects specific types of services regardless of socio-political background.

**Lesson 2.4.2:** Amalgamation reforms have proven to have cost-saving effects (e.g. Greece in the 2011 amalgamation reforms and, similarly, in ex ante assessment of potential amalgamations in Germany). However, there is the possibility that due to path dependencies or citizens identifying poorly with the newly established localities, these new (amalgamated) municipalities will not be able to produce tailor-made policies or provide tailor-made services. This may consequently result in a more costly local government.

**Lesson 2.4.3:** Cooperation between localities exists in a myriad of forms, from highly informal to very formal, from top-down to bottom-up, and from being obligatory or voluntary. However, classification is of little importance when the link to local service delivery is in question. It is of utmost significance whether inter-municipal cooperation functions, how it functions and how it affects local service delivery.

**Lesson 2.4.4:** Inter-municipal cooperation is established to lower costs and to solve problems that are beyond the scope of a single locality. Additionally, this mechanism is used more often when economies of scale are at stake (e.g. infrastructures, waste management). However, cooperation extends to other areas as well.

**Lesson 2.4.5:** Inter-municipal cooperation will continue to expand and localities are satisfied with this mechanism. There is empirical proof (e.g. Germany and Iceland) that IMC positively affects local service delivery.

**Lesson 2.4.6:** On the other hand, there is little empirical proof of how SMUs directly influence local service delivery. There are case studies showing that citizens make positive assessments concerning local access to service delivery. There is also a theoretical assumption that SMUs may link citizens' engagement, homogeneous locality and satisfaction with local service delivery.

It is hardly disputable that territorial rescaling can affect effectiveness and efficiency of local service delivery. The measures used for rescaling, however, rely heavily on individual circumstances. Inter-municipal cooperation mechanisms are especially useful when amalgamation is under consideration (for functional reasons), but there is little or no consensus on the topic. It might provide a useful intermediate step to know, that while localities are politically and autonomously untouched, local service delivery can be organized in a more effective and efficient way.

**Advice 2.4.1:** Implement amalgamation reforms cautiously and do not break the link between the citizens and local government.

**Advice 2.4.2:** Consider amalgamation's positive effects on local service delivery in the case of economies of scale.

**Advice 2.4.3:** Consider inter-municipal cooperation. It could be a useful tool for overcoming the problem of the size of the locality when local services are too costly or hampered (organizationally or functionally) because of municipal size.

**Advice 2.4.4:** Ensure the willingness of localities to cooperate. Take into consideration financial incentives and the types of services to be delivered at the inter-municipal level, rather than an immediate focus on the type of IMC.

**Advice 2.4.5:** Implement sub-municipal units in bigger localities in order to follow the subsidiarity principle in the most organic way, as it can serve as a proxy to delegate specific local services to lower levels of local government.

## ■ 2.5 Big or beautiful? The challenge of territorial rescaling for local service delivery and performance

The discussion about territorial rescaling on the local level revolves around three basic questions: a) is there something like an 'ideal' size for municipalities and how can it possibly be defined and achieved?; b) are amalgamations of municipalities in this respect a way to overcome problems of size and structure or do they rather create more challenges?; and c) could there be an alternative way to overcome such problems instead, notably through enhanced inter-municipal cooperation?

The concept of an 'ideal' size for municipalities - although often referred to at discourse level - is very problematic and rather more related to the political than to the scientific sphere. In the European Union, the actual number and size of municipalities does not only differ very much between but also inside the member states. In this context of huge heterogeneity, the question itself is normally reduced to the possible existence of a 'minimal' ideal size for local communities, generally defined by the average number of inhabitants.

**Lesson 2.5.1:** There is no cross-country consensus regarding the ideal size of a locality. The very different positions and the respective arguments to sustain them highlight the fact that no simple one-size-fits-all solution exists in this matter.

**Lesson 2.5.2:** The 'ideal' size of a municipality depends on a large number of influencing variables like e.g. the given political, financial and social system/situation, the country's infrastructure, its administrative capacities, its demographic development and - very importantly – its unalterable geographic/topographic location.

Therefore, debates about the ‘ideal’ size of municipalities have to take into account many factors, ranging from superordinate systemic questions at the national/regional level to specifically local circumstances. This precludes per se simplistic answers or uniform standard definitions, and asks for more single case-oriented reform approaches.

By amalgamations (also mergers, fusions), we understand the dissolving of two or more municipalities in order to form a new one with a single legal status, while the former independent municipalities lose their autonomy. These processes can either be voluntary or, as is presumably more common, enforced by a higher level of government. The phenomenon itself is not new either: from the middle of the 19<sup>th</sup> century till today, ‘waves’ of amalgamations at different times have taken place in many European countries, the 1970s being perhaps a focal point.

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**Lesson 2.5.3:** In most cases, the arguments regarding amalgamation are: bigger entities are supposed to be more efficient, being able to deliver better services to the citizens and, all in all, being more professional. However, these general assumptions have to be checked carefully.

**Lesson 2.5.4:** The real effects of amalgamations are often controversial, partly due to measurement and evaluation problems. One element found in many amalgamation processes, at least when they are instigated from ‘above’, though, is the initial opposition of local politicians, citizens, clubs and other forms of locally organized structures. Therefore, these processes have to be carefully planned, communicated and conducted, and are often accompanied by political costs, like the foundation of new political lists and the loss of votes for reform parties.

**Lesson 2.5.5:** For proponents of amalgamations it might be reassuring that after some years of people living together in the new municipality, such resistance tends to become more nostalgic than politically relevant. Consequently, even if there are cases in which amalgamations had to be revoked afterwards, the overwhelming majority of them are hardly contested after the new structures have come into being.

As mentioned previously, municipalities cooperate. In practice, such arrangements are extremely multifaceted and can take several forms: from legally non-binding soft forms, like the mere exchange of knowledge and information, to legally binding arrangements, e.g. in the area of common waste management, street services or all other kinds of non-mandatory and mandatory tasks.

**Lesson 2.5.6:** Amalgamations and inter-municipal cooperation are not mutually exclusive.

**Lesson 2.5.7:** While the versatility of the subject is thus potentially confusing, inter-municipal cooperation normally shares one simple goal: to use synergies in service delivery without giving up the principle of the respective partners having local autonomy – as would be the case with amalgamations.

Ideally, such cooperation should result in lower costs and/or more effective and better services for the citizens. There is, however, a serious lack of evaluations in this field, so many assumptions about the real effects of inter-municipal cooperation – as well as of amalgamations – are still more a matter of faith in the respective political position than confirmed by neutral and evidence-based analysis.

There is no valid abstract definition concerning the ‘ideal’ size of municipalities in Europe as it is rather a time and context dependent variable. Considering territorial rescaling, reform projects must therefore take a large number of influencing factors including systemic conditions as well as specifically local circumstances into account. Amalgamations are the hardest reform option in the field of local territorial rescaling, as two or more formerly independent municipalities lose their autonomy and are merged into a new municipal unit. Voluntary amalgamations do exist, but normally they are instigated by a higher level of the political system (national or regional), as the various legal systems regularly foresee this option.

**Advice 2.5.1:** Avoid mimetism. Given the huge heterogeneity of national and local systems in Europe, the reference to foreign examples might be politically interesting but is - almost always - useless, except when it is based on very detailed and scientifically founded comparisons.

**Advice 2.5.2:** Plan, communicate and conduct reforms carefully. Given the fact that the initial resistance at the local level is very often high and that the time span needed for amalgamations is usually quite long, reforms should be initiated right at the beginning of a legislative period and be provided for with a very clear timetable for their different steps.

**Advice 2.5.3:** Take political costs into consideration. Anti-amalgamation movements or the loss of votes for the reform parties in the next elections have to be taken into account from the beginning and countermeasures (e.g. information campaigns) have to be planned. As the opposition to amalgamations in most cases is not very long-lived and decreases when the new structures come into being, proponents of reforms need certainly political stamina, but can also expect to successfully implement their reform projects (especially as judicial ex post controls almost always confirm the legality of the measures taken).

Because of the wide range of cooperation subjects, the large variety of non-legal and legal cooperation forms and the highly dispersed knowledge about the real cooperation landscape in many countries, it is difficult to formulate policy advice in the field of inter-municipal cooperation.

**Advice 2.5.4:** Know your ground in advance, and learn from experience. For local politicians, the first step might be simply the collection of information as many cooperation arrangements have never been properly documented. The next step could be a needs analysis followed by an analysis of the existing potential of the respective municipality and its neighbors.

**Advice 2.5.5:** Consider the impact of cooperative arrangements on policy steering and political leadership. One also has to be aware of the fact that cooperation with others inevitably increases the steering issue. Therefore, a careful analysis of the pros and cons of such cooperation projects and their partner structure is indispensable.

However, from the point of view of higher authorities, even successful inter-municipal cooperation might cause a problem: they are isolated solutions for a number of participating municipalities, which might differ from the solutions of other municipalities for the same subject in the same region. Thus, widespread inter-municipal cooperation might impede more effective and efficient reform potential on a larger scale.

## 2.6 Old vs. new: using participatory instruments for better services

Local government is the level of government that provides a wide range of services to the citizens, and the need to improve service quality is essential for designing and delivering municipal services. At the same time and in recent years, being forced to implement austerity measures, local governments have been under pressure to downsize demands, to reduce costs and to increase productivity and efficiency. As a result, the extent to which local governments perform their functions has been seriously questioned. In response to rising expectations and citizens' demands, even in times of complexity and austerity, local governments have to become more consumer-oriented and, as a result, citizens' views have to be incorporated into the production and delivery of service chains. In performance management, the challenge is not simply how to control; it is also how and when to include citizens in the process, since performance of the many types of outputs and outcomes, results and processes have to be related to democratic governance.

In a period of increasing complexity of issues and decreasing revenues, the challenge for local governments is how to be able to assemble multidisciplinary expertise that can be used to address and to solve specific public demands concerning the production and delivery of local services. Consequently, today appears to be an appropriate time for collaboration in order to fulfil the need for high quality provision of local services without expanding costs or organizational size. Research suggests that local governments can become more democratic, more efficient and more effective if citizen participation is used in the design of services. Empirical findings indicate that the same level of output can be achieved when citizens are involved beyond the monopolization of service production and delivery by local officials. Research also supports the fact that when suited to specific services and contexts, collaboration between local administrators, local service departments and citizens in the planning and delivery (or elimination, when resources become more scarce) of specific services may improve not only user-oriented services (participants provide new information), but also trust and confidence in the local government and hence improve democracy. However, many researchers have noted that citizens' inputs in the design and provision of public services are often perceived to be a minor source of valuable information, chiefly because they are perceived as unable to provide objective and concise information.

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**Lesson 2.6.1:** Long-term and stable support for citizens' involvement in the provision of local services is a prerequisite for local governments to evolve and adapt to new future conditions and problems beyond political turnover.

**Lesson 2.6.2:** Relevant advantages may be obtained over time by municipalities that can foster citizens' participation in the designs and implementation of local service provision (i.e. citizens' participation improves data quality), but they must be prepared to work within consensus processes.

Overall, evidence is accumulating which shows that citizens increasingly expect quality, accessible and efficiently managed provision of local services. Used appropriately, citizens' participation has the potential to support better decision-making in the production and provision of local services with the required quality standards. Citizen involvement is a central ingredient, since citizens provide guidance to experts about the direction of service quality through their experiences, preferences, and values.

Complexity, however, has to do not only with the plurality of communities within a city, but also with the development and constant alterations in the different perceptions of and preferences for the municipal services. This scheme constantly challenges the ability to provide quality, and local public officials have to explore how to create new quality arrangements. This includes forms of citizens' participation by shifting from a focus on internal quality perceptions to a focus on cooperation with citizens as partners, in order to improve the quality of service output and be accountable at the same time.

**Lesson 2.6.3:** Using both expertise and public opinion altogether is most likely to produce high quality production and delivery of local public services. Involving citizens in the efforts of designing local services that meet certain quality requirements can lead to a greater understanding of citizens' needs. There is also a high level of satisfaction among those citizens that have participated in quality processes.

**Lesson 2.6.4:** Councilors and local administrators must understand that they are working in a complex contextual environment where citizens' perceptions are increasingly important. From an organizational point of view, the delivery of quality of services is purely a technical issue, but those processes also need to be placed within the context of the local political framework. By listening to the citizens, local public administrators can improve the quality of services by making more informed decisions and regaining the confidence of citizens that demand change.

Performance measurement is an essential element of accountability. It serves purposes of control, efficiency, effectiveness and planning. But these are only traditional functions of performance measurement, to which the capital issue of accountability has to be added. In local government, performance measures are typically required by both councilors and public managers, but the involvement of citizens is crucial, since the key to meaningful advances in performance measurement in local governments may lie in strengthening citizens' interest in local public issues. In this case, the challenge will be met not only by formulating measures that address efficiency and achieving goals, but, perhaps more critically, by reporting measures that enhance public interest and by introducing citizens' inputs to elaborate suitable performance indicators. Local governments have to report not only how much they spend, but also how much work they do, how well they do it, how efficiently, and, ideally, what their actions achieve. Furthermore, in this context, the citizens have to be taken into account, not only as recipients of performance measurement reports, but also as a source of input for indicators that shape performance mea-

sures and to identify relevant standards that could be used as a guide with which to assess local performance.

Local public officials need to gather adequate information through interacting with citizens to ensure that their needs are met better, but performance measures also have implications for local governance, since performance legitimacy requires active accountability to citizens - and this accountability requires both administrators *and* citizens, in turn, to share and develop performance indicators jointly. Integration, connectivity, and cooperation with citizens are central to performance management, but research suggests that performance measures are mainly limited to efficiency and effectiveness measures in budget implementation, and not in all functional areas. For instance, quantitative standards pertaining to provision of local services are established without taking into account the continuous variations in population differences (i.e. refugees' integration).

**Lesson 2.6.5:** Citizens' participation in the adoption of performance measures and quality indicators, from planning to evaluation, contributes to successful local governance. This is because it enables public officials to be more informed, and thus, to make better decisions about the production and distribution of local services. Furthermore, the inclusion of citizens will serve their democratic education and participation and would enhance accountability.

**Lesson 2.6.6:** Performance measurement should be a process in which managers and citizens' views should be considered together, so preferences about the several dimensions involved in measurement can be refined by mutual awareness and adjustments. Citizens' involvement entails the formal enrichment or enlargement of the job of public officers in charge of performance measurement.

Based on the scientific findings presented above, we suggest a number of recommendations which link with (1) *supporting citizens in presenting and sharing their views*; (2) *involving public employees in the local government organization*; and (3) *combining management and citizens in performance measurement*.

*Supporting citizens in presenting and sharing their views*

**Advice 2.6.1:** Establish a dialogue between service providers and service users. Improve communications (newsletters, workshops) with citizens 1) to explain what the municipality is doing and 2) to better understand how municipal services are assessed by the citizens.

**Advice 2.6.2:** Give citizens the opportunity to present their views by developing citizen satisfaction data through citizen surveys on the quality of municipal services. Encourage citizens to share their views on the quality of municipal services and to adopt problem-solving attitudes.

*Involve employees in participation and interaction*

**Advice 2.6.3:** Convince administrators and councilors that citizen participation will result in long-term and intangible benefits. Their design and implementation must be carefully tailored to individual municipalities.

**Advice 2.6.4:** Involve public employees by providing incentives, training, and quality process teams to change culture: remove fears from public employees and make them understand that citizens' involvement can help them to accomplish their tasks and that they can be done more efficiently.

*Combine management and citizens in performance measurement*

**Advice 2.6.5:** Overcome many of the political, organizational and operational problems by adopting a participatory management style. Combine management and citizens' approaches in the measurement of performance processes. Performance management calls for professional public officials, based not only on technical values rooted in substantive expertise, but also on democratic values such as participation and openness.

**Advice 2.6.6:** Ensure that the measures are useful for cross-comparison or benchmarking, notwithstanding the fact that every local government may be unique in terms of size, population, problems and resources. Standardize performance indicators that can be used in cross-comparisons, but be careful in the selection of performance indicators used in other local governments.

