



Effect of modes of public services delivery on the efficiency of local governments: A two-stage approach



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ABSTRACT

A clear relationship has not been found between the modes of public services delivery and the efficiency of local Governments. Studies have been carried out for only one or two services and/or in a concrete year, so the real effect is difficult to generalize.

The main aim of this study is to analyse the effect of functional decentralisation and externalisation processes on the efficiency of local public services delivery, in order to clarify the situation. For this, 129 Spanish municipalities with populations over 10,000 between 1999 and 2007 have been considered.

The results show that both pure modes of public services delivery – functional decentralisation and externalisation – impact negatively on efficiency of local governments. Nevertheless, public business entities created by right-wing parties may improve the annual efficiency of the local governments. Furthermore, mixed companies may increase the inter-annual variation of the efficiency, especially when they are promoted by right-wing governments too.

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1. Introduction

The three main pillars on which NPM rests are: effectiveness, efficiency and flexibility. In the words of Pollitt and Bouckaert (2000), “public management reform is usually thought of as a means to an end, not an end in itself. To be more precise, to multiple ends. These include making *savings* (economies) in public expenditure, improving the *quality* of public services, making the operations of government more *efficient* and increasing the chances that the policies which are chosen and implemented will be *effective*.” To achieve these important objectives, public management reform may make use of diverse processes, including privatisation, decentralisation and externalisation (Kettl, 2000).

Some years ago, the study of efficiency acquired increasing importance, when the European Economic and Monetary Union established restrictions with a view to attaining budgetary stability, which oblige governments to assign their resources efficiently to satisfy their citizens (Benito et al., 2010a). In order to improve the efficiency of the public administration and to reduce public sector spending, politicians began to reform public services in different ways, based on NPM theory.

In the case of Spain, reforms under the NPM theory arrived late (Hood, 1996) and this particularly affects local governments, which provide most public services. As the empirical evidence shows, local administrations are resorting to private contracting (Pina and Torres, 1998; García, 1999; Ramió-Matas and García-Codina, 2006) and decentralisation of the administration (Cuadrado, 2008; Prado-Lorenzo et al., 2009; Benito and Bastida, 2003a, 2003b, 2005, 2008; Montesinos et al., 2010) in order to supply the services that users demand.

A large number of studies have analysed efficiency at the local level, including Worthington (2000) for Australia; Brueckner (1979) for New Jersey; Grossman et al. (1999) for the USA; Vanden et al. (1993), De Borger et al. (1994) and De Borger and Kersten (1996) for Belgium; Taïrou (2000) for France; Worthington et al. (2001) for Wales; Dijkgraaf and Gradus (2003) for the Netherlands; Dijkgraaf et al. (2003) for Denmark; Reeves and Barrow (2000) for Ireland; and Ohlsson (2003) for Sweden.

However, literature focused on the effect of functional decentralisation and externalisation with respect to Spanish efficiency of local governments is scarce. Most studies have focused merely on the dichotomy between private and public management, and do not consider the different ways of providing public services through functional decentralisation. In addition, previous papers suffer other limitations as regards the samples selected and the number of services analysed. In general, their analyses are carried out in a specific year, so the real effect is difficult to observe, and they are only focused on one region of Spain. Furthermore, only one

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or two services are included in most such studies, and so the evidence obtained cannot be generalised for all public services.

Accordingly, the main aim of this study is to analyse the effect of functional decentralisation and externalisation processes on the efficiency of Spanish local governments. Concretely, we expect to add empirical evidence about this topic by (i) specifying the impact of these processes; (ii) conducting a complete analysis of functional decentralisation, taking into account the different decentralised entities — public companies, foundations, autonomous organisations and public business entities — instead of only one mode of delivery; and (iii) choosing a time period that permits the use of panel data methods, which provide more robust results and allow us to control the unobservable heterogeneity and correct the endogeneity problems between dependent and independent variables.

With this goal in mind, we considered 129 Spanish municipalities with populations of over 10,000 between 1999 and 2007, inclusive. In order to provide more precise findings, the process of functional decentralisation is disaggregated according to the legal form of the organisation: public companies, autonomous organisations, public business entities and foundations.

The results obtained show that both pure forms of public services management have a negative impact on efficiency. Nevertheless, public business entities created by right-wing parties may improve the annual efficiency of the local governments, as well as, companies with an ownership structure formed by a public-private sector mix increases inter-annual efficiency, especially when they are promoted by right-wing governments too.

2. Modes of public services delivery and efficiency of local government: research hypotheses

2.1. Modes of public services delivery at local level in Spain

According to Article 11.1 of the 1985 Local Government Regulatory Law (“Ley Reguladora de Bases de Régimen Local” — LRRL), a municipality is the basic local entity of the territorial organisation of the state, with legal personality and full capacity to fulfil its purpose.

With regard to organisational structure, the municipal administration is composed of two types of bodies: the political, formed by the mayor and the town councillors, with either decision-making functions or service provision management duties; and the executive, comprised of the set of services and units that carry out the decisions taken by the former.

The responsibilities attributed to local government are set out in articles 25 and 26 of the Local Government Regulatory Law, and are strongly linked to the population of the municipality, as shown in Table 1.

In addition, article 28 of the same law enables municipalities to offer complementary services related to aspects such as education,

culture, the promotion of women’s rights, housing, health care and environmental protection.

The Local Government Regulatory Law allows municipal services to be provided through the following ways:

- **Direct management:** the administration, management and control of public services are handled by the public administration itself.
- **Functional decentralisation:** this is the process through which local governments create smaller and more flexible entities in which a business culture predominates (Aberbach and Rockman, 1999). These agencies are closer to citizens, so they have better knowledge of their preferences and needs, thus, local government may improve public services delivery. Some reasons to carry out this process are improving efficiency in attaining objectives (Boyne, 1996), improving coordination and control (Tullock, 1965), reducing bureaucratic processes (Niskanen, 1971) and recognising needs more easily, thus providing services faster (Downs, 1967) due to the fact that decentralised units are closer to citizens and, therefore, more aware of their preferences (Hayek, 1945). The fact that management units are smaller and more flexible makes them more dynamic and leads users to express greater satisfaction. In the case of Spain, local governments are able to create the following decentralised entities:
 - **Autonomous organisations:** public bodies with their own legal personality that have an autonomous management system, but which continue to form part of the General Administration. They are subject to Administrative Law and their regulations are governed by Act 6/1997 of 20 April 1997, on the Operation and Organization of the General State Administration. This type of structure is often used for tax collection purposes, in view of the budgetary control obtained and the fact that procurement rules are flexible in this case. Autonomous organisations are used for administrative and commercial tasks.
 - **Public business entities:** these are public bodies that are engaged in providing services or goods with financial compensation and are subject to private law, except in relation to the exercise of public powers and certain aspects of performance, in this particular case public law is applied (Barrera, 2008). These entities are used for some cultural services and urban development and housing services, mainly in municipalities in Catalonia and the Basque Country.
 - **Public companies:** entities with their own legal personality, distinct from that of their members, and which operate in accordance with Commercial Law, using their own capital. The provision of public services through public companies is usually financed through public property taxes and prices

Table 1
Local public services in Spain.

Essential services	Minimum or compulsory services according to population		
In all towns	Towns with a population over 5000	Towns with a population over 20,000	Towns with a population over 50,000
<ul style="list-style-type: none"> - Street lighting - Cemetery - Waste collection - Street cleaning - Domestic supply of drinking water - Sewer system and drains - Road access - Paving of public roads - Food and drink control 	<ul style="list-style-type: none"> - Public park - Public library - Market - Waste treatment 	<ul style="list-style-type: none"> - Civil defence - Social services - Fire prevention and extinguishing - Public sports facilities - Slaughterhouse 	<ul style="list-style-type: none"> - Public transport - Environmental protection

Source: The authors, based on the Local Government Regulatory Law.

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