The Changing Role of the Municipal Sector

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INTRODUCTION

I want to thank the Canadian Tax Foundation for giving me this opportunity to kick off what looks to be a very stimulating series of sessions. I have been asked to talk about the changing role of the municipal sector, in light of globalization and public policy changes affecting our communities. That’s an ambitious topic for a civil servant, but I’ll try my best. I am reminded of John Kenneth Galbraith’s famous quote that economists predict the future, not because they know, but because they were asked.

The Foundation has asked me to speak to you as someone who has worked in—and observed—the field of municipal administration, at both the local and provincial levels, for over three decades. As a result, I should begin by making it clear that the views I am expressing are my own. The comments I make are neither a statement of government policy, nor the “official” views of the Ontario government. And it is in that context that I offer the following observations.

THE CHANGES IN THE MUNICIPAL WORLD

Let’s begin by stating the obvious. Like many social and political institutions, Ontario’s local government system does not change readily or quickly. The new Municipal Act is the first comprehensive modernization of the local government system in Ontario since the Baldwin Act responded to the 1837 Rebellion. That cycle-time on new municipal legislation should give you some idea of the importance of history, and established practices, to the local government system in Ontario.

As Montreal island voters have demonstrated this week, the nostalgic association with traditional local government structures is strong, and the road to municipal modernization is full of political pot-holes. In the reform of social institutions, the need to change and the willingness to change do not always proceed in tandem.

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But societal and economic changes, and institutional reforms, have radically altered Ontario’s municipal world over the past decade. And I think that most of the changes—directly or indirectly, consciously or unconsciously—relate to that complex array of social, economic, fiscal, and technological developments that we now describe with the catchall term “globalization.”

Some of the most important changes to our local government system were brought about by the present Ontario government. These reforms included:

- the long-avoided modernization of property taxation and assessment;
- the reform of fiscal and functional relationships that we call local services realignment (LSR); and
- widespread institutional restructuring, which has reduced the number of municipalities in Ontario from 839 to 447, or nearly 47 percent.

Restructuring has also created new larger city governments, with the potential to play a much greater role in the economic and political life of the province and the country, and in the global economy.

**GLOBALIZATION AND ITS IMPACT ON MUNICIPAL GOVERNMENT**

Let’s look at global trends and how they have manifested themselves at the local level.

The global economy puts a premium on efficient markets. That has implications for organized labour in the public sector, for the competitiveness of local economies, and for the behaviour of consumers of municipal services.

Globalization, in the guise of media convergence and audience differentiation, is radically altering the world of print and broadcast media. And this, in turn, is changing the political environment in which municipal governments operate.

Media market fragmentation makes it difficult for most municipalities to get their messages to their residents. And media outlets now focus increasingly on a news presentation format that does not favour explanation and analysis of complex issues like fiscal reform, public-private partnerships, or institutional restructuring.

Globalization alters the patterns of social interaction and breaks down traditional affiliations. We already see changes in the way in which citizens associate themselves within communities and participate in the decision-making process. In the future, they will communicate with their local governments in ways that are fundamentally different from traditional patterns.

Globalization, by its nature, ignores the boundaries of states and provinces, and transcends geographical and communal isolation. But municipalities are, by nature and design, parochial. Statutes place strict limits on the ability of local municipalities to act beyond their boundaries, even when those boundaries arbitrarily divide a watershed, or a commutershed, or a commercial trading area, or a regional economy.

We all know that globalization favours mergers, specialization, “subsidiarity,” and technological modernization. We see these factors at work in the local government field. Let me give you a couple of examples:
- *Restructuring is one.* There are some obvious parallels in the way in which both local governments and commercial enterprises have prepared themselves for the challenge of the global economy—through mergers, departmental and functional consolidations, product specialization, and the elimination of non-value-added costs.

- *Devolution is another.* Across Europe and the Commonwealth, acceptance of the principle of “governmental subsidiarity” has expanded the role of regional and community governments. In Ontario, this trend has led to a greater role for municipal governments in the field of human services.

**INFLUENCING POLICY IN THE FUTURE**

Traditional brokerage politics, focused on representation of stakeholders by recognized leaders, and issue definition by a few mass media may also be undermined by the forces of globalization. Going forward, both municipal governments and their constituents are likely to be found reaching one another in ways that short-circuit the traditional representational and mass media vehicles. And issue advocates that can marshal the new technologies have demonstrated their capacity to displace traditional stakeholder organizations from a leadership role in public policy development.

Changing demographics will also have an impact. As the baby-boom generation ages, many well-educated, well-informed taxpayers are taking retirement at an age that will allow them to become more involved with civic issues. This group obviously has the numbers, skills, time, and often the personal resources to influence public opinion and to make demands on the “government closest to the people.”

**CITIZEN AS CONSUMER**

In the past, municipal government policies—as well as those of senior levels of government—were primarily influenced by organizational, societal, political, and union elites. With a monopoly market and with a guaranteed tax base, it wasn’t surprising that the “consumer’s” voice was not loudly heard. Citizens were resigned to—and often joked about—the inefficiency and poor quality of governmental services, from the post office to the public works crew. The oft-repeated lament “You can’t fight city hall” was, in fact, a critique of the work of generations of municipal politicians and municipal administrators.

But as the cable television and the long-distance telephone monopolies learned, “captive” consumers can become economically and politically demanding if they are taken for granted for too long. By the 1990s, the “demanding customer” could also be found at city halls across Ontario.

The effect on municipal decision makers has not been uniform. But in the municipal world, every municipal politician understands very well that the unhappy municipal customer is also, by definition, an unhappy municipal taxpayer and an unhappy municipal voter.

Advances in electronic communications, the Internet, and consumer market research also make it possible to approach the Athenian ideal of direct democracy,
which the Ontario government has facilitated with its “direct democracy” and referendums legislation. Other illustrations would be full-membership voting for political party leaders and the Internet’s online issues-development forums, which greatly expanded during the last US election. If we can avoid the risk of trivializing complex issues, direct democracy certainly affords a greater opportunity to meet broader-based customer expectations and to engage a wider range of citizens in the municipal decision-making process.

HOW HAVE MUNICIPALITIES RESPONDED?

One of the early responses to these developments has been the use of polling and focus groups to gauge and to guide public opinion on specific municipal issues.

As municipalities increasingly see themselves to be service-delivery corporations, not just governmental institutions, they will supplement the political process with techniques drawn from the consumer marketplace. For example, in municipal recreation or economic development, civic interests are now generally governed by marketing plans and the frequent use of commercial, electronic communications.

And just as industry and the commercial service sector have been forced to embrace or accept restructuring, functional consolidation, and regionalization—in order to reduce costs, improve scale, and foster productivity—so too have municipal governments.

Many municipalities in Ontario have employed marketplace competition in the delivery of municipal services, reaping the rewards of lower cost and greater capital investment. Public-private partnerships and the use of more transparent competitive contracting have become important in the efforts of progressive municipalities to promote efficiency and commercialization in the delivery of municipal services. And they attract predictable resistance from those whose interests are threatened by these innovations.

Another interesting development is the recognition that the economies of urban regions—not national or provincial economies—are often the basis of comparison used by the global marketplace when decisions are being made about job-creating or job-retaining investments. The growth and strengthening of “regional” municipalities—whether they are single-tier or two-tier—and an identifiable “urban-region” economy will add pressure on municipalities to harmonize licensing, trade regulations, transportation policies, building regulations, and property tax rates, across regional commercial trading areas.

A CHANGING LABOUR RELATIONS AND HUMAN RESOURCES ENVIRONMENT

Faced with growing competition for scarce tax dollars, many municipal politicians have looked first at expenditures that do not have a high community profile or a direct impact on community services. As business leaders had done in the previous decade, forward-thinking municipal politicians first challenged “non-value-added” expenditures and looked for lower-cost and more efficient alternative means to
have municipal services delivered and facilities operated. Many of these responses also generate a labour-relations reaction.

Things have begun to change for municipal collective bargaining. After the Second World War, local public service unions developed rapidly. Municipal service delivery was virtually a monopoly, and collective agreement provisions often confirmed that arrangement with job-security and no-contracting-out protection. Public tenders were often governed by generous “fair wage” policies. Public revenues were growing every year; consequently, there was not much incentive for municipal managers, municipal politicians, or civic union leadership to focus on private-sector concerns like profitability or productivity.

In recent years, as global competition became a reality, we know that many private-sector unions have hammered out approaches to work rules, compensation, competition, and productivity that protected workers but also recognized the need for employers to be competitive and profitable if they were to remain viable. And where management and labour have not been able to find this balance, many firms have failed.

Considerations of profitability, labour-market parameters, and external competition may well start to affect municipal collective bargaining too.

**Municipal Role in the Delivery of Human Services**

In Ontario, under the LSR, one of the most dramatic changes in the past decade has been the greatly expanded program, policy, and financial roles of municipalities in the field of human services—social welfare and Ontario Works; programs for children, the disabled, and the elderly; long-term care and hospital finance; ambulance and paramedics; social housing and affordable housing; and public health.

After the Second World War, public health and social welfare programs were steadily “provincialized,” with policy and program design controlled by the province, and with program delivery being consolidated at the upper-tier level of municipal government or in a provincially controlled regional delivery system.

With a mere agency role in service delivery, and no role in policy making and program design, municipal councils paid scant attention to this area of public activity. For the past 50 years, most municipalities have focused almost exclusively on land-use planning and on the delivery of so-called hard services—roads, fire suppression, recreation buildings, sewers, waterworks, solid-waste disposal, transit systems, and the like.

LSR changed all that. LSR widened that narrow focus to embrace *all* aspects of community services.

Leaving aside for the moment the perennial arguments between levels of government about money and cost sharing, LSR

- allowed provincial program objectives to be met better;
- allowed municipalities to respond more flexibly to the needs of their clients and their communities; and
responded to public expectations that human services should do more to support one another in meeting common social objectives.

LSR created opportunities to look at human services in new, results-oriented ways:

- child care could be used to support the single parent returning to work or retraining under Ontario Works;
- social welfare, health, and housing needs could be met through a more integrated approach to client service; and
- the potential to replace repetitive client in-take, qualification, and income-testing processes for social housing, Ontario Works, and child care, with a single seamless, integrated process continues to offer the possibility of both better service for clients and better results for clients and taxpayers.

Of course, in delivering human services on an integrated basis that meets local needs, provincial bureaucracies are well intentioned and will do their professional best. But it is hard to match the capacity of local authorities to tailor a variety of programs to meet local needs and to recruit local non-profit agencies in the effort to serve clients on an integrated basis.

The proposition is quite simple, really: who is in a better position to deliver community services than a community government?

Municipalities are at the forefront of innovation in the field of human services, tailoring programs to the needs of individual clients and individual communities. The province has recognized—and documented—the successes that municipalities have had in maintaining province-wide service standards, while meeting the challenging but results-producing provincial objectives for human services programs.

Local government is not just the classroom for democracy; it can also be “the laboratory of the public sector,” producing new policies and program ideas rooted in practical experience. That was the story of welfare reform in the United States, and our experience confirms it.

THE IMPLICATIONS OF HUMAN SERVICES FOR MUNICIPAL BUDGETS AND ORIENTATIONS

The rising importance of human services is not without its impact on the nature, orientation, and future of municipal governments.

Other speakers here today will do a much more complete job of explaining what LSR means to the budgets and fiscal position of Ontario’s municipalities. But let me begin that discussion by pointing out some dramatic budgetary effects of the LSR initiative.

The province has done two things that will influence the dynamics within the municipal government system.

First, where the functional and/or financial responsibility for human services has been transferred to the municipal level, it has generally been transferred to the
large single-tier cities or upper-tier municipalities (like counties or regional municipalities). Since most of those entities already have significant responsibilities in such important areas as planning and financing major infrastructure, and in delivering policy, their budgets have become very large relative to the cities, towns, and townships contained within the boundaries of two-tier municipalities.

This week, for example, the city of Burlington’s regular home newsletter pointed out that 37 cents of every residential property tax dollar went to the regional municipality of Halton and 38 cents went to the two regional school boards, leaving only 25 cents for the services for which the city government is responsible. The city might have added that the regional municipality also collects a very substantial amount in the form of water and wastewater charges from those same residential households. Clearly, local government functions at the regional level are increasingly important in budgetary and fiscal terms.

The second major change is the percentage of the municipal budgets devoted to human services. The province has provided “tax room” and, where required, sustained unconditional grant support, through the Community Reinvestment Fund, to offset the fiscal impact of the “swap.” But expenditures on human services have risen dramatically with LSR.

How much of a change has the expanded human services role represented for the municipal world?

Perhaps the best illustration is the year of transition, 1998. Although the province has improved the terms of LSR since that initial year, it does make the point quite graphically. In the multibillion-dollar “swap” of revenues and spending obligations that made up LSR, municipalities saw the expenditure side of their budget change as dramatically as the tax and revenue side did for them and for education property taxpayers.

In 1997, net municipal expenditures amounted to approximately $12.3 billion for all municipal functions. In 1998, offset by increased revenues drawn from grants and the education tax base, net municipal expenditures increased to nearly $15 billion, an increase of some 22 percent.

In the human services field, the 1997 municipal expenditures were $1.17 billion, or about 9.5 percent of all municipal expenditures. In 1998, that level of expenditure rose to $3.18 billion, or over 21 percent of total municipal expenditures—more than doubling the financial importance of human services programs in municipal budget deliberations.

Although these increased expenditures are offset by increased “tax room” and provincial grants, the impact on budget emphasis is obvious.

Some of the changes were modest, but many represented a dramatic change. For example, expenditures on ambulance functions went from less than $28 million, mainly in Toronto, to $221 million province-wide. The municipal share of social assistance costs, largely Ontario Works and aid to the disabled, grew from just under half-a-billion dollars to $1.36 billion. And perhaps most significantly, the net municipal share of the cost of social housing went from zero to $821 million, as well as involving municipalities in social housing program delivery, most for the first time.
What does this mean for local government?

The impact of human services policies and programs will likely be seen over time in the type of people attracted to elected and senior management positions in municipal governments, in the focus of municipal debates, and in the budgetary choices made by municipal councils.

We will likely see more citizens offering themselves for election who are not as interested in land use and hard services as they are in the opportunity to design, integrate, and deliver “human services” policies and programs to better meet community needs, and in “community development” and “redevelopment” issues.

NEW ACCOUNTABILITIES AND CHALLENGES

The factors changing the municipal scene are also generating new interest in the concept of accountability and the related objective of transparent comparability. Increasingly, municipalities will have to be accountable in ways that are much more concrete and demonstrable to citizens than the idiosyncratic accounting and anecdotal claims of the past.

In the future, municipalities will be called upon by taxpayers to demonstrate “value for the dollar” in service delivery. To ensure that their message gets to their various publics, and is understood, municipalities will recognize the need to recruit voices from the broader community and in the private sector, who can add credence to municipal claims of being businesslike in service delivery and in the management of their own affairs. But they will need good data, and they will need to be sure their story is credible.

Municipalities must also be attuned to the changing marketplace. A period of prolonged fiscal restraint can lead to a siege mentality—a tendency to “circle the wagons” and to focus on the preservation of established programs, rather than advancement and innovation.

I expect that municipalities will learn from the private sector’s own experience with the old and new economies. It will obviously make much more sense for municipalities to anticipate and to explain emerging trends and new developments to their constituents. If they are going to succeed in the intense competition for the much-coveted Ontario taxpayer’s dollar, local governments cannot ignore the need to alter existing patterns. Simply cutting back and delivering the same products and services in the traditional fashion, leaving their institutionalized cost-drivers unchallenged, is likely not sustainable over time. Progressive municipalities have demonstrated the confidence to abandon or reprice some services when their value, cost, or heavy subsidization can no longer be justified by fiscal priorities, citizen preferences, or community needs.

The question may be, how do municipalities successfully meet that political challenge?

Of equal importance, local governments must continue to develop and offer products, services, and facilities that meet the needs of the emerging community that they will serve in the future.
NEW MODELS OF SERVICE DELIVERY

As the province promotes municipal performance measurement and transparent comparison of costs across the municipal sector, municipalities are looking—many for the first time—at the cost and effectiveness of their traditional methods of service delivery. As the public and the media pay more attention to the real cost and effectiveness of the many services delivered by municipal governments, that evaluation will accelerate.

Municipalities are already seeing themselves as service-delivery corporations, rather than simply governmental institutions. This orientation will likely expand with the new Municipal Act’s provisions dealing with “natural person” powers, with more accountable procurement policies, and with the power to create municipal corporations. We have already seen market-based techniques being applied to supplement traditional approaches. Many have been examining ways in which marketplace competition in service delivery could improve the quality and cost performance of municipal services and facilities. Competitive contracting, public-private partnerships, and compensation incentives for employee productivity are all evidence of this trend.

But with commercialization comes a change in orientation, and a need for different managerial and operational skills. To achieve lower unit cost and to meet performance standards in third-party contracts, municipal staff need the skills of project management, “results-focused” specification writing, and sound contract-negotiation and contract-administration practices. These requirements will obviously require a fundamental change in a public service schooled in in-house policy development and direct, “monopolistic” program delivery.

In the new world, municipal councils and senior managers are also learning to balance the needs of the community as a whole against the demands of particular interests, and to do so in a way that is more easily integrated with a lower-cost business environment and an ability to standardize the range, safety, and quality of municipal services.

All municipalities now realize—or soon will—that it is not enough simply to do well in relation to last year, or in comparison with a neighbouring municipality. Urban economic regions, often more than provinces or countries, are competing with one another in the global economy. Municipal governments must project an approach that says they understand the need to be competitive, and to be accountable for that competitive position in a way that would satisfy any objective observer, critic, or potential investor.