2 Setting the scene

The global COVID-19 pandemic has intensified already existing challenges of delivering public services across and within OECD countries. This chapter sheds light on megatrends shaping the present and future provision of public services in OECD regions, including demographic changes leading to depopulation, digital transition, structural change and, more recently, the COVID-19 pandemic. It provides a working definition of public services and looks at governments' responsibilities when delivering quality and accessible services. The chapter also outlines public management reforms involving the level of responsibility by levels of government in the delivery of services, highlighting recent trends in spending in public services. Finally, the chapter summarises recent innovative service provision model alternatives offering increased flexibility based on co-location, cooperation and co-production.

Introduction

Delivering health, education and other services of general interest to inhabitants of rural and urban areas is a mandate for governments around the world. Many OECD countries have an explicit constitutional commitment to maintain equitable living standards across their territories, thus making this issue a priority. However, meeting this mandate is becoming more challenging for many countries in recent years because of tight fiscal budgets in the aftermath of the 2008 financial crisis, demographic pressures of ageing societies and rising public spending on both social services and healthcare.

The costs of providing services in places with smaller and more dispersed populations are higher due to lower economies of scale and scope, higher transportation costs and potential financial incentives for service professionals. Service provision across territories involves an unavoidable trade-off between facility size and proximity to users. A low number of users and long distances between them means that, in order to stay accessible, service facilities in rural areas tend to be small and scattered. Concentrating service provision in larger facilities in more densely populated places results in longer travel distances for users in sparsely populated areas. This trade-off implies that the benefits in terms of scale and scope should be weighed against the loss in accessibility for users in less accessible areas. The access costs to rural services are usually borne by both users who have to travel further in order to access services and by service professionals such as teachers and doctors who have further to travel to meet the population they serve (Wiggins and Proctor, 2001[1]).

Previous OECD studies put forward the idea that rural service provision is best planned when seen from the perspective of functional service areas with networked villages, towns and more dispersed areas. Early OECD research on service delivery examined the question of how to ensure access to services in a cost-effective manner while maintaining quality in rural areas and profiled key trends affecting service delivery in rural areas, describing various service models (OECD, 2010[2]). Previous OECD rural studies on Japan, Poland, Sweden and Northern Sparsely Populated Areas provided insights into the associated challenges and importance of foresight, spatial planning and innovation to address these issues (OECD, 2017[3]; 2017[4]; 2016[5]; 2018[6]). These studies revealed the importance of the relative distribution of rural settlements (e.g. how dispersed they are) on the costs of service provision and therefore stressed the need for forward-looking planning in view of fast demographic change.

Since then, technological advances have continued to produce new ways of providing quality services and substituting physical forms of delivery with virtual ones. Many governments increasingly pursue integrated and flexible approaches to the provision of services in rural areas as a way of maintaining quality and access. Integration involves the co-ordination of public services across a range of sectors – from health to education and eldercare/continuing support services. Flexible service provision models include mobile health services such as blood clinics or doctors' visits, and replacing public transportation in rural areas with sharing mobility services based on mobile applications (Velaga et al., 2012[7]).

While these strategies can help maintain and even improve service delivery in rural areas, they require infrastructure and human capital investments and the right cultural and institutional environment. Digital services require the availability of reliable and good quality Internet access which currently varies and lags in rural and remote areas in most OECD countries. While potential future cost savings of digital service provision add to the return on investment of expanding broadband networks, an increase in the uptake of digital services also requires investments in the varying needs of users and service professionals across territories. Decisions on changing service provision models not only involve service location but settlement patterns, availability and skills of the local labour force, organisational and cultural change, demographic change and transportation and infrastructure planning.

Rural areas need to ensure the provision of public services while facing multiple and complex megatrends, including demographic change, digital transition, structural change and, more recently, the COVID-19 pandemic (OECD, 2020[8]; 2020[9]). There are examples of success and innovation where communities

have been resilient, adopting new and emerging models such as co-production. In other cases, pressure to rationalise and regionalise services has cemented community decline. Public services are the lifeblood of communities – attracting others and mediating the booms and busts inherent to places with more resource-dependent economies.

Key considerations include thinking about the mix of sectoral policies that impact public services in communities in "place", the infrastructure they need to thrive (including digital infrastructure), the capacities of communities to self-organise and take a long-term view of a community's development. Currently, the strenuous pressure of the COVID-19 pandemic has forced governments to continue the provision of healthcare and education under extreme uncertainty. The responsibility of subnational governments – regions and municipalities – for critical aspects of containment measures as well as for the provision of many public services has come to the forefront. The pandemic crisis has emphasised the need for well-implemented multi-level governance, which gives considerable degrees of decision-making freedom to subnational governments. It has also highlighted the importance of local measures and decisions based on local expertise and conditions and, at the same time, the need for co-ordination across all actors involved.

This thematic report aims to:

1. Inform national and subnational governments, and non-governmental organisations about approaches to the delivery of public services in rural areas, particularly those that are remote and facing population ageing and outmigration. The report outlines strategies to enhance education and healthcare delivery in rural communities and regions.
2. Identify good practices in terms of rural public service provision, including highlighting innovations in education and health care delivery (new approaches, partnerships and digital technologies) and conditions for success.
3. Help countries in their tasks to deliver healthcare and education services by better understanding the present and future cost drivers and establishing long-term strategies that can be sustainable given population trends and innovative solutions.

After this introduction, the second section that follows outlines the megatrends shaping the present and future provision of public services in rural areas. The third section presents a working definition of public services and discusses the evolution of the state's responsibilities in the delivery of services. The fourth introduces the relevant governance debates in relation to the provision of public services. The fifth discusses current trends in service provision models. The last section concludes.

Megatrends that shape the future of service provision

Rural places in OECD countries face a number of megatrends that will shape the availability and quality of public services (OECD, 2020[8]). These megatrends include demographic changes leading to depopulation, an ageing population, the COVID-19 pandemic, changes in economic structure and digitalisation. This section discusses each megatrend in turn.

Depopulation is at the doorstep of many rural communities

Demographic trends in rural areas are key to understand the present and future challenges and opportunities for public service delivery in rural areas. These challenges concern an important part of the population across OECD countries, as about 30% of people in OECD countries live in rural regions (OECD, 2020[8]) (see Box 2.1 for an overview of the OECD territorial typology). Over 2001-19, remote rural regions showed the slowest population growth rates in the majority of OECD countries while metropolitan regions displayed the highest rates. Population projections available for Europe show that half of Europe's regions are projected to face absolute population decline by 2060 (OECD, 2020[8]).

The population in many rural and remote regions is not only falling in absolute terms but its relative composition is also changing. With mostly younger inhabitants following the call of cities, rural places that lack access to cities tend to see their elderly dependency rate go up, with fewer working-age inhabitants staying. In addition, many OECD countries face a larger trend of low fertility rate and population ageing. This means that the number of school-age children decreases even faster than the total population, reducing the critical mass for operating nearby schools at an efficient scale. All of this makes it challenging to organise the school network in rural and remote areas (OECD, 2018, p. 56[10]). Chapter 3 explores the policy options available to governments and rural communities to ensure continued access to quality education for children and young adults.

Box 2.1. Classification of TL3 regions based on their level of access to cities

Recent work on OECD regional statistics establishes a new typology addressing the diversity within the category of "rural regions". Small regions (at territorial level 3 – TL3) are categorised based on the share of the small region's population living in a functional urban area (FUA) of a certain size and the population's access to such an area if they live elsewhere. The new methodology classifies TL3 regions into metropolitan and non-metropolitan according to the following criteria:

- ***Metropolitan TL3 region***, if more than 50% of its population live in an FUA of at least 250 000 inhabitants. Metropolitan regions (MRs) are further classified into:
  - **Large TL3 MRs**: if more than 50% of their population live in an FUA of at least 1.5 million inhabitants.
  - **TL3 MRs**: if the TL3 region is not a large MR and 50% of its population live in an FUA of at least 250 000 inhabitants.
- ***Non-metropolitan TL3 region***, if less than 50% of its population live in an FUA. Such regions are further classified according to their level of access to FUAs of different sizes into:
  - **With access to (near) a TL3 MR**: if more than 50% of its population live within a 60-minute drive from an FUA with more than 250 000 people; or if the TL3 region contains more than 80% of the area of an FUA of at least 250 000 inhabitants.
  - **With access to (near) a small/medium city TL3 region**: if the TL3 region does not have access to a metropolitan area and 50% of its population have access to an FUA of more than 50 000 and less than 250 000 inhabitants within a 60-minute drive; or if the TL3 region contains more than 80% of the area of a small or medium city.
  - **Remote TL3 region**, if 50% of the region's population do not have access to any FUA within a 60-minute drive.

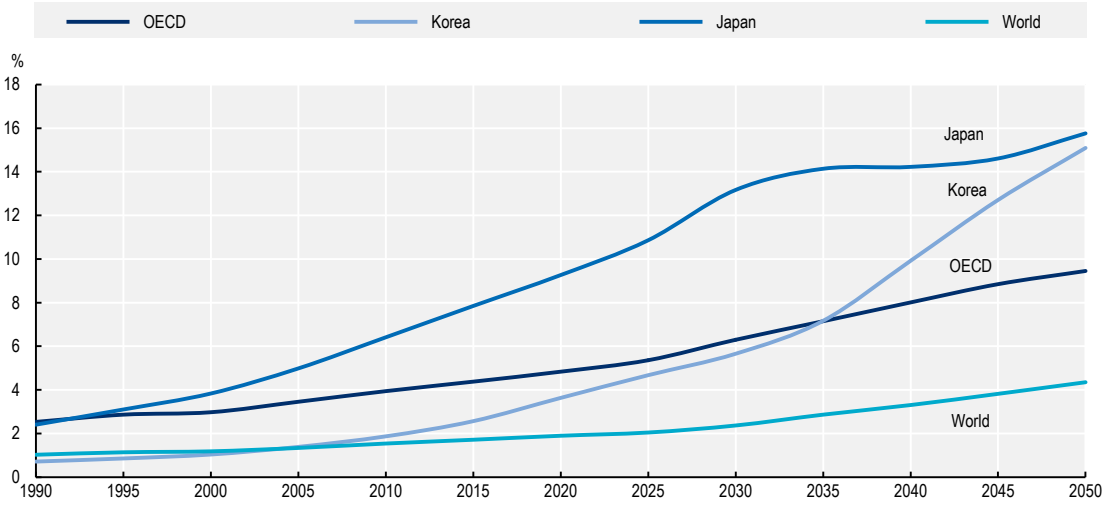
Source: Fadic, M. et al. (2019[11]), "Classifying small (TL3) regions based on metropolitan population, low density and remoteness", https://doi.org/10.1787/b902cc00-en.

Healthier and longer lives mean more ageing in rural areas

People in OECD countries today are on average living healthier, longer lives than before. Life expectancy has increased by more than ten years on average across OECD countries thanks to rising incomes, better education, improved living environments and stronger health systems. This means that across countries, the proportion of elderly with respect to the total population has increased and will continue increasing in the future if the current trends hold. Available population projections show that between 2017 and 2050, the proportion of the population over 80 years old will more than double on average in OECD countries, from 4.6% to 10.1% (Figure 2.1).

Figure 2.1. Future trends in the share of the population aged over 80 years

1990-2050



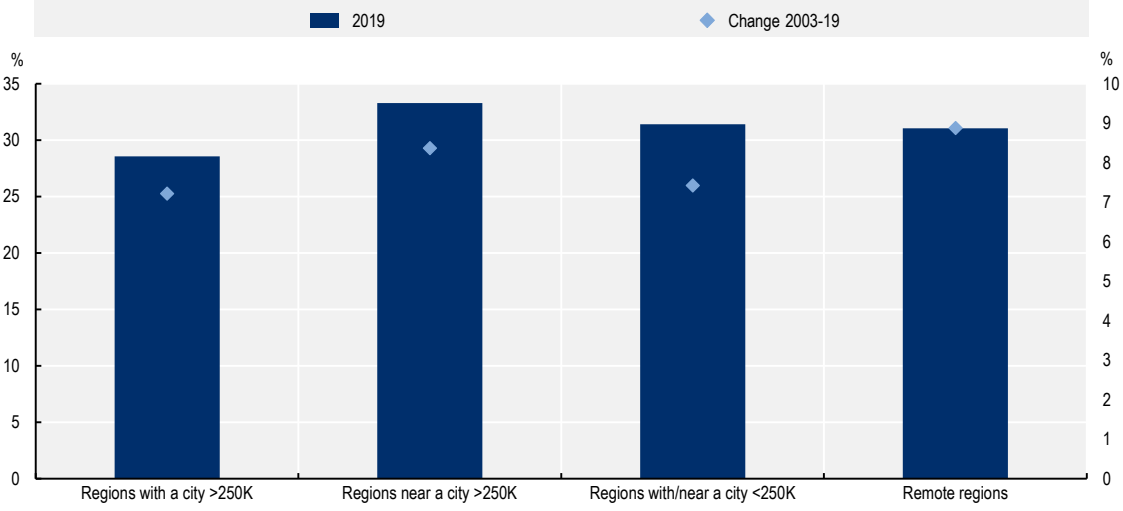
Source: OECD (2019[12]), *Historical Population Data and Projections*, https://stats.oecd.org/Index.aspx?DataSetCode=POP_PROJ.

StatLink https://doi.org/10.1787/491ff5f0-en

Population ageing will not happen uniformly within countries. The proportion of elderly to the working population is higher and has increased faster in the last decade in rural versus metropolitan OECD regions (Figure 2.2) (OECD, 2020[8]). The percentage of elderly among the population in Europe in regions far from large cities (i.e. regions near small/medium-sized cities and remote regions) that already have significantly larger elderly populations are projected to continue increasing by 2050 (Figure 2.4) (OECD, 2019[13]). Chapter 4 analyses the implications of these population trends on health provision in rural areas.

Figure 2.2. Old-age dependency ratio by type of TL3 region

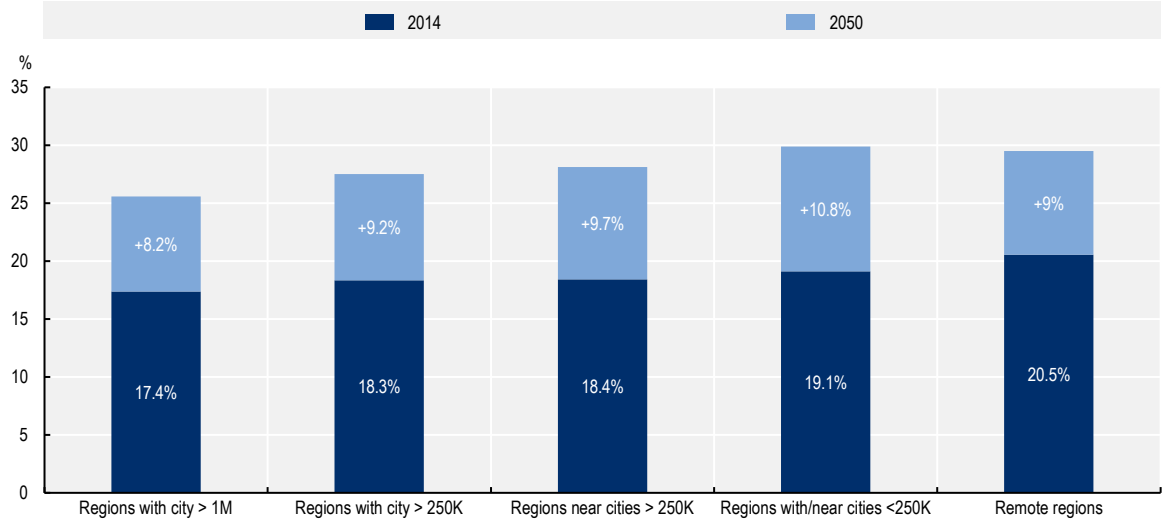
2003-2019



Note: Old-age dependency ratio is the average share of +65 population with respect to working-age population (15-64 years old).
Source: OECD (2020[8]), *Rural Well-being: Geography of Opportunities*, https://doi.org/10.1787/d25cef80-en.

StatLink https://doi.org/10.1787/82810688-en

Figure 2.3. Projection of the percentage of elderly (65 years of age and more) population in European TL3 regions



Note: Population projections based on "Europop 2013 scenario" of (EUROSTAT, 2013[14]) Statistics on regional population projections, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:Statistics_on_regional_population_projections
Source: OECD (2019[13]), *OECD Regional Outlook 2019: Leveraging Megatrends for Cities and Rural Areas*, https://dx.doi.org/10.1787/9789264312838-en.

StatLink https://doi.org/10.1787/305ba731-en

The COVID-19 pandemic has revolutionised service provision

The COVID-19 has had deep direct and indirect impacts on the provision of services in OECD countries. The most direct effect of the pandemic are deaths from the virus that have pushed mortality rates well past historical levels in some areas (OECD, 2020[15]). In addition, health outcomes for particular groups may worsen as many patients, especially those facing financial distress in rural areas, have put off necessary care. The economic impacts of the pandemic may be also connected to poorer health and higher mortality that health systems will have to face under increased financial pressure. Chapter 4 explores the current challenges faced by health systems and the strategies to ensure quality healthcare provision in rural areas.

The effects of the COVID-19 crisis and recovery trends differ considerably within countries. Recent research for Europe shows that population structure alone can explain up to fourfold differences in average regional infection-fatality ratios of COVID-19, with remote regions suffering a disproportionate effect due to higher elderly shares (Kashnitsky and Aburto, 2020[16]). In terms of recovery, the exposure to tradeable sectors and global value chains could be linked to the magnitude of impacts and speed of recovery. Local economies that are heavily dependent on the tourism industry are more affected by COVID-19 than other regions (OECD, 2020[17]). Metropolitan regions show a relatively higher risk of job disruption than other regions, given the weight of personal services in employment. These unequal territorial impacts require tailored regional policy approaches (OECD, 2020[18]) (see Box 2.2). Chapter 6 explores the current governance debates in relation to public service provision and highlights the urgent need to accelerate institutional reforms to ensure access to quality services for all.

The increasing demand to adapt and provide public service will happen in a context of fiscal austerity in the next years. Even before the COVID-19 pandemic, public social expenditures as a percentage of gross domestic product (GDP) had been already increasing by around 3.4 percentage points on average across the OECD between 1990 and 2018. Japan, Portugal and Turkey have seen the greatest increases over

this time period (Figure 2.4). Beyond immediate emergency fiscal measures, the COVID-19 pandemic is expected to deeply affect the availability of public resources for social spending in the next years (OECD, 2020[18]). Chapter 4 argues that future public healthcare expenditures will largely depend on the combined effects of technology, the prices paid by governments for healthcare services, products, and institutions and policies. In contrast, pure demographic and income effects are anticipated to play only a minor role, assuming that healthy ageing will remain a predominant trend. The long-term healthcare effects of COVID-19 will likely add up to increases in demand for certain types of services from an ageing population, such as long-term care.

Box 2.2. Initial territorial impacts and policy responses of COVID-19

COVID-19 has a spatial dimension that needs to be managed. As of mid-2020, it is clear that the impact of the COVID-19 crisis may differ markedly not only across countries but also across regions and municipalities within countries, both in terms of declared cases and related deaths. In the People's Republic of China, 83% of confirmed cases were concentrated in Hubei Province as of June 2020. In Italy, the country's north was hardest hit and one of the wealthiest regions in Europe, Lombardy, registered the highest number of cases (38% as of 10 June 2020). In France, the regions of Île-de-France and Grand Est were the most affected. In the United States, the concentration in the state of New York decreased as the virus spread in other states but it was still 29% as of 12 June 2020.

Given the territorial dimension of the initial shock, both national and subnational government need coordinate an effective response to the COVID-19 public health and economic crisis. The crisis has emphasised the need for national governments' role in co-ordinating the measures to tackle the challenges. Subnational governments have also been undertaking a wide range of actions to manage its public health and economic impact. The OECD has identified nine categories of measures undertaken by national and subnational governments that help ensure effective co-ordination and support regions and cities in managing the crisis:

1. Reinforcing vertical co-ordination among national and subnational governments.
2. Supporting cross-jurisdiction co-operation.
3. Managing exit strategies from containment: testing, social distancing.
4. Strengthening data collection and digital governance at the local and regional levels.
5. Managing the impact on local finance.
6. Supporting vulnerable populations by all levels of government.
7. Introducing more flexibility in administrative procedures at the subnational level.
8. Supporting small- and medium-sized enterprises (SMEs) and the self-employed.
9. Promoting public investment as part of crisis exit and recovery.

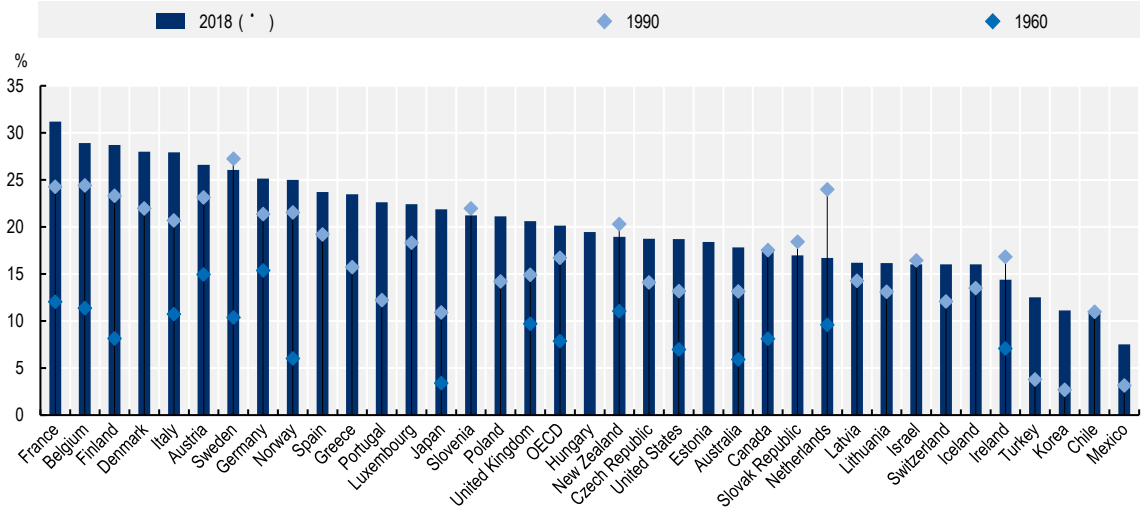
Source: OECD (2020[18]), "The territorial impact of COVID-19: Managing the crisis across levels of government", http://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/.

Besides these negative impacts, the COVID-19 crisis has also revealed the huge potential of digitalisation as a way to deliver education and healthcare services, especially in rural areas. The COVID-19 pandemic took almost 1.6 billion children out of school in more than 190 countries worldwide, which affected over 94% of the world's student population (UN, 2020[19]). While distance learning has come to the rescue following mandatory school closures in most countries, it has also highlighted inequalities in access to broadband and information and communication technology (ICT) equipment across income levels and

between rural and urban areas (The New York Times, 2020[20]). Moreover, after a slow start in implementation despite its huge potential (Oliveira Hashiguchi, 2020[21]), telemedicine filled gaps in provision resulting from COVID-19 restrictions, demonstrating that telemedicine is likely to revolutionise health provision in areas with low accessibility (OECD, 2020[9]). Chapter 5 gives an overview of the potential of distance learning and telemedicine to fill provision gaps in rural areas and outlines the challenges to realise this potential in rural areas.

Figure 2.4. Public social spending is worth 20% of GDP on average across the OECD

Public social expenditure as a percentage of GDP, 1960, 1990 and 2018



Note: See OECD Social Expenditure Database (SOCX) for clarification notes. Data accessible at: https://www.oecd.org/social/soc/OECD2019-Social-Expenditure-Figures-Data.xlsx.
Source: OECD (2020[22]), *Social Expenditure Database (SOCX)*, https://www.oecd.org/social/expenditure.htm.

Rural regions face teacher and care worker shortages even if specialised in services

Rural economies are actively transforming in line with technological change and higher market integration. Services concentrate the largest employment share in rural economies and yet many rural regions continue to be specialised in traditional primary activities that yield little value-added. Rural regions struggle more to reap the benefits from specialisation in high-value-added services than metropolitan regions and tend to be less specialised in this sector (OECD, 2020[8]). Large cities with access to specialised labour and knowledge networks tend to achieve higher productivity of services and service-oriented businesses are in many cases less at risk to face off-shoring and pressures from international competition (OECD, 2020[8]; 2020[23]; OECD/European Commission, 2020[24]).

In rural labour markets, women are disproportionally represented in lower-wage service sector jobs (e.g. health and social care services) while men are more likely to work in higher-wage primary sectors and associated manufacturing (e.g. agriculture, forestry and mining). The ongoing structural change in primary sectors and rural manufacturing have contributed to a widening differentiation of male and female employment rates in regions with limited access to large cities (OECD, 2020[8]).

As agricultural and traditional primary and manufacturing industries are declining, rural economies seek to reap new opportunities and diversify their economic base, for instance by attracting tourists. New opportunities also put new demands on rural populations' skills, to start businesses and innovate for instance, which implies a changing role for education and training (OECD, 2019, p. 46[25]). Human capital

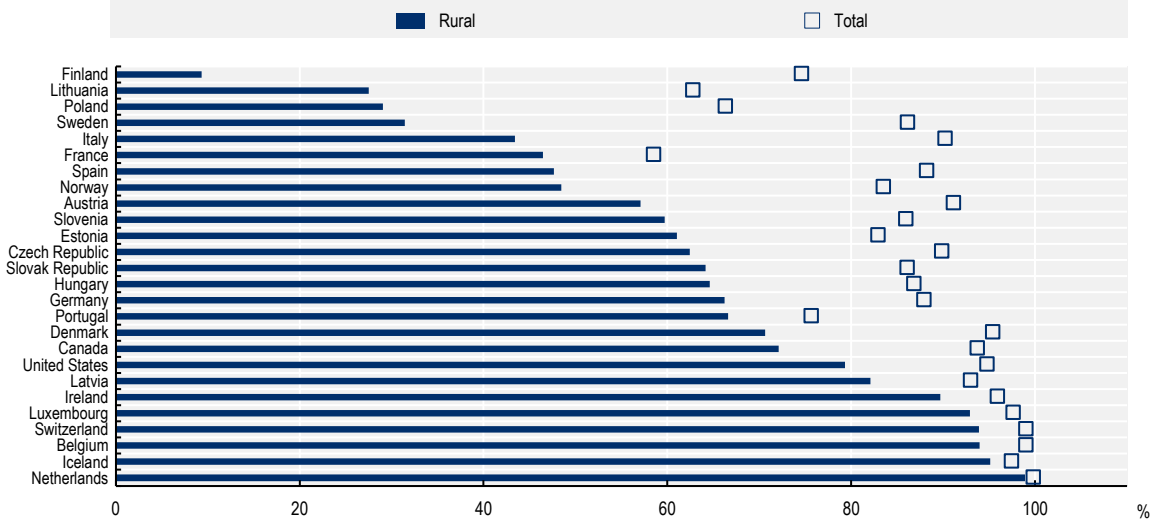
and the transition towards higher returns to employment can support regional growth and the provision of quality services. This is easier to do for cities and large metropolitan areas that tend to be more attractive for trained service professionals (OECD, 2012[26]; 2020[8]). Chapters 3 and 4 discuss the challenges to attract a diverse pool of teachers and medical workers to rural areas and policy strategies to combat skill shortages.

Digital skills and connectivity gaps limit switch to digital provision

Digitalisation promises to bring enormous benefits in terms of access to services but these benefits will not reach rural areas facing connectivity gaps. In recent years, broadband has become an increasingly essential driver, with the COVID-19 crisis acting as a catalyser for much-needed progress. Gaps in broadband provision have closed in many countries, although significant rural-urban gaps remain in many cases (Figure 2.5). As detailed in Chapter 5, today, rural areas across the OECD remain more likely to encounter: lower Internet speeds and older technologies; fewer options and less value from providers; data caps; higher latency times; and more issues related to speed asymmetry. Generally, the broadband provision in lower-density areas has improved in the past decade and will continue to do so thanks to innovation in connectivity technologies. However, the same market forces that have delivered improvements in the past decade will also likely result in sustained geographical inequities. As Chapter 5 argues, these inequities may even widen, at least initially, with the arrival of next-generation connectivity.

Figure 2.5. Households in areas where access to fixed broadband technologies with a download speed greater than 30Mbit/s more is available, total and rural

As a percentage of households in each category, 2019 values or earliest year available



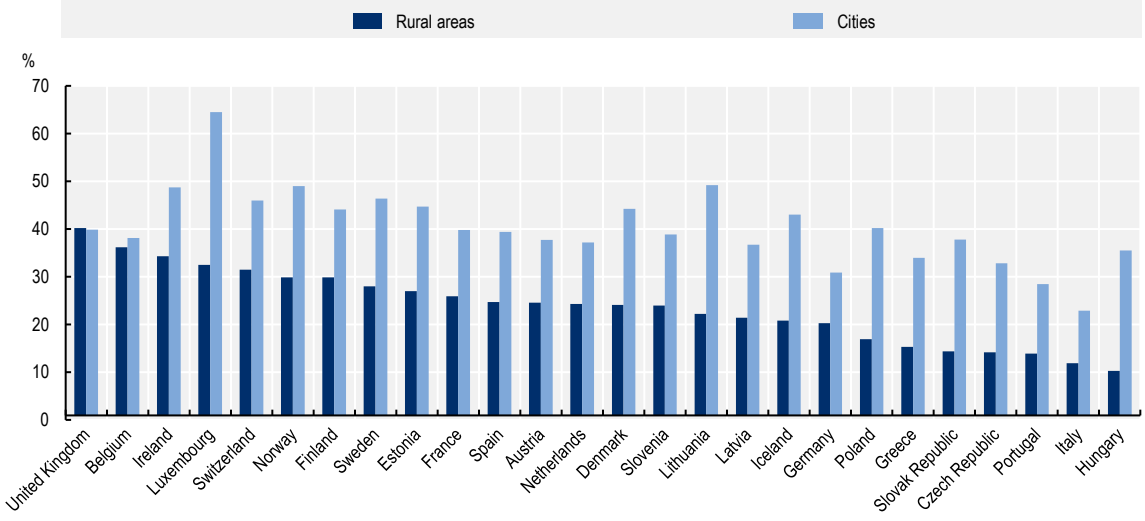
Note: Internet access is expressed as the percentage of households (population, for the United States [US]) with access to fixed broadband technologies with a download speed greater than 30Mbit/s (next generation access [NGA] technologies for the European Union [EU]). For EU countries, rural areas are those with a population density lower than 100 inhabitants per square kilometre. For Canada, rural areas are those with a population density less than 400 per square kilometre. For the US, rural areas are those with a population density less than 1 000 per square mile or 386 people per square kilometre.
Source: OECD (2020[15]), *OECD Regions and Cities at a Glance 2020*, https://doi.org/10.1787/959d5ba0-en.

StatLink https://doi.org/10.1787/f80a0d5a-en

Education and skills are fundamental for benefitting from digitalisation opportunities and yet this is an area where rural areas face large gaps. Rural areas face skill gaps that are as important to overcome as physical infrastructure gaps. In 2018, just over one-quarter (27.9 %) of the rural population (aged 30 to 34 years) had tertiary-level (ISCED 2011 levels 5–8)[1] educational attainment across Europe. This figure was 33.4 % for people living in towns and suburbs and almost half (48.1 %) of city-dwellers. Education attainment is also uneven across high- and low-density regions, reflecting the rural-urban skill gap (Eurostat/Eurydice, 2012[27]). The share of workers with tertiary education, i.e. a university degree, is lower in regions characterised by low-density economies in almost all OECD countries (Figure 2.6), while the share of workers that have only completed primary education tends to be higher in these regions (OECD, 2016[28]). Across European countries, individuals living in rural areas strongly lag behind their city peers with regard to their level of digital skills, paramount for many modern workplaces (Figure 2.7). In 24 out of 31 Euro area countries, the percentage of individuals with digital skills living in cities is twice as large as the percentage of individuals living in rural areas.

Figure 2.6. Share of the population with tertiary education by rural areas and cities in European countries

Percentage of 15-64 year-olds with a degree at ISCED level 5, 6 or 7, 2018 values



Note: Not all OECD countries are covered by the data source. For further information on the Eurostat classification of areas by degree of urbanisation, see https://ec.europa.eu/eurostat/web/degree-of-urbanisation/background.
Source: Eurostat (2020[29]), *European Union Labour Force Survey*, https://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey (accessed on 15 May 2020).

StatLink https://doi.org/10.1787/888934226500

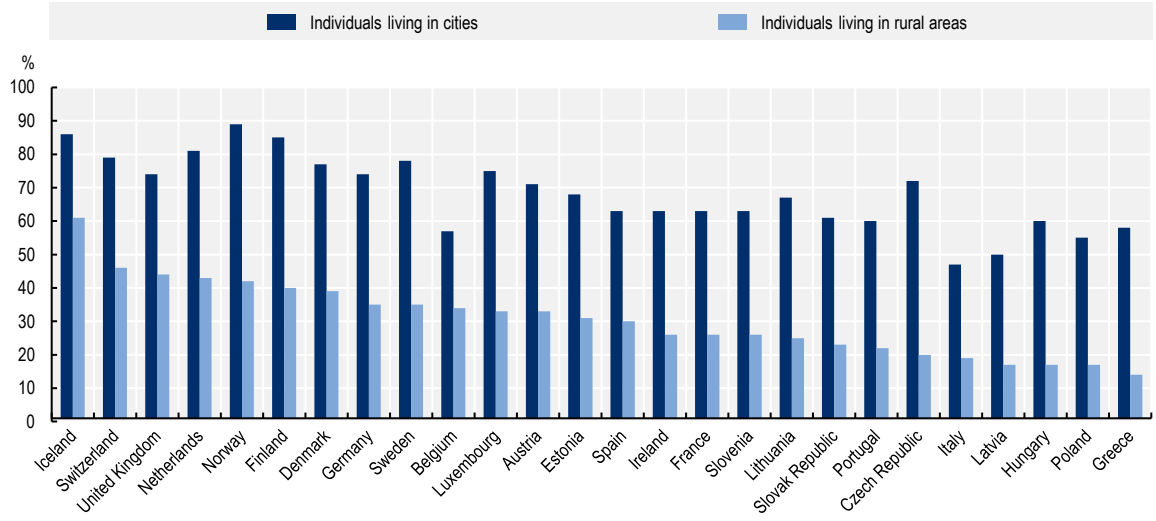
What are public services and who pays for them?

Using a broad definition, public services are all services rendered in the public interest. They are based on the notion that there is a social consensus that some services should be available to all and that – due to a lack of or inadequate market-based provision – it is the public sector that should be involved in the provision of those services in some way. This general definition conceals a great deal of choice in terms of what those services are, how they are delivered and by whom. This section outlines some the main

ways in which public services can be classified: according to function, provider (public/private), cost (free versus fee-based), who benefits and where the service is consumed geographically.

Figure 2.7. Share of individuals living in rural areas and cities in Europe with basic or above digital skills

2019 values



Note: Not all OECD countries are covered by the data source. For further information on the Eurostat classification of areas by degree of urbanisation, see https://ec.europa.eu/eurostat/web/degree-of-urbanisation/background.
Source: Eurostat (2020[30]), *The European Social Survey*, https://ec.europa.eu/eurostat/cros/content/european-social-survey_en (accessed on 15 May 2020).

StatLink https://doi.org/10.1787/888934226519

Defining public services

The economics definition of public and private goods provides somewhat different criteria. In economics, the so-called pure public goods are both non-rival and non-excludable in consumption. Non-rivalry means that a good or service can be consumed by an individual without reducing the availability to others. Non-excludability requires that consumers cannot be prevented from accessing the good. National defence is one example of pure public service.[2]

According to this typology, a private good exhibits both rivalry and excludability. Most services provided by the public sector are either quasi-public or private in nature. Examples of quasi-public goods include public roads. They are open to all but, since they can get congested, they do not fulfil the non-rivalry criteria. Examples of publicly provided private goods include education and health services. While there can be a number of reasons for publicly provided private goods, one explanation is that education or health include positive externalities, which are big enough for justifying public sector intervention. Another usual explanation is linked with redistribution because tax-financed health and education services contribute to income redistribution.

In previous OECD work, public services have been classified according to their functions and four main types:

1. **Services to guarantee basic physical conditions** and to overcome locational disadvantages, such as telecommunications infrastructure, electricity and waste supply and sewage, waste disposal, roads and transport.
2. **Services to guarantee basic social conditions**, such as social security, employment and training services, social housing, childcare, long-term care and social assistance services.
3. **Services supporting quality of life**, such as sports and cultural facilities.
4. **Services to enterprises related to administration** (business registries) or direct or indirect aid, such as export development services, business grants, etc. (OECD, 2010[2]).

While the public sector (national, regional or local governments) is involved in the design, funding and delivery of public services, the line between what is public and what is private[3] has become blurred with the adoption of new forms of service provision including contracting out and fee-based systems. Those services which are deemed "public" in nature may be delivered by an entity that is fully or partially publicly-owned, private, mixed, an association or a not-for-profit entity. A definition of public services by Wollmann et al. speaks to this spectrum: "a service can be considered public service if a public authority controls the supply of that service to citizens (or legal subjects) in terms of its substance, accessibility and sometimes quality" (Wollmann, 2016[31]).

How states provide public services and to whom

What services should be public, who should deliver them and how? The answers to these questions are not static: norms and expectations have changed over time and differ across OECD countries. In many OECD states, the post-World War II period ushered in Keynesian public policies with their focus on social and economic stimulus. This period saw the expansion of public services including the adoption of universal regimes for health, education and social services in many countries alongside the expansion of key infrastructure and public ownership and the operation of public utilities and transport services. This period of government investment and public sector expansion shifted in the 1980s when neoliberal doctrine spurred new public management reforms; public services were privatised in many countries (e.g. the rail system in the United Kingdom [UK]) and public services were increasingly outsourced to external private and third sector providers (Wollmann, 2018[32]).

These two contrasting models of public welfare and social solidarity have geographic implications. Halseth, Markey and Ryser 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 and Ryser, 2019[33]). A commitment to providing equitable access to services across all territories was eroded and new models of service provision have been slow to respond to rural needs. This broad characterisation of public services expansion and reform over the past century conceals a great deal of nuance across countries. Box 2.3 elaborates on the efforts by Danish sociologist Gøsta Esping-Andersen to classify advanced economies with respect to their welfare regimes.

Box 2.3. Classifying of countries according to their welfare regimes

The debate around Gøsta Esping-Andersen classification

While there is no universal experience, the literature on state welfare regimes offers one way to categorise the role of the state with regards to public services and their underpinning welfare logics. In 1990, the Danish sociologist Gøsta Esping-Andersen sparked a rigorous debate regarding how states can be classified according to their welfare regimes through his work *The Three Worlds of Welfare Capitalism*. In it, Esping-Andersen categorises developed capitalist nations as one of three welfare regime types: liberal, conservative and social democratic (Esping-Andersen, 1990[34]). Their characteristics are as follows:

- **The liberal welfare state** is characterised by means-tested assistance, modest universal transfers or modest social insurance plans. Benefits cater mainly to a clientele of low-income, usually working-class, state dependents. In this model, the progress of social reform has been severely circumscribed by traditional, liberal work-ethic norms: it is one where the limits of welfare equal the marginal propensity to opt for welfare instead of work. Entitlement rules are therefore strict and often associated with stigma. Benefits are typically modest.
- **Conservative and "corporatist" welfare states** are shaped by traditional family values and tend to encourage family-based assistance dynamics. Social insurance in this model tends to excludes non-working spouses and family benefits encourage motherhood. State assistance will typically only step in when the family's capacity to aid its members is exhausted.
- **Social democratic regimes** are based on the principles of universalism and decommodification wherein the welfare state promotes equality of the highest standards, not equality of minimal needs (summarised from Esping-Andersen (1990[34])).

Esping-Andersen's typology of 18 OECD countries is focused on their socio-political origins and the relationship between social rights and market forces in each state, including their ethos towards the types of services that should be provided by the public sector and the extent of their benefits (e.g. universal versus targeted).

Under this typology, it is noted that social democratic states (i.e. Nordic countries) provide the most comprehensive benefits and services to their citizens and that these are under the direct responsibility of central and local public authorities. However, the manner in which these services are delivered may not be uniformly applied across the territory. For example, for the case of Finland, Nousiainen and Pylkkänen argue that the social welfare model is eroded by the idea that public services in rural areas should be voluntarily organised at the community level, involving third sector and private actors (Nousiainen and Pylkkänen, 2013[35]). They argue that the discourse for new partnership and community-driven models of rural service delivery effectively undermines the ideas of equality of access to quality public services which are foundational to the Finnish welfare state. In a similar vein, market-oriented public service reforms have been identified in other social democratic regimes such as healthcare reforms in Sweden (Dahlgren, 2014[36]) and eldercare in Norway (van Riemsdijk, 2010[37]).

In conservative regimes (e.g. France, Germany and the Netherlands), welfare goals are met through transfer payments to families as opposed to direct provision funded out of taxation. The third sector plays an important role in the management and delivery of public services. In these states, access to basic public services is assured throughout the country but the range of options is more limited in peripheral rural areas. In a smaller country like the Netherlands, this lack of access is less problematic due to the small size of the country and relative proximity to service centres. In contrast, liberal regimes (i.e. Australia and the United States) tend to rely more on private sector provision. The UK is a noted exception to the ideal types in that universal citizen entitlements are funded from direct taxation with the central and local governments acting as a "near monopoly" service provider (Hebdon and Kirkpatrick, 2006[38]). Rural communities, which are inherently

smaller, may find it far more challenging to organise and provide public services, whether through their administrations or the third sector. Similarly, reliance on private provision may be biased against rural areas; higher costs of service provision and smaller markets make them less attractive to private models of care.

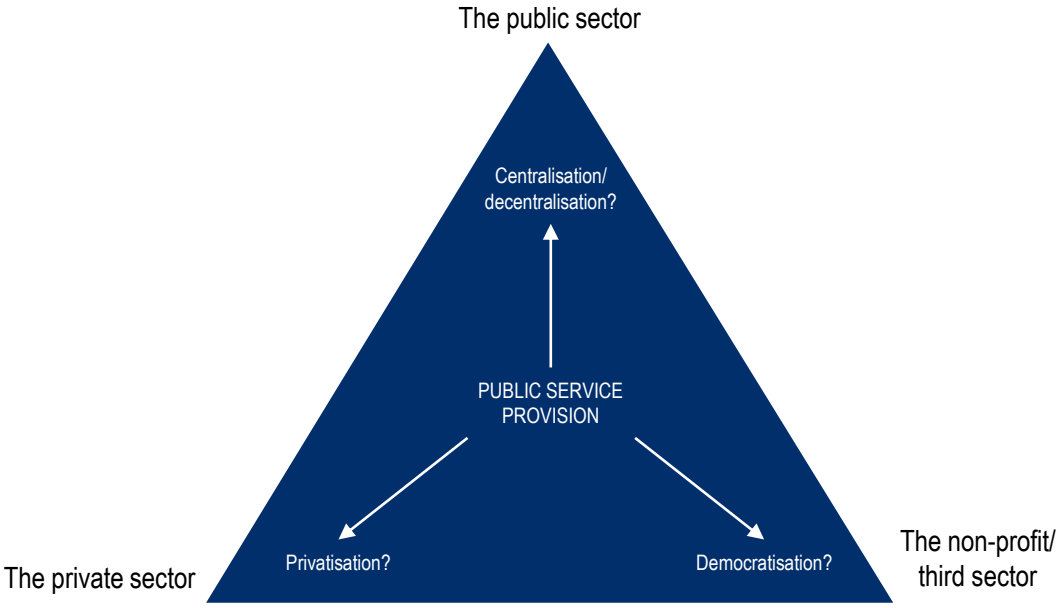
The extent to which these welfare regimes accurately describe countries' social and welfare policies and systems of public service provision is a matter of ongoing debate. While Esping-Andersen's analysis focuses on the study of social transfers such as pensions and unemployment benefits, these are just one aspect of welfare provision; the analysis ignores the provision of public services such as healthcare and education.

Source: Esping-Andersen, G. (1990[34]), *The Three Worlds of Welfare Capitalism*, Princeton University Press; Nousiainen, M. and P. Pylkkänen (2013[35]), "Responsible local communities – A neoliberal regime of solidarity in Finnish rural policy", http://dx.doi.org/10.1016/j.geoforum.2013.04.015; Dahlgren, G. (2014[36]), "Why public health services? Experiences from profit-driven health care reforms in Sweden", http://dx.doi.org/10.2190/hs.44.3.e; van Riemsdijk, M. (2010[37]), "Neoliberal reforms in elder care in Norway: Roles of the state, Norwegian employers, and Polish nurses", http://dx.doi.org/10.1016/j.geoforum.2010.06.008; Hebdon, R. and I. Kirkpatrick (2006[38]), *Changes in the Organization of Public Services and their Effects on Employment Relations*, http://dx.doi.org/10.1093/oxfordhb/9780199299249.003.0027.

Others have sought to expand and refine the typology of welfare regimes to include East Asian and South American countries, finding new criteria and mixed systems in the process (Bambra, 2007[39]). Regime typologies can also be applied to different aspects of service provision. For example, Wendt, Frisina and Rothgang have developed a taxonomy of 27 health systems by looking at indicators across the dimensions of healthcare financing, service provision and regulation alongside the level of involvement by the state, non-governmental actors and the market. Through this work they identify three "ideal types": i) state health systems, in which financing, service provision and regulation are carried out by state actors and institutions; ii) societal health systems, in which societal actors take on the responsibility of healthcare financing, provision and regulation; and iii) private health systems, in which all three dimensions fall under the auspices of market actors (Wendt, Frisina and Rothgang, 2009[40]).

Despite its limitations, the work of Esping-Andersen and others to categorise welfare regimes is useful in describing the logics that underpin how the state provides benefits and to whom. Across the range of typologies that have been developed, there is a commonly uncovered tension between the public, private and third sector dimensions of public services governance (Figure 2.8). In systems which rely more on the delivery of public services by the private and third sectors, the role of the government is focused on regulation and evaluation of services in order to ensure a minimum of access and quality. Countries may have a mix of systems – some reliance on the private sector for healthcare provision for example – but a fully public education system.

Figure 2.8. Dimensions of public service governance



Source: Adapted from Klenk, T. and E. Lieberherr (2015[41]), "Autonomy in public service provision and the challenge of accountability: Insights from German policy fields", https://doi.org/10.3929/ethz-a-010341306.

No literature has offered yet a comprehensive comparative typology of public service provision more generally. Such research is complicated by how services are delivered differently across geographies. For example, core services such as firefighting may be a public service in an urban context but a voluntary service in a rural one; some health services may be delivered by fully public institutions while others are delivered by the public and private sector within one region or country. Characterising states according to how they deliver services is thus extremely complex, including across levels of government. These issues will be discussed in the next section.

How are rights to public services defined within legal frameworks across the OECD?

In the EU, the concept of services of general interest was developed on the basis of French administrative law.[4] The French legal concept of *services public* is informed by administrative case law related to public service contracts provided to local governments. It is also recognised in constitutional law as a legal concept for which legislation must maintain the continuity of public service. Belgium, Greece, Italy, Portugal, Spain and Turkey include the concept of public services in their constitutional laws, as do most Latin American countries (Wollmann, 2016[31]). In contrast, in Denmark, Sweden and the UK, there is no formal legal recognition of public service functions generally.

This report focuses on two of the largest public service expenditures: healthcare and education. The institutionalisation, coverage and access to health and education services vary greatly across OECD member countries, whether universal access is constitutionally-enshrined or not. The majority of OECD countries describe health as a guaranteed right of citizens and less than a third of them recognise universal health access within their constitutions. Not recognising universal healthcare in this way does not imply however that these countries do not provide universal health access – universal health coverage has been achieved in nearly all OECD countries, with a range of benefits covered (Auraaen et al., 2016[42]).[5] In some countries, other institutional mechanisms can be in place to guarantee universal access even if universal access rights are not formally enshrined in a constitutional manner. Australia, for instance, has formally subscribed to and implemented the International Covenant on Economic, Social and Cultural Rights,

including the delivery of universal access to education and health services through fiscal transfer and equalisation mechanisms between the federal and subnational (state and territory) governments.[6]

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).

Who pays for public services?

Public services are no longer synonymous with being free to all; they may involve fees. For example, the European Commission distinguishes between public services (or in EU parlance, "services of general interest") based on whether they are fee-based on not, categorising three types: economic, non-economic and social (EC, 2019[43]). Services of general *economic* interest are those basic services that are carried out in return for payment, such as postal services, while *non-economic* services are those for which there are no fees, such as the police, justice and statutory social security schemes. In contrast, *social* services of general interest can be payment/fee-based or not and include social security schemes, employment services and social housing.

Other classifications of public services have focused on who benefits from them. Public services may be delivered with universal access or they may be targeted to certain populations – e.g. access may be determined by income thresholds. Others have made this distinction based on class dimension. For example, Lonsdale and Enyedi distinguish between public services that disproportionally benefit middle- and higher-income groups (e.g. public universities, airports, art galleries) versus those that benefit lower-income ones (e.g. welfare programmes) regardless of whether they are universal or not (Lonsdale and Enyedi, 2019[44]).

Finally, there are classifications that consider public services according to how they are consumed geographically. For example, there are those services for which the consumer travels to the place of use (e.g. airports, libraries, recreation centres, school and medical facilities) as opposed to those which require continuous connections and space (e.g. roads, water mains, power lines). Plotting this geographically, one can view public services as either points (the former) or lines and networks (in the case of the latter) (DeVerteuil, 2000[45]). Some services hold features of both point-specific services and those that are extended to a consumer such as bus lines and the postal service. Digital services defy these categories – they are services delivered at point, requiring no travel on behalf of the consumer and no network beyond digital connectivity.

These classifications are by no means exhaustive – they serve only to illustrate some of the ways in which public services can be categorised. Comparative typologies or classifications of services are challenged by the different nomenclature and public service organisation across countries (Wollmann and Marcou, 2010[46]). Table 2.1 summarises the discussion on this section.

Table 2.1. Classifying public services according to their function, provision, cost, target population and geography of consumption

Function	Provision	Cost	Target population	Geography of consumption
Services to guarantee basic physical conditions and to overcome locational disadvantages	Fully public	No fee – open to access	Universal benefits	Point-specific consumption of public service
Services to guarantee basic social conditions	Association or non-profit	Fee-based (full or partial)	Targeted benefits	Public services requiring continuous connection (line or network)
Services supporting quality of life	Private			Digital consumption
Services to enterprises	Mixed public, private or non-profit			

Source: Own elaboration based on literature.

The governance of public service delivery

If national constitutions recognise health and education provision as core rights, what does this mean in terms of the access of these rights across the territory? In principle, differences in relevant aspects such as population density and demographic structure translate into unavoidable higher costs of service provision for certain local units and regions within countries, implying the need for a transfer of resources across places. Yet, only five OECD countries have constitutionally-enshrined fiscal equalisation mechanisms. This section starts by reviewing recent trends in public spending and public management reforms and their spatial implications, continues with an analysis of fiscal equalisation mechanisms in OECD countries and finishes with a discussion of the roles and responsibilities linked to service provision across levels of government. These governance aspects will be further elaborated and analysed for the cases of education and healthcare in Chapter 6.

The spatial implications of public spending and public management reforms

Many OECD countries have restructured their public services in an effort to control expenditure. There is a large literature on public management reforms across the OECD. Table 2.2 presents a high-level typology of three common reforms types. The traditional model of public administration which is characterised as hierarchal and bureaucratic wherein public services are provided by the public sector organisations and the population is viewed as clients receiving those services (Table 2.2).

Table 2.2. Public management reforms

Public services provision	Traditional model of public administration	New public management model	New governance model
Organisational values	Hierarchy, control and bureaucracy	Market orientation, focus on performance, contracting in-out	Networks, inter-organisational relationship and multi-actor policy processes
Role of the population	Client	Consumer	Co-producer

Source: Adapted from Fugini, M., E. Bracci and M. Sicilia (eds.) (2016[47]), *Co-production in the Public Sector: Experiences and Challenges*, http://dx.doi.org/10.1007/978-3-319-30558-5.

In contrast, the new public management reforms of the 1980s were influenced by private sector management practices. They focus on generating management efficiencies by contracting out and consider public service users as consumers. Finally, more recent new governance models are based on network forms of management and involve multiple kinds of actors spanning public, private and third sectors. Co-production refers to a mix of activities conducted by both public service agents who are professionals (or "regular producers") and through the voluntary efforts of citizen producers to enhance the quality and/or quantity of services they receive (Brandsen and Pestoff, 2006[48]).[7] This can radically alter how services are provided – it may "involve citizens producing their own services, in total or in part or alternative service delivery by citizens, with or without state intervention, but with public funding" (Pstroff, 2011[49]).

These models of public management reform have spatial implications. One of the tenets of the traditional model of public administration is the equity of services, including equity across all territories, whereas the more market-oriented reform of new public management is focused on effectiveness and efficiency. This may include economies of scale in public service provision which lead to the regionalisation of those services. It has also led to a fee-based system for public services; places with lower densities are at an inherent disadvantage for cost recovery services. As such, new public governance models may be better suited to rural areas where rural communities can work to co-produce public services but, at the same time, this can place a lot of pressure on them. The impetus for public management reform does not just come from budgetary pressures and demographic changes, it is also responding to citizen expectations in terms of what types of public services they receive and how they should access them. The new public management and new governance models of reform spread accountability among a larger number of institutional actors, with mixed outcomes for rural areas.

Fiscal equalisation mechanisms

Fiscal equalisation involves the transfer of resources in order to offset differences in revenue-raising capacity and/or the costs of public service provision. These fiscal equalisation mechanisms are described as follows:

- **Canada's Constitution Acts** state that "Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to: i) promoting equal opportunities for the well-being of Canadians; ii) furthering economic development to reduce disparity in opportunities; and iii) *providing essential public services of reasonable quality to all Canadians*" (Canada Constitution Act 1982, part. 3, s. 36). The principal mechanism by which to ensure the provision of these essential public services is through equalisation payments (transfer from the federal government to provinces and territories) so that they have "sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation" (Canada Constitution Act 1982, part. 3, s. 36).
- **France's constitutional equalisation mechanisms** are intended to promote equality between territorial communities (France 1958, rev. 2008, art. 72-2).
- **Germany's constitution** notes the financial requirements of "the Federation and of the *Länder* shall be co-ordinated in such a way as to establish a fair balance, avoid excessive burdens on taxpayers, and ensure uniformity of living standards throughout the federal territory" (Germany 1949, rev. 2014, art. 106).
- **Italy's constitution** notes that "State legislation shall provide for an equalisation fund with no allocation constraints for the territories having lower per capita taxable capacity. Revenues raised from the above-mentioned sources shall enable municipalities, provinces, metropolitan cities and regions to fully finance the public functions attributed to them" (Italian Constitution 1947, rev. 2012, Art. 119).

- **The Spanish Constitution** notes that "an allocation may be made in the State Budget to the Self-governing Communities in proportion to the number of state services and activities for which they have assumed the responsibility and to guarantee a minimum level of basic public services throughout the Spanish territory." The Spanish Constitution establishes a compensation fund for investment expenditure to be distributed by the *Cortes Generales* among the self-governing communities and provinces with the purpose of "redressing inter-territorial economic imbalances and implementing the principle of solidarity" (Spanish Constitution, 1978, rev. 2011, s. 158).
- **Australia** has a public revenue collection and fiscal transfer system which contributes to a substantial share of the revenue for Australian states and territories. The reasons for these transfers are historical and are based on the constitutional powers and responsibilities of different levels of government in Australia. State and territory governments in Australia, including local governments, which spend more than they raise in revenue, have the difference covered by these fiscal transfers and by other special-purpose grants from the federal government.

The manner in which the principal objectives of equalisation are laid down in these constitutions makes it a central pillar of national fiscal policy. While the constitutions of Canada, France, Germany, Italy and Spain explicitly address the need to transfer funds so that services and quality of life can be equally accessed/provided across the territory, the Chilean constitution speaks of decentralisation and solidarity between territories without specifically addressing fiscal transfers (thus, is it not included in this sample).

While most OECD countries do not have constitutional provisions for fiscal equalisation, implicit or explicit mechanisms to reduce fiscal disparities across jurisdictions are common across the OECD (Blöchliger et al., 2007[50]). However, the vast differences in these systems make them challenging to identify and compare. One key distinction is whether fiscal equalisation transfers are conducted in order to equalise revenues so that subnational governments have the same spending power, or whether these transfers are based on the actual costs of providing public services in different jurisdictions. Costs of service delivery across regions may differ due to greater needs (e.g. related to the demographic profile of the region) or higher costs (e.g. remote rural areas).

While many countries have a mixed system, combining revenue and cost equalisation, others only have one type. For example, Australia uses a cost equalisation system only while Canada and Italy use a revenue equalisation system only (Blöchliger et al., 2007[50]). Countries that only take into account revenue equalisation may not directly address some of the key factors that lead to higher service costs such as population ageing or degree of rurality and remoteness. In some countries, specific transfers for social and health policy may rectify this, beyond the overarching instrument of fiscal equalisation. However, this too depends on how those transfers are structured. In the case of Canada, the federal government's transfers to provincial governments for health and social care are on a per capita basis, as opposed to needs-based allocations that consider demographic characteristics alongside density/remoteness. As such, there are no corrective fiscal mechanisms based on real costs other than per capita estimations.

A further distinction to note is how funds are transferred between levels of government. Some countries such as Australia and Denmark have a horizontal equalisation transfer system wherein funds are transferred from regions with higher fiscal capacity to lower ones based on a benchmark. In contrast, countries such as Canada, Greece and the UK have vertical equalisation systems where the higher level or national government transfers funds to subnational governments based on a benchmark. Sweden's equalisation system – introduced in January 2005 – offers a unique example of how fiscal capacity and remoteness can be addressed within equalisation mechanisms. In Sweden, government transfers to municipalities take five forms:

1. Income equalisation, which compensates for differences in tax power between municipalities and county councils.[8]

2. Horizontal cost equalisation, which compensates for structural cost differences related to either needs (e.g. a high proportion of elderly people requiring more elderly care) or geography (e.g. degree of remoteness).
3. Structural contributions which compensate for regional policy (related to the 2005 change).
4. Time-limited introduction grants which aim to mitigate major changes in the outcome for individual municipalities and county councils.
5. Adjustment grants to ensure that if the sum of all contributions minus the fees paid is lower than the amount decided by the state to the municipalities or county councils, all municipalities or county councils receive a regulatory grant corresponding to the difference (and vice versa).

This comprehensive equalisation system takes into account both need, geography, fiscal capacity and boom-bust scenarios. One novel element of Sweden's transfer system is that funding is based on costs associated with actual settlement patterns as opposed to administrative divisions or fixed capital assets (e.g. existing schools) alongside structural conditions. For example, the model calculates where the municipality's schools should be located based on the actual settlement pattern and a deduction or supplement is calculated accordingly, as opposed to how the municipalities and county councils have chosen to organise their operations (Tillvaxtanalys, 2011[51]).

Beyond fiscal equalisation, other types of government policies can affects service accessibility, including decisions on locating public employment in the capital versus in other regions (Blöchliger et al., 2007[50]).

Roles and responsibilities across levels of government

How are public services delivered across levels of government – national, regional and local? One distinction is between 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 US. In most federal countries, national governments have exclusive competencies (e.g. foreign policy, defence, money, criminal justice system) while regional governments have wider responsibilities (e.g. health and education). Some federal countries also have areas of shared responsibility between the federal and regional governments. Even where jurisdiction may not be constitutionally shared, national and regional governments in federal countries may co-ordinate in a number of policy areas. For example, while provincial/territorial governments in Canada are responsible for healthcare provision, the federal government maintains a role in monitoring and addressing public health more generally (e.g. epidemics). At the local level, local government responsibilities are defined by regional level constitutions and/or laws, and they can differ from one region to another. Spain is described as a quasi-federal country because, while unitary, its regions have large autonomy but finances are decided by national laws (OECD, 2017[52]). Table 2.3 summarises these ideas.

In unitary countries, the assignment of responsibilities for public services is generally defined by national laws, referring sometimes to the general clause of competency or "subsidiarity principle" (OECD, 2019[53]). Laws can also define whether a subnational responsibility is an own/exclusive local function, a delegated task on behalf of the central government or a shared responsibility with another institutional government level (OECD, 2019[53]). Note that while Italy, Spain and the UK are unitary states, they display features of "hybrid systems" between federations and unitary states wherein autonomous regions with legislative powers have some influence in the design and reform of local government functions (Newell and Mulvaney, 2013[54]; OECD, 2020[55]).

One trend to note across both federal and unitary states is the growth of intermediary organisations – that is, institutions providing public services that exist between the municipal and regional levels. These intermediary or sub-regional institutions can take many forms. In some places, they span a functionally connected area (e.g. labour market commuting zone) while in others they may only include a subset of connected municipalities. They may be funded by municipal, regional and even national governments

and/or user fees and direct taxation. Such bodies are generally created in order to provide economies of scale for the delivery of a particular service or services. Intermediary or sub-regional institutions may be directly elected or have a board comprised of elected representatives from another level of government. In some cases, they have neither – opting for corporate boards (non-directly or indirectly elected) despite delivering public services. As one 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. The growth of such intermediary organisations can lead to more effective service delivery set at the "right" scale. However, it can also reduce political accountability depending on how bodies are governed.

Table 2.3. Jurisdictional division of responsibilities

Municipal	Intermediary/sub-regional	Regional	National
Range of responsibilities: • General clause of competency • Additional allocations by the law. Community services commonly include services supporting quality of life: local roads, city transport, local economic development, land use regulation/urban planning, administrative and permit services, 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 functional level and the geographic area	Heterogeneous and more or less extensive responsibilities depending on country type: federal, unitary, quasi-federal Services of regional interest commonly include: secondary roads and public transport, waste management, environmental management In federal countries, regional services commonly include healthcare and education and local government supervision	Sets overarching legal frameworks for public service provision in unitary countries In federal and quasi-federal countries, there may be a control and audit role in the delivery of core public services

Source: Adapted from OECD (2019[53]), *Making Decentralisation Work: A Handbook for Policy-Makers*, https://doi.org/10.1787/g2g9faa7-en.

Across both federal and unitary states, there are different approaches to the control of public services. An important consideration for the levels of centralisation and decentralisation across different systems is the proportions and types of decision-making that are taken at each level of government and across different institutions. 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.[9] Among OECD states, Austria, Germany, Japan, and Spain have the most decentralised models in term of the number of institutions involved in educational policy and service provision across the four domains. Japan is a unitary state and as such, this analysis of OECD countries defies the logic that unitary states necessarily have more centralised systems (OECD, 2012[56]). Multiple actors are involved such as those who provide services – in the case of education, teachers and local administrators – are one part of a large complex system of policy and governance with decisions taking place across multiple scales.

Similarly, an analysis of how medical services are delivered across OECD countries found that the majority of countries with residence-based health systems do not explicitly define the range of healthcare services (i.e. with itemised lists) such that local and regional institutions have a decision-making authority. In countries with decentralised systems such as Canada, Italy or Spain, the national government defines the minimum benefits that subnational governments must provide to their residents and these benefits can be expanded at their own expense. In these systems, regions greatly shape the characteristics of health systems.

New and emerging service provision models

Integrated service delivery, flexible approaches, joint management, the colocation of some services and even co-production are some of the approaches that have been adopted in recent years. Despite the challenges facing rural and remote regions, there is a distinctly positive message from the potential of integrated and flexible approaches to public service delivery – that they can positively impact service quality and individual outcomes (Mitton et al., 2011[57]). However, local context and capacity maters to the success of these approaches. Similarly, e-services also have the potential to overcome the challenges of distance in rural communities; however, evidence from the literature on such services as e-health indicate that the right conditions need to be in place and that human resources are still needed in rural areas to support diagnosis and testing.

Colocation, collaboration and co-production

Integrated services entail joining up services for the benefit of service users and to improve efficiency in delivery by providers, including costs, quality and access. Integrated service provision 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 and Spreeuwenberg, 2002[58]). There are several rationales for this approach:

1. **Individuals may have complex needs and require interventions that are mutually reinforcing**. For example, recognition of the social determinants of health has led to a growing awareness of the need for supports and interventions that look at a range of factors – linking, for example, housing, education and health outcomes with accessibility (i.e. complementarity between interventions and programmes).
2. **Co-ordination by service providers – particularly across different levels of government – can improve access to services, reduce the duplication of interventions and lead to more complementary service design (enhance quality)**.
3. **Service integration can be more cost-effective**. However, studies on cost-effectiveness that compare the two approaches – integrated versus not – are scarce and outcomes are mixed (Cameron et al., 2013[59]). This is an area requiring further study.

Service integration can take place either horizontally or vertically. For instance, in healthcare, horizontal integration may entail integrating the hospital and community-based health services to ensure the continuum of care. Another potential area for integration, albeit more demanding, is social and health services. The fact that in elderly care, for example, the benefit of close co-operation with healthcare is often essential, has triggered a discussion on the benefits of integrating health and social services. This is not easy, however, not least because of the different traditions in the two sectors. Integration may also refer to the integration of the hierarchy of governance and finance within multiple service settings in a particular sector or with regards to a specific population. This type of integration serves several functions. It can help to ensure that there are fewer gaps or vulnerabilities in the provision, that resources are used well (and do not overlap) and that access to services is coherent and consistent for the user across various providers. It can also help to ensure that the policies or regulations of upper-level governments enable the local level to deliver place-based solutions. Horizontal integration brings together previously separated policy groups, services, professions and organisations to better serve users – this type of integration can take place across national, regional, local or delivery levels and can help to overcome disciplinary siloes.

Integrated services can be delivered in many forms – entailing joint planning, co-operation or communication among service providers, collaboration among professionals across different sectors, the physical or virtual collocation of complementary services, or a mix thereof. A colocation is a form of (light) integrated service delivery. This practice refers to having some or all services or agencies located in one

building. Doing so can allow residents to access multiple services in one place. It can also reduce administrative and capital costs – e.g. service providers can share one administrator in some cases.

Physical proximity between groups of professionals working in different sectors is also thought to promote collaboration. Colocation is particularly relevant in rural areas experiencing population decline. In such cases, fixed capital assets can become too large to efficiently operate, leading in some cases to rationales for their closure. By collocating services, one is able to make better use of this fixed asset – thus allowing for smaller sized operations to combine. There are many examples of this approach in practice. France has developed one-stop-shops for citizens called *Maisons de services au public* (public service houses) (further discussed in Chapter 4), which offer access to such services as post offices, public transport ticketing, energy utilities, unemployment insurance and welfare services (pensions, family allowances, health insurance, etc.). As another example in the UK, 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 and Jones, 2016[60]).

The new approaches to service provision can be summarised in three categories:

- **Collaboration**, which refers to 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.
- **Co-operation**, which is the highest degree of integration wherein professionals communicate and work together, for example on multi-agency teams. Beyond the practitioner level, this can also entail co-operation across levels of government (vertical or horizontal). Doing so can help to lower the costs of delivering services by reducing duplication and help to better identify and respond to service users' needs. Often such integration requires facilitation at the regulatory and policy levels in order to, for instance, share resources and other information and pursue joined-up strategies. There can be numerous barriers to the uptake of this approach including separate reporting requirements and confidentiality requirements. Italy's Strategy for Inner Areas offers a good example of how to work with municipalities to enhance co-ordination within a multi-level governance framework.
- **Co-production**, which refers to the involvement of 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 and Pestoff, 2006[48]). In some European countries, the term is used to describe the organised involvement of citizens in their own welfare production. At the policy level, this form of social enterprise is being increasingly promoted in many states as a cost-effective way of providing service in rural areas. With denser social networks, rural areas may have a competitive advantage over urban ones in pursuing this type of service delivery strategy. 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[61]).

These various approaches to service providers offer the potential to better 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 (NSW Government, 2019[62]). The programme is a joint initiative of the Australian government and state and territory governments and provides integrated health and aged care services for small regional and remote communities which allow services to exist in

regions that could not viably support stand-alone hospitals or aged care homes (Australian Government, 2019[63]). This includes partnering with private and not-for-profit organisations for some health and aged care services. 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[64]).

While they have their benefits, integrated approaches are not without controversy. 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 a gap themselves. Such strategies can also encounter constraints. For example, in an analysis of the capacity of rural communities in South Australia to deliver integrated mental health support for older people, it was found that the fragmentation of governmental responsibility, the funding climate, and the centralisation and standardisation of service delivery presented the greatest barriers (Henderson et al., 2017[65]). In the case of co-production, while it flourishes in some places and contributes to the future sustainability of rural communities (Matthies, Kattilakoski and Rantamäki, 2011[66]) in others, the energy for this type of local organising is simply not there and as services are withdrawn, communities decline (Herbert-Cheshire, 2000[67]).

Flexible approaches – Mobile, on-demand and e-services

Flexible service provision is increasingly used as a strategy to fill the gaps where fixed assets or standards forms of provision are not possible and/or to improve accessibility by bringing services to people. It can help to adapt services to different circumstances. Much as in the case of service integration, there can be regulatory or policy barriers to the adoption of flexible service delivery approaches. Facilitating these approaches can require the application of different standards to service provision; e.g. smaller mixed-year classrooms in the case of schools.

The increasing use of flexible approaches to public service provision may entail a range of strategies. 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 the more affordable option depending on distances/volumes. Outreach models of service delivery are characterised by the periodic supply of services from a location with services to other locations without services through a "hub-and-spoke" arrangement, or some other visiting mechanism. This approach can help to provide some services (most often healthcare) to dispersed and isolated populations.

Flexible approaches can also entail the use of digital technologies to provide services. This is a fast-moving field. For example, early models of telemedicine, where one could access health practitioners over the phone, have now been complemented by videotelephony, 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 and mobile connections.

While rural areas are increasingly connected to broadband, much of this access is not of adequately high-quality to support service provision. 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 Mbps, a speed needed to use advanced connected devices and services (OECD, forthcoming[68]).

Integrated spatial planning

National and regional governments also play an important role in setting the directions for spatial development (depending on the nature of their planning systems) and in establishing the incentives for integrated spatial planning in the first place. For example, Japan's National Spatial Strategy (NSS) has

adopted a vision based on “compact” and “networked” cities and village. At a national scale, the NSS acknowledges that some areas will become effectively depopulated, though it seeks to sustain a broad settlement pattern that throughout the national territory. At smaller scales, the policy addresses the restructuring of urban and rural settlements that will be needed to maintain their cohesion and the efficiency of service delivery. Improved connectivity – transport and communications – among towns and cities, as well as within them, is meant to offset to some extent the loss of agglomeration potential that will occur as a result of a shrinking population (and, even more, as a result of a shrinking workforce).

In Japan, these concepts –– “compact” and “networked” – are to be applied differently at different scales and in different circumstances. In smaller towns and rural areas, the emphasis is on creating basic service delivery hubs that will help sustain rural communities around small, multi-functional cores (the so-called “small stations”). Networking will entail improved connections between very small hamlets and nearby service hubs (small stations). These “small stations” will concentrate basic service delivery, including administrative services, healthcare, 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 resources 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 promoting renewable energy generation.

OECD governments increasingly face tough decisions about where to locate or maintain public investments. It is important that service and policy restructuring decisions are reflective of the diversity of needs and circumstances facing rural communities, and not uniformly applied. There is a growing trend towards the regionalisation of services – withdrawing services from smaller communities and concentrating them in larger hubs but also to reassign tasks between government levels. In such instances, ensuring access through transportation systems is critical – particularly for vulnerable populations. Integrated spatial planning can help to guide these decisions. In extreme cases, governments may facilitate community relocation, thus withdrawing all services, including basic infrastructure like road maintenance. 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 CAD 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.

Conclusions

Public services have undergone deep transformations in this and the previous century. The post-war welfare state expanded public services across territories and transformed citizens’ relationships to and expectations of their governments. In many countries, this transformation has continued and new modes of public management have been rolled out. New public management reforms in the 1980s in countries such as Australia, the UK and the US have reoriented public services towards a client-centred experience and have expanded the number of actors involved in service provision across levels of government, including private and non-profit providers. At the same time, the role of regional and local governments in public service provision has also expanded and they are now responsible for a large share of subnational expenditures on a wide range of public services.

The next chapters will propose policy options to improve present and future education provision (Chapter 3) and healthcare (Chapter 4) services in rural areas in the context of evolving megatrends, as well the integration of digital education and health services into service provision models in rural areas (Chapter 5) and governance reforms for education and health system decentralisation (Chapter 6).

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Notes

[1] For more information, see https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:International_standard_classification_of_education_(ISCED).

[2] In the case of national defence, a private provision, although not impossible, would be deemed inefficient because of the free-riding behaviour of consumers. In other words, people could consume the goods without paying for them. Therefore, private provision with voluntary contributions would likely provide a much smaller amount of the service than is socially optimal. Such under-provision of service could be solved with free provision financed by taxes.

[3] In some countries, the public sector remains legally responsible for delivery even though the service production is outsourced to a private producer. In such cases, there is a legal separation between provision and production, to enable private sector participation.

[4] Across Europe, the Lisbon Treaty is the legal underpinning for the European social mode, wherein, together with the EU Charter of Fundamental Rights, there is legal guarantee of non-economic services of general interest. The protocol details the discretion of national regional and local governments to meet the

needs and preferences of users' needs based on "geographic, social and cultural differences" (Wollmann, 2016[31]).

[5] See Auraaen et al. for an analysis of the scope of coverage of health system across the OECD for both medical procedures and pharmaceutical benefits (Auraaen et al., 2016[42]).

[6] In Australia, school attendance is compulsory between the ages of 6 and 16 (primary and secondary education) for all Australian children, whether citizens or residents, and is delivered through state and territory education systems throughout Australia, co-ordinated and co-funded by the federal and subnational governments. This means that in practice, even if not in the constitution, there is de facto universal access.

[7] The term co-production was first developed by Elinor Ostrom and her research team in a series of studies of the Chicago police in the 1970s on polycentricity.

[8] The income equalization allowance is calculated according to the difference between one's own taxable income and a tax equalization allowance, which corresponds to 115% of the average tax power for municipalities and 110% for county councils. Municipalities and county councils whose own tax power exceeds these levels will instead pay a fee to the system. Most of the funding comes from the state (Tillvaxtanalys, 2011[51]).

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