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# *Review of International Local Government Efficiency Reforms*

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*This paper presents a brief overview of reforms undertaken in several jurisdictions to improve the efficiency of local government services*

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## EXECUTIVE SUMMARY

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“  
*A range of in-house tools are increasingly being adopted by local authorities to improve efficiency in local government service delivery.*  
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This paper presents a brief overview of reforms undertaken in several jurisdictions designed to improve the efficiency of local government services. In any comparative review, one must consider the distinctive nature of each country's institutional environment. Local government in different countries have different structures, population sizes, decision-making structures, provide a different range of services, and operate under distinctive financing systems. Nevertheless, parallels and comparisons can be drawn, and appropriate lessons can be learned from the experience abroad.

In general Irish local authorities have a large population base by international standards. The average size of town councils is slightly below the average of other developed countries in population terms. The average size of county and city councils is considerably larger than all other developed countries in the world, with the exception of Britain.

Economies of scale within local government is a complex issue, partly because local authorities are multifunctional bodies and different activities have different scale effects, making it difficult to identify an optimal size to produce all services efficiently. Despite a large number of studies and evaluations into the link between population size and local government performance, the relationship is at best tenuous.

The international evidence is that larger local authority units with larger populations are not necessarily better performing, do not in many cases cost less, and do not necessarily deliver better value for money. Research shows in some cases there is no correlation between the population size of local authorities and the costs of service delivery. Where there is a correlation, this can, depending on the service area concerned, illustrate either economies or diseconomies of scale – i.e. the average costs can actually increase as well as decrease as the size of the population increases.

A range of in-house tools are increasingly being adopted by local authorities to improve efficiency in local government service delivery. For example, local government in Britain has extensive experience of the use of performance indicators, which are set at both national and local level. However, recent years have seen a consolidation of performance measurement systems and an effort to reduce the reporting burden. Other examples of in-house tools used in several countries include business process improvement tools to streamline the way services are delivered, online service delivery to make services more accessible at a lower cost, greater use of cost-benefit analysis, peer review exercises drawing on the experience of senior managers from other local authorities, and increasing the emphasis on asset management and rationalising the asset portfolio of local authorities.

Local authorities in New Zealand are obliged to prepare 10-year long term financial strategies identifying estimated expenditure and revenue streams to fund their activities and commitments, taking into account risk and debt levels. Several local authorities in Germany have introduced internal contract arrangements to link budgets to service objectives and targets for specific units within the local authority. Another approach used in New Zealand has been to establish local authority-owned companies to run services such as water services, roads, and recreational facilities at 'arms length' from the local authority and on a commercial basis.

The provision of shared services involving collaboration between two or more local authorities has also become more common internationally, although it is by no means universal. There are examples of this approach being used in several cases in countries such as Britain, France, the US, and New Zealand for both 'back office' support services and 'frontline' services provided to the public. Examples of back-office areas where this approach has been utilised include ICT systems, payroll, financial services and internal audit, HR functions, recruitment, road design, facilities management, legal services, and shared management structures. In some New Zealand local authorities specialist technical personnel are pooled between a number of neighbouring local authorities. Joint service provision has also been a feature of service areas such as waste management, transport services, library services, building control, fire services, and the provision of contact centres for members of the public. This can take the form of inter-local authority associations providing services, or contracting between authorities where one authority acts as 'lead authority' to provide the service on behalf of several authorities.

Procurement has also been a feature of efficiency reforms in several countries. In Britain for example, there has been an emphasis on joint purchasing between local authorities (and other public service providers) in areas such as energy, insurance, vehicle fleets, and the employment of temporary or agency staff. This has been accompanied by increased investment in procurement skills and capacity in local government and the development of new tools and supports for procurement specialists.

In terms of outsourcing, in some countries, such as Britain, New Zealand and some cities in the US, arrangements have been instituted requiring local authorities to formally consider whether certain services should be outsourced or not, and to justify in-house provision where this is chosen as the preferred delivery mechanism. Comparing the costs of in-house provision with tendering to external suppliers can help encourage changes in work practices and in the ways services are provided. While there has been a greater tendency to contract services to the private sector and a greater use of Public-Private Partnerships, most local government services continue to be provided 'in-house', and evaluations suggest that private provision does not always end up being cheaper, and that decisions to contract services should be made on a case-by-case basis and assessments of the potential risk to the taxpayer.

# 1.

## INTRODUCTION

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“  
*It is necessary at the outset to acknowledge the different range of powers, responsibilities and roles assigned to local authorities across different countries*  
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**This paper presents a brief overview of reforms undertaken in several jurisdictions designed to improve the efficiency of local government services.**

For the purposes of this paper, it was decided to focus the international comparative analysis on five countries, namely the USA, Britain, Germany, France, and New Zealand (while also providing some illustrative examples from other countries). As well as illustrating some of the different trends in local government reform, it is considered that these cases provide a good illustration of the different types of local government systems operating in different environments.

It should also be noted that some of the systems covered in this analysis have exercised a strong influence on local government systems in other countries. For example, the French local government model was adopted in a number of other countries, such as Belgium, Spain, and Italy, amongst others, and can be seen as illustrative of what has been called the ‘Napoleonic’ local government model. The British example is illustrative of the ‘Westminster’ local government model which has been influential in countries such as Ireland, Canada, and New Zealand, while the German example is illustrative of the ‘North and Middle European’ local government model (Hesse and Sharpe, 1991; Loughlin and Seiler, 2001).

It is necessary at the outset to acknowledge the different range of powers, responsibilities and roles assigned to local authorities across different countries, and sometimes even within countries. Local authorities vary in their range of functions, their population size, their decision-making structures, their revenue raising powers, and so on. Every local government system is different to some extent, and shaped by national and local circumstances. Comparative analysis must admit the need to take into consideration the unique historical and cultural factors in diverse areas that lead to distinctive political and administrative traditions. Nevertheless, despite these caveats, we can also observe that regardless of differences in legal and formal roles, in practice the activities of many local authorities show some similar patterns. As citizens’ expectations and demands have increased, local government structures in all countries have undergone a series of reforms to make them more efficient, effective, convenient and accessible for citizens, and responsive to the needs of their area. Many of these trends affecting local government are global ones, albeit having a greater impact on local authorities in some countries more than others.

The following section of the paper sets out the basic international rationale for local government, and subsequently places the local government systems examined in context in terms of their basic structures, services provided, and the main areas of expenditure and revenue raising. Following this, a number of themes are addressed in subsequent sections under the broad heading of ‘efficiency reforms’. Each section reviews a specific aspect of the local government reform agenda in one or more countries, particularly where reforms are geared towards efficiency and effectiveness in the provision of services.

In turn, each of these sections addresses the following topics:

- The relationship between population size and expenditure, value for money and performance, and the question of economies of scale in local government
- Use of performance indicators, financial planning, asset management, and business improvement tools within local government
- Financial management systems and internal contracting within local authorities
- Shared services between local authorities, including procurement
- Outsourcing of services to private and voluntary providers

The findings on the international experience in these areas might provide insights that could prove useful from an Irish perspective.

# 2.

## DEVELOPMENT AND RATIONALE FOR LOCAL GOVERNMENT SYSTEMS

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*Services designed at national level may have to ‘fit’ very different conditions that exist in different parts of the country*  
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### 2.1 Local Government Systems in an International Context

All countries throughout the world have local government systems which, to a greater or lesser extent, are designed to identify local concerns and to set local priorities.

Local authorities act as a system of administration in subdivisions of the state, usually governed by a council and / or mayor. In most developed countries local authorities have a substantial control of and responsibility for local affairs. They operate within a specific geographical area within a state, are locally-elected, have some discretion and autonomy from national government, and generally have the power to levy taxes and local sources of income, as well as receive financial transfers from the state.

Historically, local government structures have evolved internationally in different ways, depending on the specific characteristics of different countries. In some ‘newer’ countries, like the United States, local structures pre-date the establishment of national government.

Fundamentally, the rationale for local structures internationally is based on the fact that local authorities can fulfil the following four basic, and closely connected, tasks:

- Identifying the needs of the local community
- Providing services
- Acting as an agent of national government
- Acting as a local regulator

### 2.2 Identifying the Needs of the Local Community

Firstly, one of the primary purposes of local government systems is to give expression to the needs of local communities and local areas. Local authorities therefore provide an opportunity for citizens to take part in decisions that affect them. Through the electoral process, but also through participative structures and consultation exercises local authorities create additional opportunities for consultation and participation of citizens in local decisions. By being closer to the people, local authorities are by definition more accessible to the citizen.

It is a relatively uncontested fact in most countries that all parts of the country are not identical. For example, the needs of a growing city with a large population will not be the same as a sparsely populated rural area. Services designed at national level may have to ‘fit’ very different conditions that exist in different parts of the country. Thus, it is argued that local authorities have an advantage in achieving efficient and effective service provision because of their local knowledge. They can tailor services according to local priorities and circumstances. A key task of local authorities therefore is to take account of local circumstances, and demands from citizens, and to set local priorities accordingly.

A key rationale underpinning local government systems therefore lies in the local authority's closeness to the local population, its accessibility, its understanding of local circumstances, and the opportunities it provides for citizen participation.

### 2.3 Providing Services

Secondly, local government systems are established in order to provide a range of key services to local citizens. Local authorities in most developed countries are charged with delivering a wide range of functions, for example in areas of infrastructure, economic and technical services, but also social services too.

In the Irish case, this is reflected in the key services and responsibilities provided through local authorities, often summarised as follows:

- Social housing
- Roads and transportation
- Water supply, waste water treatment, and protecting water quality
- Planning and development
- Waste management
- Fire brigade services
- Public libraries
- Local arts and cultural events
- Collection of motor tax
- Administration of higher education grants
- Register of voters
- Other services

It should be noted that a difficulty in any comparative analysis of local government systems is the differing responsibilities between local authorities in Ireland and local authorities in other jurisdictions. While a number of important services are delivered by Irish local government, in many cases local authorities in other developed countries are responsible for areas such as primary and secondary education and management of schools, social welfare and healthcare services, policing, public transport, local economic development and so on (see below for further details).

These services provided by local authorities are of course a visible area of activity, and dominate the debate about the effectiveness or otherwise of local government systems. Increasingly, local authorities are being encouraged to improve the quality of services they provide, to make services more responsive to citizen demands, and to ensure value for money. For some services, local authorities in many countries are contracting out provision to private contractors or voluntary bodies, or other local authorities (see sections 8 and 9 below for further details).

Of course, local authorities in all countries provide services within the framework of national policy. Thus, local authorities typically decide on local priorities and policies, and the level of local services, within a broad national framework. While overall objectives and targets might be set at national level, local authorities would usually have some discretion on how to meet these objectives, may adapt policies and services to suit local needs and local priorities, and come up with innovative methods and new ways of tackling issues.

## **2.4 Acting as an Agent for National Government**

Thirdly, it should also be noted that in many countries, some local services are simply provided by local authorities on an 'agency basis' on behalf of national government. In these cases, local authorities do not enjoy the discretion referred to above, but are simply acting as an arm of the state in delivering a national policy. Essentially, national government makes use of local authorities as a local delivery agency and finances them to engage in particular activities. In France for example, while local authorities respond to local needs in the delivery of some local tasks, there is also a tradition of local authorities acting as local offices of the state for delivering certain government services.

A particular example of this role would be in the area of pension allowances in a country like Sweden, which are paid to individual citizens by local authorities, acting in its role as an agent of the state. Local authorities administer payments on behalf of national government, but do not have the power to vary levels of payment, which are decided at national level. National government in Sweden reimburses local authorities for the costs associated with the service. This lack of discretion contrasts with many other services provided by Swedish local authorities, where often national legislation is laid out in outline only, to allow for local discretion. A clear distinction is therefore drawn in Sweden between those services where on the one hand local authorities have some discretion and can decide on local priorities, and on the other those services that are simply administered by local authorities on an agency basis on behalf of the state.

In Ireland some services provided by local authorities (such as the administration of higher education grants or the collection of motor tax) might be said to fall within this category – where local authorities are essentially administering a national scheme on a uniform basis across the state.

## **2.5 Acting as a Local Regulator**

Lastly, local government systems act as a means of local regulation. In the Irish context, this role is probably most manifest in local authorities' responsibility for enforcing environmental standards in areas such as waste management and water quality, but also the enforcement role in planning, building control, fire safety, and traffic management.

The role of the local authority as a local regulator is also illustrated through the power of local authorities to adopt local regulations (known as bye-laws) on areas such as environmental pollution and litter control. Frequently, local authorities enforce

national standards, such as fire safety standards in buildings or waste management, where local authorities can inspect premises, serve notices and ultimately take action against those in breach of the rules.

The regulatory role involves the specification of standards (either at local or national level), checks on whether standards are being met/ complied with (often through inspections or examination of applications), and enforcement of standards, where necessary through the application of sanctions.

It should also be noted that there is a potential for tensions between a local authority's role as a service provider and its role as a regulator. As a service provider, local authorities are looking to continually improve the quality of services to citizens. In their role as regulator on the other hand, local authorities are required to take a somewhat more detached position, and take potentially unpopular decisions (at least for the individuals involved), such as whether to grant a permit or not, or whether or not to prosecute for environmental offences (Stewart, 1997).

# 3.

## SHORT PROFILE OF INTERNATIONAL LOCAL GOVERNMENT STRUCTURES

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“  
*The council appoints a city manager... This was the original inspiration for Ireland’s county management system*  
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### 3.1 Introduction

This section introduces the basic features of the local government level in each of the countries examined. It is necessary to briefly review these basic features to understand the context of local government reform initiatives in the countries concerned, which are addressed in more detail in subsequent sections.

### 3.2 United States

The federal system of government in the United States is based on a separation of responsibilities between federal government and the 50 constituent states that make up the USA. The organisation of the local level is the responsibility of the states rather than the responsibility of federal government – each state, through its constitution and laws, sets out the structure, boundaries, competences, operation, and financial resources available to the local government sector. The Tenth Amendment to the US Constitution specifies that the power to determine the scope and authority of the local government level is reserved to the states (Smith et al., 2005). Therefore, as Savitch and Vogel (2005, p. 213) put it, in the United States “in reality there are 50 systems of local government, not just one”.

That said, many states share similarities in terms of structure and the responsibilities of the local level. General-purpose bodies at local level include counties, municipalities (with larger municipalities usually referred to as ‘cities’), towns and townships, and these provide a range of services to citizens at local level. Specific arrangements vary from state to state – for example most Southern states have counties and cities only, whereas some Mid-Atlantic states have all types. In addition to these general-purpose bodies, special-purpose districts also exist to provide a single service, typically schools, but they can also cover services such as water, pollution control, or other specialised services – these elected bodies are also considered part of the local government system (Savitch and Vogel, 2005).

Different executive models are used in different local authorities in the United States – broadly speaking, in this respect US local authorities fall under two categories (Svara, 1998; Hambleton, 1996). The first is ‘mayor-council’ local authorities, where the mayor is directly elected and acts as chief executive (although in the case of larger authorities s/he may be assisted by a chief administrative officer, who depending on the local authority in question, may be responsible for service delivery, day-to-day administration, budget formulation and providing policy advice to the political level).

The second category involves the so-called ‘council-manager’ local authorities, where the council is elected and is responsible for setting the broad policy framework and direction for the local authority, as well as adopting the annual budget. The council also appoints a city manager who is given operational responsibility to run services on behalf of the council (this was the original inspiration for Ireland’s county management system).

The ‘council-manager’ system is used in just under half of all US cities, and tends to be most popular in cities with a population of 5,000 and 250,000, whereas the ‘mayor-

council' model is more common in small (less than 5,000) and in the very large cities (over 500,000 people). In overall terms, there has over the past 15 to 20 years been a slight shift in the number of local authorities moving from the 'mayor-council' model to the 'council-manager' model (Svara and Hoene, 2008). That said, a number of high profile larger cities have moved to 'mayor-council' system since 1990, including Miami, Oakland, Richmond, and San Diego. In some of the large cities using the 'council-manager' system, such as Cincinnati, Kansas city, San José, the role of the mayor has been strengthened, although it has not in others such as Dallas (Smith et al., 2005; Savitch and Vogel, 2005; Svara, 1998; Svara and Hoene, 2008).

### 3.3 Britain

The system at local government level in Britain was reformed significantly under legislation passed in 1972 and implemented in 1974. These reforms saw the abolition of boroughs and corporations and the replacement of a large number of municipalities with a two-tier system of counties and districts, which in the case of many parts of England substantially still exists today.

The first tier is made up of county councils. The second, lower tier subdivides these counties into a series of metropolitan (urban), non-metropolitan (rural) district councils, and London borough councils. From the mid-1990s, a greater number of unitary 'all-purpose' councils were established, which has resulted in a gradual reduction in the number of local authorities in England. The current situation means that between the various tiers, there are 361 councils in England. Until 1996, Wales also had a two-tier system of counties and districts, but this was replaced with a system of 22 unitary local authorities in that year. Scotland has a separate legal system and a distinct system at local government level. Its two-tier system was also abolished in 1996, and replaced with a system of 32 unitary municipalities (Wilson and Game, 2002).

The reforms and restructuring of the 1970s and 1990s meant that the average size of local authorities (both in terms of geographic area and number of inhabitants) has increased substantially – "Great Britain has, on average, the largest local authorities and the highest ratio of citizens to elected councillors of any country in Western Europe" (Wilson and Game, 2002, p. 70).

The system of internal decision-making within local authorities varies across Britain. Until 1998, the position of mayor was rotated amongst local council members on an annual basis, and was a largely ceremonial role. While this approach remains in place in Scotland and Wales, in 1998 English local authorities were given the choice of selecting one of three different political executive models: a council leader and cabinet; a directly elected mayor and cabinet; or a directly elected mayor and manager (Wilson and Game, 2002; Cole, 2008). While a few opted to adopt the directly-elected mayor approach, most have so far retained the option of council leader working alongside a small cabinet of local council members overseeing service provision in specific areas. A specific mayoral structure was also introduced for London.

### 3.4 Germany

Germany has a federal system of government, where the Basic Law (Constitution) defines the powers of the federal level and the regional or state level (the Länder as they are known in German). Aside from federal government and the 16 states, the local level consists of 323 counties (kreis), 116 'county-free' cities (kreisfreie städte), and 14,199 municipalities (gemeinden). Each county is normally subdivided into a number of municipalities – although in a small number of areas, there is a single unit (the so-called 'county-free' cities) which combines the competences of both counties and municipalities in their area (Gabriel and Eisenmann, 2005).

The Basic Law contains only a few general provisions concerning the local level, and more detailed provisions are traditionally set out in state constitutions. Each of the 16 states (the Länder) are responsible for the organisation of the local government system in their state (Bullmann, 2001). Like the United States, this means that the local government system varies to some extent from state to state, although of course there are many similarities across the country.

For example, some differences exist between different states in Germany in terms of the internal local government decision-making structure. In most parts of Germany, for example in Bavaria and Baden-Württemberg in the south, local citizens directly elect a mayor to act as chair of the council and executive and who has a powerful position. Local authorities in many parts of northern Germany traditionally had a ceremonial mayor who was elected by the council rather than the citizens. However, in more recent years, the trend in Germany has been to move towards the model of directly-elected mayor (Gabriel and Eisenmann, 2005).

### 3.5 France

The French system of government has provided a model that has inspired the organisation of the state in a number of countries, including various countries in Southern Europe, which imported some of the features of the French local government system into their own country (Loughlin and Seiler, 2001).

The local government level is made up of over 36,000 municipalities (or communes as they are called in French) (Loughlin and Seiler, 2001). The municipal council is elected every 6 years, and a majority on the council elects a mayor, who acts as the executive of the municipality.

A large number of French municipalities are very small in size – some three-quarters of municipalities have less than 1,000 inhabitants, although just over a half of the total French population lives in these small municipalities, and almost a third live in cities above 30,000 people. What this means is that the vast majority of municipalities are tiny and unviable in terms of service provision, which has implied greater use of shared services between neighbouring authorities (see section 8) (Borraz and Le Galès, 2005; Loughlin and Seiler, 2001). Most citizens however have a strong attachment to their municipality, and attempts to consolidate the municipal level into larger structures have been largely unsuccessful.

In addition to the municipalities, there are 96 départements in France that provide certain local services, as well oversee the activities of municipalities. The département is the territorial unit for the organisation of most national government activities. Special arrangements are in place for certain larger cities. For example, the city of Paris has the status of both a municipality and a département. Because of their size Paris, Lyon and Marseilles, as well as being municipalities, are also sub-divided into arrondissements, each with their own council and mayor.

In addition, France also has 22 regions, which were created in 1982, but which are generally considered weak when compared to regional structures in most other countries. The regions have a general mandate to promote coordination of public services in their area, and have a role in areas such as transport infrastructure and economic development.

### **3.6 New Zealand**

New Zealand is a unitary state which undertook major reforms of its local government system in 1989. The subnational level consists of 12 directly-elected regional councils at one level, and city and district councils (collectively designated as 73 'territorial authorities') at a second level (Reid, 2008; Bush, 2005). These structures were put in place in 1989 as part of a major programme of local government reform and restructuring, and a wider process of efficiency reforms within public sector organisations. As part of this exercise, the 22 regional structures that had existed before 1989 were rationalised to 14 (and then subsequently to the current 12), and 205 pre-1989 local authorities were reduced to 74 (and subsequently to 73). In addition, a range of elected 'special purpose' bodies were abolished.

Since 1989, the system of internal decision-making within local authorities is based on the elected council (headed by a directly elected mayor) taking responsibility for policy and budgetary decisions, and an appointed contract-based chief executive charged with administration and management of local authority activities.

# 4.

## PROFILE OF EXPENDITURE AREAS AND REVENUE WITHIN LOCAL GOVERNMENT SYSTEMS

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“  
*Increasingly,  
local authorities  
are working with  
other bodies...in  
the provision of  
services*  
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This section briefly identifies the key competences, functions and service responsibilities of the local government level in each of the countries examined. This impacts directly on the expenditure incurred by local authorities in the different service areas concerned. The section also briefly outlines the main sources of revenue of local authorities in each case.

It should be noted that in many cases, local authorities, while they may have responsibility for a particular service, may not necessarily be direct providers of the service in question. Increasingly, local authorities are working with other bodies, such as private companies or other local authorities in the provision of services (see sections 8 and 9 below).

An additional question addressed in this section is the matter of the ‘general competence’. This is a principle found in many countries (including Ireland since 1991), whereby, in addition to their legal responsibilities, local authorities are granted the right to undertake any additional activities if they promote the common good or general interest of citizens living in their area. Usually some caveats are associated with this right – for example, local authorities must be able to put aside money to cover these activities, such activities may not duplicate any services already being provided by other public bodies, etc.

Because of the federal system of government in the United States, and because the competences of the local level vary in different states, it is difficult to give a definitive list of local government competences. However, as a general rule, local authority areas of expenditure in the USA would often include:

- Public housing
- Policing
- Fire services
- Waste and sanitation
- Water supply and sewage disposal
- Gas and electricity supply
- Road maintenance and public transportation
- Schools and education
- Healthcare
- Local planning
- Parks, recreational facilities, culture, and libraries
- Local economic development

Counties, which exist in 48 out of 50 states, would depending on the state tend to have responsibilities in areas such as policing and maintaining local jails, maintaining county roads, administering elections, and registration of births, deaths and marriages. In

many states, counties and local authorities are direct healthcare providers (Savitch and Vogel, 2005; Smith et al., 2005; Svava and Hoene, 2008).

Local authorities in general in the US do not enjoy a general competence – in essence, local authorities are limited to the competences expressly granted to them by state governments. This principle is known as 'Dillon's rule', which applies to local government powers in most US states. However, the impact of this principle has been softened through the granting of 'home rule' status for different local authorities.

Some 35% of local government revenue in the US comes from local taxation. This usually takes the form of a local property tax, although some US states allow local authorities to levy local sales taxes or local income taxes. The remaining income comes from grants from federal and state governments (25%), user fees and charges (24%), with the balance from other miscellaneous sources (Svava and Hoene, 2008). Charges have steadily increased as a proportion of local government income, while the share from property tax has fallen.

The functions of the local government level in Great Britain, between the various tiers and unitary authorities, include:

- Primary and secondary education
- Social services, such as residential centres for the elderly or disabled
- Social housing
- Roads and public transportation
- Environmental protection, waste management, and environmental health
- Physical planning and development control
- Local economic development, business supports and advice centres
- Fire services
- Trading standards and enforcing consumer protection legislation
- Recreational and cultural facilities such as parks, museums and libraries

In addition to these areas, local authorities play an 'overseeing' role in the provision of other services in their areas, including policing and health services. Senior police officers (chief constables) report to police councils made up of local council members, local magistrates and national government nominees. Under legislation adopted in 2001, local authorities were also given specific scrutiny powers over the activities of health authorities in their administrative areas. Since 2001, local authorities also have a mandate to coordinate the activities of all public services provided locally, through a structure known as Local Strategic Partnerships (LSPs), which bring together local council members, other elements of the public sector, and the business and voluntary community (Cole, 2008).

In 2000, local authorities in Britain were given a general power to promote the economic, social and environmental development of their areas – known as a power of ‘well-being’ (Wilson and Game, 2002). Although this is similar to the principle of a general competence, this power of ‘well-being’ is not absolute and cannot be used to raise money (Wilson, 2005; Cole, 2008).

British local authorities are financed through a number of revenue sources. These include the proceeds of a local property tax on domestic dwellings (known as the ‘council tax’), which contributes on average a quarter of local government income, charges for services contributing another quarter, and central government grants and the proceeds of the uniform business rate (the latter a rate on commercial property set across the country) together making up half of local government revenue.

As in the case of the United States, given the German federal system, and because arrangements vary in different states, it is difficult to give a definitive list of local government competences. However, as a general rule, the local level in Germany is responsible for:

- Social housing
- Social welfare and assistance, including services for young people and the elderly
- Hospitals and domestic nursing
- Nursery schools, childcare, primary and secondary schools, and adult education;
- Local planning
- Local roads maintenance and public transport
- Waste management
- Water and sewerage services
- Gas and electricity supply
- Fire services
- Leisure and cultural facilities, such as sports centres, swimming pools, libraries, theatres
- Business development and tourism facilities
- Banks and credit unions

Many of these services are mandatory and required by legal obligation (such as education, nursery schools, sewage disposal, and fire services). Others however are discretionary (such as leisure facilities, or care for the elderly). The actual services provided by individual local authorities will therefore also vary according to the needs to the community, the characteristics of the area, traditional practices, whether private or voluntary associations already provide some of the services, and the views of mayors and council members on what is necessary (Gabriel and Eisenmann, 2005).

Under the German Constitution, local authorities also have a general competence to deal with all matters affecting the local municipality and its community – that is they may undertake all local public affairs not exempted from their jurisdiction or assigned to other authorities (Gabriel and Eisenmann, 2005; Bullmann, 2001).

Local government sources of revenue in Germany include local property taxes, grants from federal and state governments, and user charges, with each roughly making up a third of income.

In the French example, some of the main areas of expenditure of local authorities include:

- Pre-school and primary education
- Maintenance of secondary schools
- Social housing
- Local planning
- Recreational and cultural facilities such as parks, sports centres, museums and libraries
- Some social and environmental health services, such as maternity and child centres, homes for the elderly, environmental health inspection
- Local roads and transport infrastructure
- Water and sewerage services
- Gas and electricity supply
- Fire services
- Economic development and tourism facilities

Many of these powers were new competences allocated to the municipal level following decentralisation reforms in the early 1980s (Borraz and Le Galès, 2005; Loughlin and Seiler, 2001). Of course, for smaller municipalities, it is difficult for them to provide all services directly – some use inter-local authority associations (see section 8 below), or private companies, or rely on other levels of subnational government, such as the départements to carry out certain tasks. Indeed, there can be some overlap in responsibilities between the different tiers, and recent reforms have attempted to clarify and delineate the competences of the different levels more clearly.

Unlike the French regions, both the municipalities and the départements in France enjoy a general competence to undertake any activities to meet the needs of their local citizens that are not otherwise provided for or excluded by law (Norton, 1994).

For French municipalities with a population of over 10,000, local taxes (primarily on property but also on commercial activity) account for 45% of income, with state grants accounting for 31%, and user fees, charges and bank loans accounting for the remainder (Borraz and Le Galès, 2005).

The functions of New Zealand local government perhaps most closely approximate the services of Irish local authorities. In the case of New Zealand, local government has responsibilities in the following areas:

- Housing and some social support services
- Water supply and treatment
- Road maintenance
- Local planning
- Environmental protection, waste management, and environmental health
- Public libraries
- Parks, recreational facilities
- Economic development

Regional councils largely have responsibility for regional and transport planning, management of the natural environment (e.g. water pollution, river catchment areas, regional parks, flood protection), and management of harbours, while other responsibilities fall to the territorial (local) authorities (Reid, 2008).

Local authorities in New Zealand were granted a general power to promote the social, economic, environmental and cultural well-being of local communities in 2002.

Local authorities in New Zealand receive a large proportion of income through local rates on both domestic and commercial properties (57%), with other sources of revenue including service charges (20%), government contributions, including a share of petrol excise duty (11%), and investments and regulatory income (11%) (Reid, 2008).

Figure 4.1 on page 16 gives a summary of the responsibilities of the local government sector in the different countries examined in this study. Data is also included on Ireland and a small number of other jurisdictions for comparative purposes. As this section illustrates, it is difficult to give a definitive list of local government responsibilities in federal countries such as the United States, Germany, Australia, and Canada, given the differences between different states within these countries. However, the typical services provided by local authorities have been used as a basis – the Table should therefore in the case of these countries be seen as illustrative rather than definitive.

As indicated above, some of these services may be provided through a mix of direct provision by local authorities or through contracting out to other providers (although in the latter cases the local authority will still retain overall responsibility for service provision).

**Figure 4.1** Overview of Local Government Services in Selected Countries

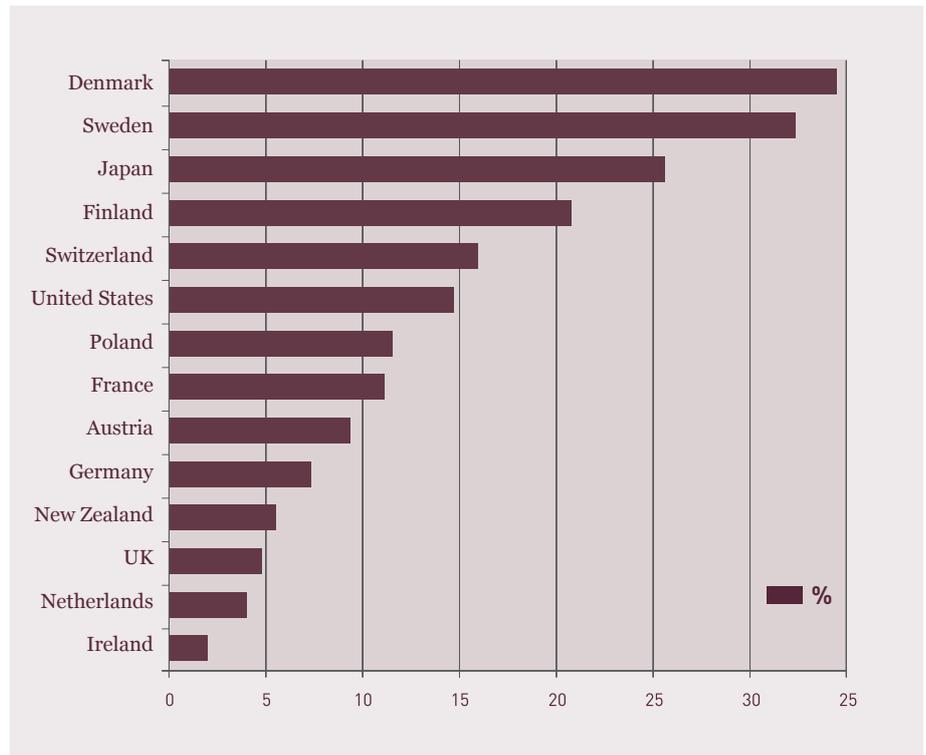
	<i>Ireland</i>	<i>N. Ireland</i>	<i>Australia</i>	<i>Canada</i>	<i>Poland</i>	<i>Denmark</i>	<i>N. Zealand</i>	<i>France</i>	<i>Germany</i>	<i>Britain</i>	<i>USA</i>	
	-	-	-	x	x	x	-	x	x	x	x	<i>Education</i>
	-	-	x	-	x	x	-	x	x	x	-	<i>Social Services</i>
	-	-	-	-	x	x	-	-	x	-	x	<i>Healthcare / Hospitals</i>
	x	-	x	x	x	x	x	x	x	x	x	<i>Housing</i>
	x	x	x	x	x	x	x	x	x	x	x	<i>Planning</i>
	x	x	x	x	x	x	x	x	x	x	x	<i>Roads / Transport</i>
	-	-	-	x	-	-	-	-	-	-	x	<i>Policing*</i>
	x	x	x	x	x	x	x	x	x	x	x	<i>Waste Management</i>
	x	-	x	x	x	x	x	x	x	-	x	<i>Water Services</i>
	-	-	-	x	x	-	-	x	x	-	x	<i>Other Utilities</i>
	x	-	x	x	x	x	x	x	x	x	-	<i>General Competence•</i>

\* While policing is not a responsibility of the local government level in both Germany and Poland, the county level in both countries has policing and public security responsibilities. In France, local mayors have some powers over the local state police, for example regarding traffic management, while in Britain, councils have 'scrutiny' powers over the police.

• In the case of New Zealand, Britain, and Poland, while local authorities do not have an explicit power of 'general competence', they are given, aside from their statutory responsibilities, a general mandate to carry out any additional activities that would benefit the local community (known as the power of 'well-being' in Britain).

Figure 4.2 illustrates the extent of powers of local authorities to levy local taxes in several OECD states, based on the proportion of total tax revenue determined by local authorities.

**Figure 4.2** Local Authority Taxation as a % of Total Public Taxation (2004)



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*Most international  
studies have  
concluded that there  
is no optimum size of  
local authorities*  
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# 5.

## SIZE, POPULATION, AND PERFORMANCE

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*Different international studies show the effects of population size having a remarkably varied impact on local government performance*  
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The relationship between population size of local authorities and measurements of performance and value for money is a complex issue, despite it having been subject to intensive investigation and evaluation (Andrews et al. 2006).

Firstly, it should be noted that the population size of local authorities varies considerably across the developed world. Figure 5.1 provides a summary of the average population size of the basic unit of local government in several countries (in some cases, where amalgamation of government units has been carried out or is proposed, the figures for the average population size both before and after amalgamation are presented).

Obviously these country averages mask huge divergences in both the population and geographic profile of local authorities within countries. For example in France, at one end of the spectrum there are a large number of very small local authorities (sometimes with not much more than 500 people), and at the other the city of Paris, itself a local authority, albeit subdivided into arrondissements, with a population of 2.2 million in the city area (with over 11 million in the greater Paris region). There is also considerable geographical diversity. In countries like New Zealand or Canada, there are a number of sparsely populated local authorities spanning huge geographical territories, along with more high-density city areas with large populations within a concentrated land mass.

Assumptions concerning economies of scale would suggest that costs and performance may be influenced by the scale of output, and some have suggested that larger units of local government can present a number of advantages over smaller-scale units – for example, in allowing for the provision of a range of specialised facilities and services beyond the capacity of smaller local authorities (Newton, 1982). However, different international studies show the effects of population size having a remarkably varied impact on local government performance (however ‘performance’ is measured – whether it be by performance indicators, customer satisfaction, expenditure per capita, or value for money).

Most international studies have concluded that there is no optimum size of local authorities (Andrews et al., 2006). As local authorities are multi-functional bodies, the optimal size of delivery organisations is likely to vary depending on the service area (Bises and Sacchi, 2009). Even within service areas there are typically multiple activities. Bish (2001) suggests that as different activities are likely to possess different scale characteristics, no single authority (large or small) is likely to be of the optimal size to produce all of them efficiently. Thus an alternative approach that has been pursued has been collaboration, joint provision, or outsourcing on a service by service basis.

A 2006 study for the British Department of Communities and Local Government investigated the link between population size and local government performance (Andrews et al., 2006). In the case of this study, the research quantified ‘performance’ based on a number of measurements, including performance indicators, customer satisfaction, the level of administrative overheads, and value for money proxies (the latter calculated based on dividing data on service standards by data on expenditure per client).

The study assessed the correlation between population size and 46 measures of value for money, but found in a quarter of cases that population size had no significant effect, implying in these instances that population size was largely irrelevant to value for money. Where there was a relationship between the two, the study suggested that larger local

**Figure 5.1** Average Size of Local Government Sector According to Population

<i>Country</i>	<i>Average Population of Local Authorities*</i>
<i>France</i>	<i>1,639</i>
<i>United States</i>	<i>3,448</i>
<i>Germany</i>	<i>5,629</i>
<i>Canada</i>	<i>8,925</i>
<i>Ireland (Town Councils)</i>	<i>9,719</i>
<i>Poland</i>	<i>15,469</i>
<i>Denmark (Pre-2007 Amalgamation)</i>	<i>20,297</i>
<i>Australia</i>	<i>30,375</i>
<i>Netherlands</i>	<i>36,339</i>
<i>Denmark (Post-2007 Amalgamation)</i>	<i>56,128</i>
<i>New Zealand</i>	<i>56,938</i>
<i>Northern Ireland (Pre-proposed Amalgamation)</i>	<i>69,192</i>
<i>Ireland (City / County Councils)</i>	<i>123,624</i>
<i>Northern Ireland (Post-proposed Amalgamation)</i>	<i>163,545</i>
<i>Britain</i>	<i>167,484</i>

\* For the purposes of calculating these figures, local authorities have generally been taken to refer to those subnational tiers generally considered part of the local government sector in the country in question. For example, in the British case, it includes county councils, district councils, unitary authorities and boroughs that are considered part of the local government sector. In the American case, it includes school districts as well as cities and counties, as these are usually considered part of the local government sector. In the Irish case, separate averages are included for town councils (as these only exist in certain areas) and county and city councils (which cover the entire population of the state).

authorities tended to provide better value for money in areas such as planning services and street cleaning. However it suggested that smaller local authorities provided better value for money in areas such as housing and waste disposal – that is that there was a negative linear relationship between population size and value for money, and that value for money tended to fall as population size increased. The authors also suggested that middle-sized councils provided better value for money in libraries, waste collection, road maintenance, and transport than both small and large local authorities at either end of the spectrum (Andrews et al., 2006).

The study also assessed the correlation between population size and the results for a total of 351 local government performance indicators for the years 2001-2005. Again, in some cases (over 60% of cases in this instance) there was no significant size effect. However, there was a link between some measurements. In the case of road accidents, smaller local authorities recorded the best results, while in the case of energy efficiency middle-sized councils recorded the best results.

In terms of customer satisfaction levels, the research found that middle-sized local authorities had the highest satisfaction ratings on waste, housing and cultural services, and that both larger and smaller local authorities had lower ratings in these areas. In contrast, there was a more positive performance from larger local authorities which had higher satisfaction ratings for transport, sport, museums and parks. Satisfaction with planning services was highest in the smallest local authorities, with satisfaction rates dropping the larger the local authority became (Andrews et al., 2006).

Across all measurements of 'performance', the study found that the balance of evidence showed a better performance in larger local authorities than smaller ones, but that there were a large number of exceptions to this conclusion – in fact the results show a complex set of pictures in different areas: "the relationship between population size and performance remains a complex mosaic" (Andrews et al., 2006, p. 31).

Byrnes and Dollery (2002, pp. 393-394) review 24 different studies into the relationship between local authority size and the cost of service delivery in several countries, and found that "overall, 29 per cent of the research papers find evidence of U-shaped cost curves, 39 per cent find no statistical relationship between per capita expenditure and size, 8 per cent find evidence of economies of scale, and 24 per cent find diseconomies of scale. From this evidence alone we can conclude that there is a great deal of uncertainty about whether economies of scale exist in local government service provision". They also concluded that there was limited evidence of economies of scale in Australian local government. Bish (2001), who focuses on the governance of urban metropolitan areas draws on research from Canada and the United States to argue that the overall costs of governance is lower, not higher, where there are a number of small local authorities in metropolitan areas.

Derksen (1988) found limited relationships between population size and the performance and efficiency of local government in the Netherlands, and where there was a correlation, it was not always positive. Boyne (1992) cites over 20 research studies into local government size and performance in the US which with a few exceptions linked more fragmented systems of local government with lower spending, and larger authorities with higher levels of spending. A number of other assessments on the topic are cited by Boyne (1995), suggesting a difficulty in drawing conclusions that larger local authorities on the whole perform better than smaller authorities, or vice versa. Bish (2001, p. 20) on the other hand argues that based on international analysis, "there is overwhelming evidence that the *least expensive local governments* are found in polycentric systems of small and medium-sized municipalities that also cooperate in providing those services that offer true economies of scale" (italics in original).

With the exception of specialised services that are used only infrequently (such as traffic light maintenance) and investment in large capital facilities (such as waste water treatment plants, landfills, or recreational facilities), Bish (2001) suggests that most local government services do not possess economies of scale beyond populations of 20,000.

Certain 'one-off' or occasional activities, for example those that require large capital investments, may possess economies of scale and may be produced most efficiently for larger populations. On the other hand, activities that are frequently and regularly performed may possess "*diseconomies* of scale – that is the average costs actually increase with the size of the organization producing the service" (Bish, 2001, p. 11 – italics in original).

Such debates have been raised in the context of proposed restructuring of local authorities in different countries. For example, the Danish government amalgamated what had been 271 local authorities into a smaller number of 98 larger local authorities in 2007. The reforms were based on the recommendations of a Commission established by government in 2002 to examine public service structures and possible reforms and reorganisation.

The Commission acknowledged the degree of uncertainty about economies of scale within local government, but nevertheless suggested that there were benefits from economies of scale in local authorities of up to at least 18,000 – 25,000 people, and probably more. It pointed out that the local authority size with the lowest average operational costs per capita was a population of 34,000. The Commission also observed that there was no evidence to suggest that the larger Danish local authorities should be made larger through amalgamation, and some of the analysis they had conducted showed "disadvantages of economies of scale" in local authorities of over 50,000 people. (Commission on Administrative Structure, 2004, p. 93). The Commission recommended a minimum population for Danish local authorities of 20,000-30,000 people to provide economies of scale and enable local authorities to employ the required number of professional staff. It should be emphasized that this size was identified on the basis of local government service delivery across a wide range of public service areas, including primary healthcare and rehabilitation, schools and education, social and welfare services, employment services, etc. The amalgamation process also went hand in hand with the devolution of more responsibilities and services to the newly enlarged local authorities in Denmark.

Andrews et al. (2006) suggest that larger authorities can be poorer performers because bigger local authorities can be less responsive than smaller authorities, or because they suffer from 'bureaucratic congestion'. Bish (2001) suggests that costs can rise with size because higher population local authorities tend to be cities with day-time populations (who have to service the needs of non-residents such as commuters and shoppers), because larger local authorities tend to undertake more 'in-house' activities than smaller local authorities and are less prone to using alternative delivery systems, and because there are diseconomies of scale in producing some services.

There is also a suggestion that there is a greater degree of fiscal equivalence in smaller authorities than larger ones – i.e. there is a closer link between what citizens pay and what services they get in smaller authorities, which tends to constrain demand. By contrast, in larger authorities there can be greater tendencies towards 'fiscal illusion' – where residents can push for additional services for a specific locality and get the wider area to pay for it, the cumulative effect being a higher-cost local authority.

## 6.

PERFORMANCE MEASUREMENT  
AND STREAMLINING SERVICES

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“  
...comparing  
performance with  
authorities that  
are doing well,  
and demonstrating  
that services are  
competitive...  
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This section focuses on some of the new tools and systems that have been adopted by local authorities in the different countries examined to improve services and efficiency as part of the overall programme of local government reform. The focus in this section is on techniques that have been adopted to improve those services that continue to be provided ‘in-house’ through the use of performance measurement, financial planning, asset management, and business process improvement. The next section examines the question of budgeting, financial management systems, and internal contracting. Subsequent sections look at examples of joint service provision and outsourcing.

Local government reform in Britain has involved an emphasis on efficiency and effectiveness, and in comparison to most other countries, has placed more faith in the market model of service delivery (Cole, 2008). A range of tools have been used to support this process, including strategic planning, financial management systems providing more accurate information on the costs of services, the use of information technology for both ‘backroom’ services and frontline services that citizens use, the use of complaints systems and consultation to obtain feedback from the public, and an emphasis on value for money auditing and performance indicators. While criticisms exist of some of the approaches listed above, the evidence to date is that the quality of many local government services has improved (Cole, 2008).

There is for example extensive use of performance measurement and performance indicators in Britain. During most of the 2000s, British local authorities used a combination of nationally-set and locally-development performance indicators under a system known as ‘Best Value’. Best Value was aimed at continuous improvement in local authority services. This was carried out through the adoption by local authorities of annual Best Value Performance Plans which set service targets for improvement, and a programme of service-specific and cross-cutting reviews which, amongst other things, involved comparing the local authority’s performance with that of similar municipalities by reference to national and local indicators. Best Value thus involved the reporting of both nationally and locally-determined indicators, and review by external inspectorates, designed to promote improvements in services by challenging existing delivery mechanisms, comparing performance with authorities that are doing well, and demonstrating that services are competitive, whether that be through direct delivery or by contracting out to the private sector. Initial reviews of the Best Value approach have found that it has led to service improvements (both one-off short-term improvements and longer-term more fundamental improvements), more demanding quality targets, a slightly better performance in terms of citizen satisfaction, and some examples of cost savings (Davis and Martin, 2002).

From 2009, the Best Value indicators were replaced by a new set of 198 indicators (known as the National Indicator Set), many of which were based on Best Value. These indicators were monitored along with risk assessments and organisational reviews under a system known as ‘Comprehensive Area Assessment’. In March 2011, following the election of the Conservative-Liberal Democrat coalition government, the National Indicator Set was discontinued. A new Single Data List has been established. This is a list of all the data that the government expects councils to produce and submit to it in a given year. If an item isn’t on the list, councils don’t have to provide that data unless extra funding is provided.

Different local authorities in Britain have also used a variety of business process improvement methodologies to streamline and improve the way services are delivered, such as six sigma, balanced scorecard and process mapping as a way of taking a fresh look at their delivery models. Such approaches are used to identify changes that may be needed to work practices, jobs, technology, structure and contracts. Making more services available online and therefore more accessible at lower cost has also been used as an opportunity to redesign processes (RIEP, 2010). Central government in Britain expects such approaches to yield just over a third of future efficiency gains by local authorities in the coming years (Department of Communities and Local Government, 2007).

In addition to this, in some parts of England, chief executives from one local authority have been asked to work with other local authorities to provide advice to both councillors and management team, as part of a process of informal peer-review, and to bring a different perspective to the local authority's activities. The chief executives involved also learn from the process by getting insights into the workings of another local authority, which they can bring back to their own authority.

Increased emphasis is also being placed on asset management, reviewing the use of property, and how the carbon footprint of local government's asset portfolio can be reduced. This includes examining options such as office rationalisation, co-location with other public service providers, greater use of remote working technology, refurbishment for greater efficiency, and sale or transfer to the community (Department of Communities and Local Government, 2007).

New systems of policy and financial planning were introduced in New Zealand from the late 1990s. Local authorities were each year obliged to prepare (in detail for the following year and in outline for the subsequent 2 years) a plan containing objectives and activities, performance targets, indicative costs, sourcing of financing, and local taxation implications. Part of this process also involved long term financial planning. From 1998, each local authority had to prepare 10-year Long Term Financial Strategies (LTFS) identifying estimated expenditure and revenue streams to fund their activities and commitments, as well as risks. The process had to accord with specific principles such as prudent management of finances, provision for expenditure needs, assessment of the costs and benefits of different options, responsible debt-level regimes, and ultimately balancing the books. Part of the intention was to encourage local authorities to subject all activities to economic analysis, and reflect on how they provide services, including whether they need to be involved in some activities at all (Bush, 2005; Reid, 2008; Wallis and Dollery, 2001).

A majority of American local authorities with a population above 25,000 use tools such as strategic planning, programme budgeting, management by objectives, management information systems, performance monitoring, and programme evaluation (Svara and Hoene, 2008). Increasing efforts have been made to gather more systematic feedback on local government services through surveys as a means of ascertaining citizen preferences. E-government initiatives are also becoming more common in US local authorities, with two-thirds of respondents in a survey

providing online access to council agenda and minutes and communication with council members and officials. However, only a quarter offered online requests for services or records, or GIS mapping and data. Less than 10 per cent of local authorities offer online payments, property registration or voter registration (Svara and Hoene, 2008).

Some commentators have been rather sceptical about some of the reforms in the United States. Pollitt and Bouckaert (2004) note that while the rhetoric regarding public service reform has been very strong in countries such as the United States, actual achievements have not been particularly impressive. Savitch and Vogel (2005, p. 226) make a similar conclusion in terms of local government reforms: "while many cities may lip-service to the New Public Management, and it is fashionable for mayors to claim the title of entrepreneur, few have radically changed their approach to governance in practice".

Additional tools and systems that were subsequently developed in a limited number of German local authorities included a greater use of customer surveys and total quality management tools, strategic management, business process re-engineering, as well as some limited experiments with human resource management techniques, such as new recruitment methods, modernised personnel development practices, and performance-related pay (Reichard, 2003; John, 2001).

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*Initial reviews of the Best Value approach however have found that it has led to service improvements... more demanding quality targets, a slightly better performance in terms of citizen satisfaction, and some examples of cost savings*  
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# 7.

## BUDGETING AND INTERNAL CONTRACTING

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*...reporting is increasingly based on outputs (as opposed to inputs) with a view to improving performance and efficiency*  
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This section briefly reviews a number of additional in-house reforms undertaken by local authorities in different countries, with a particular focus on budgeting, financial management systems, and internal contracts between different sections within local authorities.

In Germany, local authorities have on their own initiative introduced management reforms and new systems to improve services – in fact in many respects, the local government sector has led the way in terms of public sector reform in Germany, and is more advanced than both national government and the states in modernising its administrative systems (Reichard, 2003; Bullmann, 2001; Wollmann, 2000).

One notable example has been in the introduction of modern financial management systems, where older cameralist book-keeping methods have been replaced with more modern, resource-based, accrual accounting and budgeting systems (Reichard, 2003). New systems have generally involved optimising resource allocation and improving management techniques.

Notwithstanding the variety of models and approaches adopted across Germany, Gabriel and Eisenmann (2005) and Reichard (2003) summarise the overall thrust of reforms as follows:

- Restructuring to introduce greater efficiency – that reporting is increasingly based on outputs (as opposed to inputs), with a view to improving performance and efficiency. In addition to producing a ‘product’ or service, individual departments within a local authority are also expected to manage the financial, organisational and human resources needed to provide these services. In this way, the department becomes a semi-autonomous unit having responsibility for both the service and resources. Other tools to improve efficiency that have been introduced include cost-benefit analysis and contract management
- Devolution of service delivery – if services can be provided more efficiently by private providers, different options can be used to facilitate this (see below)
- Discretion for the administration – reforms generally involved distinguishing between the strategic role of the council, and the operational role of the administration and departments. This was done by adopting the approach of ‘management by objectives’ and agreeing internal contracts, where mayors and council members specify contract goals and budgets for specific services, as a way of steering the administration and holding it to account

Amongst the tools that have been adopted in different German local authorities, one can include: internal contracts (between different units within a local authority) to specify service objectives and budgets; cost accounting and output-oriented budgeting; more comprehensive systems for monitoring and evaluating the costs, performance, and results achieved by different departments; establishment of integrated ‘business units’ with responsibility for service results and budgets and human resources.

In Essen and Stuttgart for example, contracts are agreed between the council and the administration, targets and objectives are identified for departments, and individual

departments look after operational details within the framework of objectives set by management. Regular reports are relayed to the council on outputs achieved and finances, with budgetary responsibility delegated to individual departments.

The actual effect of these reforms is hard to assess, and Reichard (2003) notes the relative lack of evaluation studies across the local government system. However, from the limited number of individual case studies dealing with specific local authorities, survey data, and studies of the effect of the reforms in specific service areas, there is some evidence that the reforms have reduced costs and improved efficiencies. While there have been criticisms of several elements of the changes, the reforms have to some extent helped change the administrative culture within local authorities to one that is more flexible, innovative and cost-conscious (Reichard, 2003). In addition, decision-making processes were streamlined, which meant shorter waiting times for citizens applying for things like permits (Reichard, 2003).

Another interesting approach is that provided by New Zealand whereby many local authorities established a Local Authority Trading Enterprise (LATE) as a service-specific company run at 'arms length' of the local authority, and relatively free of political interference and expected to operate on a commercial basis. These were used for the maintenance and construction of infrastructure such as water services and roads, as well as the management of cultural and recreational facilities. Many of these were eventually privatised. Some LATEs were set up by more than one local authority to provide a shared service to a wider area. Others competed for contracts with neighbouring local authorities, and some even outside of New Zealand (Reid, 2008; Wallis and Dollery, 2001). In 2002, a new framework was set up for such bodies, which became known as Council Controlled Organizations (CCOs) – where one or more local authorities have at least 50% of the voting rights or the right to appoint at least 50% of the directors or trustees. Local authorities must now undertake a consultation process before transferring a local authority function to a CCO (Reid, 2008).

## 8.

## JOINT SERVICE PROVISION

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“  
*The experience in Britain suggests that the buy-in of local councillors and senior management at the outset is seen as critical in terms of progressing the shared services agenda*  
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This section examines some of the different international approaches to ensure coordination between local authorities in the provision of ‘shared services’. Examples of this phenomenon of joint service provision exist in several countries, including those with larger local authorities.

In Britain for example, Regional Improvement and Efficiency Partnerships (RIEPs) have been established to bring together local authorities in different parts of England to reduce duplication of effort and explore options for greater joint service provision and shared support services. Some ‘back-office’ areas that have been the subject of increased collaboration between local authorities include:

- ICT systems
- Payroll
- Financial services and internal audit
- HR functions
- Recruitment
- Design of major roads schemes
- Facilities management
- Legal services
- Shared CEO and management team between smaller district councils

In terms of ‘frontline’ services, a number of the London boroughs and local authorities in other big cities have come together to form joint boards to provide certain services, such as transport services, waste disposal, and fire services (Cole, 2008). Others have come together to provide joint one-stop-shop contact centres for members of the public. The experience in Britain suggests that the buy-in of local councillors and senior management at the outset is seen as critical in terms of progressing the shared services agenda.

Another example of this trend is in France. Because of the fragmented structure of the municipal level, and the very small size of many local authorities, most French local authorities do not have the technical resources to provide modern efficient services. Initial efforts at addressing this difficulty in the 1970s were geared towards rationalising structures, and consolidating local authorities into a smaller number of larger local authorities. This proved impossible however, largely because of the very strong attachment of citizens to their local authority and the political resistance encountered to the proposals to abolish various local authorities (Loughlin and Seiler, 2001; Breuillard, 2005; Wollmann, 2004).

The alternative option that has been pursued since then has been the promotion of inter-local authority associations, formed to deliver services on behalf of a number of neighbouring local authorities. These inter-local authority associations, which can be single-purpose (to deliver one service) or multi-purpose, have been increasingly prevalent since the early 1990s. Most of the early inter-local

authority associations tended to focus on technical services, such as water, waste management, and public transport. Nowadays, many additional services, such as economic development, planning, and social housing are provided through inter-local authority associations (Breuillard, 2005; Borraz and Le Galès, 2005). Many of these services are seen as too costly for small local authorities to provide on their own, and also required professional expertise that is not available amongst the staff of smaller local authorities.

In the United States, like France, there has also traditionally been strong resistance to consolidation of local government structures into larger territorial units, and the approach has tended to be based on setting up special-purpose bodies or joint cooperative arrangements between neighbouring bodies. For example, special-purpose districts can be established to provide a particular service across a number of local authority areas. The most notable of these are school districts, but there are examples of other special-purpose districts that have been established to provide services such as water and sewerage services, fire services, parks and recreation, libraries, housing, roads and healthcare. Usually, members of the boards of such organisations consist of council members from the authorities involved (Norton, 1994; Savitch and Vogel, 2005). Other forms of coordination include contracts between local authorities, whereby one authority agrees to provide a service on behalf of others, as well as establishing a regional council of governments (Norton, 1994; Svava and Hoene, 2008).

Since 2002, all New Zealand local authorities have every 3 years been obliged to negotiate a Triennial Agreement for each region, a statutory agreement that acts as a basis for dialogue around shared services and to encourage attention to regional policy issues that transcend local boundaries (Reid 2008).

The areas where a shared service approach has been pursued include waste management facilities, fire services, library services, building control, and economic development and tourism promotion, very often on the basis of a 'lead authority' approach. There has also been some contracting between local authorities to share technical and engineering staff to operate infrastructure facilities, and specialist planners to work on urban design. While these services can be formalised through contracts for complex activities, sometimes they were undertaken jointly through semi-formal arrangements. There is also increased joint procurement in areas such as energy and road maintenance. The New Zealand experience also suggests that the attitudes of both local councillors and management (particularly managers at the second and third tier who can feel particularly threatened) can be real barriers to collaborative working (McKinlay Douglas, 2006).

As noted above, some New Zealand local authorities have in the past established Local Authority Trading Enterprises (LATEs) to provide a shared service to a wider area.

Joint purchasing has also been a common theme in recent years. Key areas for collaborative regional procurement between local authorities in Britain have included:

- Energy
- Insurance
- Vehicle fleets
- Agency staff

Part of this process of sharpening procurement practice involves building capacity and support on best practice in procurement and category management within the local government system, as well as introducing low-value procurement cards to reduce the transaction costs associated with processing invoices (RIEP, 2010). A precursor to collaborative procurement is communication between local authorities so that renewal dates for contracts in high spending areas can be aligned between neighbouring authorities. Other tools such as eAuctions (a kind of reverse eBay) have been developed, with pre-qualified suppliers invited to offer improved prices and other terms under an online auction. Central government suggests that over half of the future efficiency gains from local authorities could come from 'smarter procurement' in the coming years, with local authorities being asked to identify and focus on those areas with the highest spend (Department of Communities and Local Government, 2007)

In some cases, joint procurement has gone beyond the local government system to include other public sector bodies based in the region. For example, there are increasing efforts to ensure joint public sector-wide procurement agreements on energy. There are also examples of collaborative procurement across public sector organisations in different regions in the purchasing of transport vehicles involving local authorities, fire authorities, police services, health services, the probation service, and higher education.

*“Since 2002, all New Zealand local authorities have been obliged to negotiate a Triennial Agreement for each region, a statutory agreement that acts as a basis for dialogue around shared services and to encourage attention to regional policy issues that transcend local boundaries”*

# 9.

## OUTSOURCING

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“  
*...there has been a move away from direct service provision towards provision by both voluntary and private actors...*  
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This section examines some of the different ways in which local authorities have worked with alternative service providers (such as private companies and voluntary associations) as a more competitive means of service delivery other than direct in-house provision by local authorities themselves. Such reforms have developed on the basis of a view that local services need not routinely be provided ‘in-house’ by local authority employees. Increasingly, many local authorities have looked at whether, instead of a service being provided directly by the local authority, it could be provided on its behalf by another operator.

A prominent example here has been the local government sector in Britain. Since the 1980s, there has been a move away from direct service provision towards provision by both voluntary and private actors in some of areas of local government responsibility, such as education, housing and water.

For example, some educational institutions and schools in Britain have been allowed to opt-out of local council control and local discretion in the education field has been restricted. In other cases, budgets have been delegated to schools. In housing, local council tenants have been given options to either buy their own houses or transfer to other landlords, and many local councils transferred their housing stock to local housing associations (Norton, 1994; John, 2001; Wollmann, 2004; Cole, 2008).

Water and sewerage services have been privatised in Britain, and so unlike other countries, local authorities therefore have little role in this area (Wilson and Game, 2002). However, greater use has been made of contracting as opposed to full privatisation.

In the 1980s, British local authorities were required by national government to organise a tendering process for certain services. The idea was to ensure that direct provision of services could compete against private sector contractors. Under this approach, known as Compulsory Competitive Tendering (CCT), in-house providers of services within the local authority had to tender for contracts alongside private bidders, or neighbouring local authorities. The first services subject to this approach were road construction and maintenance, and building construction and maintenance. It was then extended to the cleaning of buildings, provision of school meals, vehicle maintenance, grounds and parks maintenance, street cleaning and waste collection, housing management, and sports and leisure management. By the early 1990s ‘white collar’ services were being subject to CCT, including personnel, IT support, and legal services (Cole, 2008). A similar approach to CCT was adopted by the city of Indianapolis in the United States, where local authority employees had to compete with private contractors for the city’s business (Savitch and Vogel, 2005; Svava and Hoene, 2008).

The idea behind CCT was that competition would reduce costs and increase efficiencies in British local authorities. While there is some evidence that there was some reduction in costs, in-house providers usually won the contracts – although of course it can be argued that the bidding process often prompted and encouraged changes in the way services were provided away from more traditional routines (Cole, 2008; John 2001). CCT was replaced by a system of local government benchmarking known as Best Value in 2000 (see above).

The New Zealand experience also provides an example of a conscious effort by central government to introduce reforms within local authorities designed to provide greater efficiencies, including through outsourcing of services and formal obligations to justify 'in-house' provision. While local authorities retained discretion to determine specific modes of service delivery, they were formally obliged to consider and justify whether or not they would continue to provide different services on an 'in-house' basis or to avail of different options to contract work out to other potential providers (including other local authorities). Reforms in New Zealand local government also need to be seen in the context of a broader public sector reform programme in the late 1980s that emphasised deregulation, use of markets, government extricating itself from a range of commercial and semi-commercial activities, and the introduction of private sector management techniques within public service management (Reid, 2008; Howell et al., 1996)

Local authorities were obliged to consider different modes of service delivery, and justify different options such as continuing with 'in-house' provision and other options. Broadly speaking, the range of options included:

- Maintenance of direct provision of a service
- Establish a Local Authority Trading Enterprise (known as LATEs – see above)
- Contract to another local authority or LATE
- Contract to a private company

Different local authorities took different decisions on which services would be contracted out, but these could include refuse collection, road maintenance, legal services, drainage works, engineering services, environmental inspections, housing and property management, and parks maintenance. One estimate is that from 1989-94, the proportion of local government services delivered by external providers increased from 22% to 48% and by 'business units' such as LATEs increased from 2% to 18% (quoted in Wallis and Dollery, 2001).

Local authorities were responsible for ensuring that performance is measured, whether provided 'in house', or through a contractual arrangement via a LATE, or by a private contractor. Therefore local authorities tended to retain responsibility and oversight for services through contractual arrangements rather than opting for full privatisation (i.e. exiting the market and leaving provision to the private sector). Some aspects of public transport in New Zealand have been privatised although proposals to privatise water met with strong public resistance and were abandoned.

In the United States, there are many examples where local government services are contracted to the private sector, in areas such as waste collection and disposal, energy supply, and even extending to more controversial areas such as fire services and the management of local prisons and jails (Norton, 1994; Hambleton, 1996; Savitch and Vogel, 2005). However, Svara and Hoene (2008) have noted that generally, partnerships with private and voluntary organisations around service provision tend to be favoured instead of contracting out of services.

A number of high-profile American mayors in cities such as New York and Los Angeles were noted for initiatives to use performance measurement, and in some cases privatising services, as a means of revitalising cities. Other mayors followed in their wake in cities like Detroit, Cleveland, Boston and Chicago. 'Public benefit corporations' have become popular for many US local authorities – the board of such corporations are usually appointed by mayors, and typically contain business representatives and financial and legal experts. These corporations can often use certain public powers and raise money for specific projects by issuing tax-free bonds. New York city used public benefit corporations to develop its airports, housing, and road system, while other cities have used them in developing profit-generating projects like industrial parks, toll bridges, and tourist attractions (Savitch and Vogel, 2005; Svava and Hoene, 2008).

Other types of public-private partnerships between US local authorities and private investors have become common, although Savitch and Vogel (2005) comment that the partnership can often be unequal, given that the local government side usually takes most of the risk by providing guarantees and hard assets (such as free land, public infrastructure, or tax abatements).

In Germany, a number of local services are being increasingly provided by private enterprises, such as social and cultural services, water supply and sewage treatment, the provision of energy, although Norton (1994) cites studies showing that care has been made to ensure 'neighbourhood monopolies' are not created and that the quality of service is maintained. While in the past some local authorities ran local savings banks and credit unions, in many cases these have been privatised. According to Gabriel and Eisenmann (2005), faced with increasing financial pressures, German local authorities have embarked on a number of different strategies:

- Outsourcing services that do not need to be directly provided by public bodies, and providing private companies with a high degree of discretion in the delivery of services
- Retaining responsibility for service delivery, but transferring parts of a service to private enterprises acting under the direction and control of the local authority
- Establishing arrangements for leasing and facility management, with local authorities acting as customers in a competitive market
- Last and least satisfying, reducing or cancelling the delivery of local services

In France, local authorities have experimented with a variety of ways of providing services. Contracting out of services to the private sector has long been an option, and seen as a pragmatic alternative to direct provision, rather than being seen in an ideological way (Norton, 1994; Wollmann, 2004). Some utilities were privatised in France in the 1980s, and large utility firms became important actors in providing technical and financial solutions to local authorities by contract. Some local authorities have established private agencies with majority public ownership (*sociétés d'économie mixte*) to manage services on their behalf. Some of these, such as those providing social housing, have a clear public mandate, others might be quasi-public or organisations running services operated by private companies. Other organisations

still are distinctly private, engaged in services on behalf of local authorities in areas such as environmental services, transport and housing management (Borraz and Le Galès, 2005; John, 2000).

This review of developments in different countries highlights the international trend of increasing experimentation with new forms of service delivery, aside from the more traditional approach of direct in-house provision by the local authority itself. A variety of different models are used, depending on the country in question. However, a number of summary observations may be made.

Firstly, the decision to contract out is usually made on the basis of careful consideration of the potential advantages, disadvantages, and the risk to the taxpayer involved – as opposed to being done on the basis of assumptions or for ‘ideological’ reasons. It should be noted that most local government services in the countries examined continue to be provided ‘in-house’ by the local authority itself, as opposed to being contracted out (full privatisation is also rarer than contracting out). Secondly, certain services tend to be seen as more amenable to contracting out. Broadly speaking, technical services (such as water supply or road maintenance) tend to be more frequently contracted out than social services (such as education) or regulatory services (such as planning). Thirdly, it is worth noting that alternative providers can include voluntary associations, NGOs, and other local authorities, as well as private companies.

# 10.

## CONCLUSION

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“  
*A key feature in local government reform programmes... has been the use of new systems and tools to provide for greater efficiencies*  
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In summary, public service reform is now an international trend, although the effect has been felt in different ways in different countries (see for example Pollitt and Bouckaert, 2004, or from a local government reform perspective, John, 2001). Many reforms have also been advocated by influential international organizations, such as the OECD, as well as being transferred through direct contacts between individual local authorities. A wide variety of initiatives have been undertaken by local authorities as part of this reform process, often borrowing from modern managerial practices used in the private sector.

Such reforms were a response to the perception that in many respects, local government services, while focused on 'due process' and compliance with rules and accountability to national government, could often be inefficient, slow to adapt to changes in citizen expectations, and did not place sufficient emphasis on performance or value-for-money. There was a belief that local authorities could improve services and efficiency by borrowing modern managerial systems from the private sector.

A key feature in local government reform programmes undertaken in the countries examined in this analysis has been the use of new systems and tools to provide for greater efficiencies in local government services, and ultimately a better service for the citizen. From a review of the local government sector in different countries, some of the new initiatives introduced at local level in recent years have included:

- A greater emphasis on quality services
- More accessible services for citizens and innovative use of information technology
- Modernised human resource practices and more flexibility and rewards for innovation
- Improved financial management systems, based on accrual accounting, output budgeting, and more emphasis on value-for-money
- Corporate / strategic planning
- Use of performance indicators and benchmarking systems
- Internal contracts and delegation and devolution of some responsibilities within municipal structures
- Cost-benefit analysis
- Introduction of complaints and redress systems
- Restructuring of organisations
- Increased use of private companies and voluntary organisations to provide goods and services that in the past were provided by local authorities
- Increased use of joint service provision
- Greater efforts to consult local citizens on service delivery through surveys and customer panels

In some countries, such as Britain and New Zealand, national government has played a key role in driving such changes. In others, such as Germany, it has been local authorities themselves that have pioneered reforms in these areas on their own initiative.



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