

DRAFT SYNTHESIS OF SYMPOSIUM

**“SETTING STANDARDS FOR LOCAL
PUBLIC GOODS PROVISION:
CHALLENGES FOR REGIONAL
DEVELOPMENT”**

**20 JUNE 2007
ROME, ITALY**

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Introduction

1. The present document illustrates the discussions and findings of the Symposium “Setting standards for local public goods provision: challenges for regional development.” This event was co-organised by the OECD and the Department for Development Policies of the Ministry of Economic Development of Italy. This Symposium was held back-to-back with the 17th session of the Territorial Development Policy Committee of the OECD, on June 20th, 2007 in Rome, Italy. The Symposium aimed at exploring whether and how setting standards can be used to improve the local provision of public goods, and thereby to enhance regional competitiveness and societal progress. Attendants benefited from presentations from representatives of Denmark, Italy, Korea, Mexico, Norway, Spain, and the UK, and a presentation by the Head of the OECD Statistics Directorate. The meeting was chaired by Mrs Odile Sallard, Head of the Public Governance and Territorial Development Directorate (OECD), and Mr. Fabrizio Barca, Director General, Ministry of Economy and Finance (Italy). Closing remarks were addressed by the chair of TDPC. This document presents some of the discussions and findings. The Symposium agenda can be found in the Annex.

Background: Setting targets for improving local public service delivery

2. In the last decade, new approaches to regional development have emerged in many OECD countries aimed at enhancing the growth potential of specific geographical areas, focusing on the provision of local public goods. Such public goods improve the local context where people live and firms operate, increasing citizens’ well-being and spurring competitiveness by building on regions’ specific advantages. Since public budgets are limited, they must be allocated in a way to allow all territories to have a chance to compete on the basis of their potential advantages and the effectiveness of public spending should be assessed. The use of targets for decentralised public policies is a tool that contributes to this objective. This Symposium addressed the issue of setting standards for local public goods provision by looking at different countries’ experiences.

3. Public goods play a critical role in boosting the economic competitiveness of regions. Public investment often supplies the broad framework that is the pre-condition for business investment. Public goods often take two forms. The first might be called “essential public services”. These services (e.g. education, child care and elderly assistance, health, public transport, water provision, waste management, network infrastructure such as roads, ICT, etc.) are the ones public policy officials often address first. The second ones refer to a category of public investments, which are attached to a given region’s economy, specifically targeting the exploitation of local opportunities for development. Both forms are important to regional competitiveness, but the issue of equitable provision of services (standards) is particularly important to “essential public services.”

4. Local public goods are delivered in a complex multi-level, multi-sector and multi-actor governance scheme, where there may be overlapping or shared responsibilities among levels of government. This complex interaction not necessarily produces convergent results, as local authorities and

stakeholders may have different needs. (Spain) The question is how to guarantee that these differences allow building competitive regions throughout the territory. In this context, setting standards requires collaborative approaches involving the central government together with local authorities and stakeholders (firms and citizens) to invest in the appropriate public goods and to ensure that policy is accountable for delivering them effectively.

Lessons identified

5. While each presentation provided at the Symposium showcased different experiences, four common themes emerged: homogeneity vs. heterogeneity of targets; involving the different stakeholders both in setting and in delivering the agreed targets; the role of incentives in performance evaluations; and the role of capacities for setting, monitoring, and complying with performance indicators. This section explores each of these themes in more detail.

Homogeneity vs. heterogeneity

6. Targeting public services for regional competitiveness implies that diversity between regions can be not just tolerated, but also encouraged, as long as minimum standards of essential public goods are provided. Nevertheless, for some regions, the provision of minimum standards for essential public services is still a challenge. In order to ensure their provision, and to monitor the achievement of quality and efficiency goals, targets are often attached to the provision of essential public goods. For some essential public goods, nationwide standards are generally set at the central level, and in some cases dictated by legislation, such as the Constitution. Standards can be uniformly defined or might differ by region in order to take into account diverse starting conditions, resource availability or policy objectives. The context of different regions affects their performance. Different countries have addressed this issue by either moving towards setting differentiated targets (UK); by national standards, but considering context variables (Korea); by national standards, but grouping and targeting regions with comparable characteristics (less developed regions for Italy, Norway), or by identifying new mechanisms (Denmark); as will be discussed in the following examples.

7. The case of **UK** showed an evolution from top-down and homogenous standards to a more bottom-up negotiation of standards, which imply a level of heterogeneity among them. For the UK, national homogenous standards were effective initially, but they were best for services which: 1) had a simple delivery chain, with a clear effect of how the national target would cascade down to improved local service delivery; and 2) that evidence showed (and the public believed) that there should be universal provision (e.g. basic education, primary care, and social welfare). These findings, along with the incremental move towards devolution, have contributed to the move towards differentiated regional standards.

8. **Korea** sets national standards. The Evaluation Research Institute (ERI) sets indicators under the following principles, which can be abbreviated under the acronym RACE: “R” stands for research oriented; “A” stands for achievable; “C” for comparability; and “E” for environment controls, or context factors. The “environment controls” address the different regional starting points for complying with established national standards, given that Korea believes it is undesirable that prosperous and populous local governments are more favoured by the performance evaluation, and thus could undermine the acceptability of the evaluation mechanism.

9. In **Italy** the Constitution sets minimum standards for essential public services throughout the Country. For the less developed regions of the country (i.e. the Southern Regions) setting minimum standards is crucial in order to increase living standards of their population and the attractiveness of the territory for business investment. The Regional Policy Strategy addresses context factors through

interventions aimed at the accumulation of capital (tangible and intangible infrastructure) as well as through actions aimed at the good functioning of institutions in the provision of public services. The 2007-2013 Italian Regional Policy for the Southern Regions includes a performance-based scheme, which sets explicit targets on the provision and quality of essential services (education, child and elderly care, water service, waste management). The scheme aims at engaging citizens, increasing local administrations' accountability and strengthening cooperation in a multilevel governance framework.

10. In **Norway**, the information system KOSTRA is built on indicators that cover municipalities' priorities, productivity and coverage needs. The central government sets national minimum standards through laws and regulations for several devolved public services (e.g. primary health services, kindergarten, primary and secondary schooling, care of old people, etc.) It is the responsibility of the municipalities and counties to provide these services within these national standards, but adapting the provision to local and regional conditions and priorities. The minimum standards are set to guarantee a minimum equity provision and structured to make it easy for the municipality to compare itself to the average for comparable groups of municipalities, with the region, and the country as a whole. In order to enhance the relevance and value of comparisons, and to account for regional differences, municipalities are divided into sixteen different groups, depending on size of population, extent of free income or tied-up expenses.

11. **Denmark** is in the process of launching a new quality reform, which will concentrate on the outcomes of the public sector. This new system will consider past experiences in the issue of setting standards. These experiences have demonstrated that targets and standards formulated by a higher level of government may inadvertently hamper the generation of initiatives from the local level. This may be the case when local governments and stakeholders are not involved in the negotiation of targets in order to recognise the context in which these public goods operate. To address the differences that may emerge from bottom-up standard setting, it was also recognised that they will probably need to "supplement some areas with binding standards to protect minorities or citizens which would experience welfare losses from local decisions."

Participatory approaches

12. Involving sub national governments in establishing targets was considered an important element for the success, relevance and legitimacy of target systems. They also allow local communities be involved in the prioritisation of public services to build-up their comparative advantages. As the examples of Italy, Mexico and UK illustrated, participants recognised the importance of this approach.

13. **Italy's** experience showed that involving different actors in the process of selecting targets and indicators was useful to gather information on how to measure results, increase the accountability of public administration and raise consciousness among citizens and decision-makers. A particular innovation of the Italian case was the involvement of the political sector, binding them to the consecution of objectives. Since the objectives depend on many layers of government, each endowed with different responsibilities, it is required that objectives are also stated in formal agreements by the regional government and ministers.

14. The performance-based scheme of the Regional Policy Strategy for the Southern Regions of Italy contains 11 indicators of provision and quality of education, child and elderly care, water services and waste management. The indicators were selected by the Department for Development Policies of the Ministry of Economic Development, together with the regional administrations in the South. Italy considered the participation of beneficiary Regions in the process of selecting the indicators crucial for the effectiveness of the scheme. Italy recognised that the process of setting targets and selecting their corresponding indicators has been very long and complex, both because of the difficulty of finding

adequate and relevant indicators and for the involvement of many administrations at all levels of government: local, regional and central.

15. In **Mexico**, the Microrregions Strategy has tailored a monitoring system called *Banderas Blancas* (White Flags), which aim at identifying basic public services deficits for dispersed rural communities. *Banderas Blancas* are actions towards achieving basic social infrastructure, services, and community development considered essential to stimulate the microrregional development (e.g. water, sewage, electricity, roads, schools, digital service centres, clinics, production projects). The Central government establishes the list of actions (*Banderas Blancas*) to be considered, and local communities select and prioritise those that are needed through the local community assembly. The involvement of the community in setting priorities is crucial to achieve social meaning to actions, and to guarantee that the implementation of projects will increase welfare in the community. Community participation also certifies that the functioning of the projects will be accepted by the local community, and increases the probability of success of the deployment of infrastructure.

16. The **UK** has incrementally moved towards more decentralisation on the provision of public services, and also towards a more participatory and place-based approach to public service delivery. The series of measures implemented witness this continuous process of evolution. In 1998, the UK began with centrally defined targets through National Public Service Agreements (PSAs) whose aim was to set targets against outcomes. An extensive plan was set up to demonstrate how targets were going to be reached, and provided additional information about expected inputs and outputs needed to reach the established outcomes. Given that the PSAs were highly centralised, they were focused on national priorities, potentially undermining frontline motivation and leaving little room for services to respond to citizens local needs. Additionally, since targets were set by central government sectoral departments, they did not encourage joint-up approaches, which are recognised as a strategy for more efficient provision of services.

17. Two years later, in 2000, Local Public Service Agreements (LPSA) were introduced. LPSA are voluntary agreements established between the central government and local authorities in which local government agreed on 12 outcome-based stretch targets with a reward mechanism attached. Stretch targets represented performance above and beyond what would have occurred in the absence of the incentives provided. These agreements showed positive effects, in part because of the incentive mechanism, and in part because Local Authorities could participate in setting the targets. On the negative side, it implied a very costly and time-consuming negotiating process, and Local Authorities “gaming” the targets, negotiating those which were more easily achievable to increase reward payment.

18. In 2004, Local Area Agreements (LAA) were introduced, with the aim of improving outcomes, but also improving the relationship among levels of government. They are obligatory three-year agreements that set out the priorities for the specific local area. They are agreed between the Central Government and the corresponding Regional Office. Instead of setting targets for specific sectors (services), targets are set for places (as “packages” of 60-70 targets) about issues which are most important locally.

Role of incentives

19. Incentives can be implicit (e.g. reputation) or explicit (e.g. financial rewards for good performance). Setting rewards mechanisms for the achievement of targets provides incentives to local authorities to engage into the system and may promote additional efforts to improve the provision of public goods, even if the possibility of strategic behaviour that could divert expected outcomes has been underlined. In order to assign binding targets, the results should be achievable and measurable. Negotiation with regional stakeholders can contribute to identify reachable targets. However, measuring these achievements can present difficulties when they are expressed as outcomes. While some countries, such as

Italy and the UK, have implemented a reward/sanction incentive mechanism, others, such as Norway, have considered that reputation incentives and peer learning may serve the desired correcting structure.

20. In **Italy**, under the new scheme, 3 billion euros are assigned to Southern Regions if quantified targets are met in 2013. Resources not assigned in 2013 to Regions that do not achieve the targets can be assigned to other better performing Regions. The system takes into account different starting points (a share of resources is assigned in 2009 on the basis of improvements from the current situation). The adoption of such incentive mechanism can be useful to encourage local actions and it is necessary to strengthen commitment and cooperation in the context of a multi-level governance framework. Indeed, responsibilities at all levels of government are identified and transparency of the mechanism is ensured by making public indicators and rules and by informing citizens on progress (also diffused through the official website).

21. In the **UK**, Public Service Agreements performance (1998) was tied to the level of resources, but the results were affected by local contextual factors, which could imply that lagging regions could be in a disadvantage position. With Local Public Service Agreements (2000) there was a reward grant equal to 2.5% of local authority budget (1 billion UK pounds) offered as an incentive to achieve the targets. After three years, the local authority received the proportion of the fund corresponding to the proportion of the percentage of targets met. Local authorities were free to spend that money as they wished. With Local Area Agreements (2004), the incentive provided to Local Authorities to engage into this type of agreement is more flexibility with respect to the use of public money that currently arrives via many funding streams to the local level. With LAAs, local agencies can choose to pool this money and use it for different purposes. There is no specific financial reward associated with achieving LAA targets, but LPSA targets are built into the LAAs.

22. The incentives in the **Norwegian** case have more to do with reputation and peer-learning than with in-kind stimulus to good performance. In Norway the whole information system is based, among other things, on trust, clear division of labour, local self-control, transparency, and outside supervision by inhabitants and media. No reward/sanction system is used. The objectives of the information system is to first, give better information about municipal results to local governments (for improving management) and also to central government and parliament (for monitoring purposes); and second, to create a more efficient reporting system.

Role of capacities

23. Setting standards is both a problem and a tool for building capacities in sub-central governments. Building-up capacities at the sub-central level is fundamental for two reasons: 1) for assuring the legitimacy of indicators by involving local governments in their selection and measurement so that they represent local needs; and 2) assuring that sub-central governments can comply with the identified targets. Building-up capacities of sub-central governments is crucial for the acceptability of the performance measurement system.

Addressing local capacities to meet targets

24. In the case of **Italy**, setting additional measures for lagging regions can help them start off on good grounds to meet targets. The achievements of targets for the Southern Regions are conditional on an improvement of local administrative practices. The central government provides specific technical assistance in order to strengthen the level of capabilities and expertise of sub-national authorities. Additionally, the scheme considers assigning a share of the resources in the second year of implementation of the strategy (2009) on the basis of improvements from the current situation, which could be further invested to meet the targets.

25. The Microrregions Strategy in **Mexico** aims at targeting specific actions through identified needs that are considered indispensable to reduce marginalisation levels, and to create accessible opportunities for the whole Microrregion. The goal is to strengthen human capacities and developing the necessary physical capital to detonate or support the local economy.

26. The incentive mechanism in the **UK** case proved important for the initial investment for building the necessary capacity for delivering the services as part of the LPSA. To address start-up disparities for achieving targets, pump-priming grants were also offered up-front to enable the local authorities to invest in innovation for their projects.

Addressing local capacities to set targets

27. Past experiences in **Denmark** have shown that too many, and especially qualitative strategies and process indicators are difficult to handle, not just by citizens, but also by civil servants. For establishing a system with few but relevant quantitative indicators, local government will need assistance from the central government on selecting and calculating “hard” figures for measuring public goods at the municipal level.

28. In **Italy**, the process of selecting indicators and targets has been long and complex. In order to set this incentive mechanism, Italy set a participatory mechanism that involved since the beginning the central government together with regional decision-makers. The **UK** has implemented a program where central government statisticians are settled in the region to help them in the process of setting targets and indicators.

29. **Denmark, Italy, Korea, Norway and UK** accounted for the need of comprehensive information about sub-central government performance more focused on outcomes. Measuring outcomes still remains a difficult task, and often lead to complex reporting systems with many indicators. In this sense, they also recognised the need for less complex systems, with fewer priorities and indicators in order to be accessible and accountable.

Way forward

30. Measuring performance of public service delivery is a discipline in constant evolution. Countries have recognised the importance of focusing measurement on policy goals, along with inputs, processes and outputs. Nevertheless, outcomes are difficult to measure, and might result in complex and burdensome monitoring systems, as Denmark and the UK acknowledged. This has led some countries to select core indicators and to search for new technological infrastructures to systematise information for its use by different government bodies (such as Norway’s KOSTRA system), minimising double reporting efforts and its corresponding burdens upon local authorities. Focusing on outcomes has required involving more actors to represent the reality on the provision of public goods. This has implied moving in a multi-governance arena, where shared responsibilities involve a multiplicity of actors in the consecution of those outcomes. Thus, an additional challenge for the legitimacy and success of indicator systems is establishing the measures where the responsibility for the provision of public goods lays. These challenging questions will be developed in a future report which will be discussed in June 2008 by the Territorial Development Policy Committee.

Moving towards measuring what matters: measuring outcomes

31. Standards are difficult to define and measure and, once established, they may not be financially sustainable. Standards can be defined in terms of the inputs used to deliver them (e.g. number of teachers); defined in terms of outputs (e.g. number of hours taught); or defined by outcomes (e.g. level of education competencies of pupils). Among the “outcome” standards, the quality of life as perceived by local public goods users generally goes unmeasured, while it constitutes the very objective of public policies, and is the

characteristic which attracts human talent and business investment. Citizens' perceptions are affected by local context (history and level of development of a territory) and thus should also be contemplated by policies and its measures.

32. For example, measuring the progress of societies has become an outcome measure which is gaining relevance in the current international debate. In an age of increasing information flows, and where people are more and more required to engage in the decision-making process, a common and legitimate understanding of reality to feed the democratic debate is needed. In this context, building sharing information systems is not just a task for statisticians, but is a part of the modern governance and democracy. In the first **OECD** World Forum the need for developing key economic, social and environmental indicators to inform and promote evidence-based policy making was agreed. In order to support the democratic debate, it is important to encompass sub-national, national and international levels in these efforts. The OECD's ongoing project for measuring the progress of societies has 4 long-term objectives: statistical research; development of ICT tools; advocacy and institutional building; and the development of global infrastructure about progress (WikiProgress).

Establishing standards at the right level of government

33. Linking the right level of government to the responsibilities for providing the different services is crucial for implementing target systems. For example, in **Korea**, although education is an essential public service, the Evaluation Research Institute's model does not include indicators concerning education, since the local governments do not have the responsibility for its provision.

34. As the case of **Italy and the UK** exposed, the wider move towards greater devolution of responsibilities requires more emphasis on empowering citizens and communities, more choice in public services and more coherent and accountable local governments. In the UK, work is currently underway to assess which level of government is the most appropriate for delivery different types of services. A desire to move towards multi-area agreements which links together several local authorities was also expressed. The UK case commented that allowing differentiated standards could be more relevant when seeking and meeting targets for economic development, which may be more related to what was called "competitive public services".

ANNEX

TERRITORIAL DEVELOPMENT POLICY COMMITTEE (TDPC)
20-21 June 2007, Palazzo Rospigliosi, via XXIV Maggio, 43, Rome Italy

SYMPOSIUM

Co-organised by the OECD and the Department for
Development Policies of the Ministry for Economic Development (Italy)

SETTING STANDARDS FOR LOCAL PUBLIC GOODS PROVISION:
CHALLENGES FOR REGIONAL DEVELOPMENT

20 June 2007

9:00 – 13:00 *Morning Session*

9:00 – 9:30 *Welcome Coffee*

9:30-
10:00

Opening Statement:

Mr. Aart de Geus, Deputy Secretary-General of the OECD

Mr. Pier Luigi Bersani, Minister for Economic Development, Italy

10:00 -
11:15

Session I: Setting Standards for Public Goods Provision

Chair: Mrs. Odile Sallard, Director of the Public Governance and Territorial Development Directorate, OECD

Key presentations:

United Kingdom: Mr. James Blake, Deputy Director, Local Strategic Partnerships and Performance Directorate, Department for Communities and Local Government

Italy: Mrs. Monica Brezzi, Evaluation Unit of Public Investments, Ministry of Economic Development

With interventions from:

Norway: Mr. Pal Erik Holte, Deputy Director General, Ministry of Local Government and Regional Development

Mexico: Mrs. Sara Topelson, Undersecretary for Urban and Territorial Development, Ministry of Social Development

**11:15 -
12:30** ***Session II: Involving Local Stakeholders:
Collaborative Approaches to Setting Targets***

Chair: Mr. Fabrizio Barca, Director-General, Ministry of Economy and Finance (Italy)

Key presentations:

Spain: Mr. José Manuel Rodríguez, Advisor, Ministry of Public Administration

OECD: Mr. Enrico Giovannini, Chief Statistician and Director of the Statistics Directorate

With interventions from:

Korea: Mr. Tai-Yul Lee, Research Managing Director, Evaluation Research Institute

Denmark: Mr. Niels Jorgen Mau Pedersen, Head of the Division of Local Government Economics, Ministry of the Interior and Health

**12:30-
13:00** ***Conclusions:***
TDPC: Mr. Mark Drabenstott, TDPC Chair (United States)

13:00 – 15:00 Lunch