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UNION OF MUNICIPALITIES OF BASSA ROMAGNA.

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PERFORMANCE IMPROVEMENT IN LOCAL GOVERNMENT – THE PERFORMANCE MANAGEMENT CYCLE AT THE UNION OF MUNICIPALITIES OF BASSA ROMAGNA

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The aim of this paper is to investigate the key success factors that make the Union of Municipalities of Bassa Romagna (UMBR) one of the best performing Unions in Italy, analyze the influence of public sector reform on its approach in managing performance, describe how its shared performance management system has been implemented and highlight results achieved by the Union.

INTER-MUNICIPAL COOPERATION

In a context where resources for the public sector are diminishing and public expectations are growing, local governments are under pressure to deliver the same level of services in the face of massive cuts to their budget. Small Municipalities suffer more than larger ones because they lack critical mass. Scarcity of resources make them unable to fulfil needs and wishes of their inhabitants and provide them with the quality and the quantity of services they require. In these conditions improving performance and creating public value (Moore, 1995) is quite a tough challenge. A feasible solution is to join efforts through an inter-municipal cooperation (Hulst and van Montfort, 2007): sharing resources with other Municipalities in

order to integrate processes, increase efficiency, save money, deliver better services and generate greater outcomes.

There might be different forms of cooperation among Municipalities in different countries: from setting up a few shared services to integrating vision, strategies and actions.

Inter-municipal cooperation practices are widespread throughout European countries, even if there are remarkable differences in the way they are implemented (Bolgherini, 2011).

It is almost impossible to compare the degree of autonomy of local governments in different European countries (Hulst and van Montfort, 2007), but the level of autonomy usually plays a fundamental role in the quest of cooperation among Municipalities. In countries with a centralized structure of governance, competences and resources of local authorities are limited and there is little room of cooperation. Central government takes responsibility for most decisions that directly affect Municipalities. In countries where Municipalities are endowed with more autonomy in delivering services to citizens and managing their costs, there are more opportunities to practice an effective inter-municipal cooperation¹.

In England often Councils compete, rather than work collaboratively with each other and “there are few examples of increased horizontal cooperation between local authorities. (Kelly, 2007). In Italy and in other countries the willingness to aggregate on an inter-municipal basis is expressed in ways and degrees that range from less structured solutions governed through agreements, such as Associations of Municipalities, to more structured solutions, such as Unions of Municipalities (Sorrentino et al., 2010)

The Union of Municipalities

In Italy the most effective form of inter-municipal cooperation is when a few small Municipalities join together in a Union of Municipalities (UM). Of course not all the Unions achieve the same level of benefits for the associated Municipalities.

To be successful, cooperation among Municipalities requires a strong commitment: clear governance, shared strategies, trust, mutual respects and accountability of all partners. Without these ingredients little can be accomplished. But to make the whole mechanism really actionable and effective it is necessary to implement a shared performance management system in order to share vision and strategic intents, plan objectives, define targets, measure progresses and evaluate actions, behaviours and performance results.

Union of Municipalities is a form of local government, with a legal identity, explicitly provided for in the Italian law. It consists of an optional and voluntary integration of Municipalities, based on respect for local authorities' self government (Deffigier, 2008). Even if a Union has its own legal identity, the Municipalities involved preserve their own legal identity. The bylaws appoint one of Mayors of the partner Municipalities president of the Union and establish that “*the other bodies are composed of local council members and the boards of the associated Municipalities to guarantee the representation of minority interests*” (Sorrentino and De Marco, 2012)

¹Toolkit Manual - Inter-municipal cooperation retrieve April 2012 from http://www.municipal-cooperation.org/images/4/4c/IMC_Toolkit_Manual.pdf

The key elements that characterize an effective Union are *"the joint definition of long-term strategies, the allocation and distribution of the resources among the partners and the regulation of the activities and relations with the end-users"* (Sorrentino et al., 2010).

THE UNION OF MUNICIPALITIES OF BASSA ROMAGNA (UMBR)

In this section we analyze the path followed by the Municipalities that joined in the Union of Municipalities of Bassa Romagna, how they have delegated the whole administration of a range of duties and tasks to the Union, how the Union has produced benefits for each Municipality unavailable through isolated activities and unilateral actions. The Union of Municipalities of Bassa Romagna (UMBR) is a Union of nine Municipalities that lie between the provinces of Ravenna and Bologna (this territory is named Bassa Romagna): Alfonsine, Bagnacavallo, Bagnara di Romagna, Conselice, Cotignola, Fusignano, Lugo, Massa Lombarda e S.Agata sul Santerno. The smallest Municipality counts just over 2,000 inhabitants and the largest about 33,000. UMBR has a total population of over 103,000 people and a territorial extension of about 490 square miles. UMBR was established in 2008 after an experience of 7 years as Association of Municipalities attempting to provide a few shared services. At the time it was founded the Union inherited 48 employees and 4 shared services provided on behalf of its members by the previous Association of Municipalities: legal and administrative management; human resources training and development; tax collection; assistance to elderly people who do not required hospitalization, people with disabilities or psychological distress, adults and children living in poverty, abandoned children. At the beginning of 2008 the total number of employees was about 700 (48 in the UMBR and the rest in the individual Municipalities). In 2012, four years later, the UMBR consists of about 360 employees out of a total of 670. Today the Union is directly responsible for the management of 28 out of a total of 32 services provided by Municipalities in the territory. The chief executive officer is unique, and has an overall responsibility for all employees. Almost all activities and policies are coordinated at the Union level. Individual Municipalities maintain their decisional autonomy just in a few local matters.

The following table show the progression of shared services provided by the Union on behalf of individual Municipalities.

2008	2009	2010	2011
14 services	17 services	24 services	28 services

Both Union and Municipalities have legal identities and that may create some confusion. For the purpose of this paper we define *"the whole organization"* as the sum of the Union and the Municipalities.

One of the major challenges faced by Unions lies in the efforts required to make mutual decisions (a few Union's decisions must be approved by every single municipal assembly)

and generate results that are more than the sum of their contributions. (Messina 2011). One of the key points in the success of the integration process implemented in Bassa Romagna was to align the efforts with the creation of a common Strategic Plan in 2009. In public sector organizations, the strategic plan outlines the decisions they make to create public value for the community they serve (Bocci, 2005). In the Union, the plan was developed using the guided principles and the framework proposed by Bryson in Strategic Planning for Public and Nonprofit Organizations (Bryson, 2004). In making the strategic plan the Union shared the long-term goals with all the key stakeholders in the territory and, in the meantime, put great attention on the specific needs of its members.

THE PUBLIC SECTOR REFORM

“The new approach to public sector management is linked to an increasing interest in performance measurement in the public sector” (Neely et al., 2006). To help public sector organizations to focus on their performance, the latest reform of public administration in Italy (OECD, 2010), influenced by the New Public Management (Osborne, Gaebler, 1993), introduced the **“performance management cycle”** that should be adopted by all public sector organizations (centrally and locally). For the first time, in Italy, the approach to performance measurement and management in public sector organizations was defined by law. This reform, implemented through the legislative decree 150/2009, aimed at ensuring a higher level of Public Administration’s accountability towards its citizens, increasing efficiency, productivity and effectiveness of the public sector, improving the quality of public services provided to citizens, rewarding employees on the basis of performance and merit.

Every public organization should measure, evaluate, and report the performance of itself as a whole, of its functional units, of its managers and employees.

The performance management cycle is organized as follows:

1. Planning the performance: definition and assignment of objectives, targets and indicators and alignment between agreed objectives and resources allocation
2. Monitoring over the period to identify issues, performance gaps and non compliance and put in place corrective actions
3. Measuring and evaluating organizational and individual performance at the end of the period
4. Rewarding employees on merit and achieved results using a forced ranking system (bell curve 25/50/25) to differentiate top, medium and low performers
5. Reporting results to politicians, chief executive officers, directors-general and citizens

In order to support the performance management cycle, every public organization should produce three documents:

1. The performance measuring and evaluating system
2. The performance plan
3. The performance report

Public administrations are required to disclose their performance plan and performance report containing strategic and operational objectives, as well as results achieved and outcomes of the performance appraisal of staff. (OECD, 2010).

Despite its innovative elements and pragmatic approach, extending the reform program to local governments has proved to be a difficult challenge and a quite slow process. At the local level most public organizations still do not understand the value of measuring and managing their performance using a structured system. Due to the large autonomy they have in making decisions about their internal organization, up to now, only a few local administrations have fully applied the reform principles and implemented an effective performance management system. One of them is the Union of Municipalities of Bassa Romagna, recognized as an example of excellence by the Public Function Department of the Ministry of Public Administration.

THE PERFORMANCE MANAGEMENT SYSTEM OF THE UNION

Achieving results in the public sector requires collaboration and alignment. There is the need to provide all units and departments within the organization with the opportunity to demonstrate how their specific actions contribute in making a difference and helping the organization fulfil its mission and achieve its strategic objectives (Niven, 2003). One of the biggest challenges faced by the UMBR was (and still is) unifying the approach to performance management in each Municipality. *“A shared understanding is a necessary element of moving towards the culture of performance management”* (Micheli and Pavlov, 2009). Therefore, the idea was to create a shared performance management system to provide meaningful, fact-based information to every decision maker in the Municipalities, and avoid building it as an extension of the current accounting system, just to keep costs under control (Ogata and Goodkey, 2002). They started by developing a shared strategic plan and defining common priorities to create agreement about directions and ensure the sustainability of the project. The second step was to integrate processes, set shared objectives, indicators and targets and educate employees, public officials, decision makers to think beyond the boundaries of their Municipalities and manage performance in partnership with the other Municipalities (Frieri et al., 2012). Now the system is supported by a software infrastructure: every Municipality may control the level of a shared service (just for a few services, at the moment) that is delivered by the Union in the Municipality’s territory.

Union redefines, organizes and provides shared services. In this process it shares also employees coming from the single Municipalities, with different backgrounds and different carriers. So one of the issues to solve is how to balance the initial differences among employees in terms of status, compensation, etc. The UMBR leveraged on the new public sector reform by introducing a common performance management system based on a very tight link between organizational and individual performance: individuals work for the Union that in turn works for the single Municipalities.

The UMBR's performance management system is based on the following principles:

- Sharing and integration of knowledge and tools
- Link between Union's strategic priorities and operational objectives
- Link between organizational and individual performance
- Feedback to learn and improve
- Performance reporting and communication, both internally and externally
- Careful selection of objectives and solid execution of plans
- Differentiation based on merit and achieved results
- Testability to support the transition

The performance measurement and management system of the Union ensures an high level of transparency. Objectives and performance measures are limited to only the critical few for each unit and department within *the whole organization*. Objectives and indicators are described in clear words anyone can easily understand. Both are published on the website, so every citizen can realize what are the objectives of every unit/department and how progress in achieving them are measured. If objectives are related to the impact of policy decisions (outlined in the Strategic Plan), they are measured with outcome indicators. If they are related to the ordinary activities and the management cycle, they are measured with output and process indicators.

At the end of the year there is a formal performance evaluation of all people working within *the whole organization*. Performance evaluation refers to the degree of achievement of assigned goals as well as to the level of competences and their use. Individual goals are derived from organizational goals. Competencies are those required for the role they fulfil. The assessment system is designed to evaluate results and behaviours. In 2011 most of the functions previously performed by the Municipalities were conferred on the Union. For this reason, the core competencies required to everybody were: the ability to contribute to services and facilities integration and the problem solving capability. For Department Heads the other competencies evaluated were: differentiation in the evaluation (requested by the public sector reform), team building and leadership. For employees were: technical competency, relational competency and service orientation.

The system applies an increasing weight to the achievement of strategic objectives, particularly to those related to the impact of policies, at the increase of the level of responsibility within the organization. The common planning system of the organizational performance makes Union's goals and objectives complementary to those of individual Municipalities. The "Independent Organism of Evaluation", provided for by the last public sector reform, is entitled to evaluate the organizational and individual performance in both the Union and the individual Municipalities. The following picture shows the appraisal form for Department Heads.

**SCHEDA DI VALUTAZIONE DEI RISULTATI GESTIONALI
DIRIGENTI/SEGRETARI GENERALI
ANNO _____**

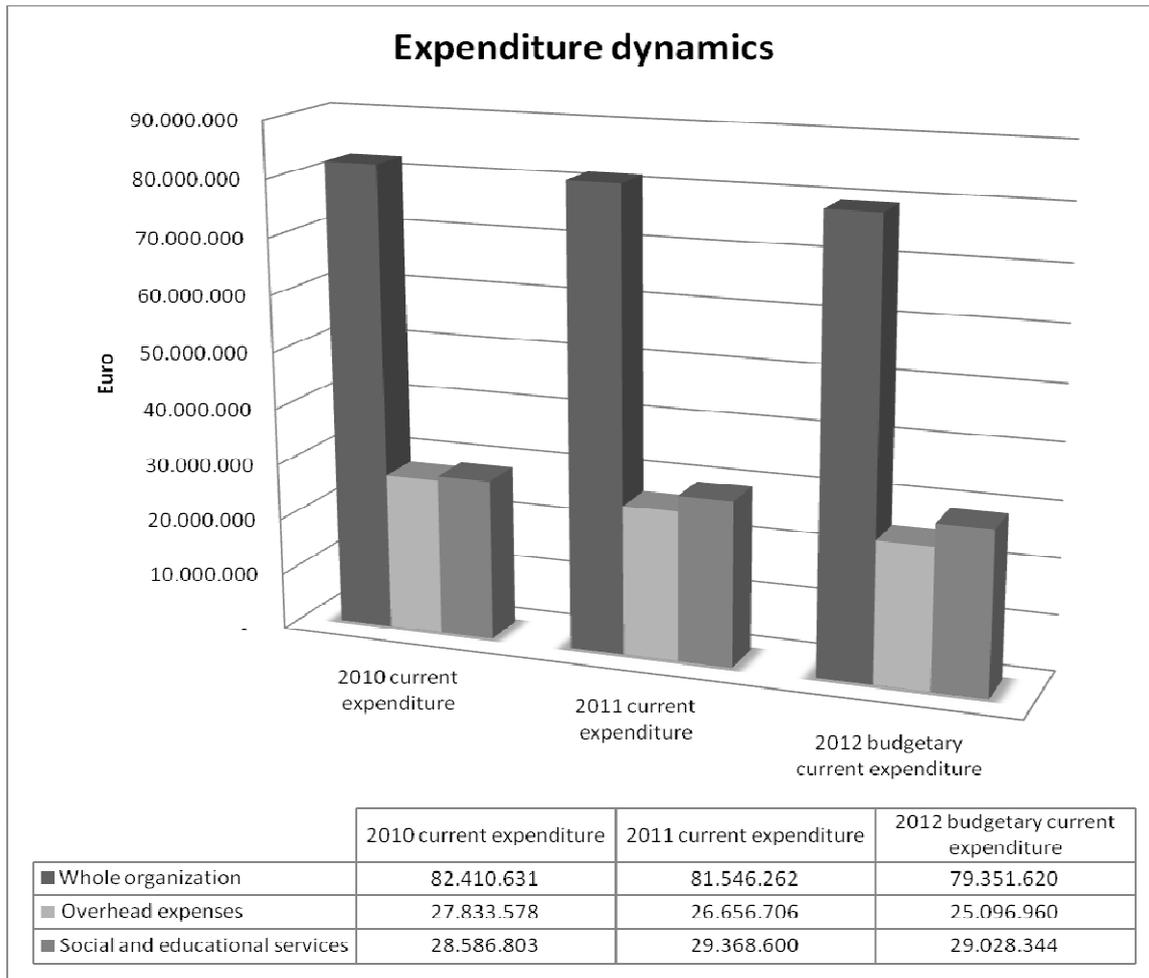
COGNOME: _____ NOME: _____
STRUTTURA: _____

	Parametri	n. parametri	punteggio massimo per parametro	punti disponibili
Risultati	Attuazione degli obiettivi assegnati (risultati)			40
Comportamento Manageriale	Parametri strategici	3	15	40-45
	Parametri rilevanti	2	10	20-15
subtotale comportamento manageriale				60
Totale massimo raggiungibile				100
Risultati gestionali	VALUTAZIONI	PUNTEGGIO	max 30 punti!	
	40% <	0		
1.1 Attuazione degli obiettivi assegnati. Da valutare in relazione al grado di raggiungimento degli obiettivi contenuti nel PDO del PEG: grado di raggiungimento degli obiettivi inferiore/uguale a ... La valutazione del parametro tiene conto dell'apporto dato dal dipendente alla performance di ente, agli obiettivi della struttura di appartenenza ed a quelli individuali	40% - %50	8		
	> 50% - 60%	16		
	> 60% - 70%	24		
	> 70% - 89%	32		
	> 89%	40		
subtotale Risultati gestionale				40
Parametri strategici	VALUTAZIONI	PUNTEGGIO	max 60 punti!	
2.1 Problem solving. Capacità di soluzione di problemi, particolarmente in situazioni di crisi o di emergenza	Insufficiente	0		
	Sufficiente	3,75		
	discreto	7,5		
	buono	11,25		
	ottimo	15	x	15
2.2 Integrazione. Capacità di contribuire all'integrazione dei processi lavorativi promuovendo la collaborazione con altri servizi ed uffici	Insufficiente	0		
	Sufficiente	3,75		
	discreto	7,5		
	buono	11,25		
	ottimo	15	x	15
2.3 Differenziazione. Capacità di misurare ed evidenziare diversità di tipo quantitativo e qualitativo nei contributi dei propri collaboratori*	Insufficiente	0		
	Sufficiente	2,5		
	discreto	5		
	buono	7,5		
	ottimo	10	x	10
subtotale parametri strategici				40
Parametri rilevanti	VALUTAZIONI	PUNTEGGIO	max 10 punti!	
2.4 Leadership. capacità di guidare e motivare i propri collaboratori, capacità di dialogo con i propri collaboratori, capacità di gestire relazioni, capacità di ascolto e di selezione delle esigenze dei propri collaboratori	Insufficiente	0		
	Sufficiente	2,5		
	discreto	5		
	buono	7,5		
	ottimo	10	x	10
2.5 Team building. Capacità di lavorare in squadra, quindi di riconoscere e valorizzare il contributo degli altri	Insufficiente	0		
	Sufficiente	2,5		
	discreto	5		
	buono	7,5		
	ottimo	10	x	10
subtotale risultati				40
subtotale Comportamento manageriale				60
TOTALE				100

Per ogni parametro possono essere assegnati anche punteggi decimali

RESULTS AND CONCLUSIONS

One of the indicators to measure the financial health of Local Governments is the annual current expenditure (Farneti et al. 2010). More interesting than analyzing the evolution of this indicator in the financial statement of the Union or in those of each Municipality, is making a trend analysis of the current expenditure of *the whole organization* and of some functions and services performed by the Union. The graph in the picture shows the evolution of the current expenditure.



In two years, the annual current expenditure has dropped from 82.4 to 79.4 million euro: a decrease of 3.7% in the annual current expenditure of *the whole organization*. Units and departments (overhead expenses) that perform activities that do not have any direct impact on citizens contributed for about 10% of the saving. While two services that have a strong impact on the quality of life of citizenship, the Social Service, provided by the Union, and the Educational Service (age 0-6) provided by the individual Municipalities, showed an increase in both available resources and extension of the service. It is important to underline that the Union of Municipalities created new services, like the management accounting function and the strategic planning office, that did not exist before or improved quality standards of many services provided on territory, while decreasing annual expenditure.

Due to the limitation of the analysis, it is hard to generalize the UMBR case as an example of good practice for policymakers that work at the national level on the reconfiguration of local services through collaboration, but results achieved by the Union show that optimizing the organization, increasing the efficiency and reallocating resources to better serve the community is possible even under conditions of scarcity of financial resources. The increasing number of shared services provided by the Union, the sharing of staff functions, the introduction of management accounting, the implementation of a common software system for both management and general accounting, the compliance with the new public

sector reform, the implementation of an integrated performance management system, allowed to build a culture of performance planning and evaluation in *the whole organization* and achieve results that exceeded expectations.

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