

# MODELS OF GOVERNMENT STRUCTURE AT THE LOCAL LEVEL<sup>1</sup>

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<sup>2</sup>

The Consortium for Economic Policy Research and Advice (CEPRA) in October 2003 and a project of cooperation and technical assistance sponsored by the Canadian International Development Agency (CIDA). The project is being carried out by the Association of Universities and Colleges of Canada (AUCC), working in conjunction with experts in academia, government and the non-governmental sector in both Canada and the Russian Federation.

1 This paper was first prepared under the auspices of the Consortium for Economic Policy Research and Advice (CEPRA) in October 2003 and a project of cooperation and technical assistance sponsored by the Canadian International Development Agency (CIDA). The project is being carried out by the Association of Universities and Colleges of Canada (AUCC), working in conjunction with experts in academia, government and the non-governmental sector in both Canada and the Russian Federation.

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,<sup>4</sup> 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."<sup>5</sup>

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

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

<sup>3</sup> 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.

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

<sup>5</sup> 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.

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has an impact on citizen access and government  
accountability for the expenditure and taxing

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”<sup>8</sup> 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

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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*

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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.<sup>19</sup> 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



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.”<sup>23</sup>

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,

**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.<sup>26</sup> 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.<sup>27</sup>

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.<sup>28</sup> 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.

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<sup>26</sup> Boyne, George. 1992. *Supra*, p. 333.

<sup>27</sup> Bahl, Roy and Johannes Linn. 1992. *Urban Public Finance in Developing Countries*. New York: Oxford University Press, p. 415.

<sup>28</sup> Municipal restructuring is only the first step in linking taxes to service benefits by ensuring that the





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.<sup>38</sup> 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.”<sup>39</sup> 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

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<sup>38</sup> Sharpe, L.J. 1995. *Supra*, p. 13.

<sup>39</sup> Savitch and Kantor, 2002, *Supra*, p. 329.

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.<sup>43</sup> 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"<sup>44</sup>

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

Three ways have been suggested to address the problems of coordination.<sup>47</sup> 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.<sup>48</sup>

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

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.<sup>52</sup> Since it was levied at a uniform





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.<sup>61</sup>

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

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<sup>64</sup> 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

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."<sup>65</sup> 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, (e.g. in the case of two-tier structures, "... no

Redistribution can be achieved within a