

Regional Service Delivery Cost Sharing Guide

An initiative of the Towns Task Force
Developed in collaboration with:



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About

This tool outlines some considerations and best practices for entering into a shared service agreement between two or more municipal units. The intended audience is a municipal administrator or elected official considering shared services. This file should be used as an interactive guide, rather than a presentation.

The Towns Task Force recommendation leading to the creation of this tool:

Develop a regional service cost-sharing template to assist municipalities in establishing cost sharing formula for regional services. Template should provide a means for determining who is using the service and the actual cost of providing it to those from outside the municipality. It should also recognize the economic spin-offs to the host municipality in housing a regional facility including increased business through shopping, dining, etc.

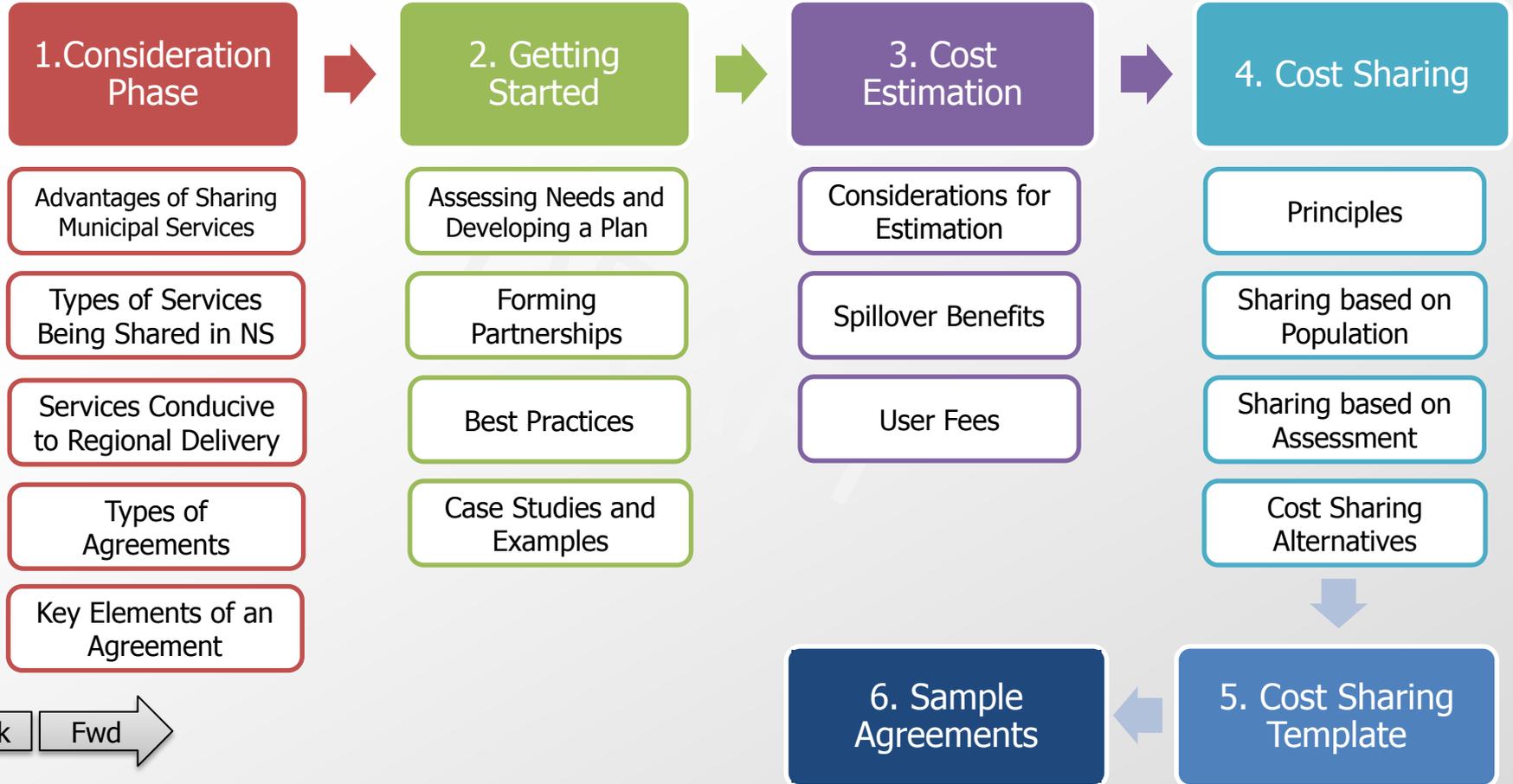


About

- The guide is organized in four sequential phases. The [Shared Services Workflow Diagram](#) will guide you through the process, providing brief overviews and linking to additional resources.
- Accompanying this guide is a [Cost Sharing Excel Template](#), that will assist you with the financial aspects of sharing municipal services.
- This document contains hyperlinks to external websites, that are available at the time this document was created.



Shared Services Workflow



Advantages of Sharing Municipal Services

Collaborating with other municipal units to provide services regionally has the potential to increase cost effectiveness and improve or maintain service delivery standards. Service sharing helps municipalities respond to pressures to reduce tax rates and minimize costs while maintaining or improving service levels.

Sharing services can prevent against duplication of services, equipment or facilities. It can also allow the costs of providing a service to be spread out over a larger population.

Services that do not correspond well to a municipal boundary are often shared. When publicly funded resources in a MU are used by non-residents, that can put upward pressure on costs and creates a scenario where the residents are subsidizing a service for non-residents. Planning for these scenarios and sharing both the benefits and costs of these services will improve service quality and equitable funding.

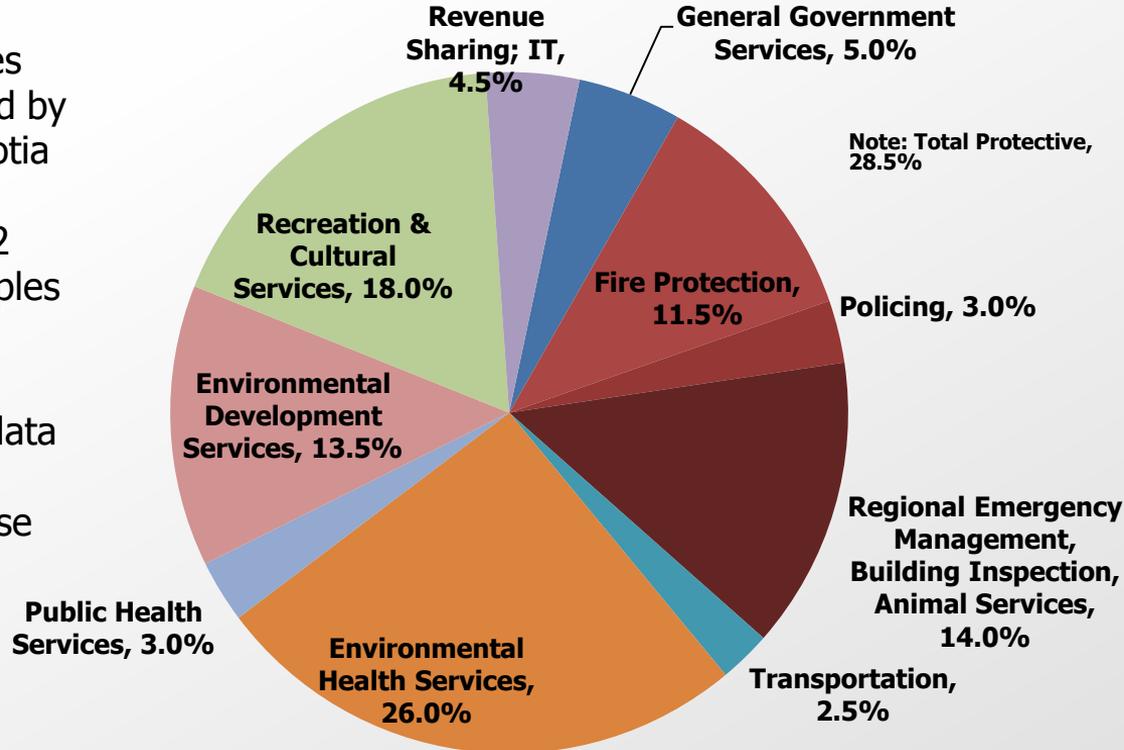
Additional Resources:

- [Inter-Municipal Cooperation: sharing of Expenditures and Revenues. Slack, 1997.](#)
- [A Framework for Regional Collaboration. Lincoln Institute of Land Policy. McKinney, 2004.](#)

Consideration Phase

Types of Services Being Shared in NS

A Shared Services survey conducted by Service Nova Scotia and Municipal Relations in 2012 found 201 examples of Alternative Service Delivery. Analysis of this data assigned these services into these categories.



Additional Resources

- [Shared Municipal Services Survey Results – Ontario, 2013.](#)
- [Stakeholder Consultation on Regional Service Delivery – New Brunswick, 2010.](#)

Note: participation in this survey was optional, so the results are not necessarily representative.

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Services Conducive to Regional Delivery

The complexity of regional service delivery is dependent on the type of service. The formality and complexity of a shared service agreement will depend on the service being shared.

Easily Shared Services: established success in other jurisdictions. Management less complex. These services have a shorter life-cycle. One of the partnering municipalities may be unable to provide the services (e.g. Landfill). Not sensitive to geographic constraints

E.g.: Recreation Services, Landfill/transfer station agreement, Waste management, Animal Control, By-law enforcement, winter weather maintenance, planning and development

Potential Shared Services: Some best practices, but less frequently shared. Management is more complex. Governance structure may involve multiple MUs. Longer life-cycle; multi-year commitment. Sensitive to geography. Requires a high level of trust between Municipalities

E.g.: Wastewater, Arenas, Recreational Infrastructure, Public transit, Economic Development, Community Economic Development staff, Regional Land use and MPS planning, Strategic planning and ICSP, Revenue sharing services, Corporate Services (HR, Payroll, benefits administration), Communications

Complex Shared Services: Fewer documented cases. Services more complex to offer; potentially require release of autonomy

E.g.: Corporate Services (Tax collection, A/P, budgeting, financial reporting), Regional Fire Services, Supervisory functions (sharing CAO and upper management), Regional utilities, Regional governance

Types of Agreements

Agreements range in complexity and formality within the range below:

Handshake Arrangements	Service Contracts	Joint Arrangements
<ul style="list-style-type: none">• Sharing Information• Shared equipment• Coordination of individual efforts• Joint promotion	<ul style="list-style-type: none">• Mutual aid• Contracting with another government for services• Sharing facilities• Joint Ownership	<ul style="list-style-type: none">• Merged departments• Joint Service Boards• Special districts• Councils of government• Sharing contracting with private provider• Regional Planning

The "Sample Agreements" section contains numerous examples from other jurisdictions.

Additional Resources

- [Guide to Service Delivery Review. Ontario Municipal Affairs and Housing, 2010.](#)
- [Reframing Regional Governance for Research and Practice. Foster, 2012](#)
- [Shared Services as a Long-term Solution for Local Government. Seco Solutions UK, 2005.](#)

Key Elements of a Shared Service Agreement I

Service Definition: agreeing on a clear definition of the service being shared is essential to a successful arrangement. Below are some key elements to consider:

- **Scope:** can broadly defined (e.g. all recreation facilities & programs) which can allow for greater coordination and flexibility, but requires a high level of trust and communication. Can be narrowly defined to a single facility or service (e.g. a single park) which allows benefits to be more easily measured and provides clarity to what exactly is considered shared.
- **Service Level:** expectations of the quality and level of service provided should be explicitly stated in the service agreement to avoid disputes related to costs of maintaining a level of service.
- **Service Area:** agreeing on who will receive and benefit from a shared service informs the cost sharing agreement. In some cases it is difficult to clearly identify users of a service. This issue is revisited in the cost sharing portion of the guide.
- **Lifespan of Service:** agreements should be reviewed at pre-determined intervals. Including a defined lifespan of a service and plans to address back-end costs will remove uncertainty over future costs.

Adapted from ["Guide to Regional Service Arrangements and Service Reviews"](#), Ministry of Municipal Affairs, British Columbia, March 2001.

Key Elements of a Shared Service Agreement II

Along with a complete Service Definition, a Shared Service Agreement should explicitly state the Service Costs and Service Control:

Service Costs: This includes both the Cost Estimation and Cost Sharing Formula, which the accompanying [Cost Sharing Template](#) address. Methods for addressing additional costs and reviewing the cost sharing formula should be explicitly stated in the agreement.

Service Control:

- **Chain of Authority:** This will include defining the limits of what each partner can do without the approval or knowledge of the other partners. Partners should consult each other on issues that require all partner agreement, such as budget, timetable, and replacement of key personnel.
- **Decision Making Procedures:** In multiple municipality partnerships need to be established in advance, noting that the process may be depend on the significance (cost, scope) of the decision.
- **Dispute Resolution Process:** agreements should establish a means of resolving disputes in a timely, non-confrontational manner.

Types of Shared Service Agreements in NS

Analysis of the Shared Services Survey (2012) divided agreements into the following categories:

		MGA				Non-MGA
Non Inter-Municipal Agreements		Inter-Municipal Agreements				Non Inter-Municipal Agreements
Municipal Partnerships		Special Purpose Bodies			Private	Other Legislation (Libraries, EMOs, RDAs, Rural Fire)
Informal	*Formal	Incorporated	Unincorporated			
		Body Corporate /Co-Op	Municipal Only	Municipal + Stakeholders		
5	129	21	12	29	9	53

Additional Resources

- [Shared Municipal Services Survey Results – Ontario Municipal Affairs and Housing, 2013.](#)

Note: participation in this survey was optional, so the results are not necessarily representative.

Why Cost Sharing?

The majority of shared service agreements will have a financial component to them – specifically a transfer of funds to the party providing the service. This can take two forms:

Cost Sharing: two or more municipalities jointly contributing capital and/or operating funds to have common access to some benefit (service).

Revenue Sharing: one municipality sharing access to their assessment base for the purpose of generating revenue for one or more other municipalities.

This guide focuses on cost sharing because it offers better results in terms of cost equity, accountability, efficiency and effectiveness.

Additional Resources

➤ [Cost Sharing Works. AAMDC, 2010.](#)

This report argues that cost sharing is superior to revenue sharing in terms of cost equity, accountability, cost efficiency, and cost effectiveness.

➤ [Inter-municipal Cooperation: Sharing of Expenditures and Revenues. Slack, 1997.](#)

Assessing Needs and Developing a Plan

The [*Handbook on Inter-Municipal Partnership and Co-operation for Municipal Government*](#), published by Service Nova Scotia Municipal Relations as part of the Local Government Resource Handbook is an excellent source of information for all stages of the partnership process.

Topics include

- Definition and Legal Considerations of Partnership
- Benefits of Inter-Municipal Agreements
- Guidelines
- Evaluation
- Conclusion
- Focus Group
- Examples of Inter-Municipal Agreements

Additional Resources:

- [Shared services in Ontario's local public sector. MFOA, 2013.](#)
- [Rural-Urban Cost-Sharing Workbook. AUMA, 2006](#)
- [Forming Successful Partnerships. Association of Washington Cities, 2006.](#)
- [Shared Services Decision Support Toolkit. UK Office of Government Commerce, 2009.](#)

Forming Partnerships

A comprehensive resource for beginning or continuing successful working relationships with other municipalities is [*The Guide to Municipal Cooperation: Succeeding in Regional Partnerships*](#), published by the Municipal Capacity Development Program

It discusses the following concepts in detail:

- beginning a collaborative process
- structuring an intermunicipal working group; and
- maintaining a cooperative relationship
- templates to guide municipalities when writing agreements
- memorandums of understanding

Additional Resources:

- [Shared Services In Local Government. New York State Comptroller, 2009.](#)
- [Removing Barriers to Shared Services. Somerset County Municipal Managers Association, 2006.](#)

Best Practices

The [*Best Practices Guide to Inter-Municipal Agreements*](#), published by Service Nova Scotia and Municipal Relations (2006) is an excellent resource guide.

Topics Include:

- Understanding Municipal Organization Dynamics and Dispute Resolution
- Setting up formal dispute resolution mechanisms
- Mediation
- Accountability and a Self Assessment Tool
- Why municipalities should consider inter-municipal agreements
- Special Purpose Bodies
- User Fees (including common examples)
- Tax Incentives
- Economic Development
- Principles for Successful Partnerships

Additional Resources

- [Guide to Regional Service Arrangements and Service Reviews. BC Municipal Affairs, 2001.](#)
- [Rural-Urban Cost-Sharing Workbook. AUMA, 2004.](#)
- [Working Together. Capital Region Integrated Growth Management Plan Project. AB Municipal Affairs, 2007.](#)
- [Shared Service Arrangements: Determinants of Success. University of Alberta, 2004.](#)

Case Studies and Examples

Listed below are examples of shared services within Nova Scotia, and throughout North America:

- [Regional Governance and Shared Service Review. Town of Mahone Bay \(2012\)](#)
- [Municipal Joint Services Board – Recycling in Towns of Bridgewater and Mahone Bay](#)
- [Regional Cooperation Case Studies – Municipalities Newfoundland and Labrador](#)
- [Sharing Municipal Services in Ontario: Case Studies and Implications for Ontario Municipalities \(2013\)](#)
- [BCTransit Cost Allocation Process. KPMG \(2011\)](#)
- [Regional Recreation Facility Master Plan. Stantec \(2013\)](#)
- [Capital Region \(Alberta\) Regional Transit Cost Sharing Formula Report \(2009\)](#)
- [Maine Regional School Unit 21 – Cost Sharing Proposal \(2013\)](#)
- [Regional Water Works – Sharing Urban Water Services. Canada West \(2003\)](#)
- [Consolidation, Merger or Contract for Fire Services Feasibility Analysis for the City of Anaheim, Fullerton and Orange, CA \(2012\)](#)

Considerations for Cost Estimation

- Done in parallel with planning process
- The provider agency (MU) is ultimately responsible for estimating costs of service, but the estimates and calculations should be open and understandable.
- Direct and indirect costs of service should be explicitly itemized
- Services with complex cost attribution are typically analyzed by an accounting or engineering firm
- Trade-off between accuracy and practicality
 - Overly complex estimates can reduce likelihood of an agreement
- Public agencies should provide services to partner jurisdictions at the best estimated cost of service, without subsidy or profit

Additional Resources

- [BCTransit Cost Allocation Process. KPMG, 2011.](#)
- [Full Cost Accounting for Municipal Solid Waste Management: A Handbook. US Environmental Protection Agency, 2012.](#)

Direct and Indirect Costs

Acknowledging the overhead costs of the provider agency (MU) is important to ensuring an equitable share of costs. There are drawbacks to over-analyzing these costs as they may strain the partnership between municipalities. It may not be necessary to identify these costs for less complex, more self contained services.

Direct Costs can be directly linked to a particular cost center. Resources that are *exclusively dedicated to the shared service* constitute a direct cost.

For example, rec center staff are a direct cost of operating that service.

Indirect Costs, (or overhead) originate from resources that support the service, but not exclusively.

In the accompany Excel worksheet, indirect costs require you to estimate the percent of time these resources are dedicated to the shared service vs. all others.

For example, if an office is used by 5 shared service staff and 5 other staff, 50% of the office costs should be included in the shared service budget.

Spillover Benefits

Spillover (External) Benefits can occur in cases when a service or facility draws people to an area where they may spend money in nearby shops or restaurants. These types of benefits are difficult to quantify because they need to be isolated from other factors influencing commercial activity in the surrounding area.

Improved services and infrastructure – in the form of safer roads, improved water treatment facilities or public parks – are beneficial to the entire community, not only those that use the services directly. Improving municipal services can make an area more attractive to live and business to locate.

A method of estimating the impact of such spillovers would be compare the rates and levels of growth in assessment before and after completion of a shared service. An increase in assessment base coinciding with the availability of a new service may be due to spillover benefits.

User Fees

User fees have desirable economic qualities:

- They ensure those who benefit from a service also pay for it;
- Increase financial accountability if service unsubsidized; and
- Small user fees can discourage waste, but keep services relatively accessible to low income households.

However, many municipal services benefit the public broadly. Charging user fees means *restricting access*, which is not possible with many municipal services (e.g. parks).

User fees are not appropriate when specific beneficiaries cannot be identified, or when the intent of the service is re-distributional.

Principles of Cost Sharing

- Agreeing on a method of sharing costs of a regional service should be established prior to the development of a shared service, including the related infrastructure. This tool is not appropriate to determine the portions units *should* pay. It is intended to facilitate *agreement* between municipal staff on how costs should be shared.
- The goal of this stage is agreeing the **share** of costs that each participating town or municipality should contribute. There is a trade-off between **complexity** and **practicality**.
- Simple methods rely on population or assessment measures, while complex formulas rely on estimates of cost or usage for each region.
- Informally negotiating each party's contribution may increase the trust and future cooperation. In cases where the service is more complex and costly, each MUs contribution can be calculated using a variety of measures (such as population or assessment base)
- The choice of measurement to form the basis of each participating MUs share should be based on principles appropriate for the shared service. For example, principles such as the **benefits received**, **ability to pay** and **cost of delivering service to different areas** could be used. The worksheet will illustrate the exact dollar figure under various scenarios, but the choice of measurement should be principled.

Principles of Cost Sharing

Before choosing a method of dividing costs, participants should agree on the principles that should form the basis for that decision.

1. Transparency – the formula should be easily understood by municipal administrators and residents.
2. Fairness – the formula should accurately capture who has access, who benefits from the service and ability to pay.
3. Stability – the formula should be stable enough to prevent yearly fluctuations, but flexible enough that it accurately reflects changes in demographics. Using a [moving average](#) of any measure is a way of reducing volatility.

Additional Resources

- [Regional Recreation Facility Master Plan. Stantec, 2013.](#)

Sharing Costs on the Basis of Population

The most common method of assigning the portion of costs is on the basis of population. If people in each participating MU have equal *access to* or *benefit from* the service, population is an ideal basis for dividing costs.

Using population as the basis for cost sharing, each participating MU's share of the costs would be proportional to their population:

$$\frac{\textit{Town Pop}}{\textit{Rural + Town Pop}} \times \textit{Net Costs} = \textit{Town Share of Expenses}$$

(Note: these calculations are completed automatically by the template)

Alternative: Dwelling Unit

- Can be a more reliable estimate of usage for some services if they are consumed at the household level (e.g. Garbage Collection)

Additional Resources

- [Example Cost Distributions. Gov't of Saskatchewan Municipal Relations.](#)

Sharing Costs on the Basis of Assessment

- Municipal assessment base is (generally) a reflection of a MUs revenue generating capability. Assessment base can more accurately reflect ability to pay than dividing costs on the basis of population.
- Residential, Commercial or Total Assessment base are available options. Selection should be based on the principle of which group is benefiting from the service.
- Including the commercial tax base in the ratio can capture the external benefits to this service that the commercial sector benefits from.

Cost Sharing Alternatives

- **Surveys, Collecting Usage Data:** these can provide accurate estimates of where users live. Survey format should be agreed upon and stable enough to avoid large shifts in the share. Usage data will depend on the service, but identifying users should be done without restricting access.
- **User fees** are the most accurate way of ensuring that those who benefit are paying, but they are restrictive.
- **Area:** the ratio between the geographic areas (km²) OR an agreed upon catchment area can be used as the basis for the ratio paid by each MU. Should be used if the costs of the service are related to the size of the delivery area
- **Distance:** if services are more expensive to deliver from a central location, then the complexity of equitably sharing costs increases. A detailed economic analysis of costs would be recommended in these cases.
- **Mix of various measures:** the template allows a weighted mix of measures to determine the share of contributions (details included in the template)

Additional Resources:

- [Equitable Economics: Inter-Municipal Financial Partnerships. AAMDC, 2008.](#)
- [Capital Region \(Alberta\) Regional Transit Cost Sharing Formula Report, 2009.](#)
- [Costing Municipal Services Workbook. Massachusetts Department of Revenue, 2005.](#)

Template User Guide

- This tool is not a replacement for budgeting a service. The 'Cost Estimation' workbook has rows for suggested direct and indirect costs.
- This tool is intended to apply broadly to municipal services of all types, so rows that are not applicable can be left blank
- Once the cost estimation workbook is completed, turn to the 'Cost Sharing and Results' workbook to fill in the chosen method of measuring each municipalities share (e.g. Population, Assessment or Other)



[Click here to download the Cost Sharing Template](#)

Sample Agreements

- [Agreement Library – Alberta Urban Municipalities Association](#)
- [Shared Service Agreement Library - New Jersey League of Municipalities](#)