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Value for Money?

The Effect of Sudbury's 2001 Amalgamation on Municipal Expenditures

By James Cuddy

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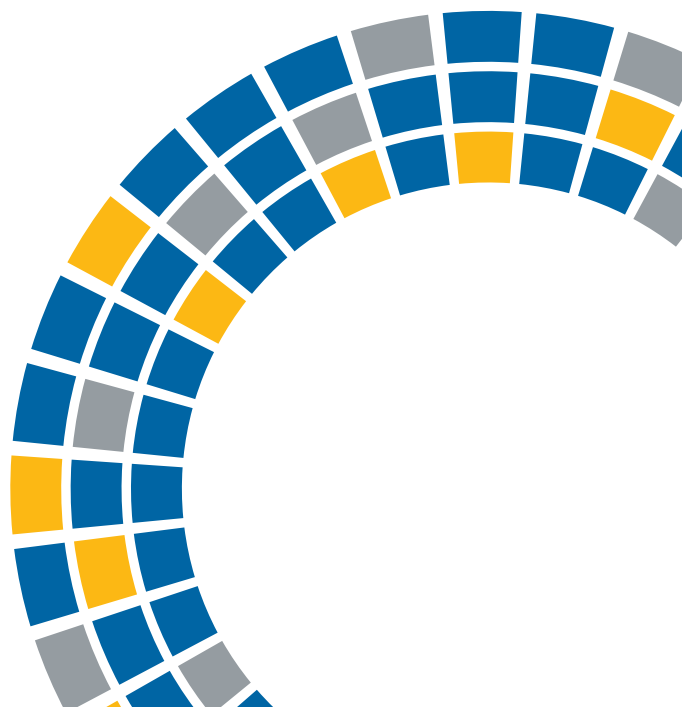
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James Cuddy is Northern Policy Institute's in-house Economist. He has over 5 years of experience conducting research on various economic issues, with a particular focus on labour market and socioeconomic analysis and regional and urban economics. As a skilled leader with a strong communications background, he helps to expand and implement the Institute's research priorities and assist in quality control.

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Executive Summary

On January 1, 2007, seven lower-tier communities making up the Regional Municipality of Sudbury (Capreol, Onaping Falls, Nickel Centre, Rayside-Balfour, Sudbury, Valley East, and Walden) and several other unincorporated townships (Fraleck, Parkin, Aylmer, Mackelcan, Rathbun, Scadding, Dryden, Cleland, and Dill) were amalgamated to form the City of Greater Sudbury. In the municipal amalgamation literature it is generally argued that consolidation would lead to greater efficiency, and therefore reduce costs of providing services. Efficiency gains and cost savings were expected to come from reaping economies of scale, reducing the duplication of tasks and the number of municipal staff and elected officials, and enhancing coordination of service provision.

This commentary originally set out to understand whether there were efficiency gains that resulted from Greater Sudbury's 2001 amalgamation. However, in order to test for efficiency gains, one must consider both the inputs and outputs of service provision. Unfortunately, while every municipality across Ontario provides detailed data on service expenditures (inputs), they lack any consistent, reliable and publicly available reporting of service levels and quality (outputs). As a result, this report recommends the need for increased transparency around the reporting of the level and quality of municipal service provision. This can be achieved by creating a separate schedule within municipal Financial Information Returns, which is the data tool used by the Ministry of Municipal Affairs and Housing to collect annual financial and statistical information on municipalities across Ontario.

Without data on the level and quality of services being provided, this report ran into the challenge of being unable to test for the returns yielded on expenditures in an amalgamated versus non-amalgamated environment. Nevertheless, while the report resorted to focusing solely on expenditures, there are still a number of important findings that the report identified.

First, amalgamation resulted in considerable savings on general government expenditures (i.e., administrative costs incurred from governance, corporate management, and program support). This is not surprising since seven councils and mayors were consolidated into one. In addition, while these expenditures were distinctly lower after amalgamation, they were also declining prior to amalgamation, indicating that taxpayers in the region have been paying less each year, on average, for general government expenditures.

Second, in every case of municipal services that were provided solely by lower-tier municipal governments (with the exception of street lighting), expenditures per household in Greater Sudbury had a distinct upward spike after amalgamation in 2001. However, the inclusion of unincorporated townships might have been at least partly responsible for the increase in expenditures post-amalgamation, since their expenditures were consolidated with those of Greater Sudbury and not accounted for prior to consolidation.

Third, after accounting for distortions such as the Local Services Realignment initiative in 1998 and the one-time electricity expenditure in 2000, there appears to have been a negligible change in total expenditures in 2001 resulting from amalgamation.

Lastly, findings in this report indicate persistently growing expenditures per household with respect to fire services and garbage collection. While it is acknowledged that amalgamation may have impacted these expenditures in the years following 2001, this does not explain why they continue to increase today. In the case of fire services, expenditures per household are rising as a result of increasing labour costs; with the latter, expenditures are being driven by increasing costs for contracted services. There are a number of factors that could be driving these trends that merit further investigation, but they fall beyond the scope of this study.

Whether or not the above changes in expenditure levels are indicative of increased or decreased efficiency in service provision is unclear. Until municipalities increase their transparency around reporting on service levels and quality, of which the Ontario Ministry of Municipal Affairs can take the lead on implementing through municipal Financial Information Returns, this type of analysis will remain incomplete. Without the ability to access consistent, reliable and publicly available data on service outputs, communities facing fiscal pressures, especially those in the North, cannot effectively gauge their level of operational efficiency and ultimately enhance the sustainability of their communities.

Introduction

In the 1990s and 2000s, Ontario saw a wave of municipal consolidations occurring through the process of either amalgamation or annexation. From 1991 to 2001, the number of municipalities was reduced from 839 to 448, and has since been reduced even further (Slack and Bird 2013a). Greater Sudbury was among the many consolidated creatures born as a result of these local reforms.

As recommended in the Report to the Minister of Municipal Affairs and Housing on Local Government Reform for Sudbury (Thomas 1999), seven cities and towns making up the Regional Municipality of Sudbury (Capreol, Onaping Falls, Nickel Centre, Rayside-Balfour, Sudbury, Valley East, and Walden) and several other unincorporated townships (Fraleck, Parkin, Aylmer, Mackelcan, Rathbun, Scadding, Dryden, Cleland, and Dill) were amalgamated to form the City of Greater Sudbury in 2001. The amalgamation formed what is now the largest city in Northern Ontario and the twenty-fourth-largest Census Metropolitan Area (CMA) in Canada, with over 160,000 residents. In terms of land area, Greater Sudbury spans over 3,400 square kilometres, making it the third largest CMA in Ontario after Toronto and Ottawa-Gatineau, respectively, and the ninth largest in Canada (Statistics Canada 2012).

Prior to amalgamation, the Regional Municipality of Sudbury was made up of one upper-tier regional government and seven lower-tier municipal governments. Each tier had its own decision-making unit (that is, council and mayor) responsible for

the provision of certain public goods and services. Generally speaking, the regional government was responsible for allocating most government expenditures in the region, while lower tiers had limited responsibilities. The amalgamation simply meant that lower-tier governments were dissolved and all their responsibilities were transferred to the regional government, so that one single-tier centralized government would make all decisions concerning the provision of services.

It was generally argued that consolidation would lead to greater efficiency, and therefore reduce costs. Efficiency gains and cost savings were expected to come from reaping economies of scale (that is, a reduction in per unit cost of service provision as service levels increase), reducing the duplication of tasks and the number of municipal staff and elected officials, and enhancing coordination (Vojnovic and Poel 2000). Indeed, in the case of Greater Sudbury, reducing expenditures was one of the intended objectives (Thomas 1999).

Has amalgamation reduced expenditures on the provision of municipal services? After providing an overview of the methodology and data used, this report analyses municipal expenditures on various services before and after the 2001 amalgamation, and presents a summary of findings, additional questions to be explored, and some recommendations going forward.



Methodology and Data

Before the region was amalgamated, many services were already the responsibility of the regional upper-tier government. As Table 1 indicates, on average, two-thirds of total expenditures (upper-tier plus lower-tier expenditures) were provided by the upper-tier government between 1990 and 2000. In fact, lower-tier municipalities were solely responsible for only six services — cemeteries, fire, garbage collection, libraries, parks and recreation, and street lighting. (The upper-tier government provided less than one percent of regional fire expenditures prior to amalgamation.) As it happens, not only were these services among the most exposed to consolidation, and thus susceptible to cost savings; they are particularly ideal for analysis since their

expenditures had not been distorted by the imposition of the 1998 Local Services Realignment (LSR) initiative (see Bird, Slack, and Tassonyi 2012), which resulted in the province's downloading costs to municipalities for social and family services, social housing, public transit, child care, and public health and land ambulance services (Ontario 2008). Also included in the analysis are general government expenditures — administrative costs incurred from governance, corporate management, and program support — which made up nearly a quarter of all lower-tier expenditures prior to amalgamation.

Table 1: Municipal Expenditures by Upper-Tier and Lower-Tier Governments, Sudbury Region, 1990–2000

	Lower-Tier Expenditures	Upper-Tier Expenditures
	(% of total expenditures)	
1990	38.7	61.3
1991	36.9	63.1
1992	35.0	65.0
1993	33.2	66.8
1994	32.0	68.0
1995	32.7	67.3
1996	34.5	65.5
1997	34.2	65.8
1998	26.0	74.0
1999	25.2	74.8
2000	38.8	61.2
Average, 1990–2000	33.4	66.6

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://csconramp.mah.gov.on.ca/fir/Welcome.htm>.

Following the methodology used in Slack and Bird (2013b), this paper analyses expenditures per household for the seven services. For each service, the linear predicted trend is estimated for each of the lower-tier Sudbury-area municipalities, as well as the regional total (the sum of all lower- and upper-tier expenditures) in the decade before amalgamation (1990–2000) and compare it with the trend of expenditures on these services in the 2001–14 post-amalgamation era.

Data on expenditures and number of households were retrieved from Financial Information Returns published by the Ontario Ministry of Municipal Affairs and Housing, and, as a proxy for inflation, Statistics Canada's all-items consumer price index for Ontario is used (Statistics Canada, CANSIM table 326-0021).

Analysis of Municipal Expenditures by Type

As Figure 1 shows, in the years prior to amalgamation, municipal expenditures in Greater Sudbury fluctuated between \$4,300 and \$5,000 per household. Then, from 1997 to 1998, expenditures spiked by 32 percent, followed by another 18 percent increase from 1999 to 2000, bringing expenditures to about \$6,600 per household. The first spike in 1998 was largely due to an \$88.5 million (unadjusted for inflation) increase in social and family services and social housing expenditures for the Sudbury region upper-tier government. This was a result of the LSR initiative that downloaded these and other costs.

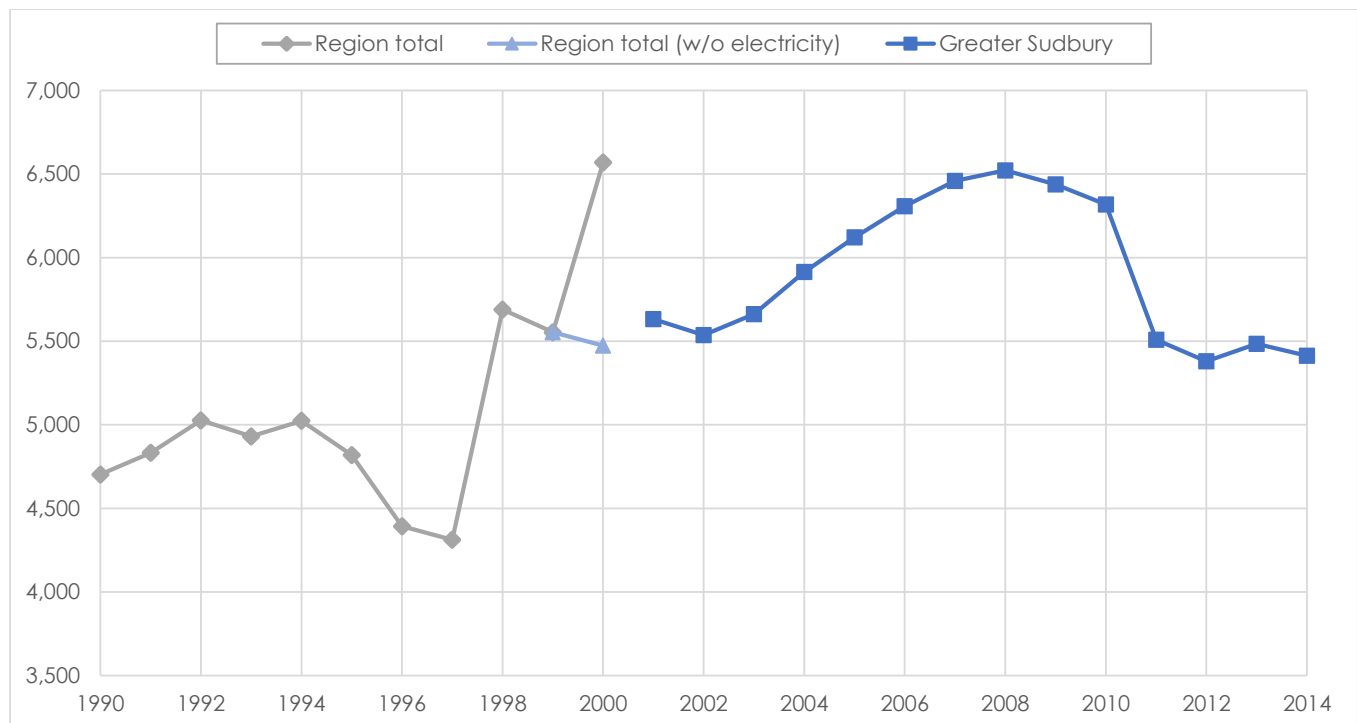
The subsequent increase in 2000 was due solely to a \$72 million (unadjusted for inflation) electricity expense listed on the Sudbury lower-tier Financial Information Return, the result of a provincial decision to give municipalities ownership of their electricity utilities (Fyfe and McLean 2002). This appears to have been a one-time expense, however, since, in the following year (2001), electricity expenses were again zero, and as a result total expenditures dropped back to 1998–99 levels.

Excluding this onetime expense, per household expenditures were just under \$5,473 in 2000, or slightly below post-amalgamation expenditures of \$5,633 in 2001.

From 2001 to 2010, expenditures per household grew from roughly \$5,500 to \$6,500, but declined sharply in 2011, bringing them back to levels consistent with what they were in 1999 after the LSR initiative was imposed. The one-year decline was largely due to a \$64 million (62 percent) decline in general assistance expenditures for social and family services.

In general, after taking into account the LSR initiative in 1998 and the one-time electricity expenditure in 2000, there appears to have been a negligible change in total expenditures in 2001 resulting from amalgamation. However, was this also the case for the services most exposed to amalgamation?

Figure 1: Total Expenditures per Household, All Municipal Services, Sudbury Region and Greater Sudbury, 1990–2014



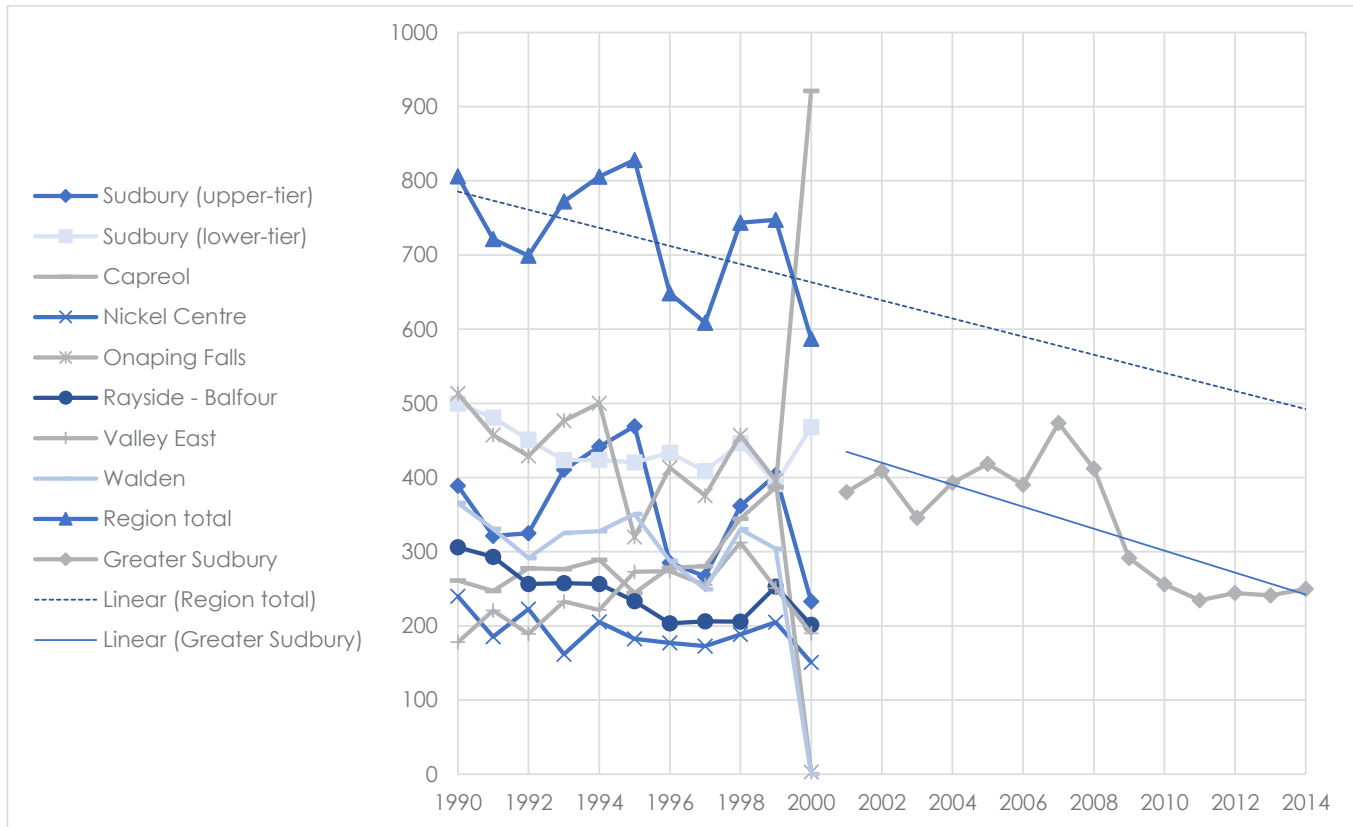
Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://csconramp.mah.gov.on.ca/fir/Welcome.htm>.

General Government

Prior to amalgamation, lower-tier municipalities were responsible for about half of general government expenditures in Greater Sudbury. As Figure 2 shows, however, these expenditures declined considerably after amalgamation — from \$587 per household in 2000 to \$380 per household in 2001. Since consolidating government units might allow for cost savings from administrative economies, such as reducing municipal staff and internal process duplication (Slack and Bird 2013b), it is not surprising to see that labour expenditures were reduced when seven councils and mayors were consolidated into one. Another important observation is that general government expenditures, while distinctly lower after amalgamation, were also declining prior to amalgamation, indicating that taxpayers in the region have been paying less each year, on average, for these expenditures.

Figure 2: General Government Expenditures per Household, by Municipality, Sudbury Region, 1990–2014



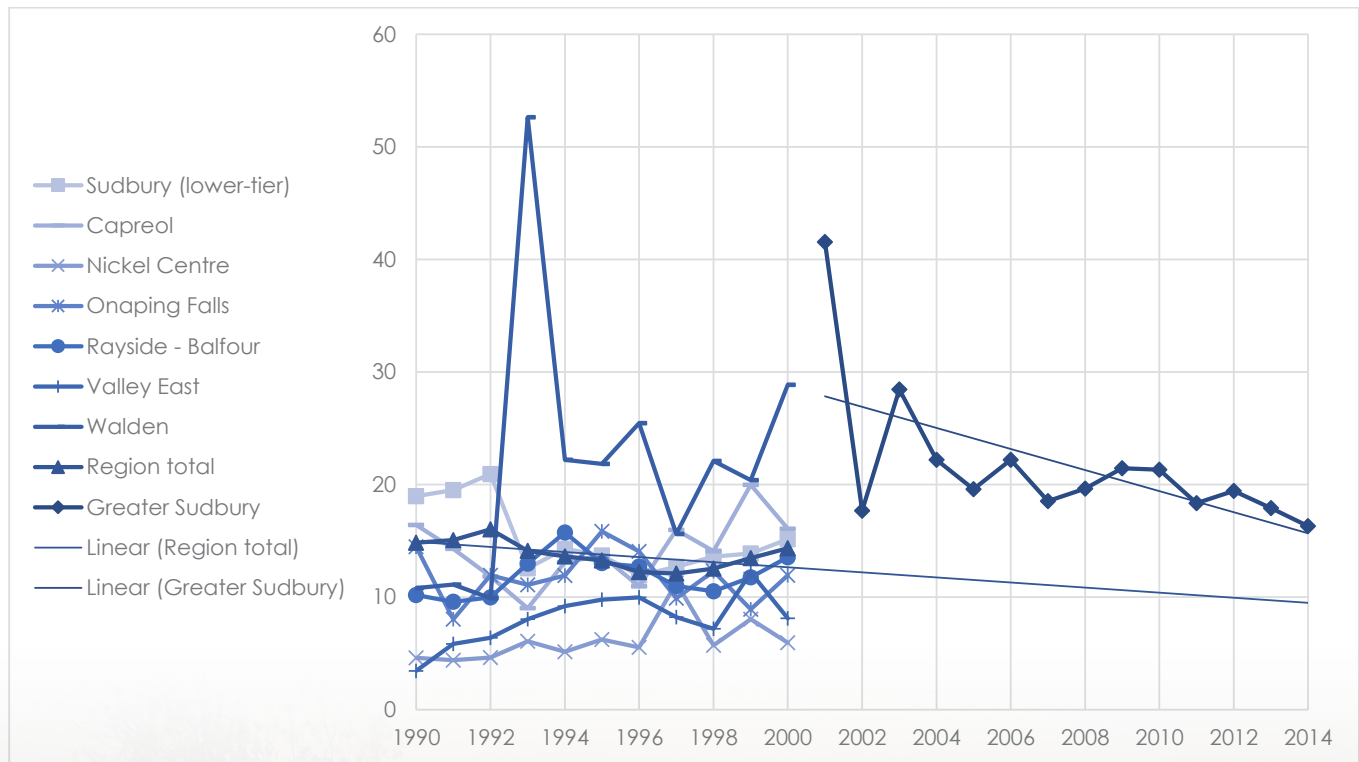
Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://csonramp.mah.gov.on.ca/fir/Welcome.htm>.

Cemeteries

Expenditures per household for cemeteries were higher after amalgamation than the pre-amalgamation region total (Figure 3), although such expenditures have been declining since 2001, sitting at \$16 per household as of 2014. In 2001, cemetery expenditures increased considerably, which might have been a result of the transition to a consolidated structure, but quickly declined the year after. There was a large spike in expenditures in Walden in 1993, but it is not clear why.

Figure 3: Cemetery Expenditures per Household, by Municipality, Sudbury Region, 1990–2014



Note: Dollar amounts are in 2002 constant dollars.

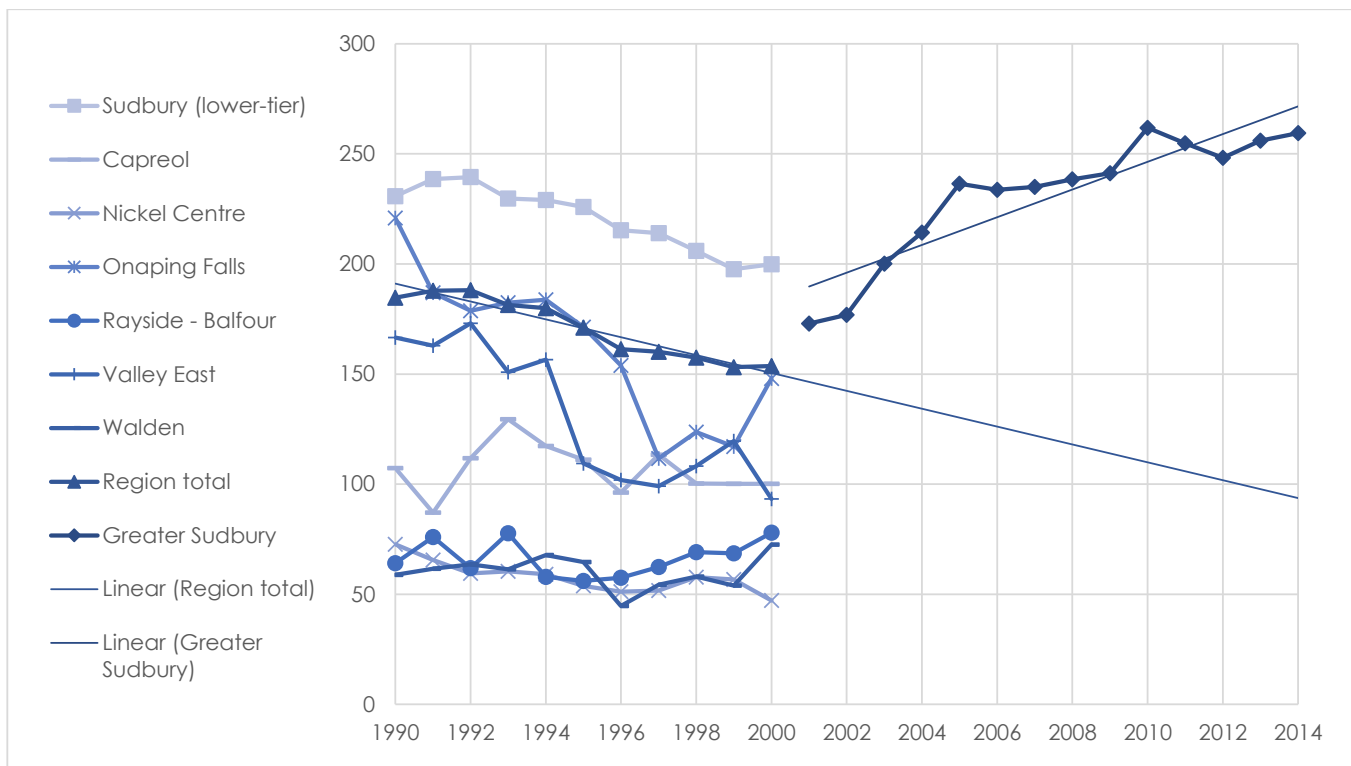
Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://csconramp.mah.gov.on.ca/fir/Welcome.htm>.

Fire

Expenditures pre- and post-amalgamation for fire services are an interesting case (Figure 4). From 1990 to 2000, the city of Sudbury (the lower-tier municipality) accounted for roughly 80 percent of the region's total fire service expenditures. At the same time, Sudbury had the highest per household expenditure. These expenditures trended downward, however, from \$230 per household in 1990 to \$200 in 2000. Expenditures for the region as a whole also trended downward from about \$180 to \$150 per household during the same

period — the result of many smaller municipalities, such as Rayside-Balfour, Walden, and Nickel Centre, having considerably lower expenditures per household for fire services. This is consistent with other evidence from Ontario showing that costs per household for fire services are minimized for municipalities with a population of roughly 20,000 (Found 2012). In 2001, however, post-amalgamation expenditures per household increased by 13 percent from the 2000 regional total and continued to rise, reaching \$260 per household in 2014.

Figure 4: Fire Expenditures per Household, by Municipality, Sudbury Region, 1990–2014

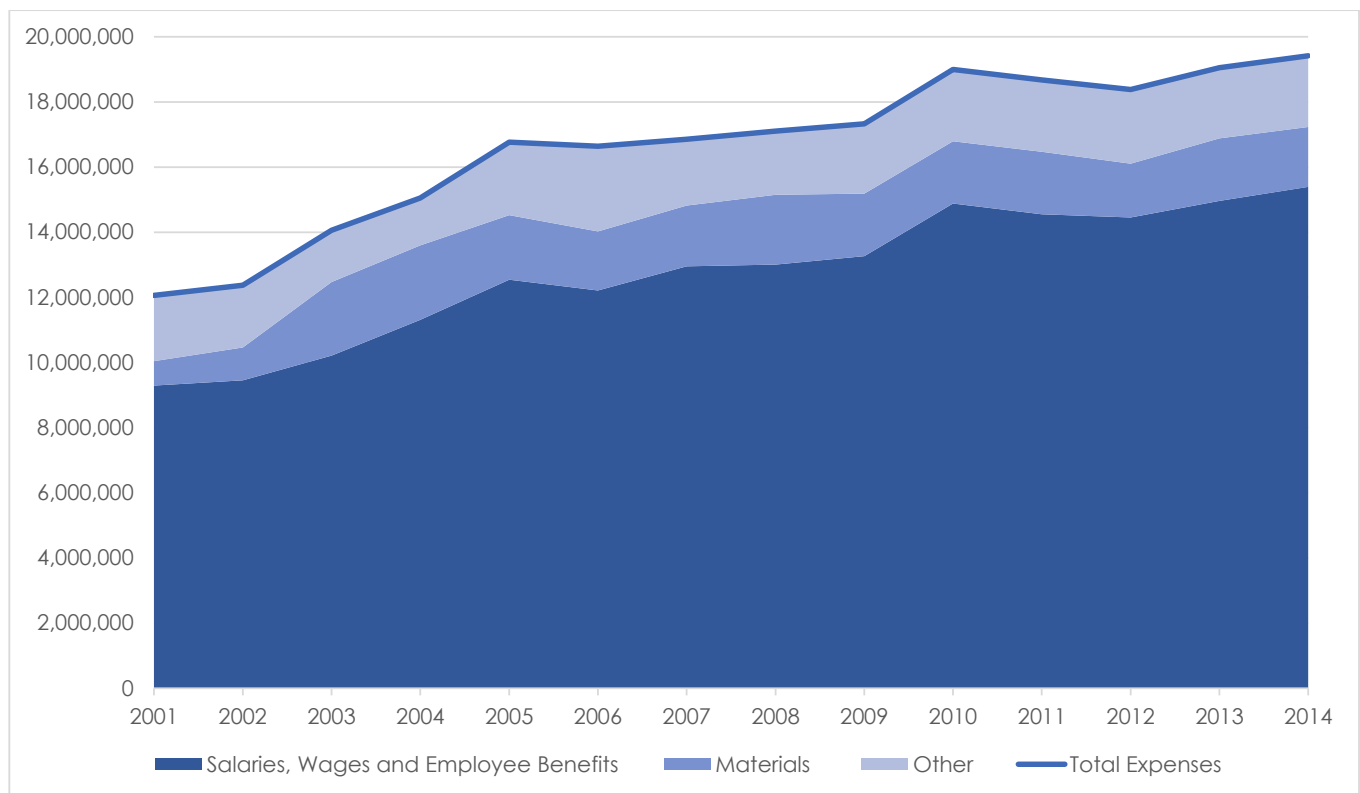


Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://csconramp.mah.gov.on.ca/fir/Welcome.htm>.

Figure 5 breaks down fire service expenses by type to see why this considerable increase happened. Clearly, labour costs (salaries, wages, and employee benefits) make up the bulk of expenses and are driving the trend of rising expenditures, but it is not clear why labour costs are going up. It might be that diseconomies of scale emerged as a result of the formation of a larger municipality — that is, expenditures per unit of service increased with the size of the municipality — or perhaps the quality of services (such as quicker response times) increased in outlying areas after amalgamation. On the one hand, it also might mean that amalgamation increased the “professionalization” of the fire service and reduced the number of volunteer firefighters or that salaries, wages, and benefits across previous lower-tier units were harmonized at a higher level, in either case leading to higher labour costs. It is likely that some or all of these factors affected expenditures to some extent in the early years after amalgamation, but they do not explain why expenditures continued to rise thereafter. Perhaps rising labour costs have been driven by an exogenous factor having nothing to do with amalgamation — such as wage inflation or an aging workforce. Unfortunately, without the data needed to control for the level and quality of service, the reason labour costs of fire services continue to rise is unclear.

Figure 5: Fire Services Expenditures by Type, Sudbury Region, 2001–2014



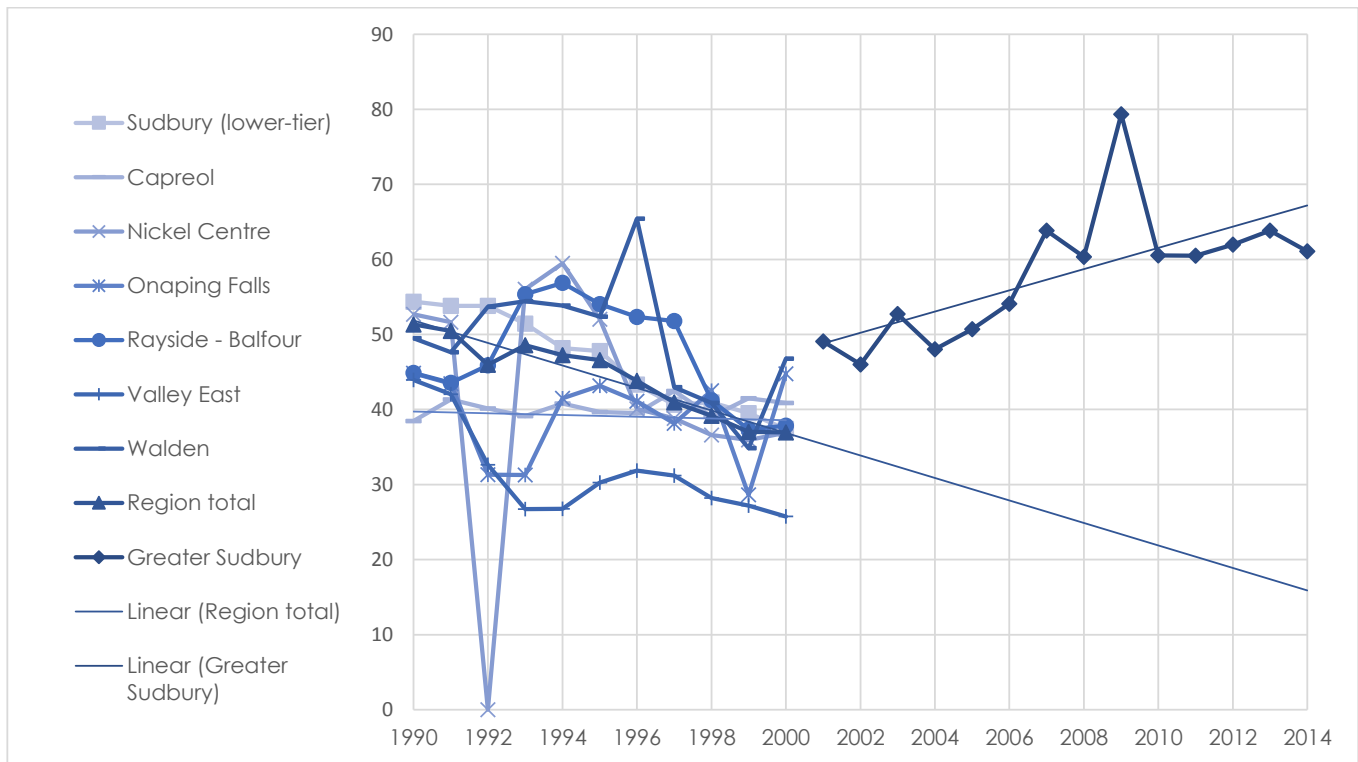
Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://cscconramp.mah.gov.on.ca/fir/Welcome.htm>.

Garbage Collection

Trends in garbage collection expenditures (Figure 6) are similar to those of fire services. Expenditures per household were declining in all the lower-tier municipalities prior to amalgamation, but shifted higher and continued to increase after 2001. This finding is consistent with the conclusion drawn by Bird and Slack (1993) that municipalities with relatively smaller populations minimize their costs of garbage collection.

Figure 6: Garbage Collection Expenditures per Household, by Municipality, Sudbury Region, 1990–2014

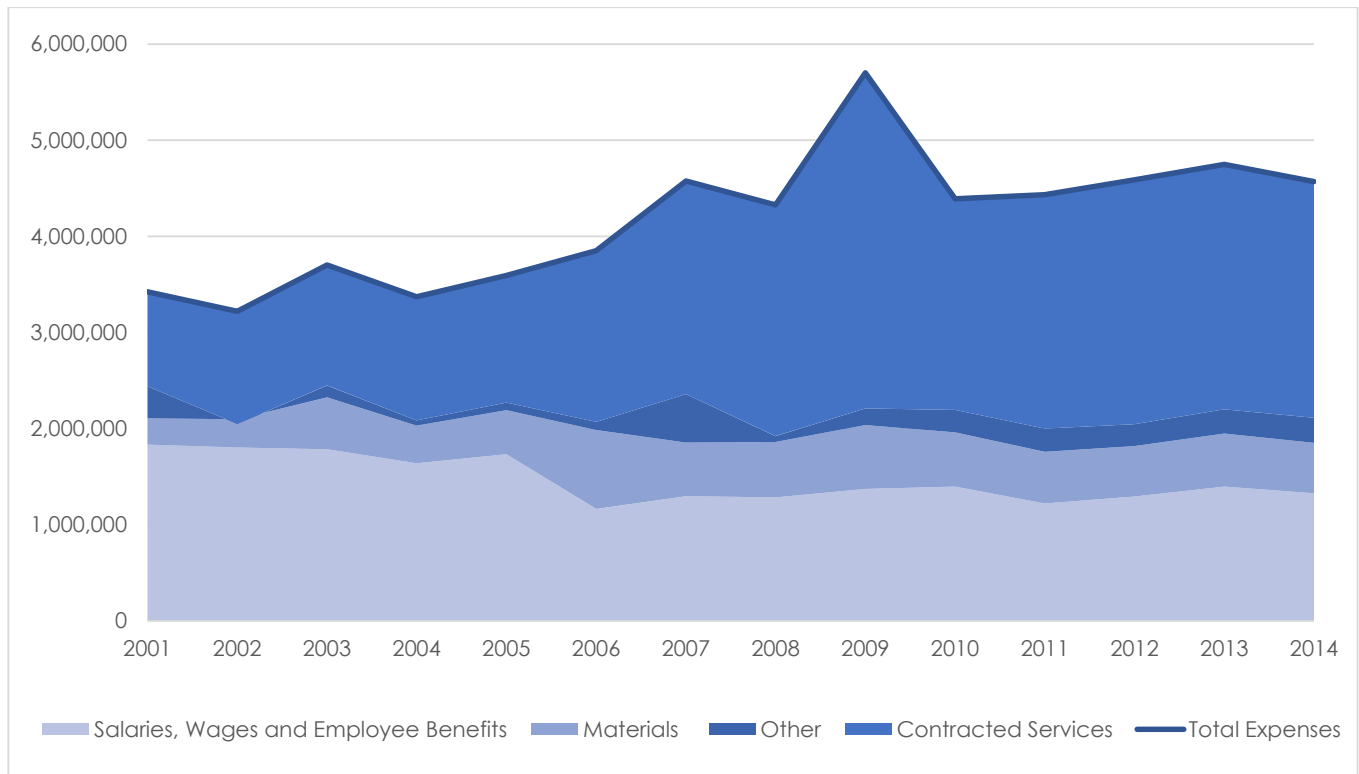


Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://cscconramp.mah.gov.on.ca/fir/Welcome.htm>.

To attempt to understand why garbage collection expenditures were higher and increasing after amalgamation, Figure 7 breaks down such expenses by type. Notably, there was little change in labour costs, materials, and other expenses after 2001, but expenses for contracted services increased considerably, climbing by 255 percent from roughly \$983,000 in 2001 to \$3.49 million in 2009. Such costs declined modestly after 2009, but still sat at \$2.46 million in 2014. Again, without data on the level and quality of services being provided, it is unclear whether higher and growing garbage collection expenditures are the result of diseconomies of scale (declining efficiency due to population size and density) or higher service levels (the increasing costs of disposing of or requirements to recycle garbage or servicing outlying areas).

Figure 7: Garbage Collection Expenditures by Type, Sudbury Region, 2001–2014



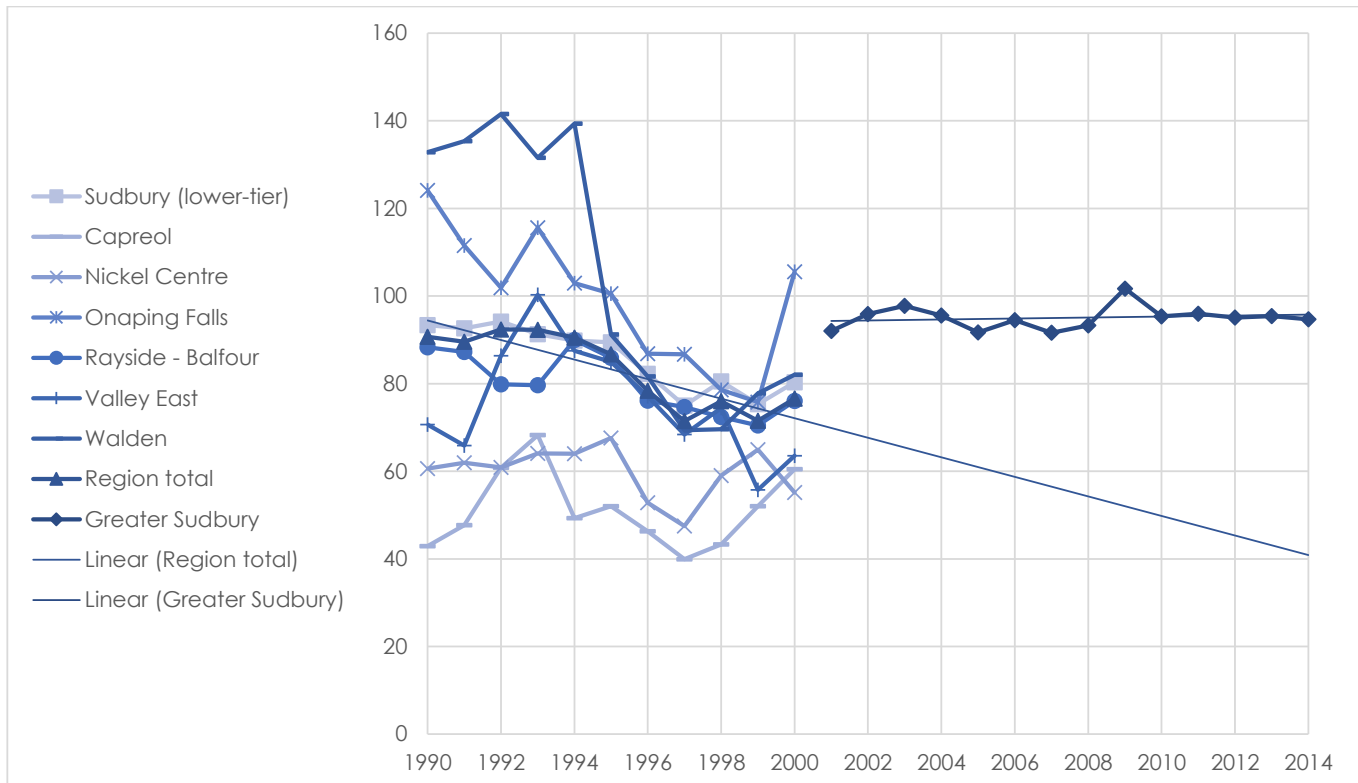
Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://cscnconramp.mah.gov.on.ca/fir/Welcome.htm>.

Libraries

Trends in library expenditures pre- and post-amalgamation show some similarities and differences to garbage collection and fire services. Notably, total expenditures per household for the region experienced a small spike after amalgamation from \$77 in 2000 to \$92 in 2001 (Figure 8). Unlike fire and garbage collection, however, library expenditures did not continue to increase over time, but remained steady, sitting at around \$95 per household in 2014.

Figure 8: Library Expenditures per Household, by Municipality, Sudbury Region, 1990–2014



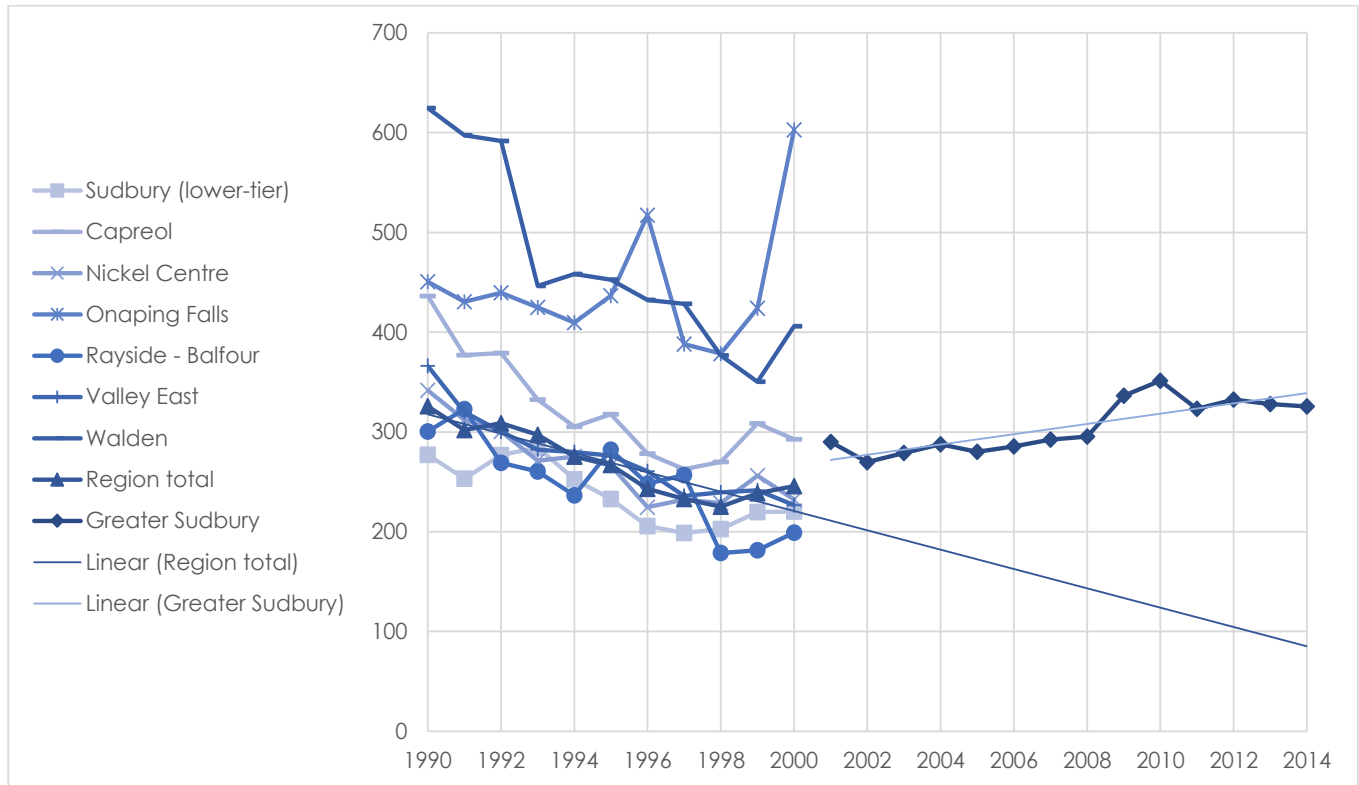
Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://csconramp.mah.gov.on.ca/fir/Welcome.htm>.

Parks and Recreation

Prior to amalgamation, parks and recreation services in lower-tier municipalities with small populations, including Onaping Falls, Walden, and Capreol, had high per household expenditures (Figure 9). When comparing expenditures after amalgamation with the region's total expenditures prior to amalgamation, a similar spike from 2000 to 2001 is evident as with other services. Since 2001, expenditures per household increased only modestly, from \$290 in 2001 to \$325 in 2014.

Figure 9: Parks and Recreation Expenditures per Household, by Municipality, Sudbury Region, 1990–2014



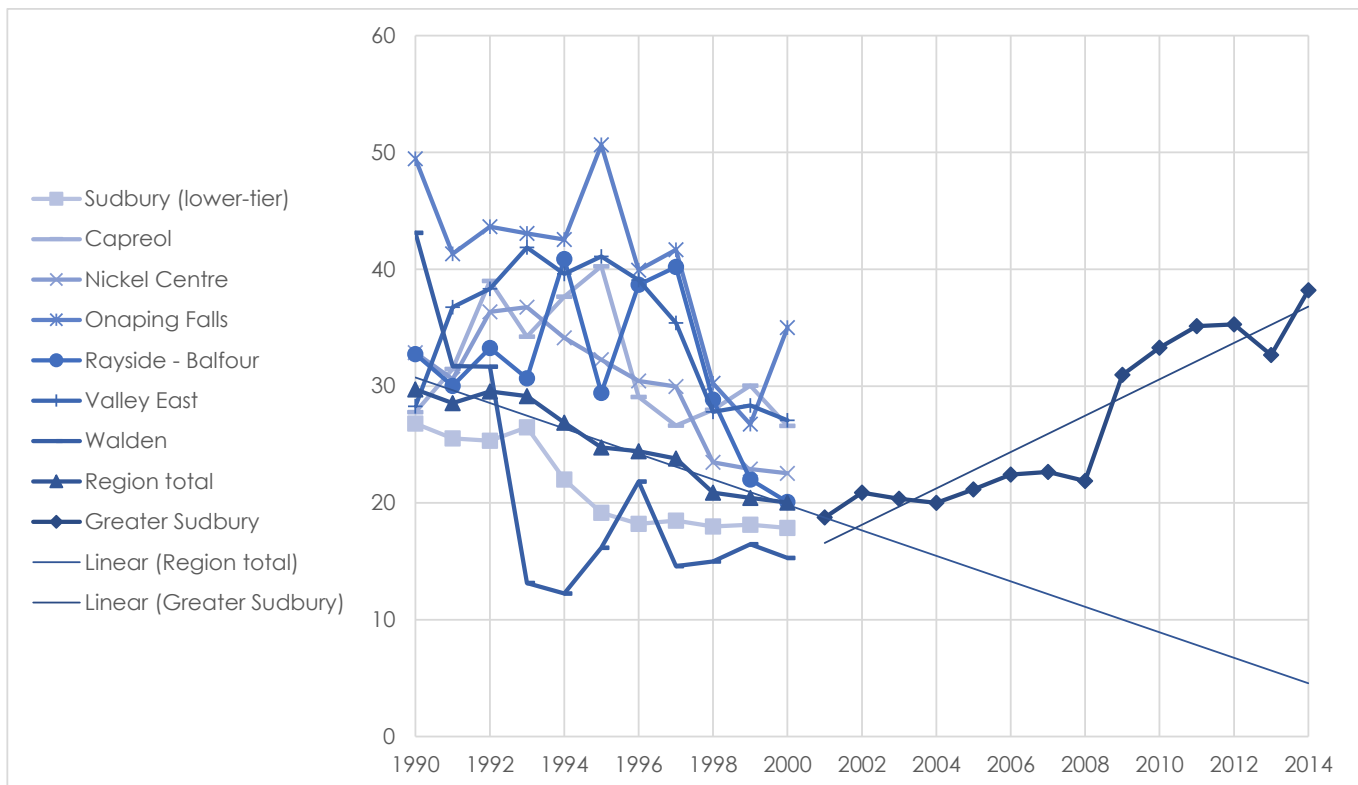
Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://cscconramp.mah.gov.on.ca/fir/Welcome.htm>.

Street Lighting

Street lighting was the only amalgamated service that did not cost more per household after amalgamation in 2001 (Figure 10). Interestingly, expenditures remained largely steady at \$20 per household from 2001 to 2008, but then spiked in 2009, eventually growing to \$38 per household by 2014, due to costs for materials and amortization payments. It appears, therefore, that amalgamation had little impact on street lighting expenditures.

Figure 10: Street Lighting Expenditures per Household, by Municipality, Sudbury Region, 1990–2014



Note: Dollar amounts are in 2002 constant dollars.

Source: Author's calculations based on Ontario Ministry of Municipal Affairs and Housing, *Financial Information Returns*; available online at <http://csconramp.mah.gov.on.ca/fir/Welcome.htm>.

The Effect of the Inclusion of Unincorporated Townships

In addition to the upper- and lower-tier units, several unincorporated townships — Fraley, Parkin, Aylmer, Mackelcan, Rathbun, Scadding, Dryden, Cleland, and Dill — were also consolidated in 2001 to form the City of Greater Sudbury. Since Northern Ontario is the only region in the province with unincorporated areas, the inclusion of these townships made the Greater Sudbury amalgamation unique from most of the other amalgamations that occurred in the province. The inclusion of these unincorporated townships, however, might have contributed to the increase in post-amalgamation ex-

penditures for municipal services previously provided by the lower-tier governments. Unincorporated townships were governed by Local Services Boards that charged fees or levies for water supply, fire protection, garbage collection, sewage, street and area lighting, recreation, roads, libraries, and telecommunications (Ontario 2015). Prior to amalgamation, however, these expenses were not included in the regional total — that is, in the sum of all lower- and upper-tier expenditures — but since amalgamation, they have been included in those for Greater Sudbury.

Conclusion

In every case of municipal services that were provided solely by lower-tier municipal governments (with the exception of street lighting), expenditures per household in Greater Sudbury had a distinct upward spike after amalgamation in 2001. This suggests that amalgamation increased the cost of centralizing these services. Importantly, the inclusion of unincorporated townships might have been at least partly responsible for the increase in expenditures post-amalgamation since, as noted, their expenditures were consolidated with those of Greater Sudbury. These findings are robust given that these services were not being distorted by the LSR initiative the province imposed in 1998. On the other hand, general government expenditures declined, suggesting the reaping of administrative efficiencies as a result of amalgamating the upper- and lower-tier units, a finding consistent with those of previous studies on the impacts of municipal amalgamation.

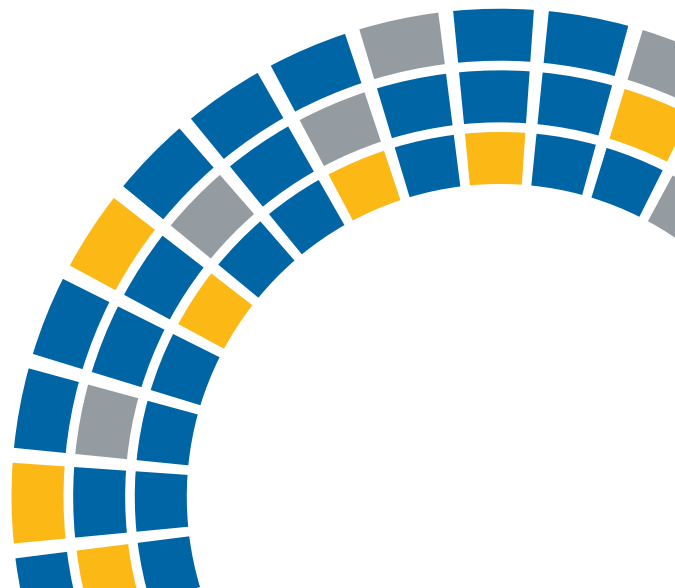
Overall, after accounting for distortions such as the LSR initiative and a one-year spike in electricity costs in 2000, any changes in total municipal expenditures that resulted from amalgamation appear to have been negligible. This finding is not surprising given that roughly two-thirds of total expenditures were already being provided by the upper-tier regional municipality prior to amalgamation.

Expenditures for fire services and garbage collection, however, were trending downward prior to amalgamation but have trended upward since then. In the former case, expenditures per household are rising as a result of increasing labour costs; in the latter, expenditures are being driven by increasing costs for contracted services. It is not clear, however, why these costs are rising and if the 2001 amalgamation has had anything to do with the increase. With respect to fire services, it could be that hours worked and overtime hours are increasing as a result of higher quality and levels of service or that an aging workforce is putting pressure on labour costs. On the other hand, it might be the case that the inflation of public sector wages in general could be increasing faster than overall inflation. Inflation also affects the costs of services, such as garbage collection, that are contracted out by the municipality, and that are increasing faster than the overall price level (Bird and Slack 1993). It is also possible that amalgamation resulted in lower efficiency in the provision of services and/or the standardization of services and labour costs that were consolidated in the early years after 2001. The former occurs when the average cost of providing a service increases as the level of provision increases, while the latter occurs when the consolidation of municipal units with different levels of services and labour costs results in upward pressure to harmonize these expenditures to the highest level (Tindal and Tindal 2004, 153). However, without data on service levels and wages, salaries, and benefits

prior to amalgamation, it is not possible to test fully the argument of efficiency and standardization of services and labour costs after amalgamation.

Recommendations

As for recommendations, Greater Sudbury — and municipalities in general — should seek to enhance transparency around the reporting of the level and quality of municipal service provision. With the recent launch of the City of Greater Sudbury's open data portal, the municipality has already taken a positive step toward putting a framework in place to enhance access to municipal data. However, more generally, this report recommends creating a separate schedule within municipal Financial Information Returns, which is the data tool used by the Ministry of Municipal Affairs and Housing to collect annual financial and statistical information on municipalities across Ontario. Implementing this change will result in consistent, reliable and publicly available data on service outputs that can be compared across all communities in Ontario. Many studies that attempt to assess the efficiency of local services provision and municipal amalgamation run into the problem of not being able to control for the quality and level of services, leading to analyses, such as this one, that are based solely on expenditures. Tracking and releasing this information would greatly enhance the ability of municipalities and individual taxpayers to assess the effectiveness, efficiency, and equity of local service delivery in their communities, ultimately enhancing the sustainability of municipalities across the province.



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Northern Policy Institute is Northern Ontario's independent think tank. We perform research, collect and disseminate evidence, and identify policy opportunities to support the growth of sustainable Northern Communities. Our operations are located in Thunder Bay and Sudbury. We seek to enhance Northern Ontario's capacity to take the lead position on socio-economic policy that impacts Northern Ontario, Ontario, and Canada as a whole.

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