

Inter-municipal cooperation

Introduction Guide to the VNG International Approach to a successful IMC

THIS IS A VNG INTERNATIONAL PRODUCT



Ruimte voor de Waal Nijmegen
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Introduction Guide to the VNG International Approach to a Successful IMC



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Why an introduction guide to the VNG International approach in inter-municipal cooperation?

Throughout the world the process of decentralisation is proceeding. We see it in young democracies, in formerly centralised countries, in new states, even in the 'old world' countries. During the last decades the trend is to transfer tasks and responsibilities to the local tier of government. Some municipalities ask themselves if they can execute their tasks satisfactorily alone and how to deal with these new decentralized tasks? Sometimes the tasks are too much for one municipality alone, because it raises costs and risks. Municipalities ask themselves how they can execute their tasks more effectively? How to overcome municipal cross-border problems?

Municipalities see inter-municipal cooperation as an efficient and sustainable solution to improve the effectiveness, quality and completeness of their service delivery and municipal administration.

At the same time inter-municipal cooperation raises a lot of questions. How to find the right partners? What is the best juridical construction? What are the financial consequences? What are the real benefits? How do I get sufficient support for citizens?

The guidelines are an introduction to the VNG International approach to a successful inter-municipal cooperation (IMC). This document is a general description of all phases of the process and key issues to take into account in the decision-making, implementation and evaluation. Following the VNG International approach is more successful when colored with real practice examples of colleague municipalities which illustrate these key issues with their experiences. The use of this approach is also more successful when adjusted and tailored to your local situation. Besides the guidelines, VNG International therefore offers herself as a specialist colleague advisor to accompany you and your inter-municipal cooperation. VNG International founded herself within the Association of Netherlands Municipalities and has gained insight in inter-municipal cooperation following the decades of discussion and practices of the over 400 municipalities in the Netherlands. Furthermore, VNG International came across inter-municipal cooperation key issues and dilemmas in almost all her international programs and projects supporting the strengthening of local democratic governments and their local government associations in Europe, Asia, Africa and Latin-America.

VNG International gained knowledge, experiences and expertise out of so many real municipal practices. VNG International has expanded her network with municipal peers from all over the world in inter-municipal cooperation. VNG International has

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collected lots of example working documents, strategies, plans, financial-, juridical and organizational models in a municipal practices database. All this now have been given some structure and introduction.

Use therefore this guide to your benefit and participate in VNG International's network sharing your experiences and requesting further support. Tailor-made and independent advisory services are offered by VNG International to accompany you and your inter-municipal cooperation.

VNG International inter-municipal cooperation advisory service solutions

Municipal Task Problem	Solution alternatives (chapter 1)	Design & Decision-making (chapter 2)	Organisation (chapter 3)	Evaluation (chapter 4)
<ul style="list-style-type: none"> Can the municipality execute the task satisfactory alone? Dealing with a new decentralised task? Is the task too much for municipality (high costs / risks)? Can (marketing) effectiveness be improved? Is the task a cross border problem? Can the solution be more sustainable? Can the solution be more complete? Can quality be improved? IMC 	<p>IMC</p> <p>Outsourcing</p> <p>Other</p> <ul style="list-style-type: none"> VNG municipal self-assessment tool for willingness and need of IMC 	<ul style="list-style-type: none"> VNG Colleague-to-colleague experiences Strategic Planning Support Feasibility study Legal framework analysis Support to the establishment procedure & agreement 	<ul style="list-style-type: none"> VNG Colleague-to-colleague experiences Organisational advise: <ul style="list-style-type: none"> > financial, > legal, > HRM, > communication, > project management 	<ul style="list-style-type: none"> VNG inter-municipal cooperation evaluation tool
	<p>IMC laws, municipal development plans</p>	<p>IMC establishment laws, IMC agreement, IMC strategic plan, IMC annual plan</p>	<p>IMC internal procedure handbooks and agreements</p>	<p>IMC annual report</p>

1 First Steps: assessing the need and benefits

1 What? Why? How?

More and more municipalities around the world are cooperating with each other nowadays. But such partnerships must be carefully designed and planned to make them successful. In order to comprehend how inter-municipal cooperation can be organised in the most efficient manner, it is necessary that it is understood why municipalities should cooperate in the first place.

A trend of decentralisation within governments is observed throughout the world. Municipal government becomes a more powerful tier of the entire government and supplies the community with a large part of its total expenditures. While this is likely to be the most efficient way to organise the government for some of the tasks that are faced, there are several situations in which a municipality can be too small to supply certain goods or services, or can be a lot more efficient when it was serving a bigger part of the country. Apparently, gains can be made by cooperating with other municipalities in such cases. This paragraph will examine these aspects that can be positively influenced by inter-municipal cooperation.

It is also possible that projects simply are too big to handle for just one municipality due to the high costs, high risks or geographical structure that the project involves. In this case the question is not whether gains are to be made by cooperation, but whether a cooperative venture can create a project that was otherwise impossible.



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IMC assessment tool

2 Size Matters

One of the most common arguments for cooperation is based on the idea that gains can be obtained by producing on a larger scale. Two or more municipalities serve a larger part of the population than just one municipality, no matter how big or small they are. This means that they have a larger demand for their products and services if they join their forces into a cooperative venture. But why does the size of local government influences the efficiency?

The reason for this is characterised by the idea of economies of scale. For some products or services it can be more efficient to produce on a larger scale, because it is cheaper to buy larger amounts of input for the production process. Capital costs can become lower, because it is possible to create more products without buying extra machines. Labour costs can decrease, because no extra staff is needed for the

extra output. But also, quality and effectiveness can increase when the scale of the production becomes larger. The level of quality can be higher, due to the combined knowledge of the extra people that join together in the cooperation. Marketing is likely to be more effective if organised on a larger scale.

How does this apply to local government around the world? Easy, in the end, local government needs to satisfy its customers with the highest quality products as well as services for the minimum amount of taxes, and every one of these different aspects of the economies of scale theory can apply to local government. Basically, if two municipalities want to offer the same product or service and they need to invest in something that they will not optimally make use of, they can share their investments.

EXAMPLE (ECONOMIES OF SCALE): if a local government wants to build a tarmac road it needs to invest in a lot of machinery. However, for just this road, the machinery will not fully be used. If a second government also needs to build a road, they can share the costs of such machinery in order to reduce the costs of the two roads.

If there are two governments providing the same service it is possible that the costs of labour can be decreased when they start to provide the service in a cooperative agreement. This can be caused by the fact that there are less people needed to lead the department. Two departments need two managers, one department needs only one manager.

3 Keeping up the quality (effectiveness)

The effectiveness and quality of a project can also increase if you organize it on a larger scale. In contrast to the previous paragraph this reflects to the final goal that needs to be reached when the local government runs a project. The idea is that the projects become more effective if more people are involved with the project. This means that participating in the project has a positive effect on the other participants in a project. This is somewhat different than the previously discussed economies of scale, because the size does not influence the costs per se, but it does influence the effectiveness of a project. Here follow a few examples to illustrate this effect:

EXAMPLE (EFFECTIVENESS): A program that tries to reintegrate unemployed people in the labour market does so by finding the right people for the right jobs. A larger database of job vacancies and unemployed people makes it easier to reintegrate people.

Marketing effectiveness is almost always increased when forces are joined. The reason for this that it is caused by the fact that marketing becomes more efficient if done on a larger scale.

EXAMPLE: (MARKETING EFFECTIVENESS): Think of an area with municipalities that want to promote themselves as a touristic destination. One municipality alone would most likely not be as effective as the bunch promoting the area together. They would have more money available to promote on a larger scale, which is going to attract more people than each municipality promoting itself.

4 Crossing (municipal) borders

The last example illustrates that the geographical characteristics of municipalities can be an important factor to start cooperating. However, the geographical connections can also be of sheer necessity in order to achieve certain goals. Certain goals can only be reached if they are pursued in different municipalities, because the problem crosses municipal borders. If a municipality wants to start an environmental preservation project, it is mostly necessary to cooperate with others.

EXAMPLE: (CROSSING BORDERS): Imagine a group of municipalities is situated around a lake of which the biodiversity is endangered due to intense fishing. A single municipality is not powerful enough to tackle this problem on its own, because the different parts of the lake are connected. Forbidding fishing in the one part of the lake is not effective because fish tend to swim around and are not bound to municipal borders.

It is therefore necessary that the different local governments join forces in a preservation project to be effective.

5 Risk management

A final important reason for municipalities to cooperate is risk management. Risk management is a policy that tries to minimize, monitor, and control the probability and/or impact of unfortunate events. Every project that is started contains a certain chance that it will succeed and, on the other hand, a chance of failure. If the chance of a loss when the project fails is large relative to the budget that a municipality

has, it can be reasonable to share the risks of such a project with somebody else. More municipalities joining together have a larger budget. A larger budget means that the relative risk of a project becomes smaller. This is caused by the fact that the potential losses (and gains) become smaller relative to the total budget. If municipalities were to share all their chances of off losses and gains, their outcome would be a lot more certain.

The larger the amount of projects and uncertainties that are combined, the more certain you can be about the final outcome. This is based on simple probability calculations. If one coin is flipped, the chance is fifty percent that it shows 'heads.' If ten coins are flipped, it is most likely that it reveals a mixture of 'heads' and 'tails.' In other words: The chance that the expected value of an uncertainty is (nearly) reached, increases with the amount of times it is done. Projects for governments work the same way. The more risks of projects are shared, the more reliable becomes the outcome of the combined projects.

6 Pitfalls & checklist

No matter how clear the advantages of cooperation might seem, creating a cooperative venture does never seem to be easy. On their way towards cooperation municipalities can encounter all sorts of hazards that may become so important and unexpected that they become insurmountable. Many initiatives are therefore malfunctioning or even given up. It is therefore inevitable that municipalities create a sound base for cooperation in an early stage. In order to do so, it is necessary to obtain a perspective on the potential pitfalls. If they are identified in time, they can be solved or avoided. If this does not happen, they can become pitfalls that can finally harm the cooperation.

On the other hand there are certain factors that can stimulate the cooperative intentions. If these factors are encountered and acted upon, they can help to let the cooperation be as successful as possible.

Pitfalls

- *Cooperation as solution for immediate problems:*
It happens quite often that the initiative for cooperation comes from a municipality with immediate problems in that specific area. There are two main reasons for the fact that such initiatives are devoted to fail eventually. Cooperation does, first of all, not provide a solution for these short term necessities. Creating a solid cooperative relation costs time, while municipalities that find themselves in immediate problems do not have the luxury to invest this time. Also, a malfunctioning municipal department is not an attractive partner to departments of other municipalities.

- *Differences in policy content:*
While there might be differences between municipalities with respect to the content of their policies, they do not seem to be a large threat to the cooperation. The differences are often not a result of different perspectives and principles, but much more of coincidences and practicalities. If the differences are observed and considered, they normally do not form any problems in the cooperation process.
- *Behavior of a large municipality:*
The behavior of the largest municipality in the formation process of the cooperative agreement is usually crucial. It is also a difficult role to play. The largest municipality is the initiator of the cooperation in most of the cases. This central municipality (not necessarily in the physical sense) supplies, due to its size, most of the expertise and provides the largest financial support. This means that only when the central municipality joins the cooperation, it also becomes interesting to the remainder of the municipalities.

In contrast to this, it could be stated that the others have the habit to watch the largest of the potential partners with great suspicion. The largest local government, its directors and its public servants are almost per definition suspected of the intention to increase their power and influence. This means that the largest local government has to play her role of initiator with great discretion and simultaneously protect the egos of the smaller municipalities. It has to take the initiatives, but must not be a dominant partner. Equality is, therefore, a key principle.

- *(Non) Core activity:*
A core activity is an activity which the municipality regards as important. Core activities are usually extensively checked by the counsels in order to secure their wellbeing. A municipality can, for example, have more interest in the reintegration of unemployed people than the exact logistical process of garbage collection. It is therefore not very surprising that a local government might be reluctant to start a cooperative agreement on a core activity. Cooperation usually means that a municipality has to give up a certain amount of power on the decision making of that particular activity. A decrease in control over such activities can be a pitfall to good cooperation.

Checklist:

In the previous paragraph we have seen a few pitfalls that might form a problem in the cooperative process. On the other hand, there are a few factors that can indicate that there is a solid base for any form of cooperation. If these conditions are satisfied, the chance that cooperation will achieve the goals of all the parties involved, will be much higher than if this were not the case. In this paragraph a checklist of these factors is formulated and explained to create a solid base for inter municipal cooperation.

- *Sense of Urgency:*

A common mistake about cooperation is: If there is a 'will' to cooperate, there will be cooperation. However, only a will, is often not sufficient. All the municipalities that are involved, need to have the awareness of a certain necessity of the cooperation in order to achieve the goals identified and to solve the problems that they are confronted with. The will to cooperate must be supported by a mutual sense of substantive considerations. Only when such a sense of urgency is present, the will to cooperate will have a solid base to solve the problems that will appear on the road towards cooperation. On the other hand, if this sense is absent, every point of disagreement could mean the end of the cooperative agreement.

The sense of urgency and the willingness to cooperate are not of a static nature. The point of view of municipalities and its individual governors can change during the process in which the cooperative agreement is designed and developed. A negative attitude towards cooperation can change into a positive one and vice versa. This means that the support for cooperation must be carefully maintained and intensified (where necessary) during the process.

- *Common vision:*

Motivations of financial and organisational origin are often (as we have previously seen) the most important ones to start cooperating. Economies of scale can be achieved, which implies lower costs, higher quality and lesser vulnerability.

Such financial and operational deliberations should only play a role in the process if the goals that are desired to be reached and the desired level of quality are already determined by all the involved parties. Only then could be decided whether cooperation with one or more municipalities could lead to the realisation of these goals. When a common vision on the goal and quality levels of the task performance are missing, it will be impossible to correctly identify the exact benefits of the cooperation.

If municipalities do find a cooperative agreement desirable in the just described cases, they will primarily focus on the financial consequences instead of the (targeted) quality and continuity improvements.

- *Giving and taking:*

In order to achieve good cooperation, municipalities should be prepared to give as well as to take. Although a municipality might want to cooperate, it can still be hard to hand in some power or to provide its buildings in order to house the project. On the other hand it is easier to accept this from other municipalities that join the cooperative agreement. However, in a cooperative relation it is absolutely necessary to be willing to give and to take in order to achieve the goals, if this willingness is imbalanced between the co-operators or not even there, it can be difficult to maintain such a relationship.



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tool for common vision development

7 Outsourcing to the Private Sector as an Alternative to Inter-Municipal Cooperation?

Cooperating is sometimes not the only option to produce or provide goods and services more efficiently. Municipalities can also decide to outsource these activities to the private sector. This can be more efficient if the costs of buying such activities from private enterprises are lower than the costs of performing them with the own ability. But also the quality produced by private enterprises can be higher than the quality a municipality can provide.

The factors that are considered earlier in this chapter are often also applicable to the case where there are specialized private companies. Considering such alternatives must therefore always take place.

Imagine the situation in which a municipality wants to build a road. But the investments to buy the building machinery are too high for just the one municipality. It can choose out of two main solutions. The first solution is to cooperate with one or more other municipalities to buy the machinery and build roads in all the different areas. The second solution is to outsource the activity to build a road to a private building company, which has access to such machinery, and basically buy a build road.

Annex: list of possible fields of cooperation

List of possible fields of cooperation

Council and Policy Making Operations

- > Legislative review
- > Common by-laws, policies and job descriptions
- > Governance structures
- > Training and professional development initiatives
- > Information technology - research, systems development, etc.
- > Lobbying and advocacy

Public Works, Transportation and Environment

- > Water testing facilities
- > Water utilities and water supply
- > Equipment
- > Technical expertise
- > Sewer collection and treatment
- > Street paving
- > Crosswalk painting
- > Snow clearing
- > Solid waste management
- > Electric utilities
- > Public transit
- > Watershed protection plans

Training and Professional Development

- > Needs identification and delivery
- > Open enrolment training
- > Program and research development Fund

Overall Management

- > Management functions - i.e.
- > CAO or joint directors
- > Financial systems
- > Procurement practices and policies
- > Purchase and or sale of services
- > Use of assets
- > Human resource management and benefit packages

Economic Development and Planning

- > RDA's/chambers of commerce/boards of trade
- > Industrial parks
- > Planning and economic development
- > staff
- > Marketing/promotion/sales/ and revenue sharing
- > Development and/or sharing of infrastructure

Protection and Enforcement

- > Inspection services
- > By-law enforcement
- > Policing
- > Fire protection
- > Emergency services
- > Dispatch services
- > Civic addressing
- > Detention facilities
- > Equipment sharing
- > Training

Recreation, Culture and Tourism

- > Staff training initiatives
- > Equipment purchase and sharing
- > Municipal recreation facilities
- > School board facilities for municipal recreation purposes
- > Tourism associations
- > Recreation programming
- > Trails development
- > Community events and festivals
- > Marketing/promotion and revenue generation
- > On-line scheduling of courses, registration and revenue collection
- > Information sharing and links to web Sites

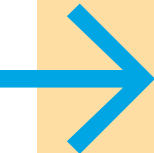
Information Technology and E-Commerce

- > Web site development and maintenance
- > Systems and software review, development and maintenance
- > Records management
- > Technical expertise
- > Alternate service delivery – private Sector
- > Training and Professional Development
- > Needs identification and delivery
- > Open enrolment training
- > Program and research development Fund

2 Primary activities: design and decision-making

1 What? Why? How?

The second chapter will be concerned with the preparation of the cooperation. This is still a very political stage that will be mainly concerned with planning and municipal decision making. The activities are characterized by designing the actual form of cooperation and planning the rest of the process. The factors that determine the optimal forms and the possible structures are discussed as well.



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support in strategic planning, feasibility studies, legal framework analysis, establishment

2 Task identification

The checklist at the end of the first chapter explained the importance of a common vision and a sense of urgency. The very first step to take in a process towards cooperation is, therefore, to identify the tasks of the project. If the different municipalities have very different visions on the tasks that should be carried out, it could be that the sense of urgency or the common vision is not of a mutual importance. To find out where the differences in opinion originate from or to discover possible points of disagreement, it is necessary to identify the different possible tasks that a cooperative project can have.

There are different types of goals that can be distinguished, which can be categorized in three different levels:

- *Operational improvement* entails the goals that have the intention to improve the daily operations.

EXAMPLE (OPERATIONAL IMPROVEMENT): Think about an improvement of the daily logistics after two municipal fire brigades work together, or the increased experience of human resources that work together after a merger of offices.

- *Tactical improvements* are improvements in the field of policy of the municipality.

EXAMPLE (TACTICAL IMPROVEMENT): Think about the possibility to conduct researches to improve a service towards the citizens, the costs for such research programs can now be covered by multiple governments.

- *Strategic cooperation* aims at long term advantages with respect to competition and reputation.

EXAMPLE (STRATEGIC COOPERATION): Think about the example of multiple local governments trying to promote themselves as a touristic destination. Cooperation gives them a strategic advantage to a solitary project.

The tasks that are desired to achieve need to be consistent with the level of ambition of the partners involved and the chosen form of cooperation. When the goals and tasks are simple, cooperation should be also. For a coordinated policy against sports hooligans, municipalities might only need some counsel, while the development of a multi-municipal nature reserve might need a special office to organize it. Normally, it is advised that ambitious tasks need to be approached carefully. Partners that want to integrate their activities on the long term can start with some simple forms of cooperation to get to know each other. When such cooperation works out positively, they can start a higher level of cooperation.

It is important to keep in mind that there can be differences between the municipalities when the tasks are identified. One municipality can have different reasons to cooperate than the other. These different intentions do not necessarily make the cooperation impossible, but a different level of cooperation can lead to deception with the more motivated partners.

It is, for example, very well possible that a large and powerful municipality the cooperative agreement desires for operational improvements, like economies of scale. For the smaller, dependent local governments, on the other hand, the cooperation has to satisfy goals of a more strategic or tactical nature. The larger municipality can provide them for with more political influence within the country, or the reputation of the smaller can increase due to the good reputation of the larger municipality. The tactical intention to spread risk is also much more important for municipalities with a relatively small budget. This makes the planning of small local governments financially more stable and increases the continuity and the ability to plan ahead.

In order to develop a solid base for cooperation it is necessary to gain insights in these differences. The expectation of the tasks can then be optimally adjusted according to the individual goals. The input of effort of the party with the highest expectations shall often be the highest. A lack of effort from other municipalities can be in such cases problematic. Therefore it is necessary that such differences are discussed openly and the cooperative agreement should be designed in a way that covers the potential problems of unbalanced expectations.

3 Setting objectives and targets

The one and only main device when designing an inter-municipal cooperative agreement, is to formulate the objectives and targets as clear as possible. This paragraph will explain some guidelines to set these objectives as such. As we have seen before it is not very unlikely that the goals that the different (potential) have can differ somewhat. When setting objectives and targets, however, such large differences should be avoided. But even when there are individual differences in goals and targets between municipalities, it is necessary that they are formulated clearly as well. In that case, partners have a better idea of the others expectations, are not as easily disappointed and can form their own expectations more efficient with respect to their own goals.

Different expectations are not the only reason to formulate the objectives accurate with respect to the goals that have to be obtained. Clear targets enable the different parties to evaluate the projects and compare them to situations where the problems were to be solved individually. Also, it becomes much easier to organize the agreement in such a way, that the goals are going to be achieved. If an inter-municipal department has quantified targets with time constraints it can plan its activities so, that they will be the objectives will be accomplished. Vague directions in which a certain policy must evolve are, on the other hand, interpretable in various ways.

It is therefore necessary, that all targets and objectives are formulated according to the 'SMART' principle. It says that objectives should be **S**pecific, **M**easurable, **A**ceptable, **R**ealistic and **T**ime constrained. Instead of 'we aim at maximal labour participation,' a SMART formulated target would be: 'We aim to provide every unemployed person with a personal advice on their reintegration in the labor market within two weeks.' A target or objective is something different from the final goal that has to be achieved. It should just be a point that indicates that the activities lead to the solution for the problem. This principle is not specific for inter municipal cooperation, but should be used whenever governments formulate their targets. However, SMART helps to cope with the difficulties of cooperation.

- *Specific*: targets should not be interpretable in other ways, but must have one clear goal. This guideline basically speaks for itself. If targets are interpreted differently, the principal has a different idea about the achievement then the executor.

- *Measurability* enables different parties to make clear agreements about the cooperation. If the activities that have to be performed are not measurable, it is not possible to evaluate the rate of success that the inter-municipal cooperation has achieved. This can lead to different opinions about the value of the cooperation, while measurable targets enable municipalities to determine the importance in advance. Valuation in advance prevents agreements that are not of particular interest to one of the parties.
- *Targets* should be acceptable. If targets are not accepted by the majority of the population, they are against the democratic nature of the government. Therefore, the targets must not be too mild or too harsh (dependent on the nature of the problem) for the taste of the public.
- *Realistic*: If the targets are known to be unachievable in advance, they should not be formulated in the first place. Such a lack of realism not only discourages performers, but also decreases the amount of confidence that people have in the policy makers.
- *Time constraint* is, together with the measurability one of the most important guidelines of the SMART principle. It also helps to formulate clear agreements between the cooperating partners and partly determines the realistic and acceptable nature of an objective. Determining a time constraint also helps to plan the activities of the cooperative agreement.

4 Structural design

Determinant factors

When the partners have formulated their tasks and objectives, it is time to look for the right structural design of the future cooperative organization. The goals are the starting point to evaluate the best alternative. The nature of the goals will mainly determine the degree of cooperation that the organization will represent. Some goals might be achieved by some simple agreements that have to be made only once between municipalities, while other goals require a completely autonomous organization to which all municipalities have trusted their responsibilities and right to dictate. Especially the amount of power that municipalities have to influence the direction of the cooperation measures the intensity. In the lightest versions, the individual municipalities can exactly tell what they want and how they want it. If it happens differently, the cooperation is finished. The intense forms of cooperation are characterized by the fact that municipalities trust the organization that executes the achievement of the goals with most of their power and loosen their grip on the organization. When the problems that are to be solved are among the core activities of a municipality, this can be a hard decision to make.

The inter-municipal arrangement derives such abilities from the decisions of the cooperating municipalities. Before the start of the cooperation the cooperators decide to which extent they transfer their powers towards the common organization. The more of these powers are transferred, the more intense the cooperation is.

The intensity of the cooperation can be seen as a scale in which we start from completely separated non-cooperating municipalities, until very close forms of cooperation. Integrated departments are the most intense form of cooperation, since a step further would mean a merger between municipalities. The usual factors that determine whether a cooperative agreement is of a high or a low intensity usually depend on some specific factors that are characterized by the goals that the municipalities try to achieve. The following factors have a large influence on the intensity:

- *Duration:* The duration of a cooperative agreement determines part of the impact of the decisions that are being made by the politicians. The same agreements can have much more influence on the society than a temporary one. Long term cooperation is therefore of a higher intensity and should be constructed in a more stable way. There has to be much more discussion and meeting if a longer lasting relationship, which has an intensifying effect as well. Short term projects only require only a one time commitment both the local governments, while a longer project requires the commitment of many government generations (depending on the level of democracy).
- *Complexity of the goals:* The complexity of the goals influences the intensity in a positive way as well. The more complex goals become, the more intense the cooperation has to be. Simple goals usually require simple agreements, while complex goals that need to be reached need also more specific agreements and more expert knowledge and sovereignty of the executors. But it probably also requires a lot more discussion to reach mutual agreements on how to formulate the goals (SMART) and how to reach them.
- *The ability to plan activities ahead,* on the other hand, decreases the need of such sovereignty of the people that do the actual job. If all the activities are agreed beforehand the only thing the executors have to do is follow the paved road. However, such planning requires more work before the project starts and the question is whether this is desirable. When cooperation goes rather difficult this might be a good idea to start the project by planning activities ahead. On the other hand it makes the project less dynamic and the planning becomes much more laborious.
- *The ability to contract the agreements that are made in advance* also decreases the amount of conferences that have to take place in order to lead the project in a good direction. If it is difficult to contract

municipalities tend to follow the activities very closely to be able to intervene when the other parties do not follow the agreements. It is easier to just contract everyone's tasks in advance and let everybody do his part. If this is not possible it is necessary to cooperate at a higher intensity.

- *The uncertainty about the course of the project* is naturally a very important determinant for the intensity of the cooperation. When the activities have a relatively large risk of failure it might be hard for municipalities to loosen their grip on the project and they can be much more reluctant to hand over their power. Uncertainty also requires a more dynamic organization that has the ability to react instantly to the unforeseen events. This means that both the municipalities must be much more committed than in a very certain situation.
- *The amount of mutual trust* that is needed to give the organization the necessary stable and dynamic character to reach the formulated goals. Mostly cooperative agreements with a high intensity can be identified as projects with a high trust requirement.

Structural forms

The above mentioned factors stress that most of the intensive forms of cooperation are not very easy to achieve. They ask much of the directors of the other municipalities. As well constructing formal agreements, as well as handling informal aspects like trust play an important role to succeed the cooperation. Choosing the right structure of the cooperation must be related to these factors. Here will follow some exemplary forms of cooperation (from light to intense) to give an idea about the possible structure designs municipalities:

- One of the municipalities outsources the performing part of the policy towards the other municipality. Own policy remains possible although a large difference in policy is not very practical in this perspective. Both municipalities remain legally responsible.
- The situation in which multiple municipalities outsource a particular activity to a third party. In such a case the municipalities have to plan the activities ahead and order the third party to execute them. Think of the case where several municipalities want to build a road. It is very likely that the cooperators ask the large available building companies for a tender and let the companies build the road. This is a lot easier than buying the right machinery, hiring the right workers and coordinate the whole project.
- Working on a project basis is characterized by the idea that one or more municipalities that cooperate provide the necessary capital goods and personnel. However the detachment that has to perform, the activities

have no accountability to the outside world. The only ones they are supposed to account to are the superiors within the cooperating municipalities. The project can never be legally responsible for its actions, but the municipalities are. The detachment has no ability to design its own policy. This is done by the municipalities.

- There is a central municipality that performs the activities under a mandate but and the project is performed under the central municipalities legal responsibility. The central municipality provides the personnel and loses the powers for as much as is mutually agreed.
- The common arrangement has its own identity. It is legally responsible for its own actions and has its own assets and personnel. The cooperating municipalities lost their own power to design the policies of the common organization (for as much as delegated beforehand). This means that the common organization becomes a separate establishment that can make its own policy and decisions. The only thing municipalities can decide, are the purpose and the goals of the organization.
- The ultimate form of cooperation is the situation in which municipalities merge their existing departments.

Deciding which sort of cooperative structure is desired must be done by weighing the necessities of cooperating more intensively and the benefits that are won by the increase of intensity. When cooperating more intensively has marginal benefits do not exceed the costs and difficulties of establishing a more intense relationship, there can be decided that it is simply not worth it to cooperate on a higher level. Keep in mind, though, that not all the benefits are always clear cut in advance!

Some key issues that must be considered when designing IMC

- The areas in which IMC can be performed. For example, the law may say that certain legal forms must incorporate, as a minimum, certain competences (urban planning and economic development, for instance), or that the transfer of certain municipal functions to IMC is prohibited.
- The procedure for deciding which municipalities and/or institutions should be consulted before establishing IMC; rules on the preparation of a feasibility study etc.
- The procedure for the formal creation of an IMC (unanimity of the concerned municipalities, possibility of referendum, etc.).
- The mandatory provisions of an IMC agreement or contract.
- The nature of the legal body and its general regime (e.g. administrative centre, decision making rules etc.).
- The organs of the IMC entity and the general rules for its operation.
- The accounting rules, the rules on budget expenditures and revenue generation (including debt decisions, property and liabilities etc.).
- The status of the employees of the IMC administrative entity.
- The rules for control (legality of acts, finances) by state authorities (Court of Auditors, periodical reports to municipal councils, citizens' rights to information, etc.).

5 Approach, Action plan, milestones etc.

Now we defined how we should define our goals and what the different structures are to reach that goals, it is time to point our attention to the process that leads towards the cooperation in action. It is possible to define four important phases in the process:

Phase 1, the orientation phase:

This phase is primarily concerned with orienting whether there are common interests and whether these common interests are better solved if there is a cooperative agreement or if they are maybe better served when everybody works individually. All the municipalities must decide individually whether the cooperation is desired. Usually the involved officials balance the benefits and the costs and the municipal council decides whether cooperation is wanted. The checklist that has to be covered in the orientation phase is:

- The goals that municipalities want to achieve through cooperation.
- The mutual expectations that the cooperators have of the other cooperators must be combinable in a stable cooperative agreement.
- The conditions to the cooperation that are important to the different parties must be clear to everybody.
- The scope and the size of the research precedent to the cooperation, in which it is important to clarify: What sort of cooperative structures will be evaluated and which terrains the possible cooperation may cover.
- To provide the necessary measures (financial and personnel) to do the research.
- The planning of phase 2 and when the research must be finished.
- All parties must approve the order to start a research on the potential cooperation.

Phase 2, the preparation phase:

If the municipal council reached a conclusion the research is continued in a more concrete and practical way. This phase has a very political nature. The policy makers have to, as representatives of the own municipality, reach agreements in which they satisfy their own needs with the right form of cooperation. In the process they have to always take the meaning of the own council into account. It is necessary that the representatives reach an agreement that has enough support from the councils and therefore will be approved by all parties. Cooperation is a human job, which means that the personal relations between the people of the different municipalities are an important factor of success to the cooperation. Dependent on the personal relations it is necessary that there is a lot of attention to the process part. There is invested in human relations and respect and trust must be present. It is very important that the municipalities grow towards each other in this phase. An external project manager can have serious advantages in this case, since he is not likely to have a hidden agenda. He is regarded to have a more objective view and

can function as a so called peace-maker. Critical is that the decision at the end of the phase to start the cooperation or not, depending on the research. A checklist for this phase:

- It is necessary to identify the assumptions, the vision and the objectives for the cooperation.
- The juridical structure must be designed, in which it is specifically stated what the transfer of power and the commitment of the council is.
- The policy of the participating municipalities must be compared and the policy of the cooperation formulated. It is necessary to define the working field.
- A management code is formulated in which the ordination and construction principles, the competencies, the management style and the communicational structure are clarified.
- Financials are estimated:
 - > Conceptual budget
 - > Comparison of the costs of the activities between the different partners
 - > The investment costs that are needed before the implementation phase are taken care of.
 - > Costs that are incurred by quitting the former activities. (Social payments to fired personnel, costs of empty office buildings, etc.)
 - > The cost sharing ratio: who pays which part of the costs?
 - > A estimation of costs for multiple years
 - > A tax construction
- The legal position of the personnel must be formulated

Phase 3, the implementation phase:

The political matters should be handled the previous two phases. The third phase is mostly of an organizational matter. It is now time to focus on the actual starting of the cooperational activities. However the main road is paved in the direction of the goals, there are many practical details that are not treated of and must be handled with the right care. Especially the following points are to be considered:

- Communication
- Financial aspects
- Physical aspects, like housing
- IT
- Legal aspects: Local by-laws and the interpretation of laws can differ.
- Personnel and staffing
- Organisational models

Due to the importance of this phase and the relevance of these points they are more extensively discussed in chapter 3 of the Guidelines.

Phase 4, after-care and maintenance:

The specialists that were involved with the designing and the implementing of the organization hand over the powers to the actual staff. Loose ends are taken care off and the new staff is helped to start the business. It is also necessary to evaluate the process in order to inform the councils of the municipalities. The partnership is to be judged on its success related to the objectives that were formulated in the orientation and preparation phases. If necessary (most of the times it is) there must be a plan to handle the points of improvement. Also this phase is treated in a specific chapter.

Note: After the end of each phase it must be judged whether the desired results are achieved. If they are not entirely finished they have to be integrated in the next phase. Also must be assessed whether the phase is finished in a qualitatively satisfying manner.

6 Planning and control (self reflection)

In order to reach the highest possible quality level it is necessary that the organization is capable of evaluating and improving its own working methods throughout the process. If this is done constantly there is less need of the critiques of the superiors at the municipalities. If this is done on every level of the organization, life becomes easier for all the involved parties of the cooperation. A good schematic approach to this idea of self reflection is the circle of quality, developed by the hand of William Edward Deming. In the Deming Cycle there are four activities defined which together protect the quality of the process.

- *Plan*: Evaluate the current activities and develop a plan to improve the activities. Formulate objectives that serve the necessary improvements
- *Do*: Execute the planned improvements in a controlled environment.
- *Check*: Measure the results of the improvements, compare them to the initial situation and judge them with respect to the aimed goals.
- *Act*: Implement the changes according to the obtained results at 'check.'

It is necessary that these activities are constantly being performed by everyone in the process. As long as this is the case, it is not important whether this happens implicitly or explicitly. However, if managers have the idea that somebody is not correctly evaluating its activities, it might be a good idea to encourage him/her to explicitly follow the Deming Cycle.



*Figure 2.1: The Deming cycle.
The process starts with plan and continues infinitely (or until the working process ends).*

3 Operational issues

1 Organizational models

One of the main issues when operating a cooperative agreement is given by the question how to exactly organize the agreement. Depending on the required intensity of the cooperation the organization has to be organized in a particular model. We will distinguish five different forms. We start with the organization of not intense cooperation and will finish with the more intense forms.

- *Cooperation by appointment:* This form can be used if there is no necessity of cooperation at the performing level of the municipal activities. The cooperation only requires some guidelines in policy that have to be followed by the cooperators.

EXAMPLE: Imagine a lake that is situated between the borders of multiple municipalities. The municipalities want to control the amount of fish in order to maintain the resources for fisherman in the long run. An appointment that formulates the allowed quantity to be fished in each municipality can be enough in that case to cooperate successfully.

- *Civil servants acting on behalf of the municipalities:* There exceeds the previous model with the need of performing the appointments. Both municipalities have the obligation to perform the appointments that are made.

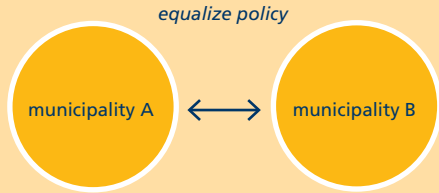
EXAMPLE: If the previous fishing appointment is unsuccessful because the fishermen do not follow the newly designed laws, than there is necessity of civil servants to control the fishing quota by force.

- *Coordination with executive powers:* The cooperation has to be controlled in a more dynamic way to make sure that the made appointments are successfully performed. In this case it might be possible to appoint some executive powers (managers). The cooperation now gets the form of a project in which the civil servants of both municipalities are controlled by a common executive force.

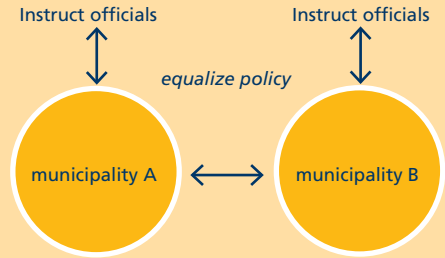
EXAMPLE: The poachers that continue to fish excessively and are now fishing in both municipalities to avoid being tracked by the individual police forces. A solution is to track them with a selection of policemen from both municipalities that have as their primary objective to catch these specific fishermen.

- *Independent organization with mandated executive powers:* It can become necessary to create an independent organization to which the municipalities have specifically transferred some (or all) of their executive powers. Such an independent organization can be useful for, for example, longer during cooperation in which it is more efficient if the formulation of the activities is done only once.
- *Independent regional organization with mandated executive and policy making powers:* If it is necessary to supply the previous organization with policy making powers, this is what you get.

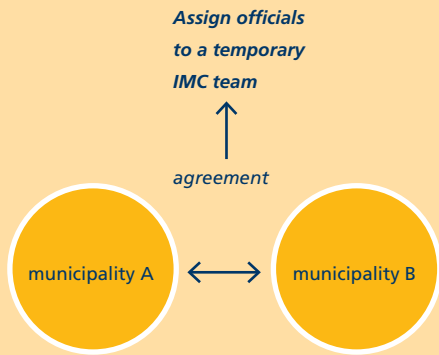
EXAMPLE: This can be if our fishing agreement is very dynamic and requires a continuous research and adapting of the fishing laws. In this case the municipalities can give the organization the objective to maintain the fishing resources and transfer the powers of designing the specific necessary policy and execute it.



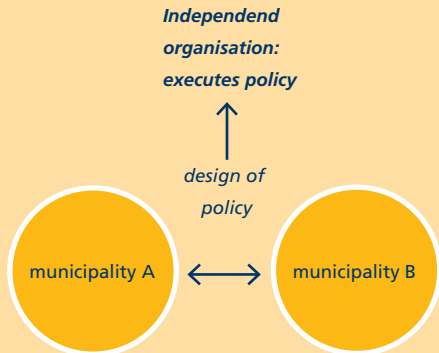
Cooperation by agreement (1)



Civil servants acting on behalf of the municipalities (2)



Coordination with executive powers. Both municipalities assign government officials to a team and instruct them according to the agreement. (3)



(Independent organisation with executive powers (4)



Independent organisation with executive and policy making powers (5)

2 Finance

Finance and IMC



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financial advise and IMC budget models

The financial aspects of inter-municipal cooperation are crucial. Budget concerns are often a good reason to start IMC, so budget savings are often a precondition for cooperation. In order to get control over budget saving it is necessary to know which parts of the budget lines subject to cost reductions. Once the budget of the newly to establish IMC is estimated it is important to determine the key to distribute the costs among the participating municipalities.

The budgeting of IMC is often a problem in the process of establishing a cooperation. If the costing does not take place in a transparent and acceptable way for all concerned, it will become a threshold for cooperation. Then the financial part of the cooperation is subject of discussions and disagreements.

If the costs of cooperation are not well visualized, the financial discussion will push back other essential objectives of the cooperation such as improving quality and continuity. An additional risk occurs when transparency of costs becomes clear in the last phase of establishing the cooperation. When the realisation of IMC's fail, it is mostly due to lack of transparency of costs. Municipalities by then have spent already a lot of money, time and effort into preparing the cooperation.

In this part of the Guidelines we present a simple budget calculation model for inter municipal cooperation. It compares budgets 'before' and 'after' IMC, and creates transparency about 'old' and 'new' cost elements. However, we note that making this type comparisons remains difficult because the now situation often differs a lot from the envisaged situation. This approach is therefore more likely a quick and dirty handout.

Benefits of IMC

- improving the quality of policies and operations
- improving continuity of services
- gaining efficiency, with less fragmentation of tasks and more opportunities to invest in optimization of business operations
- reducing implementation costs

Opportunities for cost reduction

Almost every municipality has a potential to structurally reduce its implementation costs by the result of up-scaling. Often in municipal services staffing costs are the most important cost component.

- **Staffing costs:** Savings on staffing costs can be realised in different ways.
 - > *Saving on general tasks:* Savings can be booked on tasks that require equal input from municipalities, regardless their size. Obvious examples are policy development and application control. An IMC of e.g. six municipalities needs the same capacity for policy development and application control as each of the participating municipalities in their independent 'before' situation. Also additional related costs such as consultation, training participating in meetings and conferences can be decreased sixfold with IMC.
 - > *Saving on fragmented tasks:* Savings can be booked on specialist tasks which are too small for a full time civil servant. This situation occurs when one civil servant has many different tasks, because the demand is too small to create full time jobs for it. Operations in such cases are vulnerable in quality, continuity and efficiency. It is useful to scan municipal operations for such fragmented tasks, which are everywhere in the organisation. Examples are internal accounting, municipal services for small parts of the population, procurement. Up-scaling provides the opportunity to turn these fragmented tasks into full operational functions and by doing so utilize the staff capacity more efficient. When a staff member can focus more on one task instead of many different tasks he doesn't need to switch frequently. Also in this case additional related costs such as consultation, training participating in meetings and conferences can be decreased six fold with IMC.
 - > *Bulk work:* Economies of scale are also achievable in bulk work solutions. We refer to activities which are not directly proportionally related to the number of decisions, clients or products. E.g. when a municipality provides cash benefits to a number of citizens each month the workload increases relatively less when the numbers double, triple or quadruple. One computer run for 6.000 clients does not require 100x more staff capacity as a run for 60 clients.
 - > *Temporary staffing:* Another cost savings through economies of scale falls into the category of temporary staff. A small municipality is more quickly confronted with need to hire (expensive) temp staff because they have lesser possibilities to substitute emergency staffing. And after having done the job and leaving, also the knowledge exits.
 - > *Management:* IMC on the management level reduces the need for managers. Municipalities need for their IMC only one management team.

- **Saving on operations:** Scaling makes it worthwhile to invest expertise in optimizing and supporting municipal operations. The demand (often from central government and the media/population) for transparent municipal policies and operations, requires key performance indicators for high level justification, statistics, monitors, and benchmarks. Smaller municipalities often lack the capacity to do this.

Introduction of a workflow management systems, client tracking systems, quality management systems and optimization of IT help to professionalize municipal operations. Manual activities are made redundant by linking databases and IT-systems. It makes monitoring easier, it prevents correctional works afterwards, management information is at hand, etc.

- **Central procurement:** Vast savings are possible with central procurement of new IT-systems (hardware and software), movables (cars, machines, etc), real estate, trainings for staff. The larger the interest group of municipalities is, the stronger is their position to negotiate with suppliers in the market. Also maintenance is more cost effective when the task is executed in an IMC.
 - > *Reducing overhead:* Overhead can be covered by more staff. Think about facilities like human resource management, documentation, front-office and back-office facilities etc.

Even larger municipalities can benefit from scaling, maybe more in terms of cost reduction than in terms of gaining greater stability. They benefit also by using their expertise, knowledge, infrastructure, and products in a larger territory. This applies to specific expertise which is less developed in smaller municipalities, such as procurement, legal advice, IT management, internal controlling and other functions.

Cost-increasing factors:

Although IMC offers many advantages, we should also mention the cost-increasing factors. When mentioning the advantage of having just one director instead of six head of departments (when 6 municipalities merge their activities), we should also take into account the need for an extra management level in larger organisations. And depending of the size of the new organisation there might also be need to pay higher salaries for the management and experts, which will increase the budget line for wages.

Another issue is communication. With a larger organization there is more time required for consultation. And depending on the geographical situation also travel time between the IMC organisation and the municipalities might increase. Regarding cost raisers the final point of attention is the increase of administrative costs because the new organisation needs a general board.

Choosing the right size:

The important question is of course: which scale offers the best cost benefit result? In general, one could say, there is a connection between the size of an organisation and its costs. The efficiency rate increases by larger size. This continues until the size of the organisation reaches a tipping point where there is no additional growth in

scale but scale disadvantages start to emerge, such as command and management problems, or red tape (bureaucracy).

However there is no conclusive answer from scientific research to the question at what size the tipping point occurs or the ideal size of municipal operations. This depends on many factors such as the content of the IMC, the geographic situation, the infrastructure and the quality of the organisation.

Besides financial and business concerns there are of course other motives in choosing a particular scale of cooperation. Policy motifs may play a role, for example the travel distance between service provision of the IMC and the citizens. Political arguments are also of interest, such as the argument that the number of partners should be not too large so that each municipality can exert influence and control the functioning of inter-municipal service.

Based on these variables which are often difficult to compare, municipalities will have to judge what is working for them at the most appropriate scale. From the democratic perspective we can read from different sources that voter turnout, broad organisational participation and direct contact with politicians are usually greater in small municipalities.

But a recent US literature review and analysis related to optimal municipal size and efficiency (by Marc Holzer, Ph.D. et alia from the School of Public Affairs (SPAA), Newark, May 6, 2009) identifies a broad range of population between 25.000 - 250.000 as the most efficient. There are economies of scale beyond 250.000 people. Small municipalities, those under 25.000, are less efficient only when services are specialized or capital intensive. The literature makes statements about smaller and large, but is not consistent and specific about the ranges of populations for specific tasks or services.

An older paper about municipal size on municipalities in Europe reports an enormous variation of municipalities in size both between and within individual countries (Environment and Planning C: Government and Policy, 1995, vol. 13, issue 4, pages 441-458). There is no conclusive evidence, however, that these differences have a significant impact on the efficiency of local public service provision or on the levels of citizen participation in local public life. In this paper it is suggested that flexible and problem-oriented legislative, institutional, and managerial innovation provide meaningful alternatives to local government boundary reform.

Regarding the cost issue related to the optimal scale we further remark the following. Connection of several smaller municipalities with a larger community with well-developed expertise and well developed management tools, gives the highest returns. Smaller municipalities benefit from the expertise and tools developed in the larger municipality, and the larger municipality can spread the costs.

A coalition of just smaller municipalities without a larger municipality among them needs to invest more in the development of expertise, tools and infrastructure. Opting for a joint arrangement with a center-municipality structure therefore can be more beneficial than setting up an entire new organization for the IMC. Finally, the choice of the optimal scale also prevents later necessity to upscale again to a new scale.

Costs before benefits:

Naturally, the savings can not immediately be booked in at the start of the cooperation. A new IMC initiative needs start-up time. Often it takes time to reduce the staff (coming from the participating municipalities) to the size which is actually needed for the IMC organisation. The participating municipalities also need to make the necessary investments for the new IMC, and have to deal with the disintegration costs of their own individual municipality. The cost benefits therefore will normally appear only in the longer run.

Checklist for determining the budget

- Costs should be an important point from the start of the cooperation. It is necessary that already in the first phase of the cooperation the possible cost reductions and cost increases are pointed out. Also, determine clearly which costs are inclined due to integration and which due to disintegration. Identify how the budget is going to be designed and which information is needed to design it. Comparing the different possibilities to distribute the costs is also of great importance.
- Then it is time to produce a first draft of the budget with the available information.
- Determine all the tasks that are going to be performed by the new cooperative organization. This also means that facilitating and supportive tasks (which are currently performed in other parts of the municipality) are considered.
- Choose the most appropriate cost distribution between the municipalities. The distribution should be considered the best alternative by all cooperators and should be a good representative of the reality.
- The quality gains and continuity of the task performance are hard to quantify in monetary terms.
- Comparing the costs of the current tasks and the potential costs of the tasks if they are compared in cooperation can be a difficult task. The costs are often not accurately identified which leads to impurities in the comparison. These can be caused by different accounting techniques and the accounting of overhead costs, but also by unclear budget balances. The possible differences in quality of the task performance and the risks make it even harder to compare. It is therefore useful to compare the future cooperation tasks with the situation in which the same tasks were performed individually.
- Keep in mind that there can be cost factors that are specific to certain municipalities (Solving capacity problems, personnel problems, etc.)

Integration and disintegration costs

Integration costs are the costs that the municipalities have to pay in order to start the cooperation. Consider the following the points to estimate them:

- Determine the necessary efforts and who has to contribute them in order to create the cooperation. Calculate the costs that are made by these efforts.
 - Decide whether supportive tasks are required and calculate the costs of this support (temporary employees and process support).
 - Costs involved with recruitment.
 - Costs involved with training the current employees.
 - Determine the one time costs that are made to create the organization. Costs of contracts, designing logos, etc.
- Disintegration costs are the costs that confront the municipality when part the tasks are outsourced to the cooperation. These costs are mainly caused by the remaining goods of the municipality which are not used by the new organization: personnel, information, buildings etc. Consider the following when estimating the costs:
- Identify all the tasks that the current employees of the particular departments are performing and influence the rest of the municipality. Especially the unidentified tasks should be made clear. Then determine what the costs are of filling the gaps that occur when these employees leave.
 - Employees from different departments can also perform tasks for the department that is going to cooperate. Determine the costs that are caused when these tasks are not necessarily performed anymore (contracts that demand continuity of the wages).
 - Determine the costs of the facilities that will not be used cooperation, but are used by the current department. These facilities can remain empty or not used.
 - Calculate the overhead costs that are involved with the current department.

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HRM advise and model profile descriptions

3 Personnel and staffing

As discussed earlier, employees are concerned with the necessary degree of certainty. The switch to cooperation is an uncertain period. It is therefore of the utmost importance to arrange the relevant aspects around the legal position and the working conditions of the personnel. The councils of the municipalities are therefore much concerned with the position of their own employees and base their final decisions on such conditions. A cooperative organization is part of the governmental policy and employees of the organization are part of the municipal

employees. Also if the cooperation is characterized as a private operating institution the municipalities often choose to maintain their employees in service of the government. In the working agreements it is necessary to formulate how the staff and employees are controlled with respect to the evaluation and promotions.

Legal position

The employees that join the cooperation or transfer to the municipality which executes the outsourcing, they have to get assurances on their legal position. This is even more relevant if the total amount of available jobs decreases. Most municipalities have certain rules that explain the position of workers if there are internal reorganizations. These are often not sufficient to explain the position of employees in the case of cooperation with a different organization. If this is the case, there should be made a social plan that describes the legal position.

It is advisable to implement the social plan in the decision making process, since it influences decisions of the council strongly. Important is, of course, how the transfer is organized: Is it necessary for everyone to apply for the available jobs or are the employees automatically assigned. If some people have to be fired, this happens of course according to the usual legal standards of the municipalities. This does not implicitly mean that it is not a difficult subject to handle and the possibility of a job decrease can influence the decisions of the councils and the structural form dramatically.

Change can also mean that people have to travel further to work, which means that they would want compensation for the travel costs.

Important is to consider beforehand how such costs are going to be divided among the different partners. Decide whether they will be covered by the cooperative organization or if every municipality is responsible for its own personnel.

Scenario for the change of staffing

To make sure that the involved employees know what their position is, it is advisable to draw a scenario in which the following subjects are treated. Make this already in the preparation phase or at least as fast as possible after the decisions of the council to give the personnel certainty.

- Clearly formulate when specific events are supposed to take place.
- The moment when employees can show their interests for specific functions within the new organization.
- The terms in which employees can show their objections and concerns.
- The manner in which employees can inform the employers on their personal qualities and background.
- The dates on which the councils will decide on specific questions.
- The moment on which the resignation and appointing letters are being sent.
- Information about the relevant parts/changes in the new/changed personnel dossiers.

It happens often that the description of functions is closely related of the description of functions from the largest municipality. It is important to keep this in mind and make sure that the personnel is treated equally. Such a function description can mean that people from the larger municipalities are experiencing a preferable treatment with respect to the people of the smaller municipality.

Selecting the right people for the appointments commission is also crucial to select the right people for the right functions. It is important to consider whether the appointers should be the future directors and the size of the commission. A larger commission can assure a more objective appointment procedure, but has the drawback of less time-efficiency.

It is possible that the cooperation causes an excess of supply of employees. The salaries of these people will remain a cost factor for the municipalities.

Directors

Tasks of the new directors can differ from the original tasks of the directors. Also, it is often the case that lesser directors are required in the cooperation than there are available from the individual departments. To choose the right director the following points should be considered:

- The director should be able to build the organization in the first periods of the cooperation. This requires competencies that differ from the daily, routine based activities that the former directors were used to manage.
- The position of a director in a cooperative organization differs from the position in a municipal department. The director of a cooperative agreement is (depending on the form of cooperation) responsible for the organization and has no manager above him, like a secretary or sector director.
- The director should have the necessary political finesse to handle the representatives of the different municipalities and should be able to understand and spot the mutual relations.
- Small municipalities can have problems with the automatic appointment of the director of the largest municipality. This can feel as if the largest municipality is controlling the whole agreement. Objective appointment is very important in this case.
- Since directors of the largest municipalities are usually paid the highest wages, the choice to appoint this director can be of financial nature as well. However, this should not be the only motivating reason to appoint.

Checklist

- Decide how the salaries are going to be administrated. Is this the job of the communal organization or do the individual municipalities administrate?
- Make sure that the new administrators have the right information to pay the right salaries. (Tax numbers, social security, etc.) Mistakes in payments

can be very annoying for the employees in such insecure times. The last thing you want is unhappy personnel at the start of the cooperation.

- Consider the change in certain non-salary rights that the employees have earned during their work at the municipality. Is there the same structure of vacation days, childcare and daily working schedules.
- Officially the employees change their employer if they move to an individual organization. Consider whether the personal files are passed on to the new organization.

4 Communication

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communication strategy advise

Communication represents 'contact' and 'connection.' These are concepts that are extremely important in a process of cooperation. Every action plan should therefore treat the subject of communication. However, this is often underestimated and implemented in one of the last chapters. In practice, it is observed that the communication with employees, clients and external relations is usually performed in a very late stage of the process (After the decision making). It is understood that there must be a directing framework primarily, but early stage communication in two directions is absolutely advisable. Reactions from lower levels of the hierarchy can be very informative and can contain important inputs for the rest of the process. If there is no support for the agreements that are made at the top of the hierarchy, the cooperation is doomed to fail. The larger the municipality, the larger this risk is. The employees that eventually have to fulfill the cooperation must support these agreements and feel committed. Making a communication plan can help to structurally exchange thoughts about the practical design of the cooperation.

But also the communication between the cooperating parties is a crucial factor towards success. Designing a cooperative agreement is a dynamic process between the different cooperators. It is crucial that there is as much communication as possible to obtain satisfying results. The best way to explain the importance of communication is by illustrating the process-like character of the cooperation. In every step communication is needed to successfully move on to the next step. The process steps are not unlike the Deming Cycle that protects quality within the cooperation. However, the steps we will discuss now are more important on the management level of the organization. We can define the process of communication by distinguishing four steps. The acquaintance between the different parties (if they are unfamiliar), negotiating on the actual future cooperation, performing the made agreements, evaluating and negotiate again if the agreements are unsatisfactory.

One of the most important factors of success is trust. A large part of that trust is created through communication. It is advised, however, that such trust is created on

every level of the municipality that is concerned with the cooperation. The risk is, that the mutual trust between the leaders is very solid, while the lower levels are very suspicious of each other. It is therefore not advisable to make agreements on the metaphorical 'golf-course,' but communicate properly with the other parties as well as with the people you represent. Make sure every party feels well informed. This means that you should communicate always, even when there is nothing important to inform about.

Cooperating is hard enough without communicational errors, it is therefore important that the communication is clear. Make sure that the same information reaches everybody involved. Also make sure that this information is interpretable in only one way: Cultural habits and interpretations can vary a lot from one municipality to the other. It is advisable to appoint a team that is concerned with the distribution of information. The municipalities should get the same propositions at the same moments.

Another point of interest to secure good communication is the consideration of cultural differences between municipalities. Empirical research has shown that cooperation (in the private sector) often goes wrong because the cultural differences are a serious problem. When there is municipal cooperation, people tend to underestimate the effects, since everybody is a government official and it's just municipalities: What can be the difference, right? However, there can be some important differences that can lead to serious annoyances if they are not treated:

- The management style. At little municipalities the lines between the top and the bottom are usually and the communication can be different (more formal or informal).
- Differences in the way people correct and complement each other.
- Differences in handling the own authorities and responsibilities.
- Differences in handling the clients.
- People can be used to a different experience of work and pressure.
- There can be differences in the appreciation of the management and the expectations that the management has of the employees.
- People can be used to a different degree of communication.
- Differences in bureaucracy.

Also the communication with clients should not be forgotten. The clients are the primary reason that the inter-municipal cooperation is started in the first place. A municipality works in order to serve the society between its borders. Communication with the people should therefore take place in every part of the process. First, clients should be consulted in order to evaluate whether the changes in policy are desired. Although clients may have different incentives to value the cooperation, their change in satisfaction is important. Especially when the cooperation is concerned with the supply of services (which most governmental activities are).

If the choice to cooperate and the design of the cooperation are finished, it becomes important to inform the clients about the practical changes. Do not expect the clients to find out all by themselves, since this can lead to annoyances. Are there new addresses? Make sure all the clients are aware of the new address. Are there new ways to apply for services? Inform all people about the possibilities. (for example: innovation led to the digital application of passport documents)

5 Physical aspects

With every sort of cooperation (a new organisation, or a combination of existing departments, except for the central municipality construction) eventually the question will rise: Under which roof are we going to house the organization? To answer the question, it is necessary to consider a few factors that determine the right choice of a building. It is therefore necessary to appoint a team that handles the housing immediately after the decision that the cooperation is going through. It can be a difficult decision for multiple reasons.

First of all, it can be necessary that the combined workforce is larger than the separate previous workforces. In this case more space is required to house every employee. The existing offices might than be too small to house the new organization and a new building is needed. It can also be the case that the organization is entirely new, so there has to be a new building anyways.

It is possible that the perfect place or building is not available at the moment (due to renovation or something else) the cooperation is supposed to be launched. In this case it might be necessary to search for a temporary solution. There are often serious construction changes needed and a large scale movement of physical assets, which is a difficult process in itself.

The preferences for housing are already being discussed in the preparation phase, but it is not abnormal that the process of negotiating (especially with third parties like contractors) is still continuing. If the plan is to use an existing building it is necessary to reach agreements on the interior design, counters, offices etc. and of course the organizations style. The existing possibilities have to be evaluated on a few characteristics. The location is very important if there is the necessity for civilians/clients to visit the organization. Is it centrally located, easily accessible with the public transport, the possibility to park a car, etcetera. But since the subject of these Guidelines is inter-municipal cooperation, the location can be of a political nature. Municipalities can have multiple reasons to prefer the organization to house in one of the own buildings, or at least within the own municipal borders. On the other hand it can prefer exactly the opposite. An example is given by a municipality that wanted part of the organizational offices within the own borders, because it wanted no decrease in jobs within the own municipality. These sorts of reasons are to be handled with great suspicion, since they might be of other than societies' interests and can seriously hamper the positive effects of cooperation.

A checklist for the right location:

- Obviously, the location
- The size and available space.
- Are existing buildings necessary, or is there the ability to build as well?
- Is there one building required, or is there a need of multiple offices?

6 IT

The current state of technology is a very important point when designing the practical form of the cooperation. But not only can it help to determine the practical form. It can also be a possibility to cooperate in a way that was not able before. Internet and computers enable us to communicate and archive efficiently. IT can help to make the organization much more efficient. Archiving digitally increases managerial control and decreases the correctional work afterwards. Linking databases makes the repetition of manually gathering information unnecessary and can thereby prevent the bureaucratic image that citizens often experience. Especially the municipal activities that are concerned with information or services can benefit from investing in Information Technology (IT).

On the other hand, municipalities can already work with a private information network. These networks are, unfortunately not always the same in each municipality and cooperating municipalities can experience some problems with the compatibility of these networks. When departments merge there can be decided to choose one of the operating systems. This is often economically the best solution since it requires no extra development costs and making the systems compatible is often not an option. However, politically this can be a problematic decision, since the employees are used to their own system and they can encounter some productive disadvantages because of their lack of understanding of the new system. Both municipalities can in such cases prefer their own system. Developing a new system can be an alternative to settle the discussion, but it does mean that everybody needs to learn the new system and there are no experienced workers that can instruct the un-experienced. It does provide an opportunity to improve the existing informational systems and possibly make them more effective and up-to-date.

The existence of such information systems also makes it possible for municipalities to start new forms of cooperation and share archives, researches and other information with other municipalities countrywide. The horizon of possibilities is enormous in this perspective. Think about police forces that share their criminal data, or a digital service center in which citizens from all municipalities can apply for documents. In the first case there are serious advantages of sharing the information, because crime is not per se concerned with municipal borders. In the second example there are economies of scale due to the fact that just one type of application software is designed, instead of special software for each municipality. This reduces the development costs.

In societies where the IT sector is well established within the private sector and with civilians, the municipalities must consider to provide services digitally. This can save some serious transaction costs for both consumers and the municipalities. Digital services means, that there will be less necessity of front offices to provide them. This will result in a reduce of labor and housing costs. Developing such a digital front office is, on the other hand, a costly process and the benefits of the digitalization must, as always, be weighed against its costs. Such opportunities are not only apparent due to cooperation. They can be investigated at any municipal department, whether cooperating or individually operating. It is therefore beyond the scope of these Guidelines to investigate them further.

7 Legal aspects

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legal advise and model agreements

There is usually a legal mold in which the structural form of the organization has to fit. The exact definition of such legal structures can vary from country to country and there is, therefore, not much use in explaining the optimal forms of such structures in much details. These are guidelines for IMC that have to be utilized throughout the world and it is not efficient to investigate all the possibilities. There are however some general aspects, that relate to the general legislation of cooperation. Think about the differences between a private institution, and an official governmental department.

Laws on local self government

Important differences between countries can be found when comparing the national laws on cooperation between municipalities. Some countries clearly specify the possibilities of different forms of cooperation. Is it possible to perform executing activities together with other municipalities? Is it allowed to perform administrative activities together? One can imagine that national governments have some restrictive measures on such activities or have no law that defines cooperation (neither defines nor forbids it). Imagine the case after a civil war for example: Intense cooperation between municipalities can be thought to be dangerous by the national government in such an unstable situation. Also developing countries tend to have less specific laws on the matter. This can be a convenient factor, since there are more possibilities to organize the cooperation. On the other hand, if countries provide good laws for inter-municipal cooperation, these can function as the right guidelines to form successful cooperation. For example, requirements to publish financial balances of the cooperation lead to a better democratic control of the cooperation. But regulation also tends to prevent from disputes between the cooperating municipalities. So be aware if there is a lack of regulation!

There is also the possibility of a third layer of government, which is called regional government. This regional government can perform tasks and provide policy that is in other countries provided by the local government. Differences are that in some countries certain tasks are best performed by cooperating on an inter-municipal level, why the same tasks are in other countries best performed by the region. Municipalities in countries with regional government, on the other hand, must consider whether certain tasks are better executed through cooperating or by letting the regional government deal with the problem.

To illustrate how inter municipal cooperation can be defined, here follows an example of the Macedonian national law.

ARTICLE 14 (INTER-MUNICIPAL COOPERATION)

(1) In the performance of their competencies, the municipalities may cooperate among themselves.

(2) For the purpose of accomplishing common interests and performing common tasks that fall within the competency of the municipalities, they may join funds and establish shared public agencies, in accordance with the law.

(3) For the purpose of performing certain competencies, municipalities may also establish shared administrative bodies in certain areas, in accordance with law.

(4) The municipalities may also cooperate with units of local self-government of other countries, as well as international organizations of local communities, and may be members of international organizations of local governments.

(5) The ministry responsible for the performance of activities that relate to local self –government shall keep records on the realized international cooperation of the municipalities, in accordance with the law.

Consequences of leaving the cooperation

When an agreement is reached between municipalities on the actual cooperation, this agreement should be constructed as a contract or a memorandum. The agreement should specify the obligations of the different municipalities to the cooperative agreement and can specify what should happen if such obligations are not satisfied by a party. This prevents from the possibility that municipalities that belief in the cooperation are already making costs in order to cooperate while the other municipality can still decide to quit the agreement.

8 Accountability

Always a very important aspect of governmental policy is the democratic control of the activities. Democracy always requires a clear distinction between the executing and the controlling role of the government. Therefore, municipalities usually distinguish between the policy makers and a council that controls the policy makers. It should never be forgotten that the government serves the citizens interests. These citizens should finally control the municipal activities.

However, such duality tends to be lost with inter municipal cooperation. Especially if it is agreed that part of the policy making authority is transferred to the cooperating organization it is not unlikely that the councils lose control over the executive power. It is therefore necessary that the council is extremely committed during the preparation phase. In the end, policy is meant for the civilians that are represented by the councils. Good control results in policy that is suited better for the represented society.


To tackle the problem of accountability in the rest of the process, it is necessary that there is good communication at all times. Keeping all the involved parties, also the citizens, informed and make sure that the control is as good as possible. Appointing delegates from all municipalities with the task to control the cooperative organization is an option to improve the quality of the information. These delegates should have access to all documents, receive all important information and can participate in the decision-making. There is also the necessity of institutions that give the consumers and other citizens the power to act if they disagree with the policy (other than waiting for the next election terms). Think of user committees or the ombudsman that give the individual some power.

9 Outsourcing

Explanation

Municipalities can decide to cooperate and join their forces, but they can also decide to outsource them. From the municipal perspective we distinguish outsourcing in the public sector, in which case municipalities usually outsource tasks to other municipalities. One step further is outsourcing to the private sector

Public sector			Private sector		
DIY	Cooperation	Public outsourcing	Private outsourcing	Leaving to	Dispose



Outsourcing means transferring tasks within the public sector or to the private sector, while keeping financial and administrative responsibility. Leaving tasks to the private sector goes one step further. The municipality then also transfers administrative and possibly financial responsibility, but keeps interest in the task performance of the operator. This is normally assigned in a contract with performance indicators. Another option (the most extreme) is disposing of tasks or activities entirely. It means that the execution of tasks, and financing and planning will not be transferred, but ended by local government.

Are municipalities allowed to outsource tasks and responsibilities to the private sector? It depends largely on the level of decentralisation or the level of local autonomy (local self government), and on the specific powers of local government regarding the subject of outsourcing. Outsourcing to the private sector is also related to the question to what extent local government sees the task as core business or not. As a rule of thumb we can say that in general municipalities can outsource activities to the private sector but cannot transfer their responsibility for the performance. E.g. in many countries municipalities outsourced waste collection to private companies, but these municipalities are still liable for clean streets. Usually municipalities are also obliged to keep the assessment of claim eligibility. This might occur e.g. in the field of social protection when municipalities provide social benefits to the population. Municipalities may choose to contract out their social services, but generally keep decisions on claims in their own hands.

Checkpoints for outsourcing

- *Consistency of the outsourced task with other tasks:* More consistency means a greater risk of loss in efficiency (communication and consultation) and quality (communication disorders). The outsourcing task might be a component in a chain of linked activities. Stagnation in the contracted section has immediate adverse effects on the rest of the chain.
- *Full clarity about the job to outsource:* It seems obvious, but it must be clear exactly what is outsourced. The job to outsource should be described in detail regarding its activities and the relationships with binding activities. It should also be precisely regulated which activities are the responsibility of the contractor and which belong to that of the municipality. The processing times of operations, quality level and procedural requirements are part of requirements which the contractor must adhere. This presupposes sufficiently detailed product and process descriptions and instructions.
- *Transparency from contractor to municipality:* The municipality is responsible for implementation. Not only for the outcome but also for the way the task is delivered. As the municipality stays responsible for the legality, effectiveness and efficiency of the implementation of the task, the municipality must keep control by monitoring the contract requirements. That means that at any time the contractor must prove that the outcome and procedures meet the requirements set by the municipality.

- *Market position and reliability of the contractor:* The contractor must guarantee continuity, in the long term. Doing a task for a limited period is pointless and causes damage when the municipality needs to re-install and re-implement operations again, e.g. because of bankruptcy of the contractor. Beforehand, the municipality must be able to rely on the quality and the stability of the contractor. This means that it might be risky to contract newcomers in the private sector. The municipality should also inform itself about the movements in the market where the tasks to be outsourced is about to land.
- *Procurement rules:* In most countries contracting out by public sector bodies has to follow strict procurement rules, which are legally enforced by central government or even set on supra national level (e.g. EU procurement rules). Beware that the process of outsourcing municipal tasks is done according to applicable regulations for procurement. Any diversion or violation of these regulations can lead to penalties for the legislative authorities of claims from private sector companies.

Financial points of attention

- *VAT:* Outsourcing to a private party can result in tax levy. It all depends of course on the fiscal legislation of the specific country. But in most European countries outsourcing from public to private sector usually does result in tax levy. We advice to contact the tax authorities in your country, to get informed about the fiscal consequences of outsourcing tasks to the private sector.
- *Transaction costs:* Outsourcing causes so-called transaction costs that should be taken into account. These are the additional costs associated with outsourcing. There are both implementation and structural transaction costs. These costs are normally lower when the outsourced tasks have little or no connection with the work that will remain with the municipality. There are always transaction costs on both sides (municipality and contractor).
- *In many countries municipalities are subject to central government supervision.* Outsourcing creates a new relationship between the municipality and the third operator similar to that between central government and municipalities. It's an organizational fact that internal control (the organization) will require less exercise than external supervision. Municipalities will therefore need to take into account that contract monitoring costs more than internal control.
- *Pricing:* A private party has a profit target. The pricing therefore contains a component for profit. Furthermore the contractor will also include contingencies to reduce financial risks. And usually wages in the private sector are higher than in the public sector. The municipality must therefore analyze whether outsourcing is cheaper in the long run or not.

- *Financial risk for the municipality:* By outsourcing the municipality envisages to gain better quality of services and more efficiency. But beware, not all risks are covered! Who is liable for claims of citizens? The question is whether the private party is willing to take over such risks.
- *Risk of bankruptcy of the contractor:* How well a contract is put together, it might not prevail that the contractor may fail.

4 Evaluation and after care

At the start of the cooperation the implementation phase is considered to be finished. Directly after the start of the cooperative activities we can therefore distinguish the fourth and final phase in which the evaluation of the implementation and the after care are the main concerns. If this is not done the successfulness of the cooperation can be at stake.

1 After care

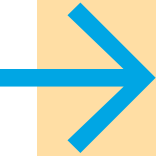
The best imaginable situation is, naturally, if all the preparation works out exactly as planned and the implementation is finished at the first day of the cooperation. In practice, however, this is usually not the case. There are always "loose ends" that have to be taken care of. It is even possible that some cases are unfinished on purpose because they lacked priority. The most important thing is that the employees and managers get used to their new jobs and start building routines together in order to get the cooperative activities to work.

The ones responsible for the design and implementation can be used as after care to help the long term management team to start. It has to become clear what the exact task division will be in the organization. Also the relations between different members of the management team are important in this phase. It would not be the first time that all managers started their own department full of enthusiasm but failed to communicate with their fellow managers. Important is that the communication structure is now designed in practice. It is important to formulate the powers of lower level authorities to solve operational problems. It is important in for such solutions that a solid information chain is created to the higher levels of management.

It is important that the people that were responsible for the implementation are still reachable to answer questions of the new management and employees. It might still be unclear why some decisions are made and how some matters are supposed to be handled.

2 Evaluation

The first period of the fourth phase will be concerned with starting the new organization. It is advised, however, to start evaluating the activities as quickly as possible, for example after the first month. Consider: Are the planned activities performed? Are these activities performed satisfactory? Which points can be improved in the next periods? As time passes, such evaluations must be made until infinitely (or the end of the cooperation) to ensure a positive result of the cooperation.



VNG International
IMC Evaluation Tools

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