ABSTRACT

A Four Quadrants Model to monitor the performance of Local Governments

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The measurement of public sector performance is an important policy issue in many developed and developing countries. For instance, the European Commission (2008) recognizes that monitoring the efficiency of central and local governments is a necessary condition for improving the quality of public finances, and thereby achieving a sustained long-run economic growth. Moreover, a Policy Brief from the OECD (2013) reports that the measurement of the performance of the public sector can help citizens to hold governments and their agencies accountable for their actions thereby providing services in an efficient way.

As discussed by Sørensen (2014), performance measurement, together with pay for performance and the introduction of competition, is one of the most important features of
the New Public Management (NPM), which is a set of principles that has shaped the agenda for many public sector reforms in recent decades. However, at the same time, the difficulties encountered in performance measurement are used as arguments against NPM itself (see Sørensen (2014)). Technical issues, such as the measurability of the outcome/outputs produced by public sector organizations characterized by multidimensional goals, imply that a successful performance assessment requires sophisticated statistical techniques and costly data collection.

Regarding such statistical techniques, the recent economic literature has suggested the use of parametric and non-parametric techniques like stochastic Frontier Analysis (SFA) and Data Envelopment Analysis (DEA) for evaluating governments’ efficiency. However, there is clear evidence that policymakers are reluctant to implement policy actions based on these statistical methodologies. For example, the Comprehensive Performance Assessment (CPA) in England, the Australian Review of Government Service Provision, and Norway’s KOSTRA System are based on simpler systems of indicators and/or balanced scorecard methodologies rather than the DEA or SFA techniques. This happens for various reasons. For instance, as argued by Sørensen (2014), for electoral purposes, politicians may not want the performance to be meticulously measured. Therefore, they embrace the argument that performance evaluation requires the adoption of complicated and costly methodologies so that the entire process can be declared unfeasible or can be implemented only partially with risks of huge distortions.

On the other hand, things look better if we focus on local governments (LGs). The latter do seem to accept the adoption of statistical tools for the evaluation of their standard expenditure needs (SEN), one of the building blocks of almost all systems of horizontal fiscal equalization based on formula grants.

These reflections result in the question that motivates this study: why not use the same data and same statistical tools adopted for the evaluation of SEN to measure the performance of LGs at a reasonable cost?

Unfortunately, SEN cannot be used directly to monitor LGs’ efficiency in the provision of local services because the crude comparisons between standard and historical expenditures do not provide enough information to infer the ability of LGs and their efforts in the production of local services. This may be because of two main reasons: 1) the level of actual expenditures for a particular year may be affected by special events, such as earthquakes, floods, etc., which are beyond the control of LG; and 2) most importantly, the level of actual expenditures is influenced by the quantity and/or quality of services produced that can be above or below the standard level compatible with the standard expenditures.
Therefore, in order to overcome this problem, the idea developed in the paper is to assess the performance of LGs using a simple Four Quadrant Model based on the joint analysis of two measures: the expenditure and the output gaps. The expenditure gap corresponds to the difference between the actual and standard expenditures, and the output gap corresponds to the difference between the actual and Standard Level of Services (SLS).

In particular, our model offers the possibility to rank local authorities based on a couple of simple dimensions, i.e., expenditure gap and output gap, which can be easily understood by policy makers and citizens. With the use of these dimensions, the policy makers and citizens can easily identify four types of LGs (see Figure 1): 1) over-standard LGs, where both the output and expenditure gaps are positive; 2) under-standard LGs, when both the output and expenditure gaps are negative; 3) efficient LGs, in which the output gap is positive and the expenditure gap is negative; and 4) non-efficient LGs, where the expenditure gap is positive and the output gap is negative.

In the final part of the paper, we present an application of the proposed model on the social care sector using detailed data about services provided in 2010 by Italian municipalities. The provision of social care services is a critical sector where outputs can be unambiguously measured and which absorbs more than 20% of total municipal current expenditure corresponding to roughly 7 billion Euros.

Final results show that the municipalities in the northern regions perform on average much better than those in the south. This is particularly evident for municipalities of the Emilia-Romagna that can be classified on average as over-standard, and for municipalities of Campania or Calabria that can be classified, instead, as under-standard. Municipalities of Umbria stand out as the most efficient and therefore are the first candidates to be used as benchmark for the provision of social services. None of the regions occupy the “non-efficient” quadrant, but this is due to the aggregation of final results at regional level. What are the reasons of these differences? Given that most of the exogenous factors related to the socio-economic context have been taken into account, only the management practices adopted in northern regions can explain most of these differences. Further analysis is necessary to study these management choices, however this goes beyond the scope of this work and is left to future extensions.

References

