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# Managing the Coordination of Service Delivery and the Financing of Services in Metropolitan Cities

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Presentation to the Municipal Finance Thematic Group  
World Bank

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## Introduction

- Interest in metropolitan cities has been increasing because:
    - more and more people are living in metropolitan cities
    - metropolitan cities are the major drivers of economic prosperity for the countries in which they are located
  
  - How metropolitan cities are governed is an important factor in the success of cities
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## Outline of Presentation

- Why does urban governance matter for service delivery?
  - Types of models of governance
  - Criteria for evaluating models of governance
  - Observations from 10 case studies
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## Why does governance matter?

- Institutions of urban governance are important because they:
    - affect the quantity and quality of services
    - affect the efficiency with which services are delivered
    - determine whether costs are shared throughout the metropolitan area as a whole in a more (or less) fair and efficient way
    - affect citizen access to government and government accountability to citizens
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## Why does governance matter?

- Urban governance matters for service delivery in metropolitan regions:
  - Transportation: Need to coordinate transportation across municipal boundaries
  - Water: Need to determine where treatment facilities will be located
  - Solid waste: Need to determine where garbage disposal sites will be located
  - Policing: Need to fight crime across municipal boundaries
  - Social services, health and education: Need to decide on level of expenditures and how to share costs

## Governance Models

- A wide variety of metropolitan governance institutions exist around the world
  - One-tier government model (fragmented local governments)
  - One-tier government model (consolidated local governments through annexation or amalgamation)
  - Two-tier government model
  - Voluntary cooperation (incl. special purpose districts)

## Criteria to Evaluate Models of Governance

- Efficiency
  - Ability to achieve economies of scale
  - Ability to reduce negative spillovers (externalities) across local boundaries
- Equity: ability to share costs and benefits of services fairly across the metropolitan area
- Accessibility and accountability for decision-making
- Local responsiveness/competition

## Criteria to Evaluate Alternative Models: Considerations for Developing Countries

- Economies of scale a valid argument but the impact of a weak infrastructure may negate the benefits (e.g. one large school may be difficult to get to because of inadequate transportation)
- Difficult to get to administrative centres; may need administrative decentralization
- Danger of corruption higher in bigger units than in smaller units?
- Spatial mobility is low
- Access to policy decisions even more important where there are no well-established democratic traditions

## Criteria to Evaluate Alternative Models

- Some criteria suggest that a fragmented system of small government units may be appropriate
- Other criteria suggest that large, consolidated government units would work best
- Where metropolitan area is too big to be acceptable as political or administrative unit, voluntary cooperation may be appropriate
- No “one size fits all”

## Case Studies

- Toronto: one-tier to two-tier to one-tier
- London: two-tier to one-tier to two-tier
- Madrid: two-tier
- Stuttgart: two-tier
- Manila: voluntary cooperation
- Mumbai: fragmented one-tier
- Shanghai: one-tier (status of province)
- Sao Paulo: voluntary cooperation
- Abidjan: two-tier to one-tier
- Cape Town: one-tier to two-tier to one-tier

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## Observations from Case Studies

1. Governance models can evolve over time
  2. Voluntary cooperation may be necessary where metropolitan area is too large for a political structure
  3. Not all consolidated cities cover the entire metropolitan region
  4. Consolidation does not necessarily reduce costs
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## Observations from Case Studies

5. Strong traditions of local autonomy make metro-wide cooperation difficult
  6. The process is crucial to the success of the outcome
  7. Politics (not economics) often dictates the ultimate structure
  8. Fiscal resources need to match expenditure responsibilities
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## #1: Governance models can evolve over time

- Not only have different models of governance been tried in different places, different models have been tried in the same place at different times:
  - Toronto\*
  - London\*
  - Cape Town\*
  - Abidjan

## Toronto: One-tier to two-tier to one-tier

- Provincial government created two-tier metropolitan government in 1954 (metro + 13 lower-tier municipalities)
- Two-tier government designed to:
  - Redistribute wealth of central city to suburbs to provide infrastructure
  - Coordinate land use planning and transportation across the region
  - Allow lower tiers to be responsive to local needs
- Early reviews of the two-tier government in Toronto applauded its success at meeting its intended objectives

## Toronto: One-tier to two-tier to one-tier

- 1967: Amalgamation of 13 municipalities to 6
- 1998: The province created the new City of Toronto by consolidating two tiers (metro and 6 lower tiers) into single city of 2.5 million people
- Stated rationale was cost savings in service delivery
- Fairer sharing of tax base
- Metropolitan government has more clout on national and international stage
- Opposition centred on the loss of local identity and reduced access to local government

## London: Two-tier to one-tier to two-tier

- 1965 to 1986: London was governed by a two-tier structure -- the Greater London Council and 32 boroughs (each with its own mayor and council)
- 1986: then Prime Minister Margaret Thatcher (Conservative) abolished the Greater London Council (Labour) but left the 32 boroughs in place
- London's governance became a direct responsibility of the government minister
- Support for metro structure increased after it was abolished

## London: Two-tier to one-tier to two-tier

- 1994: the Government Office for London (GOL) was established -- central government acted as a strategic authority
- Boroughs ran schools, social services, social housing, local planning, local roads, environmental provision and economic regeneration
- 2000: a new Greater London Authority consisting of a Mayor and an Assembly was elected following a successful referendum
- Main responsibilities of GLA (7.5 million people): transport, police, economic development, planning, and fire brigade
- GLA is not permitted to spend directly on any function that is assigned to the boroughs

## Cape Town: No metro government to two-tier to one-tier

- No form of metropolitan government existed under apartheid
- Only whites had democratic local government structure; black townships had advisory structures
- Although ANC wanted one-tier governments; it got there in two stages
- The Cape Metropolitan Council (two-tier) was established in 1993

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## Cape Town: No metro government to two-tier to one-tier

- White Paper on Local Government supported single-tier metropolitan government:
    - Redress inequalities
    - Promote strategic land use planning and coordinated infrastructure investment
    - Develop city-wide framework for economic and social development (rather than compete for investment in uncoordinated fashion)
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## Cape Town: No metro government to two-tier to one-tier

- In 1998, despite provincial opposition, two-tier municipalities were replaced by one-tier municipalities; sub-councils advise council on local issues and get delegated powers from council
  - Population of Cape Town: 2.9 million
  - “Reorganization fatigue” has hampered service delivery given scale of time and resources required
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## #2: Voluntary cooperation may be necessary where metropolitan area is large

- Where a metropolitan area is too big to be acceptable as a political or administrative unit, inter-municipal cooperation may be more achievable than metro government
    - Sao Paulo ABC Region\*
    - Metropolitan Manila Development Authority (MMDA)
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## #2: Voluntary cooperation may be necessary where metropolitan area is large

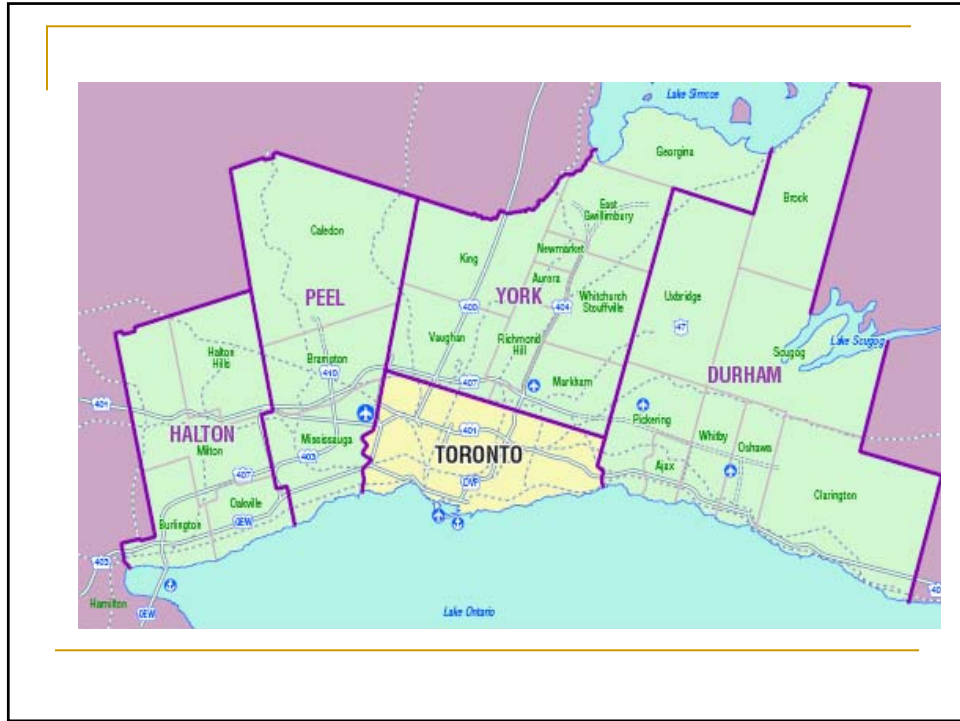
- Sao Paulo metropolitan region includes the City of Sao Paulo and 38 surrounding municipalities with a population of 17.8 million
  - No institution of metropolitan governance
  - Inter-municipal Consortium of the Greater ABC Region:
    - ABC region comprises 7 cities and 2.4 million people
    - Focus is to coordinate municipal policies that spill over municipal boundaries
    - Effort to create regional governance to improve economic conditions of the area
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## #2: Voluntary cooperation may be necessary where metropolitan area is large

- ❑ Initial focus was on management of water resources
- ❑ Expanded to economic and social development
- ❑ Forum on Issues of Citizenship was created comprising more than 100 NGOs
- ❑ In 1997, a Chamber of the ABC region was launched
- ❑ Since 1997, more than 20 agreements on economic, social, and territorial development have been signed
- ❑ Bottom up approach to metropolitan governance for a small part of the region

## #3: Not all consolidated cities cover the entire metropolitan region

- The Greater London Authority does not cover the economic region of the South East
- The ABC Region of Sao Paulo does not cover the metropolitan region
- Cape Town does cover the economic region
- Amalgamated City of Toronto is too small and too big: metropolitan government is too small to cover the economic region or address region-wide spillovers related to transportation and planning; too big to be locally responsive and accessible



#### #4: Consolidation does not necessarily reduce costs

- Cost savings is often an objective of consolidation
- Tendency to equalize wages and service levels to that of highest expenditure municipality
- Cost savings were not achieved in Toronto

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## #5: Strong traditions of local autonomy make metro-wide cooperation difficult

- Long history of local autonomy can make cooperation at the metropolitan level difficult
  - The Metropolitan Manila Area:
    - Population of 11 million; comprises 10 cities and 7 municipalities
    - Described as “city of villages” with autonomous local units resisting higher level controls of their activities
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## #5: Strong traditions of local autonomy make metro-wide cooperation difficult

- Metropolitan Manila Development Authority created in 1990:
    - Two-tier metropolitan structure
    - Law which created it stipulates that its activities should be carried out “without prejudice to the autonomy of the affected local governments”
    - MMDA has remained a weak institution because of need to preserve local autonomy
    - Urban services remain uncoordinated
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## #6: The process is crucial to the success of the outcome

- Success depends on public support
  - Success depends on getting the incentives right for each of the players
  - Fiscal incentives (or threats) can encourage cooperation
  - Need to manage transition and costs associated with it
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## #6: The process is crucial to the success of the outcome

- The Stuttgart city-region (created by the Land government in 1994) comprises 179 local authorities (including the City of Stuttgart)
  - Population of 2.6 million
  - Most lower tiers were against the creation of the regional tier; the result is a weak metropolitan authority
  - Creation was possible because of strong Land (state) government and unique political situation (coalition between left and right in Land Assembly)
  - Strong opposition has prevented increased responsibilities and taxing lower tiers
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#6: The process is crucial to the success of the outcome

- Public support for GLA (referendum)
  - Sao Paolo used a bottom up approach
  - Transition costs in Toronto included severance packages, signage, computer harmonization etc.
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#7: Politics (not economics) often dictates the ultimate structure

- Amalgamation of Toronto even though referenda opposed it
  - Abolition of Greater London Council by Margaret Thatcher on political grounds
  - Unpopularity of Metropolitan Manila Development Authority (MMDA) because of previous governor
  - Opposition to Stuttgart region but state legislature passed it
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## #8: Fiscal resources need to match expenditure responsibilities

- Metropolitan areas need to have sufficient resources to meet expenditure requirements
  - Large metropolitan areas should have greater fiscal autonomy (greater responsibility and ability to manage local services and to levy taxes and collect revenues) than other urban or rural areas
  - The ability to self-finance is a critical factor in determining which metropolitan institutions succeed and which end up bickering between contending financial supporters
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## #8: Fiscal resources need to match expenditure responsibilities

- Expenditures:
    - Police and fire
    - Water, sewers, garbage
    - Transportation
    - Recreation and culture
    - Social services, health and housing
    - Planning and development
  - Sources of funding:
    - User fees
    - Taxes (property, income, sales)
    - Intergovernmental transfers
    - Borrowing
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## #8: Fiscal resources need to match expenditure responsibilities

- London – little fiscal autonomy - central grants account for over 80% of revenues (+ council tax and user fees)
- Toronto – mismatch of revenues and expenditures - social services and social housing on the property tax (property tax accounts for 40% of local revenues)
- Manila- MMDA derives financial resources from constituent municipalities (delayed or withheld)

## Concluding Comments

- Few cities in the developing world have an administrative structure at the metropolitan level; some have planning agencies at the metropolitan level with limited powers
- An effective system of governance for the entire metropolitan region is needed to ensure that services are delivered efficiently
- Neither theory nor practice tells us clearly which model of governance is best for large metropolitan areas; different models have worked in different places at different times; the appropriate structure depends on the national and local context