

# ***Alternative Service Delivery in Canadian Municipalities***



***Michael J. Skelly***

**ICURR** Intergovernmental Committee on Urban  
and Regional Research  
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## **Foreword**

On behalf of the Intergovernmental Committee on Urban and Regional Research (ICURR), we are pleased to present Michael J. Skelly's publication, *Alternative Service Delivery in Canadian Municipalities*. This is ICURR's third research paper on municipal finance. The most recent one, written by Dr. Enid Slack and published in 1994, is titled *Development Charges in Canadian Municipalities: An Analysis*. Issues related to municipal finance will continue to be an area of great priority for ICURR's research program. ICURR is developing research projects, such as this one, in consultation with its committee of research directors representing ministries of Municipal Affairs across the country as well as the Canadian Mortgage and Housing Corporation. The publications of our program address directly the current urban concerns of the provinces and the government of Canada. Other research topics of interest to ICURR and its committee include sustainable urban development, local governance and municipal/regional planning.

This particular project was proposed by Nova Scotia and endorsed by the full committee. As restructuring of local governments is taking place, local governments in Canada are increasing their use of alternative means of delivering municipal services. Fiscal restraint by senior levels of government and increasing expectations of local citizens, are forcing municipalities to reconsider how they produce local services. This new environment calls for municipalities of all sizes to concentrate more on policy making rather than production of services and to be more flexible in their use of alternative methods of service delivery.

ICURR would like to thank Michael Skelly for the enthusiasm and perseverance he showed in the preparation of this timely survey, review and analysis.

André Lanteigne  
Executive Director

Dr. Claude Marchand  
Research Director

Intergovernmental Committee on Urban and Regional Research





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Finally, the author thanks the case study respondents who took the time to fill out the questionnaire and send information; without their input, this report would not have been possible.



## Author's Biography

Michael Skelly has both an Honours Bachelor's Degree and a Master of Science in Planning from the University of Toronto. His undergraduate geography thesis dealt with trends in interprovincial migration in Canada from 1966 to 1986. His Master's in Planning graduate thesis was on constraints to residential intensification in the City of Toronto. For his first ICURR report, *The Role of Canadian Municipalities in Economic Development*, Michael surveyed 415 economic development officials across Canada to discover what economic development techniques they used and to solicit their opinions on the appropriate role of municipalities in promoting growth and development.



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# Executive Summary

## **Background**

Municipalities in Canada are currently faced with decreasing revenue sources and increasing service delivery responsibilities. Consequently, many local governments are turning to alternative means of delivering local services, involving the private or non-profit sectors as well as other local governments. Alternative service delivery methods include: contracting out, intergovernmental agreements, franchising, charging user fees to achieve efficient consumption of a service, vouchers, subsidy arrangements, using volunteers and promoting self-help.

The objectives of this research report are to:

- Document Canadian and other local government experiences in using alternative service delivery practices
- Evaluate a series of Canadian local government case studies in the use of alternative service delivery methods based on the criteria of efficiency, effectiveness, accountability and equity
- Discuss the existing provincial legislation that either prohibits or facilitates alternative service delivery practices

There is an important distinction between government supplying and producing a service. "Supplying" includes activities such as policy making and regulating, while "producing" means operating and delivering a service. When a government hands over production of a local service to someone else, it does not necessarily relinquish control over that service, which can still remain under public sector jurisdiction. "Supplying activities" are an important aspect of governance. Indeed, local government experts have argued that local government authorities should concern themselves more with "steering" (policy making) rather than concentrating solely on "rowing" (service delivery).

Obstacles to adopting more alternative service delivery methods in Canada include: the small fiscal base and geographic size of local governments, the view that local governments are service-delivery agents of the provinces, bureaucratic inertia, resistance from employees and lack of awareness of other approaches.

Alternative service delivery methods can be grouped into three major categories.

**1. Contracting Group** - comprising contracting out to the private sector, intergovernmental agreements and franchising

**2. Subsidy/Fees Group** - made up of vouchers, user fees, and subsidy agreements

**3. *Volunteer Group*** - includes using volunteers and facilitating self-help in the community

Anticipated cost savings is the most common reason given for adopting alternative service delivery methods (especially privatization). Both in Canada and the U.S., studies have documented the superior efficiency of the private sector over the public sector in the delivery of a number of local government services. It has been shown, however, that the important distinction is not private vs. public but competition vs. monopoly. The presence of competition induces the public sector to become as cost effective as the private sector. Competition in the market exerts an important discipline that is needed for efficiency to be maximized.

**Provincial Legislation**

In most provinces and territories, legislation does not prevent municipalities from exploring alternative means of service delivery including involving the private/non-profit sectors or other local governments. The only restrictions in most provinces relate to giving grants or bonuses to an industrial or commercial undertaking. Recent facilitative legislation includes the 1993 Community Economic Development Act in Ontario, the Saskatchewan Inter-Community Cooperation Program, and the <<Sociétés d'économie mixte>> pilot projects in Quebec. Also, the recent Alberta Municipal Government Act allows for more creative alternative service delivery solutions for Alberta municipalities.

## Case Study Analysis

The following table shows the municipalities used as case studies in the analysis and indicates the alternative service delivery methods they employed.

Municipality	Alternative Service Delivery Method
<p><b>1. Contracting Group</b>  Airdrie, Alberta  Hamilton-Wentworth Region, Ontario</p> <p>Peterborough, Ontario  Saint-Hyacinthe, Quebec</p> <p>RCM of Haut-Richelieu, Quebec  East Prince Region, PEI  Paradise, NFLD</p> <p><b>Intergovernmental Agreements</b>  Drayton Valley, Alberta  Southeast Regional Library, Saskatchewan  Assiniboia, Saskatchewan</p> <p><b>2. Subsidy/Fees Group</b>  Sidney Township, Ontario</p> <p><b>3. Volunteer Group</b>  Vernon, B.C.  Metropolitan Toronto, Ontario  Salaberry-de-Valleyfield, Quebec</p>	<p>Contracting out for property assessment  Privatization of water and waste water treatment  Taxi-bus paratransit system  Management of household waste and compost materials  SEM for waste management  Waste management agreement  Contracting out for public works</p> <p>Partnership for Internet access  Partnership for CD-ROM and other databases  Coordinated regional response system</p> <p>User fees for garbage collection</p> <p>Volunteer fire department  Use of volunteers in social services  Use of volunteers for local events</p>

## Summary of Key Case Study Issues

The following is a discussion of the key questions in the case studies.

### *1. Reasons for adopting an alternative service delivery method*

The desire to reduce costs to the municipality was cited as a reason in seven of the case studies. Most of the other reasons involved the local government responding to an outside stimulus, including a pilot study identifying a need in the community (Drayton Valley), the provincial government opting out of providing a service (Airdrie), the availability of outside funding (Saskatchewan case studies) and a proposal by a large private company (Philip Environmental in the Hamilton-Wentworth case study).



## ***2. Effect of changes in delivery on costs***

In only two cases, did the cost of the new method of service delivery increase. In the first instance, this was due to lack of choice available to the municipality (Airdrie) and in the second, due to the cost increasing for some residents, but not for others (East Prince Region). With all the other respondents, service costs either decreased, did not change significantly or it was too early to conclude.

## ***3. Reasons for cost savings***

If there were documented cost savings, the most common explanations included the avoidance of full-time salary costs by using volunteers and better coordination and management by the private sector operator.

## ***4. Changes in service quality***

In instances where it was possible to determine, in all cases except two, where it remained the same (Vernon and Hamilton-Wentworth), the level of service quality improved. Service quality was expected to improve in the cases where a recent initiative was involved.

## ***5. Other effects***

Other consequences, beside changes in service delivery cost and quality, from adopting the new service delivery method included secondary positive economic benefits (such as jobs created), environmental benefits from waste reduction, partnership initiatives (Drayton Valley, Southeast Regional Library, South Central Protection Services and Hamilton-Wentworth), greater community involvement as well as negative union effects (Vernon and Salaberry-de-Valleyfield).

## ***6. Public response***

Where the new method of service delivery directly impacted on the local citizens (such as fire protection services as opposed to waste management agreements with the private sector), public response was positive in all of the case studies. In other cases, there was limited public response or it was too early to determine any public response to the new initiative.

## ***7. Provincial Legislation***

Respondents were split on the question of the effect of provincial legislation on their ability to pursue alternative service delivery methods. Airdrie, Hamilton-Wentworth, Peterborough, the Southeast Regional Library, Assiniboia, Sidney Township and the East Prince Region case study respondents did not feel restricted by provincial legislation. The remainder of the case study respondents felt in some way restricted by the governing provincial legislation.

## **Conditions for Alternative Service Delivery**

Emerging from the analysis, there are several general conditions that apply if alternative service delivery methods are to be employed effectively:

- The municipality should analyze in detail its own costs of producing the service.

- The municipality should retain the capacity, if possible, to produce the service itself, in case the alternative method does not work out.
- Depending upon provincial labour legislation, the municipality, when possible, should try to work with local unions from the outset of the process, to make sure that union concerns are addressed.
- The public should be kept informed of the alternative methods being used, as well as the rationale for using them.
- It must be possible to monitor the performance of the alternative method.
- If contracting out is involved, one needs to have a sufficient number of potential bidders in the region to maintain the element of competition.
- When volunteers are used, one needs to have people in the community who are motivated to be effective service delivery agents. In some instances, an organized volunteer program may be necessary. The use of volunteers is made easier when a community organization able to produce the particular service already exists.
- In order to employ user fees, the output of the local service needs to be measurable. Studies should be undertaken to establish an appropriate pricing method for the service. Where applicable, fees should be set to recover marginal costs. In some cases, it may also be necessary to charge a fee to recover a portion of the fixed costs of delivering the service if the marginal cost of delivering the service is close to zero.
- In considering any alternative service delivery method, the criteria of efficiency, effectiveness, equity and accountability should be used to evaluate the effects of the new method on the local community.

### **Prospects for the future**

Since it is unlikely that the trend of fiscal restraint and increasing responsibilities for local governments will recede, alternative modes of service delivery will continue to increase in importance in Canada and around the world. Municipalities should not, however, automatically assume that the private sector is superior at producing all local services. One has to examine each individual service and municipality to determine which is the most efficient, effective, accountable and equitable method of service delivery. All of these factors should be taken into consideration when contemplating an alternative to total local government production of a service. Often, however, significant cost savings can be attained through internal cost management measures.

## **Suggestions for further research**

Further research in the field of alternative service delivery practices might include:

- case study analysis of the Sociétés d'économie mixte pilot projects in Quebec to assess their applicability to other parts of Canada
- detailed review of a number of different services in a sample of matched municipalities, comparing conditions before and after the introduction of alternative service delivery methods
- development of a set of guidelines for collecting data with which to evaluate alternative service delivery methods
- detailed study of the utilization of user fees in municipalities both in and outside Canada



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## Chapter 1

# Local Government and the Provision of Services

## Introduction

Local governments in Canada and the U.S. are experiencing reductions in grant revenues at the same time as they are faced with increased responsibilities and expectations from local citizens. As a result, an increasing number of municipalities are looking for alternative ways to deliver services to their local populations. Alternative delivery approaches are those which use private firms, nonprofit organizations, or individual citizens to deliver or assist in the delivery of local services (ICMA, 1989). They also include arrangements between local governments to deliver a particular service. Alternatives are different from the norm, which is defined as total local government production. In this case, there is no sharing with the private sector, the public or another local government. The service is delivered completely by local government employees. The term "alternative" does not necessarily mean "unusual" in every situation. For example, in many parts of Canada, volunteer fire service departments are the norm.

The focus of this research is on the operational aspects of service delivery. The main objectives of the research are to:

1. Document Canadian and other local government experiences in using alternative service delivery mechanisms
2. Evaluate a series of Canadian local government case studies in the use of alternative service delivery methods, on the basis of efficiency, effectiveness, accountability and equity<sup>1</sup>
3. Discuss the existing provincial legislation that either prohibits or facilitates alternative service delivery practices

Alternative service delivery methods include:

- Contracting out a service to the private sector
- Intergovernmental agreements to provide a service in cooperation with another local government or agency or another level of government
- Using volunteers to deliver all or part of a service
- Promoting self-help within a community
- Franchising out a service to the private/non-profit sector
- Providing vouchers to local citizens to give to private service producers
- Giving a subsidy as an incentive to provide a service
- Charging user fees to achieve efficient consumption of a service

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<sup>1</sup> The report will not include alternative methods of financing large capital expenditures on infrastructure. Nor will it discuss extensively internal reorganization practices such as municipal cost management programs.

**Services that local governments provide**

The principal responsibilities of local governments include police, education, local roads, by-law enforcement, public health and welfare, sewers and water, parks, recreation and garbage collection (Hobson, 1993). Table 1 lists the main services provided by Canadian municipalities, as classified by Statistics Canada, and shows what proportion of the budget municipalities in the various provinces and territories allotted to each service.

Local governments in most provinces and territories spend a significant amount of their budgets on education. This is an area of expenditure that is generally beyond the control of municipal governments. School boards usually take a percentage of the municipal property tax to fund education. Other significant areas of expenditure include transportation and communications, environmental programs, and fire and police protection.

In Canada, in recent years, reductions in provincial transfers and the downloading of expenditure responsibilities in many provinces and territories have had an impact on the ability of local government to keep expenditure commitments (Kitchen, 1995). Municipalities have had to respond to increased costs of their own services, as well as to new environmental and social initiatives (such as environmental standards and employment equity). Canadian municipalities began turning to alternative service delivery methods in the early 1980s, especially for such services as garbage collection, recreational services and social services. Similarly, in the U.S., experts have cited the 1982 recession, which resulted in increased fiscal pressure on local governments, as the time when municipalities began to develop "alternative" ways of delivering services (Osborne & Gaebler, 1992: 17). The passing of Proposition 13 in California in 1978 signaled that local citizens wanted government to stop increasing taxes while still maintaining the same level of services. In fact, citizen expectations of local government in terms of the number and range of services provided has increased significantly over the last 10 to 15 years. In the past, municipalities just had to provide hard infrastructure services. Today, however, even smaller communities expect their local governments to fund a wide range of soft services such as recreational facilities and social services.

**Table 1: 1991 Local Government Expenditures By Province & Territory  
(percent)**

Function	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC	NWT	YUK	CAN
General Services	11.9	2.8	3.8	8.5	8.1	4.8	5.4	5.2	4.4	4.8	18.5	20.0	5.6
Protection - persons and property	6.8	4.5	6.4	22.8	8.5	7.8	7.9	6.8	6.1	10.0	3.9	7.9	8.0
Transportation and Communications	23.2	4.1	4.9	21.2	9.8	8.1	8.9	10.8	12.1	7.4	13.4	23.0	9.1
Health	0.0	0.0	5.9	1.0	0.0	4.8	7.5	16.9	15.1	2.8	0.4	0.2	5.1
Social Services	0.0	0.0	19.2	0.0	0.4	11.6	3.7	0.4	1.0	0.3	2.4	0.0	6.2
Education	8.9	74.7	42.4	0.0	41.4	41.2	44.3	41.4	33.7	44.9	18.2	0.0	40.4
Resource conservation and industrial development	0.4	0.1	0.6	1.9	1.3	1.2	0.9	1.8	1.5	0.9	0.6	0.8	1.2
Environment	17.0	3.6	7.4	19.3	8.8	7.6	6.5	6.0	5.8	8.6	24.5	24.4	7.9
Recreation and culture	9.4	3.4	4.0	14.1	6.6	5.5	5.3	6.3	6.7	8.7	11.7	16.5	6.3
Housing	0.8	0.0	0.5	0.3	1.8	1.3	0.1	0.0	0.2	0.6	1.0	0.2	1.1
Regional planning and development	1.3	0.2	0.9	2.1	1.1	0.9	1.4	0.6	1.5	0.9	1.0	2.0	1.0
Transfers to own enterprises	1.4	0.0	0.6	0.9	2.0	2.2	1.6	0.7	2.5	0.1	0.0	1.9	1.8
Debt charges	16.7	6.5	3.1	8.0	10.2	2.2	6.4	2.9	9.2	9.2	3.6	3.1	5.8
Other expenditures	0.1	0.1	0.2	0.0	0.0	0.8	0.1	0.0	0.0	0.8	0.8	0.0	0.4
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Statistics Canada Catalogue No. 68-212, 1995

**Private and Public Provision of Goods and Services**

Savas (1987) states that the nature of the good or service determines whether or not it will be produced at all, and the conditions needed to assure that it will be supplied. The justification for government intervention in the provision of goods and services is the need for the supply of public goods — goods and services available to everyone and whose enjoyment by one person does not prevent others from enjoying them also. Market mechanisms cannot support public or collective goods such as city parks. User fees cannot be applied to such goods, since non-payers cannot be excluded from taking advantage of them. Without government involvement, the market would not produce the “socially desirable” quantity or quality of the good (OECD, 1987: 13). There is a need for public provision due to market failure since price is set equal to marginal cost and in this case, marginal cost equals zero. Governments must supply these types of goods and pay for them through indirect means (other than user fees) such as the property tax (Climans, 1993).

Therefore, government can be viewed as an instrument for making and enforcing decisions about collective goods. Governments determine which ones to provide and how they will be financed. However, a service may be inherently a collective good and a government responsibility, yet not be produced by a government agency or by government employees (Savas, 1987:60). This is the distinction between supplying and producing a service. As Koldrie (1986) points out, many people do not distinguish between the decision of government to supply or provide a service (a policy decision) and the secondary decision to produce a service. Supplying includes activities such as policy making, regulating, franchising and subsidizing. Producing includes operating and delivering a service. Supplying activities, in turn, are part of governance. Governance involves making decisions about what services and programs should be provided, but it does not mean that the municipality will produce these services and programs (Tindal, 1995: 339). In recent years, there has been an attitude shift: governments are no longer expected so much to produce services as to see that they are produced. It is now generally recognized that involving the private sector in the delivery of public services does not necessarily reduce the government’s regulatory role, nor take away the government’s responsibility to ensure that the service is delivered in a responsible manner (Ministry of Municipal Affairs, 1991). In short, according to Seader (1993), privatization means better government, not less government.

**Experience with Alternative Delivery Mechanisms**

As a result of the increasing fiscal pressures on municipalities within the last three or four years, a number of local government commentators have called for a “reinvention” of local government. One of the consequences of embracing these ideas is the adoption of alternative methods of service delivery. Osborne and Gaebler state that local governments have been concentrating on “rowing” (service delivery) and not enough on “steering” (policy making). Furthermore, faced with the prospects of declining revenue sources and increased expenditure responsibilities, most local governments choose one of two options - either to raise taxes or

cut spending. According to local government commentators, the more entrepreneurial solutions to this problem is lacking in local government in both Canada and the U.S..

Osborne and Gaebler maintain that the traditional way of delivering many public services (total government production) is only appropriate when "the environment is stable, the task is relatively simple, every customer wants the same service and the quality of performance is not critical" (Osborne & Gaebler, 1992:15). For other types of services, authors in the field posit that local government should be more flexible with respect to trying alternative methods. In countries outside Canada and the U.S., a similar theme has pervaded the thinking of local government policy makers. In an OECD report (1987) on urban service provision, the underlying theme was the need for diversity in the provision of services. Part of this diversity includes encouraging the provision of services by agents other than local government, including the private sector and local non-profit groups.

On the other hand, some experts have criticized these proposed solutions. Trebilcock (1994), for example, points out that people often forget the technical and political constraints on making improvements. He states that the most we should expect from the existing bureaucracy is a number of small changes, which will only have a minimal effect on most government deficits. This argument may hold true for the federal or provincial levels of government, but for local governments, even small changes can make a difference because of the smaller scale of expenditures and budgets. In Pittsburgh Township, Ontario, for example, an innovative cost management program managed to shave off 15 percent of the municipality's operating costs over two years. Similarly, in Ajax, Ontario, over only an eight week period, \$500,000 was saved through new internal practices (Town of Ajax, 1995). These savings are only the result of internal management programs and do not include cost savings which could result from more innovative methods of service delivery, such as involving the private sector.

Other experts have criticized the notion of viewing local citizens as customers of government. Mateo (1991) provides some interesting thoughts on the potential contradictions in espousing the customer-oriented viewpoint. He points out that a free market is impossible so long as people cannot choose between local government administrations. He also argues that viewing citizens as customers implies that individuals have no rights until they pay their taxes (Mateo, 1991: 148).

Despite these criticisms, it is still valid to think that local governments must become more responsive to the people in their own constituency in terms of service provision. From the local government's point of view, its citizens are both customers and shareholders in the municipality. In a private company, the top executives have a responsibility to respond to the wishes of the shareholders. The same principle applies in local government.



**Constraints to Using Innovative Methods**

The structure of governance in Canada has also been given as a reason for the lack of entrepreneurial methods of service delivery. According to Siegle (1993), most provinces in Canada have too many and too small local governments. The limited fiscal base of these local governments puts them in a weak financial position. Consequently, they are unable to accumulate enough resources to experiment with alternative practices. Moreover, the geographic size of a local government unit, in many cases does not correspond to the ideal economic scale for the delivery of particular services (Donahue, 1989). A private sector firm operating across municipal government boundaries might be in a better position to realize economies of scale. Also, since a local government is usually restricted in its activities to its bounded geographic area, any incentives for innovation in service delivery are limited. The potential reward for innovations is limited to what can be achieved within the city limits. One could also maintain, however, that the small size of local governments in many parts of Canada forces them to be more innovative in the area of service delivery, impelling them into agreements with other local governments and encouraging them to make more use of volunteer help.

The nature of local governments in Canada - being creatures of the Provinces - is another factor that can inhibit innovative governance. According to Siegle (1993), many provincial departments view local governments as service delivery agencies. Chief Administrative Officers and City Managers are generally not trained in or encouraged to engage in, "entrepreneurial" methods. Siegle goes on to state that we need to move toward the British enabling authority model. Rather than directly providing services, municipalities should stimulate, facilitate, enable and monitor. Other barriers to change in the provision of public services include bureaucratic inertia, resistance from employees or simply lack of awareness of other approaches.

## Chapter 2

# **Alternative Service Delivery Models**

Alternative service delivery methods can be grouped into three major categories.

1. Contracting Group
2. Subsidy/Fees Group
3. Volunteer Group

This chapter briefly describes alternative practices in municipal service delivery in each of these categories. The methods listed below are not mutually exclusive; two or more of them may be combined for a specific situation, and more than one may be used within the same service. Contracting out is the most popular method of alternative service delivery in both Canada and the U.S., and is the most common form of private provision of public goods. In a recent study of contracting out in B.C., for example, private contractors were involved in 32% of all local services (McDavid and Clemens, 1995). The use of volunteers, intergovernmental agreements and user fees are also employed by a large number of local governments. The other methods are less prevalent.

### **Contracting Group**

This group of alternative service delivery methods includes those practices which contract out municipal services to the private sector, the non-profit sector or another level of government.

### **Contracting Out**

A "contract out" is any arrangement to procure goods or services from outside the organization (Cassidy, 1994). In this case, the organization is the local government. Government can still maintain control over the provision of the service by including standards and service requirements as conditions within the contract.

The following conditions should exist for contracting out:

- Services that have outputs which are easily measured (solid waste collection as opposed to recreational services)
- Services that are not excessively complex since complexity is an important factor in the ability to monitor contracted-out services (Ferris and Grady, 1986)
- Services that can be broken down into a number of different components

- Services for which user fees can be charged

Contracting out tends to be more appropriate for technical rather than social services (OECD, 1987). This is because the precise outputs of social services are hard to define, making it difficult to monitor the results.

The age and size of cities can affect the propensity to contract out for various services. For example, the older and larger cities in the U.S. tend to give over little service production to the private sector. "Newer" cities (mainly those in the midwest and west) are more likely to contract out services because they lack a long tradition of municipal unionization and total public provision of a service (OECD, 1987: 50).

In the U.S., contracting out is most frequently used for public works and transportation, support functions and some public safety services, as well as for some health and human services (ICMA, 1989). Other services often contracted out are those that have low profiles (such as garbage collection), and those that are generally delivered by relatively low-skilled workers.

Some municipalities in the U.S. contract out almost all their services to the private sector. Litchfield Park, Arizona, with a population of 4,000, contracts out virtually all the services it provides to its citizens (Freeman, 1989: 5). Other than the city manager and some office staff, the city does not have any employees. The private sector delivers the necessary services. La Mirada, California (population of about 40,000), has been called a "contract city". By 1986, the City had 89 separate contracts including provision of police and fire services, trash collection, transit, street sweeping, public-works inspection, data processing, accounting and operation of the local library (Fitzgerald, 1988). In 1988, the municipality had only 59 full-time employees with a budget of \$11 million while the neighbouring city, La Habra, of a comparable size, had a payroll of 300 permanent employees. La Mirada saves on buying equipment for many services and on benefits for municipal employees. Pikeville, Kentucky, a rural community of 6,300 residents, has had a completely privately-run public works department since 1989 (Ward, 1993). The city's public works department provides water and wastewater services, natural gas distribution, meter reading, street maintenance and garbage collection.

Advantages to contracting out include greater flexibility to the organization doing the contracting out (the municipality in this case), potentially improved productivity, and the ability to draw upon specialized expertise (Cassidy, 1994). In order to keep contractors competitive over time, it is better to divide up a job into several geographic areas or functional components, if possible, instead of giving the whole job to one contractor (Services Committee, 1982). In this way, a monopoly is not being handed over to the private sector. Each producer has to be competitive in order to keep their section of the city.

Some of the disadvantages of contracting out include possible lower service quality, lack of continuity in service delivery, potential corruption in the bidding process (collusion among the

bidders) and the possible loss of information about how to satisfy the needs and demands of the local population. Local governments often sense that they are losing control over the provision of the service. Moreover, any gains in efficiency may be canceled out by the costs of negotiating and evaluating the contract. Due to the visibility of public sector contracts, there is a set procedure of checks and balances, and these may lead to losses in efficiency (Cassidy, 1994). Also, in contracting out, there is the assumption that there are a sufficient number of available contractors to make the bidding process competitive. The absence of such a pool of competitive contractors makes contracting out less attractive in smaller cities, where it may simply mean transferring a service from a public monopoly to a private one.

Obstacles to contracting out include citizen pressure and public employee resistance. Local residents may perceive that government is not committed to a service if it is contracted out. Public employees may feel that their jobs are being threatened. In fact, studies have shown that unionization in a municipality does have an impact on the likelihood of a local government privatizing/contracting out a service. Cities with unionized sanitation employees, for example, are less likely to implement a privatization scheme in the area of sanitation (Chandler and Feuille, 1991). The lower frequency of contracting out in highly unionized municipalities is mainly due to organized opposition to contracting which extends beyond the official statements agreed to in the union contract. Trebilcock, also states that municipalities take into account the disruption which could result from union actions and the impact on the municipal employees, in considering whether or not to contract out a service, even if doing so would clearly result in cost savings, with no sacrifices in service quality (Trebilcock, 1994). Union opposition to contracting out, however, is somewhat justified, since contracting out often leads to the gradual elimination of the union in the new work environment (Chandler and Feuille, 1991).

### **Intergovernmental Agreements**

In this form of alternative service delivery, one local government contracts with another for the delivery of local services. Agreements between local governments can take two forms: an intergovernmental service contract or a joint service agreement (Municipal Research & Services Centre of Washington, 1993). In an intergovernmental service contract, one local government pays another for delivery of a service. In a joint service agreement, two or more municipalities act together to plan, finance and deliver a service to their citizens. Cooperative purchasing is common among neighbouring municipalities in Canada. The recent Inter-Community Co-operation Program in Saskatchewan promotes partnerships among local governments to enhance the quality and effectiveness of shared service delivery.

Intergovernmental agreements are common for the delivery of local services, especially among smaller municipalities. The provision of hard infrastructure such as sewer or water, as well as "soft" services such as library services and public transit, can be shared among a number of local governments within a specific area. On their own, smaller municipalities may not have the necessary resources or expertise to undertake a particular service. By pooling their efforts, the local governments can provide the service more effectively. Almost all types of municipal services are candidates for intergovernmental agreements. Potential disadvantages of using

this method include possible service disruption if the agreement is not being fulfilled (especially if the municipality does not retain the ability to deliver the service itself) and discontent on the part of the local population, which might feel that its own constituency should be providing the service and would be more responsive to its needs.

### **Franchising**

Franchising gives a private organization the right to deliver a service within a certain geographic area while the local government maintains control over the delivery of the service by setting service standards and other conditions. The customer of the service pays the franchise organization, and not the government, for the service. Franchises can be either exclusive (one producer) or non-exclusive (many producers). Only those services that can be assigned a price to the users are eligible for franchising. According to Auld and Kitchen, the main reason for using franchises is to replace government with private firms that are assumed to be more efficient (Auld & Kitchen, 1988: 95).

There are few examples of local governments in Canada franchising a service. In the U.S., franchising is used most often for residential and commercial solid waste collection, public utility functions, airport operations, vehicle towing and storage, ambulance service and emergency medical service.

By granting a non-exclusive franchise, a municipality can create a competitive environment, provide incentives for improved efficiency, lower costs and improve the quality of services (Auld and Kitchen, 1988). An exclusive franchise needs to be monitored closely to make sure that service quality and price are acceptable. One of the main disadvantages of franchising is that lower income users may not be able to afford the service.

### **Subsidy/Fees Group**

ICURR Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
sur les villes et les régions

This group of alternative service delivery mechanisms includes methods whereby governments influence the demand for services by providing incentives to potential producers of a service, by assisting customers to pay for it or by charging fees for a service. This latter method allows service recipients to signal their consumption preferences.

### **User Fees**

User fees can be viewed as an alternative revenue source as well as an alternative way to manage service provision. The importance of user fees as a percentage of municipal revenues has been increasing for most provinces and territories over the past 20 years or so. In 1991, the average of user fees as a percent of total municipal revenues was about 13% for local governments in all Canadian provinces (Kitchen, 1995).

User fees, which charge for every unit of output consumed (Kitchen, 1994) is a method of adjusting demand for a particular service, as well as an alternative financing mechanism.

According to Osborne and Gaebler, user fees are appropriate when the service is primarily a private good, exclusion is possible, and fees can be collected efficiently. User fees tend to be utilized for technical and infrastructure services as opposed to social services (with the exception of day-care) and are generally not applied to services of community-wide benefit. At the local level, fees have been set for building permits, water supply, parking, public transit, use of arenas and pools, homes for the aged and, in some cases, garbage collection (Kent, 1987).

User fees also permit local governments to have a more flexible revenue source that allows them to get away from over-dependence on property tax revenues and/or transfers from senior levels of government. User charges can actually broaden a municipality's tax base if the additional revenues are collected from people or organizations which reside outside its boundaries and would normally be exempt from other forms of taxation.

User fee rates can be set in a number of different ways. These include :

- Full recovery of all costs
- Incremental costs of the service
- Market value (used if the service competes directly with the private sector)
- Recovery of operating costs
- Fixed percentage (for example, transit fares are often set to cover a percentage of costs)
- Comparisons with other municipalities (bench marking)
- Indexing over time (to reflect increases in the cost of living, for example)

Source : Kent, 1987

According to Sproule-Jones (1994), when user fees are set at a level that equates the marginal cost of government-produced goods with the marginal valuation or demand that citizens or consumers place on them, efficiency will result. That is, the extra cost associated with producing another unit of the good or service should be equal to the value that consumers give that extra unit. For many services, however, marginal cost is close to zero, so marginal cost pricing would not generate sufficient revenues to cover the costs of provision. In these cases, a two-part pricing scheme is appropriate. The user would pay a fixed charge for the privilege of using or gaining access to a service, and a variable charge equal to the marginal cost of the last unit consumed (Kitchen, 1994).

Rate structures for different services vary. In the case of water, for example, there are generally four types of structures: flat rate, constant unit rate, decreasing block rate and increasing block rate. For water consumption, flat rates unrelated to the amount of consumption are the most popular in Canada (Kitchen, 1994). A constant unit rate is an equal charge per unit of consumption. Decreasing and increasing block rates consist of a fixed charge plus a charge that either decreases or increases in discrete blocks as the volume consumed increases (Kitchen, 1994).

Transit systems in Canada are financed through a combination of fare box revenue and local and provincial government subsidies. The setting of transit fares usually takes into account a number of different factors, including the amount that needs to be recovered through the fare box and the importance of encouraging people to switch from automobiles to public transit. In setting fees for recreational services such as arenas and pools, most municipalities just try to recoup operating costs (Bird and Slack, 1993). Charging user fees at different times of the day or week to ration demand is uncommon. The underpricing of recreational services is usually justified by the need to provide public facilities for those not able to afford private recreational fees, and by the overall benefit to society of a more active and healthy population. Urban finance experts, however, have argued that a two-part pricing scheme is appropriate for some recreational services, such as swimming pools. Charging an initial membership fee and an additional fee each time the facility is used leads to improved efficiency without seriously deterring use among less well-off members of the community (Bird and Slack, 1993, Kitchen, 1993).

In reality, most municipalities set user fees just high enough to recover some percentage of the operating cost of the service. For example, in setting water prices, municipalities in Canada rarely take into account marginal pricing. "Economic factors seldom enter the decision-making calculus related to water use" (Tate and Lacelle, 1991: vii). According to Kitchen, decision on a pricing structure for municipal services often relates to local tradition, the type of service involved, preferences of local residents, and the desire of local politicians and administrators to substitute prices for local taxes (Kitchen, 1992b: 152). By underpricing public services, municipalities often redistribute income to the higher income groups while intending the pricing policy to achieve the opposite (Purchase and Hirshhorn, 1994).

User fees have a number of other potential benefits. They permit service providers to measure how much service is demanded by the public and promote efficient provision if the provider has to be responsive to the customers (Brooks, 1982). Thus, user fees are a way to improve the efficiency of resource allocation. They can also be a catalyst for better performance by service providers, since they have to be responsive to the needs of the users (Services Committee, 1982). Government managers may have a stronger incentive to operate services within their departments more efficiently if the services are required to be self-supporting.

The adoption of user fees runs into a number of "technical" limitations. It is often difficult to measure service levels effectively and to calculate the marginal costs of a service accurately. This is especially true of "toll goods"<sup>2</sup> (since the marginal cost of a toll service facility once it has been built, is close to zero). Also, many government goods and services involve more than one specific output. Solid waste, for example, involves both collection and disposal (Sproule-Jones, 1994).

Some critics of user fees state that their extensive adoption would adversely affect low income households. Auld and Kitchen (1988) maintain that, to deal with distributional issues, a simple income transfer program would be more appropriate. Thus, equity considerations may dictate

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<sup>2</sup> Waste disposal is an example of a toll good — a service that can be supplied by the market but where government needs to specify the performance requirements (Climans, 1993).

that particular groups users be given relief from the fees. Also, full-cost fees should not generally be charged for "merit" goods and services (those goods and services which have public benefits that go beyond the direct recipients). Goods such as public transit and local cultural centres should not have full cost charges because part of the reason local government is involved in these areas is to make them more accessible than if they were provided on a purely competitive market basis (Kent, 1987).

Potential drawbacks of user fees include inordinate barriers to access, underutilization of existing municipal facilities, and excessive costs of administration. Establishing user fees for a particular service could also have negative socio-economic and political impacts on the local economy. Charging for a service which was previously free could affect choices of local businesses and also make people feel that they are paying twice for a service. Obviously, it becomes important to communicate effectively to the general public the reasons for the establishment of any fees. The municipality has to consider whether it has moral, legal or ethical obligations to provide the service from general revenues as opposed to utilizing user fees (Knighton, 1985).

### **Vouchers**

Vouchers allow citizens to choose among a number of different providers of a service. The local government could give out a number of vouchers to local citizens. For a voucher system to work, there is a need for a competitive market situation with a large number of potential service providers (OECD, 1987). The advantage of this method is that it allows individual choice to be maximized, given that the previous condition is satisfied. Vouchers are appropriate whenever it is possible to identify users and exclude from benefiting those who do not have vouchers (Services Committee, 1982).

Auld and Kitchen state that determining the cash value of the voucher is of central importance. The per unit cash value should equal the average cost of the most efficient supplier. The value of the voucher can be restricted to one service or several services and to one kind of provider or many types of providers (Services Committee, 1982).

The potential benefits of vouchers include increased control for users over the services they consume due to the greater responsiveness of the providers to consumers (thereby increasing efficiency). The ability to charge the true cost of a service is a further benefit. One can offset this charge for the lower income groups in the community with transfer payments. The government or government agency may choose to give a relatively greater number of vouchers to specific groups in the community (such as low-income groups) if there are equity goals involved in using this method of alternative service delivery.

Vouchers are not being used extensively by local government in Canada. Services such as day-care, homemaker services, foster homes and group homes could be suited to a voucher system (Auld and Kitchen, 1988). In general, vouchers are appropriate for many types of social services, since consumers should be able to use an alternative provider if they are not satisfied (OECD, 1987). However, increased monitoring and administration costs may offset the



reduction in delivery costs. In the U.S., vouchers are used by local government mainly in paratransit, day-care and child welfare (ICMA, 1989).

It has been proposed that an appropriate use for vouchers is in the area of education. With a voucher system in place, parents would theoretically have greater choice in determining which school their child attends, and schools would be more responsive to the public's preferred form of education. In theory, this method of delivering educational services promises to promote equity and efficiency; however, there are some potential drawbacks as well. By embracing this philosophy, one is assuming that everyone is a good judge of quality education. This is not necessarily true: government might be a better judge. Moreover, many in the U.S. fear that, with a full voucher system in place, schools would become even more racially segregated than is presently the case. Others feel that private schools would still find a way to exclude certain types of students (for example by requiring a cash supplement in addition to education vouchers to gain admittance). Other potential drawbacks with vouchers include the problem of accurately classifying people and the level of uncertainty with respect to enrollment, making it difficult for schools to plan for the future (B.C. Education Funding Review Panel, 1992: 30). Because education in Canada is a shared responsibility between the provincial government and school boards, it is unlikely that any type of voucher program would be initiated at the local government level (Bird and Slack, 1993).

### **Subsidy Arrangements**

In this method, the local government subsidizes a private organization (either for- or non-profit) or a special-purpose board or commission, to deliver a service or mount specific programs and projects. In Canada, grants to service producers are usually made to cover costs (e.g. library boards) or to offset operating cost losses (e.g. public transit) (Auld and Kitchen, 1988). In the U.S., subsidies are often given to non-profit organizations in the areas of health and human services (ICMA, 1989). This practice tends to work best when private organizations that have the staff and expertise to deliver a service already operate within a community. If this is the case, the government only has to provide the subsidy and does not have to be concerned with the delivery aspects of the service. The extensive use of grants can result in inequities for non-users of the subsidized services, and also to heated competition for the grants themselves.

### **Volunteer Group**

#### **Volunteers**

Volunteers, by definition, work for local government without pay, although they may be compensated for expenses. They usually provide services that complement, rather than replace, services provided by the local government. The effective use of volunteers in local government requires approval by local unions, cooperation from local government staff, and competent management.

Volunteerism in Canada constitutes a significant amount of person hours. In fact, its collective value exceeds that of some of Canada's leading industrial sectors. Over a 12-month period during 1986/1987, a Statistics Canada Survey of Volunteer Activity estimated that 5.3 million Canadians performed volunteer work (Ross, 1990). Each volunteer worked an average of 191 hours/year for a total of 1.018 billion hours. Although, it is not known how much of this is related to local government services, even a small percentage would be a significant contribution to service delivery in Canadian municipalities.

The potential benefits of using volunteers and non-profit organizations to provide services include increased responsiveness to local needs and the mobilization of participation of local citizens in the affairs of their own community (OECD, 1987). The use of non-profit groups for the delivery of services is probably best suited to small-scale social services. Fire, recreation and social services are the most popular areas for using volunteers. Volunteers in these areas usually do not completely replace paid employees, except in the case of volunteer fire departments. Essential services are not usually appropriate for volunteers, since service may be disrupted when volunteer interest runs out.

The use of volunteers does not necessarily reduce service delivery costs because of administrative costs (Auld and Kitchen, 1988). The quality of the service with this alternative method depends essentially on the quality of the volunteers, and the way they are administered.

### **Self -Help**

Self-help is a type of volunteer service delivery. It differs from volunteerism because those who benefit and those who provide the service are from the same group. Self-help activities can complement existing services, supplement reduced services, or even develop new services (ICMA, 1989).

Examples of self-help programs include neighbourhood watch programs and citizen patrols. John McKnight, director of community studies at Northwestern University's Centre for Urban Affairs and Policy Research, states that communities are more committed to and better understand the problems of their fellow community members than are service delivery agents (Osborne and Gaebler, 1992:66). Increases in efficiency can only be maximized if the majority of the residents within an area agree to cooperate in a self-help program (Auld and Kitchen, 1988). There may be a significant number of "free riders" within the area who do not wish to participate, yet receive the benefits of the service.

To sum up, alternative service delivery methods can be classified into three main groups. The Contracting Group includes contracting out to the private sector, intergovernmental agreements and franchising. The Subsidy/Fees Group consists of vouchers, user fees and subsidy agreements. Using volunteers and facilitating self-help within a community make up the Volunteer Group. Contracting out, using volunteers, intergovernmental agreements and user fees are the most popular forms of alternative service delivery among Canadian local governments. Each method has its advantages, disadvantages and conditions for use which should be taken into consideration when a municipality is deciding on an alternative service delivery method.



## Chapter 3

# Evaluation Criteria

The criteria of efficiency, effectiveness, equity and accountability are useful in evaluating the impact of a new method of service delivery. It is important to take all of these factors into consideration when evaluating the impacts of alternatives to total local government production of a service. This criteria will be used to evaluate each alternative service delivery method generally and will also be used in the case study section of the report.

### Efficiency

According to Hirsch (1991), efficiency can be divided into two types: allocative and productive. Allocative efficiency deals with optimal allocation of resources in order to maximize efficiency. Productive efficiency is further separated into technical and organizational efficiency. Technical efficiency is concerned with the optimal combination of inputs given quality and quantity constraints (Hirsch, 1991: 68). Organizational efficiency deals with the internal organization of the service producer. Cost can be used as an indicator of efficiency whenever it is a matter of maintaining a fixed level of quality with a given level of inputs. However, efficient provision of services is not synonymous with low-cost service delivery. Longer hours and/or lower wages may reduce costs, but they do not necessarily increase efficiency.

**Table 2: Impact on Efficiency of Alternative Service Delivery Methods**

<b>Alternative Service Delivery Method</b>	<b>Impact on Efficiency</b>
Contracting Out	Contracting out can reduce the cost of delivery for a variety of local government services (please see "Evidence of Cost Savings" in next chapter).
Intergovernmental Agreements	There are usually increases in efficiency with intergovernmental agreements, especially if scale economies are possible. There can be a reduction in efficiency if the shared service delivery arrangement requires extensive monitoring.
Franchising	Any changes in the level of efficiency will depend on the particular service and whether the private/non-profit organization involved can produce the service at a lower cost.
User Fees	The application of user fees to a service usually results in increased efficiency since they can act as a signal of the level of

Alternative Service Delivery Method	Impact on Efficiency
	demand of a particular service.
Vouchers	If there is a competitive market situation, then the use of vouchers can improve efficiency; especially if it is possible to assign a price to the service.
Subsidy Arrangements	Subsidies should reduce the overall cost to the government of providing a service.
Volunteers & Self-Help	The use of volunteers may reduce costs if they perform some of the activities usually carried out by government employees and if administrative costs do not exceed these savings. There is, however, potential for significant service disruption.

### Effectiveness

The criterion of effectiveness deals with the quality of the service delivery method from the perspective of the local citizens. If the delivery method has changed, are the consumers of the service satisfied with the new service delivery method? In other words, has the quality of the service changed as a result of the new way of delivering service? The private sector may be able to deliver a service at a lower cost than the public sector, but if service quality cannot be at least maintained, then this gain in efficiency may not translate into a public benefit.

**Table 3: Impact on Effectiveness of Alternative Service Delivery Methods**

Alternative Service Delivery Method	Impact on Effectiveness
Contracting Out	Contracting out can potentially improve effectiveness; however, local governments need to monitor the service producer to ensure that service quality is not being compromised. Cost reduction may be pursued while service quality is sacrificed.
Intergovernmental Agreements	In order to maintain the same level of effectiveness, the expected level of service quality needs to be stated explicitly in the agreement between the local governments involved.
Franchising	Effectiveness can potentially increase if the service provider is accountable to the consumers. Minimum standards for service quality and a monitoring system should be established.
User Fees	Service quality does not usually suffer with the application of user fees.
Vouchers	Service quality may suffer if there is not sufficient competition among service producers for the vouchers.
Subsidy Arrangements	The local government relinquishes control over service quality.
Volunteers & Self-Help	If high quality volunteers are used, then service quality can increase. The quality of volunteers partially depends on the commitment of the local government to an organized volunteer program.

### Accountability

One method of helping to ensure continued service quality and an absence of service disruptions is to have a service delivery body that is accountable to its customers. In judging accountability, one needs to ask the following types of questions: How responsive or accountable is the service delivery agent to those receiving the service? Is there some type of system whereby the producer and/or provider of the service is answerable to the customers? Can unhappy customers effectively voice their displeasure, if they are not satisfied with the service?

**Table 4: Impact on Accountability of Alternative Service Delivery Methods**

<b>Alternative Service Delivery Method</b>	<b>Impact on Accountability</b>
Contracting Out	The service producer is indirectly accountable to its customers through the local government administering the contract for the service.
Intergovernmental Agreements	The same level of accountability as total local government production of a service is maintained since consumers can provide feedback to their local government.
Franchising	A similar level of accountability as in contracting out is present. A greater level can be achieved if a non-exclusive franchise is granted since there would be more competition.
User Fees	Service providers become more accountable to their consumers with the adoption of user fees.
Vouchers	With a sufficient level of competition, service providers must be responsive to their customers in order to stay in business.
Subsidy Arrangements	Accountability may be reduced if the local government divorces itself from involvement in delivery of the service.
Volunteers & Self-Help	Self-help has the highest possible increase in accountability since the consumers of the service are also delivering it. The accountability of outside volunteers can also be high if a well-managed volunteer program is in place.

### Equity

It is also important that the service producer serve all social and economic segments of the population equally. The service producer must not be "creaming off" the best customers within the area and providing substandard service to other parts of the population or other parts of the city. The distribution of revenue from, or the costs of production of, an alternative service delivery method may also have equity implications. For example, how is the revenue

shared among the groups within the production organization? (Hirsch, 1991: 69) Are there any implications for a local union, for example, that delivered the service before an alternative method was employed? In general, equity can be a concern of local government contracting out to the private sector since the motivations of the latter usually do not include regard for disadvantaged sections of the local population — the motivation for profit usually prevails.

**Table 5: Impact on Equity of Alternative Service Delivery Methods**

<b>Alternative Service Delivery Method</b>	<b>Impact on Equity</b>
Contracting Out	There are potential equity problems if the service producer is not monitored properly. Difficult to serve members of the community may not receive the standard level of service.
Intergovernmental Agreements	Equity concerns will be addressed since only the public sector is involved in the agreement.
Franchising	There will be no adverse effects on equity if the conditions of the franchise require the same level of service to all segments of the population.
User Fees	Equity should improve since undercharging of services provides a subsidy to the wealthy. Varying fees based on income would be difficult to implement. The fee schedule could be increasing with consumption.
Vouchers	This method best addresses the equity issue since those less well-off can be given relatively more vouchers.
Subsidy Arrangements	Distributional effects will be specific to the service in question. For example, subsidies to transit systems directly help transit users and may also indirectly help auto users by reducing congestion on roads.
Volunteers & Self-Help	There are no significant distributional effects for using volunteers. Some neighbourhoods might be better able to organize and implement a self-help program than others.

Therefore, when considering alternative methods of service delivery, it is important that local governments consider the criteria of efficiency, effectiveness, accountability and equity. Moreover, the local government needs to know in detail the costs of producing the service and determine methods of measuring the output of the service before it can consider an alternative. This information will help in monitoring the performance of the alternative service delivery method. Techniques also need to be developed to monitor distributional effects and impacts on the ability of service recipients to voice their concerns.

## Chapter 4

# Assessment of Private Sector Efficiency

Most studies cite cost savings as the major reason why local governments turn to alternative methods of service delivery. A 1987 Touche Ross survey of public managers revealed that lowering costs was the main motivation factor behind privatization of local services: surprisingly, better quality was the least important reason cited in the survey.

The importance attached to the reasons may change according to the particular service in question. For example, in a New Jersey study, cost savings were a more important factor in the privatization of public works functions than in the private delivery of social services (Van Horn, 1991). Staff limitation (lack of skills and/or knowledge among staff) and the need to obtain outside expert assistance have also been given as reasons for privatization.

### Evidence of cost savings

Numerous studies have compared the relative costs of providing a service through the public and private sectors. The following is a summary of the findings of some of these studies.

#### *Canadian Evidence*

- In Canada, many of the studies focus on municipal solid waste collection. McDavid (1985) found that public collection agencies tended to be less efficient (by 51%) than contracted private agencies providing similar services. Public waste collection crews tended to be less productive, and their equipment less efficient.
- Kitchen (1976) found similar evidence of cost savings in his comparative study of public and private provision of refuse collection services in 48 Canadian cities. Privately operated refuse collection resulted in a savings of \$2.23 in long-run average unit costs.
- In the area of public transit, Kitchen (1992a), through regression analysis, found there to be statistically significant lower costs per kilometre under privately contracted operation in comparison to municipal departments.
- McDavid (1986) examined fire protection services in a number of Canadian municipalities. His study illustrated the potential cost savings of having a significant volunteer component in a service. He found that municipalities that rely on mixed full-time and part-time fire departments, or on all-volunteer departments, enjoy substantial cost savings without sacrificing service quality.



***United States Evidence***

- A 1984 HUD study documented significant cost savings from contracting out municipal waste collection. On average, municipal waste collection was 28% to 42% more costly than contracted out service (Wingerter, 1986).
- A study of eight local services in the Los Angeles area in 1988 found that, on average, municipal services were over 50% more costly than services provided by private contractors, with scale, service level, service condition and service quality held constant (Brettler and Stevens, 1988).
- A 1987 study comparing municipal and private bus services found that private bus services typically charge similar prices as public ones, but have 50% to 65% lower costs (Walters, 1987).
- Moore (1988) determined that municipal fire departments have 39% to 88% higher costs per capita.
- Mehay and Gonzalez (1985) showed that costs in counties that sell their police services to other areas are 9% to 20% lower.
- Osborne and Gaebler (1992) found that, on average, public service delivery is 35% to 95% more expensive than contracting out, even when the cost of administering the contracts is included.

The results of these studies are not conclusive, however. According to Slack, many of them used questionable measures of service output, and failed to account properly for the true monitoring costs of contracting out (Slack, 1993). Moreover, Hirsch (1991) states that there is usually a bias in the samples used to compare contracting out and public provision of a service. Often, these studies include only cases in which private firms offered lower costs than in-house production, ignoring the less efficient private contractors. Donahue (1989) claims that much of the research in this area tends to be anecdotal in nature and driven by ideology.

**Reasons for Cost Savings**

Donahue (1989) provides a number of reasons for private sector efficiency in the provision of services. First of all, private ownership allows the concentration of interest in efficiency; public ownership does not. Public sector providers need to consider the public interest in addition to efficiency. Secondly, public management is constrained by layered authority, mandatory reviews, civil service rules and formal bid procedures while private management is not. Here, Donahue is referring to the argument that the public sector is often constrained by “red tape” in pursuing efficiency in service delivery. Thirdly, public organizations are usually secure against competition, private management is not (unless there is a monopoly situation). Finally,

private firms that fail to deliver face bankruptcy while public agencies that fail to deliver usually do not face the same consequence. This last point may not be true today with the threat of government cutbacks acting as an incentive for efficiency.

Other commonly cited reasons for private sector efficiency include :

- better management practices
- greater use of, and superior, technology
- greater use of incentives and penalties for employees
- use of part-time and temporary help to handle peak service periods
- remuneration based on market wages
- spreading of equipment and other capital costs over many jobs
- the ability to take risks for the purposes of innovation (Fitzgerald, 1988)

In general, the private sector is thought to be more focused on the final product and less constrained by the process and by bureaucratic procedures. However, in certain respects, the public sector may be better suited than the private sector to deliver a particular service. An interesting perspective on the respective roles of the private and public sectors was given by a number of representatives of Murray & Company Investment Services Ltd. at a recent conference on public-private partnerships. Both the public and private sector have their own strengths and weaknesses. The conference report states that government is good at setting objectives and policies and defining requirements and processes, but it has difficulty in developing business plans and accepting new delivery systems. The private sector, on the other hand, is good at seizing on business opportunities, minimizing capital and operating costs and maximizing revenue sources (Murray & Company Investment Services Ltd., 1993). This would suggest that government needs to consider the possibility of working with the private sector for certain services in order to maximize each group's advantages.

Even if one accepts that the private sector is more cost effective than the public sector, one might question why this is the case. Osborne and Gaebler maintain that the important distinction is not public vs. private, but rather monopoly vs. competition. In a recent study on privatization, it was found that most of the benefits result from the introduction of competition into the bidding process (Hilke, 1993). Handing over a monopoly to the private sector is not a method of privatization that is likely to drastically reduce costs. Starr points out that - "there are no inherent reasons why a program run by a privately controlled entity will be any less expensive or better managed than a publicly run program" (Starr, 1987). Bird and Slack (1993) state that efficiency gains from contracting out owe more to increased competition than to the fact that the service was provided by the private rather than the public sector. A recent OECD document argues that monopolies, either public or private, in the provision of services should be avoided (OECD, 1987: 72). Doing so results in greater efficiency and increased choice for consumers. The introduction of competition into a service delivery process tends to improve efficiency, even if the final institutional arrangement does not end up to be the private sector. In contracting out, if competition is lacking, there will be far less to gain. Auld and Kitchen (1988) also state that improvements in efficiency, increased choice, and effective methods for monitoring services are more readily achieved through competition.

Competition in the market exerts an important discipline that is needed for efficiency to be maximized. There is pressure to control costs, to maintain quality and to fulfill the terms of the agreement (Hirshhorn, 1992). As McDavid and Schick show in their study of the effects of competition on service efficiency in the Vancouver area, public agencies can become more effective when involved in competition. The study made clear that public producers of municipal services (solid waste collection in this case), when exposed to competition, have an incentive to find more efficient methods of delivering the service.

Moreover, competition is not restricted to private companies competing against each other for a contract. Public sector departments can compete against private companies, and also with each other. Phoenix and Indianapolis are often cited as successful examples of public departments that compete for contracts against the private sector. Phoenix, said to have invented the public/private competitive process in 1979, has used it to compare service delivery in 13 service areas — including refuse collection, landfill operations, airport landscaping, street repair and water meter repair (Flanagan and Perkins, 1995). The benefits have included increased attention to customer satisfaction and documented cost savings of over \$27 million. Phoenix applies three key policies when deciding whether or not to contract out. It never contracts out more than 50% of a service, guarantees that no employees will be displaced, and retains for itself the ability to deliver the service, thereby avoiding one of the potential pitfalls of this approach. Mayor Goldsmith, in Indianapolis, has been pursuing a competition strategy which treats city departments as businesses and gives workers a voice in ways to cut costs (Johnson, 1995). Since 1992, city departments have bid against private firms for more than 50 city services. The public workers have won in a majority of these competitions.

Municipalities can compete among themselves by comparing their costs of delivering a service with those of another municipality of a similar size and similar characteristics. Such comparisons can act as incentives for local government departments to lower their costs. This technique is referred to as “benchmarking.” Others, notably supporters of public sector unions, believe that you simply need to empower the municipality’s employees in order to obtain more efficiently-run local services. Under this philosophy, the solution is to create innovative work places.

Three years ago, the City of Waterloo created “Waterloo Inc.” with the goal of improving efficiency in local service operations. Five service areas were identified to act as pilot projects: fleet services, water and sewer, cemetery services, parking and development services. These services act as “cost/revenue” centres. They have organized their activities so as to understand better the costs and revenues of their department. Employees of these departments have greater access to the books, so that they can better comprehend what they are doing. This program has been very successful. Results have included reduced reliance on the tax base, a greater search for innovative revenue sources and higher levels of teamwork among employees.

The City of Mississauga has taken this concept a step further by actually marketing services to other municipalities. The recently formed Innovation Corporation sells the planning of public transit systems to other municipalities in Ontario. This City of Mississauga corporation is in its initial stages, but it plans to move to other service areas in the future.

Starr (1987) states that there are less tangible benefits that go beyond costs, from having governments produce and deliver a service. He claims that the advocates of privatization rely almost exclusively on an efficiency argument and tend to ignore the social benefits associated with public provision, including concern for the environment and the provision of health and social benefits to public employees. In the U.S., local government is viewed by some as having an important role in the hiring of women and minorities (Houlihan, 1995 and Donahue, 1989).

Thus, although it has been shown in numerous studies in Canada and the U.S. which analyze many different services that the private sector can more efficiently deliver a particular municipal service, the introduction of the element of competition can help the public sector become more efficient. Since the trend towards adopting alternative methods of service delivery is not unique to Canada and the U.S., it is instructive to examine alternative service delivery outside the North American context, which is the topic of the next chapter.



## Chapter 5

# **Alternative Service Delivery Outside North America**

For the purpose of comparison with the Canadian situation, this chapter provides a brief discussion of alternative service delivery methods used in Britain, France and highlights a number of other European and Asian countries.

### **Britain**

In Britain, local authorities currently contract out services such as refuse collection, catering, cleaning of offices, schools, and streets (Hartley, 1990). The 1988 *Local Government Act* requires compulsory tendering for refuse collection, cleaning streets and buildings, maintenance of grounds and vehicles, and management of local authority sports and leisure facilities. According to Stewart and Stoker (1990) the British Government's main reason for introducing this competitive tendering for local authority services is its belief in the efficiency of markets. In the authors' perspective, the Government views the private sector as superior to the public sector in every way, but lacks a comprehensive justification for this position. In their opinion, the Government has other possible motives: reducing the power of the local authorities and weakening the public sector trade unions. While most other European countries are moving toward giving more power to local government units, Britain, in some respects, seems to be moving in the opposite direction, toward an enabling authority model.

By acting as an enabling authority, a local government facilitates, stimulates and influences others as well as provides more direct forms of support through grants and contracts (Hollis *et al.*, 1992: 29). The enabling approach separates the provision of services from regulation and promotes the use of the private sector in providing public services (John, 1991). This trend towards viewing local governments as enabling authorities is consistent with the perceived need for local governments to be more responsive to their "customers" — the local citizens.

Six guidelines for enabling authorities have been suggested :

1. The authority should have a vision for the future: a strategic sense of the issues facing the local community and the way in which these issues might change over time.
2. The authority should focus its activities to determine the most effective response to the needs of the community.
3. Emphasis must be placed on setting objectives and standards and on monitoring performance.
4. Long-term relationships with other agencies and organizations must be developed.
5. Innovative approaches should be taken to interpret the regulatory framework in the interests of the local community.
6. There should be improved access to the public for decision-making.

(Hollis *et al.*, 1992: 31)

In general, enabling authorities place greater emphasis on strategic approaches to governing the local community and providing services. The entire focus of the authority is to meet the needs of the local community. In this way, the authority can be more accountable to the local citizens. John (1991) views the enabling authority as a new non-political model of local governance where "accountability is defined more by the responsiveness of local authorities to groups of consumers of local government services and measured by its performance according to market and efficiency principles rather than through the political process" (John, 1991: 70). Thus, this type of local government will be judged on its ability to effectively and efficiently deliver services, rather than through the debates of local council members. But John (1991) also sees a number of obstacles to the realization of the enabling authority model in Britain. For example, declining funding sources may make it difficult to pursue innovative initiatives, and the British government still has significant powers to control local government activities.

### **France**

The privatization of urban services in France is a tradition, rather than new or innovative (Lorrain, 1991). There are a large number of relatively weak local government units in France (36,749 communes). Legal forms exist for urban communes to collaborate with each other to provide services such as water, sewage, waste treatment and urban transportation (Lorrain, 1992:80). Large private companies have played a significant role in the provision of services such as water distribution. The *Compagnie Générale des Eaux* and the *Société Lyonnaise des Eaux* have been around since the mid-nineteenth century. These large private companies have been able to grow and develop because they have sought vertical integration as well as diversification into other urban services such as engineering, construction and manufacturing. The weakness of the communes has also contributed to the growth of these companies. The large private utility enterprises in France have been profitable because they are able to generate scale economies in research, capital investment and labour management as well as to operate with long-term contracts and operate independent of variations in local budgets (Lorrain, 1991). Moreover, the pricing system for the services guarantees profits. It is an accepted policy in France to include all the costs of production plus a return to the operator in the final price of a service.

The *Sociétés d'économie mixte (SEM)*, public/private partnerships between local government units and the private sector, have also been involved in the provision of urban infrastructure, but they have not undertaken to provide social services. SEMs were originally founded to intervene in the management of land for industrial zones, housing or commercial facilities, the construction of motorways, the development of harbour facilities, the modernization of wholesale markets and the provision of leisure and urban transport facilities (Lorrain, 1991: 92). The SEMs operate on a smaller scale, and at a more local level than the large private companies mentioned above. In 1993, there were 1,264 local SEMs in France, involved in the management of recreation, tourism, municipal services, industrial buildings and facilities, and land management. Communes generally use non-profit associations for service delivery in welfare, education, recreation and culture.

An interesting aspect of the French local government system which sets it apart from the British as well as the Canadian is the absence of large public agencies for the delivery of services such as water. The elected representatives of the local government units, rather than non-elected heads of large utility authorities have positions of authority in the service delivery system. In other words, "political legitimacy is above technical legitimacy" (Lorrain, 1991: 105). The main disadvantage of the French system of service delivery is the possibility that a private group may use the power that it has to its own advantage, since most of the government units are quite small and therefore often unable to monitor the private sector in the delivery of particular services. Related to this problem are the excessive organizational layers present in the French local government system. These add to monitoring difficulties.

Some interesting trends in other European and Asian countries include the following :

- New opportunities for cooperation among local governments in different countries, as well as economies of scale for the provision of services by private companies, are arising with the development of cross-national economic regions within the integrated European Community.
- The Spanish *mancomunidades*, associations of municipalities and regional governments which cooperate to obtain scale economies in the supply of services (Mateo, 1991), are a form of administration devoted fully to the organization and provision of services. They do not have any formal political powers.
- In Germany, the Association of German Public Transit Operators recently published a handbook on the use of private taxis by public transit authorities. Also, the German League of Cities issued a privatization guide intended for local governments.
- In Singapore, the world's first area-wide electronic road pricing system will be implemented in the near future. Previously, the Singapore system required rush-hour traffic to enter the restricted downtown area through one of 27 gantries where daily windshield stickers authorizing entry were checked visually, slowing traffic down considerably (Wynne, 1994). Since road pricing was introduced in 1976, the system has reduced central business district traffic by as much as two-thirds and maintained average traffic speeds at only 16 mph. By 1997, automatic tolling could extend beyond the Central Business District to some of Singapore's congested expressways. This is a move toward making drivers pay the full cost of driving.

### **Summary**

In Britain, the trend is towards taking power away from local government in the decision to privatize. The 1988 Local Government Act requiring compulsory tendering for certain services and the encouragement of an "enabling" model are aimed at reducing the ability of local government to decide the most appropriate means of service delivery. At the same time, however, accountability is supposed to be enhanced through the enabling authority model. In



France, the private sector has played a significant role in the provision of a number of urban services, especially, water distribution. The use of SEMs in the provision of urban infrastructure has further increased the role of the private sector in local services in France. The main problem with this system is a loss of control over private sector operators. The large number of small local governments further contribute to this situation.

As will be shown in the next chapter and the review of the provincial/territorial legislation, in Canada, the trend seems to be towards giving local governments more power to employ alternative service delivery methods.



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## Chapter 6

# Case Studies of Alternative Service Delivery Practices

In the following section, a number of examples of alternative methods of service delivery in Canadian municipalities are described and then assessed on the basis of the evaluation criteria outlined earlier in the report. The questionnaire used for the case studies appears in Appendix Two.

Table 6 shows a breakdown of the case studies according to type of alternative method. The large number of examples under the contracting out group reflects the importance of this practice in Canadian municipalities in comparison with the other alternative service delivery methods.

**Table 6: Case Studies**

Municipality	Alternative Service Delivery Method
<p><b>Contracting Group</b>                      Airdrie, Alberta                      Region of Hamilton-Wentworth, Ontario                        Peterborough, Ontario                      Saint-Hyacinthe, Quebec                        RCM of Haut-Richelieu, Quebec                      East Prince Region, PEI                      Paradise, NFLD</p>	<p>Contracting out for property assessment                      Privatization of water and waste water treatment                      Taxi-bus paratransit system                      Management of household waste and compost materials                      SEM for waste management                      Waste management agreement                      Contracting out for public works</p>
<p><b>Intergovernmental Agreements Group</b>                      Drayton Valley, Alberta                      Southeast Regional Library, Saskatchewan                        Assiniboia, Saskatchewan</p>	<p>Partnership for Internet access                      Partnership for CD-ROM and other databases                      Coordinated regional response system</p>
<p><b>Subsidy/Fees Group</b>                      Sidney Township, Ontario</p>	<p>User fees for garbage collection</p>
<p><b>Volunteer Group</b>                      Vernon, British Columbia                      Metropolitan Toronto, Ontario                      Salaberry-de-Valleyfield, Quebec</p>	<p>Volunteer fire department                      Use of volunteers in social services                      Use of volunteers for local events</p>

**Contracting Group*****Contracting Out of Property Assessment  
City of Airdrie, Alberta, population 14,900***

Since September 1993, Airdrie, a suburban municipality just outside of Calgary, has had its property assessment carried out by the City of Calgary. The Alberta provincial government opted out of providing this service to smaller municipalities in order to reduce its own operating expenditures. Airdrie requested that Calgary carry out its property assessment. The cost to Airdrie of property assessment has increased substantially since Calgary took over. The level of service quality has increased, however, due to better access to computerized services. Also, there is more of a focus on providing quality customer service to the residents of the municipality. Although the cost of property assessment to Airdrie increased after the province opted out, the new arrangement may be more socially efficient since the province only charged 75% of the actual cost of delivering the service. The cost of delivering the service to the producer has decreased since the City of Calgary took over, and the level of effectiveness of delivering the service has increased.

In terms of other alternative service delivery initiatives, the City of Airdrie is currently entering into a partnership with a private software company to develop a municipal accounting software package for resale to other municipalities. The City of Calgary provides fire and emergency medical service to other municipalities as well as some joint-purchasing of equipment and supplies. Since the province has opted out of a number of areas, former provincial staff have formed a number of different companies to provide assessment services. However, a pricing war now exists that, in the opinion of the survey respondent, will not make it possible to provide quality service.

***Privatization of Water and Waste Water Treatment  
Region of Hamilton-Wentworth, Ontario, population 450,000***

On January 1, 1995, Philip Utilities Management Corporation (PUMC), a division of Philip Environmental, took over control of the Region of Hamilton-Wentworth's water and waste water treatment facilities. In this, the largest municipal contract for utilities management in North America, it was agreed that, for a period of ten years, PUMC would administer the municipality's three sewage treatment plants, one water treatment plant and a pumping station. The Region retained ownership and control of all facilities (Canaran, 1995: 6).

The contract was the result of an unsolicited proposal from PUMC which wanted to demonstrate its expertise in the area of water and waste water treatment. For its part, the Region of Hamilton-Wentworth had two main reasons for adopting this solution. First, the privatization of the water and waste water treatment is estimated to have a significant (\$100 million) economic development impact on the local community. PUMC agreed to invest \$15 million in the Region over the next 10 years, to bring their headquarters to Hamilton and to

employ at least 100 people over and above those necessary for maintaining the Region's facilities (CMHC, 1995). Secondly, PUMC guaranteed \$500,000, annually in operation savings while maintaining service levels and no employment loss. The Region was promised a share in increased revenues above the minimum \$500,000 annual savings.

Although, Philip may not realize the \$500,000 annual savings that they had predicted, they will keep their promise to the region (CMHC, 1995). Any cost savings that are realized can be attributed to such factors as operating efficiencies, better management systems and corporate synergies. Initially, there have been no significant changes in service quality and effectiveness; however, improvements are possible as new technology is implemented. PUMC will maintain the same level of environmental compliance as when the Region operated the water and waste water treatment facilities.

The local union supported the Philip proposal because former regional staff became Philip employees, and the beneficiaries of a new profit sharing plan (CMHC, 1995). Any staff reductions are to only be a result of attrition, thus minimizing any possible equity effects. This agreement between the Region and PUMC was designed specifically to avoid confrontation with employees and their unions, and thereby avoid the political fallout that usually results from such confrontations (Smith, 1995). The Region is currently discussing the potential for privatization of other local services, such as economic development.

***Taxi-bus Paratransit System  
Peterborough, Ontario, population 68,000***

A paratransit system has been operating in two outlying areas of the City of Peterborough since 1974. A partnership between the transit authority and a taxi company, Trans-cab, offers door-to-bus-stop service during all regular transit operating hours. This service was initially a pilot project between the Ministry of Transportation and the transit company contracted by the City of Peterborough, before the City took over the transit system in January, 1979. In 1994, 5,000 passengers used Trans-cab, illustrating its popularity in the community.

For outbound trips, the passenger boards the regular transit bus and requests Trans-cab. The Trans-cab fare is \$0.40 in addition to the basic fare or pass. The operator advises the dispatch centre that Trans-cab is required. The dispatch radios the taxi company and instructs the taxi to go to the designated bus stop. For inbound trips, the passenger telephones the taxi company one hour in advance of pick-up and is then delivered to the nearest designated bus stop. The City operates seven routes offering this service. At the end of the accounting period, the taxi company returns the transit transfers to the transit office for payment.

The Trans-cab system was adopted because some areas of the city, due to low population density, could not be economically serviced on a regular route schedule. The Trans-cab system saves regular routing costs and provides more efficient and effective service than a conventional transit route in low density areas of Peterborough. Meanwhile, the quality and effectiveness of transit service has been enhanced, because passengers do not have long distances to walk.

At the time of adopting this alternative service delivery method, the local union did not have any significant negative reactions. According to the survey respondent, to start this type of service today would require good communication between the local union and management, outlining the ways in which a trans-cab system enhances service with no loss of hours to union operators. Public reaction to this service, which provides greatly improved service at minimal additional cost, has been very positive. The system also furthers equity, because lower income residents tend to make greater use of public transit.

***Management of Household Waste and Compost Materials  
City of Saint-Hyacinthe, Quebec, population 41,000***

A private enterprise currently serves Saint-Hyacinthe in the management of household waste and compostable materials. The collection of household waste has been in the domain of the private sector since January 1987. Prior to this date, two neighbourhoods were served by the municipality, while the rest had private collection.

The private company collecting waste in the city proposed a supplementary service of collecting compostable materials. In order to have better control over the environmental services provided by the entrepreneur, the City is requiring that the private company receive permission from the local taxpayers before the contract is awarded. This requirement will be in force in August, 1996. The municipal administration developed this method in accordance with the enabling clauses of the Law on Cities and Towns.

Currently, private sector entrepreneurs in environmental services operate within the city without municipal control. They are expected to standardize prices and frequency of service while allowing tax payers the possibility of agreeing to additional environmental services. The City assumes no cost since the service offered by the private enterprise is realized by a contract between the entrepreneur and the taxpayer. The implementation of the authorization procedure would, however, establish the minimum fee for most of the City's residents. The required authorization sets an annual minimum charge which is less than the rate previously paid by the tax payers.

At this point, it is not possible to determine the effects of the new initiative on service quality. The municipality believes that there will be no significant negative impacts. Some type of public reaction to separate collection for organic waste and a decrease in the number of pick-ups can be expected. A communication plan has been established to counteract this potential negative effect. The municipal administration is currently looking into privatizing the management of parking meters and grass maintenance.

***Société d'économie mixte for the collection and treatment of waste  
Regional County Municipality of Haut-Richelieu, Quebec, population 93,000***

Created on May 29, 1995, Compo Haut-Richelieu is the first <<société d'économie mixte>> (SEM) in Quebec. It is the result of a partnership between the Regional County Municipality

(RCM) of Haut-Richelieu and a private enterprise, Compo-Sortium, in the area of waste management. Compo-Sortium is a part of the Groupe Tractebel, one of the more important European industrial companies providing local services. The idea was exported from Belgium by the private partners involved, and endorsed by the council of the RCM.

On June 6, 1994, the Quebec government adopted the private Bill 211, "Loi concernant la Municipalité régionale de comté du Haut-Richelieu." This law permits the RCM to create a company with a private enterprise specializing in the area of waste management. The RCM possesses the majority of shares (60%); also, the majority of the administration council and the president of the council must come from the RCM. The RCM and Compo-Sortium divide up the risk capital, investments and profits. The objective of the SEM is to manage waste in the RCM in a more stable and environmentally friendly manner. The RCM has a goal of reducing waste by 50% by the year 2000, and also wishes to have better control over the management and cost of waste collection services in the area.

The SEM will be involved in the following activities :

- conception and creation of products for material recovery in the management of waste, including the commercialization of these products
- the formation of research groups and management of laboratories for the development of technologies related to the management, recovery and recycling of waste
- the obtaining, holding and managing of patents
- entering into agreements with universities and research centres

Although it is too early to evaluate this experiment, its proponents expect the SEM operation to result in cost savings and improved service quality. The savings are to come about from superior planning and coordination of the waste collection process, as well as from the reduction of the volume of waste through recycling and re-use. An information campaign regarding the new system has been well-received by the public.

This project has attracted interest from across the country. Based on the results of this pilot project, the provincial government will consider modifying the legislation to allow municipalities and RCMs to enter into these types of partnerships more easily.

***East Prince Waste Management Commission - Waste Management Program  
East Prince Area, Prince Edward Island, population 30,000***

Formed in October 1994, the East Prince Waste Management Commission consists of eight members representing the four regions encompassed by the East Prince Waste Management area. The East Prince Waste Management Commission is solely responsible for management of all waste generated in the East Prince area of Prince Edward Island. The Waste Management Program, implemented in December 1994, was initiated by a committee of

municipal representatives whose purpose was to select a site to replace the existing landfill which was scheduled for closure. As part of the site selection process, the committee decided to develop and introduce a waste management system to improve service to the region. The East Prince Waste Management Commission is a completely independent body created under the authority provided by Section 28 of the Prince Edward Island Environmental Protection Act.

The main reason for adopting the program was the need to provide waste management services to areas which did not have contracted municipal waste collection. Also, the Commission was able to offer an expanded curbside service at a uniform cost.

The program currently provides service to over 15 communities. Previously, some of these communities had contractual waste management service, and some had service based on user fees. In still other areas, residents were responsible for managing their own waste. The cost to residents varied from \$50 to \$150 annually. The Commission, through the public tender process, is now able to provide full service to all residents for approximately \$110 per year, and also to provide long-term stability in waste management costs for residents in the East Prince area.

The main change in service level is that waste management service is now available to all 30,000 East Prince residents, which translates into about 10,000 households. Curbside service is provided on a rotating schedule, with bi-weekly collection of compostables and waste and a monthly service for recyclables. By ensuring a constant supply of materials, the program also increases the viability and long-term stability to the recycling industry. Finally, it produces a marketable end-product: high natural quality compost.

***Contracting out for public works services  
Paradise, Newfoundland, population 8,000***

The Town of Paradise, Newfoundland has always contracted out for garbage collection, snow clearance and other public works maintenance (e.g. heavy equipment rental). Town staff and the local council initiated the idea of contracting out city services. The main reason for contracting out was the anticipated cost savings from the reduced need to purchase equipment and the ability to pay for manpower only as required, thus reducing the need to keep people on the public payroll during slow periods.

It is difficult to evaluate cost savings or changes in service quality due to contracting out in this case, because this has always been a Town policy. There has been no public response to the contracting out of the services. However, it should be noted that the Town's collective agreement with its union was recently revised to allow contracting out of certain services, so long as existing employees are not adversely affected.

Other alternative service delivery methods used in Paradise include: volunteers for helping to construct recreational facilities (from June, 1994) and sharing of animal control facilities with the adjacent city (from August, 1995), both initiated by Town staff and the local council.

Reduced labour costs through the use of volunteers in the case of the construction of the recreational facilities was the impetus for using this alternative method. The sharing of animal control facilities with the adjacent city saved the Town about \$60,000. In general, the use of volunteers could result in slower delivery of a particular service and/or problems with volunteer accountability.

## **Evaluation of the Contracting Group**

### **Efficiency**

All of the contracting out case studies show an improvement in efficiency with the adoption of this alternative service delivery method. In Airdrie, efficiency has improved since the City began to charge the real cost of delivering the assessment service. Prior to this, the province had been partially subsidizing the Town in this area. The private sector operation of the water and waste water treatment facilities in Hamilton-Wentworth guarantees cost savings of \$500,000 per year. In Peterborough, the addition of the taxi-cab service allows the public transit system to cover more of the city while still being efficient in its overall operations. Efficiency in waste collection also improved in Saint-Hyacinthe in 1987, when the private sector became responsible for garbage collection in all areas of the city. The SEM in Haut-Richelieu promises cost savings and improvement in service quality. Similarly, in the East Prince Area, the formation of the waste commission led to the standardization of collection costs and long-term stability. Finally, in Paradise, Newfoundland, the privatization of snow clearing operations, garbage collection and other public works services, has increased efficiency due to the ability of the private operator to reduce capital equipment and labour costs.

### **Effectiveness**

Effectiveness has at least remained the same or improved since the new alternative service delivery methods were implemented. In Airdrie, the service level has improved — the City of Calgary has a more “customer-oriented” focus than the province in delivering the service. Service provision in the Hamilton-Wentworth case study will become more effective once new private sector technology has been introduced into the system. Public transit service is more effective in Peterborough because the system is able to serve a larger area of the City than would have been possible under conventional means. Effectiveness will improve in Saint-Hyacinthe once the new waste collection system is fully in place, which will involve a supplementary service — the collection of compost. The same can be said for the SEM in Haut-Richelieu. Effectiveness of waste collection has improved in the East Prince area, since this service is now available to all residents in the area. The private sector has always been effective at delivering the public works services in Paradise and there has been no public reaction to the contracting out of these services.



## **Accountability**

In any contracting out arrangement, the level of accountability depends at least in part on the nature of the contract and on the monitoring system in place to ensure that the organization producing the service is fulfilling the terms of the contract. In Airdrie, accountability will have increased if the City of Calgary is more responsive than the province since it is an adjacent municipality as opposed to another level of government in Edmonton. A conflict of interest issue may arise, however, by having an adjacent large municipality doing property assessment for a much smaller suburban municipality. In Hamilton-Wentworth, the level of accountability should be maintained with the new arrangement since the region will retain control over all of the facilities. The level of accountability improved in Saint-Hyacinthe with the voter approval system of endorsing the new service to be undertaken by the private sector. Likewise in Haut-Richelieu, the breakdown of the shares of the SEM (60% public, 40% private) ensures that it will remain accountable to the municipality. In both Peterborough and Paradise, the level of accountability depends on the specific details of the contract and the level of monitoring undertaken by these two cities. Finally, the East Prince Commission is made up of municipal representatives; however, they contract out the actual waste collection to private operators, thus once again highlighting the importance of the monitoring provisions of the contract.

## **Equity**

In most of the contracting case studies, there are no significant equity effects either for the recipients or for those involved in the production of the service. If Philip Environmental keeps its promise regarding the retention of all former regional staff, then equity effects will be minimal. Similarly, there are minimal equity effects in the cases of Airdrie, Saint-Hyacinthe, Haut-Richelieu and Paradise. Equity is improved with the Trans-cab system in Peterborough, since lower income people tend to make more use of public transit. In the PEI case study, however, it is uncertain whether the new standardization of service has led to an improvement in equity. It is true that the service is now available to all residents, but prior to the commission, some residents paid less than the \$110 fee of the commission. Therefore, the number of these residents will determine the significance of equity effects in this case.

## **Intergovernmental Agreements Group**

### ***Local Internet Access***

#### ***Town of Drayton Valley, Alberta, population 6,000***

In January 1995, a local librarian initiated the idea of providing Internet access to the residents of Drayton Valley. A pilot study in the library identified the need for Internet service in the local community. Subsequently, the municipal library, in partnership with the Separate School Division and CCINET of Edmonton, became a local node for Internet access. Subscription service is offered for home delivery, and both the library and school have access to the service. The Internet service supplements the service provided by the library, while the subscription service generates revenues to support the system and also makes the library less dependent on

funding from the Town. Apart from an initial capital investment, which will be recovered from the subscription service, there has been no cost to the municipality for this service. The only administrative cost is for monthly accounting. Cost savings to the municipality will begin when the capital costs have been recovered, and when revenue from the Internet service will help to fund the library.

The provision of Internet capabilities has added another information service to the library. An unanticipated effect is the commercial use of the Internet. A World Wide Web site has been created to promote tourism, economic development and the town in general. Local agricultural and other businesses want to advertise on the Internet, and this will provide additional advertising revenue. The public has been very receptive to the new service, as illustrated by the number of subscriptions.

In terms of other alternative service delivery methods, the Town is currently entering into a management contract with a private business (Health Services Group) to create a health club concept for the Town's recreational facilities in order to make a profit. The contracting out of treasury services is also under consideration.

***SOURIS Project - Southeast Regional Information Service***  
***Southeast Region (includes Estevan and Weyburn), Saskatchewan, total population is approximately 25,000***

This program is funded by the Saskatchewan Inter-Community Co-operation Program, a provincial funding program designed to promote the development of shared service delivery among Saskatchewan municipalities. In December 1993, the Southeast Regional Library initiated the idea of providing access to commercially available CD-ROM products and locally produced databases through the regional library's public access catalogue. This involved a partnership of 12 organizations, including two municipal governments, five school divisions, three library boards, one regional college, one local club, and volunteer help to convert and maintain local information databases. Cost considerations, common interests and goals of the partners, and partial grant funding from the province were all significant factors in developing the partnership. The main objectives of the project were as follows.

- To enhance library and information services to residents of southeastern Saskatchewan
- To strengthen the educational system's ability to support their classes in Weyburn and Estevan
- To expand the range of services available in Weyburn and Estevan through the provision of direct patron access.
- To control the costs of printed reference and periodical sources at the Southeast Regional Library, Weyburn Public Library and the Estevan Public Library
- To involve the residents of the local communities

- To develop a successful electronic information service model that could be expanded to meet some of the information needs of all the different library types

The cost of CD-ROM databases was too high for individual partners. Also, the library wanted to initiate contact with like organizations for potential future cooperative ventures. The only additional cost to the municipality is in the form of subscription costs. This is assumed by the regional library, as part of its materials budget. Service quality has increased significantly since the library is providing a new service: prior to the implementation of this project, the type of information provided on CD-ROM was only available to patrons on a photocopy, interlibrary loan, fee-for-service basis, and the local databases were not available at all.

The public's reaction has been very positive, as shown by a user survey. Another positive effect from the project has been the continuation of a cooperative spirit. This has already led part of the partnership to reassemble for further automation initiatives. For example, the Southeast Regional Library and the Southeast Regional College have agreed to cooperate in the provision of some library services at the College.

***Co-ordinated Regional Response System, South Central Protective Services  
Assiniboia, Saskatchewan, population 2,934***

A Co-ordinated Regional Response System was developed under the Saskatchewan Inter-Community Co-operation Program. Work began on the project in January 1994 and was implemented just over one year later. The idea for the project stemmed from protective services personnel in the Town of Assiniboia. The Assiniboia Institute for Professional Development Inc. coordinated the project, which is now officially referred to as South Central Protective Services. The project resulted in a document which outlines the required preparation, implementation, service delivery strategy for a co-ordinated regional response plan. The regional response system will support municipalities in South Central Saskatchewan. It includes such services as police, fire, emergency medical and emergency measures services. The goals of this program are as follows :

1. Reduce the burden placed on protective service organizations through education and training of the general public
2. Establish a protective services response system based on response times
3. Enable protective service personnel to cross municipal/provincial borders when requested and/or required
4. Achieve a totally integrated system for communications and protocols for protective service personnel
5. Ensure that there is an adequate supply of trained personnel within the region

6. Establish a schedule of rates and charges that reflect the ability and commitment of municipalities to provide various protective services
7. Encourage municipal councils to make rate payers aware of the protective services available within their jurisdiction and the costs, if any, for those services

(Source : Public Safety/Protective Services Co-ordinated Regional Response System Agreement)

The system uses a "regional community" model for the delivery of protective services. This system relies on individuals and organizations who are willing to cooperate; participation is not mandatory.

The reasons for adopting a coordinated regional response system include:

1. Increased cooperation among municipalities and organizations within the region
2. More equitable delivery of protective services in the region
3. Potential for municipalities to reduce the cost of protective services through the pooling of resources
4. Ability for the protective services to access greater resources on a regional basis

Since South Central Protective Services is a relatively new initiative, it is not yet apparent what the effect will be on the cost of service delivery to the participating municipalities. Municipalities are being asked to contribute two dollars per capita toward the initial cost of the new service, in the belief that this initial investment in improved service delivery will lead to future cost savings. Two current initiatives may result in cost savings from cooperative initiatives in the near future. A public safety resource centre has been established to provide instructional and resource materials to protective service organizations within the region; and a 911 Committee has been formed to evaluate the 911 options for the region.

Even though the program has just recently been implemented, there have already been a number of positive results. The educational and training opportunities available to regional protective service personnel have expanded. The public has become more aware of general safety and protective services issues, while the participating parties, having learned to cooperate and communicate better, have begun to discuss other key regional issues such as economic development. Supporters of the project are convinced that it will lead to greatly enhanced service delivery throughout the region.

## **Evaluation of the Intergovernmental Agreements Group**

### **Efficiency**

The new services in Drayton Valley (Internet) and the Southeast Regional library system (CD-ROM) will result in increased efficiency because they provide local citizens with an improved level of service at minimal additional cost. Efficiency of the new South Central Protective Services will depend on whether the increase in service quality is justified by the two dollar per capita levy on member municipalities.

### **Effectiveness**

In all cases, effectiveness is enhanced through the intergovernmental agreement. The municipalities and other local government bodies involved can reap significant benefits from cooperation since they do not have sufficient resources on their own to undertake such initiatives. The two library systems are providing a new service (Internet access and CD-ROM access) to their customers, thus improving effectiveness. There have also been significant secondary effects. For example, Drayton Valley is now able to promote the local community through the Internet. Cooperation on the library project in the Southeast Regional library has laid the foundation for future co-operative initiatives, while better-trained personnel with South Central Protective Services promises to translate into improved service delivery and effectiveness.

### **Accountability**

Both library systems made use of surveys in an effort to be more responsive to their customers. In the case of South Central Protective Services, as long as all of the member municipalities are represented on the various committees in the program, accountability will be maintained at the same level as would be the case if each municipality delivered the service directly.

### **Equity**

Equity is not an important factor in either of the library case studies. Access to the Internet service or CD-ROM should affect social groups equally, since anyone can come in and use the library services. However, not everyone will be able to afford the subscription rates. The potential for negative equity effects exists in South Central Saskatchewan if the more difficult-to-service areas are neglected in the service arrangements of the emergency response system.

## **Subsidy/Fees Group**

### *User Fees for Garbage Collection*

*Township of Sidney, Ontario, population 16,000*

On January 1, 1994, the Township of Sidney initiated a user pay garbage collection system. In order for residents' garbage to be collected, each "lift" (garbage bag) must have a bag tag attached. Each residential dwelling unit receives 52 free tags per year. Small commercial properties can also use the system. Additional bag tags cost \$1.50 each (with a limit of 10 per week). The system came about as a result of the Expenditure Control Plan and the Social Contract. All department heads were asked to re-examine all programs and service delivery for efficiency. The Special Projects Officer identified the user-pay concept as a proposal that would positively impact both the environment and the budget.

Significant cost savings and environmental benefits have resulted from the new system. First-year results indicated a 46% rate of diversion as 1833.2 tons of waste were prevented from going to the landfill site. This diversion represents a reduction of \$84,470.26 in actual cost and a \$182,433.67 reduction in real cost over what normally would have been spent in 1994. These large avoided costs are a result of drastic reductions in curbside tonnage: residents have free, unlimited use of blue boxes, hazardous waste depots, and spring and fall depots, while they must pay for additional garbage bags.

The Township sees this system as a way to stimulate behavioural change, and results so far serve to confirm its effectiveness. The public, which initially viewed user pay garbage collection as a "tax grab," was expected to indulge in increased dumping; but illegal dumping has actually decreased since the user-pay system was introduced. The Township is now considering extension of the user pay concept to the garbage depots to supplement the garbage collection system.

### **Evaluation of the Subsidy/Fees Group**

Although there is only one example under this group, the same principles would apply to other case studies under this heading.

The new user-pay system in Sidney Township improves efficiency in waste collection since it implements a pricing system according to the amount of garbage placed on the curb. Beyond the one-tag-per-week basic amount, residents have to pay for each additional garbage bag tag, thus employing a partial marginal cost pricing system — one way of moving towards efficiency. The effectiveness of the waste collection services has improved — the amount of recycling materials has increased and illegal dumping has actually decreased. The level of accountability has not changed with the implementation of the alternative service delivery method; the local government is still accountable to the residents. The public's reaction has been positive to the new initiative. There is the potential with such a system for lower-income residents to be adversely affected; however, the cost of additional garbage tags is not so excessive as to encourage extensive illegal dumping by lower income households.

## **Volunteer Group**

### ***Volunteer Fire Protection Service***

***Vernon, British Columbia, population 31,500***

In January 1994, the Vernon city council decided to enter into a contract with the existing volunteer fire association in a newly annexed part of the city, rather than extending the municipal fire service to the area. The City thought it could thereby save itself the increased cost of using unionized on-duty staff. The area had historically been served by a volunteer fire department. The City did not feel that the area needed a different and more costly level of service just because of annexation. By utilizing volunteer help in fire protection in this part of the city, it could save almost \$800,000, mainly due to the absence of large full-time salary costs. The level of service quality has remained the same since before the annexation and the annexed community is grateful for the continuation of the volunteer service, as full-time salaried fire fighters would have led to tax increases for local residents. The local union, however is concerned that the use of a volunteer service sets a precedent for increased use of volunteers in fire fighting.

The City has recently reviewed the provision of road maintenance, water meter installation and maintenance and parking meter maintenance and violations, with a view to adopting alternative methods of service delivery.

### ***Delivery of Community Services***

***Municipality of Metropolitan Toronto, Ontario, population approximately 2.3 million***

The Community Services Department of Metro is involved in partnerships with other levels of government, the community service sector, service users and political representatives for the delivery of social services. For example, the Homes for the Aged Division of the Community Services Department has developed an integrated system of advisory committees in the Homes to encourage community accountability and participation in the decision-making process. These partnerships were first started a couple of years ago, and are on-going and evolving each subsequent year. Demographic factors led Metro to reconsider the delivery of its community services. Aging of the population, changes in average family size, and changing immigration patterns have significantly diversified Metro's population. Fiscal restraint has also forced Metro to reconsider its service delivery options. The Metro government's strategic policy directions emphasize the pursuit of alternative means of service delivery.

There are a number of reasons for pursuing alternative methods in this area. Firstly, to ensure equitable access to services, including geographic equity. Secondly, to provide increased hours of service and increased access to services for communities of common bond (e.g. seniors). Thirdly, to address race relations issues in service planning, participation and service delivery. Fourthly, to improve the efficiency and effectiveness of Metro services through reducing program costs but maintaining service levels. And, finally, alternative methods are

expected to help promote and strengthen communities. This involves ensuring accountability to clients and communities, understanding changing communities and encouraging community participation.

In the area of community services, budget allocations have either remained at the same level or decreased over the last five years. Any changes had to be made within the framework of these fiscal constraints. In some cases, resources were reallocated among existing programs to implement the new programs. The new programs themselves have not reduced costs; rather, Metro has had to respond to the need to change the delivery of its social services with the same or a decreasing budget base.

The service quality has risen significantly with the implementation of the new initiatives. Increased community involvement has led to more responsive and ethno-racially sensitive services. In addition, partnerships with other service producers have resulted in a greater overall integration of services and reduced overlap. Some other effects of adopting the alternative service delivery method include the expression of ownership of the issues by the local communities, increased understanding of local community needs and a reciprocal increase in understanding of the Department and Metro's political decision-making process by the community. Public reaction has been very positive. Community members are participating in the planning delivery and decision-making process. There is a community willingness to commit time and effort to the various projects/processes.

A number of internal review processes are currently going on within Metro. Among them are a corporate re-engineering process, beginning with a review of corporate administration functions. The corporate structure itself is being reviewed, including the role of the CAO, department organizational structure and senior management structure. There is also continued review within the Community Services Department of its operations and organization.

The Province is also considering other options for the delivery of community services: provincial delivery of some of the services, load shedding to the private or non-profit sector, delivery of service by a new GTA level of government and/or at the lower tier municipal level, and consolidation of provincial delivery functions within the regional government structure.

***Delivery of summer activities by non-profit organizations  
City of Salaberry-de-Valleyfield, Quebec, population 28,000***

For the past five years, the town of Salaberry-de-Valleyfield has partnered with non-profit organizations for the delivery of several types of summer municipal services events. These are summarized in Table 7.



**Table 7: Events Involving Non-profit Organizations**

<b>Activity</b>	<b>Total Budget</b>	<b>Town Financing</b>
International Regatta of Valleyfield	\$2 Million	\$135,000
Equestrian Festival of Valleyfield	\$300,000	\$25,000
Valleyfield Blues Festival	\$100,000	\$10,000
Arts Festival	\$50,000	\$10,000
Management of outdoor swimming pools	\$75,000	\$75,000

By utilizing non-profit groups, the Town can minimize the number of its own staff. The Directeur général and the Directeur du service of the Town initiated the idea to compensate for the desire of the Town's employees to take time off during the summer. The Town did not want to pay excessive amounts of overtime to cover vacation times. As a result of using non-profit groups, the Town has been able to lower its service costs by \$150,000 in one year. These savings were realized through lower salaries, the absence of the need to pay overtime, improved efficiency and the presence of a large number of volunteers.

The large number of devoted volunteers involved has improved service quality. Public reaction has been favourable, since the volunteers are local residents. The local union, however, has filed a number of grievances, and has pointed out that Article 45 of the Code du Travail does not permit employers to give work belonging to a unionized group to another group of workers, unless the same conditions of work are maintained. The Town also pursues contracting out strategies in other areas of municipal services in order to reduce the work force and decrease operating costs, but conflicts with municipal unions usually arise.

### **Evaluation of the Volunteer Group**

#### **Efficiency**

The use of volunteers to assist or replace the delivery of a local service by municipal staff results in an overall gain in efficiency provided that the costs of monitoring the volunteers or dealing with local union problems do not counteract the improved results. The volunteer fire service in Vernon is efficient because the same level of service is being provided as in other parts of the city, at much lower cost than would be the case if full-time salaried employees were used. The local union has become wary of the situation, but has not taken any action to date. Similarly, in Salaberry-de-Valleyfield, the use of volunteers and non-profit organizations to staff some of the Town's summer festivals has significantly reduced costs without sacrificing service quality. Efficiency improvements could, however, be counteracted somewhat by having to deal with union and Town employee grievances. The challenge of maintaining service quality with a reduced budget has forced Metropolitan Toronto to become more efficient in the delivery of its community services.

## **Effectiveness**

The volunteer fire service is effective — local citizens were pleased to have their former method of service delivery kept intact and the City did not feel it necessary to replace the volunteer department with a full-time salary force. In Metro Toronto and Salaberry-de-Valleyfield, the quality of service has improved. In Metro, services have become more customer-oriented and responsive, while in Salaberry-de-Valleyfield, the commitment of the volunteers to their task has had good results. Secondary benefits in the Metro Toronto case include integration of services, reduced overlap in the delivery of services and the formation of partnerships with other service producers.

## **Accountability**

Accountability is usually enhanced when volunteers are used to deliver a local service. The volunteer fire department is, in a sense, more accountable to the local population than the conventional city force would be, since, presumably, the majority of its members reside in the annexed part of the city. In the same way, in Salaberry-de-Valleyfield, accountability is not compromised because the volunteers and non-profit groups are from the area. Finally, in the case of Metro Toronto, accountability is greatly enhanced because community groups are becoming more involved in the decision-making processes of the community service organizations.

## **Equity**

With volunteers, there are potential equity effects both for the recipients and the producers of a service. In Vernon, there are no significant equity effects resulting from maintaining the volunteer fire protection service, assuming the level of fire protection service remains the same for everyone in the annexed part of the city. In Salaberry-de-Valleyfield, the main equity issue is the adverse affect on town employees of reducing the number of staff and cutting back on their overtime. The Metro Toronto changes actually enhance equity by encouraging “ethno-racially sensitive” services.

A summary of the key case study issues appears in Appendix One. The next chapter discusses the effect of provincial legislation on the use of alternative service delivery methods.



## Chapter 7

# Provincial Legislation and Municipal Services

In the majority of provinces and territories, the relevant municipal acts allow local governments to pursue partnerships with the private and non-profit sectors in the delivery of local services. The only restrictions in most provinces relate to giving grants or bonuses to an industrial or commercial undertaking.

Local governments in BC, Manitoba, Ontario and Quebec are more restricted than other provinces and territories in their ability to pursue alternative methods of service delivery. According to the B.C. Municipal Act, municipal councils, that contract for the supply of materials, equipment and services, must obtain elector assent for contracts of more than five years' duration. This condition is not required for agreements with another government or its agents. Municipalities in Manitoba, not including the City of Winnipeg, have no authority to enter into arrangements with the private sector for the delivery of municipal services. The legislation in Ontario dealing with the power of municipalities to enter into agreements with the private sector is very prescriptive. In addition, the Social Contract Act, 1990 contains some restrictions with respect to contracting out. Quebec municipalities have the power to contract out as well as privatize their public services. This latter power, however, is rarely utilized since it requires the authorization of the local citizens as well as the provincial government.

### Provincial Highlights

#### **British Columbia**

Section 614 of the B.C. Municipal Act specifically authorizes a municipality to contract for the collection, removal and disposal of waste. The sections dealing with sewer and water facilities lack similar authority. Section 643 authorizes municipalities to establish and dispose of specified municipal utilities with the approval of the Minister of Municipal Affairs and the electors' assent. Finally, Section 646 authorizes councils to grant franchises for up to 21 years for a number of different services, including the supply of gas, water, telephone service and public transit. This latter provision is also subject to ministerial approval and electors' assent.

#### **Alberta**

Under Alberta's recent Municipal Government Act (which became effective January 1, 1995), municipalities have the power to undertake any activity not restricted by the Act or any other provincial legislation. The Regional Municipal Services Act has been repealed and more flexible provisions written into the new Municipal Government Act. This legislation allows

local governments in Alberta greater freedom to enter into partnerships with other governments and with the private and non-profit sectors to deliver a broad range of both hard and soft services.

### **Saskatchewan**

Barriers to contracting out or privatizing were introduced for certain municipal services with recent additions to Saskatchewan's Trade Union Act. Recent amendments to the Saskatchewan Urban Municipality Act permit municipalities to set any type of service fee. The Saskatchewan Inter-Community Co-operation Program encourages municipalities to enter into partnerships with each other for the purpose of joint service delivery. Funding is provided by the Province up to 75% of project expenditures, with the maximum amount for one project being \$50,000.

### **Manitoba**

In a report titled "Proposals to meet the challenges of Local Government," a panel recommended that municipalities should have the freedom to do things on their own or with other municipalities, local authorities, the province, the federal government, private industry or individuals. Moreover, the panel also proposed that municipalities should be able to provide services in other municipalities and to make grants as council thinks in the best interests of the municipality (Manitoba Rural Development, 1995). Under new legislation which will be adopted next spring and implemented in January 1997, municipalities will be given broad powers to enter into public/private sector agreements.

The City of Winnipeg, under different legislation than the rest of the province, currently has relatively more freedom to act in the area of partnerships. Section 106(f) of the City of Winnipeg Act states that the City may enter into any contract or agreement with any person for the purpose of the development of land and the provision of municipal services. The City currently contracts out a large percentage of its snow removal and residential garbage disposal.

### **Ontario**

The 1993 Community Economic Development Act makes it easier for municipalities to enter into partnerships with the private sector to provide, operate and maintain municipal capital facilities. It also authorizes municipalities and school boards to give inducements to private sector partners (Douglas, 1994). The main goal of the act is to stimulate economic development and to encourage the improvement of local services, while reducing the cost of providing such services through methods which were previously not authorized.

The Report of the Provincial-Municipal Task Force Under the Municipal Sectoral Agreement, produced in July 1994, states that municipalities are expressing the opinion that provincial legislation is too prescriptive, especially given the diversity among Ontario's local governments. The Report goes on to recommend that Ontario municipalities be given broader

powers in the area of user fees. According to the report, there is a general lack of authority for municipalities to charge user fees. Where fees can be charged there are often provincial limitations.

## Quebec

Quebec municipalities tend to contract out snow clearing and waste collection services. Volunteers are most often used in the area of fire protection. Municipalities are able to form public corporations for intermunicipal agreements in service delivery. These corporations have their own administrative councils, and they possess some ability to act independently. The areas that involve intermunicipal agreements most often include fire and police services as well as recreation.

The Province recently authorized three municipalities to associate with the private sector for the production of municipal goods and services. In June 1994, three Sociétés d'économie mixte (SEM) pilot projects were undertaken. Two of these projects (RCM of Haut-Richelieu and the City of Laval) provide for collection and treatment of waste, while the third (Saint-Romuald) involves an industrial park. Originating in France, SEMs are public/private organizations in which the municipality maintains the majority of shares. The community has control over the SEM, but the technical expertise is supplied by the private sector. Both the public and private sectors share the risks, investments and profits. In this way, municipalities can associate with private interests (an exception to the Municipal Aid Prohibition Act). SEM activities are limited to their mandates.

Generally, municipal services in Quebec are financed by property or service taxes. In 1989, however, the provincial government permitted municipalities to finance their services, with the exception of police and fire services, by a tax based on the benefits received.

## New Brunswick

ICURR Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches

In New Brunswick, the sharing of services with other municipalities has been achieved through intermunicipal agreements in some cases, and in other cases through the creation of semi-autonomous commissions which provide local services on behalf of several municipalities, especially in the area of solid waste management. Regional waste management commissions operate somewhat autonomously from local government. In a number of regions, the service has been further sub-contracted to a private sector firm. The Clean Environment Act was recently amended to accommodate the new structure and to provide specific linkages between the commission and the municipalities which it serves.

## Nova Scotia

Intermunicipal cooperation and the use of volunteers, especially in the area of recreation and fire protection, are established approaches. The Province recently signed a Cooperation Agreement with the Federal Government to promote private sector participation in municipal

infrastructure. The Agreement is intended to fund feasibility studies on public/private sector alliances in local service delivery.

### **Prince Edward Island**

Although no formal facilitative legislation has been introduced, P.E.I. municipalities are informally encouraged to be innovative in the area of local service delivery.

### **Newfoundland**

In pursuing alternative means of service delivery, Newfoundland municipalities are not restricted by provincial legislation.

### **Summary of Views on Provincial Legislation from the Case Studies**

The case study respondents were split on the question of the effect of provincial legislation on their ability to pursue alternative service delivery methods.

Airdrie, Hamilton-Wentworth, Peterborough, the Southeast Library, Assiniboia, Sidney Township and the East Prince Region case study respondents did not feel restricted by provincial legislation. It is not surprising that the two Saskatchewan respondents were of this opinion since a provincial program made their initiatives possible. A private bill was necessary for the creation of the SEM in Haut-Richelieu.

The remainder of the case study respondents felt in some way restricted by the governing provincial legislation. The following is a sample of the comments made by these cities.

#### ***Vernon***

“Provincial labour legislation makes it difficult to convert existing unionized work to the private sector because of successorship rights.”

#### ***Drayton Valley***

“Legislation and/or political governance often discourages the exploration of alternatives, especially in terms of programs that help to generate revenue due to conflict of government competition with private business.” (This comment is somewhat surprising given the wide range of powers allowed under the Alberta Municipal Government Act).

#### ***Metro Toronto***

“Views on provincial legislation vary by division of the Community services department. Some divisions are restricted/constrained by legislation (e.g. Long Term Care) which is restructuring the entire service system or legislation which is very complex and antiquated (e.g. General Welfare Assistance). Others are constrained by Provincial licensing regulations (e.g. Child Care) which dictate how they provide service.”

***Saint-Hyacinthe***

“In the Law on Cities and Towns, 1994, the procedures related to awarding municipal contracts is restrictive.”

***Salaberry-de-Valleyfield***

“The work laws favour overtime and protect unionized employees.”

***Paradise***

“Legislation in Newfoundland outlines what services may be supplied by the municipality. The method of delivery of many of the services outlined in the legislation is left to the discretion of the various municipal councils”

To sum up, respondents cited few examples of facilitative provincial legislation in the area of alternative service provision. The Saskatchewan Inter-community Co-operation Program was an exception. Some of the policies of the provincial and federal levels of government support what Metro Toronto is doing in terms of community services, but they do not really actively encourage the use of alternative methods. Saint-Hyacinthe stated that recent changes to the Loi sur l'Aménagement et l'Urbanisme and especially the clauses related to public works facilitate the adoption of alternative service delivery practices.





## Conclusion

Local governments in Canada and around the world are increasingly using alternative means of delivering municipal services. In Canada, fiscal restraint by senior levels of government and increasing expectations of local citizens, are forcing municipalities to reconsider how they produce local services. The recent literature on “reinventing government” calls for municipalities to concentrate more on policy making rather than production of services and to be more flexible in their use of alternative methods of service delivery. The most common rationale for exploring alternative service delivery methods is the anticipation of cost savings; expected improvement in service quality is rarely the main motivation.

In Canada, the most common alternative service delivery methods are contracting out, using volunteers, intergovernmental agreements and user fees. Few municipalities grant franchises or use vouchers for a particular service. Public works services (such as waste collection, street sweeping, snow clearance) and some community services, lend themselves to delivery by alternative methods: public works because they have measurable outputs and performance can be easily monitored, and community services because community members often have better insight into how local social services should be delivered. User fees are becoming both an important source of revenue for municipalities, and also an effective method of adjusting demand for a service. User fees have traditionally been employed for water services and transit, and are increasingly popular for public recreation, garbage collection and some library services.

In order to employ alternative service delivery methods, there are several general conditions that apply:

- The municipality should know in detail its own costs of producing the service.
- The municipality should retain the capacity, if possible, to produce the service itself in case the alternative method does not work out.
- The municipality should work with local unions from the outset of the process to make sure that their concerns are addressed.
- The public should be kept informed of the alternative methods being used as well as the rationale for using them.
- Performance of the alternative method must be able to be monitored.
- If contracting out is involved, one needs to have a sufficient number of potential bidders in the region in order to maintain the element of competition.

- In the case of using volunteers, one needs to have people in the community who are motivated to be effective service delivery agents. In some instances, an organized volunteer program may be necessary. The use of volunteers is made easier when there is already a community organization able to produce the particular service.
- In order to employ user fees, the output of the local service needs to be measurable. Studies should be undertaken regarding an appropriate pricing method for the service. Where possible, fees should be set to recover marginal costs.
- In considering any alternative service delivery method, the criteria of efficiency, effectiveness, equity and accountability should be used in evaluating the effects of the new method on the local community.

A large number of studies in Canada, the U.S. and outside North America have documented that the private sector is more cost efficient than the public sector in the delivery of a number of municipal services. The important distinction, however, is not public vs. private but rather monopoly vs. competition. It has been shown in a number of cities in the U.S. that public agencies can become just as cost efficient as the private sector if they are involved in a competitive bidding process. Often, significant cost savings can be attained through internal cost management measures.

Although some of the case study respondents thought otherwise, most provincial legislation does not place undue restrictions on municipalities pursuing alternative service delivery methods. Manitoba is an exception, and there are some restrictions in B.C., Ontario and Quebec. The Community Economic Development Act in Ontario, the Saskatchewan Inter-community cooperation program and the Sociétés d'économie mixte pilot projects in Quebec are three examples of recent legislative changes that promote and provide incentives for public/private and public/non-profit partnerships in local services and facilities. In addition, the new Alberta Municipal Government Act should allow for more creative alternative service delivery solutions for municipalities.

### **Prospects for the future**

Since it is unlikely that the trend of fiscal restraint and increased downloading onto local governments will recede, alternative modes of service delivery will continue to increase in importance in Canada and around the world. Municipalities should not, however, automatically assume that the private sector is superior at producing all local services. One has to examine each individual service and municipality to determine which is the most efficient, effective, accountable and equitable method of service delivery. All of these factors should be taken into consideration when contemplating an alternative to total local government production of a service.

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**Appendix One**

**Summary of Key Case Study Issues**



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## Appendix One: Summary of Key Case Study Issues

Municipality	Reasons for adopting alternative method	Changes in the cost of service delivery	Reasons for any cost savings	Changes in service quality	Other effects	Public response
Airdrie	Province opted out of providing service	Increased	N.A.	Increased	N.A.	Positive
Hamilton-Wentworth	Projected cost savings and economic impact	Too early to assess	Will be due to operating efficiencies, better management systems	Should increase after the adoption of new technology	All former regional employees will be kept on	None to date
Peterborough	To service low density areas of the city	Savings in routing costs	Do not have to run transit in low density areas	Increased	At the time the service was adopted, no union objections.	Positive
Saint-Hyacinthe	Standardization of price & frequency of service	Too early	N.A.	Too early	N.A.	Expected positive reaction to waste program
RCM Haut-Richelieu	Reduce costs and manage waste in a better way	Expected lower costs	Expected due to better planning and coordination	Expected increase in service quality	Expected environmental benefits	Positive reaction to information campaign
East Prince Region	Provide service to previously unserved areas	Cost to some residents decreased, for others, it increased	Management by a single commission	Increased - full service to all residents in the area now available	Introduction of long-term stability in the recycling industry	Positive
Paradise	Anticipated cost savings	Savings	Due to reduced need to purchase equipment	Difficult to assess	N.A.	No response
Drayton Valley	Pilot study identified a need	Only a minimal increase	N.A.	Increased	Local businesses want to advertise on the Internet	Positive

Municipality	Reasons for adopting alternative method	Changes in the cost of service delivery	Reasons for any cost savings	Changes in service quality	Other effects	Public response
Southeast Regional Library	No one group could afford to provide the service	Minimal increase	N.A.	Increased	Continuation of a cooperative spirit	Positive
South Central Protective Services	Need for coordination	Too early	N.A.	Expected with better trained personnel	Increased cooperation in other areas	Positive
Sidney Township	Imperative to cut costs	Significant savings	Reduction in amount of waste	Increased	Environmental benefits	Positive
Vernon	Continuation of volunteer service	Significant savings	Avoidance of paying full-time labour costs	Remained the same	Local union became wary	Positive
Metro Toronto	Demographic and fiscal factors	Mandated to reduce costs	Internal Reorganization	Increased	Greater community involvement	Positive
Salaberry-de-Valleyfield	Reduce labour costs	Savings	Use of volunteers	Increased	Union appeals	Positive



**Appendix Two**

**ICURR Alternative Service Delivery Questionnaire**



**ICURR** Intergovernmental Committee on Urban  
and Regional Research  
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urbaines et régionales **CIRUR**

**ICURR ALTERNATIVE SERVICE DELIVERY QUESTIONNAIRE**

Name : \_\_\_\_\_

Municipality : \_\_\_\_\_

Position : \_\_\_\_\_

Population : \_\_\_\_\_

Please attach additional sheets if necessary.

Alternative service delivery mechanisms are defined to include such methods as contracting out part or all of a service to the private/non-profit sector, using volunteers, franchising, intermunicipal delivery and facilitating self-help within the community. It can also include alternative service financing mechanisms such as user fees, subsidy agreements and vouchers since these methods can affect the demand for a particular service. When speaking of "alternative" ways of delivering municipal services, the assumption is that the "norm" refers to total local government production and delivery of a service. The focus of this study is on the operating aspect of service delivery and not on the capital side (e.g. not on public/private partnerships to build facilities in the municipality).

1. Please identify and describe the innovative service delivery method (s).

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\_\_\_\_\_



2. When was (were) it (they) implemented (month/year)? \_\_\_\_\_

3. Who initiated the idea of adopting the alternative service delivery method (s) ?

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\_\_\_\_\_  
\_\_\_\_\_

4. What were the main reasons for adopting the alternative method(s) (eg. anticipated cost savings, better service, etc.)?

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5. Have there been any changes in the cost to the municipality of delivering the service(s) as a result of implementing the alternative method? If yes, please describe. If possible please provide a breakdown of the costs before and after the alternative service delivery method(s) was(were) implemented.

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6. If there have been cost savings, why do you think this has been the case?

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7. Have there been any changes in the level of the quality of service provided as a result of implementing the alternative method(s)? If yes, please describe.

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8. Have there been any other effects resulting from the adoption of the alternative service delivery method(s) that were not originally anticipated? (e.g. local union responses) If yes, please describe.

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9. What has the public response (if any) been to the implementation of the alternative service delivery method(s)?

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10. Do you feel restricted by either provincial or federal legislation in pursuing alternative service delivery practices? If yes, please elaborate.

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11. Does any current provincial legislation facilitate the use of alternative service delivery methods in your municipality? If yes, please describe.

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12. Is the municipality currently in the process of investigating the use of an alternative service delivery method for any other services? If yes, please describe.

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13. Do you envision any other services in your municipality in the near future being delivered by alternative means? If yes, please describe.

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PLEASE SEND ANY RELEVANT DOCUMENTATION REGARDING THE ALTERNATIVE DELIVERY METHODS DESCRIBED IN THIS SURVEY OR ANY OTHER RELATED MATERIAL. IF YOU CAN THINK OF ANYONE ELSE THAT SHOULD BE CONTACTED, PLEASE PROVIDE THEIR NAME AND PHONE NUMBER. THANK YOU FOR TAKING THE TIME TO COMPLETE THIS SURVEY.

Please send any relevant documentation to :

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Fax (416) 973-1375  
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