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Local governments and their arm’s length bodies

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ABSTRACT

In this paper, we discuss the state of the art on the creation of arm’s length bodies (ALBs) by local governments. We make three main contributions. First, there are many different types of ALBs and each country has its own categories; an expert survey was held identifying three common types of body, to enable future comparative research. Second, we point out that the creation of ALBs has led to a number of new challenges for local governments, particularly regarding governing bodies at arm’s length to ensure ALBs’ good performance. A lack of capacity and information have to be countered, for example, by increased monitoring – also for democratic accountability purposes. Special attention is needed for the multiple principal problem that arises when local governments jointly create ALBs. Third, research into local ALBs is still in its early stages. We present a research agenda to develop knowledge on the topic.

KEYWORDS Arm’s length bodies; semi-autonomous agencies; municipally owned corporations; outsourcing; public service delivery

Introduction

Due to the combined effects of decreasing public budgets, New Public Management reforms and large-scale decentralisations by national governments, local governments worldwide have nowadays organised the delivery of public services more and more at arm’s length (John 2001; Kuhlman and Bouckaert 2016).1 Local governments can organise this in different ways: they can outsource tasks, collaborate with private or societal partners, or hive off parts of their own organisation thereby creating so-called arm’s length bodies (ALBs). This contribution will focus on the latter form.

There are different types of ALBs, ranging from semi-autonomous organisations to private law-based corporations owned by local governments (Van Thiel 2004). Countries differ in the types of ALBs that are established, depending on, for example, legal context or state traditions. In some countries, the creation of ALBs goes back decades (Van Genugten 2008), while in other countries, the recent financial crisis has spurred local governments to
externalise (Ferry et al. 2018; Kuhlman and Bouckaert 2016). An overview of what arm’s length service delivery at the local level nowadays looks like across countries is, however, lacking (Torsteinsen 2019).

Despite its widespread, the creation of ALBs at the local level is – in contrast to a similar trend at the national level (see, for example, Verhoest et al. 2012) – largely understudied (Cambini et al. 2011; Kuhlman and Bouckaert 2016; Lidström 2017; Torsteinsen 2019; Voorn, Van Genugten, and Van Thiel 2017). The literature that reports on the local level focuses predominantly on contracting out and privatisation (e.g., Brown and Potoski 2003; Dijkgraaf, Gradus, and Melenberg 2003; Domberger and Jensen 1997; Hefetz and Warner 2004; Hirsch 1995; Van Genugten 2008), and to a lesser extent and more recently on corporatisation (Citroni, Lippi, and Profeti 2013; Ferry et al. 2018; Florio and Fecher 2011; Grossi and Reichard 2008; Krause and Van Thiel 2018; Tavares 2017; Voorn, Van Genugten, and Van Thiel 2017). Consequently, the literature on local ALBs is not only limited, but also fragmented.

Furthermore, the literature mainly focuses on motives for and effects (mainly effectiveness and efficiency) of arm’s length service delivery, but does not touch upon the new governance and steering issues that have arisen as a result of the increased use of ALBs. Municipalities no longer have a solely hierarchical steering relationship with the organisations that are providing public services. Instead, they have an additional contracting relationship, in which they have to ensure the delivery of local public services. This poses several challenges for the governments involved (Krause and Van Thiel 2018; Papenfuß et al. 2018; Voorn, Van Genugten, and Van Thiel 2017, 2019b).

In this overview article, we will first discuss the types of ALBs that exist in several countries, based on an expert survey. In the second part, we delve into the literature to list the most important research findings so far. We focus in particular on the new governance dilemmas that the use of ALBs has created for local governments. Using principal-agent theory, we will describe these dilemmas and present some recent insights on the topic. Finally, we discuss which questions are or should be on the agenda for research into ALBs at the local level.

**Arm’s length bodies at the local level**

Arm’s length bodies at the local level can take many forms, depending on the local context and legal traditions. Unfortunately, researchers often group together and juxtapose ‘public’ and ‘private’ bodies without accurately specifying what type of bodies they investigate (Voorn, Van Genugten, and Van Thiel 2017). This lack of a clear and uniform terminology complicates research into ALBs, in particular, comparative research. To solve this
problem, we present a categorisation of ALBs at the local level, based on Van Thiel’s typology (Van Thiel 2012) of agencies at the national level and Torsteinsen and Van Genugten’s application (Torsteinsen and Van Genugten 2016) thereof to the local level. These typologies consist of five types of agencies ranging from type 0 agencies – traditional in-house delivery – that are actually not at arm’s length of (local) government, to three types of agencies (type 1, 2 and 3) that can be understood as ALBs, and type 4 agencies in which governments only have a contracting relationship with a public or private body but no ownership relation as in the case of ALBs (see definitions below). Both type 0 and type 4 agencies are common at the local level in most European countries. Apart from England, where most areas of local public services have moved away from in-house delivery, type 0 can still be found in most countries at the local level. The same is true for type 4 agencies. In particular, in England and The Netherlands there has been a great amount of contracting out since the 1980s covering many services, while this process started a decade later in other countries, including Belgium, Norway and Spain, according to local experts whom we consulted (see below). The extent of contracting out varies from country to country and from one local government to another.

In the remainder of this paper, we focus on the three types of agencies that can be understood as ALBs (type 1, 2 and 3). ALBs can be defined as ‘organizations which spend public money and fulfill a public function but exist with some degree of independence from politicians’ (Greve, Flinders, and van Thiel 1999, 139). The degree of independence or autonomy varies per ALB and relates to conditions under which it operates, for example, its source of finances and belonging to the public domain (Allix and van Thiel 2005; Greve, Flinders, and van Thiel 1999). These conditions vary per country and sometimes even per municipality within a country. Therefore, our categorisation of ALBs is not exhaustive nor mutually exclusive and based on only two dimensions, namely structural and legal autonomy (Verhoest et al. 2004). Structural autonomy refers to ‘the extent to which the agency is shielded from influence through lines of hierarchy and accountability’ (Verhoest et al. 2004, 105), while legal autonomy refers to ‘the extent to which the legal status of the agency prevents the government from altering the allocation of decision-making competencies or makes such changes more difficult’ (Verhoest et al. 2004, 106). Regarding the dimension of legal autonomy, type 1 ALBs do not have a separate legal status, while type 2 and 3 ALBs do. The degree of structural autonomy increases from type 1 ALBs to type 3 ALBs, meaning that local authorities’ level of accountability to local councils and hierarchical control mechanisms available to local authorities decrease.

At the end of 2018, we sent out a survey to 26 (mainly European) academic experts in the field of public administration specialised in local
government and asked them to categorise the local ALBs in their country according to our categorisation (see Appendix). We used an expert survey as this allowed us to collect information that cannot be gathered using a literature review because of a lack of uniform terminology or through document analysis due to language barriers. We received responses from 18 experts, of which seven experts reported not to be able to give us the requested information, due to upcoming or recent reforms (Finland, Romania), lack of data (Estonia), lack of time, and lack of knowledge on this specific subject; two experts could only provide us reports that were difficult to translate to our typology. In total, we collected information from 13 countries: Belgium (Flanders) (BE), Croatia (HR), Denmark (DK), England (EN), France (FR), Germany (DE), Hungary (HU), Italy (IT), Norway (NO), Portugal (PT), Spain (ES), Sweden (SE), and The Netherlands (NL). The data on Norway and Germany were collected in previous comparative projects on this subject (Papenfuß et al. 2018; Torsteinsen and Van Genugten 2016). Table 1 presents the results.

Table 1 shows that the three types of ALBs exist in all these European countries. Moreover, ALBs are found in a broad range of sectors providing a broad range of services (from social welfare services to utility services). Since the 1990s/2000s, in particular, type 3 ALBs are increasing. This is, for example, the case in Belgium, Croatia, Denmark, Italy, Norway, Portugal, and The Netherlands. In Sweden, type 3 ALBs are even the majority of ALBs (93%). An exception is Hungary, where the number of type 3 ALBs has not changed significantly since the 1990s. In Portugal, following the increase of type 3 ALBs since 1998, there was a significant reduction in numbers after the financial bailout in 2011, which intriguingly contradicts the rise in numbers after the crisis in England (Ferry et al. 2018).

Taking a closer look at the three types of ALB, all countries have type 1 ALBs at the local level. These ALBs are units within the local government without a separate legal status, but with a degree of managerial autonomy concerning internal operational matters (personnel, organisation). For example in Portugal, these in-house delivery units have a separate fund in the municipal budget. In Norway and The Netherlands, contract-like agreements are set-up to formulate performance obligations. The degree of managerial discretion varies considerably, within and between countries. In some countries, this type of ALB is used for municipal tasks in general, while in other countries they are mainly used for one type of service, for example, for communal tasks in Croatia, social and cultural services in Italy, for utility services in Portugal, and for investments and urban planning in France. In most countries, type 1 ALBs are owned by a single municipality, but the joint committees in Sweden are created by two or more municipalities and the metropolitan agencies in France can also be created by more than one municipality and/or different level government authorities.
**Table 1. Typology of ALBs in 13 countries.**

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
<th>Types of bodies at the local level</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Semi-autonomous body, unit or body without legal independence but with considerable managerial autonomy</td>
<td>In-house delivery by ‘autonomised’ units</td>
<td>Intern verzelfstandigd agentschap (BE); Vlastiti pogon (HR); Kommunal entreprener, Kommunal leverandør (DK); ‘business unit’ (EN); metropolitan agency (FR); Stadtbetriebe, Eigenbetriebe (DE); Istituzione (IT); Resultatenheter, Kommunalt foretak (NO); Servços municipalizados (PT); Organismo autônomo (ES); Joint committees (Gemensam nämnd) (SE); gemeentebedrijf, tak van dienst (NL)</td>
</tr>
<tr>
<td>2</td>
<td>Legally independent body with managerial autonomy (in principle public law based)</td>
<td>Inter-municipal companies, public bodies, statutory bodies</td>
<td>Autonomo gemeentebedrijf, opdrachtgevende en dientverlenende vereniging (BE); Javna ustanova (HR); Kommunale fellesskaber i/S or §60 selskaber (DK); free-standing/single purpose local public bodies (trust) (EN); Anstalten des öffentlichen Rechts (DE); Communal public establishment, public interest group, cooperative public establishment (metropolis, urban community, community of communes) (FR); public budget organisation (őnkormányzati költségvetési szerv), Local Governmental Association (őnkormányzati társulás) (HU); Azienda Speciale, Consorzio (IT); Interkommunalt selskap (NO); Metropolitan areas, comunidades Intermunicipais, intermunicipal associations (PT); Consorcio, Mancomunidad, comunidades de municipios, asociaciones de municipios (ES); municipal federations (Kommunalförbundet) (SE); openbaar lichaam obv WGR (NL)</td>
</tr>
<tr>
<td>3</td>
<td>Body established by or on behalf of the local government such as a foundation, corporation, company or enterprise (private law based)</td>
<td>Limited companies, foundations</td>
<td>Extern verzelfstandiging privaatrechtelijk vormgegeven agentschap (BE); Trgovska društva, Zaklada (HR); Kommunale aktieselskaber A/S, offentlige private aktieselskaber A/S or ApS (DK); municipal companies (Companies Act) (EN); GmbH (DE); société anonyme, société d’économie mixte (FR); corporate enterprise (őnkormányzati gazdasági társaság), Local Governmental Cooperative (őnkormányzati szövetkezet) (HU); Societa’ per azioni, Fondazioane (IT); Aksjeselskap (NO); Empresas municipais, intermunicipais e metropolitanas (PT); Entidades públicas empresariales, Societades mercantiles públicas, Fundaciones públicas (ES); Aktiebolag, Stiftelser (SE); overheidsvennootschappen, stichtingen (NL)</td>
</tr>
</tbody>
</table>
Type 2 ALBs are public law-based entities with a separate legal status, and can be found in all countries, but there is a great variety in forms within and between countries. One notable difference is the distinction in some countries between municipal and inter-municipal forms (for example, in Belgium, France, Hungary, and Italy), while type 2 ALBs in other countries are solely inter-municipal (for example, in Denmark, Norway, Portugal, and Sweden) and/or inter-governmental (for example, in Spain and The Netherlands) in nature. In some countries, such as Belgium, France and Spain, non-profit and private bodies can also participate in these inter-municipal/inter-governmental forms. A second form of variation is that within the inter-municipal forms a distinction is made between compulsory and voluntary inter-municipal cooperation in some countries (for example, Portugal and The Netherlands). A third form of type 2 ALBs that exist in some countries are non-profit, single-purpose institutions established on the basis of a specific law (Croatia, France, and Germany) or by statute or ministerial decision (England). In the latter case, not all bodies are based in a law, but effectively they operate as though they were.

Type 3 ALBs are private law-based organisations established by or on behalf of local government(s) and are found in all countries. Common forms of this type are the private law based limited liability company of which local governments have majority ownership (Croatia, Denmark, England, France, Germany, Hungary, Italy, Norway, Sweden, and The Netherlands) and the foundation (Croatia, Italy, Spain, Sweden, and The Netherlands). In Portugal, this type of ALB is based in a mix of public and private law. In all countries, type 3 ALBs can be single-owned or jointly owned by municipalities. In some countries, other government levels can be co-establisher as well (for example, in Croatia and The Netherlands). Mixed ownership of public and private owners also exists. For example, in Italy, mixed ownership is increasingly used, whereas in Sweden and The Netherlands this is quite modest. Besides the difference in legal form, the possibilities for accountability and control of ALBs are larger for type 2 ALBs than for type 3 ALBs, hence type 3 ALBs have more leeway to make their own decisions (cf. structural autonomy, Verhoest et al. 2004).

The expert survey confirms what we know from the literature so far: there is a large variety in forms of ALBs (Ferry et al. 2018; Torsteinsen 2019; Voorn, Van Genugten, and Van Thiel 2017). And then one should be aware that the literature is not even covering all countries and policy sectors equally. There is a dominance of economists in research on ALBs, a dominance of some European countries (The Netherlands, Spain, Italy, Portugal) and a dominance of some sectors (e.g., utilities such as water, public transport, waste collection). This implies that there is still much research to do on this topic, a point to which we will return in the final section.
Prominent themes in research on ALBs

To gain an overview of the state of the art, we analysed review studies on arm’s length service delivery at the local level (among others: Bel and Fageda 2007; Bel and Warner 2008, 2015; Grossi, Papenfuß, and Tremblay 2015; Tavares 2017; Voorn, Van Genugten, and Van Thiel 2017). We will focus on three prominent themes: the motives of local governments to establish ALBs; findings on the performance of ALBs; and the new governance dilemmas for local governments (next section).

Factors explaining the choice for service delivery via ALBs

Two types of causes are mentioned for the creation of local ALBs (Bel and Fageda 2007): economic and political causes.

Economic causes are fiscal stress and budget restrictions which induce governments to externalise (e.g., Andrews et al. 2019; Bel and Fageda 2010; Citroni, Lippi, and Profeti 2013; Gradus, Dijkgraaf, and Wassenaar 2014; Grossi and Reichard 2008). This is either instigated by the belief that market organisations and ALBs will perform more efficiently than government organisations, or by the belief that a particular task is not a core government responsibility anymore and therefore can be transferred to the market. Another economic motive is anticipated cost savings due to the introduction of competition or economies of scale (e.g., Bel and Fageda 2010). The latter in particular is an important motive for smaller municipalities establishing jointly owned type 2 and 3 ALBs (Bel and Fageda 2010; Citroni, Lippi, and Profeti 2013; Hulst and Van Montfort 2012; LeRoux and Carr 2007; Silvestre, Marques, and Gomes 2018; Allers and De Greef 2018) to cope with scarce local financial resources and cutbacks. Joint ALBs are expected to enhance the quality and range of service delivery. Another motive for joint ALBs are the scale and complexity of social processes and policy problems that require a capacity that goes beyond the scale and boundaries of a single municipality.

Political motives include the desire to win the support of interest groups (such as unions or industry) having a particular interest in a specific form of public service delivery (Bel and Fageda 2010). For example, many type 2 and 3 ALBs have a board in which members of interest groups can be (and are) appointed (see also below). Another political motive is ideology. Rule of left-wing political parties is found to be related to public delivery, while right-wing political parties can be linked to contracting out and privatisation (Bel and Fageda 2010; Gradus, Dijkgraaf and Wassenaar 2014; Tavares and Camões 2010). A third political motive for putting public service delivery at arm's length, in particular, type 2 and 3 ALBs, is political instability to avoid service disruptions or to shift blame to external providers (Bordeaux
By putting public services at arm’s length, politicians may try to avoid blame when performance is poor – although in practice this is quite difficult as citizens often still anticipate the government to intervene (Van Slyke and Roch 2004).

**Performance of ALBs**

Performance of public service delivery bodies is frequently studied, often to contrast public and private bodies. However, the focus of most of these studies is more on contracting-out and privatisation than on ALBs. Initial studies showed success (Domberger and Jensen 1997; Hodge 2000), but over time, research started showing that privatisation and contracting-out did not increase efficiency as much as originally presumed (Bel and Warner 2008).

The limited success over time of contracting-out and privatisation, however, did not prevent municipalities from searching for new ways to incorporate market pressures in local public service delivery (Voorn, Van Thiel, and Van Genugten 2018). The consensus among academics and practitioners seemed to be not that markets had failed to bring efficiency, but that markets had failed to develop. Therefore, from the early 2000s onwards, local public service delivery focused around introducing novel forms of service delivery, often relying on the market- or business-like conditions in some way (Argento, Grossi, Tagesson, and Collin 2010; Voorn, Van Thiel, and Van Genugten 2018). Such forms included municipally owned corporations and mixed firms (type 2 and 3 ALBs). Particularly municipally owned corporations have become increasingly popular (Grossi and Reichard 2008; Tavares 2017; Tavares and Camoes 2007; Tavares and Camões 2010; Voorn, Van Thiel, and Van Genugten 2018). Whether their creation has led to a more effective and efficient public service delivery is however not evident. Like other ALBs, it is difficult to steer and monitor these corporations (see also below). Moreover, corporatisation does not necessarily take place for public service reasons, and could be used as a way for political representatives to shift blame for poor management to the directors of the new municipally owned corporation (Bordeaux 2004; Tavares and Camoes 2007). Next, autonomy could also be used to avoid budget rules, to make municipal budgets look healthier than they actually are, or to alleviate fiscal stress (Citroni, Lippi, and Profeti 2013; Grossi and Reichard 2008; Tavares 2017). Therefore, whether corporatisation is effective or not is one of the critical current questions in local public service delivery. A systematic review of the literature by Voorn, Van Genugten, and Van Thiel (2017) tentatively suggests a positive effect, although it is highly contingent on the sector and municipal capacity (an issue we will return to in the next section).
Governance dilemmas for local governments

To model the governance relationship between local governments and ALBs, principal-agent theory is frequently used (Allers and Van Ommeren 2016; Bel and Warner 2008, 2015; Boyne 1998; Feiock 2007; Garrone, Grilli, and Rousseau 2013; Hefetz and Warner 2004; Reeves 2013; Sørensen 2007; Van Slyke 2006; Voorn, Van Genugten, and Van Thiel 2017, 2019b). In this economic model, the local government is the principal who hires an agent (ALB) to carry out a particular task. As the agent is more expert at the task, the principal faces uncertainty whether the agent will indeed perform as agreed, and not serve only its own interests. To compensate for his information disadvantage, the principal will have to invest in monitoring devices or offer incentives to the agent. Local governments that want to manage ALBs may run into a number of problems, that may be more severe when the structural autonomy is greater (i.e., when moving from type 1 to type 3 ALBs) We discuss the problems of (1) local government capacity, (2) goal divergence, accountability and control, (3) multiple principals, (4) corporate governance, and (5) hollowing out of local government.

Local government capacity

Compared to state or national governments, local governments have less capacity to manage at arm’s length. By virtue of their smaller size, they have less expertise in management (Brown and Potoski 2006; Buenrostro and Bocco 2003; Plummer 2013), less access to technical knowledge or service expertise (Buenrostro and Bocco 2003), and a lack of expertise in establishing salient contracts and in monitoring (Brown and Potoski 2003, 2006; Ernita Joaquin and Greitens 2012; Hefetz and Warner 2004). Local governments may also face a more general lack of resources (Dollery, Crase, and Byrnes 2006; Voorn et al. 2019a), a problem that is nowadays more severe due to post-crisis austerity (Bolgherini 2014; Lowndes and Gardner 2016; Overmans and Noordegraaf 2014; Peck 2014).

Local government capacity can differ per municipality and service (Brown and Potoski 2003, 2006; Hefetz and Warner 2011). That is, capacity problems seem greater in smaller, rural municipalities than in urban municipalities, and for services that are more technical or have less overt public objectives local governments require more capacity due to the difficulty of monitoring and evaluating service delivery. However, investing in capacity proves to be more difficult for smaller municipalities.

The problem may be smaller in type 1 ALBs, as this type of ALB is still part of the municipal hierarchical organisation. However, when creating a stand-alone organisation (i.e., type 2 and 3 ALBs), staff and expertise often moves to this new organisation. This leaves municipalities’ staff without the necessary expertise to manage these ALBs.
**Goal divergence, accountability and control**

Directors of ALBs may have objectives different from municipalities: they might want to divert funds for private gains or prestige (such as by asking for higher salaries or greater number of employees than necessary) or might disagree with municipalities about objectives (cf. Holmstrom and Tirole 1989). This creates *goal divergence* that can cause problems for municipalities.²

Goal divergence is a key reason why governance is required in the relationship between municipalities and ALBs. Such governance, however, is not without costs. Because of asymmetric information between municipalities and ALBs – ameliorated by lack of local government capacity – steering and monitoring protocols are required, especially in cases where multiple stakeholders are involved like in joint type 2 and 3 ALBs (Voorn, Van Genugten, and Van Thiel 2019b). Clear directives from the municipality build the ALB’s awareness of expectations, and gives the municipality a criterion to audit. Similarly, incentives such as variable pay can align the director’s interest with that of the municipality. Monitoring the director is also practical, presuming it is not too costly. However, there are still findings that as the distance between ALBs and municipalities increases (i.e., moving from type 1 ALBs to type 3 ALBs), the municipalities’ objectives are less likely to be satisfied (Brown and Potoski 2003) and accountability can be lost (Cäker and Nyland 2017; Moynihan 2006; Spicer 2017).

**Multiple principals**

Principal-agent problems intensify when multiple stakeholders (in joint type 2 and 3 ALBs) are involved in service delivery. Such joint service delivery, that can take place through for example inter-municipal bodies or institutional public–private partnerships (Bel and Sebo 2018; Blaeschke and Haug 2018; Cäker and Nyland 2017; Carini, Giacomini, and Teodori 2019; Soukopová and Vaceková 2018; Sørensen 2007; Voorn, Van Genugten, and Van Thiel 2017, 2019b) can potentially induce conflicts in governance and monitoring. For example, local governments can face free-riding problems or duplication in monitoring if there is no agreement on which principal will be in charge of monitoring, which can cause inefficiency. Moreover, individual municipalities may have incentives to pressure the ALB to put their own interests first, and such cross-pressure can potentially cause more inefficiency (Garrone, Grilli, and Rousseau 2013; Voorn, Van Genugten, and Van Thiel 2019b). In institutional public–private partnerships (Argento et al. 2010; Da Cruz and Marques 2012), for instance, both the public and private partner can try to pressure the ALB to reflect their interest first and foremost, and spend a lot of resources in the process of doing so. Much less emphasised, however, is that the same can occur for inter-municipal service delivery when municipalities are heterogeneous in
interests. One proposed solution for this is to coordinate between local governments, for example, by delegating governance to a single party elected by the municipal principals, but further research as to whether or not this is effective is required (Voorn, Van Genugten, and Van Thiel 2019b).

**Corporate governance**

Type 2 and 3 ALBs often have a corporate structure with a one or two-tier board. The one-tier model is the predominant model in Anglo-Saxon countries, while the two-tier board with an executive and non-executive board is a common model in continental European countries (Van Thiel 2015). In the latter model, the executive board manages the ALB and the non-executive board officially is advisor and supervisor of the ALB. The corporate structure makes the corporate governance of these ALBs a relevant topic. Corporate governance is understood as the mechanisms for control, monitoring and management of legally and/or economically independent entities owned by local governments (Cadbury 2000; Shleifer and Vishny 1997). This is often associated with guidelines regarding the behaviour and structure of the executive and non-executive board and, in particular, the accountability of these boards (e.g., Aguilera and Cuervo-Cazurra 2009; Zattoni and Cuomo 2008).

Serious challenges and problems can be discerned in the corporate governance of ALBs (Bruton et al. 2015; Grossi, Papenfuß, and Tremblay 2015). An important element of corporate governance is the composition and behaviour of the executive board (Hinna, De Nito, and Mangia 2010; Meyer, Höllerer, and Leixnering 2018; Van der Walt and Ingley 2003). Besides in empirical studies, this is stressed in codes for good corporate governance (Papenfuß et al. 2018). Executive boards are expected to have a positive effect on ALBs’ performance (Cornforth 2012; Hinna, De Nito, and Mangia 2010). In case of joint ALBs, the strategic decision-making of the executive board can, however, be complicated by varying interests among the multiple stakeholders (Bruton et al. 2015). Furthermore, as municipal owners often have the power of appointing board members, they may appoint likeminded executive directors (with a previous career in the public sector or a political background) (Bruton et al. 2015; Flinders and Matthews 2010). This type of government control, called politicisation (Flinders and Matthews 2010; Peters and Pierre 2004), might lead to a politically desired focus on maintenance of employment and other social concerns, but might negatively affect the economic performance of the ALB (Bruton et al. 2015). Moreover, municipal owners might use reward-based political patronage as a means of favouritism used to reward political minions (Meyer, Höllerer, and Leixnering 2018).
Hollowing out of local government

Putting public service delivery at arm’s length from the local government might ‘hollow out’ local government. Hollowing out refers to (local) governments’ loss of functions and loss of autonomy due to reforms such as privatisation, putting services at arm’s length, and processes of centralisation and Europeanisation (Jacobsen 2009). In the context of ALBs, the loss of power of political institutions, such as democratically responsible local councils, to non-elected bodies can create a democratic deficit. For example, in type 2 and 3 ALBs, power is shifted to appointed boards (Flinders and Matthews 2010) which limits the ‘responsibility, accountability and authority for public action’ of municipal councils (Skelcher 2010, 8). In ALBs that are jointly owned by municipalities, the possibilities for steering and control of individual municipal councils is limited (Sørensen 2007; Voorn, Van Genugten, and Van Thiel 2019b). Another cause for the democratic deficit is that ALBs are often single-purpose bodies (Jacobsen 2009), which limits the possibilities of integral decision-making to deal with wicked issues. At the same time, layman councillors who often lack specialised knowledge struggle with controlling these specialised ALBs (Jacobsen 2009). For example, they do not always have enough interest, time or capacity to interpret the information arising from performance monitoring (Askim 2007; Ter Bogt 2004; Voorn et al. 2019a). As a result, control and monitoring of ALBs are often limited to the minimum legal requirements (Aars and Ringkjøb 2011).

Research agenda

The foregoing discussion of the state of the art of research and research findings on the use of ALBs by local governments has shown that there are still many questions unanswered. In this final section, we will present three research priorities. There are many more topics that could be studied, but we believe that these are the most urgent questions, both for academics and practitioners.

First, the definition and types of ALBs need more clarification. Public service delivery encompasses both the production, provision and purchase of services. Further refinement is needed, but can only be done when we have a better overview of the different types and numbers of ALBs in various countries. Our expert survey confirmed that local governments in Europe are all making extensive use of all three types of ALBs. It has however proven difficult to obtain more exact numbers of such bodies and their size in terms of, for example, budget or sectors. More research is therefore first and foremost needed to make an inventory of types of ALBs, their size and the sectors in which they operate. The current literature is fragmented and limited, and biased towards certain sectors, in particular water and waste. The typology that was used for the survey can be instrumental for comparative research, even if it has its limitations. We do not
expect that it is possible to get full clarity on all the different types, given all the differences in legal contexts and state traditions, but the three categories/types appear to be relatively easy to recognise for the experts.

A second priority for future research concerns the effects of the creation of ALBs, not only in terms of economic effects but also in terms of democratic effects. Little is known, for example, what citizens know and think of the fact that most of public service delivery nowadays is carried out by non-core government bodies (see for an exception James et al. 2016). Moreover, we have identified a number of ways in which a democratic deficit has arisen as a result of the creation of ALBs, particularly in case of type 2 and 3 ALBs. Most ALBs are non-elected and therefore not held accountable directly. Local governments can monitor the ALB and report this to local councils and citizens, but they are hindered by the limitations in their steering and information processing capacities. And in the case of jointly owned ALBs the possibilities for individual local governments to intervene or monitor are even more limited. Research should delve more into these issues, also to develop useful solutions for local governments.

Third and final, the new governance issues need to be studied more. Governments are facing the dilemma on how to deal with bodies operating at arm’s length. We have identified a number of problems that all deserve attention. However, two issues stand out most: the multiple principal problems and the role of boards. Both occur most in type 2 and 3 ALBs. Small municipalities try to solve their lack of steering capacity by joining forces with neighbouring municipalities (also expecting economies of scale). However, a multiple principal situation creates new problems, both on the side of the principals (e.g., who is going to be in charge of monitoring) and of the agent (e.g., being subjected to cross pressure from different principals). Principal-agent theory’s solution is to coordinate among the principals, but that is difficult to achieve among different governments. Researchers should not only study these problems, but also consider different solutions like alternative theories and models, such as stewardship theory (see note 2). Research into boards has so far focused mostly on the composition of the boards (e.g., diversity) or its remuneration (see, e.g., Papenfuß et al. 2018). Knowledge of the internal workings and the effectiveness of boards are, therefore, one of the unchartered territories for researchers to go and explore.

Notes

1. Public service delivery can encompass production, purchase and/or provision of public services.

2. Goal divergence may not always be true for public sector organisations (Van Thiel 2016). A more applicable model for the relationship between governments and ALBs, in that case, may be stewardship theory (Davis, Schoorman, and Donaldson 1997).
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References


Appendix. Expert survey on ALBs

Dear country expert,

We are working on a paper about the steering relationship between local governments and arm’s length bodies. To set the scene we would like to write a section on arm’s length bodies at the local level in different countries. We have information on The Netherlands, Germany and Norway, but we don’t know much about these bodies in other countries. Therefore, we are asking for your support by providing us information on arm’s length bodies at the local level in your country. Attached you will find a document with a table. This table is based on Sandra van Thiel’s typology of arm’s length bodies at the national level (see attachment). We used this typology previously to compare arm’s length bodies (ALBs) in the Netherlands with ALBs in Germany and Norway. This worked quite well. The question to you is whether you would be so kind to fill out the table for ALBs at the local level in your country.

Please note when filling out the table, that we are interested in:

- Whether all forms of the typology do indeed exist in your country at the local level
- if so, what they are called
- if so, whether you could give an indication of how common the different forms are (and if available give some figures)
- if some forms do not exist – please leave the cell open
- if some forms do not fit this typology – please indicate this below the table and explain how you would classify these forms
- Major trends of development (e.g., increase in some forms)
- Particularities of ALOs at the local level in your country (e.g., with regard to legal form, legal provisions, (corporate) governance)
- Other thoughts on the typology or subject in general – please indicate this below the table

We look forward to a positive response from you. Thank you in advance for your support.
### Types of organisations at the local level

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
<th>Types of organisations at the local level</th>
<th>Country of expert</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Unit or directory of the local government</td>
<td>Traditional in-house delivery</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Semi-autonomous organisation, unit or body without legal independence but with considerable managerial autonomy</td>
<td>In-house delivery by ‘autonomized’ units</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Legally independent organisation with managerial autonomy (in principle public law based)</td>
<td>Inter-municipal companies, public bodies, statutory bodies</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Organisation established by or on behalf of the local government such as a foundation, corporation, company or enterprise (private law based)</td>
<td>Limited companies, foundations</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Tendering and contracting out to public (for example other municipalities) or private organisations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Major trends over time**

**Particularities of ALBs**

*ALBs that do not fit the typology:*

*Other thoughts/comments:*