Outline of Presentation

• Why does metropolitan governance matter?

• Governance models in metropolitan areas
  • Criteria to evaluate governance models
  • Five models of metropolitan governance
  • London, Toronto, Beijing

• How should metropolitan services be funded?
  • Matching revenues to expenditures
  • London, Toronto, Beijing

• Final observations
Why does metropolitan governance matter?

• Cities are economically interdependent with their surrounding areas (neighbouring cities, rural areas)

• Linkages extend beyond political boundaries

• Metropolitan governance is critical to how:
  • service delivery is coordinated across the region
  • costs are shared
  • citizens can access local government
  • responsive and accountable are local governments

and ...

• whether there is a vision for the metropolitan area
Why does metropolitan governance matter?

Metropolitan governance matters for:

- **Transportation:** Need to coordinate transportation across municipal boundaries; need to link employment and services; need to coordinate transportation and regional land use

- **Water/sewers:** Inadequate maintenance of storm drains in one jurisdiction may lead to flooding or health risks in another

- **Policing:** Coordination is needed to fight crime across local boundaries

- **Social services, health, and education:** Need to decide on level of expenditures and how to share costs across jurisdictions with different fiscal capacity

- **Economic development:** Coordination reduces harmful competition in metropolitan area; larger cities mean lower business costs because of fewer local offices; increased productivity
Evidence from OECD countries

• Where there are metropolitan organizations – metropolitan areas perform better than fragmented local governments:
  • denser
  • higher per capita GDP
  • attract more people
  • higher level of public satisfaction with public transport
  • lower levels of air pollution

• Fragmented governance structures tend to have lower levels of productivity (measured by wage premiums)

• Impact is smaller if there is a governance body at the metropolitan level
Balancing regional and local interests: criteria to evaluate governance models

- **Efficiency**
  - Ability to achieve economies of scale
  - Ability to reduce negative spillovers (externalities) across local boundaries

- **Equity**
  - Ability to share costs and benefits of services fairly across the metropolitan area

- **Accessibility and accountability for decision-making**

- **Local responsiveness/competition**
Five models

• One-tier fragmented government structures
• One-tier consolidated government structures
• Two-tier government model
• City-state/provincial status
• Voluntary cooperation/special purpose districts

A metropolitan area can reflect more than one model
<table>
<thead>
<tr>
<th>Governance Structure</th>
<th>Access and accountability</th>
<th>Economic efficiency (local responsiveness)</th>
<th>Externalities</th>
<th>Economies of scale</th>
<th>Regional coordination</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-tier fragmented</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One-tier consolidated</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Two-tier</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Upper Tier</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Lower Tier</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City-state/provincial status</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Voluntary cooperation/special districts</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
London: Two Tiers

- Population (2015) – 8.7 million
- Two-tier structure – Greater London Authority (GLA); 32 boroughs plus the Corporation of London
- GLA – directly elected mayor and assembly; responsible for transport, police, economic development, fire and emergency services, land use planning, culture, environment, and health
- Boroughs – independent mayors and councils; responsible for education, housing, social and health services, local planning
- Two-tier to one-tier to two-tier structure
- Pressure to bring back two-tier structure from business community
Toronto: Consolidated One Tier

- Population (2011) – 2.6 million

- One-tier consolidated structure following an amalgamation of upper tier and six lower tiers in 1998

- Amalgamation through provincial legislation

- Cost increases from harmonization of wages and salaries and service levels

- A city too big and too small

Photo by Michael Caven via Flickr
Beijing: Provincial Status

• Population (2014) – 21.5 million

• City with the powers of a province

• 16 districts (counties), 329 townships (including towns and street communities)

• Special purpose vehicles to finance large investment projects

Photo by Jens Schott Knudsen via Flickr
How should metropolitan services be funded?

• Metropolitan areas should have greater fiscal autonomy than other urban areas –
  • greater responsibility for local services
  • greater ability to levy own taxes, collect own revenues, and borrow for capital expenditures
  • less dependence on intergovernmental transfers

BUT

• they need a governance structure that will allow them to levy taxes on a metropolitan-wide basis
Different Services – Different Revenue Sources

**Private**
- Water
- Sewers
- Garbage
- Transit

**Public**
- Police
- Fire
- Local parks
- Streetlights

**Redistributive**
- Social assistance
- Social housing

**Spillovers**
- Roads/transit
- Culture
- Social assistance

- User Fees
- Property Tax
- Sales Tax
- Income Tax
- Transfers
Different Infrastructure – Different Fiscal Tools

- **User fees**: identifiable beneficiaries (transit, water)
- **Taxes**: short asset life (police cars, computers)
- **Land value capture taxes**: increase property values (transit)
- **Development charges**: growth-related costs; new development or redevelopment (water, roads, sewers)
- **Transfers**: spill over municipal boundaries (roads, transit)
- **Borrowing**: large scale assets with long life (roads, bridges)
- **P3s**: large in scale; revenue stream; measurable results (toll roads)
London: Expenditures

- Education Services, 32.4%
- Police Services, 12.7%
- Adult Social Care, 11.7%
- Children Social Care, 6.4%
- Fire and Rescue Services, 1.6%
- Housing Services (GFRA only), 4.7%
- Cultural and Related Services, 2.8%
- Environmental and Regulatory Services, 4.3%
- Planning and Development Services, 1.8%
- Public Health, 2.3%
- Highway and Transport Services, 10.2%
- Central Services, 8.9%
- Other Services, 0.2%
London: Revenues

- Total Transfers, 68.8%
- Total Taxes, 10.4%
- Community Infrastructure Levy, 0.3%
- Sales, Fees and Charges, 8.9%
- Other Income, 11.6%

London: Tax Revenue Breakdown

- Council Tax, 9.8%
- Business Rate Supplement, 0.6%
Toronto: Operating Expenses

- Governance and Internal Services, 3%
- Transport, 3%
- Capital Financing, 6%
- Rate Programs (Water, Solid Waste), 14%
- Emergency Services, 15%
- Social Programs, 23%
- Parks, Economic Development & Others, 19%
- Transit, 16%
- Rate Programs (Water, Solid Waste), 14%
- Capital Financing, 6%
- Governance and Internal Services, 3%
Toronto: Operating Revenues

- Taxes, 38%
- Provincial Grants, 17%
- User Fees & Fines, 16%
- Federal Grants, 1%
- Reserve, Transfer from Capital, Investment Income, 7%
- Other, 7%
- Rate Supported, 14%

Toronto: Tax Revenue Breakdown

- Property Taxes, 88%
- Municipal Land Transfer Tax (MLTT), 12%
Beijing: Breakdown of Taxes and Shared Taxes

- Corporate Income Tax, 24% (shared)
- Individual Income Tax, 10% (shared)
- Maintenance & Construction Tax, 5%
- House Property Tax, 4%
- Stamp Tax, 2%
- Land Appreciation Tax, 6%
- Vehicle and Boat Operation Tax, 1%
- Deed Tax, 5%
- Business Revenue, 28%
- Domestic VAT, 17% (shared)

Beijing: Revenues

- Taxes, 48%
- Shared Taxes, 48%
- Special Program Receipts, 3%
- Income from State-Owned Assets, -2%
- Income from State-Owned Resources, 1%
- Charge of Administrative & Institutional Units, 1%
- Penalty Receipts, 1%
- Special Program Receipts, 3%
- Income from State-Owned Assets, -2%
- Income from State-Owned Resources, 1%
- Charge of Administrative & Institutional Units, 1%
- Penalty Receipts, 1%

IMFG at the University of Toronto
Final Observations

• Need for strong metropolitan structure that encompasses economic region; need to balance regional and local interests

• National and local context matter:
  • constitution
  • division of responsibilities and revenues
  • intergovernmental arrangements
  • history of local autonomy

• Metropolitan areas should have greater fiscal autonomy than other urban areas

• Need to match revenues with expenditure responsibilities