

COMPARISON AND COMPETITION TO IMPROVE MUNICIPAL SERVICES

Last June, the Quebec Minister of Municipal Affairs submitted Bill 22 giving the City of Montreal greater taxation powers. If the bill is adopted, Quebec's biggest city will be able, for instance, to impose a tax on show tickets and restaurant meals. The minister says these new income sources were given to Montreal because "our metropolis must have the means to deal with the challenges it faces."¹ Several municipalities, including Montreal, have been demanding broader sources of income to avoid tight budgets or red ink. But other solutions to the problem may be found in better control over spending.



This Economic Note was prepared by **Mathieu Laberge**, an economist at the Montreal Economic Institute and holder of a master's degree in international economics and econometrics from the University of Nottingham.

Identifying practices most likely to improve efficiency and reduce the cost of municipal services can be done only through comparison with an equivalent service provided by the private sector or by another municipality. A number of U.S. cities have benefited from this process. This has been true of Philadelphia, with a strategic regional role and population comparable to Montreal. It has achieved annual savings of US\$38 million following institution of a municipal competitive contracting program. The city of Indianapolis, similar in size to Quebec City, has achieved annual savings of US\$46 million. The largest metropolitan areas can also gain by this process: New York City and Los Angeles County achieved savings of US\$42 million and US\$50 million respectively after implementing this type of program.²



An absence of reliable and credible data

Since 2004, Quebec's municipal affairs department has gathered management indicators from municipalities. This project,

which started in 1999, seeks to improve the performance of municipal bodies, to provide more complete information on their management, and to promote better decision-making.³ The areas assessed are, essentially: financial health, roads, snow clearing, distribution of drinking water, and the collection and treatment of wastewater. In 2007, the department expects to lower the number of compulsory municipal management indicators from 19 to 14 by emphasizing quantitative criteria for evaluating the cost of municipal services and their performance.⁴ In 2004, 987 municipalities took part in this project.

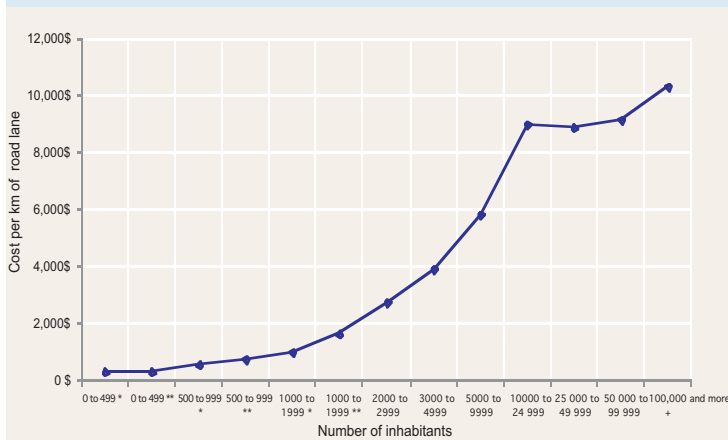
The indicators developed in Quebec must be interpreted cautiously, however, since they fail to take account of factors such as the state or nature

of infrastructure. This can affect the performance of local administrations. As well, cost allocation for municipal activities has not been subject to harmonized practices among the various municipalities. Assessing the performance of public bodies often relies on "the quality of rules instituted for cost sharing" between the various administrative units.⁵

1. Office of the Municipal Affairs Minister, *Dépôt du projet de loi 22 – Un projet de loi qui favorisera le développement de la métropole*, June 2007, <http://communiqués.gouv.qc.ca/gouvqc/communiqués/GPQF/Juin2007/21/c7876.html>.
2. William D. Eggers and Stephen Goldsmith, "This works: Managing City Finances", *Civic Bulletin*, No. 31, March 2003, p. 3, <http://www.manhattan-institute.org>.
3. Institute of Public Administration of Canada, *Provincial-Territorial Charrette on Municipal Performance and its Measurement - Report on Proceedings*, 2004, p. 20.
4. Quebec Department of Municipal Affairs, *Liste proposée des indicateurs de gestion municipaux obligatoires pour 2007*, 2007.
5. Marcel Boyer et al., *Partage des coûts et tarification des infrastructures*, CIRANO, 2006, p. 3.

FIGURE 1

Median cost of road maintenance in 985 Quebec municipalities (2004)



Source: Centre for the Promotion of Excellence in Municipal Management (HEC Montréal).

* Without systems for drinking water treatment and distribution and/or wastewater treatment.

** With systems for drinking water treatment and distribution and/or wastewater treatment.

As an example, the median (Figure 1) and variability of municipal spending on roads per kilometre of road lane grow in relation to population.⁶ This means that, the greater a city's population, the more it spends to maintain its road network. It is nonetheless plausible to believe that bigger and more densely populated cities could benefit from economies of scale in maintaining their roads. This indicator encompasses 26 factors that are not taken into account in the data collected each year.

We can then ask how it is that managing a more populous city makes public road services more costly. Is this caused by a heavier, less efficient local government structure? Is part of the extra cost due to greater reliance on a highly unionized workforce? These questions are legitimate from the standpoint of taxpayers who finance these services but can be answered only when it becomes possible to obtain performance indicators that are adequate in providing a reliable picture of the efficiency and cost of municipal services. More systematic use could be made of external indicators rather than data from the actual municipal structure. For instance, the municipal credit

rating could serve as an indicator of financial viability, and the implicit appraisal made by insurance companies of the effectiveness of fire departments could provide for an evaluation of their quality.

Initiatives favouring better municipal management

Developing reliable and credible management indicators can lead to practices that favour good governance in municipal services and strengthen the obligation of elected officials to provide full accounts. Many initiatives are possible in this regard, but three of them stand out: benchmarking, compulsory competitive tendering and “best value” practices.

Benchmarking consists of gathering statistics from various municipalities on efficiency in municipal services and comparing them to provincial or national standards to identify best practices in municipal management. In 2000, the Ontario government set up a project for assessing the performance of municipalities that included 54 indicators (reduced to 40 since 2004⁷) – including fire, police and public transit services – in addition to the services evaluated in Quebec.⁸ Before being made public and sent to municipal administrators, the information gathered is first standardized by the Ontario Ministry of Municipal Affairs and Housing. Since 1981, the province has published a working paper aimed at favouring evaluation of the efficiency of municipal services. Nova Scotia set up a municipal management indicator program in 1999 with 41 types of data in the areas of finance, communities, governance and performance.⁹

Benchmarking initiatives must go further, however, than just collecting and publishing municipal performance indicators. In

Benchmarking initiatives must seek officially to compare the practices used in various cities to identify potential improvements in the delivery of services.

6. Centre for the Promotion of Excellence in Municipal Management, *Indicateurs de gestion pour les organismes municipaux – Analyse des résultats pour l'année 2004, 2005*, p. 21.

7. Institute of Public Administration of Canada, *op. cit.*, p. 36.

8. See John Burke, *Ontario's Municipal Performance Measurement Program*, 2005.

9. *Idem*, p. 29.

particular, they must seek officially to compare the practices used in various cities to identify potential improvements in the delivery of services. South Carolina's experience in benchmarking has established that, "through sharing performance measurement statistics, organizations are able to learn the best practices for service delivery."¹⁰

The United Kingdom has also experimented in making the delivery of municipal services more efficient. The first experiment involved compulsory competitive tendering. This measure, implemented initially in the 1980s, required British municipalities to subject building and road construction, as well as infrastructure maintenance, to private sector competition. This obligation was extended in 1988 and 1989 to other services, notably household waste collection, street and building cleaning, and vehicle maintenance. Compulsory tendering was applied gradually to some professional services, including legal and financial services, starting in 1992. In the course of this process, local administrations had to guarantee the same commercial conditions to public service providers than to private businesses. They did have to ensure the presence of a sufficient number of participants and adequate publication of notices of tenders.¹¹ By adapting their conditions for delivering services, municipal departments won between 70% and 80% of the tenders. This model helped generate average savings of 6.5% in the first wave of tendering and 9.1% in the renewal of initial contracts, even if the economies of scale that were generated proved highly variable and compulsory tendering was introduced at the same time as other initiatives likely to have reduced the cost of public services. No reduction in the quality of services was observed following the introduction of compulsory tendering.¹²

Because compulsory tendering proved inflexible in practice, compromising the efficiency gains that could be achieved, it was abandoned in the United Kingdom in 1999 in favour of the "best value" (BV) mechanism. This aims to optimize the delivery of municipal services by using more efficient

suppliers. BV is a flexible approach that does not presume that municipal departments must necessarily be used by local public administrations if there exist other mechanisms that are more efficient. Although no longer compulsory, tendering remains an important management tool in the "best value" model. Unlike compulsory tendering, the BV mechanism is not limited to a specific number of municipal services. Municipal administrations are required to review the efficiency of their service delivery practices every five years and must (1) consider the tendering option for the services for which it is responsible; (2) compare their performance to national indicators; (3) question their service delivery methods; and (4) consult taxpayers regarding quality standards and delivery methods.¹³ In 2004-05, the British government made it compulsory for municipalities to disclose 98 "best value" indicators.¹⁴

Responding to the fears of local administrations

A Canadian research revealed that nearly two-thirds of the municipalities surveyed had looked into the possibility of using the private sector to deliver services and that 78% saw it as a way of reducing costs.

Setting up systems for gathering performance indicators, without even mentioning use of the private sector to deliver municipal services, raises many fears. A Canadian research, conducted in 2005 among 217 municipalities, revealed that nearly two-thirds of the municipalities surveyed had looked into the possibility of using the private sector to deliver services and that 78% saw it as a way of reducing costs, with 84% of the latter group taking this path. They said they encountered obstacles to greater private sector participation in 65% of cases. The obstacles mentioned most

often were: opposition from municipal employees (63% of municipalities), restrictive collective agreements or labour contracts (55%), a lack of capable service providers (31%) and absence of a suitable mechanism for monitoring the execution of contracts (27%).¹⁵

Fears are often expressed in municipal circles when mechanisms to assess the efficiency of municipal services are instituted. According to Ontario's Ministry of Municipal

10. Anna Berger and Bill Tomes, "The South Carolina Municipal Benchmarking Project", *Public Policy & Practice*, Institute for Public Service and Policy Research, October 2002, p. 17.

11. Marcel Boyer, *Compulsory Competitive Tendering, Best Value et Benchmarking*, CIRANO, 2007, p. 7 [unpublished].

12. Véronique Le Gallo, *Compulsory Competitive Tendering : L'expérience anglaise*, CIRANO, 1998, p. 36.

13. Marcel Boyer, *op. cit.*, p. 12.

14. Institute of Public Administration of Canada, *op. cit.*, p. 13.

15. See Robert Hebdon and Patrice Jalette, *Rapport de l'enquête sur la prestation des services municipaux au Canada*, 2005.

Affairs: “Many people were suspicious of our intentions [in establishing a system of municipal management indicators], and it took a lot of consultation to bring our municipalities on board.”¹⁶ Municipalities “feared a type of ‘report card’” from the government, without adequate discernment in comparing their performance.¹⁷ The Nova Scotia government recognized that, despite good relationships, “municipalities were suspicious; they wondered why we were doing this and what we were going to do with the information.”¹⁸ Everywhere this sort of difficulty was met, these fears were overcome by consulting and involving municipal administrators in developing the project.

The Quebec government should consider the possibility of using performance indicators to develop a broader and more ambitious program of promoting efficiency in the delivery of municipal services.

Conclusion

To sum up, it seems the initiative from the Quebec Municipal Affairs Department to develop municipal management indicators is simply a first step in the right direction. It will be necessary, however, to respond to certain methodological problems to obtain credible information of good quality. In other places where such indicators have been developed, data collection and standardization methods have had to be refined along the way. The Quebec

government should also look into the possibility of integrating performance indicators from sources independent of municipal structures and adopt an approach that includes service suppliers on the ground. It is important now for Quebec to catch up from its delay in this area, particularly compared to Ontario, which has been working on the assessment of municipal management since the 1980s.

Moreover, the Quebec government should consider the possibility of using performance indicators to develop a broader and more ambitious program of promoting efficiency in the delivery of municipal services. Such a program could provide for greater use of private suppliers of municipal services and encourage, or even make compulsory, the tendering of a

large number of services currently handled by local public administrations. Consideration should be given to requiring cities and towns to conduct a comprehensive review and rationalization of their spending as an essential condition for obtaining new income sources. Quebec taxpayers would come out ahead if municipal administrations explored every possibility at their disposal to reduce spending.



Montreal Economic Institute
6708 Saint-Hubert Street
Montreal, Quebec
Canada H2S 2M6
Telephone (514) 273-0969
Fax (514) 273-2581
Web site www.iedm.org

The Montreal Economic Institute (MEI) is an independent, non-profit, non-partisan research and educational institute. It endeavours to promote an economic approach to the study of public policy issues.

The MEI is the product of a collaborative effort between entrepreneurs, academics and economists. The Institute does not accept any public funding.

One-year subscription to MEI publications: \$125.00.

Chairman of the Board:
HÉLÈNE DESMARAIS

President:
PAUL DANIEL MULLER

Vice President and Chief Economist:
MARCEL BOYER

The opinions expressed in this study do not necessarily represent those of the Montreal Economic Institute or of the members of its board of directors.

The publication of this study in no way implies that the Montreal Economic Institute or the members of its board of directors are in favour of or oppose the passage of any bill.

Reproduction is authorized for non-commercial educational purposes provided the source is mentioned.

Montreal Economic Institute
© 2007

Printed in Canada

Illustration:
Benoit Lafond

Graphic Design:
Valna inc.

16. Institute of Public Administration of Canada, *op. cit.*, p. 11.

17. *Idem*, p. 36.

18. *Idem*, p. 29.