

Service production by contracting out to another local government

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1 Introduction and research question

Local governments in the Netherlands provide a wide variety of services towards their citizens. In principle, service provision is based on local decisions. In a number of cases, public service provision is outsourced to other institutions on a compulsory basis. In other cases, voluntary co-operation between local governments is possible.

In the last two decades, the number of local governments has changed from 714 in 1988 to 431 in 2010 (source: cbs, own calculations) and the trend is downward. Merging of local governments is not very popular amongst citizens. Furthermore, there are indications that mergers do not result in the cost reduction (e.g. Allers, 2010) or improved service delivery. Therefore, local governments are using other instruments to achieve efficiency of scale and provide improved services.

The debates on New Public Management have also led to a reflection of the organisation of services to be provided. Within the NPM framework, issues such as outsourcing, privatisation and contract based management have been discussed as possible solutions for improvement of government services. The legal framework that exists in the Dutch setting allows for a wide variety of forms of organisational settings in which Dutch local governments are nowadays able to provide their services. Solutions used range from in house service provision, (voluntary) mutual co-operation to full privatisation of service provision. Each of these solutions has its own (dis)advantages. In several cases, studies have been done to assess the impact of the use of third parties for provision of local government services, but most of these studies only focus on individual cases.

The objective of this research program is to assess the impact of particular solutions in service provision other than within the own local government's hierarchical structure from a comparative perspective. The provisional research question for the program is: What is the effect on internal organisation, quality and efficiency of service provision arrangements, when Dutch local governments provide services outside their own hierarchical structures?

An analysis on this research question requires a multi-disciplinary approach, covering issues on legal arrangements, neo-institutional economy, public management reform/new public management, legitimacy, contracting arrangements, service characteristics and service provision.

Any solution chosen by local politicians will result in a (quasi-) contract relation between two different legal entities. That means that if the effect of a particular solution is to be assessed, the two sides of the contract relation have to be included in the research, next to the direct effect a

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particular solution has on citizens using the services. Due to the variety in public services provided by local governments, questions arise on organisation of production, expected efficiency improvements and effects towards citizens. Furthermore, a variety of (performance based) control tools is needed to assess the actual service delivery. In this paper we shall focus on developments in two different cases in which forms of further co-operation between local governments are developing. The actual research question for this paper is:

Which services are to be delivered in co-operation with other local governments and what is the (expected) impact on budgets and service delivery?

Co-operation is a broad concept as stated above. In this paper, emphasis will be on co-operation without using new legal entities as that is a relatively new concept in the Netherlands (Van de Laar, 2010, p. 4-5). In section 2 we will discuss the Dutch institutional context. This will be followed by an elaboration on the various forms of co-operation that can be observed in the Netherlands in section 3. Section 4 and 5 focus on the two cases selected here, based on document studies and interviews with civil servants and politicians involved. Section 6 will provide an assessment and some conclusions.

2 Institutional context

The Netherlands is a decentralised unitary state (Hulst, 2005, p. 100; Andeweg & Irwin, 2009, p. 19 and 192) which means that national and local governments each have their own responsibilities in service provision towards citizens. Formally three levels of territorial government can be identified: national level, provincial level and local level. Some claim that in practice a fourth territorial level can be identified: regions in which a number of local governments co-operate (e.g. Hulst, 2005).

At the local level, a process of amalgamating governments has been going on for at least a century. By 2011, 418 local governments exist, down from 994 in 1960 and some 1,100 around 1910. (Van de Laar, 2010, p.3). The number of local governments with over 100,000 inhabitants is almost constant over time, whereas particularly the smaller local governments were amalgamated into larger units. The distribution of local governments by number of inhabitants as of 2011 is disclosed in Figure 1.

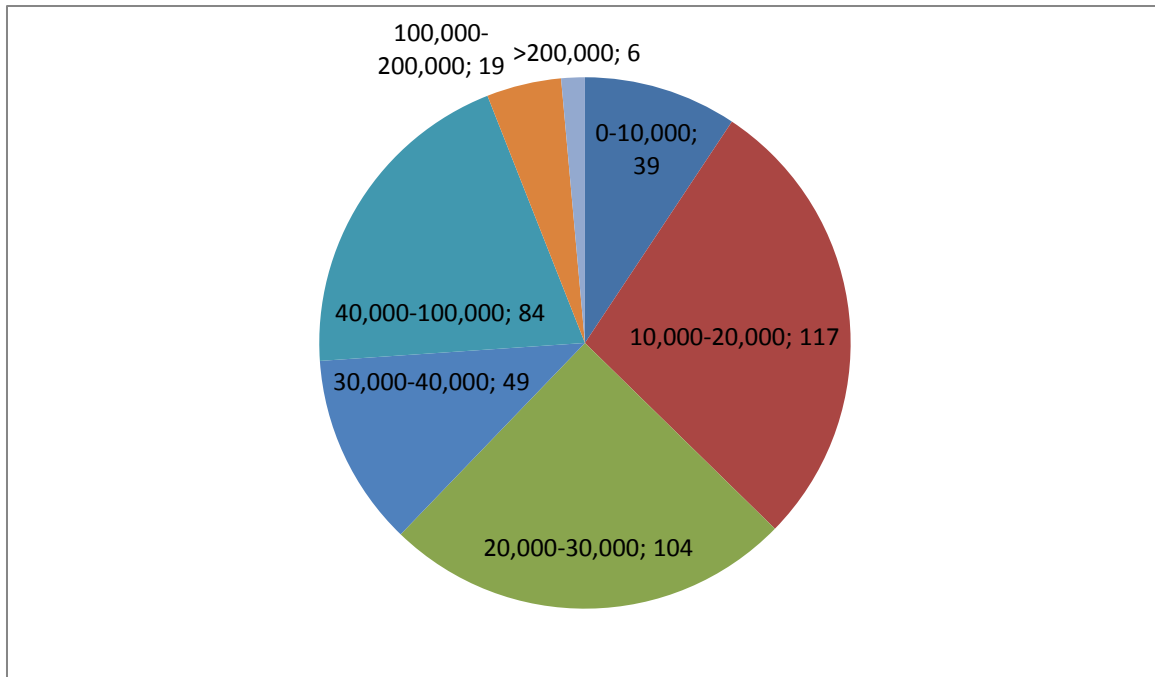


Figure 1: Number of local governments (n=418) by number of inhabitants (2011; Source CBS)

Funding of Dutch local governments strongly depends on central government. Figure 2.2 shows the various sources of local government's income. It is clear that in the Dutch setting own tax resources of local government are low (pure taxes only cover 7% of local government income). Literature on local government funding indicates that the Dutch local governments own income is amongst the lowest in the European Union (e.g. Boorsma, De Kam & Van Leeuwen, 2004, p. 15-16; Eurostat, 2011, own calculations²). Furthermore, the level of service fees is by law limited to full cost coverage and the resources of the local government fund increase and decrease in line with national government spending (Parliament, 2008, p. 11). Due to the current (2011) financial position of the Dutch state and the proposed budget cuts at national government, local government's budgets are likely to decrease as well. This holds not only for income from the local government fund but also for income from land development which depends on private sector building activities. This pressure on the budget is one of the reasons for reconsidering co-operation between different local governments. Other reasons include what is labelled governing power (in Dutch: 'Bestuurskracht') (see e.g. Schermers & Pröpper, 2009) which refers to being able to manage local government service delivery adequately, protection from formal amalgamations (Van de Laar, 2010, p.4) and complexity of services to be delivered by local governments.

² Eurostat data on local government taxes on production, income and wealth and capital. The average tax income for the EU 15 was 4.2% GDP in 2009. In the Netherlands it was 1.4% GDP; only Ireland and Greece had lower levels of taxes.

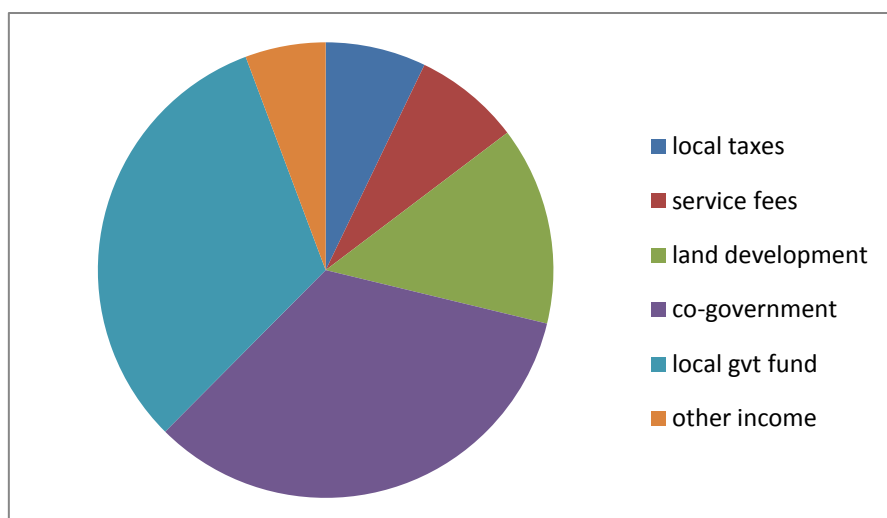


Figure 2.2: Dutch local government funding 2008 (source: Parliament, 2008, p. 51-54)

Although local governments have their own responsibilities in service delivery, central legislation provides a framework on many services to be delivered by local governments, reducing the degrees of freedom available for lower levels of government. Several national policy programs are realised by local governments based on a standard framework and funding of the program. This form of co-operation between national and local government is labelled co-governance (Andeweg & Irwin, 2009, p. 197). In 2008, local governments had budgeted some € 16.5 billion for co-governance programs, which is approximately 33% of local government's budgets. Important elements in these programs include central government contributions on social security, care and education.³

The Dutch local government budgeting and accounting decree⁴ [BBV] requires performance based budgeting on an accruals basis. Under the BBV-decree, each local government may define its own policy programs. Effectively this means that the number and contents of policy-programs vary amongst local governments but also within a local government over time.⁵ A comparative overview is thus hard to find. For statistical purposes, BBV prescribes a standard accounting format that allows a standard financial assessment.

Services provided by local government are for comparative purposes classified in 9 policy groups and a group of financial revenues and expenses. Figure 3 shows the local government expenses distribution over these policy groups in 2008. It should be noted that police services as well as hospitals and care services are not funded by local governments in the Netherlands. Furthermore, the education category covers costs of real estate for primary and secondary education but not the costs of (non-)teaching staff.

³ Income regarding education is directly dedicated to schools; local government is only responsible for building and maintenance of schools.

⁴ in Dutch: Besluit Begroting en Verantwoording (BBV)

⁵ For example, the City of Rotterdam had 22 programs in 5 groups in fiscal 2008 whereas for fiscal 2011 28 programs in 12 groups were identified.

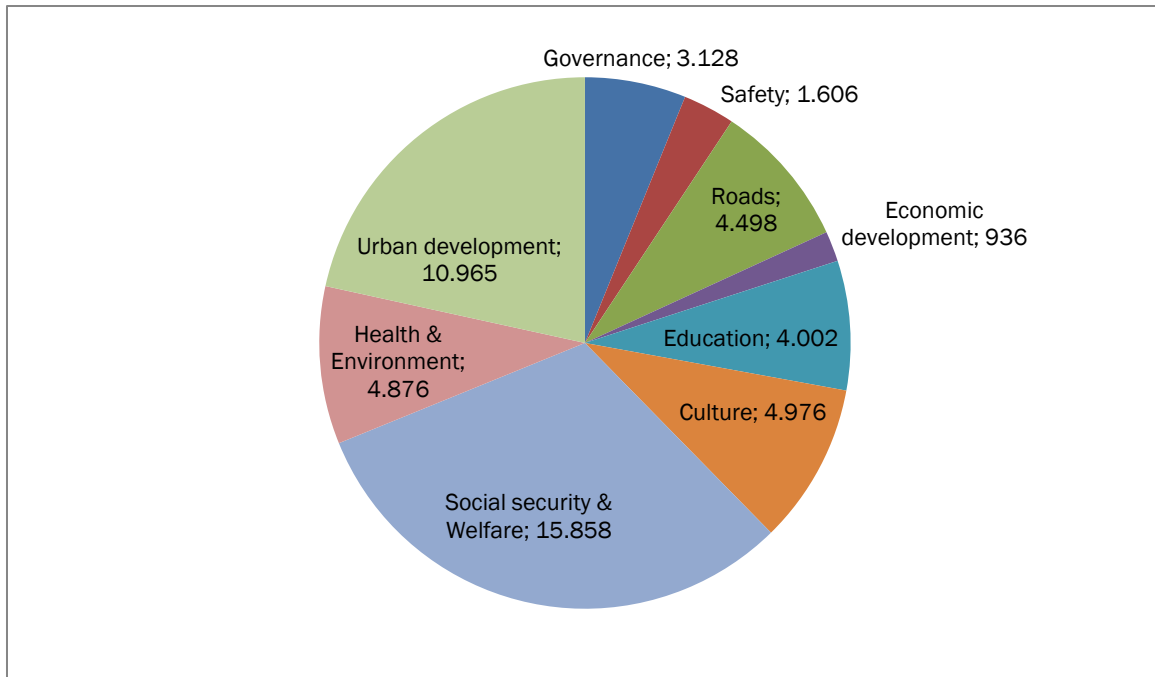


Figure 3: Local government expenses 2008 by policy groups in € millions (Source: CBS)

Based on this statistical classification, it is possible to identify the most important groups of public services provided by local governments or commissioned by local governments to co-operations of local governments. Table 1 provides an overview of the five largest services provided either directly by local governments or by formal public law based co-operation between local governments.

Table 1: Top 5 services delivered by local government or public law based co-operation (source: CBS)

Services Local government	Expenses 2008 in € billions	Services in public law based co-operation	Expenses 2008 in € billions
Land development	8.1	Employment programs	2.4
Social security benefits	5.1	Public transport	1.1
Employment programs	4.8	Social security benefits	0.3
Road infrastructure	2.9	Fire brigades	0.3
Household waste management	2.0	Environmental protection programs	0.3

The services disclosed in Table 1 cover some 45% of local government expenses and some 60% of expenses of public law based co-operation between local governments. Except for public transport, the services provided by public law based co-operations consist of tasks assigned and funded by local governments. This means that city councils have authorised to transfer their budgets to a public law based co-operation which actually provides the services. For example, total resources available for employment programs were some € 4.8 billion. Half of these resources were actually spent on behalf of local government by public law based co-operations.

The data provided by CBS are unfortunately only part of the story. Local governments have several possibilities to outsource production to a wide variety of service providers, either public law or private law based. The CBS data do not disclose outsourcing to private law based entities. For example in household waste management private companies actually realise services on behalf of local governments. Furthermore, the CBS data do not disclose information on costs of operations of local governments which might be managed in co-operation with other local governments. This is due to the fact that services delivered, rather than resources used are accounted for. If local governments co-operate in for example ICT-services, this is not visible in the statistical information. Overall, it means that information on co-operation and the (financial) impact of co-operation between local governments has to be found in detailed local case studies. Before we discuss the two cases selected for this study, the following section will address the variety of forms of co-operation.

3 Variety in co-operation

Information on local service provision by means of co-operation between governments thus has to be found elsewhere. The afore mentioned budgeting requirements BBV includes regulations that require to submit information on 'affiliated' entities in local government's budget documents as well as the annual report. If local government uses a legal entity for service provision and has both a political stake – i.e. one vote – and a financial stake in that legal entity, it qualifies as an affiliated entity (de Kruijf, 2011). Again, the information does not provide the full picture of forms of co-operation between local governments because only co-operation by using new organisations is addressed. Furthermore, if either voting right or financial interest does not exist, for example in cases of co-operation with private legal entities, the form of co-operation does not qualify as affiliated and will not be disclosed.

Co-operation between local governments is generally based on a public law arrangement under the law on local co-operation [WGR], although it is possible to use private arrangements as well

(Local government law [GemW]:160.2).⁶ The WGR-arrangements range from relatively low profile co-operation on a project to transfer of authority to a new public body with a separate organisation. In some cases, the transfer of authority is in fact compulsory, for example on safety issues. In other cases, transfer of authority is voluntary, which means that local governments have deliberately and willingly transferred authority to a new public legal entity. This is for example the case in some social security and employment programs.

Co-operation in private law based organisations is allowed and used as well. Again, in some cases, the co-operation is more or less compulsory: power infrastructure and water supplies are important examples. Local government hold shares in these companies but are not allowed to sell them. Voluntary co-operation exists as well: common examples are companies for household waste management or project based public private partnerships. In these cases local government holds shares for policy reasons. Other forms of private co-operation can be found by using foundations like libraries or welfare institutions or in mere cases of outsourcing.

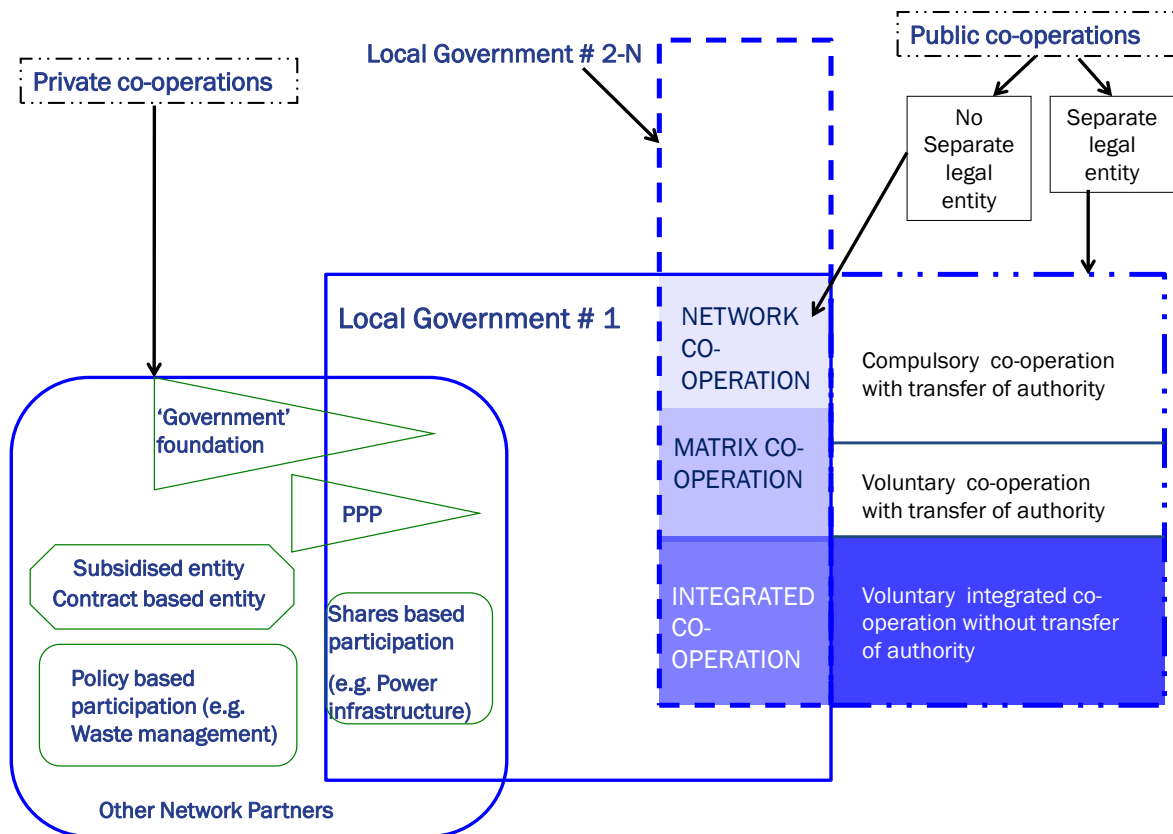


Figure 4: Variety in co-operation between Dutch local governments

In general issues with respect to local co-operation regard those forms of co-operation in which transfer of authority is involved. To some extent, this is the logical result of transfer of authority, the (financial) relevance of these structures and the fact that accounting regulations require disclosure of information on these forms of co-operation. It is known that this form of co-operation does not always contribute to democratic control on service provision or more generally on legitimising of service provision. Politicians fear that their influence is reduced but they also

⁶ in Dutch: Wet Gemeenschappelijke regelingen and Gemeentewet

hardly pay any attention to forms of co-operation after transfer of authority as was shown in several local courts of audit studies (De Kruijf, 2011). That is why a shift towards other forms of co-operations seems to develop, in which no transfer of authority is realised.

Herweijer and Fraanje (2011) focus on forms of public law based co-operation between local governments which are not based on transfer of authority to a new organisation in which co-operation is realised. In the previous paragraph this was referred to as 'low profile co-operation'. In their analysis they focus on three basic forms of co-operation: networks, matrix-co-operation and integrated co-operation.

A network form of co-operation means that civil servants only co-operate to achieve efficiencies of scale and to share relevant knowledge. It is a relatively light form of co-operation, which may for example be used in tendering procedures. In matrix co-operation, a form of specialisation is realised. Each local government specialises in a particular part of service delivery and realises this on behalf of a group of local governments. In this form civil servants may be transferred from one local government to another. The last form, integrated co-operation implies merger of the civil services of two or more local governments from a perspective of operations. Integration may occur in the form of a new legal entity or by arranging a setting in which local government # 1 provides services assigned or commissioned by local government # 2. Figure 4 provides an overview of the different forms of co-operation.

The object of co-operation is a second issue to be discussed here. In general, one can identify two forms of services to be delivered: one form regards policy related co-operations which regards service delivery by local governments immediately. Policy related co-operation includes the issues that were mentioned in Table 1. Some services influence individual citizens' position directly, for example if social security benefits have to be paid. Others influence the position of the community in general, for example in land development. The other form of co-operation only has an indirect effect on society or individuals. In these cases co-operation is sought to improve the internal processes of a local government for example by sharing an ICT system or by co-ordinated procurement processes.

The expected impact of co-operation covers four groups of elements: first improvement of quality of services, second and related to the first issue improved customer⁷ orientation. The third and fourth elements have to do with internal operations of government and regard level of costs, more precisely, the expected cost efficiency that results from co-operation. The last point refers to continuity issues in service delivery. Is a local government always able, given its staff, to assure that all processes will be operational? Particularly local governments with low number of staff may be faced with problems in this respect when staff falls ill or has a holiday. Other issues mentioned related to co-operation are that it might result in improved knowledge of staff and as a result better developed policy programs (see. e.g. Schermers & Pröpper, 2009, p. 51; Van de Laar, 2010; Herweijer and Fraanje, 2011). Which element will have what kind of impact also depends on the actual structure that is chosen for co-operation. Risks that may exist include complexity, insufficient knowledge of costs and uniform versus tailor made policy approaches.

⁷ Of course, the customer role is not the only role of an inhabitant of a town, but also citizen, voter, taxpayer.

In the following sections, two cases on co-operation will be discussed based on the analytical framework as given above. The cases vary: one is a case of three local governments of similar size, the other is an example of co-operation between two local governments with a substantial difference in size.

4 The Losser-Enschede case

4.1 The context

Losser is a local government with a strong rural character, 22,000 inhabitants on the German border. Its neighbours are two local governments of similar size, one with an urban and one with a rural character and the city of Enschede. The latter has some 157,000 inhabitants. In 2001, a merger of several local governments in the region was implemented but at that time, Losser was not really involved in the process and kept its autonomy. It was thought that Losser had sufficient governing power to provide local government services by itself (Parliament, 1998, p. 11). In 2009, Losser was faced with serious governance crises, within three years time 6 aldermen had resigned from office. Furthermore, the financial position of Losser had worsened, resulting in strict ex ante monitoring by the provincial authorities⁸. By the end of 2009, it was recognised that Losser could only maintain its autonomy by looking for co-operation with other local governments (Meijer, 2009). The interim aldermen appointed by the end of 2009 prepared initiatives to look for various forms of co-operation with neighbouring local governments. After the 2010 local city council elections, all political parties recognised that the key objective should be that Losser will survive as an autonomous local government but that co-operation should be sought. Two lines of co-operation were proposed. On the one hand, co-operation on policy issues with two other rural local governments in the region and on the other hand, co-operation on operations with Enschede. Other forms of co-operation, even with other local governments were not excluded by the city council. By early 2011, an agreement between Losser and Enschede passed both city councils and implementation started on March 1, 2011. The other line of co-operation has not yet resulted in mutual agreements.

4.2 Existing co-operations

Like all other local governments, Losser is embedded in several forms of regional co-operation that have historically developed. In most cases, these co-operations are embedded in separate legal entities, some of them compulsory, others on a voluntary basis. Both public law based as well as private law based co-operation can be found. Table 2 provides an overview of the main co-operations in which Losser is involved by December 2010.

⁸ By law, it is required that provinces monitor local governments financial position, generally on an ex post basis. (GemW: 191-195)

Table 2: Main co-operations with involvement of Losser

	Compulsory	Voluntarily
Public law based in separate legal entity	Safety, Urban development, (public) transport (14)	Employment program (3) Banking (22) Crematorium (13)
Public law based without separate legal entity		Education & Welfare (2)
Private law share holding	Banking Power & Water	Waste collecting (6) Waste management (14) Economic development (24)
(x): number of local governments involved; no number: all local governments		

Next to formal co-operations, some impure public services like library and welfare institutions are used on a contract or subsidised basis. In the Losser case, most of these services are organised within the community only, except for a welfare program directed at in general elderly people which is run by a regional service provider. This means that Losser is not depending on other local governments if programs have to be changed, but also that an issue of efficiency of scale might exist.

Based on the strategy that has been developed after the 2009 governance crisis, Losser is seeking for co-operation on other issues as well. On policy related issues the city council decided to look for co-operation opportunities with similar rural issues to be managed. One of the arguments here is that co-operation with a big city does not contribute to success as a city is not familiar with what is going on in rural areas. Given existing forms of co-operation between local governments and central government on employment, Losser is studying co-operation with its two similar sized neighbours on social security benefits. The debate on this co-operation has not yet been completed. A last issue that should be mentioned is that due to central government policy on building and environmental permissions, a new form of compulsory co-operation is to be developed but this has not yet been implemented.

Respondents as well as some reports on co-operation indicate that new forms of co-operation with neighbour local governments of the same size is difficult to realise. Issues like priorities and diverging opinions on optimal solutions delay the process (Geessink, 2009, p. 36). In a document based on experiences related to implementation of co-operation between local governments, issues like alignment of strategic interest as well as will to co-operate both on the civil servants' level as well as on the political level are mentioned. (WagenaarHoes, no date). The issue of co-operation with Enschede, which was to some extent feared given the risk of becoming a suburb of the city, was realised fairly quickly. We will discuss the details in the following section.

4.3 Co-operation on operations

Next to the choice to seek for co-operation on policy issues with neighbouring rural local governments, Losser's city council had decided to strengthen its internal processes by looking for co-operation with a suitable partner. Two options were possible: either use the scale of the existing regional structure or discuss possibilities for co-operation with Enschede, Losser's direct neighbour. It was argued that if issues with respect to back office operations existed, efficiency of scale might provide solutions. The experiences in another case in which a small town and a large city co-operated provided some confidence to follow this line of solutions (Geessink, 2009, p. 21.). It appeared that Enschede was willing to provide the back office as well as some front office

services as requested by Losser.

From a political perspective a major argument to transfer back-office as well as some front office tasks regarding the Register Office is that these services are not regarded as activities that need high levels of political attention or policy directions (Raadsbesluit, 2010, p. 6). Furthermore it was decided that co-operation on operations was to be organised under a service delivery and service level agreement as this was perceived to be a relatively flexible and fast solution to implement co-operation. Other solutions such as creating new entities would have taken more time. From a Losser governance perspective, there was not much time left, given the fact that Losser had to cut its budgets by 2012 to a level equivalent to a 10% staff reduction. If not, it would mean that Losser would again be subject to ex ante financial monitoring by the province which was unacceptable for local politicians.

The core of the service delivery agreement covers the transfer of some 50 FTE (30% of Losser's staff) to Enschede. Services to be delivered by Enschede include Finance & Control, Communication, ICT, HRM, Facility management and the supporting staff for major and aldermen. These activities cover the back office roles. Furthermore, the Registry office as well as staff related to land development and real estate is transferred to Enschede.

Financially, the transfer involves some € 5.6 mln at the start, gradually to be reduced to € 4.4 mln by 2013. The savings to be realised are mainly found in staff reduction (75%), the remaining part is efficiencies of scale. The savings as described here will be distributed equally between Losser and Enschede. Effectively that means that the expected cost reduction is split: € 0.6 mln will be the real savings for Losser, the other half will be earned by Enschede. The underlying documents are not fully transparent in disclosing the calculations for these savings. There are no indications on how efficiency of scale is to be realised. Furthermore, there are some undefined risks, for example the present Town Hall in Losser will be faced with unoccupied office space. In the interviews it was indicated that it might be possible to lease this space to trusts that provide (semi) public services, but that is still uncertain. Other friction costs such as for project management and wage supplements are included in the arrangements. The city of Losser will cover these costs in the next 5 years. If after those 5 years, the expected costs reductions are not realised, Enschede will cover half of the friction costs. Arrangements on calculation of realised cost reductions and (legal) procedures in case of diverging opinions are included in the arrangement. Furthermore, it is possible that in the future Enschede can provide other services at full cost. A last point to be mentioned is that the co-operation agreement is exclusive: it only concerns Losser and Enschede and does not allow other local governments to participate.

The main objective of the co-operation is that continuity of operations and service delivery can be guaranteed. Interviewees indicated that absenteeism and holiday leaves already were problematic from a perspective of continuity. Using Enschede's scale allows for continuity but also is expected to result in improved quality because it is perceived that the general service level in Enschede is at a higher level.

The citizen is hardly discussed in all considerations, except from a quality improvement perspective. This is logical, because most of the services transferred regard internal back offices. Only with respect to the Registry office, citizens are directly involved. Because there is no physical change in the location of the Registry office, citizens don't have to travel more than they were used to when Losser provided the services stand alone. Because Enschede already used

devolved Registry offices, it is unlikely that practically creating a new devolved Registry office will lead to substantial implementation problems.

4.4 Assessment of co-operation programs

Losser's governance problems as well as its financial position required that forms of co-operation had to be sought if Losser is to be autonomous in the future as well. Like all other local governments, co-operation already existed in most cases by transfer of authority to a new public legal entity. Most other public services were either provided by local government itself or by mainly locally operating trusts.

Theory suggests that service provision without transfer of authority can be realised in either a matrix organisation, a network organisation or by integration. From a program perspective, it is possible to co-operate on back office only, direct service delivery or on policy issues. The Losser case shows an ambiguous solution: on the one hand back office is fully integrated with Enschede but also includes a part of the direct service delivery by local government. In this respect, this is not a case of fully integrated services. In some of the policy related programs, a form of network co-operation seems to prevail as in the already existing case of education and welfare. Other policy programs may be realised as well in the future, but progress on these programs that are to be realised with neighbouring rural local governments is low. There are indications that Losser is looking for co-operation with a variety of other local governments. From a perspective of continued autonomy of Losser, this seems to be a sensible solution. Whether it is sustainable in the long run is to be seen. If there is a need for strengthened co-operation in the future, it might be that the exit costs involved with dissolving the variety of co-operation programs will be a substantial threshold for new forms of co-operation.

5 The Aalten, Oost Gelre, Winterswijk case

5.1 The context

The second case regards three separate rural local governments. The three communities are more or less similar in size, all just below 30,000 inhabitants. In 2005, two of them, Aalten en Oost Gelre were created as the result of a broader restructuring process in the region. Winterswijk was not involved in the restructuring process. Winterswijk had liked to participate, but potential partners chose for other solutions and finally it was concluded that Winterswijk was able to operate as a separate local government (Parliament, 2003, p. 6). After 2005, Aalten and Oost Gelre were busy restructuring their organisations and processes. This process took a few years.

The impact of the financial crisis on government resources in general and the announced budget cuts by central government were a trigger to start debating new forms of co-operation between the three local governments. In these debates in some cases the broader perspective of regional co-operation with 5 other local governments was included as well. In general, the whole region is rural, only the largest town has a bit more urban/industrial character and is larger with over 55,000 inhabitants. The necessity of co-operation is recognised by top civil servants as well as politicians. Recently, one alderman even expressed as his feelings that a full merger of the civil service of all eight local governments into one shared service centre should be considered (De Gelderlander, 2011). By May 2011, no formal decisions on further co-operation were taken.

5.2 Existing co-operations

In this case, only one form of compulsory co-operation exists. This regards essentially the emergency services. Politicians feel that their influence in the co-operation process is relatively low, which has to do with the number of local governments involved and the size of the area covered.⁹ The more natural scale of co-operation is found between 8 local governments and they share a voluntary legal entity which focuses on economic development and tourism. The banking and crematorium services delivered under voluntary public law co-operations are the same as in the Losser-Enschede case. An overview of the most important co-operations is disclosed in Table 3.

Table 3: Main co-operations with involvement of Aalten, Oost Gelre or Winterswijk

	Compulsory	Voluntarily
Public law based in separate legal entity	Safety (3+19)*	Economy, Tourism (3+5) Employment program (3+2) Banking (3+19)** Crematorium (1+12) Tourism (3+10) Social security benefits-I (2+1) Social security benefits-II (1+1)
Public law based without separate legal entity		Procurement (3+5) Local court of audit (3)
Private law share holding	Banking Power & Water	Waste management (3+17)
Private law other relations		Library (2+5) School of music (3)
*(x+y): number of local governments involved, first number refers to the participation of the three local governments here, the second number refers to other participants; no number: all local governments		
** not the same local governments as in the compulsory safety program.		

From a policy perspective, some interesting co-operations have emerged recently. First, on the issue of social security benefits, Aalten and another neighbouring local government recognised that they were not able to provide the services adequately by themselves. That resulted in a separate legal entity based on public law which provides the services for these two local governments. In 2007, Winterswijk, Oost Gelre and another local government made a similar fundamental decision and started the procedures to implement it. As of 2010 the social security benefit services including employment programs to be provided from a new organisation. Key arguments were reducing vulnerability, improved quality and cost reduction. In this case, also a role on administering a welfare/participation program is realised within this new organisation. Co-operation on the issue of social security, re-employment and the welfare/participation program are from financial perspective very important issues with relatively high financial risks.¹⁰ To some extent, providing these services within one organisation can contribute to risk sharing and risk reduction.

As of 2005, local procurement officials of all 8 local governments in the region are co-ordinating their activities. This was done from a perspective of sharing of knowledge and generating purchasing power resulting in efficiencies of scale. Ultimately it resulted in a standard procurement protocol in 2008 (Winterswijk, 2009). Next to procurement of construction programs related to physical investments, this co-operation covers procurement of the welfare/participation

⁹ The area covered by the safety region is some 100 km wide and is 8 times the area of the three local governments discussed here. Distances between the three local governments to each other are some 10-15 km. There are also cultural differences between the local governments involved in the safety region.

¹⁰ In the Winterswijk 2010 budget, some € 20 mln is transferred to the social security unit. Another € 4 mln is needed for the welfare/participation program. Total budget of Winterswijk is some € 70 mln in 2010.

program which was realised in 2008. In effect, this resulted in –however not quantified – efficiencies of scale for two reasons: first the purchasing power of aggregate demand is stronger and second, only one European tendering procedure had to be started, which saved 7 tendering procedures. When in 2006 local courts of audit were introduced, the three local governments decided to co-operate on this issue as well for reasons of efficiency and knowledge sharing. This form of co-operation is not unusual, some neighbouring local governments have also decided to create a court of audit in co-operation.

Library and school of music are services provided by private law legal entities which operate regionally and are subsidised by the individual local governments. In this case, co-operation might not be a proper description, because decisions of individual local governments are not really co-ordinated. But, if one local government decides to reduce budgets, that might have an impact on the others as well, given at least indirect costs related to the services.

5.3 New forms of co-operations

One can claim that politicians in the region are aware of the fact that co-operation will be necessary in the future. Next to the general fiscal restrictions and threats of budget cuts by central government, another element is relevant in this region. In some parts of the Netherlands, including this region, population is no longer growing, but ageing and declining. This is a new phenomenon in the Netherlands and has an impact on continuity of local governments as well. Major issues are that demand for some services will be declining whereas others will face increased demand. Furthermore, tax income is likely to decline due to reduced economic activity. From a perspective of operations, staff of local government is also ageing and it will be more difficult to find replacements.

In 2010, a group of civil servants prepared a report on co-operation between all 8 local governments in the region (Doetinchem, 2010). They focused on three clusters of co-operation. First, co-operation on intensifying co-operation in the existing formal settings as described in the previous section. Second, co-operation in operations of the various local governments and third, co-operation on services provided by one single local government but used by inhabitants of more than that single local government. This last group includes for example libraries and theatres. The document exists, but it was not explicitly discussed on a political level. To put it even stronger, top civil servants had to think twice when we referred to this report and asked on actual progress. Effectively this suggests that the report did not serve its purpose.

There are several possible explanations for this failure. A first one is probably scale: is sufficient political and civil servant power available to look for new forms of co-operation. The report mentions that most existing forms of co-operation were based on incidental coalitions rather than on structured consideration of optimal solutions (Doetinchem, 2010, p. 32/33). A respondent indicated that after two years debate on co-operation on ICT, no progress was made and the project was ended. A new project, encompassing only four of the local governments involved has been started up and there is more optimism on realisation of targets. Furthermore, politicians fear reduced influence particularly in large scale co-operations. A second point is related to the illustration before: from a political perspective, ICT is a theme that is not really politically relevant. Many other issues, particularly those on programs and services delivered have a high level of political attention. Power or responsibility sharing related restructuring similar facilities to achieve efficiencies of scale might be perceived negatively by constituents and thus not accepted by politicians either. A third element in the explanation is that only discussing

financial results or savings is not a solution that allows for an open mind. We already discussed some cultural issues based on earlier experiences (WagenaarHoes, no date), but in this case trust and confidence on political and civil service level were explicitly mentioned as success factors, also in relation to co-operation projects that already have been implemented. The open mind issue is relevant from another perspective as well: it might be that cultural and behavioural changes may have positive effects on quality of service delivery as well. One of the respondents indicated that formal complaints procedures may be avoided if civil servants choose for another – mediation based – approach towards citizens.

Although on several levels co-operation is discussed, both politicians and civil servants recognise a need for forms of co-operation, no progress has been made after 2010. Some forms of co-operation are under development, but it remains to be seen which conclusions may be drawn from these projects.

5.4 Assessment of co-operation programs

Aalten, Oost Gelre and Winterswijk operate in an environment in which only recently a substantial restructuring of local governments was implemented. As a result, the number of participants in existing public law based co-operations declined, but they serviced more or less the same number of inhabitants. More recent forms of co-operations that have emerged are structured in public law legal entities (social security), or are based on integration as in the case of local courts of audit. In these cases, a mixture of coalitions and co-operations is found. The only case in which all eight local governments are involved is on procurement. This is however an important issue because it also includes the welfare/participation program services for which substantial budgets have to be allocated. This procurement co-operation has a network character. The fragmented character of co-operation is also found in subsidised services such as libraries: each local government has its own policy and may influence another local government's possibilities by its decisions.

An important issue from a financial control perspective is that programs that include substantial risks such as on social security and welfare/participation are organised in co-operation with other local governments. Again fragmentation exists, but to a lesser extent than if all three local governments would still provide the services only from within their own organisation. Efficiencies of scale as well as risk sharing can therefore be realised.

6 Conclusion and comments

In this paper co-operation between Dutch local governments was discussed on the basis of the following research question.

Which services are to be delivered in co-operation with other local governments and what is the (expected) impact on budgets and service delivery?

The paper started with a discussion on the various forms of compulsory and voluntary co-operation that exists in the Netherlands. Up till recently, co-operation was based on formal organisations and transfer of authority towards the new organisation. This form of co-operation is not always preferred anymore, because politicians feel that their influence on providing local services is reduced. As a result new forms of co-operation emerge, ranging from full integration of all services to network based co-operation on particular types of services or on operations.

We have discussed recent developments based on two cases. In the Losser-Enschede case, the incentive for co-operation is essentially driven by financial arguments, followed by the desire to continue service delivery as an independent local government. Losser followed a two line

strategy: policy co-operation with neighbouring rural local governments and operations in co-operation with Enschede, a neighbouring city. It appeared to be hard to realise policy co-operation on short notice. The less politically sensitive co-operation on operations has been implemented within 1½ year after discussions started. The agreement includes integration of services, resulting in savings of some 10% of Losser's expenses on operations. Actually, expected savings are larger as the agreement with Enschede includes that total savings are split up 50-50 between the two local governments. The expected result is not only financial; continuity and improved quality of service provision are relevant as well. This could be realised by the substantial difference in scale of service delivery: Enschede is much larger and can therefore generate more knowledge and backup for service delivery. A risk in the Losser case is found in the execution of policy programs is still realised by Losser. There is no knowledge or risk sharing on issues like social security and welfare/participation which account for substantial parts of a Dutch local government's expenses. Another risk is that co-operation in Losser is rather fragmented. Several coalitions exist. This might result in a threshold for future co-operations if present existing co-operations have to be discontinued.

In the Aalten, Oost Gelre, Winterswijk case, the starting point is different. Two of the three local governments have actually been involved in mergers and had to reorganise their processes as a result of that. Only recently, more fundamental debates on co-operation have emerged again. Next to financial arguments, the demographic developments in the region – decline and ageing population – require reconsidering the role of individual local governments and their ability to deliver services. To some extent, co-operation in this case has developed further than in the Losser case. Co-operation on major policy programs exists, and in the procurement procedures a standard has been developed allowing for more purchasing power demand and less costs. On the other hand, there is vulnerability as well: major subsidised institutions are funded by the individual local governments, where a more co-ordinated perspective might be more effective or at least result in fewer surprises for neighbours. The fragmentation of co-ordination is like in the Losser case also an issue of concern because it may result in additional transaction costs if a certain structure has to be dissolved. New issues on which co-operation might be possible have been sought for, but an overall program that was developed in 2010 did not receive the required political and managerial support. As a result, piecemeal structuring of co-operation is continued, based on trust and involving those who are willing to participate. Pressure will increase due to political statements on a full merger of civil service. Whether this is realistic is to be seen in the near future.

From an academic perspective, two case studies do not allow for generalisations. The paper contributes to knowledge by presenting a structured overview of present possibilities for local co-operation from rather informal network based co-operation to fully integrated co-operation as well as the use of separate legal entities providing relevant public services on behalf of local governments including the transfer of authority towards the new entity. Furthermore, it is relevant to be aware of drivers of co-operation: is a trigger merely financial or do other drivers like demographic or political governing power influence decisions for co-operation. The two cases discussed here are not the only ones in which co-operation without transfer of authority is developing. A common denominator in all cases seems to be trust and confidence towards each other both at the political as well as the civil servants level (see. WagenaarHoes, no date, Van de Laar, 2010, p. 240).

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