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Public sector and productivity

Governance at the right scale

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'Place matters' has become a mantra among diverse researchers and scholarship on local and interregional dynamics, political institutions and actors and has ballooned in recent years. Public sector *governance* entails the institutions by which public goods and services are delivered and how collective goals are determined and accomplished. Enhancing productivity is a common rationale for devolution, outsourcing and new institutional configurations and a recurring theme in public administration reforms. This paper takes stock of how governance at the *right scale* can improve public sector (and private sector) productivity in different types of places—urban, rural and remote. It draws on theoretical, empirical and policy literature to explore: (1) How scale matters to public sector productivity and governance; (2) How governance at the *right scale* can be enhanced (e.g., getting the incentives right); (3) The barriers to productivitymprovements in all types of regions and (4) Future opportunities and challenges, including those related to the Covid-19 pandemic.

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This paper was prepared as a background document for an OECD-EC high-level expert workshop on "Productivity Policy for Places - Public Sector Productivity" held virtually on April 27-28. It sets a basis for reflection and discussion. The background paper should not be reported as representing the official views of the European Commission, the OECD or one of its member countries. The opinions expressed and arguments employed are those of the author(s).

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The workshop is a part of the five-part workshop series in the context of the OECD-EC project on "Productivity Policy for Places". The five workshops cover the following topics: (1) Innovation-Productivity Paradox; (2) Productivity in the Private Sector; (3) Public Sector Productivity; (4) Inclusive Productivity? and (5) Productivity and Resilience.

The outcome of the workshops supports the work of the OECD Regional Development Policy Committee and its mandate to promote the design and implementation of policies that are adapted to the relevant territorial scales or geographies, and that focus on the main factors that sustain the competitive advantages of regions and cities. The seminars also support the Directorate-General for Regional and Urban Policy (DG REGIO) of the European Commission. The financial contributions and support from DG REGIO are gratefully acknowledged.

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1 Introduction

'Place matters' has become a mantra among diverse researchers and scholarship on local and interregional dynamics, political institutions and actors has ballooned in recent years (Therborn, 2011). Even the concept of *productivity,* which has conventionally been studied from the perspective of the nation, sector or firm, has taken a place-based turn in the regional sciences literature. For example, studies by Carrascal et al. in the UK (2020), Ramajor and Hewings in Western Europe (2018), and Han et. al in Korea (2016). While it is clear that *place matters* when it comes to productivity dynamics, the question is *how*? A synthesis of productivity knowledge by Tsvetkova et al. (2020) reveals that even seemingly *aspatial* productivity drivers (e.g., R&D, technology, demography etc.) have important spatial features. Moreover, among those expressly spatial elements of productivity (infrastructure, agglomeration, geography/borders and governance/public services) many aspects remain underexplored. This paper focuses on the latter—governance and the delivery of public services. Specifically it asks: *can governance at the right scale increase productivity?*

Public sector *governance* entails the institutions by which public goods and services are delivered and how collective goals are determined and accomplished. Democratically elected governments at the national, regional, and local levels set development priorities and meet the needs of firms and residents in their areas of responsibility (or joint responsibility). Effective and efficient public governance and service delivery can help drive regional productivity—from more responsive regulations to public services that better match local citizens' needs, targeted investments, and more effective coordination. Beyond governmental actors, public governance increasingly includes a broad swath of third party implementation providers and networks (Peters & Pierre, 1998). This shift from government to *governance* has led to greater flexibility in service provision and to a host of new institutional forms including public private partnerships, special purpose bodies and third sector service providers. It has entailed the decentralisation of functions, engagement with diverse networks, the management of these relationships and much broader (and dispersed) accountability regimes. It can be challenging to understand the impacts of governing institutions amidst this diversity.

Enhancing productivity is a common rationale for devolution, outsourcing and new institutional configurations and a recurring theme in public administration reforms. Functions such as urban planning, infrastructure development, water management, and transportation planning have clear spatial characteristics wherein their governance ideally spans their functional use and/or management. These considerations have led to municipal amalgamations in an effort to consolidate functions and build economies of scale and to the creation of special purpose, intermediate or regional bodies to manage public investments and deliver specialised services. While there is a growing urban literature on governance at the right scale in certain policy areas, far fewer studies explore these factors in lower density places (towns and rural and remote areas). Moreover, how effective and efficient governance might boost productivity both within the institution and more generally, across the local/regional economy is underexplored. As will be discussed, governance at the *right scale* depends on a number of factors including multi-level government relations, the types of services being provided, local government functions, public finance and even such factors as trust in government and the history of local institutions. The literature on these topics tends to take a broad view of productivity – focusing on efficiency and effectiveness.

This paper takes stock of how governance at the *right scale* can improve public sector (and private sector) productivity in different types of places—urban, rural and remote. It draws on theoretical, empirical and policy literature to explore:

- How scale matters to public sector productivity and governance;
- How governance at the *right scale* can be enhanced (e.g., getting the incentives right);
- The barriers to productivity improvements in all types of regions and;
- Future opportunities and challenges, including those related to the Covid-19 pandemic.

The paper proceeds in three parts: i) key concepts, methods and conceptual framework, ii) governance at the right scale and iii) conclusions and implications for a productive post-COVID recovery.

2 Key concepts, methods and conceptual framework

Public sector productivity – a slippery concept

What is productivity, how is public sector productivity unique, and what distinguishes productivity from other aspects of performance? Productivity is a measure of how much output an economic agent (e.g. firm, industry, region) produces out of a given amount of inputs or put simply "what you get for what you give" (Lau, Lonti, & Schultz, 2017; Rosen, 1993). In general terms, public sector inputs are the labour, equipment and other resources used to produce services while outputs are the services produced and delivered by public sector agencies to clients or residents. Conventionally, public sector outputs have been assessed by means of the (output=input) convention. This convention, however, cannot account for changes in productivity, and increasingly it is being abandoned in favour of other methods (A. Atkinson, 2005). One of the most commonly used measures is labour productivity, calculated on the basis of output produced per hour worked; wages or per capita income are also used as indicators of labour productivity. Multifactor productivity (MFP) (or Total Factor Productivity (TFP) is another widely used measure, typically calculated using regression analysis (Tsvetkova et al., 2020, p. 12). Table 1 gives a general overview. A recent review of productivity measures identifies as many as 38 distinct approaches (Günter & Gopp, 2021).

Table 1. Public sector productivity measurement

Method	Concept	Description
Single factor productivity	Labour Productivity	-Measure of the amount of goods and services produced by one hour of labour (amount of real GDP produced per one hour of labour). -Does not explicitly account for effects of capital or changes in labour composition on output growth (Public Policy Forum, 2015).
	Capital Productivity	Based on gross output or value added
Multifactor Productivity (MFP)[1]	Capital-Labour productivity (can be either based on gross output, or based on value-added)	-More comprehensive indicator than Labour Productivity, incorporating a number of factors contributing to growth (capital, energy, materials, services and labour). -Relates a change in output to several types of inputs. Often measured residually, 'as that change in output that cannot be accounted for by the change in combined inputs' ("OECD Glossary of Statistical Terms - Multi-factor productivity (MFP) Definition," n.d.). -Improvements in MFP often associated with technological and organizational changes (Forum, 2014).

Source: Author's elaboration based on (Forum, 2014; "OECD Glossary of Statistical Terms - Multi-factor productivity (MFP) Definition," n.d.; Public Policy Forum, 2015).

The nature of public sector work—where there are often competing objectives unrelated to productivity broadly conceived—complicates efforts to define and measure it. In general, definitions and measurements of public sector productivity typically look to *efficiency* (ratio of inputs to outputs) and *effectiveness* (the achievement and quality of outcomes) (A. Atkinson, 2005; Forum, 2014; Lau et al., 2017).

- *Efficiency.* Public sector efficiencies concern the inputs required for a given number of outputs produced with those resources. This concept is more easily applied where public sector activities most closely reflect the private sector (e.g. data centers, financial management) and often focus on issues like cost savings and public management reforms such as decentralisation or in the case of education and health, increasing the sale of operations (Forum, 2014). Public sector efficiencies have been a major rationale for institutional reforms in OECD countries, despite the lack of empirical evidence of their impact (Curristine et al., 2007).
- *Effectiveness.* This includes difficult-to-measure objectives such as the quality, equity and accessibility of services and reflects the view that outputs may not be considered equal to inputs (Forum, 2014). Incorporating effectiveness into the measurement of public sector productivity can deliver a more robust view of productivity in sectors where outputs include intangible outcomes. For example, health, education, and defence for which outcomes may include increased wellbeing, human capital and safety. There is a public management literature focussed on how the quality can be improved given existing resources.

Measurement challenges abound. In a public sector context it can be hard to identify the services being provided (outputs), the inputs required to produce them, and changes in efficiency and effectiveness over time (Dunleavy, 2017; Lau et al., 2017). Most public services are not bought and sold, and many government services are collective goods which cannot be consumed individually (e.g. policing, defence, environmental protection). Services often rely on intangibles like tacit knowledge and are process-based (Lau et al., 2017). Measuring inputs is also problematic; in many countries full overhead costs are not measured and budgets are instead produced on a cash basis, there are often inconsistent accounting rules within and between public sectors in different countries, and cost accounting is often poorly developed—making comparisons hard (Lau et al., 2017). Beyond this, it is challenging to link the measurement of an output or outcome to a particular action—determining attribution (Lau et al., 2017). This is particularly the case with institutional reforms for which there are many intervening factors. Even definitions of what constitutes the public sector can be contested. Lau et al. (2017) define public sector productivity based on an understanding of government units—central, state, regional and local government and social security funds—as "unique legal entities established by political processes that have legislative, judicial or executive authority over other institutional units within a given area". However, others take a broad reading to include all actors/institutions that provide public services. In either case, the wide variation of responsibilities and outcomes that can be found within the public sector makes defining public sector productivity challenging (Forum, 2014).

There is no single lens through which to view productivity. In general, higher productivity results from being able to produce more with a given set of resources. Despite the simplicity of this definition, there is neither a unique purpose for, nor a single measure of productivity. Instead, it can be thought of in terms of the 'objectives of productivity management', which can include: tracing technical change, identifying changes in efficiency, identifying real cost savings in production, identifying (and reducing) inefficiencies, and assessing standards of living (A. Atkinson, 2005). Moreover, public services are often shaped by their urgency (e.g. emergency services arrival times), their recognition of rights (e.g., immigration appeals), their concern for equality, and the establishment of appropriate service relationships. In thinking about productivity it is thus important to consider: for what *purpose*? Does increasing public sector productivity deliver better outcomes for people, including more effective public services, good jobs and wellbeing? Does it support human capital development? As noted in the seminal report by Atkinson, productivity

depends on the activity and the *value* attached to the activity. Thus, beyond methodological issues, there are important underpinning normative assertions (Burkett, 2006; Hulten, 2000).

Productivity, governance and the "right scale"

Regional inequalities in productivity growth are concerning. Between 2008-2018, the gap between the most and the least productive regions (TL2) narrowed in around half of OECD countries (OECD, 2020b).[2] This sounds promising, but in eight of those countries, convergence was led by declines in high productivity regions. While rural regions close to cities have been catching up to urban ones (particularly since 2020), rural remote ones are falling behind and natural resources based rural economies have experienced some of the lowest growth since 2008 (OECD, 2020, pg. 58). The trends at a smaller regional level (TL3) give a different picture of convergence; at that scale, within country disparities have generally increased since 2000 as cities have concentrated economic activity and small remote regions fall further behind (OECD, 2020, pg. 56). These divergences were greatest in places where certain regions have very strong growth and/or in metropolitan economies (OECD, 2020, pg. 56). The OECD's programme of research stresses that a better understanding of the spatial dimensions of productivity is needed in order develop more successful subnational and place-based policies and to effectively stimulate regional productivity growth and decrease interregional inequality (Tsvetkova et al., 2020). If certain functions of government can be provided more effectivity and efficiently at a specific *scale*, then presumably productivity gains could be made through governance reforms. This will look different in different places and connects to a range of issues including how geographies are functionally connected, the population served, the impact of the regulatory environment (e.g. on service location, service provision), the characteristics of the service(s) provided, accessibility, availability, accommodation, affordability and acceptability (Krawchenko, 2020, pg. 12).

OECD-wide there has been a general trend towards decentralisation and a growth of intermediary organisations—service providers between the municipal and regional levels.[3] Today, regions and cities account for around 40% of public spending and 57% of public investment in the OECD and play key roles in the delivery and design of transport, energy, broadband, education, health, housing, and water and sanitation programmes and services (OECD, 2019b). Table 2 offers a bulk characterisation of *who delivers what* across levels of government.[4] There are important differences across federal, quasi-federal and unitary countries. Regional and local governments are responsible for the bulk of public service delivery in federal states of Australia, Austria, Belgium, Canada, Germany, Switzerland and the United States.

Table 2. Jurisdictional division of responsibilities

Local/Municipal	Intermediary/sub regional	Regional	National
Range of responsibilities: General clause of competence Additional allocations by law Community services commonly include services supporting quality of life: Primary education, environment, primary healthcare, social protection, recreation, sport, culture, local utility (waste, water, etc.) etc.	Specialised and more limited responsibilities of supra-municipal interest Support to small municipalities and rural communities with smaller administrations May exercise responsibilities delegated by the regions and central government Responsibilities determined by the	Heterogeneous and more or less extensive responsibilities depending on country type: federal, unitary, quasi-federal Services of regional interest commonly include: secondary and higher education, spatial planning, economic development, etc. Regional services may include heath care and education and local	Sets overarching legal frameworks for public service provision in unitary countries. May include control and audit role in the delivery of core public services.

	functional level and the geographic area	government supervision in some countries.	

Source: Adapted from OECD (2019b). Making Decentralisation Work: A Handbook for Policy-Makers. https://doi.org/10.1787/9789264279049-en

Proponents of decentralisation argue that local and regional governments can provide services that are better suited to local needs (OECD, 2017a, 2019b). Oats' (1972) seminal work advocates that decentralisation can lead to more cost effective public service provision as local jurisdictions compete to attract residents and businesses leading to more responsive and flexible governments, fewer layers of bureaucracy and greater opportunities for innovation and experimentation in public services provision. Oats has further argued that subnational governments can more effectively mobilise local resources (in the case of tax decentralisation) and local user charges and fees to meet local service needs. Beyond the presumed allocative efficiency, decentralisation may promote accountability and reduce corruption in government (E. Ostrom, Schroeder, & Wynne, 1993). *These assertions are contested*. Detractors point out that shifting services to the local level can lead to the deterioration of service provision and increased costs due to diseconomies of scale, particularly in the case of small local governments and rural communities. Some services have high fixed costs, such as network services, and the local level can be an inefficient scale at which to provide them. Moreover, decentralisation can lead to the duplication of responsibility and services and higher administrative overheads. Public service providers at the local level may lack human and technical capacities and financial resources, leading to poorer quality services. Differences in the quality of services across jurisdictions may spur territorial inequalities, disproportionately affecting rural areas with smaller administrations. Finally, the notion that individuals will move to jurisdictions in order to access the services that best fit their needs may be overstated. People may not be as mobile as Oat's theory of allocative efficiency presumes; particularly lower income households facing prohibitive moving costs. Regardless of these debates, decentralisation has been a major feature of governance reforms in recent decades. There are a couple of key considerations therein:

- *Decentralisation takes different forms.* The OECD notes that is it a multi-dimensional concept spanning three distinct but interrelated dimensions: political, administrative and fiscal (OECD, 2019b, pg. 17). It can entail: i) *delegation* wherein the central government transfers decision making and administration to regional or local governments; and ii) *devolution* wherein the central government transfers authority for decision making, finance/taxation and administration to regional or local governments. Where decentralisation occurs absent adequate resourcing, the resulting downloading of services to the local or regional level (or third sector) may prove efficient in an input-output sense, but lacks effectiveness, quality and equity. Thus, it is not enough to look at what level of government delivers what types of services but also the contexts in which they operate and the incentives that they face from upper level governments and the authority, capacity and power that they have in performing their duties.
- *Scale is not neutral—it bounds interests.* Shifting governance to a different scale can impact governing priorities and interests. For example, the priorities for land use at a local level may differ considerably than that of a regional scale: at the local level the focus may be on increasing the supply of land for housing particularly if property taxation is a major contributor to own source revenues; in contrast, a regional government may be more focused on resource use, infrastructure and transport networks and development or land protection. Scale impacts policy intentions, purpose and the types of programmes and services offered. Shifting the scale of governance from one level to another *is not policy neutral* and considerations of the 'right scale' need to contend with 'according to whose interests'?
- *Places have different capacities.* Regions, cities and communities in different parts of a country may have different institutional capacities related to their distinct political, economic and social contexts. As such, while a particular form of governance and service provision may have an ideal

scale for delivery, some places may not have the capacity to adequately fulfil this role. A goal of place based polices then is to understand local characteristics, assets, and capacities and to direct policies and supports accordingly.

These features of governance make it challenging to 'unpack' the relationship between the governing institutions, productivity and scale. There are many intervening variables that complicate outcomes. In particular, much of the empirical literature (discussed in section 2.1) is not able to account for soft institutional characteristics such as communities' distinct histories, cultures and ways of working with one another. These historical, cultural and sociological features of governance can be challenging to empirically demonstrate and yet, they may offer compelling explanatory value for why certain governance forms work well in one place and not another. For example, a study by Klok et. al (2018) on inter-municipal co-operation in the Netherlands highlights the importance of inter-municipal trust (as a cultural variable) to effective and efficient cooperation. An implication of this work is that polycentrism (where local governments rely on voluntary coordination and cooperation for regional governance) works more efficiently and effectively in higher trust environments than in low trust environments. Similarly, in their study of fiscal decentralisation, efficiency, and growth, Rodriguez-Pose, Tijmstra and Bwire (2009) explore the claims that political decentralisation brings about significant welfare and economic benefits. Their analysis of subnational expenditures and regional growth in Germany, India, Mexico, Spain, and the USA leads them to conclude that the economic dividends from devolution depend on such factors as the legitimacy of local governments (devolution from below), their political authority and bargaining power (Rodríguez-Pose et al., 2009, pg. 2041). Thus, the institutional 'lessons' of productive and efficient governance may offer limited comparative lessons due to their different cultural contexts. This makes the comparative study of governance challenging and the 'right scale' and institutional configuration may be context-specific.

Conceptual framework and methods

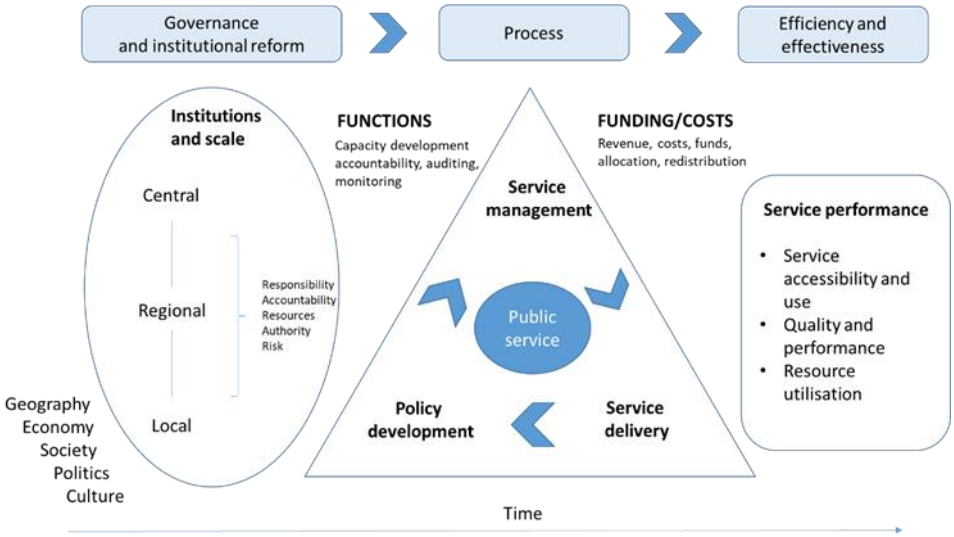
This scoping review synthesises the diverse literature on how governance at the right scale can lead to more productive (efficient and effective) service provision. Scoping reviews are: "a form of knowledge synthesis that addresses an exploratory research question aimed at mapping key concepts, types of evidence, and gaps in research related to a defined area or field by systematically searching, selecting and synthesizing existing knowledge" (Colquhoun et al., 2014). This scoping review has examined both academic (peer-reviewed) literature as well as policy documents from governments published between 2000-2021 and other relevant reports in order to draw out key themes and policy lessons. Articles were found by searching: University of Victoria and University of Hong Kong library search function, Google Scholar, other web searches (mostly in English). Terms included: public sector productivity, amalgamation, cost effectiveness, governance, metropolitan governance, institution and institutional, municipal, practice, policy, political economy, public choice, fiscal federalism, scale, OECD (wildcard modifiers and AND/OR search used). The search resulted in 585 documents. These were sorted into the following categories: Amalgamation (41), Governance (181), Institutionalist (31), Political economy of scale (13), Public-Private (12), Public choice (12), Public services (71), Rural and rural-urban partnerships (6), special and multipurpose bodies (5). These are not discrete areas of literature; there is overlap among them.

Factors for inclusion included relevance judged against discussion of public sector productivity, governance, and spatial, scale, or place-related concepts or evidence. These studies include a wide range of methods and as such, it was not possible to quantify the effectiveness of an intervention (governance reform) on productivity. Some of the literature reviewed is quantitative (e.g., literature on local government efficiency), while other studies are more qualitative (e.g., institutionalist literature on governance reforms). There is a large management literature on organisational performance (e.g., total quality management)

which has not been included in this study because it focusses on internal processes and not governance and scale per se.

Figure 1 presents the conceptual framework which is informed by the work of Regmi et al. (2010). The scale (central to local) of governance is considered alongside its functions and public service provision (including management, delivery and policy development) resulting in an assessment of service performance in terms of efficiency and effectiveness. The structure of the economy, politics, culture and importantly, geography, shape institutional environments. Finally, the timeframe of analysis is an important consideration in understanding impacts of institutional reforms and the governance of service delivery.

Figure 1. Conceptual framework: Governance, scale and productivity



Source: Figure adapted from: Regmi, K., Naidoo, J., Pilkington, P. A., & Greer, A. (2010). Decentralization and district health services in Nepal: Understanding the views of service users and service providers. Journal of Public Health, 32(3), 406–417. https://doi.org/10.1093/pubmed/fdp116

3 Governance at the *right* scale

How might local and regional governments enhance their productivity in the areas for which they bear the greatest responsibilities for policy and service provision? Are there functions that one level of government is providing now that would be better served at a different scale? This section explores these issues in three parts; i) how geography matters; ii) scale, form and functions and; iii) incentives for efficient and effective governance.

How does geography matter? Closing regional productivity gaps in different types of places

Settlement patterns are one of the most important determinants when it comes to delivering efficient and effective governance and services. Higher density areas have greater access to services, thicker labour markets, specialisation, labour pooling and benefits from connectivity etc. In these places, governments are tasked with managing the benefits of agglomeration alongside its costs such as congestion and sprawl (summary Table 3). Territorial fragmentation and the need for coordination across functionally connected areas is a common challenge and there is a large literature that examines the merits and drawbacks of amalgamated vs. polycentric governance in an urban context. *Lower density places face different concerns*. Dispersed populations and longer distances to services reduce access and can increase inequalities, leading to such phenomena as 'medical deserts' (Pierron & Roca, 2017; Sanz-Barbero, Otero García, & Blasco Hernández, 2012).

The cost of public service provision generally increases with the degree of remoteness and sparsity due to transportation costs/distance, loss of economies of scope and scale, and greater difficulty in attracting and retaining professionals (e.g., health care professionals). Rural areas have thinner labour markets and fewer specialists resulting in higher labour costs. They also tend to have lower property tax values (or no property tax in some cases) and, where public services have been reoriented around full or partial cost recovery, they have a smaller population pool to draw on. Given this, urban and rural regions and communities/cities tend to have different forms of government and need different strategies to deliver services. This section considers these two cases – higher density and lower density areas – in turn.

Table 3. Characteristics of higher and lower density areas

Higher density areas	Lower density areas
Higher access to services	Lower access to services
Thicker labour markets	Thinner labour markets
Larger number of specialists	Fewer specialists
Lower infrastructure and transportation costs	Higher infrastructure and transportation costs
Larger population for locally financed services	Smaller population for locally financed services
High property tax values	Lower property tax values
More diversified labour market	Less diversified labour market

Source: Author's elaboration.

The optimal size of governments in agglomeration economies: Is bigger better?

Agglomeration economies demonstrate productivity premiums. OECD-wide, metropolitan areas with at least half a million inhabitants accounted for almost half (45%) of total population and generated around half (52%) of total GDP in 2018 (OECD, 2020, pg. 62). Long-term trends show consistently higher returns compared to other types of regions and consistent population growth (OECD, 2020, pg. 62). Metropolitan growth is however uneven: GDP per capita in the richest metropolitan areas is more than one-third higher than in other metropolitan areas of the same size and 80% higher than in the rest of the country, on average (OECD, 2020, pg. 62). Moreover, GDP per capita is overstated in metropolitan areas because of commuting and missing regional price deflators. There is a large literature on metropolitan productivity and urban form—much of it focussed on how to balance agglomeration benefits (proximity of firms, innovation, specialisation etc.) against the costs such as congestion, high housing costs, increasing inequality, sprawl etc. This literature tends to ask: do we have the right institutional forms to manage the scope and scale of these challenges – and what is the optimal size of government? The literature points to a number of strategies: amalgamation, two-tiered metropolitan government or multi-purpose or single-purpose bodies with some places drawing on a combination of institutional forms. It is important enhance economic growth and productivity in all types of agglomeration economies—not just the powerhouses.

Rationales for upscaling local governments (amalgamation, two tiers) generally rest on three arguments. First, that this yields economies of scale, allowing services to be provided more efficiently. Second, that larger local governments have greater institutional capacity (and specialisation) and are thus more effective. Third, that larger governments lead to more coherent planning and can better manage complex projects and problems. In many countries, amalgamations may simply be a logical outcome of decentralisation and the need to provide a wider range of services (Askim, Klausen, Vabo, & Bjurstrøm, 2016). Reforms in many OECD countries over the past 30 years indicate a preference for larger local jurisdictions.[5] For example, among the 44 member states of the Council of Europe, at least 18 have had amalgamation reforms since 2000, resulting in the reduction of 5 000 municipalities (Gendźwiłł, Kurniewicz, & Swianiewicz, 2020a, pp. 2–3). The promise of cost savings has been the driving force of amalgamation and metropolitan governance reforms, often outweighing other considerations such as democratic representation and locally responsive government (Allers & Geertsema, 2016; Blom-Hansen, Houlberg, Serritzlew, & Treisman, 2016; Cobban, 2019; Steiner, Kaiser, & Eythórsson, 2016).

Do larger local governments produce efficiency gains? Empirical analyses of economies of scale in local government have largely entailed studies on: i) the impact of municipal size on average costs of service delivery and ii) the impact of scale on the average cost of specific municipal services (Tran & Dollery, 2019, p. 634). The results of numerous studies and meta-analyses indicate that there is no one-size-fits-all solution. Estimates on the cost functions for local services have found no consistent evidence on economies of scale (Blom-Hansen et al., 2016; Dollery, Grant, & Kortt, 2013; Faulk, Schaal, & Taylor, 2013; "Reforming the municipal service sector," 2008; Sinnewe, Kortt, & Dollery, 2016; Tran & Dollery, 2019). Analyses on the efficiency of small versus large governments are mixed and the optimal scale varies across different services (i.e., multiple optimal sizes depending on type of service) (lo Storto, 2016). Economies of scale are found to be more evident in services for which constant costs are important such as water and sewage (Gendźwiłł, Kurniewicz, & Swianiewicz, 2020b). Also, while many studies relate governance to the cost of service provision, in the cases of schools, child care centres, libraries and residential homes the primary scale of the service many be the distinct organisations and as such amalgamation has little effect (Blom-Hansen et al., 2016). As noted by Gendźwiłł et al., the outcomes of amalgamation are hard to determine due to specific "institutional contexts, territorial organization prior to the reform, strength of local identities, and political agency of the reforms' proponents and opponents, as important moderating variables" (Gendźwiłł et al., 2020b). Amalgamations can in fact result in *diseconomies* of scale (OECD, 2017b). For example, research by Hayashi (2002) on the unit costs of local

public services in Japan demonstrates a U-shaped curve: costs are high for small municipalities and then decrease around 120 000 inhabitants before increasing again (see OECD, 2017b, pg. 63).

Country level studies illustrate these dynamics. Denmark's 2007 municipal mergers have provided a useful quasi-experiment to understand scale effects: 239 small municipalities were combined to form 66 new local government units while 31 municipalities were not reformed (thus offering a control and test group). A 2014 study by Blom-Hansen et al. on these reforms found administrative cost savings of as much as 10% in municipalities that were merged (Blom-Hansen, Houlberg, & Serritzlew, 2014). However in subsequent work, it was noted that administration only accounts for 10% of municipal spending on average. In examining whether municipal mergers reduce the costs of public services in other areas of spending (the remaining 90 percent), Blom-Hansen et al. (2016) on the effects of amalgamation in Denmark found *no clear and systematic cost savings*. While administrative costs and spending on road maintenance declined, they could not determine if this was attributable to the amalgamation reforms. They further reported that economies of scale in administration and (potentially) infrastructure maintenance were offset by diseconomies of scale in labour market programs. Further, like other studies, there were several areas for which the size of government was found to be not important: e.g., eldercare, schools, daycare, and caring for children with special needs. In a similar study design evaluating the efficiency of 278 mainland municipalities in Portugal prior (2010) and post (2015) bailout agreement reforms which required fiscal consolidation and structural reforms (i.e., reducing the number of local government administrations) Basilio et al. find no significant difference pre and post reforms (Basílio, Pires, Borralho, & dos Reis, 2020). These reforms were focussed on cost control and budgetary issues—i.e., value for money. While it would appear that they were *not* particularly effective in that regard on the whole, the study does indicate that factors such as the education level of the region, the degree of fiscal autonomy and the share of state transfers over current expenses had a positive impact on efficiency (Basílio et al., 2020). Timing is critical in understanding the impacts of these reforms. The employment status of public administration employees (officials) may lead to larger time lags until efficiency gains materialise.

If efficiency gains are mixed, what about the *effectiveness* of larger local governments? Here, the empirical evidence appears stronger. In a comparative analysis of amalgamation reforms in 14 European countries, Steiner et al. (2016) find that amalgamations led to improved service *quality* in all countries of study. Counterintuitively they also report that *local autonomy was observed to be strengthened* in most countries with amalgamations. They explain this by noting that while a municipality loses local autonomy in a merger they may have a strengthened position in a longer term by being part of a bigger, stronger polity (Steiner et al., 2016). Recent OECD work points to the importance of *governance quality* for urban labour productivity. Higher quality governance across functional urban areas is positivity related to labour productivity in decentralised contexts (and negatively related in the case of fragmented governance) (Jong, Tsvetkova, Lembcke, & Ahrend, 2021). Some comparative studies have found significant regional variations. For example, in an analysis of the trade-off between cost efficiency and public service quality in 108 Italian municipalities, lo Storto (2016) finds higher efficiency in the southern and islands region and lower in northern Italy. One explanation provided is that municipalities in these two regions have different administrative strategies (and cultures) when it comes to managing expenditures. In general, the literature on municipal mergers suggests that there is no one-size-fits-all solution. Pre-existing relationships between municipalities are important (Bhatti & Hansen, 2011) as are their own characteristics and identities (Tran & Dollery, 2019). Regional sub-cultures and local political histories influence bureaucratic efficiency and effectiveness (Blom-Hansen et al., 2016, p. 816). The literature on efficiency (e.g., cost, production) tends to equate lower spending with more efficient government, which may in fact detract from localities' longer term investments and economic development. The imperative to promote balanced development across regions and local governments could be an opportunity to focus less on cost cutting measures and more on *how to work more effectively* given that cost cutting measures have had mixed results.

An alternate (or complementary) institutional strategy is to adopt special or multi-purpose bodies. The advantages of such specialization are most clearly articulated by polycentrists who favour metropolitan fragmentation (Bish, 1971; V. Ostrom, Tiebout, & Warren, 1961; Tiebout, 1956). The empirical work on specialized local jurisdictions is largely based mainly on special districts in the US and has tended to focus on coordination as opposed to efficiency or effectiveness per se (Lyons, 2015, pp. 176–177). Such bodies are commonly governed by municipalities, have limited tax authority if at all, relying instead on fees levied by member municipalities, inter- governmental transfers or user fees (see for example cases from Canada dicussed in Lyons, 2015, p. 177).[6] They do not operate as an independent orders of government. Research by Hulst et al. (2009) indicates that while costs saving (efficiency) is a major rationale for the adoption of special-purpose bodies (multi- or single-purpose), once these organisations have operated for some time they can face management and coordination challenges. Moreover, they can become a threat to the municipalities that establish them. In Spain and the Netherlands, this has led to a shift from multi-purpose functions to single-purpose organizations. In multi-purpose organisations, some of the services will inevitably be at the wrong scale and as such, multiple single-purpose bodies may be preferable. Multi-or single-purpose bodies are found in around a quarter of metropolitan areas in the OECD (OECD, 2015). As noted earlier, *scale is not policy neutral*. Special purpose bodies (single or multi) can lack political accountability and lead to complex governance structures—they can make critical decisions about metropolitan investment with little buy-in from the populations they serve, eroding trust in government (Krawchenko, 2011). In a similar vein, scaling metropolitan governance (single or two tier) bundles interests—e.g., suburban interests could dominate policy choices, favouring for example, dispersed settlements and road expansion over compact development and sustainable transport investments. These elements are challenging to quantify but may be no less important to efficient and effective metropolitan governance.

Beyond *formal* institutional configurations (and structural reforms), inter-municipal co-ordination, cooperation and reciprocity are also important. Illustrating the importance of soft measures, research by the ESPON SUPER project on promoting sustainable urbanisation and land use assessed 232 types of interventions in 39 countries. Among the different types of measures, coordination was noted as the most successful instrument followed by a long-term perspective, reusing resources, collaboration, the inclusion of private partners and multidimensionality, which fits the aims of sustainability. Interestingly, the study found mixed outcomes on the effectiveness of centralization versus decentralization of land use planning functions, implying that success of either approach is highly context dependant (ESPON, 2021). Soft coordination measures may lead to more efficient and effective outcomes—however, as they are harder to study their impacts are much less well understood. Around half of all metropolitan areas in the OECD have informal or 'soft' coordination bodies (OECD, 2015). These types of partnerships can help navigate the inherent power asymmetries between large and small communities in a metropolitan area and build trust among actors leading to stronger forms of coordination in the future. However, there is the risk that collaboration will only occur on issues that are mutually beneficial to the actors involved, leaving some of the most important challenges that need to be tackled unresolved. There is little comparative work on these types of institutionally light configurations as they differ so much across countries (see for example the work of Allmendinger and Haughton (2009) on soft spaces). They tend to lack enforcement tools and the types of services that they provide can be challenging to evaluate in some cases such as greater cooperation on strategic spatial planning (less so in others like dedicated transport bodies).

Institutional (structural) reforms can only deliver so much and it would appear that they have too often focussed on the wrong objectives: cost cutting instead of *quality governance*, which is critical for long-term economic development. Complex policy challenges – wicked problems such as adaptation and mitigation to climate change, addressing the need for affordable housing – can only be tackled by highly competent governments and requires intergovernmental co-ordination. While the scale of governance is important, particularly in some policy areas, so too is effective local public management including intergovernmental working relationships. The incentives for things like robust long-term planning and strategic investments are critical and upper level governments play a major role in shaping these. A

further general finding from the literature on metropolitan governance and productivity is that there are distinct cultures and ways of working that are unique to a place—institutions need to fit the place/culture. Top down structural reforms can undermine this.

Scaling governance for rural and remote territories

While there is a large literature on urban productivity and governance there are far fewer studies in a rural context. Rural studies tend to focus on rural businesses (e.g., Webber, Curry, & Plumridge, 2009), access to credit (e.g., Devaney & Weber, 2000), the role of technology, and productivity in certain sectors most notably agricultural productivity (especially in developing countries). Comparative studies on rural *governance* are uncommon. There is an adage among rural scholars that "if you have studied one rural area, then you know one rural area". The literature on rural governance tends to be deeply contextual and place-specific. It often focusses on the role of networks, social connections, social capital, and critically, framework conditions such as accessibility to services, infrastructure, effective transportation links, broadband, education, healthcare and other enabling conditions for development. This makes it challenging to point to key governance strategies that might enhance productivity—the categories are far less neat and rural governance takes a multitude of forms.

There are significant differences in labour productivity across rural areas. A community's economic development opportunities are shaped by such factors as the size and characteristics of its population, its proximity and accessibility to other places, its resource endowments and amenities, and the strength of local institutions. Four main options can be pursued by rural regions to influence these drivers of productivity growth:

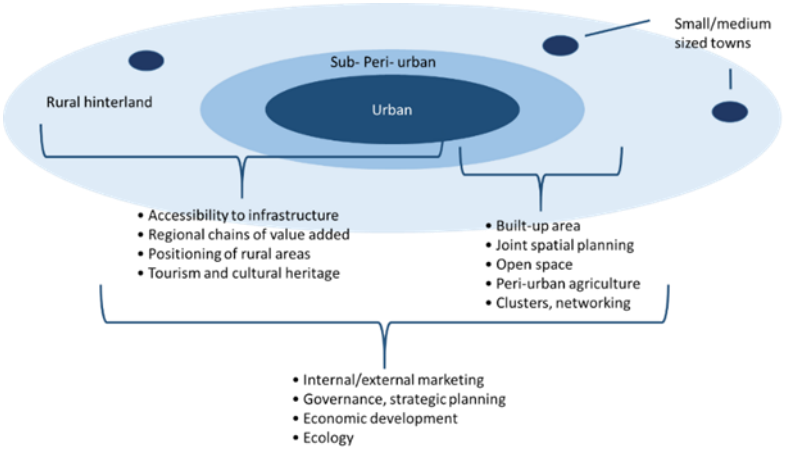
- Specialise in natural resource exploitation and stewardship, which includes mining, forestry, food production, renewable energy, tourism, and ecosystem services (particularly for remote areas);
- Strengthen rural-urban linkages through shared governance and policies, and better infrastructure connections;
- Integration in Global Value Chains (GVCs). Forward and backward linkages (re-bundling) are critical to maximize value-added of natural resource industries and foreign direct investment (FDI) through the creation of a network of local suppliers; and,
- Develop territorially differentiated products and services through mobilisation of local assets, and leveraging consumer preferences for local or tradeable products (OECD, 2020a).

For rural regions and communities, proximity to cities and the size and performance of the tradeable sector are critical (OECD, 2016). Rural communities close to cities tend to have more diversified economies and can access a wide range of services. Rural areas that are far from cities or those that are rural and remote tend to have lower levels of productivity, with the exception of natural resource regions which are strong performers (e.g. Atacama in Chile, Campeche in Mexico, Groningen in the Netherlands, Northwest Territories in Canada, Taranaki in New Zealand, Wyoming in the United States) (OECD, 2020, pg. 58). Given this, the strategies to enhance productivity in rural regions differ. Rural areas close to cities can pursue a strategy of integrating with urban economies—borrowing agglomeration benefits. Rural outside metropolitan areas tend to focus on economic diversification and increasing connections to regional service centres and towns.

The importance of rural-urban linkages is widely acknowledged in the regional development literature and rural-urban partnerships are commonly extolled as an economic development strategy.[7] However, while their principles are widely accepted, many question the extent to which such partnerships can be meaningfully impactful and overcome inherent power asymmetries. Moreover, the

institutional and organisational forms for such partnerships are a matter of debate—can they be managed through existing sectoral strategies or are new institutional forms needed? There are different kinds of rural and urban linkages and as such, partnerships vary. Kawka usefully develops a model of a functional area and the types of linkages that exist between rural and urban places and the interests these spaces hold in common (Figure 2). This model highlights how proximity shapes partner interests, and thus forms of rural-urban governance. Closer to the core there is a focus on land use management and the formation of clusters and networks is important, further from the core there is a focus on things like accessibility or functions like culture and recreation while other matters span both (e.g., ecological management) (Kawka, 2013, pg. 55). Kawka (2013) describes this as the difference between a *project* and a *strategic area*.

Figure 2. Functional model of rural-urban linkages and partnership interests



Source: reproduced and adapted from Kawka, R. (2013). Rural urban partnerships and rural development. In New Paradigm in Action, Ministry of Regional Development, Poland (pg. 55).

The literature on rural-urban partnerships is mostly case-based. There are examples of successes and failures and the literature tends to stress such factors as regional cultures, the role of leadership and policy incentives for urban-rural partnerships. Reported benefits include: reducing gaps in rural urban innovation (Conto', Djelveh, Perri, Faccilongo, & Pazienza, 2015), territorial sustainability and the revalorization of agri-rural landscapes (Buciega, Pitarch, & Esparcia, 2009). Hjalager's (2017) work on rural-urban business partnerships in Denmark (an analysis of 11 cases) demonstrates private sector potential of partnerships in such areas as food production and distribution, retail trade, cultural activities, welfare and health, finance, and tourism. Research by Mayer et al. (2016) on rural-urban linkages and entrepreneurs in Switzerland demonstrates such benefits as increased knowledge of markets and innovation. Public sector support for such partnerships helps expand and strengthen and can enhance entrepreneurship in disadvantaged regions. In developing countries, rural-urban partnerships have been proposed as a solution to the problem of overly large and unmanageable cities (Esptein & Jezeph, 2001).

Rural urban partnerships are often focused on the metropolitan context—the role and importance of small and medium-sized towns has been overlooked. Research from the EPON TOWN project (2014) which comprehensively examined trends and policies for small and medium-sized towns in Europe found that most national and regional governments do not have focussed policies to encourage/enable rural-urban partnerships (R. Atkinson, 2019; ESPON TOWN, 2014; Government of Canada, 2020; Servillo, Atkinson, & Hamdouch, 2017). This may be changing in some places. After a decade-long focus on metropolitan areas, Poland's national development strategy now emphasises the need to enhance the productivity of smaller cities and towns and their rural hinterlands. The Strategy for Responsible Development supports integrated social, economic and spatial development and identifies places such as

medium and small towns losing their economic functions and areas threatened by permanent marginalisation for targeted interventions. Similarly, Denmark's 2016 Policy for Growth and Development aims to rebalance territorial development and focusses on smaller towns and rural areas (Erhvervsministeriet, 2016).

In rural areas far from towns/cities or simply among a set of rural communities for which there are common interests, rural-rural partnerships are important. This can take number of forms from joint marketing of place, business linkages, economic development strategies, joint service delivery etc. Rural partnership development models are a major part of the EC's regional development policy. Value-added agriculture and rural economic diversification are encouraged though such initiatives as Local Action Groups. Similar programmes exist in other countries and there is a large literature that examines the types of projects such partnership tackle, how well they function and, how they deliver on economic objectives. However, much of this literature is again case-based and emphasizes local context. A criticism of these models is that they tend to *work well in places that work well*—e.g., where there is already community capacity and effective leadership—and not in the places where investments may be most needed (Przewłocka, 2011; Furmankiewicz, Janc and Macken-Walsh, 2016).

The utility of such partnership approaches in rural remote regions, where there can be great distances between communities, is less obvious. Rural remote regions where there are natural resources need to manage (or are faced with) the booms and busts of resource dependent economies and attendant shifts in population and demand for housing and services. This presents governance challenges for small administrations and as such, regions and national governments tend to play an important role. In many countries (e.g., Canada, Australia), there are unincorporated areas for which there is no local government and regional bodies provide services instead. The balance of benefits that accrue to communities in these sites of extraction can differ substantially. In many cases, they bear disproportionate risks and disruption from natural resources developments with little short or long-term reward. The literature on rural development in resource-dependent communities emphasizes the need to build economies of scale and expertise in order to negotiate better benefits from industry activities and to ensure that long-term site remediation is managed alongside community investments. Industries need a social license to operate effectively; upper levels of governments have an important role to play in ensuring that community needs are addressed. In places like Australia, Sweden and Canada where there are large Indigenous populations in remote regions with natural resources, benefit sharing agreements and funds have been used to gain community consent and realize community benefits. There are a number of strategies that can be adopted to ensure that these negotiations proceed with free, prior and informed consent and from a position of strength among First Peoples (see Raderschall, Krawchenko, & Leblanc, 2020). Community benefits can include: local procurement; employment targets, community wealth funds and contribution agreements etc. Places that do not have Indigenous populations could learn from these community benefit models. For remote rural regions where there are no natural resources and for which other forms of economic activity are limited, effective public service provision is vital to their wellbeing and in the case of Indigenous populations, their cultural reproduction and self-determination.

Scale, form and public service provision

How can public services be matched to their optimal scale of provision? The literature on municipal cost efficiency indicates that there are multiple optimal sizes depending on the service and as such, that public services should be delivered at different scales. The key conditions here are economies of *scale* (where production costs do not increase in the same proportion), economies of *density* (where there is a strong physical network and costs decrease as population density increases) and economies of *scope* (where there are benefits from joint production). Given this, it makes sense that services such as strategic spatial planning, infrastructure and transport planning and those for which there are constant costs such as water and sewage be scaled across a functional urban area (Gendźwiłł et al., 2020b). Two-tiered

metropolitan governments often follow such logics, balancing locally-responsive services with those for which a broader regional perspective is important. Further, efficiency studies demonstrate that some services do not have returns to scale in their operation such as schools, child care centres, libraries and residential homes (Blom-Hansen et al., 2016). Thus, on balance, a general rule of thumb is that public services should be provided at the geographic scale of the appropriate "benefit area" corresponding to the service. Advantages include a greater familiarisation of policy makers with local preference and needs and related to this, stronger political accountability. Public programs that have significant economies of scale and where equal access for all is important have a larger scale. Meanwhile, programs that involve risk-sharing such as social insurance transfers (i.e., unemployment insurance and public pensions) should be centrally provided so that risks can be pooled across the entire nation rather as opposed to within each jurisdiction.

While the literature on municipal cost efficiencies indicates some optimal scales for service provision, in practice a wide range of other factors impact efficiency and effectiveness. Illustrating this, O'Brian, Pike and Tomany (2019) in a study of London's transport infrastructure describe it as "governing the ungovernable" because the functional economic geographies continually change as do the rules of the game: "financialisation, decentralisation, state restructuring and austerity" (pg. 2). It's a moving target and cities are always playing catch-up. The 'right scale' of government needs also to consider the discreet aspects of service provision including policy, programme design and delivery. For example, in an analysis of education systems across the OECD it is found that, on average, decisions made in four domains (instruction, personnel, planning/structures and resources) substantively involve schools, the central government and local/municipal governance in the majority of decisions and to a lesser extent involve provinces/state/sub regions (OECD, 2012).[8] Where public services have been decentralised, upper level governments (national or regional depending on whether it is a unitary or federal state) generally continue to play a role in defining, monitoring and assessing the quality of public services.

While public service provision in urban contexts exhibits some logical spatial hierarchy, how to effectively scale services in lower density rural environmental is much less obvious. Rural and especially rural remote areas face higher costs for service provision. For example, research on the drivers of service delivery costs in rural areas of the UK finds that sparsity has a positive (and statistically significant) relationship with unit costs in 11 of 51 expenditure groupings (DCLG/DEFRA, 2014). Public services are the lifeblood of rural communities. Poor access to education and healthcare leads to population loss and community decline (Sullivan, McConney, & Perry, 2018). The rationalisation of public services in rural areas has deepened socio-territorial inequalities. The role of government in rural areas has shifted in the past century. The post war period ushered in Keynesian public policies and social and economic stimulus. This era saw an expansion of public services including the adoption of universal regimes for health, education and social services in many countries alongside national infrastructure investments, public ownership and the operation of public utilities and transport services. In many OECD countries, the 1980s saw a retrenchment of government investment and public sector expansion; instead, public services were privatised (e.g., the rail system in the United Kingdom) and were outsourced to external private and third sector providers (Wollmann, 2018). This is a broad characterisation, but captures general shifts in the role of government in many OECD countries. These two contrasting models of public welfare and social solidarity have geographic implications. Halseth et al. note that "while 20th century models of service delivery supported post-war rural and small town places [...] the social, political and economic restructuring that emerged in the waves after the early 1980s disrupted those earlier models" (Halseth, Markey, & Ryser, 2019). Many countries guarantee access to services for all citizens, and yet, the provision of those services is often uneven.[9] Evidence from diverse countries suggests that rural dwellers are not receiving the same access to services as urban populations—e.g., disadvantages in educational outcomes in Australia, Canada, and New Zealand (Sullivan et al., 2018). In particular there has been a trend towards the regionalisation of public services including schools and hospitals (Rechel et al., 2016). In an analysis of Danish rural school closures, Egelund and Laustsen (2006) argue that the

impact of retrenchment may be marginal since many rural communities are in any case "in the final phase of the death process." This leads to the question: what is *the right to be rural*?

Rural communities are often faced with being *policy takers*—beholden to service provision and subventions from upper level governments, limiting their agency and capacity. Geography has a lot to do with access. There are a number of key strategies to increase access to services in rural regions: integrated services, flexible service provision, e-services and moving people to services. Integrated services entails joining up services for the benefit of service users and to improve efficiency in delivery by providers, including costs, quality and access. This can be defined as: "a coherent set of methods and models on the funding, administrative, organisational, service delivery and clinical levels designed to create connectivity, alignment and collaboration within and between sectors" (Kodner & Spreeuwenberg, 2002). Studies on cost effectiveness that compare the two approaches—integrated versus not—are scarce and outcomes are mixed (Cameron, Lart, Bostock, & Coomber, 2014). Service integration includes joint planning, the cooperation or communication among service providers, collaboration among professionals across different sectors, the physical or virtual collocation of complementary services, or a mix of thereof:

- *Colocation* involves providing some or all services or agencies located in one building; this can increase access and reduce administrative and capital costs—e.g., service providers can share one administrator in some cases. In rural areas experiencing population decline, colocation is a particularly important strategy to reduce the costs of fixed capital assets. Examples include France's one-stop shops for citizens, *Maisons de services au public* ("Public service houses"), that provide post office, public transport ticketing, energy utilities, unemployment insurance and welfare services (pensions, family allowances, health insurance, etc.). As another example, in the UK, the Wales' Community Focused Schools Support Service and England's Extended Schools Remodelling Advisers help link schools with other service providers and community groups in order to develop colocation strategies (Dyson, Kerr, & Jones, 2016).
- *Collaboration* entails agencies working together through information sharing and training, and creating a network to improve service user experience. This can help to reduce any gaps in service provision for users. Increased professional knowledge about different services can enhance 'needs-based' recommendations. In rural areas, collaboration may be more easily achieved due to the smaller number of individuals involved in service provision in the first instance. Cooperation is the highest degree of integration wherein professionals communicate and work together, for example on multi-agency teams and can include between levels of government (vertical or horizontal). This can help to lower the costs of delivering services by reducing duplication, and help to better identify and respond to service users' needs. Italy's "Inner Areas" strategy offers a good example to how to work with municipalities to enhance coordination within a multi-level governance framework.
- *Co-production* involves community or non-profit groups (i.e., the third sector) in service provision. Some countries have a long history of this tradition – e.g., Germany and the Netherlands where co-production was an essential part of the construction of the post war welfare state (Brandsen & Pestoff, 2006). This form of social enterprise is being increasingly promoted in many states as a cost effective way of providing service in rural areas. Rural areas may have a competitive advantage over urban ones in pursuing this type of service delivery strategy given their dense social networks. A comparative study on the success of co-production in different European states by Voorberg et al. suggests the effectiveness of such strategies depends to a large extent on state traditions and governance cultures (Voorberg et al., 2017).

These approaches to service provision can help cater services to rural users' needs and circumstances and in the case of co-production, to leverage local assets to maintain standards. As an example, Australia has created a Multipurpose Services model to integrate a range of health and aged care services including acute care, subacute care (i.e. respite and palliative care), emergency, allied

health, oral health, primary health and community services (New South Wales, 2019). The programme provides integrated health and aged care services for small regional and remote communities, extending services to regions that could not viably support stand-alone hospitals or aged care homes (Australian Government, 2019). Estonia is maintaining hospitals with very small catchment areas through a networking approach, with regional hospitals taking on a leading role in governing general hospitals (Rechel et al., 2016). These reforms have been adopted with the objective of enhancing access to specialist care in smaller hospitals and sharing resources (e.g., health professionals, technologies) (Dubas-Jakóbczyk et al., 2020). Integrated forms of service delivery can face hurdles where the right incentives are not met. Sometimes seemingly arbitrary rules like occupational health and safety regulations can prevent the co-location of certain services. The professional boundaries of accredited occupations—for example, the functions/services that a pharmacist can provide—may also pose a barrier to expanding scope of practice (Hays, Sparrow, Taylor, Lindsay, & Glass, 2020).

Flexible service provision is another approach. In lower density places where demand for services varies, flexible models can helps to fill the gaps where fixed assets or standard forms of provision are not possible and can improve accessibility by bringing services to people. This takes a variety of forms. For example, mobile health services such as blood clinics or doctors' visits. It can also refer to on-demand transport options—e.g., replacing public transportation in rural areas with a taxi service is often a more affordable option depending on distances/volumes. Outreach models such as "hub and spoke" arrangements can also fill gaps. This is commonly used in healthcare provision to dispersed and isolated populations. Flexible approaches can also entail the use of digital technologies to provide services. This is a fast moving field. Early models of telemedicine have evolved into video telephony, advanced diagnostic methods and in-home care support and monitoring. Advanced imaging and health informatics have ballooned the application of these approaches. The uptake of these emerging technologies requires professional training and capacity building. It takes resources to integrate these systems into standard service delivery models and to ensure that such investments are made the most of, none the least of which is high quality broadband connections. While flexible and integrated approaches have benefits, rural dwellers may feel that they are not receiving the same level of services as their urban counterparts, or, in the case of co-production, that they are being required to fill the gap themselves. In addition, rural areas may not have access to the high-quality broadband required for e-services. Across the OECD, rural areas lag behind urban and other areas in their access to fixed broadband access with a minimum download speed of 30 megabits per second (Mbps); only 56% of rural households have access to fast fixed broadband in comparison to over 85% in urban and other areas (OECD, 2019a).

What about managing settlements so that is it easier to provide services to them in the first place? Analysis of public expenditures on social services in Finland and Sweden indicates that the nature of topography and settlement patterns are an important factor in cost. Service delivery costs in Finland are higher than that of Sweden due to the more dispersed settlement network in its northern territories and mountainous terrain. While Sweden also has large northern territories, rural settlements tend to be denser in configuration, thus reducing some of the costs associated with service provision and facilitating service colocation. Japan's National Spatial Strategy has adopted a vision based on 'compact' and 'networked' cities and villages to facilitate public service provision. At smaller scales, the policy aims to restructure urban and rural settlements to maintain their cohesion and the efficiency of service delivery. Improved connectivity—transport and communications—among towns and cities, is meant to offset the loss of agglomeration potential that will occur as a result of a shrinking population. In smaller towns and rural areas, basic service-delivery hubs are envisioned to support small, multi-functional cores (the so-called "small stations").[10] These and similar initiatives are intended to promote a degree of de-urbanisation, in an effort to deconcentrate the economy and the settlement pattern and aim to revive rural areas and non-metropolitan regions. Rural areas are often unplanned. What these policies point to is the importance of settlement forms to service provision and economic development and the fact that it is possible to be *more intentional* about how rural space is managed.

Another (extreme) approach is to facilitate community relocation. For example, the provincial government of Newfoundland and Labrador in Canada has adopted a community relocation policy whereby communities can vote to resettle elsewhere. If a minimum of 90% of community members vote in favour of relocation, up to $270,000 is provided in compensation for residents to do so. Under new criteria, these resettlement payments will only be made if they will cost the province less than the cost of delivering services over the applicable 10, 15 or 20-year period. While this may be efficient, is it *fair*? And what might this mean for the longer term productivity of the region?

Getting the incentives (and supports) right

Institutions are often said to be 'sticky,' particularly institutions of subnational governance that are commonly *policy takers*—subject to the legislative and regulatory frameworks of upper level governments (Pollack, 1996). The incentives (laws, policy frameworks, public finance, fiscal incentives) of upper level governments shape how local and regional governments deliver programs and services and work together, including the scale of governance and the flexibility to adjust to changing conditions. How might upper level governments set incentives and policy frameworks to support governance at the right scale alongside efficient and effective governance for all types of places? How might the right incentives help enhance productivity in lagging regions? It is clear that good governance is a critical element – but how is good governance fostered at the regional and local levels by upper level governments? And how does one balance the aims of efficiency and effectiveness which can be contradictory? These questions are extremely context-specific, not just among countries/regions/cities but also across different kinds of geographies—urban/rural/remote.

Incentives relate to a variety of functions including public finance and coordination among local/regional actors. Among the many types of incentives that governments set, fiscal incentives are of particular importance. The large literature on unfunded mandates in fiscal decentralisation tells that local and regional governments are concerned with the balance of their responsibilities and their capacities to pay for them (OECD, 2019b). A study by Blöchliger, Bartolini, and Stossberg on fiscal decentralisation in OECD countries found that assigning more own source revenue to sub-national governments dampens regional GDP disparities and underpins regional convergence (Blöchliger, Bartolini, & Stossberg, 2016). However, there are distinct effects depending the type of region. Catching-up regions fare better than lagging regions in such contexts. Given this, they recommend that intergovernmental fiscal frameworks pair increases in sub-national own-source revenue with fiscal equalisation transfers to reduce disparities. This approach effectively balances the need for incentives and supports. Most countries tend to have a system of equalization transfers, though the question remains whether the balance is adequate. For example, intergovernmental fiscal equalisation formulas may not take into account factors like an aging population, which can increase the cost of health services in certain regions (e.g. Canada). Moreover, as we have seen during the present COVID-19 pandemic, the structure of municipal finance can be counter cyclical. Municipalities that are highly reliant on property and business taxes have been in a quandary as the revenue from business taxation has declined and rate increases on property taxation may cause stress on homeowners facing challenging economic conditions. Facing such economic constraints "reducing the amount and quality of important services such as public transport, education, and welfare may further depress the territory, making it less attractive and competitive" (lo Storto, 2016, p. 60). Reliance on own sources of revenue can also breed poor decision-making. For example, a disproportionate reliance on property taxes can encourage municipalities to promote expansion of residential homes into new greenfield areas despite the longer term fiscal and environmental costs of this choice. Greater tax autonomy for subnational government brings benefits and drawbacks (for discussion see OECD, 2017a).

Upper level governments also set strong incentives for coordination (or lack of it) across a wide range of issues important for effective and efficient regional and local government. Take for example weak or uncoordinated spatial planning frameworks that lead to contradictory and poor outcomes.

For example, Poland has experienced rapid peri-urbanisation and loss of high quality agricultural land (Ustaoglu and Williams, 2017). This is in large measure due to gaps in its planning system. A 2013 study by Kowalewski et al. on the economic and social costs of uncontrolled developments finds that the current regulatory, plan-based system is incapable of managing spatial processes resulting in 'spatial chaos and a waste of space and capital' (Kowalewski, A. Mordasewicz, Osiatyński, Regulski, Stępień, & Śleszyński, 2013). In effect, the incentives within the present system are wrong—these are the purview of the national government. Incentives are equally important for inter-municipal co-operation, which can help deliver more effective and efficient infrastructure and services. Activities like joint procurement and shared infrastructure planning often need to be enabled by national or, in federal countries, regional laws. Even where they have been enabled, they may not be used due to unfamiliarity with how they work or due to perceived risk.

Resolving inter-municipal co-ordination problems is challenging and involves finding ways to provide positive incentives for municipalities to collaborate on a voluntary basis. National and regional governments should actively promote and support inter-municipal co-ordination and demonstrate its benefits, particularly for new initiatives such as shared services centres. One way to encourage this is through contracts, which generally take three main forms:

- *Empowerment contracts* that can help subnational authorities to develop new capacities and gain greater autonomy (e.g., France's State-Regions Contracts; Italy's Pacts for the South (2016);
- *Delegation contracts* where central governments delegate the implementation of specific tasks to subnational governments (e.g., the UK's "Devolution Deals");
- *Policy-sharing contracts* where the central and subnational government cooperate to fulfil certain competences (e.g., Spain's "Collaboration contracts"; the Climate Adaptation City Deal in the Netherlands, 2016) (summarised from Charbit & Romano, 2017).

For example, the EU's integrated territorial investments (ITI) are empowerment contracts to promote inter-municipal co-ordination. They incentivise joint projects across functionally-connected municipalities. Regional authorities can facilitate the use of ITI funds (and inter-municipal partnerships more generally) by providing a template for partnership contracts in order to ensure a clear division of tasks and responsibilities and thus reduce the risks involved for the project leader. While ITI funds target regional capitals and sub-regional centres, this structure might also be impactful in rural communities and smaller market towns.

Sometimes incentives are not enough. Policy incentives may presume that local agents/actors are able to respond the challenges that are facing them. This is the idea behind endogenous development. However, places that are losing their economic functions, that are facing social or environmental distress or that are rural and remote and have far fewer resources to draw on need supports (and not just incentives) to flourish. They cannot simply 'pull their bootstraps up'. There is a large literature on policies for places losing their economic functions and the role of government. In present policy debates, there is a growing interest in how to support places facing industrial transition due to the shift towards a post carbon economy. The concept of a just transition emerged in the labour movement in the United States in the 1970s (Stevis & Felli, 2014). Since the Paris Agreement was signed in 2015, there has been more interest in the idea of a just transition and measures to accompany climate action to support workers and communities. This is evident in the sharp increase in the topic as a central theme in academic and think tank work, much of which has grappled with the dual responsibilities of reducing GHG emissions and addressing social justice issues in impacted regions (Pai, Harrison, & Zerriffi, 2020). In January 2020, the European Commission unveiled a *Just Transition Mechanism* that aims to mobilise EUR 150 billion (100 billion direct EC contribution, remaining matching funds) through three main mechanisms: the *Just Transition Fund* (matched funds through European Regional Development Fund and the European Social Fund Plus; an *InvestEU scheme*; and a *new loan facility* leveraged by the European Investment Bank (European Commission, 2020). The funds will certainly shape regional development imperatives in the present funding period. EU countries will produce *Territorial Just Transition Plans* to 2030 that will describe the nature of the social, economic and environmental challenges stemming from fossil fuel-related phase-outs

and/or GHG decarbonising initiatives alongside plans for development, reskilling and environmental rehabilitation (EC, 2020).

This is a quickly changing area of government planning in Europe. Overarching national strategies may bring coherence to what are at present a patchwork of initiatives. Almost all countries are investing in innovation and green energy, but these are not necessarily linked to economic development plans and regional development initiatives or elements of justice (Krawchenko & Gordon, 2021). Some countries have an energy transition fund (e.g., Belgium), but this is not linked to broader multi-level governance mechanisms. Knowledge economy, digitalisation and Industry 4.0 initiatives often include a just transition lens in their policy documentation, but they are generally focused on manufacturing industries (and often SMEs) (Krawchenko & Gordon, 2021). Under the European Commission's just transition mechanism, spatial plans will need to be submitted to the European Commission for approval for just transition mechanism funding. For example, Greece, which has vast lignite-dependant regions, will need to present analytical spatial plans detailing spatial transitions in accordance with the National Energy and Climate Plan (Energy Press, 2020). These plans will then be incorporated into the EU's National Strategic Reference Framework. These initiatives represent a huge new area for integrated planning spanning climate and sustainability planning, workforce development economic development, regional and rural development, and innovation and research all of which will require effective governance mechanisms to manage, coordinate, plan and dedicate specific resources towards transition. If well structured, they could have a strong positive impact on productivity in declining regions and will certainly require some creativity in their implementation. However, there is a risk that these funds will go to those places that are best able to mobilise projects and not necessarily those places that are in greatest need. Furthermore, just transitions policies have tended to be reactive as opposed to proactive to industrial shifts. Governments have a role to play in mobilising regional actors to address future and ongoing transitions. See for example New Zealand's Just Transitions Unit—a centre of governmental expertise on how to manage just transitions and broker partnerships in affected regions. Finally, with the broader mobilisation of the just transitions concept, its focus on *equity* and *justice* risks dilution. Accountability mechanisms are needed for determinations of justice in *distributional* (how different groups benefit or experience impacts of changes), *recognitional* (identify rights holders), and *procedural* (who is included and how) terms (McCauley & Heffron, 2018; Newell & Mulvaney, 2013).

As a final point, good incentives and supports come from having good information. Data on conditions in urban areas tend to be more readably available, but in rural areas there can be data gaps. Governments commonly produce detailed territorial analysis but what matters is that they are in a form that is useable for decision makers when they are for instance allocating project funds. Some countries have developed rural composite indicators to aid with decision-making (e.g., Canada, New Zealand, Poland, Romania, Slovakia, Spain) and internally, use these metrics to identify, for example, communities that may be in distress and that have not been able to apply for projects due to a lack of capacity etc. Table 4 offers an overview of the opportunities, barriers, incentives and supports for increasing productivity in various types of regions.

Table 4. Productivity dynamics: Opportunities, barriers, incentives, supports

Type of region	Opportunities	Barriers	Examples of incentives/supports
Urban	Increased jurisdictional coordination Strategic investments in productivity drivers—transportation, infrastructure Integrated spatial planning Strengthen public, private third sector partnerships and coordination	Jurisdiction fragmentation Lack of resources Lack of authority over important policy areas Lack of flexibility to shift programmes and services to respond to ongoing needs	Authority for strategic spatial planning and integrated investments (e.g., transportation, infrastructure) Fiscal capacity Use of contracts

Rural within a functional urban area	Enhanced transport and infrastructure linkages, access to services Access to urban markets Enhanced information for better planning/investments	Poor transport and infrastructure connections Poor access to urban markets Lack of coordination and poor spatial management Governance capacity	Incentives for joint investments and coordination (rural-rural, rural-urban) Support for community capacity building and economic diversification Use of contracts
Rural remote	Integration in Global Value Chains (GVCs). Territorially differentiated products and services Specialisation in natural resource exploitation and stewardship, which includes mining, forestry, food production, renewable energy, tourism, and ecosystem services	Poor connectivity and access to markets (transportation and infrastructure including digital infrastructure). Poor access to services and lower quality services. Small administrations, lower capacity, lack of resources	Support for framework conditions of growth (e.g., broadband) Fair revenue sharing arrangements from natural resources activities Support for community capacity building Public service provision

Source: Author's elaboration.

4 Conclusions and implications for a productive post-COVID recovery

Can governance at the *right scale* increase productivity—the diverse literature on this topic gives varying answers. On the one hand, from the literature on local government efficiency it is evident that scale does indeed matter and there are multiple efficient scales for different public services. On the other hand, there is no recipe book. Governance is complex and contextual. Social, economic, cultural, and environmental factors intervene to complicate the narrative and institutions are more than the sum of rules. Thus, while it may be more efficient to provide services in a particular way, it may not ultimately be effective. The large literature on the cost effectiveness of amalgamations services are a case in point. There are however better and worse ways to incentivise effective and efficient government and to promote partnerships, collaborations and new and innovative forms of service provision. The pandemic has taught us a few lessons in the regard. It has brought incredible stress to our polities, economies and altered daily life in a myriad of ways. Regional and local governments have been hands-on in managing the crisis, constantly shifting their approaches in the face of new information. While some vital services stopped for a time (school closures) others have quickly expanded, for example services for unhoused populations when shelters closed. If there is anything that this experience has taught us, it is that people, businesses and governments can adapt when needed. This adaptability bodes well for the post-COVID recovery. It should be embraced.

There is a great deal of speculation on how the pandemic will impact both urban form and settlement patterns and if these will result in long-term changes. In an effort to promote social distancing and keep businesses open, urban space has been reallocated to pedestrians and outdoor seating. Outdoor spaces have become much more dynamic and important to daily life and as people avoid public transportation there has been a boon in cycling network upgrades to facilitate work commutes. It has also shifted the retail landscape—the switch to e-commerce has accelerated a decline in retail stores that some cities have been planning for some time. Post pandemic, there may be a shift back to retail; however, the extent of this is uncertain as individuals will have already reoriented their shopping habits. Urban dwellers seeking more space and better value for money have moved to smaller cities, towns and rural areas (though the extent of this is unclear). This has led some to question present models of urbanisation, wondering if these places can deliver better quality of life (Cotella & Brovarone, 2020). There has been a reverse migration with migrant workers returning home (Jaquet, Shrestha, Kohler, & Schwilch, 2016). As global supply chains have been disrupted, local and regional ones have grown in importance. The pandemic has also amplified inequalities. In urban areas, the services sector has been hardest hit and direct transfers to individuals in many countries have helped to ease the financial strain of job loss while underpinning how unaffordable housing has become in far too many places. With the closure of offices, governments have hastened to provide e-services, with some unprepared for the digital switch. Quality broadband connections are critical to access services—rural areas lag behind (OECD, 2019a).

Public governance has a tall task to facilitate the recovery in the coming years in all types of regions. Local governments are facing historically unprecedented shortfalls and delaying planned investments. National governments have implemented a number of measures to shore up budgets but the demands on them are great. While some countries have used this moment to embrace a decarbonisation

agenda, in others, carbon intensive industries are being championed as key to recovery efforts (e.g., Australia's "gas-led recovery" (Prime Minister of Australia, 2020). How can regional and local governments support the recovery amidst tight budgets and how will the driving logics of upper level governments impact their agendas?

- *Incentivising governance and partnerships.* A major theme in the institutionalist literature is the rigidity of governance—that as new challenges emerge, our governing institutions strain to adapt, including in terms of how they encompass scale. How can more flexible forms of governance be encouraged while managing accountability/risks? Upper level governments set the rules of the game and can structure incentives for collaboration, including through contracts. Pandemic recovery efforts should include attention to how these incentives can support robust outcomes.
- *New models of service provision.* While post pandemic economic constraints may urge government to do more with less, societies are also facing ethical imperatives to correct wrongs. In many countries (e.g., Canada, United Kingdom), abhorrent conditions in long-term care facilities have led to calls for new models of care. These types of services may not be thought of as productivity drivers, but they can be important sources of employment and there is a social imperative to address them. There is a policy window for comprehensive reforms (Béland & Marier, 2020).
- *Flexible land use planning.* Creative approaches to how public land is managed have been a major feature of pandemic responses. Social distancing in some form may be here for some time, requiring a rethink of public space and transport networks. But beyond this, land management and regulation can help facilitate economic recovery. The Netherlands offers an interesting example. After the 2008 economic crisis, burdensome environmental and land regulations were seen to hamper new investments. In an effort to simplify this system, the government of the Netherlands has taken all acts related to land and the environment and combined them into one: the Environmental and Planning law has been adopted and will come into force in 2021 (Rijksoverheid, 2021). It adopts a highly innovative and flexible approach to land management.
- *Promoting business and investment in all places.* With so many businesses having closed, the imperative is to revive economic activity, particularly in the services sector. This will take some creativity. Every reasonable effort should be made to promote new business start-ups including fast tracking licences and inspections. Further, in countries for which access to capital is a challenge in some regions, new vehicles to reach SMEs will be needed. Collier and Mayer (2020) in a recent article on reforming the UK financial system to promote regional development in post-COVID Britain offer pathways to help failing companies and depressed regions. Access to finance for SME investment in underperforming regions could help offset job losses and support the longer-term process of regional rebalancing of productivity. They advocate for the creation of national development/investment bank that would allocate capital to locally-based private venture capital teams (commercial with state public purposes). As another example, Canada supports access to finance in smaller Indigenous communities through its network of Aboriginal Financial Institutions—this is a unique model, especially for rural areas, that other countries may consider regardless of whether they have Indigenous populations (NACCA, 2021).
- *Building back better*. COVID 19 has ushered in calls to *build back better* – an agenda to get people back to work and to build sustainable and resilient communities and economies. This agenda is aligned with the just transitions movement and focuses on reducing territorial inequalities. It offers a policy window for regional development and the potential to really do something different. We can look back at how economic stimulus measures were focussed during the last recession for lessons. In Canada for example, a focus on 'shovel ready projects' meant that a lot of roads were built (Stoney & Krawchenko, 2012). We really can do better. The European Commissions' just transition mechanism offers a way forward to make concerted investments that can help

decarbonise our economies. It is critical that elements of justice (distributional, procedural and restorative) are not lost in these initiatives and that those places that are in the greatest need are fully engaged to make the most of just transitions funds.

- *Expand quality broadband infrastructure.* The pandemic has increased calls to bridge the digital divide and expand high-speed broadband connectivity to rural and remote areas that remain underserved. All OECD countries have broadband access targets, yet in some countries like Canada and Australia, gaps are large and last-mile connectivity is a challenge. High quality broadband can help integrate rural economies, connect rural dwellers with a wider range of services and facilitate individuals to move and work remotely from rural areas. This needs to be a priority investment.

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Notes

[1] Also referred to as Total Factor Productivity.

[2] This is measured as the ratio of labour productivity in the top 20% and the bottom 20% regions in the country (OECD, 2020b). Please note that these figures refer to the subnational government sector i.e. state, regional and local governments and their related entities (e.g. inter-municipal cooperation structures, districts, etc.).

[3] For example, the United States has over 37 000 special districts of various types: special service districts, special district governments, limited purpose entities, or special-purpose districts.

[4] Expenditures also give a picture of scale, form and function. For example, in 2018, central government expenditures in EU 28 countries comprised around 60% of all expenditures while state (regional) and local governments were responsible for around 15% and 25% of total expenditures across all functions. The largest central government expenditures were general public services, social protection, and public order and safety (at 71%, 65% and 61% respectively within each function category) while the largest local governments expenditures were on environmental protection, housing and community amenities and recreation, culture and religion (at 70%, 61% and 52% respectively out of each function category). Interestingly, from this analysis, regional governments did not dominate any category of expenditure by function but were most active in the area of education, accounting for 26% of all expenditures in that category among levels of government.

[5] Note that in many developing countries, it is often the reverse: decentralisation comes with the creation of municipalities.

[6] An exception is France, which has an important network of inter-municipal structures with own-source taxes (public establishments for inter-communal co-operation or “EPCI”).

[7] It has been supported for example by the concept of territorial cohesion introduced in the 2007 Treaty of Lisbon.

[8] Sample of 26 OECD countries; data from 2011.

[9] Italy, Spain, Portugal, Greece, Belgium and Turkey also all have the concept of public services within their constitutional laws, as do most Latin American countries (Wollmann, H.; Koprić, I.; Marcou, 2016). In contrast, in the United Kingdom, Sweden and Denmark there is no formal legal recognition of public service functions generally. An analysis of state constitutions on the basis of two of the largest public service expenditures – healthcare and education—shows that there is difference among states in terms of how these services are viewed as rights and where universal access is Constitutionally-enshrined or not. Among OECD countries, the majority (58% out of total) describe health as a guaranteed right of citizens, however less than a third of all OECD states recognise universal health access within their Constitutions. This is not to say that these states do not provide universal health access – universal health coverage has been achieved in nearly all OECD countries, with a range of benefits covered (Auraaen, Fujisawa, Lagasnerie, & Paris, 2016). [9] The provision of education has even greater constitutional recognition among OECD countries: 80% of all OECD countries recognise education as a right within their constitutions and 58% guarantee universal access to education. Constitutions across the OECD describe the role of the state in the provision of healthcare and education in very different ways. For example, some, (e.g., Chile and Germany) establish rights to access private systems for health or education while others detail the scope of the medical and health professions and the responsibilities across levels of government (national, regional local) or describe the system of management and control of health functions (e.g., quality assurance in the case of Mexico and Portugal).

[10] These “small stations” will concentrate basic service delivery, including administrative services, health care, shopping and so on, in specific places with transport networks organised so as to make them as accessible as possible to the rural population of the surrounding areas. These, too, are to vary with scale: some will be quite basic and limited to essential functions, while others, where population and resource permit, may come to act as local centres of innovation, playing a role in supporting efforts to bridge primary, secondary and tertiary activities in rural areas and in promoting renewable energy generation.