

# **Are there possibilities to influence austerity policy outcomes? A comparative study of social dialogue in local government in Italy, the Netherlands and the UK.**

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## **1. Introduction**

Studies of three decades of national governments' public management reform policies (Pollitt and Bouckaert 2011) have recently been complemented with studies of governmental austerity policies which have been instigated since 2008 as a response to the financial and economic crisis. Some studies of public management reforms (e.g. Peters 2012) conclude that governments in North America and Western Europe converge substantially, introducing fiscal austerity measures and making substantive changes through privatization, marketization and public-private partnerships, which have impacted public sector employment through job loss, labour market segmentation and declining public sector labour power. Other studies (e.g. Bach and Givan 2011; Bordogna and Neri 2011) conclude that structural analyses in terms of convergence / divergence have serious shortcomings. They demonstrate that there are some broad similarities as regards governments' interest in NPM reforms but that there are also substantial differences in reforms of public sector employment which are related to institutional conditions.

Compared with the diversity of assessments of public management reform policies in various countries recent studies (e.g. Lodge and Hood 2012; Vaughan-Whitehead 2012) of OECD countries' adjustment policies caused by the financial crisis emphasize variation in terms of timing, severity and the form of measures adopted but also highlight a largely similar orientation on austerity. Because of the scale of the financial crisis and the pressures on European Member States to take measures national governments seem to react to the financial crisis by subscribing to the pro-austerity discourse, which presents the financial crisis as exposing unsustainable deficits, leaving policymakers with limited choice but to engage in severe rollback of public spending and to redouble their efforts at reform to increase the efficiency of public administration (McCann 2013: 8-9).

The suggestion that there is similarity between austerity policies may be related to the main research focus, which is on national governments. It is not surprising that national governments tend to engage in similar austerity policies because their role as a policy maker is strongly interconnected to their role as employer. Therefore, it is relevant to broaden the scope of research and include local government. First, in many countries local governments get an increasingly prominent role in the provision of public services as part of central government adjustment policies. Because central governments devolve responsibility for particular public services to local government and cut the budget for local government at the same time, local governments are under pressure to provide public services more efficiently. This reform is accompanied by Big Society-like calls for citizens to look after themselves, for more volunteerism and voluntary sector organizations' involvement which is bound to have a large impact on local public sector employment (Bach 2012). Secondly, in many countries the

relations between central and local government are tense and in some countries like the UK local government is usually seen as resisting central government views. Lobo and Adua (2011) examine the view that local governments in the US would tend to embrace neoliberal governance and turn to austerity-oriented policies, but find that there is significant variation between US localities' policies contingent upon institutional attributes such as their administrative capacity and union density rate. Thus focusing on local government is of interest because it may reveal greater variation in local government responses to the economic crisis than a focus on national governments shows.

In addition, studies that have examined the role of social dialogue in dealing with the economic crisis also concentrate mainly at the national and sectoral level (e.g. European Commission 2013; Guyet et al. 2012). There is little evidence about how economically adverse conditions impact on social dialogue at the local level. Marchington and Kynighou (2012) theorise various alternatives ranging from the expectation that employee involvement and participation (EIP) will be marginalised because employers will not have an interest in EIP in bad times, to the expectation that EIP will be attended to because employers will use EIP with the view to creating acceptance of employer policies and generating higher levels of engagement. Marchington and Kynighou suggest that the development of EIP is dependent on context and choice. By context they refer to such conditions as institutional characteristics of liberal and coordinated market economies, and the extent of trust relationships between managers and workers, while choice refers to managers' and workers' representatives' choice to cooperate in fostering change or rather not to cooperate. This makes it interesting to study whether and how social dialogue in local government has influenced austerity policies in countries which differ in terms of their institutionalization of social dialogue.

This paper aims to contribute to our knowledge of the role of social dialogue in shaping governmental austerity policies and their outcomes as regards public sector employment conditions, concentrating on local government in Italy, the Netherlands and the UK. By answering the question *whether* and *how* local government industrial relations' actors differ in their responses to austerity we are able to examine whether there is convergence or variation in the way actors deal with the consequences of the financial crisis and in the concrete implementation of local policies. By answering the question *why* policy outcomes differ we will examine which contextual characteristics and strategic choices by the actors involved account for these differences, if any. Thereby, we also contribute to knowledge about the impact of economic conditions on EIP, which according to Marchington and Kynighou (2012) is a barely researched area.

The way in which this paper will answer the question *whether*, *how* and *why* local government industrial relations actors in Italy, the Netherlands and the UK differ in their responses to austerity is structured as follows. First, we review the literature on austerity policies and their impact on public sector employment. We outline theoretically what we expect regarding social dialogue's influence. The subsequent section describes briefly how the research was conducted and presents the results of exploratory case studies in two municipalities each in Italy, the Netherlands and the UK. These case studies, set within the context of the local government sector in each country, enable us to make comparisons between countries and between cases within countries. Our concluding remarks follow in the final section and will deal with institutional constraints and actors' strategic choices.

## **2. Theoretical framework**

### ***Government responses to the crisis***

The financial crisis and ensuing economic recession has triggered an ongoing societal debate about how governments should respond. McCann (2013) distinguishes between two broad interpretations which he labels as the pro-austerity and anti-austerity frames. According to the pro-austerity frame austerity is an unavoidable necessity. The first order priorities of governmental policies must consist of reduction of fiscal deficit and restoration of economic growth. These priorities are believed to be achieved through spending and borrowing cutbacks, lighter regulation to stimulate growth, increased use of private and third sector provision, and reform of public administration in the direction of efficient corporate models. By contrast, the anti-austerity frame suggests that austerity is not so urgently necessary but ideologically driven. Its first order priority is the maintenance of social solidarity and of acceptable levels of public services. These priorities are believed to be achieved through resisting and postponing cutbacks, tougher regulation, closure of tax loopholes, progressive taxation, and an activist industrial policy.

Political discourse in Europe features elements of both frames but the dominant view clearly tends to the pro-austerity frame in most EU Member States. The policies that have actually been implemented over the past five years align with the pro-austerity frame (Lodge and Hood 2012; Vaughan-Whitehead 2012), although one can also observe that governments make use of other measures than those mentioned by McCann such as increasing taxes. Vaughan-Whitehead's ILO study of public sector adjustments in Europe distinguishes between structural reforms, such as outsourcing and privatization, and quantitative measures such as cutbacks on public sector employment and wage cuts/freezes. The ILO-study shows that there is some variation between countries. Countries like Greece and Portugal that face the greatest need for retrenchment give priority to quantitative measures. Countries like the Netherlands and the UK have opted for a combination of quantitative measures and structural reforms such as the decentralization of particular public services to local government.

Looking at the measures which governments as employers take regarding public sector employment, we find that these measures are actually not too different from what Teague and Roche (2013) labelled 'recessionary bundles'. Theoretically, Teague and Roche expected that firms introduce HRM practices to accommodate recessionary pressures and that firms would differ by opting for specific bundles of HRM practices because of their choice for different adjustment routes: employment stabilization, responsible restructuring or pure downsizing. Their survey of Irish firms did not offer support for this expectation. Half of the firms appear to have adopted 'general HR retrenchment programmes' consisting of cuts in wages and salaries, voluntary or compulsory redundancies, and curbs on overtime and short-time working. The second group of firms adopted 'pay-freeze focused retrenchment programmes', relying mainly on wage freezes and curbs on overtime. Public sector employers conform to the pattern of general retrenchment programmes, while adding reforms that fit into longstanding policies of public management reforms that span more than three decades.

### ***Country differences***

European states' austerity policies seem to differ in degree, related to a state's vulnerability (Lodge and Hood 2012) or the need for speedy retrenchment (Vaughan-Whitehead 2012). Yet, while Lodge and Hood (2012) recognize homogenizing pressures, they also emphasize that diversity is likely to continue because the response of governments to the crisis depends on institutional factors. This conclusion resonates with earlier comparative studies of public management reform.

Bach and Givan (2012) examined the consequences of NPM reforms in the UK and USA, which are both considered to represent the so-called liberal market economies (Hall and Soskice 2001). Bach and Givan (2012) argue that many similarities characterise the reforms in both countries, such as a tendency to look to the private sector for best practice solutions and the consequent introduction of forms of marketisation, strengthening of managerial authority and individual performance management arrangements. However, they also observe that these broad similarities disguise marked variations in the consequences of reform with the UK providing evidence of more significant changes in pay determination and employment systems. Bach and Givan (2012: 2363) relate these differences to the differing institutional contexts. They note that in the UK a unitary and highly centralised public sector, combined with a system of parliamentary democracy, has enabled successive governments to implement radical reforms of the organization and management of the public sector. They also refer to the embedded nature of trade unions in the UK, which have sought to advance their agenda through collective bargaining and workplace organization and which have succeeded in curtailing some detrimental effects of government policy.

Similarly, Bordogna and Neri (2012) analysed the transformation of public service employment relations in Italy and France. They note that in political economy studies Italy and France share an ambiguous position between liberal and coordinated market economies. They observe also that Italy and France have some similar features in their administrative systems, involving a unitary and centralised form of the state, a legalistic administrative system and a professional cadre of public employees that serve the general interest. However, despite this common administrative tradition the reform trajectories in the two countries have diverged since the 1980s with Italy adopting NPM precepts such as contractualisation and decentralisation more openly than France has. For instance, in Italy employment relations were a crucial component of the reforms, involving the recognition of collective bargaining as the main method to regulate employment conditions whereas in France the shift from unilateralism to collective bargaining has been incomplete and uncertain. Bordogna and Neri (2012: 2328) conclude that an analysis in terms of convergence/divergence has shortcomings and that the explanation must take into account institutional characteristics such as the strength of the Italian trade unions in the 1980s and 1990s in relation to the weakness of the political system.

### *Social dialogue*

Our theoretical framework so far has examined the extent of strategic choice of governments and has found that there is not much strategic choice in relation to austerity. Austerity and the public finance institutions in the EU have constrained national governments and undercut the scope for strategic choice. This raises the question to what extent other industrial relations actors, notably workers' representatives such as trade unions and works councils (or similar representative bodies at the level of a municipal organization) may have influenced governmental austerity policies and their intended impact. Following the ILO, we understand social dialogue to refer to all types of negotiation, consultation or simple exchange of information between or among representatives of governments, employers and workers on issues of common interest relating to economic and social policy.

According to the European Commission (2013), the financial and economic crisis impacts on social dialogue itself, which is evidenced by the return to unilateralism on the part of governments at the expense of social dialogue. However, according to Marchington and Kynighou (2012) social dialogue is resilient in countries where this used to be well established. They conclude that the regulatory space available in liberal market economies

allows employers to choose from a range of options, whereas in coordinated market economies, where social dialogue is more deeply embedded into the institutional structure, employers are more likely to continue involving their staff in some way to deal with the crisis. However, Marchington and Kynighou (2012: 3350) observe as well that 'broad-brush explanations about the development of EIP are limited because so much depends on context and choice'. They elaborate on this by pointing out that organizations may be differentially affected by the economic crisis, and that existing trust relations play a major part in shaping the extent to which managers and workers choose to cooperate. Furthermore, employers make choices: some employers will argue that EIP is a costly and time-consuming option which they cut back on because the economic crisis requires them to impose immediate change, while other employers use EIP to reshape relationships with employees and to generate higher levels of engagement that can help to increase market share. Marchington and Kynighou concentrate their analysis on employers' choices but a similar analysis could be made of the strategic choices that workers' representatives make when they opt to engage in distributive or integrative bargaining, to control employer plans for changes in the organization of work or to participate actively in the design of such plans (Guyet et al. 2012).

### ***Expectations for this study***

Building on the analyses above we expect that the three countries in this study are likely to share in governmental austerity policies consisting of quantitative measures and structural reforms. An institutional factor promoting such policies is the EU's limits on members' budget deficits of 3 per cent per annum and an upper limit on the national debt of 60 per cent of GDP.

However, we may also expect differences in local austerity measures and their impact on local public sector employment conditions. Some factors that may induce such differences have been mentioned above, but need to be contextualised for local government and local public sector employment which are central to this paper. One factor is the position of local government vis-à-vis central government, which is related to political authority, administrative capacity and financial independence of local government (e.g. Bach 2012; Lobo and Adua 2011). Another factor appears to be the power of organized labour (Bach and Givan 2011; Bordogna and Neri 2011; Lobo and Adua 2011) and the institutionalization of social dialogue (Marchington and Kynighou 2012). In this respect it is relevant that the three countries are characterised as institutionally different, with the UK representing a liberal market economy, the Netherlands a coordinated market economy, and Italy being situated in an ambiguous position between liberal and coordinated market economies (Bordogna and Neri 2012: 2312; Hall and Soskice 2001). Finally, we may also expect local variation related to such circumstances as the degree of trust relationships between management and employees (Marchington and Kynighou 2012), the perceptions actors have of the intentions of the other party, and the strategic choices they make regarding their role in dealing with the consequences of the economic crisis (Guyet et al. 2012). For instance, will employee representatives perceive their employer as exploiting the crisis in an attempt to push through the kinds of change they have long wished to implement (McCann 2013: 8), will they engage in outright opposition or react pragmatically and engage in concession bargaining focusing on job security and training rather than pay (Guyet et al. 2012)?

The case studies of six municipalities, two each in Italy, the Netherlands and the UK, enable us to explore whether and how local government industrial relations actors differ. The factors described above are intended to help us analyse why such differences exist, if any.

### **3. Results: Austerity and social dialogue in local government**

This section will present the results of case studies that were conducted in 2012. The data were collected through interviews with HR managers and workers' representatives (trade union officers and members, works council members). Official documents and website information were also used. The presentation of the results will include a brief description of the austerity policies of each national government, the impact of austerity on local government, the policies chosen by the two municipalities in our case studies as a response to austerity, the views of workers representatives and the role of social dialogue in austerity policy choices and implementation. Each country study ends with concluding remarks reflecting on the similarities and differences between the two municipalities and the factors that account for these.

#### **3.1. Italy**

##### ***Background: government's austerity policies***

When the crisis arrived in late 2007, given the conditions of its public finances, Italy was forced to adopt severe programs to control budget deficit and to reduce public debt. This was pursued through a mix of tax increases and expenditure cuts. Among the latter type of measures, public services and public sector employees have been a crucial target of government policies: levels of employment, wage and salary increases, expenditures for workplace training activities, end of service allowances and pension systems have all been the object of repeated measures adopted by the government. Other measures regarded severe cuts in the financial transfer from central government to regions and local government (provinces and municipalities), and restrictions on the health system as well.

Since summer 2008, austerity packages were approved almost every year, partly within the annual budget law of the state, and partly through extraordinary manoeuvres. The first package was adopted in summer 2008, by the newly elected center-right government. Other important measures followed in May 2010, July 2011, and August 2011. After the resignation of Berlusconi, also the new Monti government adopted measures affecting the employment conditions of public employees, particularly important those in November 2011 (pension reform, among other) and in summer 2012 (the so-called spending review).

##### ***The impact of the economic crisis on local government***

Since 2007-08 the local government institutions (mainly the 8092 municipalities and the 109 provinces) have been subject to severe financial restrictions, adopted within the institutional framework of the Internal Stability Pact (ISP) introduced in 1998, following the EU Stability and Growth Pact (SGP). Financial transfers from the center have been severely cut, while local government's capacity to levy taxes is very limited.

Moreover, a set of legal constraints on local government expenditures, including personnel expenditures, have been introduced, including:

- a general statutory obligation to progressively reduce personnel expenditure;
- a freeze of national level negotiations from 2010 to 2014 and a pay freeze until the end of 2014, prohibiting any wage increase above the 2010 level for all public employees, including local government employees;
- a ban on any new temporary and permanent hiring, where the ratio between personnel expenditure and total current expenditure of a municipality exceeds 50%;
- severe restrictions to staff turn-over both for permanent and temporary employees. The possibility to hire new permanent employees is limited to an expenditure not exceeding

20% of the labour cost of retired employees of the previous year (40% since April 2012), while the expenditure for temporary employees cannot exceed 50% of that of 2009.

### ***Policy choices by industrial relations actors at sectoral level***

As in the public sector as a whole, terms and conditions of employment in local government are determined *via* collective negotiations in a two tier bargaining system. At national sectoral level the bargaining parties are ARAN on the employers side, and the representative trade unions on the employee side. ARAN is the bargaining agency created in 1993 to compulsorily represent all public administrations in national level negotiations.

Representative trade unions are those with at least 5% as an average between membership and votes received in the elections of the legally based workplace representation bodies (rsu), that since 1998 are elected through secret ballot and universal suffrage about every three years in all public administrations with at least 15 employees. The representative trade unions for non managerial staff in local government are four: the three unions affiliated to the largest confederations of the country (CGIL, CISL, UIL), plus an independent union, out of 127 (!) unions present in the sector. At decentralized, single employer level, negotiations (*contrattazione integrativa*) are carried out by the local employer or a representative of him and by the rsu together with the representatives of the trade unions signatories of the national level collective agreement applied in that bargaining unit.

The conditions of local government employees have been negatively affected by the austerity measures in several ways. First, by the freeze of national level collective bargaining for all public employees for the 2010-12 period, lately extended to 2013 and 2014. Second, by the restrictions on, and narrowed scope of, decentralized negotiations introduced by the Brunetta reform in 2009. Third, by the cuts in central government's transfers to local governments together with the tightened constraints of the Internal Stability Pact.

All these measures have been mostly unilaterally decided by the government, outside social dialogue institutions and practices. Unions were not always united in the opposition to these policies, with usually a more militant stance by CGIL and a more conciliatory one by CISL and UIL. Also the associations of the Italian regions, provinces and municipalities often opposed government cuts of financial transfers, with a (at least implicit) convergence of interest with trade unions.

These policies almost completely froze labour relations at sectoral level and created tensions at decentralized, single employer level, even where cooperative relations used to prevail.

### ***Policy choices and social dialogue at municipal level***

Two Italian medium-large sized municipalities were chosen, Modena (over 180,000 inhabitants), near Bologna, and Sesto San Giovanni (over 80,000 inhabitants), near Milan.

In Modena the austerity measures caused a reduction in the number of employees, decreasing by more than 7% in the 2008-12 period, from 2,096 to about 1,950. This reduction created a staff shortage in the social and education (for 0-6 year old children) services. Similar problems are shared by many Italian municipalities. In 2012 some directly-run services, one residential care home and four kindergartens, were externalised respectively to a not-for profit organisation and to a publicly-owned foundation which is partially outside the constraints on hiring and personnel expenditure imposed on the municipalities. Most of the staff of the outsourced services consisted of temporary employees who have been permanently hired by these external organisations, with slightly worse terms and conditions of employment compared with the permanent municipal employees.

In Sesto San Giovanni staff levels have been stable, from 801 to 795 units in the 2008-12 period. But the restrictions on new hirings will probably create very soon a staff shortage problem also in this case. Moreover, managers find it difficult to motivate employees to provide good quality services and to meet performance targets, because of absence or scarcity of adequate incentives. This climate of employee dissatisfaction was worsened by the lack of resources to finance the performance-related pay system for 2012.

In both cases the traditionally cooperative relationships between the municipalities and the unions have progressively worsened in the recent years.

In Modena the unions blame managers for adopting unilateral decisions without any formal or informal negotiation/consultation. The municipality managers maintain that they are forced to adopt this strategy because of the opposition of the unions to any change aimed at solving the problems caused by austerity policies. They feel also legitimate to adopt unilateral decisions by the 2009 public employment reform, which strengthened managerial prerogatives on HRM issues and reduced the number of negotiable matters. In 2012-13 the unions strongly opposed the outsourcing processes and entered into a series of strikes, suggesting to use internal mobility and professional re-training as alternative solutions to staff shortages instead of externalisations. But managers think that outsourcing processes are inevitable giving the financial and legal constraints on staff expenditure and recruitments.

In Sesto San Giovanni, the relationships between the municipality and the unions are still cooperative, but tensions are progressively increasing. Social dialogue is also negatively affected by inter-union rivalries, with an increasing role played by an independent union which usually takes a more confrontational stance than the unions affiliated to the main national confederations.

### ***Concluding remarks***

Social dialogue institutions both at national sectoral and at single employer level have been mainly changed by the Brunetta reform, not by austerity measures. Austerity policies, however, have heavily affected the practice of public sector social dialogue, both at national and decentralized level, with negative effects on terms and conditions of public employees. In the local government sector, these effects have been further strengthened by the cuts in government's financial transfers to territorial authorities, together with the connected, tightened constraints of the Internal Stability Pact.

While at national level social dialogue has been simply frozen for 4-5 years, more variation may exist at local level. Here there is greater scope for choice by both bargaining parties, depending on their cultural tradition, style of management and strategic orientations. Our case studies, however, despite the limited evidence they can offer, show that even where cooperative attitudes used to prevail in union management relations, like in Modena, these are put under strain by the scarcity of resources in conjunction with the constraints of the Internal Stability Pact. Moreover, local employers and municipal managers may feel legitimated by the Brunetta reform to utilize managerial prerogatives much more resolutely than in the past, towards forms of stronger unilateralism.

The two case studies indicate a trajectory from an initial stage in which simple quantitative measures were adopted, to one in which deeper changes on the re-organization of service provision are detectable. Municipalities can be forced not only to downsizing processes, but also to progressively abandon the direct provision of welfare services. Social assistance, childcare and education services for 0-6 year old children, traditionally directly provided and run by Italian municipalities, are increasingly given to private sector providers, both for profit



and non-profit organisations. If this trend continues, the municipalities would become similar to commissioning organisations, in charge of planning, financing and monitoring the services provided by other, private sector organisations.

The combined effect of institutional reform, national level austerity measures and the rules of the Internal Stability Pact are severely challenging social dialogue even where cooperative relationships used to prevail between centre-left oriented municipalities and strong, deeply rooted trade unions, possibly leading to a redesign of the traditional role of municipalities in the provision of public services.

### **3.2. The Netherlands**

This section describes how local government industrial relations' actors in the Netherlands responded to austerity. Following a brief sketch of the impact of the economic crisis, we describe the responses at sectoral level first and then examine the responses by management and works councils in the municipalities of Leeuwarden and Zwolle.

#### ***Background: central government's austerity policies***

Since 2010 successive governments have implemented austerity measures amounting to about 50 billion euros. These measures consist partly of quantitative measures aimed at efficiency cuts that result mainly in cuts in employment, wage freezes, and a rise of the pension age. These measures affect employees in central government and education most as these are the subsectors where central government has employer authority. Apart from quantitative measures central government has also decided to implement structural reforms that align with longstanding reform programmes aimed at creating a smaller and service-oriented government. One prominent structural reform measure is the decentralization of specific public services such as providing sheltered workplaces and youth care, to local government with a simultaneous 'efficiency saving' on the budget amounting to 10 or 20 per cent if not more.

#### ***The impact of the economic crisis on local government***

Municipalities are highly dependent on central government funding, which amounts to two thirds of the local government budget (VNG 2012), but they have the authority to conclude the collective agreement for the local government sector. Austerity has caused a reduction of central government's financial contribution in two ways. First, the general payments from central government are subject to the so-called 'normalisation system' which means that any central government cuts of its own budget will automatically result in a decrease of 18 per cent of payments to municipalities. Second, payments from central government for designated services such as social assistance payments were substantially lower than the costs incurred by local government, resulting in a deficit of more than 1 billion euros on social assistance payments over 2010 and 2011 (VNG 2011). Next to municipalities being affected by budget cuts from central government, the economic crisis hit the municipal budget directly. Municipalities faced losses of several billion euros on incomes from ground exploitation because of postponement and cancellation of building projects due to the economic crisis. A study of the municipal budgets of the 36 largest municipalities in the Netherlands showed a 5 per cent expenditure cut in 2011. The largest part of this expenditure cut (35 per cent) affected municipal employment (Nicis 2011).

#### ***Policy choices by industrial relations actors at sectoral level***

Employment conditions in local government are regulated at sectoral level through collective bargaining between the employers' association (VNG) and three public sector unions

(Abvakabo FNV, CNV Publieke Zaak, CMHF). Because of the reduction of central government's funding local government employers have felt the need to restrain spending on employment conditions. On the other hand the increasing importance of municipalities as 'first nearby tier of government' stimulates municipalities to aspire to being an employer of choice, which has resulted in efforts to modernize the collective labour agreement to meet with demographic and social changes.

The process of collective bargaining has taken longer than before and has been suspended several times by periods of industrial action but collective agreements have been concluded since 2010. The biggest issues were wages and employment security. Union wage claims were based on the principle that wages should compensate for inflation, whereas employers proposed a wage freeze/restraint. Regarding employment security employers and unions disagreed over the length of the period in which an employee would have the right to job-to-job support while still on the local government's payroll after having been made redundant. On both issues of wages and employment security employers and unions compromised. This was helped by their agreement on the modernisation of the collective agreement which involves topics such as increasing flexibility of working hours to improve accessibility of services for citizens, a personal career budget for employees, and the reduction of hiring external staff.

The agreement on job protection in the form of a 2 year period of job-to-job support is regarded by employers and unions as an innovative arrangement. The reasons for agreeing on this arrangement are related to the ongoing reduction in local government employment, amounting to 4 per cent in 2011 and another 4 per cent expected for 2012 (Monitor Gemeenten 2011).

### ***Policy choices and social dialogue at municipal level***

Two Dutch medium sized municipalities (about 100,000 inhabitants) which had to cut about the same amount of their total budget were studied. Leeuwarden had initially planned the least cut-backs on its organization and personnel but later decided to cut back as much as Zwolle had. In both municipalities the city council, based on its political authority, had decided on the budget cuts and then management was responsible for implementation and works councils became involved.

The pro-austerity choices by the two city councils were linked to their longer existing ambition of reform to become a smaller and service-oriented government. In both municipalities the works councils support this aim. The aim of management in Leeuwarden to create a more flexible organization is acknowledged by the works council but the employer's choice for more flexibly hired employees and flexible employment conditions meets with opposition. In both municipalities cuts in employment are foreseen and discussed at the time of research amounting to about 100 jobs by 2015. Forced redundancies were, initially, not expected by the employer and the works councils accepted restructuring plans, expecting that no forced redundancies would be needed.

In both municipalities the works councils demand strategic personnel planning which would enable the organization to react better to changes. The works council in Leeuwarden opts for a position of control of municipal personnel policies while the works council in Zwolle focuses on the process of change and participates in seeking alternative employment opportunities based on their view of the organization's social responsibility and their rejection of forced redundancies.

The outcomes of change differed. In Leeuwarden staff reduction was effectuated without active support in finding alternative employment whereas in Zwolle the municipal employer was actively involved in arranging jobs in the private sector – accompanied by a private-public partnership for 10 years – and in other public organizations. Because the

Leeuwarden municipal employer decided to cut more jobs than initially agreed on, a conflict between employer and works council arose and the works council defended its refusal of forced redundancies by submitting the conflict to court.

In both cases social dialogue involves the works council monitoring the process of change. When the employer does not stick to the rules conflict arises. In addition, the works council in Zwolle participates more in the process of arranging alternative job opportunities. Social dialogue is actively supported by the Zwolle employer who facilitates social dialogue platforms in all municipal departments which feed management and the works council with information and ideas. According to the interviewees trust-based longstanding personal relationships between employer and works council in Zwolle influence the role of social dialogue positively. In Leeuwarden and Zwolle both works council and HR director acknowledge the need to collaborate.

### ***Concluding remarks***

Pro-austerity choices by the employers' association and city councils are accepted by the workers' representatives. At the sectoral level trade unions adopt a pragmatic concession bargaining approach (Guyet et al. 2012) but demonstrate as well that they are able to resort to industrial action if employers are not willing to compromise. In addition, both employers and unions are intent on modernizing the collective agreement. The unions do not opt for a mere defense of traditional job security but take an active role in developing a job-to-job support programme. Their acceptance of this arrangement is based on the recognition of the ongoing reduction of local government employment. An important factor supporting the resilience of social dialogue at sectoral level is the formal autonomy of the local government employers vis-à-vis central government.

At the municipal level both works councils support the reform process aimed at a smaller and service-oriented government. Both understand their role as seeing to reorganization processes observing agreed rules and as mitigating the consequences for employees as much as possible. There are also some interesting differences between the two councils, however. The Leeuwarden works council adopts the position of formally controlling employer plans while the Zwolle works council participates actively in developing plans for alternative employment opportunities for workers who face outsourcing or redundancy. As a consequence Zwolle offers active job-to-job support ensuring that employees keep paid employment, and the works council supports the municipal participation in various sorts of networks aimed at facilitating job mobility of employees between public and private organizations in the region.

The difference between the two works councils seems related to their understanding of the role of the works council as a 'strategic partner' (Zwolle) or as 'controlling' the employer (Leeuwarden). This type of strategic choice must be seen in relation to the employment relations' context. Employer and works council in Zwolle characterize their relationship as trusted, based on many years of respectful interaction. One indicator of the value attached to social dialogue by the employer is the provision of facilities which permit the functioning of social dialogue committees at departmental level in the municipal organization. By contrast the relationship between employer and works council in Leeuwarden is characterized as lacking personal trust which is partly attributed to the brief periods of service by the chief secretary and the HR director.

### **3.3. Britain**

#### ***Background: government's austerity policies***

In 2010, the Labour government was replaced by a Conservative-led coalition government committed to fiscal consolidation as part of its programme to shrink the state. In 2010 a target was set to reduce the deficit from 8.4 per cent of GDP in 2009 to 0.4 per cent by 2015 with three quarters of deficit reduction linked to public spending cuts. As a result total public spending is planned to be cut by 4.6% in real terms between 2010-11 and 2017-18, but taking account of increases in areas such as state pensions, government departmental expenditure will fall by 18.6% in real terms by 2017-18, with major consequences for public sector pay and employment (IFS, 2013).

The main focus of austerity measures has been on quantitative reductions in employment and wages, but the coalition has also used its emphasis on deficit reduction to reinforce qualitative, structural, reforms of public sector organisation that build on aspects of the Labour government's modernisation agenda. The government is encouraging more diversity and competition between providers, especially in health and education, with an enhanced role for the private sector and 'mutuals'. This is putting pressure on public sector providers to scrutinise terms and conditions of employment. An important component of this process has been a questioning of the utility of national pay determination with an aspiration to reduce pay rates for public sector workers in poorer parts of the country. Currently, the government is targeting progression pay based on length of service. It is encouraging public sector employers to enhance the link with competency and performance with schools in the vanguard of change.

### ***Local government***

Local government is highly dependent on central government finance and subject to central government scrutiny, even if government policy emphasises 'localism'. Despite outsourcing, local government has overall responsibility for a wide range of local services including schools, social services, environmental and leisure services and libraries and employs just under half the public sector workforce. Local authorities are independent employers but they are covered by national pay bargaining, however, around 10 per cent of councils (approximately 30) in the high-cost south of England have opted out of national pay bargaining and determine their annual pay increase locally.

Local government has been especially hard hit by public expenditure reductions with cuts in grants to councils of 28% in this parliament (LGA, 2013). In this parliament (2010-2015) the public sector is undergoing a five year period of incomes policy with a two year pay freeze, followed by three years of awards limited to 1%. Strictly speaking local government is not included as central government is not the direct employer, but this autonomy is illusionary given the severity of budget cuts and the requirement on each authority to balance its budget. Consequently local government employers had already decided not to make a pay offer in 2010, even before the coalition government imposed a two year pay freeze, implemented from 2011. In the following two years, local government employers made no pay offer and thus by March 2013 local government had experienced a three year pay freeze and had not paid the £250 increase for those earning below £21,000 on affordability grounds in contrast to other parts of the public sector. For 2013-14, the employers have offered a 1% pay offer.

### **Case studies**

#### ***Coastal***

Coastal is located in the South of England and employs around 6,500 staff. Since 2008, it has been Conservative Party controlled leading to the outsourcing of back office functions such as HR and deterioration in the industrial relations climate with limited workforce involvement.

Budgetary cuts led the council leadership to propose that 400 less redundancies would be necessary if the workforce accepted permanent pay cuts to be implemented from 31<sup>st</sup> March 2011. The final employer offer included the removal of increments (pay progression) and included pay cuts of between 2 and 5.5 per cent with larger pay cuts for higher earners. The council offered to pay a £250 increase to those earning less than £17,500.

Although discussions were held with the trade unions, the sticking point remained not only the loss of income in a period of wage stagnation, but also uncertainty if jobs could be guaranteed even if wage reductions were accepted. During this period the trade unions learnt that the council planned to impose change if agreement could not be reached. Section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 allows employers to lawfully dismiss workers and re-engage them on different terms and conditions, following a statutory consultation period. This process provoked rolling and selective industrial action, for example, by parking attendants that hit council revenue and social workers refusing to use their own cars, incurring large taxi charges for the council. The industrial action was regarded by many commentators as a wider statement against austerity and accompanying government's policies as a whole. The dispute was settled when Coastal reverted to Labour-control during 2012 with a commitment to restore pay by 2014, but the scale of cuts will ensure that discussions around employment reductions are bound to re-emerge in the near future.

### ***Midtown***

MidTown is a smaller local authority than Coastal with 1,300 employees but it has also faced severe budgetary cuts. Labour re-gained full control of the council in 2010. Since 2008, efforts have been made to enhance efficiency and around one in 10 managers left the organisation in restructuring initiatives prior to the 2010 cuts. In contrast to Coastal the HR function has not been outsourced and this forms part of a wider management belief, that it is more cost effective to retain services in-house and generate internal efficiencies, as has occurred in refuse collection and other services. MidTown management emphasised communication and involvement with both the workforce directly and with trade union representatives. A comprehensive consultation and communication strategy, started prior to austerity measures took effect that included improved staff appraisals, quarterly road shows for employees and generally a more visible top management team.

MidTown management set out their proposals in February 2011 and were seeking agreement from the trade unions, but they also publicised widely what they were proposing to the whole workforce. The management proposed that 'in order to achieve savings and protect jobs' increments would be given up for two years (2011-2013) but would be partly compensated for by a 'Partnership Payment'. The partnership payment offered an annual payment of £250 - £500 based upon organisational savings targets being achieved. For individuals, however, their eligibility was linked to both a satisfactory attendance record and achieving an acceptable annual staff appraisal. Additional areas were covered in the agreement in terms of what changes would be implemented once the 2-year deal expired. In return, the council agreed it would: minimise redundancies as much as possible; budgetary cuts would be phased over 4 years and 'natural wastage' used. In addition, more would be spent on training and retraining people to avoid compulsory redundancies. The agreement was accepted by the trade unions and endorsed in a ballot of union members. The agreement set in train major reconfigurations of HR practice based on tighter performance management with links to performance pay rather than pay progression based mainly on seniority.

### ***Discussion***

The cases demonstrate that even in a period of severe budgetary reductions scope for strategic choice exists with significant differences in workforce involvement between Coastal and MidTown. One factor that may have influenced variations in the use of dialogue might be argued to be the political control of the authorities. Midtown has been Labour-controlled in recent years and has engaged with the workforce, endorsed a living wage and in-house service provision but in-return has required significantly enhanced productivity from the workforce. In contrast, unions argue that no meaningful dialogue took place at the Conservative Coastal council. No agreement on pay cuts was reached, decisions were made unilaterally and worse terms and conditions imposed which has led unions to take sustained industrial action. On the other hand, in Coastal despite a change of political leadership, uncertainties remain about pay and employment prospects given the size of budget cuts, so political will to reach agreement with the workforce may be a necessary but not a sufficient condition to ensue negotiated agreement in tough times.

This raises the issue of the respective strategies of the social partners: employers and trade unions. In terms of employers, at MidTown the council leadership had developed a dense system of dialogue and built trust prior to the cuts being implemented, facilitated also by the relatively small size of the employer. At Coastal, HR had a low priority and was outsourced and discussions during 2010-11 were led by the elected political leadership rather than by the chief executive, as in MidTown. This contributed to the difficult atmosphere because there were very polarised political differences between the Conservative councillors and the trade union representatives in Coastal, which would have been less visible if the negotiations had been led by ostensibly politically neutral managers.

For the trade unions, important issues emerge about their willingness to participate in concession bargaining. In general public service trade unions have been willing to do so, but in Coastal the use of Section 188 - dismissal and re-engagement – was especially inflammatory and had wider implications for the trade union movement. Conversely, in the case of MidTown, the trade unions accepted a trade-off to mitigate even worse outcomes and were conscious that their members had been under a wage freeze for several years.

#### **4. Conclusions and discussion**

The central question which this paper aims to answer is whether, how and why local government industrial relations actors in Italy, the Netherlands and the UK differ in their responses to austerity. We have suggested that while national governments' policies tend to be similar, variation may be expected at local level. Examining the three countries the similarity of national governments' policies is striking as all respond to the economic crisis by similar types of austerity measures, emphasising expenditure cuts that affect employment conditions throughout the public sector. Local government shows variation, between the three countries but also within the three countries. Table 1 tries to capture the main elements of our comparative analysis, including institutional differences between local government in the three countries (rows 1 – 5) and indicators of austerity consequences resulting from central government policies and local government actors (row 6 - 8).

The impact of austerity on local government employment conditions is demonstrated by employment cuts and wage developments (row 7 and 8 in our Table); we have less information on other indicators to make valid comparisons. Employment cuts are prevalent in local government in all three countries. Wage freezes are characteristic of Italy and Britain but are absent in local government in the Netherlands. Another indicator of the impact of the economic crisis is the change in the industrial relations climate at local level, but here we see a pattern which seems to indicate variation at local level within countries. We will return to

this later. These indicators suggest that there is variation in austerity's impact on local government employment conditions between the three countries, particularly in the area of wage development, as well as similarity in the area of employment cuts. The question now is why this pattern emerged.

The first three rows of our table present indicators of the position of local government, which we assume enables or constrains local government policy-making. In all three countries central government has severely reduced its funding to local government, thereby constraining local government's financial leeway. Similarly, local government in all three countries is constrained because of the limitations on its capacity to levy taxes. However, when it comes to local government as an employer an interesting difference emerges. Local government in Italy, despite the formal two-tier system of collective bargaining, has been overruled by central government's unilateral decision to freeze wages, while in the Netherlands local government has preserved its formal authority to conclude collective labour agreements, based on laws from 1993 (Leisink & Steijn 2007), despite central government pressure to abide by its policy aims to freeze wages. In the Netherlands the local government employers association concludes collective agreements which are generally binding whereas in Britain local government can opt out of national pay bargaining, which some councils have done. These institutional characteristics go some way to explain differences in the impact of austerity: when local government employers have the authority to negotiate over employment conditions at sectoral level as in the Netherlands, or at sectoral and local level as in Britain, there is opportunity for strategic choice for employers and also for trade unions, whereas central government's unilateralism as in Italy eliminates the room for strategic choice at least in the area of wages. Apart from the formal authority of local government to negotiate over employment conditions their financial resources are of course another factor that influences and constrains their room for strategic choice, but there seems to be little variation between the three countries in this respect.

When there is room for social dialogue, at sectoral and/or local level, both organized labour's power and the institutionalization of social dialogue appear relevant (Boxall and Purcell 2011; Terry 1997). That is, irrespective of what strategic choice regarding austerity and local government employment conditions worker representatives would want to make, if they do not have the capacity to make their views being taken account of not much will come of it. In this respect it appears that Italy and the Netherlands share a similar institutional framework of legally institutionalized employee voice at organizational level while Britain exemplifies the voluntarist liberal market economy model with few legal obligations. There seems to be some difference in union power between Italy and the Netherlands, because of organizational fragmentation in Italy, but overall it seems to be a lack of common orientation between the trade union confederations in Italy which affects its influence rather than the organizational fragmentation, as compared with the Netherlands. In fact, the difference in union power between Italy and the Netherlands, if it exists, seems to be relevant at the local organizational level only, because at the sectoral level there has been no opportunity for Italian trade unions to attempt to influence local government employers' strategic policy choice because of the unilateralism by central government.

It is at the level of individual local government employers where we can examine the interplay of institutional constraints and industrial relations' actors strategic choice most clearly. In all three countries the local government employer favours a menu of efficiency improvements either coupled to outsourcing of particular services or of keeping them in-house on condition of better performance, of cuts in employment and in employment

conditions. However, there is a distinct difference between local government employers pursuing a strategy fostering involvement and those pursuing a forcing strategy (Walton, Cutcher-Gershenfeld and McKersie 1994). In each of our three countries we find a local council pursuing an involvement strategy: Sesto San Giovanni in Italy, Zwolle in the Netherlands and MidTown in Britain, as well as a local council pursuing a forcing strategy: Modena in Italy, Leeuwarden in the Netherlands and Coastal in Britain. This illustrates the room for strategic choice by industrial relations actors, which interacts with the institutional environment. Thus the Italian case of Modena demonstrates that management feels legitimate to adopt certain unilateral decisions (externalisation of residential care and kindergartens) because of the public employment reform which strengthened managerial prerogatives and because of opposition of the unions. The institutional context enables municipal management to make this strategic choice and perceived union opposition triggers this. On the other hand, in a similar institutional context the municipal management of Sesto San Giovanni engages in cooperative relationships. The institutional context interacts with strategic choice on the side of works councils as well. In the Dutch town of Leeuwarden the works council understands its role as controlling that the employer sticks to agreements and institutional rules, and when the employer breaks the rules the works council ultimately brings their conflict to court, which is a legal right which works councils have but seldom use. On the other hand, the works council at the local government of Zwolle chooses to pro-actively participate in developing programs of municipal change involving outsourcing and public-private partnerships, based on protecting local workers' interest as best as they can and based on a longstanding trust relationship with local management. In the British case it seems that the strategic choice by management is more important than the institutional constraints, which fits the assumption of regulatory space that management in a liberal market economy has according to Marchington and Kynighou (2012).

To conclude, the three countries that we study – Italy, the Netherlands and Britain – have faced shared economic pressures associated with austerity which have forced change in local government, because of financial constraints imposed by central governments. The way in which these constraints operate for local government have been mediated by national institutions, both those structuring local government, for instance its formal autonomy vis-à-vis central government, and those structuring social dialogue institutions. However, local governments' handling of these constraints does not reflect another form of constraint in the sense of them being locked into different institutional responses. We claim that municipalities as well as workers' representatives still have some choice in terms of how they respond to austerity measures at local level. This is exemplified by the different responses by the employers as well as unions/works councils in the two municipalities *within* each country that we studied. These differences between actors at local level within the same institutional context may be taken as evidence of some degree of strategic choice.



**Table 1: Institutional features of local government and austerity's impact on employment conditions**

	<b>Italy</b>	<b>The Netherlands</b>	<b>UK</b>
1. Development of central government funding to local government	Severe cuts in recent years	Proportional cuts and severe cuts in designated funds	Hard hit: reduce spending in real terms by 28 per cent
2. Local government's capacity to levy taxes	Yes, but very limited	Yes, but limited	Yes, but highly dependent on central government
3. Autonomy as local employer	Yes as part of two-tier system, but overruled by unilateral central government policy-making since 2010	Yes, two tier system. Sectoral agreement is generally binding; local agreements are supplementary	Yes, coverage by national pay bargaining; 10 per cent of councils have opted out and determine pay locally
4. Institutionalization of employee voice at organizational level	Legally based; almost universal diffusion of workplace representation bodies, in units with more than 15 employees	Universal diffusion of works councils, based on Works Council Act 1995	Limited legal obligations.
5. Union power: density rate and unity/ fragmentation	Little less than 50%. High fragmentation, with more than 120 unions in the sector; 4 of these are 'representative unions' and admitted to national sectoral level negotiations. 3 are affiliated to the largest trade union confederations and have a representativeness of 85%	40 per cent. Little fragmentation; 3 unions cooperate	56% Complex trade union structure of several large general unions but also smaller professional trade unions that compete for members, but cooperate in bargaining structures
6. Industrial relations climate at local level	Traditionally cooperative relationships; progressively worsening	Traditionally cooperative relationships; variable development: conflict when employer breaches agreement, and collaboration based	Variable but relations have generally worsened. Conflict when employer takes adversarial approach. Cooperation where employer pursues involvement, and supports retention of

		on trust; ongoing recognition of the need to collaborate	services in-house but also tighter performance
7. Employment cuts	-2,6% between December 2007 and December 2011 in the sector of Regions and territorial autonomies	- 4 per cent in 2011 - 4 per cent in 2012	Variations in outcomes between sectors. Local government impacted strongly with a 11% reduction in employment between 2008-12
8. Wage development	Wage freeze from 2010 to 2012, followed by incomes policy now extended to 2013 and (probably) 2014	Annual wage rise of about 1 per cent	Wage freeze imposed in 2010 for two years followed by an incomes policy in which awards cannot exceed 1% for three years

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