

## **ITALIAN LOCAL PUBLIC SERVICES: SOME GOVERNANCE HIGHLIGHTS FROM THE LARGER CITIES' EXPERIENCE<sup>1</sup>**

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**Abstract:** *Entrusting most local public services to local government entities has led to proliferation of public groups and, consistently, to greater complexity of the governance dynamics of local authorities. Differently from Anglo-Saxon countries, the Italian local public services provision has been characterized by a hybrid externalization process where local entities are legally autonomous but owned by the local government. This leads to a peculiar governance complexity source represented by the dual role (stakeholder and customer) assumed by the local authority. Considering these elements (hybrid externalization and governance structure), this work tries to investigate some governance issues of public groups, basing on the two most populous Italian municipalities. The empirical findings highlight a gap between the presence of the conditions for defining a group governance structure and the adoption of a group approach by the parent local government. The authors try to suggest how to bridge this gap.*

### **1. Externalization process of the local public services**

The evolution that has interested the public administration in recent years has been related to every sphere of the public sector activity (Broadbent and Guthrie, 1992; Pollit and Bouckaert, 2000; Christensen and Staerbaek, 2007) . Particular turmoil has affected the provision of local public services (Hartley and Hallison, 2000; Boyne and Law, 2005) characterised by an externalization process aimed to the involvement of private organization in order to introduce managerial concepts and tools into public administration.

The privatisation process of the local public services provision (Spulberg, 1997; Feigenbaum et. al., 1998) has been on the political agenda for the last two decades and the literature identifies two main explanation for the diffusion of this process (Pallesen, 2004):

- a political-ideological explanation considers privatization as a strategy to reduce the size of the public sector, to change the political culture from “government nanny” to

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<sup>1</sup> This work was prepared jointly by the two authors. However, it is possible to assign paragraphs 1 and 2 to Daniela Preite, paragraph 3 and 4 to Fabio De Matteis.

“enterprise culture” (Pollit, 1990; Studlar et al, 1990) and to obtain efficiency gains in the public administration (Vinning and Boardman, 1992; Lopez de Salines et al., 1997);

- an explanation that defines the privatization as a New Public Management pragmatic policy instrument (Lane, 2000) that can be considered (in a more cynical variant of this pragmatic view) as the solution to immediate problems such as the need for cash (Feigenbaum and Henig, 1994).

The externalization/privatization process can be realized through different alternatives adopted in different geographical areas (Reichard, 2002; Torres and Pina, 2002; van Ham and Koppenjan, 2002; Bovaird, 2004; Grossi and Reichard, 2008). These solutions can be summarized considering that the paper is focused on the Italian context. So it is useful to evidence some aspects of the local public services provision structure in a different context (the authors refer especially to the Anglo-Saxon world) in comparison to the Italian situation.

In the Anglo-Saxon world, the main privatization policies are represented by selling public assets and contracting out. The former provides immediate and significant revenues through the property transfer from public to private organization. Contrarily, contracting out should generate savings on public expenditure (Domberger and Jensen, 1997) entrusting local public services to private operators and regulating the public-private relationship through a contract.

Another externalization alternative is represented by the so called mixed delivery. This implies the use of both private contracts and public production for the same service (Warner and Bel, 2008). This solution should allow:

- the maintenance of a direct involvement of the local government in the service delivery process (Miranda and Lerner, 1995; Brown et al., 2008);
- the facilitation of public-private partnership where the private partner assumes some aspects of service delivery and the public assumes others (Warner and Hefetz, 2008);
- the introduction of competition in the local service market through competitive bidding between public and private operators.

The above mentioned tools, used to realize the privatization strategy, are characterized by the independence of the public and private organizations involved in the process. This represents the crucial difference between the Anglo-Saxon public services provision structure and the Italian one, which is similar to the public services arrangement of the other European continental countries.

In effect, Italian local governments entrust the provision of public services to enterprises that are legally separated by the local government. Since the beginning of the Ninties local utilities have taken an autonomous legal status that is actually represented by a prevalent joint-stock company legal form. So, a local utility can be a publicly owned firm or a mixed public-private firm.

The former is characterized by a private legal form and a capital totally owned by the local government. The second is a firm where the ownership is divided between the local government and the private parties. In both cases, the subsidiary’s capital is participated by the local authority. Consequently, the municipality is, at the same time, the principal shareholder and the main customer of the subsidiaries responsible for

delivering local public services (dual role of the parent local government). So, in Italy the provision of local public services to meet the needs of citizens is characterized by a group structure composed of:

- the local authority as leader that retains the ownership of the function and responsibility;
- subsidiaries that are charged to provide public services.

The described situation highlights the specificity of the Italian local public service provision that is characterized by both the coexistence of different organizations (public and private) and the hybrid nature (legally private identity and public ownership) of the local government's subsidiaries. This implies a specific attention to the concept of governance and requires the need to analyze and evaluate the character of governance of the local authority group.

The concept of governance is broad, not univocal and used in different contexts (both public and private). Consequently, it is difficult to find a common point of view on the governance elements and definition. In the public sector, governance can be considered as the set of rules, practices and laws that allow the exercise of public authority in order to satisfy public interests. This approach highlights the aspects of control and coordination involved in a governance process to pursue the common interest (Lynn and Hill, 2003). Control and coordination can be attributed to the reduction of the public authority (Shick, 2003) that increasingly relies on the contributions of private actors in the provision of local public services (Kettl, 2000). The dissemination of different forms of collaboration and the subsequent development of reticular structures involve the emergence of a perspective of governance. The ability to coordinate and to make consistent the activities carried out by many organizations having different objectives (Pierre, 2000), can be considered a typical element of the governance concept. It is interesting to notice that this element implies some evident difficulties that are increased by the peculiar Italian public services provision structure. In effect, the coordination and control activity on the local public group members is more complex considering the dual role of the parent local government (shareholder and customer – see par. 3).

Actors, roles and relationships of the local government group are complex. This implies the relevance of the coordination activity and the difficulty to realize it in order to reach a model of effective governance. Hence the main interest of this work that is represented by the local government group governance, analysed in its main components (number of group members and coordination geared to meet public interests).

Given this premises, the objectives of the paper is to investigate some aspects that characterize the Italian hybrid externalization of the local public services provision in terms of local government groups composition and governance (considering the relations linking the parent local government and the hybrid organizations responsible for providing public services).

To this end, research was conducted and its objectives, methodology and results are presented in the following paragraphs 2 and 3. The analysis highlights:

- the plurality of subjects involved in a group of the public administration;

- the activities carried out by the parent local government and its influence on the composition of the subsidiaries decision-making bodies (coordination activities).

The last section (par. 4) contains some conclusions arising from the empirical results together with suggestions considered helpful by the authors to support the local government in defining an efficient governance structure for the hybrid structure of the local government groups.

## **2. Research question and methodology**

Through their research the authors try to answer the following research question: what are the features of the local government group phenomenon in the Italian public sector and how to configure some governance issues relating to the local government group?

In detail, the analysis focuses on the following objectives:

- the composition of local government groups in the main Italian municipalities;
- the role played by the parent local government;
- the manner of appointing local government representatives in the subsidiaries boards;
- the influence of the parent local government in the subsidiaries governance in terms of number of advisers appointed by the total number of members of the Board of Directors of each subsidiary.

To collect information the methodology followed is represented by a telephone questionnaire.

The sample investigated is composed by the Italian local governments having a population greater than 1.000.000 (Rome and Milan). The respondents were technicians of the local governments: directors or officers of “Subsidiaries Office”. Furthermore, the analysis on selected municipalities refers only to the entity directly participated by the local governments.

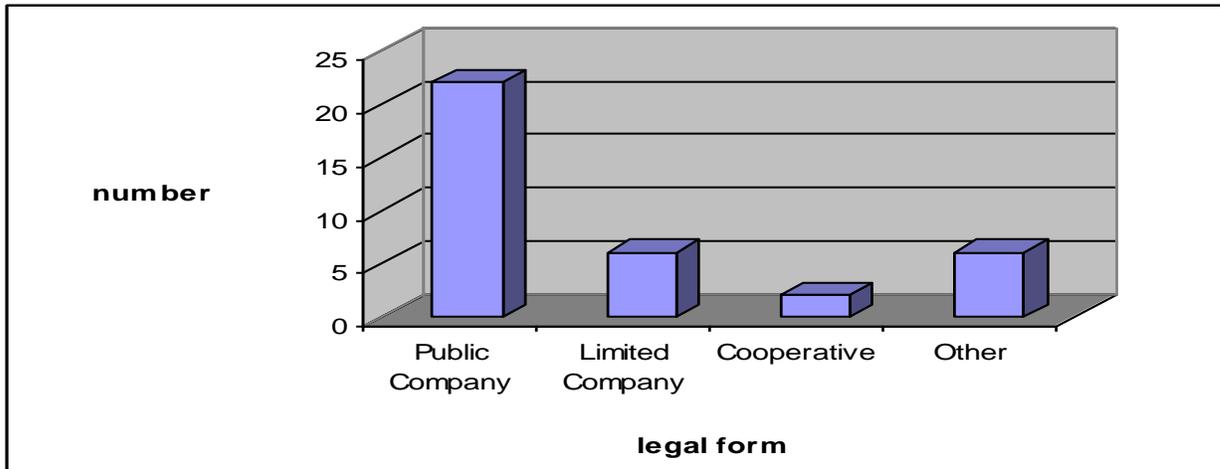
## **3. Research results**

The analysis focuses on the following points:

- composition of local government groups;
- activities conducted by the parent local government;
- some profiles inherent to the governance structure of the local government groups.

*Composition of local public groups.* The first question of the questionnaire aims to investigate the local public groups composition in terms of the legal form of subsidiaries.

**Graph 1 – Composition of local public groups**



The 36 subsidiaries identified are shared as follows:

- 61% (22 subsidiaries) is represented by public companies;
- 17% (6 subsidiaries) is represented by limited companies;
- 6% (2 subsidiaries) is represented by cooperatives.

The residual category "Other" (17% – 6 subsidiaries) includes municipal enterprises, agencies, etc.

Together with the legal type variety the research shows a functional variety of the local government group. In fact, the business activities of the subsidiaries are heterogeneous: transport, disposal of waste, reflux of waste water, maintenance of urban green spaces, etc.

The fore mentioned results lead to some thoughts on:

- the need of the parent local government to consider the problems that may arise by the governance asset of the group in planning and controlling its activities. In other words, the definition of the governance structure may influence the group in defining its plans and the related control on results;
- the presence inside the local government group of private legal nature entities together with the local government. This implies the coexistence of public and private logic.

*The activities undertaken by the parent local government.* The second question of the questionnaire seeks to delve into the activities carried out by the parent local government analyzing its dual role:

- as a customer when it entrusts subsidiaries to provide local public services;
- as a shareholder arising from shares held by the parent local government in the subsidiaries equity.

**Table 1 The activities carried out by the parent local government as a customer**

	Activities

Prevalent legal content activities	Drawing up of service contracts
	Definition of the selecting procedure to choose the providers of public services
Prevalent managerial content activities	Control on service contracts
	Accounting control on payments defined in the service contracts
	Coordination of local government internal sectors competent for the public services delivery carried out by the subsidiaries

Table 1 summarizes the activities carried out by local authorities as a customer. Both Rome and Milan answer that the role of customer is not played by the “Local government entities Office”. It is attributed to each municipal sector that is responsible for the specific service provided by each local government entity.

The respondents are oriented towards a prevalent managerial content activity represented by control on service contracts. The focus of the control is to verify the compliance of local public services to the qualitative and quantitative indicators contained in the service contracts. In some cases the control activity is accounting oriented, and it verifies the correctness of the amounts paid or received by the parent local government for the delivery of public services carried out by the subsidiaries.

More limited is the involvement of the respondents in carrying out an activity of coordination of their different internal sectors that are competent with respect to the local services provided by subsidiaries.

With reference to the activities with prevalent legal content the drawing up of service contracts is predominant. The definition of the selecting procedure to choose the providers of services is marginal.

Furthermore, the following hypothesis should be considered: the greater commitment of the respondents in prevalent managerial content activities stems from the fact that these tasks are of continuous type. Rather, the prevalent legal content activities take place only when their generating situation occurs (e.g. control on service contracts is done periodically throughout the year, while the drawing up of service contracts happens only when it is necessary to regulate relations between parent local government and its subsidiaries).

**Table 2 The activities carried out by the parent local government as a shareholder**

Prevalent legal content activities	Prevalent managerial content activities
drafting acts and deliberations	the investment plans analysis; the budget analysis; feasibility analysis for the formation of new subsidiary

preparing documents related to special corporate operations and drafting statutes or amendments to them	coordination of the local government representatives in its subsidiaries Board of Directors
collecting the subsidiaries balance sheets in order to annex them to their year-end report	support activity to the decision-making bodies on the subject of municipal investment
verifying the compliance of subsidiaries activities with the legislation on local public services	
participating in subsidiaries meetings	the analysis of the subsidiaries balance sheets; the drafting of qualitative and quantitative reports on the subsidiaries activity at the end of the year
collecting subsidiaries information requested by the Home Office	drawing up of the consolidated financial statement
appoint their own representatives on the Board of Directors of the subsidiaries	

In relation to the parent local government as a shareholder, the empirical findings show that this role is centralised and specifically attributed to the “Local government entities Office”.

The investigated municipalities show that prevalent managerial content activities are represented by: the analysis of the subsidiaries balance sheets; the drafting of qualitative and quantitative reports on the subsidiaries activity at the end of the year; the investment plans analysis; the budget analysis; feasibility analysis for the formation of new subsidiary. Sometime the local governments undertake support activity to the decision-making bodies on the subject of municipal investment. This activity takes place in the drawing up of an informative report by the subsidiaries or by the parent local government. The coordination of the local government representatives in its subsidiaries’ Board of Directors is more marginal. Only Milan declares to be on an experimentation on the drawing up of the consolidated financial statement of the local public group.

As for the prevalent legal content activities, respondents demonstrate a commitment predominantly in drafting acts and deliberations, in preparing documents related to special corporate operations and in drafting statutes or amendments to them.

The parent local governments also declare to collect the subsidiaries balance sheets in order to annex them to their year-end report; to participate in subsidiaries meetings; to verify the compliance of subsidiaries activities with the legislation on local public services; to collect data needed by the Home Office; to appoint their own representatives on the Board of Directors of the subsidiaries.

The empirical findings allow to identify the possible approaches of the parent local governments towards their controlled entities. In order to highlight them in a concise and comprehensive way, the following roles-activities matrix has been built.

**Table 3 Roles-activities matrix**

	Activities	
	Prevalent legal content	Prevalent managerial content

Roles	Customer	I - LOC	II - MOC
	Shareholder	IV – LOS	III - MOS

The first quadrant shows the parent local governments that act as a customer carrying out prevalent legal content activities (legal oriented customer – LOC). Contrarily, the second quadrant reveals the local governments engaged in prevalent managerial content activities in their role of customer (managerial oriented customer – MOC).

The third quadrant considers the shareholder position of the local governments that carry out prevalent managerial content activities (managerial oriented shareholder – MOS) . The fourth quadrant highlights the parent local government commitment in prevalent legal content activities as a shareholder (legal oriented shareholder – LOS).

The empirical findings on the activities undertaken by the parent local governments show that Rome and Milan are more oriented in playing the shareholder role rather than assuming the customer position. This situation is supported by the organizational point of view: in effect, the shareholder role is played by a specific office (“Local government entities Office”).

*Governance profiles.* The aspect of the governance structure analysed is the manner of appointing the parent local government representatives within the subsidiaries’ Board of Directors.

Three different ways can be followed by local governments to choose their members on the subsidiaries’ Board of Directors:

- Fiduciary relationship related to the political spoil system;
- Professional profile;
- Mixed method.

Rome and Milan express the use of a mixed method that defines a specific regulation for the appointment of local government representatives in the subsidiaries Board of Directors considering also fiduciary elements.

Two elements could be interpreted as a cause that influences the governance structure of the local government group:

- the strong presence of parent local government representatives in the subsidiaries’ Board of Directors;

- the diffusion of the fiduciary relationship between the politicians and the representatives in appointing the parent local government representatives in the subsidiaries' Board of Directors.

#### **4. Conclusions and ways forward**

Entrusting most local public services to local government entities has led to proliferation of public groups. In Italy, as well as in other European continental countries, the local group is characterized by the presence of a parent local government that has the dual role of shareholder and customer of the subsidiaries responsible for delivering local public services. The dual role assumed by the parent local government affect its relations with the subsidiaries also in terms of activities carried out by the parent local authority.

The empirical findings outlined above involve some concluding reflections on the investigated aspects.

Both the financial resources invested in the group and the social impact of its activities, show the essential need of a careful and united local government group management.

Local government groups are characterized by complexity that derives from at least three factors:

- the coexistence within the group of a public entity (parent local government) with private companies (subsidiaries);
- the hybrid nature (legally private identity and local public ownership) of the local government's subsidiaries;
- the heterogeneity arising both from the subsidiaries legal form variety and their functional variety represented by the different activities that the subsidiaries carry out (the local public services).

The complexity emphasizes the relevance of the coordination by the parent local government on the subsidiaries activities.

As to the activities carried out by the parent local government, they are strictly influenced by the hybrid externalization of the local services provision. In effect, the hybrid solution leads to a local government that is charged of different activities on the basis of its role as a shareholder and as a customer. As outlined by the research results, the shareholder role is centralised in the "Local government entities Office". This is significant because in that position they have the possibility to define the governance profile of the group. As a shareholder the parent local government carries out the managerial content activities related to specific issues (e.g. the analysis of the subsidiaries financial statements and the drafting of qualitative and quantitative reports on the subsidiaries activity at the end of the year). In this case, research highlights a focus on each subsidiary activity and not on the whole group. Furthermore, the local authorities does not aim at the establishment of group strategies and related control system to verify the results achievement. The research has also allowed to have a direct contact with the selected local governments. This reveals that the activities carried out by the parent local governments are conducted in terms of habitual practice, rather than informational supports for the decision-making process. Such a situation highlights that there is not a

"group approach" by the parent local government towards its subsidiaries and, consequently, this leads to a reduced consideration of the governance issues.

In conclusion, the analysis points out the presence of the conditions for defining a governance structure that leads to an efficient and effective group activity. These conditions are represented by the coordination need, the formal control deriving from the parent local government participation in the subsidiaries' equity, the common objective of all the local government group members represented by the community needs satisfaction, etc.,.

The outlined circumstances do not reflect on the parent local governments' commitment in defining an approach to direct the activities of the group.

To improve this situation, the parent local governments could:

- review their relationship with the controlled entities in order to take a more results-oriented point of view rather than one influenced by short-term political objectives;
- adopt a "group approach" as an overall guideline that can be used to address the one-on-one relations between the parent local government and each subsidiary;
- implement planning and control group instruments, e.g. strategic plans and consolidated financial statements (Preite, 2006). These tools can allow the operating effect of the governance commitment;
- empower all members of the group on the defined objectives through the implementation of appropriate instruments of external accountability (De Matteis, 2010).

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