MODELS OF GOVERNMENT STRUCTURE AT THE LOCAL LEVEL[1]

By

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INTRODUCTION

Interest in cities around the world has increased significantly over the last decade. This interest has arisen in part because more and more people are living in cities and, in part, because it is increasingly understood that large cities and city-regions[2] are the major drivers of economic prosperity for the countries in which they are located.

Globalization has fundamentally changed the role of cities. In the new knowledge-based economy, knowledge and learning are key determinants of economic success. Firms are no longer competing only on the basis of achieving the lowest cost, but they also are competing on the basis of their ability to innovate: to come up with new products and to deliver them in a timely manner.[3] Cities are key to innovation – they are places where workers, capital, institutions and infrastructure come together to provide the foundation for economic activity. The concentration or proximity of people and firms in cities increases social and economic interaction and results in the exchange of ideas among people working in different fields in the same location. This exchange of ideas is essential for innovation.

To attract businesses, cities not only have to ensure access to skilled labour and transportation and communications infrastructure but they also have to provide those services that attract and retain highly trained human capital. According to Richard Florida,[4] the knowledge workers are attracted by quality of life factors such as diversity, tolerance, a lively arts scene, recreational opportunities, high quality public schools, strong neighbourhoods, and safety from crime. As Savitch and Kantor note: "where you live and work matters more than ever in accessing jobs, income, public amenities, schools, and green space."[5]

In this context, local governments have an important role to play. Not only do they have to ensure access to skilled labour and transportation and communications infrastructure but they also have to provide those services that attract and retain highly trained human capital. This means that cities need the financial resources that will enable them to build and maintain the infrastructure and to deliver the services that will attract skilled individuals and firms. The appropriate local government structure will help them to do this.

Good local governance also has a role to play. The main contribution of local governance is to the livability of cities in terms of health and safety, recreational opportunities, environmental health other factors that contribute to the quality of life. The type of government structure for cities will have an effect on the efficiency with which services are provided and on the ability to share the costs throughout the entire region in a fair and efficient way. Governing structure also

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2 City-regions generally refer to a defined urban centre with smaller adjacent urban and rural areas.

3 See Gertler, Meric S., Richard Florida, Gary Gates, and Tara Vinodrai. "Competing on Creativity: Placing Ontario's Cities in North American Context." A report prepared for the Ontario Ministry of Enterprise, Opportunity and Innovation and the Institute for Competitiveness and Prosperity, Toronto, 2002.

4 Florida, Richard, *The Rise of the Creative Class*. New York: Basic Books, 2002.

5 Savitch, H.V. and Paul Kantor, *Cities in the International Marketplace: The Political Economy of Urban Development in North America and Western Europe*, Princeton, New Jersey: Princeton University Press, 2002, p. 16.

has an impact on citizen access and government accountability for the expenditure and taxing decisions it makes.

The purpose of this study is to compare different models of government structure at the local level and to evaluate their advantages and disadvantages. The study will focus mainly on government structures in large cities but will also look at governance in smaller, remote communities. Examples of different cities around the world will be used to illustrate how different government structures work in practice.

The outline of the paper is as follows:

- The first part sets out the standard public finance criteria for designing government structure: subsidiarity and local responsiveness, economies of scale, externalities, equity, access and accountability. Some of these criteria call for large government units to deliver services; others suggest small government units would work better.

- The second part discusses the application of the above criteria to communities of different size and location. In particular, the circumstances of large metropolitan areas on the one hand and small remote communities on the other hand are considered.

- The third part describes and reviews the advantages and disadvantages of four models of government structure: two-tier governments, one-tier governments, voluntary cooperation (including inter-municipal agreements) and special purpose districts. It also considers the role of senior levels of government. As part of the discussion, examples are provided from different cities around the world.

- The fourth part provides more in-depth descriptions of how different models work in four cities: Toronto (Canada), Vancouver (Canada), London (England), and Minneapolis-Saint Paul (USA). It also provides one example of governing communities in remote areas: Ontario (Canada). Although these examples are in now way intended to be comprehensive, they do illustrate some interesting experiments with different types of structures.
- The fifth part draws some general conclusions about governing structures around the world.

It should be noted at the outset that the discussion of government structure around the world makes clear that different structures have worked in different places at different times. Indeed, individual cities have tried different structures at different times. It is thus very difficult to generalize from the examples provided because there is not one model that stands above the rest. The appropriate governing structure in any one municipality will depend on its specific characteristics – the nature of the services it provides, the revenue sources available to it, the size and location of the municipality, the size of the municipality relative to the state/province or country as a whole, the nature of intergovernmental relations, the history of cooperation with neighbouring municipalities, and other factors.

CRITERIA TO EVALUATE DIFFERENT MODELS OF GOVERNMENT STRUCTURE

In terms of economic theory, the major role assigned to regional or local governments is to provide goods and services within a particular geographic area to residents who are willing to pay for them.[6] If the benefits of particular services are confined to local jurisdictions (in other words, the benefits do not spill over into neighbouring jurisdictions), efficiency is enhanced because the mix and level of services can vary according to local preferences. Local officials are in a better position to respond to local tastes and preferences than are officials of senior levels of government.[7]

[6] Bird, Richard M. and Enid Slack, *Urban Public Finance in Canada*, Toronto: John Wiley and Sons, 1993, p. 16.

[7] The provision of local services does not mean that the municipality has to produce the goods and services themselves, however. Rather, the role of local government is to make decisions about which services to provide and how to provide them. Municipalities could, for example, contract out

According to this theory, the main objective in designing the optimal government structure is to maximize the welfare of individuals. The welfare of individuals is assumed to depend, at least in part, on the satisfaction they receive from local public goods and services. The optimal level of government is that which provides the desired level of local public goods and services at the least cost. Within this general framework, several criteria can be used to design government structure: subsidiarity and local responsiveness, economies of scale, externalities, equity, access, and accountability.

Subsidiarity Principle and Local Responsiveness

The efficient provision of services requires that decision-making be carried out by the level of government that is closest to the individual citizen. This is known as the "subsidiarity principle"[8] and is needed for the efficient allocation of resources, accountability, and responsiveness. As long as there are local differences in tastes and costs, there are clear efficiency gains from delivering services at the local level.

According to this principle, expenditure responsibilities should only be assigned to a higher level of government if it can be demonstrated that it can carry out the function more efficiently than the lower level. With few exceptions (such as national defence and services that involve redistribution), almost all public services should be provided at the local level with local policy-makers making decisions about what services to provide, how much to provide, and who should pay for them.

Public choice theory argues that small-scale, fragmented local governments have special advantages for local democracy because they maintain a quasi-market. The proliferation of small government units in a metropolitan area results in competition among them. Tiebout, for example, suggested that people "vote with their feet," meaning that they move to the jurisdiction with the tax and expenditure package that most closely resembles what they want.[9] This competition benefits citizens through increased efficiency in service delivery or in terms of finding the municipality that has the basket of goods and services that most closely meets their tastes.[10] In this framework, a large urban government will be less efficient in meeting the demands of its residents because it will tend to provide a uniform level of public services to people who have different preferences for those services.

The Tiebout model is based on a number of assumptions. For example, it assumes that there is a large number of small, homogeneous local governments; the cost of mobility is zero; there are no externalities; and other assumptions. The model has been criticized on a number of grounds: first, there is a cost to mobility that makes this adjustment less than automatic. This is particularly true in countries where mobility is spatially limited.[11] Second, the model excludes any discussion of externalities (see below for a

service delivery to another government or to the private sector. See in David Osborne and Ted Gaebler, *Reinventing Government - How the Entrepreneurial Spirit is Transforming the Public Sector*, Reading, Mass.: Addison-Wesley Publishing Co. Inc., 1992.

[8] The subsidiarity principle was included in the Treaty of the European Union in 1992 in the context of the division of powers and responsibilities between European governmental bodies and their member countries. The principle has also been applied to the role and structure of government at all levels. See Barnett, Richard, R., "Subsidiarity, Enabling Government, and Local Governance," in Hobson and St-Hilaire (eds), *Urban Governance and Finance: A Case of Who Does What,*Montreal: The Institute for Research on Public Policy, 1997, p. 59.

[9] Charles Tiebout, "A Pure Theory of Local Government Expenditures." *Journal of Political Economy,* Vol. 64, 1956.

[10] George Boyne, "Local Government Structure and Performance: Lessons from America?" *Public Administration*, Vol. 70, 1992, p. 338.

[11] Swianiewicz stresses this point for Central and Eastern European countries where the ability to migrate in response to variation in local taxes is limited. See Swianiewicz, Pawel, *Consolidation or Fragmentation? The Size of Local Governments in Central and Eastern Europe*, Budapest: Open Society Institute, Local Government and Public Service Reform Initiative, 2002, p. 21.

definition of externalities), and third, the model does not consider that people will vote other than with their feet. In other words, people can vote out the local politicians at the next election if they do not like their policies rather than moving out of the local community.

Economies of scale

Economies of scale occur where the per-unit cost of producing a particular service falls as the quantity of the service provided increases. In the context of local government, this means that the cost of providing a service falls as the number of people being served increases.

There are problems with economies of scale as a criterion for designing government structure, however. First, each urban service will likely achieve the lowest per unit cost at a different scale of production. For example, the optimal size of government may be different for fire services than for solid waste management. These differences mean that it can be extremely difficult to draw boundaries for general-purpose local governments.

Second, the jurisdiction that provides the service is not necessarily the one that consumes it. If consumers are located in adjacent jurisdictions, then the producing jurisdiction could sell output to them. The producing jurisdiction could benefit from economies of scale in production without having to be part of a larger jurisdiction, that is, without requiring the larger population to be located within its own boundaries. A larger government jurisdiction is not necessarily required to achieve economies of scale because the demand and supply of local government services can be separated; economies of scale can be achieved even in a fragmented system.

Third, there is some evidence of higher costs from larger government units because of problems delivering services to remote areas within large jurisdictions or because of "bureaucratic congestion."[12]

Externalities

The provision of some services results in externalities (spillovers) whereby the benefits (or costs) of a specific service in one local government jurisdiction spill over on to residents of another jurisdiction. For example, a road in one municipality can provide benefits to residents of neighbouring municipalities who also drive on it. In this case of an external benefit, the local government of the municipality in which the road is located has no incentive to provide services to residents of other jurisdictions and is thus unlikely to take account of the external benefits when deciding how much to invest in the road. The result is an under-supply of the service that generates an external benefit.

One way to remove the resulting inefficiency is to design government jurisdictions large enough so that all of the benefits from a particular public service are enjoyed within the boundaries of that jurisdiction. Such boundary readjustments would "internalise" the externalities (ensuring that those who benefit from the service also pay for it).

As with economies of scale, the optimal sized jurisdiction will be different for different services. Furthermore, the optimal jurisdiction from the point of view of internalising externalities may conflict with the optimal size required to achieve economies of scale. Other ways to address externalities include intergovernmental transfers[13] and voluntary cooperation among municipalities (see below).

Equity

When there are many local government jurisdictions, there are likely to be some rich communities and some poor communities. In these circumstances, the rich communities will have a more adequate tax base with which to provide services and may not have very great demands for services (such as education or

[12] See Boyne, George. 1992, *Supra*, p. 336.

[13] The transfers would have to be conditional, matching transfers. They would be conditional on being spent on the service that generates external benefits. The matching rate would reflect the amount of the externality. In other words, if 30 percent of the benefits spilled over into neighbouring municipalities, the appropriate matching rate would be 30 percent. For more information on intergovernmental transfers, see Bird and Slack, 1993, *Supra*.

social services). The poor communities, on the other hand, may require more services but have only a small tax base on which to levy taxes. The more municipalities within a metropolitan area, the greater will be this problem.

One solution is to consolidate the two (or more) areas into one jurisdiction, in effect taxing the rich municipalities and using some of the proceeds to subsidize the poor municipalities. An alternative approach is to shift the redistributive function to a senior level of government or for the senior level of government to provide transfers to municipalities based on need and fiscal capacity.

Access and accountability

This criterion suggests that citizens should have access to local government so that they can influence government policy. This is done through public meetings, hearings, elections, and direct contacts with officials.[14] Smaller government units can provide the average citizen with greater "access" to local decisions: "As the levels of consolidation and concentration in the local government system rise, so the capacity of the public to monitor policy makers' behavior falls."[15] The larger the local government, the more likely it is that special interest groups will dominate citizen participation.[16]

Accountability is closely related to access: the more accessible politicians are to their constituents, the more easily they can be held accountable for their actions. A more fragmented system of local governments should increase public scrutiny and accountability and result in lower service costs. Accountability also requires a link between expenditure and revenue decisions: the body making the decisions about how much to spend should be responsible for raising a large portion of the revenues it requires: "the costs of local decisions should be fully borne by those who make them."[17] If there is no accountability in decision-making, there is no incentive to allocate resources efficiently across the different services. Local governments must also be accountable to the central government to the extent that they receive transfers from them.

Summary of Criteria for Designing Local Government

The optimal design of government structure depends on which criteria are to be satisfied. Three criteria (economies of scale, externalities, and equity) lend themselves to large government units over an entire metropolitan area; other criteria (subsidiarity and local responsiveness and access and accountability) point towards smaller government units. The challenge is to find the right balance among these criteria in a way that meets the specific challenges faced by each community.

APPLICATION OF CRITERIA TO COMMUNITIES OF DIFFERENT SIZE AND LOCATION

The criteria described in the previous section can be applied to communities of different size and location. The relevance and importance of each of these criteria may be different for different-sized municipalities and for municipalities in different locations, however. In particular, the application of the criteria may be different for large metropolitan areas than for small, remote communities.[18]

Large metropolitan areas or city-regions are different than other urban or rural areas in large part because of the size of and concentration of

[14] Bish, Robert L., *Local Government Amalgamations. Discredited Nineteenth-Century Ideals Alive in the Twenty-First*, Toronto: C.D. Howe Institute, 2001, p.7.

[15] George Boyne, 1992, *Supra*, p. 338.

[16] See Bish, Robert L., 2001, S*upra*, p. 7.

[17] Bird, Richard M. "Setting the Stage: Municipal and Intergovernmental Finance," in Freire, Mila and Richard Stren (eds) *The Challenge of Urban Government: Policies and Practices*. Washington, D.C.: The World Bank Institute, 2001, p. 117.

[18] A more detailed discussion of the differences between large metropolitan areas and small remote communities can be found in two papers: Slack, Enid "Fiscal Aspects of Alternative Methods of Governing Large Metropolitan Areas," a report prepared for the World Bank Institute, October 2001 and Slack, Enid and Harry Kitchen, "Providing Public Services in Remote Areas," a report prepared for the World Bank Institute, December 2001.

their population. Not only do large cities and city-regions make expenditures on a wider range of services than do smaller cities and urban areas, expenditures per capita are generally higher in large cities and city-regions.[19] For example, large cities spend more on transportation because they are more likely to have an integrated transit system with subways, light rail lines, and an extensive bus network. Urban densities are not sufficient in smaller cities to make public transit economically viable. The higher concentration of people means more specialized police services; higher densities means more specialized training and equipment for fire fighters. Cultural facilities (such as opera houses or art galleries) are only economically viable in large cities because they require a minimum size to make provision possible.

In terms of the criteria for designing government structure, externalities are more relevant in large metropolitan areas than they are in smaller, remote communities. The benefits of roads, water treatment, cultural facilities and other services spill over municipal boundaries within a large metropolitan area. The prevalence of these types of spillovers necessitates some form of metropolitan or regional government to ensure that the appropriate amount of service is being provided and to ensure that those benefiting from the service pay for it. A region-wide authority is also needed to ensure that all municipalities are able to provide a reasonable level of service at a reasonable tax rate, especially those municipalities that have high needs and a small fiscal base. With respect to other criteria, economies of scale are much more likely to reaped in a large metropolitan area than in a small community.

Governing smaller, remote communities raises different issues than governance of large urban areas because of the small size of the population, the lack of concentration of population, and the high cost of living. These characteristics mean that expenditures per capita are often higher in smaller areas than in urban areas and they are particularly higher in remote communities. At the same time, the fiscal base tends to be smaller because levels of employment and income are lower.

On the expenditure side, low population density often means very high per capita expenditures. For example, local governments in small, remote communities are unable to take advantage of economies of scale in administration.[20] Expenditures on roads, water and sewers are often higher because of the harsh climatic conditions and terrain. Expenditures on recreation and culture are considerably higher on a per capita basis because each municipality has a community centre and recreational programs even where the population is limited. Fire expenditures tend to be lower, however, because fire protection equipment is much less sophisticated than in more urbanized areas (no high rise buildings and a relatively small geographical area to cover). The response time cannot compare with that in urban areas because of the distances and there are no externalities because the properties are so far apart.

On the revenue side, small rural and remote areas do not generally have sufficient capacity to finance local expenditures. In theory, the sources of revenue available to local governments in remote and rural areas are the same as local governments elsewhere. In reality, however, the characteristics of the population and the tax base in remote areas restrict the use of many of these revenue sources.

Among the criteria for designing government structure, externalities are less likely to be an important consideration for remote areas where municipalities are isolated from each other. Distances are such that the benefits or costs of services provided by one municipality are unlikely to spill over into adjacent municipalities. Similarly, distances between municipalities and their isolation from each other prevents them from benefiting from economies of scale in the provision of services

[19] At the same time, there may be opportunities for lower expenditures per capita for services in large cities to the extent that the local government can take advantage of economies of scale in service provision.

[20] Swianiewicz provides an example of basic administrative services in Bulgaria. He argues that, although Bulgaria has fairly large local government units, travelling between settlement units to take advantage of these services is extremely difficult. See Swianiewicz, *Supra*, 2002, p. 19.

whose costs per unit decline as the number of residents served increases.

In terms of access and accountability, the lack of mobility for some segments of the population in remote communities brings into question the role of local government. If residents are not mobile, then they are unlikely to respond to taxes and expenditures by moving to other communities. To the extent that the efficiency of local government relies on it being responsive to local citizens, its role in remote areas is more complicated than in urban areas because less proximity means less access to the local government.[21]

MODELS OF GOVERNMENT STRUCTURE

This section reviews four models of government structure -- two-tier governments, one-tier governments, voluntary cooperation (including inter-municipal agreements), and special purpose districts – and presents the advantages and disadvantages of each. It also considers the role of senior levels of government in the provision of services.

Once again, it should be noted that the structure that may work best in large metropolitan or urbanized areas where there are a number of contiguous municipalities (cities, towns, villages, and townships that are adjacent to each other) providing a wide range of services will likely differ from the structure that will work best in municipalities in remote areas which are far apart and deliver few services.

Two-Tier Model

The two-tier model consists of an upper-tier governing body (usually region, district, metropolitan area) encompassing a fairly large geographic area and lower-tier or area municipalities (including cities, towns, villages, townships etc.). The upper tier provides region-wide services characterized by economies of scale and externalities whereas the lower tiers are responsible for services of a local nature. In this way, two-tier models help to resolve the conflict among the various criteria for designing government structure -- economies of scale, externalities, and redistribution on the one hand and access and accountability on the other. [22]

Redistribution throughout a city-region is achieved at the upper-tier level through a combination of tax and spending policies. On the tax side, tax rates are generally levied at uniform rates across the region and the contribution of each lower-tier municipality to the upper-tier municipality depends on the size of its tax base. The larger the tax base in any one municipality, the larger is its contribution to the upper-tier government.

On the spending side, the upper-tier government makes expenditures on region-wide services. These expenditures benefit the entire city-region and are not necessarily distributed among the lower-tier municipalities in the same way as the tax revenues are collected. The result is that a uniform tax (property, income, sales, etc.) at the upper-tier level, combined with region-wide expenditures, serves to redistribute resources from the relatively large tax base municipalities to the relatively small tax base municipalities. There will still be differentiation in service levels and tax rates for services provided by lower-tier municipalities.

With two-tier governments, it is necessary to allocate functions among the tiers. To do this, the criteria for governing structure can be applied. The upper tier should be responsible for services that provide region-wide benefits, generate externalities, entail some redistribution, and display economies of scale. Services that provide local benefits should be the responsibility of the lower tier. Table 1 applies the criteria above to the various public services provided at the local level to determine the

[21] See Litvack, Jennie, Junaid Ahmad and Richard Bird, *Rethinking Decentralization in Developing Countries*. Washington, D.C.: The Word Bank 1998, p. 2 for a discussion of the limitations of "voice" and "exit" in smaller municipalities and rural areas in developing countries where mobility is limited.

[22] See Max Barlow, "Centralization and Decentralization in the Governing of Cities and Metropolitan Regions." In Bennett, Robert J. (ed.) *Local Government and Market Decentralization: Experiences in Industrialized, Developing, and Former Eastern Bloc Countries*, Tokyo: United Nations University Press, 1994 for a discussion of centralization and decentralization arguments in metropolitan areas.

appropriate level of government to provide them.

Two-tier systems have potentially important advantages in terms of accountability, efficiency, and local responsiveness. Critics of the two-tier model, however, argue that costs are higher because of waste and duplication in the provision of services by two levels of government. Furthermore, two-tier levels of government are less transparent and more confusing to taxpayers who cannot figure out who is responsible for what services. Finally, two municipal councils are said to lead to considerable "wrangling, inefficient decision-making, and delays in implementing policies."[23]

Most of the literature on two-tier systems applies to large metropolitan areas. As noted earlier, in remote areas where municipalities are isolated from each other, distances are such that benefits or costs of services provided by one municipality are unlikely to spill over into adjacent municipalities. Similarly, distances between municipalities and their isolation from each other prevents them from benefiting from economies of scale in the provision of services whose costs per unit decline as the number of residents served increases. Hence, the rationale for a two-tier structure at the municipal level in remote areas is somewhat less compelling than it is for larger metropolitan areas.

There are a number of examples of two-tier systems at the local level around the world, notably Toronto, Canada (which was a two-tier system from 1954 to 1998) and London, England (which recently returned to a two-tier system). These two models are described in detail in section four below.

There are also examples of two-tier governments in France. Paris, with a population of 2.2 million people, is both a commune(a designation given to every city, town or village in France) and a départements (one of 96 administrative units in the country). It is divided into 20 arrondissements (districts) each with an elected mayor and council. In addition, residents elect a163-member Council of Paris. The Council chooses the mayor of Paris who is assisted by several deputy mayors. The Council of Paris meets as General Council when dealing with the affairs of the département and as Municipal Council when dealing with the affairs of the commune.

Marseilles moved from a model of voluntary cooperation to two-tier government in 2000.[24] The three municipalities of Marseilles, Marignane, and Saint Victoret created a public corporation (the *Communauté de Communes Marseilles Provence Métropole)* in 1992. At the time, it focused on a few minor projects such as roads and traffic.[25] In the following year, thirteen other cities joined this consortium of municipalities and four more joined in 1998-99. The metropolitan region of Marseilles levied a uniform business tax at a city-wide level.

In 2000, the *Communauté Urbaine* of Marseilles (a metropolitan organization comprising eighteen cities and one million people) was created. A common regional body comprises mayors and councillors of the constituent municipalities and is responsible for regional economic development, transportation, land use and housing, crime prevention, waste disposal and environmental policies. The localities within the *Communauté* have adopted tax-sharing agreements whereby the *Communauté Urbaine* collects a common tax on business, thereby eliminating tax competition among the local municipalities.

One-Tier Model

Under the one-tier model of urban governance, a single local government is responsible for providing the full range of local services and has a geographic boundary that covers the entire urban area. Large single-tier governments have generally been formed by *amalgamation* (merger of two or more lower-tier municipalities within an existing region) or by *annexation* (appropriation of a portion of a municipality by

[23] Kitchen, Harry, M. 2001. *Issues in Municipal Finance: Spending, Revenues, Governance, and Administration.* Toronto: Canadian Tax Foundation, 2002, p. 312.

[24] Klink, Jeroen, "Recent Perspectives on Metropolitan Organization, Functions and Governance," A Study presented to the IADB, October, 2002, pp. 14-15.

[25] Savitch and Kantor, 2002, *Supra*, p. 332.

Table 1: Allocation of Expenditure Responsibilities in a Two-Tier Model

Function	Upper Tier	Lower Tier	Justification
Social services:			
Welfare assistance	X		Income redistribution; externalities
Child care services	X		Income redistribution; externalities
Social housing	X		Income redistribution; economies of scale; externalities
Public health	X		Income redistribution; economies of scale; externalities
Land ambulance	X		Economies of scale; externalities
Roads and bridges	X	X	Local versus regional roads
Public transit	X		Externalities; economies of scale
Street lighting		X	No externalities
Sidewalks		X	No externalities
Water system	X		Economies of scale
Sewer system	X		Economies of scale
Garbage collection	X		Economies of scale; externalities
Garbage disposal	X		Economies of scale; externalities
Police protection	X		Externalities; economies of scale
Fire suppression		X	Local responsiveness; scale economies for specialized services
Fire prevention/training	X		Economies of scale
Local land use planning		X	Local access, responsiveness
Regional land use planning	X		Externalities
Economic development	X		Externalities
Parks and recreation		X	Local responsiveness
Libraries		X	Local responsiveness

an adjacent municipality). Since there is only one level of government providing all municipal services, there is no need to allocate expenditures among levels of local government (as in the two-tier model). There is also only one political body to make taxing and spending decisions. One-tier governments could provide a wide range of services. These could be financed from a variety of user fees and tax sources that would be levied across the metropolitan area in the same way that the upper tier municipality would finance services in the two-tier model.

One-tier cities can mean that uniform services are provided throughout the metropolitan area but this is not necessary. Particularly where the one-tier municipality has been created from the amalgamation of several municipalities, there is the option of maintaining differential services and service levels that existed in different parts of the city-region prior to the creation of one tier. For example, rural residents will probably not necessarily receive all of the services available to urban residents.

For services financed by user fees, those who benefit from a service pay directly for it.

Where taxes are used to finance services, special area rating can be used for those services where beneficiaries are restricted to specific areas. For example, if garbage collection is only provided in the urban parts of the municipality, then a special area rate for garbage would be levied on urban residents. All residents would pay the same general tax rate; those in urban areas would pay the general rate and the special area rate.

In short, since services are not necessarily standardized across the new municipality, tax rates should also not be standardized. There is an opposing argument, however, that one of the reasons for amalgamation is to create one jurisdiction that encompasses the entire city-region and that differences in service delivery and tax rates should not be maintained past a short transition period.

The main advantages that have been cited for one-tier governments include: better service coordination, clearer accountability, more streamlined decision-making, and greater efficiency.[26] Furthermore, there is funding fairness in the provision of services because there is a wider tax base for sharing the costs of services that benefit taxpayers across the region. The larger taxable capacity of the one-tier government increases its ability to borrow and to recover capital and operating costs from user fees.[27]

There is little dispute over the advantages of better service coordination, streamlined decision-making, and funding fairness. From an efficiency perspective, municipal amalgamations have the potential to internalise externalities. For example, rural residents outside of the original municipal boundary would now pay for urban services that they use.[28] Large one-tier governments can also take advantage of economies of scale in service provision.

There is some debate, however, over the success of a large one-tier government at achieving accountability and efficiency (in terms of cost savings). In terms of accountability, it has been argued that a large-scale one-tier government reduces access and accountability because the jurisdiction becomes too large and bureaucratic. In some cases, community committees are established to address local issues or satellite offices are distributed across the municipality where people can pay tax bills, apply for building permits, etc. These committees and satellite offices likely increase accessibility but it is less clear how they impact on accountability. Furthermore, they remove any potential cost savings that might result from a larger government unit.

In terms of efficiency, evidence from municipal amalgamations suggests that cost savings are elusive.[29] There tends to be a reduction in duplication when several municipalities are amalgamated – in particular, the number of politicians and bureaucrats is reduced. There is also a tendency for expenditure increases, however, when municipalities with different service levels and different wage scales merge.

As an example, when the fire departments of several municipalities are amalgamated, it is

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[26] Boyne, George. 1992. S*upra*, p. 333.

[27] Bahl, Roy and Johannes Linn. 1992. *Urban Public Finance in Developing Countries*. NewYork: Oxford University Press, p. 415.

[28] Municipal restructuring is only the first step in linking taxes to service benefits by ensuring that the beneficiaries are located within the jurisdiction providing the services. The second step is to identify the benefits received by residents and to tax them accordingly. For example, while it is fair to charge rural residents for their use of urban services such as recreation facilities and libraries, it is not fair to charge them for garbage collection if they do not receive it. See Vojnovic, Igor, "Municipal Consolidation, Regional Planning and Fiscal Accountability: The Recent Experience in Two Maritime Provinces," *Canadian Journal of Regional Science*, Vol. XXIII, No.1, 2000, p. 54.

[29] Slack, Enid. 2000. "A Preliminary Assessment of the New City of Toronto." *Canadian Journal of Regional Science*, Vol. XXIII, No.1, p. 24.

possible to eliminate a number of fire chiefs (and maybe some deputy fire chiefs as well). There will be cost savings from eliminating these positions. However, there will be, thousands of fire fighters in the newly amalgamated municipality who will now all be doing the same job, working for the same employer – the newly created city – and they will want to be paid comparable salaries and benefits. There is thus a tendency for salaries and benefits to equalize up to the highest expenditure municipality. Although there are potential cost savings from amalgamation, the harmonization of wages and salaries will likely outweigh the savings.

Similarly, amalgamations result in the harmonization of service levels across the new municipality, and again, these will equalize up to the highest service level enjoyed before the amalgamation.[30] The harmonization of service levels will also increase costs. These higher costs are not necessarily a bad thing. If some municipalities cannot afford to provide an adequate level of service because they do not have adequate resources, amalgamation allows them to provide a comparable level of service as other municipalities in the region. Such an amalgamation increases equity within the region.

A review of the empirical evidence in the U.S. on fragmented versus consolidated local governments concludes that lower spending is a feature of fragmented local government systems; consolidated structures are associated with higher spending.[31] One of the reasons is that amalgamation tends to reduce competition between municipalities because there is less incentive to be concerned with efficiency and less incentive to be responsive to local needs. The lack of competition reduces efficiency in the delivery of services and results in higher costs.

In remote areas, there may be advantages from small annexations in cases where properties are located just outside municipal boundaries and residents of these neighbouring communities are using services within the municipality without paying for them. There is less justification, however, for large-scale amalgamations of several small, isolated communities since the externalities are unlikely to extend that far and there are no economies of scale to be gained. The combination of higher per unit costs and lower fiscal capacity, however, raises questions about how to provide services in a less costly fashion within a single-tier structure and whether they should be funded differently than larger metropolitan areas. Some of these options are considered below under the role of senior levels of government.

One-tier governments are common in the United States which, as one author notes, is characterized by fragmentation, decentralization, and income polarization.[32] Houston, Texas, for example, has been described as a model of "fragmented single tiers."[33] Houston is a city surrounded by 790 governments and special districts whose jurisdictions frequently overlap and who frequently compete for industry. The state permits cities to annex unincorporated areas and Houston has taken advantage of this legislation to blunt some of the competition. The city now covers over 600 square miles.

A number of large cities in Canada are also one-tier. These include, for example, Ontario cities such as Toronto (discussed in more detail in section IV below), Ottawa, Hamilton, and Sudbury, all of which were created through the amalgamation of upper and lower tier

[30] Slack, Enid. 2000*, Supra*, p. 24.

[31] Boyne, George. *Supra*, pp. 344-6. Also, Sancton reviewed municipal consolidations in three Canadian provinces and concluded that the evidence does not support the view that consolidations result in cost savings. See Sancton, Andrew. 1996. "Reducing Costs by Consolidating Municipalities: New Brunswick, Nova Scotia, and Ontario." *Canadian Public Administration*. Volume 39.

[32] Orfield, Myron, *Metropolitics: A Regional Agenda for Community and Stability,* Washington, D.C.: Brookings Institution Press and Cambridge, Mass.: The Lincoln Institute of Land Policy, 1997.

[33] Savitch and Kantor, *Supra*, 2002, p. 69.

municipalities. One-tier governments have also been created in cities in other Canadian provinces:

- In Nova Scotia, the Halifax Regional Municipality (HRM) was created through the amalgamation of the Cities of Halifax and Dartmouth, the Town of Bedford, and Halifax County in 1996. Because services are provided at different levels in different parts of the new municipality (especially between the urban and rural areas), there are base property tax rates (urban, suburban, and rural), two additional customized rates for the two former cities, and over 60 area rates in the new municipality.[34]

- In Manitoba, the City of Winnipeg and its twelve area municipalities were amalgamated to form a single city in 1971. Originally, residents' advisory groups (RAGs) were part of the City but it was felt that these did not improve responsiveness or accountability. These groups were subsequently abolished.[35]

- In Quebec, the City of Montreal with a population of 1 million and 27 other municipalities on the island of Montreal (with a total population of 800,000) was merged on January 1, 2002. The new city is divided into 27 boroughs, each responsible for local services such as garbage collection, swimming pools, snow clearing, and libraries. Nine of the boroughs are located in the central city where none existed previously. Thus, although residents of the ex-suburbs lost control over some municipal services, residents of the former City of Montreal gained more autonomy.

Voluntary Cooperation

Voluntary cooperation has been described as "minimal" government restructuring in which there is an "area-wide body based on voluntary cooperation between existing units of local government in the agglomeration with no permanent, independent institutional status."[36] These are very common in the U.S. and France. Voluntary cooperation is popular, in part, because the area-wide bodies are easy to create politically and can also be disbanded easily. Voluntary cooperation is also common where local autonomy is highly valued: municipalities can retain independence while reaping the benefits of cooperation.

The voluntary model is included under governance of metropolitan regions even though it does not include an elected, area-wide government. It is included because it recognizes the inter-relationship of cities within the region with some form of area-wide arrangement.

Cooperation can take different including consortia, communities of communes, urban communities (France), joint inter-municipal authorities (Spain and Belgium), public bodies, joint agency and core cities (the Netherlands). [37]

[34] The urban suburban rates are differentiated by the lack of public transit, sidewalks, and fire hydrants in the suburban parts of the municipality. Rural rates do not include services such as public transit, streetlights, sidewalks, crosswalk guards, and recreation services. The 60 different area rates in the rural areas reflect the different standards of service in the various districts in the new municipality. For a more detailed description of the Halifax amalgamation, see Vojnovic, 2000. *Supra*, pp. 64-70.

[35] See Smith, Patrick, J., "Governing Metropolitan Change: Public Policy and Governance in Canada's City Regions," in Lightbody, James (ed.) *Canadian Metropolitics: Governing Our Cities*, Toronto: Copp Clark Ltd., 1995, p. 168 and Sancton, Andrew. 2000. *Merger Mania: An Assault on Local Government*. Westmount, Quebec: Price-Patterson Ltd., pp.62-3.

[36] L.J. Sharpe, "The Future of Metropolitan Government," in Sharpe, L.J. (ed.) *The Government of World Cities: The Future of the Metro Model,* Chichester: John Wiley and Sons, 1995, p. 12.

[37] Hermann, Zoltán, M. Tamás Horváth, Gábor Péteri, and Gábor Ungvárim *Allocation of Local Government Functiona: Criteria and Conditions – Analysis and Policy Proposals for Hungary*, Washington, D.C.: The Fiscal Decentralization Initiative for Central and Eastern Europe, 1999, pp. 29-30.

These forms of cooperation include administrative and political integration in that there is some form of representation on the boards from the member local governments. These organizations can levy taxes or collect contributions from the municipalities or they can levy user fees to pay for services.

Voluntary cooperation is an alternative way of providing services across a region without resorting to amalgamation. Municipalities can retain their autonomy with respect to expenditure and tax decisions but, at the same time, achieve economies of scale in service delivery and address externalities associated with service provision.[38] There can be problems of accountability, however, when services are provided by another jurisdiction. Redistribution throughout the metropolitan area is not automatic in a system of voluntary cooperation but could be agreed upon by the municipalities involved.

Notwithstanding the weakness of voluntary cooperation, this form of local governance has steadily grown around the world. One explanation is that voluntarism "is incremental, non-threatening, and capable of growing by trial and error."[39]The voluntary model can work well when policy objectives are shared by all policy-makers in the various local governments. Thus, there would be no need for any additional institutional arrangements. It may not work so well, however, when there are divergent objectives. Cooperation usually involves bargaining and some municipalities may not have anything to bargain with. The problems faced by metropolitan areas are significant – global competition, fiscal disparities, urban sprawl – and the solutions may require them to rely on a structure that has a permanent institutional status.

Although voluntary cooperation is used by some local governments in parts of Central and Eastern Europe, it is not widespread. Where local governments are too small to provide services efficiently and effectively, they sometimes cooperate with neighbouring municipalities. For example, the central government in Poland and Bulgaria have encouraged voluntary cooperation for solid waste disposal.[40] There are also examples of cooperation in local economic development and environmental protection. Typical areas for inter-municipal cooperation in Slovakia include solid waste disposal, sewage treatment, environmental protection, economic development, infrastructure projects, education, and social welfare.[41]

Inter-municipal agreements are formal or informal agreements between municipalities to provide services. They are a type of voluntary cooperation but are less structured in that an official area-wide body is not generally set up to oversee the arrangements. An example of an inter-municipal agreement is the contract services plan in Los Angeles where Los Angeles County provides some services on behalf of municipalities in the Los Angeles metropolitan area on a contract basis. A city-county link occurs in other U.S. jurisdictions as well. [42] In the Czech Republic, one municipality may deliver a service to its own residents as well as to those of neighbouring villages. Those villages do not contribute to the costs nor do they have a say in how the service is delivered.

These types of agreements have generally been effective for services such as fire fighting and emergency dispatch, maintenance of boundary roads, purchasing in bulk, and issuing debentures. Agreements are generally entered into as a way of reducing costs or to set out joint obligations for different municipalities.

Although inter-municipal agreements are successful in achieving coordination and

[38] Sharpe, L.J. 1995. *Supra*, p. 13.

[39] Savitch and Kantor, 2002, *Supra*, p. 329.

[40] Swianiewicz, Pawel, 2002, *Supra*, p. 312.

[41] *Ibid*, p. 313.

[42] See Sharpe, L.J. 1995. *Supra*, p. 13.

efficiencies for specific services, they are not suitable for achieving region-wide coordination. Furthermore, inter-municipal agreements provide no accountability except through the contract or agreement. If something goes wrong, it is difficult for citizens to know where to complain. Is it to their local government or the local government that has been contracted to provide the service? Inter-municipal agreements also increase the likelihood of inter-municipal litigation and conflicts.[43] Inter-municipal agreements have been described as second-best solutions to reorganization that can lead to "an impenetrable jungle of *ad hoc* commissions and complex arrangements that even the most conscientious municipal voter will never understand"[44]

Although these agreements have been used for a long time in many smaller contiguous municipalities, they are less likely to work or be appropriate where municipalities (such as those in remote areas) are isolated from each other. The reason is that a municipality is unlikely to benefit from buying services from other municipalities where distances between them are large.

Special Purpose Districts

Special purpose districts to deliver services that spill over municipal boundaries provide another alternative to altering municipal boundaries. Single-purpose special districts provide similar municipal services for several municipalities or manage regional services with externalities. This form of cooperation among municipalities for region-wide services is used in countries where there is a history of strong and autonomous local governments. In the U.S., for example, one third of local governments are special districts or school districts providing education, transportation, water and waste management, economic development, and other services. Joint boards of the special districts are responsible for the management of these services as well as taxing, price setting, and other policy-making. These districts are indirectly controlled by the individual municipal councils.

One of the advantages of special purpose districts is that each service spillover can be addressed on an individual basis. Since it is unlikely that the spillover boundaries are the same for each service, separate districts could be established such as a region-wide transit district or hospital district. Other advantages include:[45] the delivery of services by professionals with decision-making somewhat removed from political influence; services can be provided using more professional expertise than may be available to the municipal government; and dedicated revenues from user fees could be used to finance capital expenditures.

Several problems with special purpose bodies have been identified. First, each body has responsibility for a single service and is not required to make the tradeoffs between, for example, expenditures on transit and expenditures on water and sewers. Second, the proliferation of decision-making bodies has "created a diffuseness of government organizations that is difficult for citizens to understand."[46] There is no citizen control and confused accountability. Third, there is no direct link between the expenditure decisions made by the special purpose agencies and the local council which collects taxes to fund them. The absence of a link between expenditures and revenues reduces accountability. Fourth, where accountability is lacking, there is no incentive to be efficient. Fifth, when there is a large number of independent special purpose bodies, it is difficult to coordinate interrelated activities.

[43] GTA Task Force. *Greater Toronto*, 1996, p. 163.

[44] Andrew Sancton, "Local Government Reorganization in Canada Since 1975," Toronto: Intergovernmental Committee on Urban and Regional Research, 1993. pp. 33-34.

[45] Bahl, Roy and Johannes Linn. 1992. *Supra*, p. 407.

[46] Harry Kitchen, "Efficient Delivery of Local Government Services," Government and Competitiveness Project, School of Policy Studies, Queen's University, 1993.

Three ways have been suggested to address the problems of coordination.[47] The first is to have overlapping membership so that some of the same people are on a number of district boards. The second is to encourage districts with multi-functions instead of single-purpose districts. The third is to control the operations of the districts so that they remain separate authorities but are still subject to political considerations in the decision-making process.

There is a proliferation of special purpose districts in the United Kingdom. As part of the process of decentralization, and in order to make the public sector more efficient, the UK central government has for some time turned over the delivery of certain public functions to non-governmental organizations. These have become widely known as quasi- autonomous non-government organizations, or QUANGOs, or more recently they have simply been called extra-government organizations or EGOs. There are an estimated 5,500 of these organizations in the UK, of which over 4,700 operate at the local level, and they are said to manage nearly one-third of all government expenditures.[48]

Role for Senior Levels of Government

Another option to meet the criteria for local government structure is for the national or provincial/state governments to take over the provision of local services. For example, a senior level of government could take over functions such as regional planning and regional economic development. They could also facilitate inter-municipal agreements to improve the coordination of services such as water, waste management, and transit. This coordination function could be done through a national or provincial/state ministry or department.

This option may also have merit for smaller communities that are typically unable to take advantage of economies of scale in service provision and that have a smaller and less diversified tax base. Senior governments can also ensure that a uniform, minimum standard of service is provided across their jurisdictions.

Although provincial/state or national takeover of regional services may effectively address the provision of services that exhibit externalities, it violates the principle of subsidiarity which suggests that services are more efficiently and effectively delivered by the level of government closest to citizens. Based on this principle, regional coordination would be more effective and more accountable than provincial/state or national coordination.

The provision of services by a senior level of government also raises concerns about local responsiveness. It may be less appropriate for a senior level of government to provide services because it is further removed from local residents, making it difficult to determine the quality and quantity of output to provide in each municipality. Senior levels of government are likely to be less responsive and less accountable to local residents than a local government.

Another option is for senior levels of government to provide grant assistance to small communities and have the municipalities deliver and fund local services themselves. This option is often raised in the context of smaller communities. If service provision is considerably more expensive and considerably higher levels of financial assistance are required, there is a question about the use of senior government resources to foster communities artificially in remote areas.[49] An important issue of debate is whether communities that cannot survive in the absence of disproportionate senior government funding (when compared to other urban areas) should exist at all.

The argument against subsidizing remote areas is based largely on efficiency criteria.

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[47] Bahl, Roy and Johannes Linn. 1992. *Supra*, p. 419.

[48] See Amos, F.J.C., "Urban Management and Factional Government," *Progress in Planning*, 46 (3), 1996.

[49] The issue is not whether taxpayers in remote communities should be excluded from paying for municipal services. Clearly, they should pay at least some of the costs of services if accountability, fairness, and efficiency are to be achieved.

Reliance on grant funding reduces the incentive for residents of these municipalities to leave and move to areas where there are greater employment and educational opportunities. If efficiency is an important objective, then encouraging mobility of labour out of remote areas may be more appropriate than providing subsidies which encourage them to stay.

CASE STUDIES

The previous section described a number of different models of government structure and provided some examples from different countries. This section provides a more in-depth description of the different types of government structure in four large cities (two in Canada, one in the U.K. and one in the U.S.) and in one area of smaller, remote communities (in Canada). These case studies are illustrative of the different types of local government structures that have been used.

Toronto: One-Tier to Two-Tier to One-Tier

Toronto has been widely studied because of its successful experience with two-tier government. Although studies confirm that this early experiment with two-tier government was an important model of local government structure, it has subsequently been disbanded and Toronto is now a one-tier city.

Metropolitan Toronto was created by provincial legislation on January 1, 1954. It was a two-tier government structure with a metropolitan tier that encompassed thirteen lower-tier municipalities.[50] The two-tier government structure was created for three reasons. First, the creation of a metropolitan level of government allowed for the relative wealth of the central city to be used to pay for services in the suburbs. By the mid-50's, the central city had no vacant land for development. The suburban municipalities did not have sufficient resources to provide the infrastructure required for new development -- educational facilities, roads, water, and other services. The creation of a metropolitan tier of government allowed the wealth of the central city (measured by the size of its property tax base) to be redistributed to the suburbs to provide needed services.

Second, the metropolitan government could coordinate land use planning and transportation across the city-region. Fragmented local governments had meant that services such as transportation and land use planning were not coordinated across the city-region. Since the benefits of these services spilled over into other jurisdictions, there was increasingly a need for a governing body with wider jurisdiction to coordinate the provision of these services.

Third, at the same time that the metropolitan government could be used to address issues of redistribution and spillovers, the lower tiers could provide the local services that they could afford. These lower tiers could be more responsive to local needs than could a large metropolitan government that provided uniform services across a broader area. Smaller governments also provided easier access for residents.

In the two-tier government structure in Metro Toronto, both levels of government were involved in providing services.[51] The metropolitan level was responsible for borrowing, transit, police services, social assistance, traffic control and operations, licensing, conservation, waste disposal, and ambulance services. Lower-tier governments

[50] In 1967, the number of municipalities in Metropolitan Toronto was reduced from 13 to 6 through amalgamations.

[51] Municipal services at the local and metropolitan levels were provided by municipal departments or by municipal agencies, boards and commissions. Agencies, boards, and commissions operate the transit system, oversee the police, deliver electricity, run the public library system, operate public housing, and perform other functions. These bodies were created to deliver a specific service on behalf of the municipality. They have some autonomy from the municipality because of their basis in provincial or municipal legislation. In all cases, however, they retain a link to the municipal council through policy relationships, funding arrangements and/or municipal appointments to their boards.

were assigned responsibility for fire protection, garbage collection, licensing and inspection, local distribution of hydro-electric power, public health, recreation and community services, and tax collection. Both tiers shared responsibility for parks, planning, roads and traffic control, sewage disposal, and water supply.

Redistribution within the metropolitan area was achieved through a combination of tax and spending policies. On the tax side, the main source of local revenue to the metropolitan government was the property tax levied on residential, commercial, and industrial properties.[52] Since it was levied at a uniform rate across the metropolitan area (the rate was different on each class of property but the same across the metropolitan area), the contribution of each municipality to the metropolitan government depended on the size of its property tax base. About one half of the property tax for municipal purposes was returned to the metropolitan government; the other half was kept at the local level.[53] This means that about one half of municipal property tax revenues were redistributed throughout the metropolitan area.

On the spending side, the metropolitan government made expenditures on region-wide services as listed above. A uniform property tax at the metropolitan level, combined with metropolitan-wide expenditures, redistributed resources from the relatively rich municipalities to the relatively poor municipalities.

Early reviews of the two-tier government in Toronto applauded its success at meeting its intended objectives: spillovers of benefits from transportation and planning were contained within the metropolitan area; redistribution from the central city to the suburbs allowed the latter to provide needed infrastructure; and lower-tier municipalities retained the ability to differentiate local services. More recently, however, concerns were expressed about the ability of the Metro government to address issues arising from growth outside its borders. Concerns were also expressed about overlapping responsibilities, confusion, and uncertain accountability in a two-tier structure.

On January 1, 1998, the new City of Toronto came into being by replacing the former metropolitan level of government and its constituent lower-tier municipalities (Toronto, Etobicoke, North York, Scarborough, York, and East York) with a single-tier city.[54] This restructuring was not initiated by local initiative but by the provincial government through the passage of Bill 103, the *City of Toronto Act, 1996.* Indeed, opposition to the proposed amalgamation came from many different quarters, centred on the loss of local identity and reduced access to local government.

None of the studies of governance in the Greater Toronto Area (GTA) commissioned by the provincial government in recent years emphasized problems within Metropolitan Toronto or the need to create a megacity. Rather, these studies identified problems with the coordination of transportation, planning, water provision, and waste management among the regions within the GTA and focussed on the need for a GTA governing body to address these service coordination issues.

[52] The revenue sources for both levels of government were similar: property taxes, provincial grants, user fees, and other miscellaneous revenues.

[53] Property taxes are used for municipal and education purposes. About 60 percent of total property tax revenues in the metropolitan area were used for education which was historically provided by local school boards. One education tax rate was levied across the metropolitan area. The remaining 40 percent was split roughly equally between the metropolitan government and the lower- tier municipalities.

[54] The new City of Toronto is contained within the Greater Toronto Area (GTA) which is comprised of the City of Toronto plus the two-tier regions of Durham, Halton, Peel, and York. The population of Toronto in 1999 was 2,385,421. Populations of the other regions of the GTA are: Durham B 452,608; Halton B 329,613; Peel B 869,219; and York B 618,497. These estimates, which were taken from the 1999 Ontario Municipal Directory, show that the population of Toronto represents about half of the population of the GTA.

The stated rationale for creating a megacity was to achieve cost savings by avoiding waste and duplication. To the extent that two levels of government were involved in the provision of services, there was the potential for confusion and a lack of accountability but, as noted above, it was not clear that the new city would result in cost savings. Other reasons for the creation of the new city could have included: the ability to coordinate services across municipal boundaries, the need to spread the costs of local government in general and the costs of downloading in particular across a broader tax base, and equalization of service levels. These were not mentioned at the time of the implementation of the megacity, however.

In terms of redistribution, the new City levies property taxes city-wide to fund city-wide services. The rates of property tax on residential, commercial, and industrial properties are uniform across the new City. In those former municipalities that had a low tax base and high tax rate, a uniform rate across the new City has resulted in a property tax reduction. Similarly, for those municipalities with a large tax base and a low tax rate, a uniform rate has resulted in a tax increase. This result is similar to the kind of redistribution that occurred with the metropolitan portion of the property tax under the two-tier system. Now, however, 100 percent of the municipal property tax is pooled instead of only 50 percent.

Following the amalgamation of Toronto, the Province also established the Greater Toronto Services Board (GTSB).[55] The GTSB was given no legislative authority except to oversee regional transit. It was not designed to be a level of government nor was it given direct taxing authority. The GTSB was comprised of elected officials from each of the municipalities in the GTA. It has since been disbanded, however, with the important function of regional transit being taken over by the provincial government.

[55] The *Greater Toronto Services Board Act, 1998* set out the structure and responsibilities of the Greater Toronto Services Board (GTSB) and the Greater Toronto Transit Authority.

Within the GTA, the costs of social services and social housing are pooled across the city-region through an equalization formula which measures the capacity of each municipality to contribute to these costs. Pooling means that the entire city-region is sharing the costs of these region-wide services. Each municipality that is part of the pooling, however, does not have a say over how the other municipalities spend their money on these services. Furthermore, the contributions of each municipality is uncertain from year to year because the service costs in other municipalities are beyond the control of any individual municipality.

The major concern about governance in the GTA has been coordination of service delivery across the region. Neither the creation of the new City of Toronto nor the former GTSB has adequately addressed these fundamental regional problems. It is probably too early to evaluate the megacity in Toronto. Nonetheless, some have argued that it is both too small and too big. It is too small to address region-wide spillovers related to transportation and planning and it is too big to be locally responsive and accessible.[56] Amalgamation has probably not resulted in cost savings but it has resulted in a fairer sharing of the tax base and equalizing up of local services so that everyone can enjoy a similar level of services across the city-region.

The Greater Vancouver Regional District: Voluntary Cooperation within a Two-Tier Structure

The Greater Vancouver Regional District (GVRD) is a model of voluntary cooperation within a two-tier structure. There are just over 1.8 million people in the GVRD. It comprises 18 municipalities as full members and three unincorporated areas.

Prior to 1965, inter-municipal services in metropolitan Vancouver were largely handled by special-purpose bodies such as the Joint Sewerage and Drainage Board, a Greater Vancouver Water District, various health and

[56] Slack, Enid. 2000. *Supra*, p. 28.

hospital boards, a Lower Mainland Regional Planning Board, and an Industrial Development Commission of Greater Vancouver.[57] These single-purpose bodies were completely voluntary.

The Greater Vancouver Regional District was created in 1967 as part of a system of regional governments being created by the provincial government in the province of British Columbia at that time. The newly created GVRD took over the functions of the special-purpose bodies. It was originally responsible for hospitals and planning but has grown to include the following functions: borrowing for municipalities, air pollution control, parks, solid waste disposal, public housing, collective labour relations, and public transit (in 1999). The GVRD was created to increase municipal cooperation but not to introduce a new level of government.

The GVRD differs from regional government in a number of respects: member municipalities can opt out of many district functions; districts provide different functions for different areas within their boundaries especially for unincorporated areas; and all municipal representatives on the district board of directors are elected to their municipal councils and appointed by their respective governments to serve on the Board.

GVRD funds come from the member municipalities by billing them for services rendered. The cost of most services is apportioned among member municipalities on the basis of the property assessment base. Other regional costs are contained in municipal charges for water, sewer, and solid waste. GVRD services account for 12 percent of a property owner's tax bill, on average. The bulk of GVRD expenditures (90 percent) are for capital costs of hospitals, water, sewerage, and solid waste disposal.

Regional organization in the Vancouver area has always been characterized by voluntary participation of individual municipal governments and an approach of consensus building. As one author notes, "…metropolitan governance has emerged in place of metropolitan government in the Vancouver region; that is, metropolitanwide services and their spatial implications are managed regionally in the absence of metropolitan government."[58] The difference between regional governance and regional government is that a government has the following characteristics: representation, revenue-raising capacity, autonomy, authority, and the capacity to coordinate multiple functions.[59]

The advantages of the Vancouver model are that it preserves local autonomy, diversity, and the distinct identity of its member municipalities. Problems have arisen, however, because of the lack of authority to implement policies. In the area of planning, for example, the master plan in 1994 promised to slow down the disappearance of farmland, concentrate housing and build rapid transit. But none of the municipalities are obligated to respect the plan. Another disadvantage is that it is ineffective in ensuring that regional concerns are taken into account in local decisions. No one speaks for the region;[60] it can only do what is delegated to it by its member municipalities.

If a distinct upper-tier government directly accountable to residents is the goal, then the Vancouver model does not work as well as regional government. If on the other hand, the goal is to have a flexible institution to assist

[57] Sancton, Andrew, *Governing Canada's City-Regions: Adapting Form to Function*, Montreal: Institute for Research on Public Policy, 1994, p. 65.

[58] Oberlander, H. Peter and Patrick J. Smith, "Governing Metropolitan Vancouver: Regional Intergovernmental Relations in British Columbia." In Rothblatt, Donald, N. and Andrew Sancton. (eds.) *Metropolitan Governance: American/Canadian Intergovernmental Perspectives.* California: Regents of the University of California, 1993, p. 333.

[59] *Ibid*, p. 367.

[60] The Chair and the board members are part-time regional politicians.

municipalities in doing things they cannot do themselves, then the voluntary cooperation model along the lines of the GVRD has some advantages. It has been argued that the "inter-municipal confederation" works best for consulting on goals and visions but does not work so well for implementing those goals.[61]

A further problem with voluntary cooperation in Vancouver is the inequitable sharing of costs and benefits. Although the GVRD has developed a fair system for services such as water and sewers which are charged for on the basis of the level of service provided, the same is not true for cultural and recreational facilities and municipally-funded social services. These services in the urban core are funded entirely by taxpayers in the core (the City of Vancouver) even though the benefits of these services spill over to residents throughout the region.

London, England: Two Tiers Restored

The Greater London Authority Act was proclaimed in 1999 and the new Greater London Authority with a directly elected Mayor came into being on July 3, 2002. Greater London comprises 32 boroughs and the Corporation of London. The population of Greater London is 7.4 million.

From 1964 to 1986, London was governed by a two-tier structure: the Greater London Council and 32 boroughs (each with its own mayor and council). In 1986, then Prime Minister Margaret Thatcher abolished the Greater London Council but left the 32 boroughs in place. London's governance became a direct responsibility of the government ministers (coordinated by a Cabinet sub-committee headed by a Junior Minister for London) and joint agreements. Since there was no metropolitan authority, ad hoc arrangements were used for regional planning. In 1994, the Government Office for London (GOL) was established to allow the central government to act as a strategic authority. It brought together the regional offices of line ministries, 32 lower tiers of local government, the boroughs, and agencies with London responsibilities.

The new Greater London Authority Act created two new elected bodies – the 25-member Assembly elected from two different electoral bases (14 on a constituency basis and 11 London-wide) and the Mayor (who is not a member of the Assembly). Together, the Mayor and the Assembly constitute the GLA. This system of governance is unique in England.

The Mayor appoints the Chief Executive, sets the administration budget and ensures proper management of funds from the central government. The Assembly's powers, on the other hand, are limited to scrutiny of the Mayor. The Assembly has no service responsibilities.

The GLA's principal purpose is to promote economic development and wealth creation, social development, and the environment. It is not permitted to spend directly on any function that is assigned to the boroughs (such as housing, education, social, or health services). There are four functions that are separate from the Assembly but accountable to it through the Mayor:

- Transport for London (TFL) is responsible for roads, buses, trains, subways, traffic lights, regulation of taxis (metered) and mini-cabs (unmetred and unmarked). The Mayor appoints the commissioner. The Mayor chairs the board and appoints 15 non-executive members.
- The London Development Agency (LDA) coordinates economic development and regeneration. It promotes business and works in partnership with industry, public and voluntary sectors. The Mayor appoints the 17-member board and the Chief Executive.
- The Metropolitan Police Authority (MPA) has 23 members of which 12 are Assembly members, one is appointed by the Home Secretary, four magistrates, and 6 independent Londoners. The police

[61] Artibise, Alan, F.J. "Regional Governance without Regional Government: The Strengths and Weaknesses of the Greater Vancouver Regional District." Report prepared for the Regional Municipality of Ottawa-Carleton, p.4.

commissioner is appointed by the Queen on advice of the Home Secretary who shall have regard for any recommendations by the MPA, the Assembly, and the Mayor.

- The London Fire and Emergency Planning Authority (LFEPA) has responsibility for fire and emergency services. The Mayor appoints the Chair and 17 members of which 9 are Assembly members (including the Chair). The other 9 members are nominated by the boroughs and appointed by the Mayor.

The boroughs retain primary planning responsibility as the local planning authority. If the Mayor considers an application for a large-scale development to be in contravention of his London-wide strategy, however, he can direct a borough to reject the application. He cannot direct them to approve an application, however.

Because the creation of the Greater London Authority is fairly recent, there has been little written on it that evaluates its advantages and disadvantages. What has been written focuses on the role of the mayor in what is considered to be a strong mayor system.

Minneapolis-Saint Paul: Voluntary Cooperation through Regional Property Tax Base Sharing

As noted earlier, many U.S. metropolitan areas are characterized by fragmented local government structures. Minneapolis-Saint Paul provides an interesting example of voluntary cooperation in one specific area – tax base sharing. In the early1990s, Saint Paul had to raise its taxes dramatically and cut services because of increasing social responsibilities. At the same time, some of the richer suburbs were reducing taxes and maintaining high levels of service. The idea behind regionalizing the property tax base was to make the growing property wealth available to all parts of the region to meet social needs.

Under this system, each city contributes 40 percent of the growth in its commercial and industrial tax base acquired after 1971 to a regional pool. On an annual basis, this amounts to about 20 percent of the regional tax base. Money is distributed from this pool on the basis of inverse net commercial capacity. This method reduces the tax base disparities on a regional level from 50 to 1 to 12 to 1.[62]

Property tax base sharing also reduces the fiscal incentives towards exclusionary zoning and urban sprawl. In the absence of sharing, communities have an incentive to increase their tax base and limit social expenditures by using exclusionary zoning. One way to achieve this objective is to encourage low-density development because it requires large lots and thus expensive housing. Regional sharing of taxes on expensive houses weakens local fiscal incentives to create this type of housing.

Although tax base sharing can decrease intra-metropolitan competition for tax base, apparently there still is a lot of competition for tax base in the region.[63] Furthermore, cities with a higher than average commercial base but with low-valued home and increasing social need, contribute tax base. Cities with high-valued homes and little commercial development receive money from this system.

Northern Ontario: Government Structure in Small, Remote Communities

Each of the above case studies of governing structure applies to large cities. Much less has been written about governing smaller communities, especially in remote areas. Northern Ontario provides an example of governance that entails a modified two-tier structure with significant provincial government involvement.

The population of Northern Ontario is approximately 840,000. Population density is

[62] Orfield, Myron, *Metropolitics: A Regional Agenda for Community and Stability*. Washington, D.C.: Brookings Institution Press and Cambridge, Mass.: The Lincoln Institute of Land Policy, 1997, p. 87.

[63] *Ibid,* p. 87.

very low: the population of northern Ontario represents 7.4 percent of the provincial population but the land area represents 89 percent of the provincial total. Municipalities in Northern Ontario are located in one of 11 territorial districts. Territorial districts exist only for judicial[64] and administrative purposes and, with the exception of one, not as municipal government units. They are simply geographic areas, the boundaries of which are set out in provincial legislation. They have no governing structure (provincial or local) attached to them. Municipalities located within territorial districts are single-tier municipalities (cities, towns, townships, and villages).

In Northern Ontario, there are 155 municipalities, 104 First Nations, and over 150 unincorporated communities. Unincorporated communities (also known as unorganized territories) are communities without municipal organization. They are not subject to the provisions of the Municipal Act (provincial legislation governing municipalities). Services in these unincorporated communities are provided by local services boards, local roads boards, or by district boards (see below). The provincial government may also provide services directly to these communities, including, for example, public health, education, airports, policing, land use planning, and waste management. Property owners in these communities pay a Provincial Land Tax (PLT) to the provincial government but this amount does not cover the cost of service delivery.

Unincorporated communities can establish a Local Services Board (LSB). Any ten property owners (18 years of age or older) that are Canadian citizens may establish an LSB by calling a meeting and giving proper notice of the meeting. The LSB includes a Chair and a Secretary and recommendations are conducted by a majority vote. The powers to provide, maintain, and improve services in the Board area by the LSB are designated by the provincial government.

LSBs, of which there are 45 in Northern Ontario, can be established for the following services: water supply, fire protection, garbage collection, sewage, street lighting, recreation, roads, and public library service. The provincial government levies the tax rates (which have to be approved by a majority vote of the inhabitants) as part of the provincial land tax (PLT). The provincial government provides funds to the Board, based on the Board's budget. Other revenue sources include fees for the provision of services and other amounts raised or granted to the Board.

Unincorporated communities can also establish Local Roads Boards (LRBs). Ten or more landowners that wish to establish an LRB must write a proposal outlining the local roads area and give proper notice of the first meeting. A majority vote of landowners who attend the first meeting determines the area to submit a petition to the provincial government requesting approval of the area. The provincial government ultimately determines the area. The duties of the Board include road inspections, determining the necessary work to be performed on the roads and entering into contracts for the performance of the work. The LRB levies property taxes to pay for running the operation of the Board. The provincial government provides additional funds.

There are no upper-tier governments in Northern Ontario. There are, however, district-wide boards that act in some ways like an upper-tier government but they do not necessarily provide all local services. For example, District Social Services Administration Boards (DSSABs), of which there are eleven, are the delivery agents for social services and social housing. The boards include municipalities and unincorporated communities. For the unincorporated communities within DSSABs, the provincial government pays their share of the costs of delivering services. The boundaries of the DSSABs are coterminous with the geographic boundaries of the territorial districts.

One or more municipalities or local services boards or the residents of an unincorporated community may establish an Area Services

[64] The court structure follows these boundaries.

Board (ASB) for the purpose of consolidating service delivery. There are currently no ASBs in Ontario, however, because their creation is dependent on the reform of the PLT which has not yet been implemented.

An ASB would consist of members appointed by participating municipal councils and by members elected by residents of the unincorporated communities in the board area. ASBs are similar to DSSABs but can manage and deliver a broader range of services. ASBs would be responsible for social welfare, child care, social housing, ambulance, public health, and homes for the aged. They may also choose to deliver optional services such as police services, waste management, economic development, airports, roads and bridges, emergency preparedness and response, land use planning, and any other service requested by the ASB and agreed to by the provincial government. The Board may charge fees for the services it provides and it may make investments, incur debts, and establish reserve funds in the same way as can a municipality. ASBs may also levy property taxes. If ASBs were implemented, they would be similar to an upper-tier government in Northern Ontario because they would provide a wide range of local services.

The advantage of special purpose boards is that the cost of services is shared among the communities. In the case of DSSABs (or ASBs), the costs are shared among municipalities and unincorporated communities in the board's geographic area. In the case of LSBs and LRBs, the costs are shared among residents in the unincorporated areas. LSBs and LRBs also ensure that the specified services are provided in these communities. Where costs are shared among municipalities and/or unincorporated communities, it is less clear if economies of scale are achieved or whether there are any spillovers being internalized.

CONCLUSION

The governing structure for local governments affects their ability to provide services and raise revenues in a fair and efficient way. Having said this, however, it is difficult to conclude what is the best model of governance. Out of the wide variety of existing local government structures, "… no model stands out as clearly superior in all respects."[65] Application of the criteria for designing government structure to the various models presented, however, suggests the following:

- For large metropolitan areas and city-regions, some form of regional structure which encompasses the entire city-region is needed to address problems of a region-wide nature such as fiscal disparities among municipalities and problems associated with externalities in service provision. Although the need for a regional structure is clear, the form it takes will vary with local circumstances (e.g. one-tier or two-tier). Inter-municipal agreements for the provision of services are effective for a small number of services but do not provide a solution to the need for regional cooperation.

- A one-tier structure is simpler to understand and more transparent than a two-tier structure. For that reason, it does appear to enhance political and fiscal accountability. Two-tier structures, on the other hand, are inherently more complex and may result in undesirable duplication, overlap, and general confusion among citizens as to who is responsible for what and who is paying for it. A one-tier structure for a very large municipality, however, may compromise access and accountability.

[65] McMillan, Melville, "Taxation and Expenditure Patterns in Major City-Regions: An International Perspective and Lessons for Canada," in Paul A.R. Hobson and France St-Hilaire (eds.) *Supra*, 1997, p. 39.

- Redistribution can be achieved within a one-tier or a two-tier structure. In a one-tier structure with uniform tax rates across the city-region, all taxes are made available for redistribution. In a one-tier structure with special area rates or in a two-tier structure, less than 100 percent of tax revenues will be available for redistribution.

- A two-tier structure may achieve greater efficiency than is likely to be attained in a more centralized one-tier structure. Desirable economies of scale and scope can be realized at the upper tier level while at the same time the lower tier permits more responsiveness to local variations in preferences and it maintains the close linkage between local financing and spending decision.

- Where local autonomy is paramount and where objectives are shared by policy-makers in various local governments, voluntary cooperation can work. It works less well when objectives are different among local governments and when it comes time to implement those goals.

What works best in terms of governing structure in particular circumstances depends on policy priorities, the scope and type of local responsibilities, the instruments of local finance, and the degree and nature of central/provincial/state presence in the area in terms of service provision and financial support. As one author has noted: "any attempt define one ideal size of a city-region or one ideal from of governance would be doomed to failure."[66]

[66] Sancton, Andrew, *Merger Mania*, Westmount, Quebec: Price-Patterson Ltd., 2000, p. 7.