

***The Viability of Canadian Municipalities:
Concepts and Measurements***

by

John A. Marshall and David J.A. Douglas

ICURR Press

Toronto

August 1997

ICURR Intergovernmental Committee on Urban
and Regional Research
Comité intergouvernemental de recherches
urbaines et régionales **CIRUR**

Published by ICURR Press
150 Eglinton Avenue East, Suite 301
Toronto, Ontario, CANADA M4P 1E8
Telephone: (416) 973-5629
Fax: (416) 973-1375

First Edition: August 1997
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Edited by Joan Campbell, with the assistance of John Slatcher and Wayne Berry

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ISBN 1-895469-53-8

Canadian Cataloguing in Publication Data

Marshall, John A. (John Arthur), 1962-
The viability of Canadian municipalities : concepts and measurements

Issued also in French under title: Viabilité des municipalités canadiennes : concepts et coefficients d'évaluation.

Includes bibliographic references.

ISBN 1-895469-53-8

1. Municipal government – Canada. 2. Feasibility Studies – Canada. I. Douglas, David J.A. (David James Anthony), 1944- . II. Intergovernmental Committee on Urban and Regional Research (Canada). III. Title.

JS1708.M37 1997

320.8'5'0971

C97-930962-X



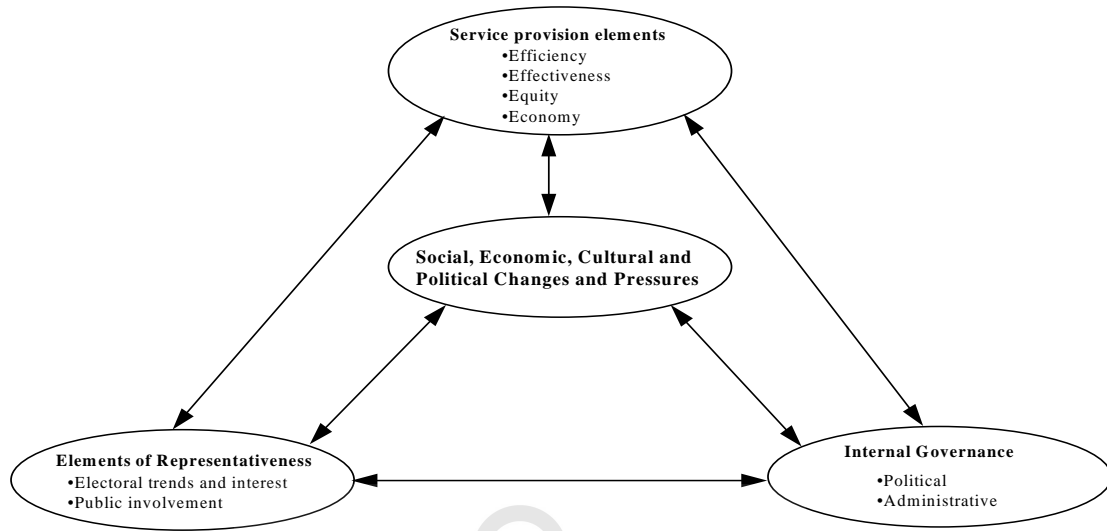
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Preface

Canada's municipal governments, like most institutions of governance around the world, are facing a period of unequalled challenge. This condition has been brought on by a number of emerging internal and external stress-producing factors. Local economies and social structures have felt the influence of changes in global trends both directly and indirectly through their impact on their traditional funding partners at the provincial and territorial levels. These changes are propelling Canada's local democracies toward an era of increasing self-evaluation and, potentially, fundamental transformation.

Canadian municipalities have the legislated mandate to deliver many local services that their ratepayers require. These local services are financed through a number of internal (e.g., local tax) and external (e.g., intergovernmental transfer) sources. Internally, economic trends such as a decline in the level of commercial and industrial investment, have had a negative impact upon the tax base of many local governments and thus decreased the capacities of municipalities to deliver services. Externally, in the majority of jurisdictions, the intergovernmental transfers to the local level have been declining.

In the face of these downward revenue trends, the national proportion of total public sector spending by local governments has increased compared to the spending at the provincial, territorial and national levels. Increasingly Canadian municipalities, like their federal, provincial and territorial counterparts, are being asked to do more and better with less.

These external and internal forces have forced all levels of government to reconsider many of their traditional public roles and responsibilities. Simultaneously, the mechanisms used to fund the programs that operationalise these roles and responsibilities are also under review. In the face of great structural and functional uncertainty many local governments, including municipalities, have embarked on a process of critical self-evaluation.

From a positive viewpoint, systemic stresses and the resultant self-evaluation can often lead to innovative coping mechanisms (e.g., alternative servicing arrangements). But on the negative side, these stresses can stretch a local government's capacities to a point where the actual *viability* of the municipality as a functioning unit is called into question. This raises the question: Is it possible to identify, and define the characteristics of a point-of-no-return — a moment where internal and external stresses have rendered a local government no longer *viable*? To answer this question, it is necessary to identify and describe the factors that induce the capacity depleting stresses, and to find ways to gauge the trends and intensities of these stresses.

The planning of the factors that induce municipal stresses entails the management of uncertainty and change. Uncertainties can be managed best through a process that strategically isolates them. This process involves discovering the internal and external environments that surround and exacerbate the problems and then identifying the linkages that lead to a state of disequilibrium, one where forces of uncertainty have induced unmanaged and often undesirable changes. If Canadian municipal governments are to emerge successfully from this latest cycle of uncertainty, the forces that threaten them must be identified and strategies developed to mitigate their impacts.

To this end, the Intergovernmental Committee on Urban and Regional Research (ICURR) has sought to develop an integrated conceptual framework that will both describe the general conditions for, and the characteristics of, viability and contain composite measures of the stresses on municipal government capacities.

Acknowledgements

The authors of this research report would like to express their sincere gratitude to a number of people and agencies who were instrumental in initiating this research and in helping us complete the project. First, we would like to express our thanks to André Lanteigne, Executive Director, for entrusting this important and challenging assignment to us. Claude Marchand, Director of Research, was of great assistance in all aspects of this research project, and we want to convey our appreciation to her. Michael Skelly, former Research Associate, and John Slatcher, Information Associate, also provided invaluable and timely input. In addition, we thank Steve Jacques of CMHC and Joan Campbell for their insightful editing of earlier drafts of the manuscript.

The informed contributions of a number of seasoned and respected researchers and authorities on municipal affairs and related fields greatly enhanced this research project. We would like to single out Allan O'Brien, Richard Tindal, Jack Stabler and Harry Kitchen for providing us with some candid and insightful perspectives on the challenging topic of municipal viability.

This research project had, as one of its key underpinnings, a survey of authoritative senior Provincial and Territorial officials who specialise in municipal administration and management, and who are active Members of ICURR's Research Steering Committee. Their input to our survey pre-tests and their ready responses to three sets of surveys were fundamental to the completion of the research, and to its ongoing value. Our sincere thanks are extended to these colleagues.

Finally, we want to thank our colleagues in the University School of Rural Planning and Development, University of Guelph, for their encouragement and support throughout this challenging project.

The conclusions and recommendations in this report are the sole responsibility of the authors, as are any errors or omissions.

About the Authors

John Marshall received a B.A. (Political Studies) from Trent University in 1985 and completed his M.Sc. at the University School of Rural Planning and Development, University of Guelph, in 1996. A specialist in local government, he has conducted research on governance systems, the complex issues of changing local government functions, and the spatial or geographic dimensions of this level of government. John was an elected Councillor for the Township of Humphrey (Parry Sound area, Ontario) from 1991 - 1994. In this capacity he worked with and on various municipal boards, committees and commissions. Active across most areas of municipal government, he worked with Provincial officials, and was a vigorous proponent and participant in a variety of intermunicipal collaborations (e.g. waste management, economic development, municipal boundaries). He chaired the local Economic Development Committee, a Regional Municipal Boundaries Committee, and the local Committee of Adjustment.

David Douglas, a professor in the University School of Rural Planning and Development, University of Guelph, has been active in municipal affairs over the last twenty-five years, in all regions of Canada. His consulting assignments have included detailed reviews and appraisals of internal organisation structures and management systems, the design and setting up of local government agencies, the assessment of changing demands upon intergovernmental bodies, and a comprehensive appraisal of the management and planning capabilities of Canada's smaller and mid-sized municipalities. He continues to work closely with local governments and has recently directed several consulting assignments related to strategic planning and management in community development, intermunicipal collaboration, and amalgamation.



Executive Summary

Current political, social and economic climates and conditions are intensifying the need for thorough and comprehensive reassessments of most aspects of local government in Canada. Municipalities in particular are facing a number of external and internal stresses that are influencing their capacities to absorb and adapt to often rapid and sometimes dramatic structural changes.¹ In turn, these capacity stresses are threatening the very existence of municipal governments. Municipal authorities, along with their provincial and territorial partners, are looking for ways and means to “take the temperature” of municipalities to assess their viability.

Through an intensive review of the literature, a series of national surveys, and a number of key informant interviews, this research report addresses the complex concept of viability and the measurement requirements associated with gauging a municipality’s capacity. It goes on to suggest a conceptual framework and develop an approach to the overall assessment of municipal viability.

Since many municipal characteristics such as financial condition, economic vulnerability or voter turnout rates are measurable, one should be able accurately to determine points or conditions where the capacity of a municipality is stressed to a state of non-viability. While, in theory, it would seem that a rigorous quantifiable measure of viability is possible, for a number of reasons the identification of such a measure is not practically attainable. For one thing, the many variables that influence the capacities and viability of local governments are “wicked” in nature. That is, they are so diverse, multifaceted and generally unpredictable that meaningful aggregate measures are not practicable. In addition, the federal and fragmented Canadian local government system, with standards and regulations that vary from region to region, makes cross-regional comparisons difficult, if not impossible. Furthermore, much of the data that is needed for accurate and timely measures is, for a number of reasons, not readily available.

For these reasons and others, the objective of this research report is not to establish a universally applicable, “hard and fast” set of conditions for measuring municipal viability. Rather, it is to suggest a number of specific indicators of municipal capacity stresses, and to develop a conceptual framework within which such measures may be modified as necessary and utilised. To this end a linkage is made between the stresses that exist in the local government’s internal and external operating environments, and the capacity of the municipality to absorb these stresses before they threaten the municipality’s viability.

A “stress” is defined in the contexts of the two primary roles of the municipality as widely defined by the literature (e.g., Tindal and Tindal, 1990): that of a service provider and of a local democratic representative. Any external or internal factor that impacts negatively or positively on, or impedes the performance of, one of the municipality's roles is considered a stress. These stresses are aggregated into three categories (“capacity stress indicators”):

- Financial or fiscal capacity stress
- Governance capacity stress
- Community capacity stress

¹ For a working definition of “municipality,” see page 2.

A number of dominant capacity stress indicators emerged from our extensive literature review, the surveys and the key informant interviews and are described in this research report. These indicators provide a starting point for the proposed conceptual framework. Bearing in mind the caveats outlined above, a conceptual framework of municipal capacity and viability is presented. Then a viability assessment protocol (“tree”) is proposed for discussion and refinement.

It is hoped that the concepts and measures introduced or explored in this research report will encourage active debate among and between students, researchers and practitioners in Canada’s municipalities.



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Chapter 1

Introduction

1.1 Objective of the Study

The Intergovernmental Committee on Urban and Regional Research (ICURR) set out the following objective for this research project:

“To identify a model or models to define essential conditions for municipal viability, considering governance factors and financial measures.” (ICURR 1996)

1.2 Scope of the Research

The study has considered and explored many issues in order to understand the concept of “viability”. Several notions and measures of fiscal, governance, and community stress and capacity were distilled from the literature on Canadian municipal systems, as well as on local governments abroad. The relevant literature covered a wide range of disciplines and professions including Public Administration, Economics, Political Studies, Planning, and Business Management and Urban Finance.

This study did not involve an *in depth* investigation of the various *responses* to perceptions of non-viability. Thus, literature that addressed such initiatives as territorial restructuring, alternative service arrangements or internal management strategies was largely excluded from the research process.¹ Some of this material was examined in order to understand past interpretations of and approaches to the concept of viability. It also informed the current research by describing the diverse justifications for functional and structural changes, justifications that often included concepts, issues and measures of capacity stresses or non-viability.

1.3 Structure of the Report

This research report begins with a discussion of municipal viability, outlines some of the basic assumptions behind the project, and describes the project’s objective. We then examine some of the issues around Canadian municipal government and trace the development of its dual role: as a provider of services and representative of local interests. Because the factors that are forcing Canada’s municipalities to re-evaluate their roles and question their continued viability cannot be understood without reference to their historical context, the report then outlines the development of the local government system in Canada and examines past attempts to deal with concerns about municipal viability.

The next section elaborates upon a primary contention of this research report, namely that the concepts of capacity and viability are inextricably linked. In order to understand this linkage, one must first come to grips with the complex concept of capacity and the equally elusive notion of viability.

After examining the concepts we briefly introduce three aspects of viability: financial, governance and community, and discuss the linkages between capacity and viability in each case. We follow this with an explanation of how the survey respondents and the literature treat specific measurements of local government viability.

¹ For comprehensive treatments of the responses to viability “problems”, see Michael Skelly. 1996. *Alternative Service Delivery in Canadian Municipalities*. ICURR Press; Peter Diamant and Amy Pike. 1996. *Consolidation and the Small Municipality: A Commentary*. The Rural Development Institute, Brandon University, Manitoba; Allan O’Brien. 1993. *Municipal Consolidation and its Alternatives*. ICURR Press; Andrew Sancton. 1991. *Local Government Reorganization since 1975*, ICURR Press.

After summarising the components of viability and drawing some conclusions, we present a series of cases that examine selected responses to perceived non-viable situations. These cases further illuminate the complexities of the subject and allow the reader to apply some of the concepts to concrete situations.

At the conclusion of this research report a conceptual framework is proposed within the terms of reference that ICURR set for this project. This framework attempts to capture the major viability themes that emerged from our research and analyses a number of linkages within and between these themes.

Finally, although it is not a formal part of the ICURR terms of reference, we offer a preliminary viability assessment protocol. This protocol undoubtedly still has some “gaps” and may not be as rigorous as certain analysts would like; but we believe that, in combination with the conceptual framework developed in this research report, it may prove useful as a base for future discussion.

1.4 Definitions and Assumptions

In order to arrive at a working definition of the expression “municipal viability”, it is necessary to first disaggregate this term into its component parts.

“Municipal” is fairly easy to define. First, while it may refer to different types of municipal government in Canada (e.g., city, town, village, township, County, Regional District, Regional County Municipality, municipalité régionale de comté [MRC], Improvement District), it implies a legal corporate entity that has some degree of delegated political and administrative powers. As a locally elected representative body it can make policies on a range of issues (e.g., land use, property taxes, community recreation facilities, waste management) that affect the residents, and their homes and businesses at the local level.

Second, “local” is defined legislatively by Provinces and Territories in geographical terms. This is opposed to “community” which denotes any collection of groups or interests that share similar goals or interests, only some of which may have a common “locality” or geographic base.

The literature provides some definitions of “local government” and “municipality”. For example, Tindal and Tindal (1990) describe local government as a body that has been given the powers by the Province or Territory to assume responsibility for two main roles: an administrative role in the provision of local services and a representative role that fulfils the needs and wishes of local inhabitants. Marshall (1996) argues for a broader interpretation of local government as a lead agent of all of the power brokers in a region, or what it also known as the “local state.” The common thread among definitions is that the Canadian municipality is seen as both a local voice and an enabler of public services.

Some confusion can arise when the terms “local government” and “municipality” are used interchangeably. Several survey respondents for this research report indicated that the latter term clearly denotes a statutorily defined, locally elected body with a broad range of responsibilities. Bird and Slack (1993) for example, include schools boards as well as the more “general purpose” municipal governments in their discussion on local government. Other “special purpose” bodies such as planning boards, police services commissions or economic development commissions can also be considered to be a form of “local government;” however, their duties are generally much narrower than the “general purpose” bodies. For the sake of clarity and consistency, this report will employ the more narrowly applicable terms “municipality” or “municipal government”.

The Canadian municipality can be readily defined, and many of its characteristics quantified for analytical purposes. It is easy to understand what the County of Wellington, the Regional District of Nanaimo, the City of St. John's or the Municipal District of Sturgeon No. 90 represents in terms of geographic location and dimensions, decision-making authority and measurable characteristics such as boundaries or population.

“Viability” is a great deal more difficult to define and measure. Webster’s dictionary defines “viable” as “capable of living; capable of growing or developing.” Applied to the municipal context, this definition could interpret a municipality that is “not growing” or “stagnant” (using a given terms of reference), as being either not viable or potentially not viable. Another telling definition is found in a 1980 University of Saskatchewan report, **Some Forces Influencing Community Viability: An Overview**:

“Viability” refers to the current and potential performance of a given community in terms of decline, stability or growth. That potential refers to the effectiveness of a community (its businesses, institutions and agencies) in providing its citizens (and perhaps citizens from other communities) with the goods and services that they want and need (generally a broad range of high-quality, low-cost, goods and services).

During the preparation of this report, it quickly became apparent that the literature uses “viability” in two different ways: “financial viability” to refer to the fiscal state of the municipality, and “viability of governance” to focus on general local government conditions. From the results of the comments on the draft survey instrument and a further detailed examination of the literature, a third essential aspect of viability became apparent; that of “community viability.”

It is recognised that these three large categories overlap and influence each other to varying degrees, as well as affecting the overall viability of the municipal unit. Fiscal problems in municipal government are linked to local demographic, socio-economic, or intergovernmental conditions. Demographic factors such as an ageing population or rapid in-migration may influence the levels of fiscal stress. Both may influence the ability of municipalities to make and implement public policies that provide and pay for services and infrastructure. These very complex interactions impede the development of a “hard and fast” definition of municipal viability. The separate aspects of viability can be illustrated and measures proposed, but to aggregate these measures into some overall evaluative tool is onerous.

To understand the links between these aspects of viability and the concepts of stress and capacity one must first comprehend how the various roles of Canadian municipal government evolved. The next chapter of this report therefore sketches the historical and institutional context of that evolution.

Chapter 2

The Evolution of Canadian Local Government

2.1 A Brief History

Canada's system of municipal government is based almost entirely upon British law and practice with some later additions from the United States. The first municipal charters were issued in Britain during the 18th century to remove certain defined urban areas from the direct control of the feudal landlords (Sancton, 1991b). This practice was carried across to the new world colonies. Urban property-holders saw an advantage in municipal charters. These enabled them to establish their own taxing systems and choose which services would be provided within municipal borders. The central colonial authorities also saw advantages in the granting of these Charters because the system of centrally administered local governance was unwieldy, with a vast array of local boards and authorities. A system of municipal government was seen as an effective way to enforce central policies and administer programs that operationalised these policies at the local level.

In Canada, as elsewhere in the Western world, the 19th century saw the onset of the Industrial Revolution. Due to the change from agricultural to industrial production, many people migrated to the cities to fill the new factories and reap the perceived benefits of urban life. As this took place, it became apparent that many basic local services were inadequate to meet the added demand. An added complication was that the colonies of both Upper and Lower Canada were in a state of continuous and sometimes bitter agitation from 1793 to 1849 (Crawford, 1954). The rebellions of 1837 were largely responsible for concern in Britain about local affairs in the colonies; the British were understandably worried about a repeat of the American experience. This heightened awareness, and the strained public infrastructures combined to encourage the development of local administration of local services. Thus, the political climate provided the opportunity to establish such local municipal authorities.

Following the 1837 rebellion, Lord Durham investigated the conditions in Upper and Lower Canada. The resulting *Durham Report* of 1840 was a turning point in the development of Canadian municipal government. To a considerable extent, Lord Durham blamed the colonial unrest on the absence of municipal authorities.

Building upon Lord Durham's recommendations, the *District Councils Act* (1841) was passed by the government at Westminster. This Act allowed the direct election of district councillors who were to share the duties of local administration with the Courts of the Quarter Sessions' colonial appointees. The powers that were granted by this Act marked a break from the long-established system of local governance by justices of the peace, and it preceded by almost fifty years the abandonment of such a system in England (Crawford, 1954).

In 1849, this Act was replaced by the *Baldwin Act*. This Act, which arguably was the template upon which successive Canadian municipal Acts were based, built upon many of the aspects of the *District Councils Act*. However, it extended more powers to the municipal level and replaced the District with the County as the upper tier in Upper Canada. As well, the rural townships were, for the first time, recognised as formal units of government. This initial plan of local self-government established by statute is admirable because it conferred a large degree of local power to the local citizenry. Many aspects of this emerging system, including the role of municipal government as a local voice, remain intact to this day.

Another role, that of a service provider, evolved during the remainder of the 19th century as Canada's contemporary system of municipal government began to take shape. There was not a strategic or even a conscious effort on the part of the Governments of Upper and Lower Canada to establish such a system;

rather, it came about as a result of population growth and the resultant increased service demands (Tindal and Tindal, 1990). This characteristic of local government (i.e., a reactive role of local government vis à vis servicing needs) continued into the 20th century and established the precedents for future municipal government changes and structures.

The entrenchment of the local services role of municipal government as a response to increased service needs is best described by Tindal and Tindal (1990). They argued that “where provincial authorities did encourage or ultimately impose municipal governments on their populace, it was not because of any apparent belief in the values of local democracy - rather, it was motivated by a desire on the part of the provincial administrations to shift at least some of the growing burden of expenditures to the local level.” (Tindal and Tindal, 1990). This trend is even more evident today.

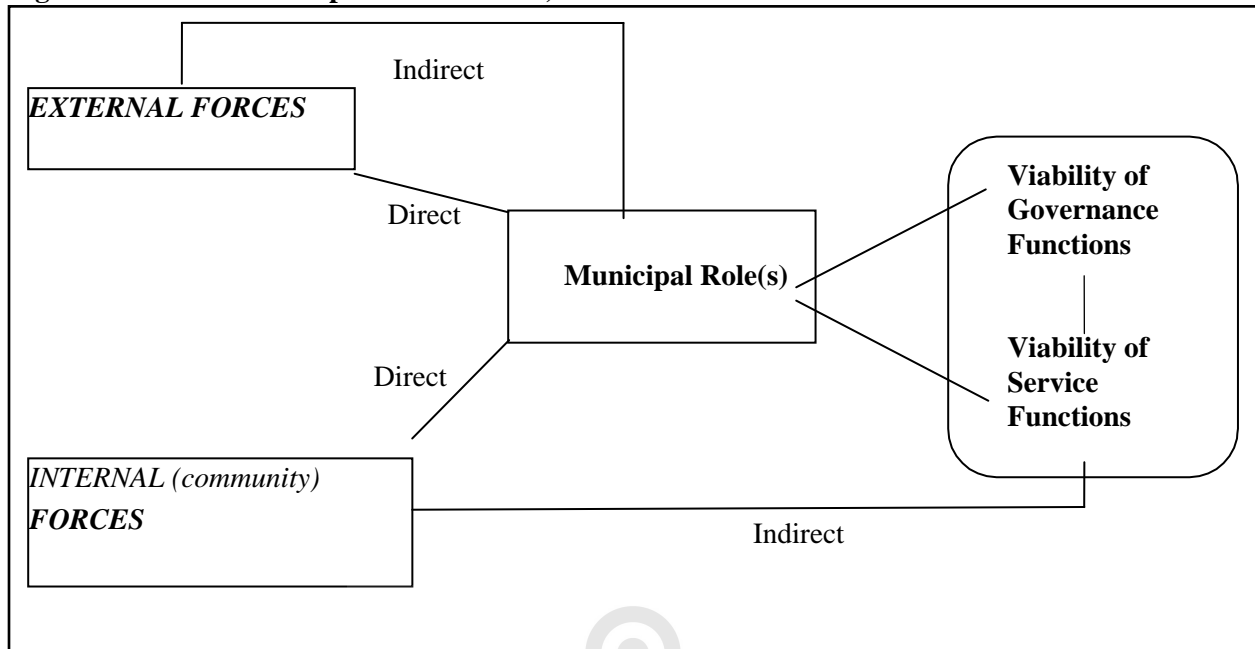
It would seem that the primary reason, if not the only reason for the establishment of local government in the 19th century was to create bodies to administer local services. Originally developed in response to the pressures of urbanisation, the services role remains strong and, indeed, usually overshadows the representative role of local governments to this day.

2.2 Interacting Roles and Functions

A pioneer in the study of Canadian municipal government, C.G. Crawford, described the two roles for municipal government: to carry out the duties imposed upon them by the provinces and to “carry out the wishes of the area under their jurisdiction” (Crawford, 1956). Others (Plunkett and Graham, 1982) complained that local government was becoming little more than a “complex form of local administration” (Plunkett and Graham, 1982). In general, there has been a consensus among Canadian municipal government researchers (e.g., Plunkett, 1968; Tindal, 1977; Tindal and Tindal, 1990) that these institutions perform the dual roles of service provider and maker of local public policy, broadly known as “governance” (Plunkett and Betts, 1978, 32). These roles, and the forces that act upon them provide an intrinsic part of our understanding of municipal viability.

Because these roles are carried out within a particular socio-political and economic reality, they are affected by many external and internal forces, both direct and indirect. For example, the curtailing of funding for a capital project such as a sewage treatment plant expansion will have a direct impact on a municipal government’s service role functions. A free trade agreement or national employment program can indirectly affect its service role and operating functions.

Figure 1: The Relationship between Forces, Roles and Functions



This relationship between direct and indirect external and internal forces, and the roles and the functions of local government, illustrated in Figure 1 (above) is an important conceptualisation because it establishes a link between the external environment of the municipality, the community in which it operates and the roles that the local body assumes. If a role of the local government is threatened, then its very *raison d'être* can be called into question. Similarly, the existence and health of the local government is also dependent upon, and in turn influences, the health of the community. The important point is that *threats to or stresses upon the community or to one or both of the functions of the municipality can be conceived as threats to its overall viability. The degree of the threat to the viability of a municipality is a function of the degree to which the service provision and/or the representative functions of the municipal government (and the weight assigned to each of these functions) are threatened.* The logical progression from this line of reasoning is to ask: what are the sources and characteristics of the threats or the issues that may impair a local government's ability to carry out its functions?

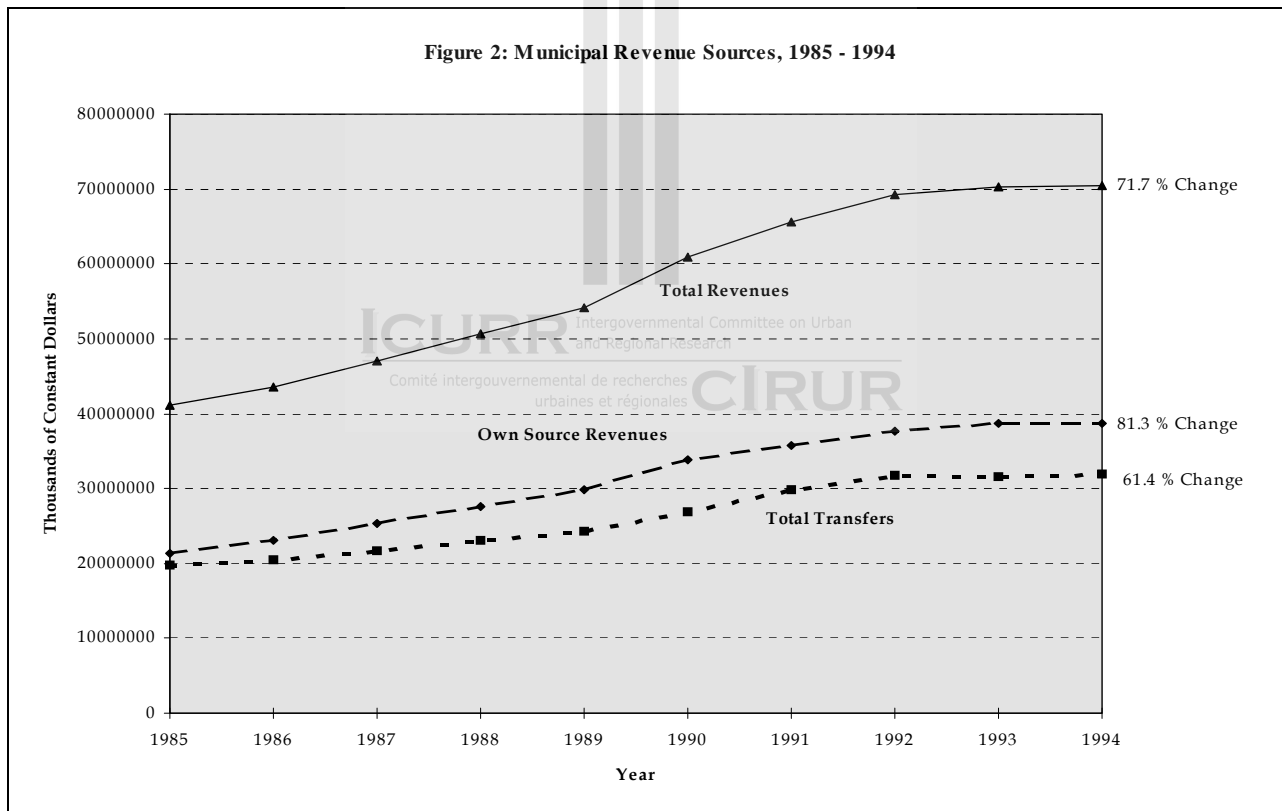
2.3 Issues

Canada's system of government consists of three levels: the national, the provincial and territorial, and the municipal. In terms of the processes and mechanisms of institutional change, there are many differences between and within the governments at the local level and those at the national and provincial levels. However, the frequency of structural changes at the local level is much higher than that at the higher levels. Until the birth of the new territory of Nunavut in 1997, there had not been a territorial change since 1949, when Newfoundland and Labrador entered Confederation. Even simple electoral boundary changes at both senior levels are infrequent.

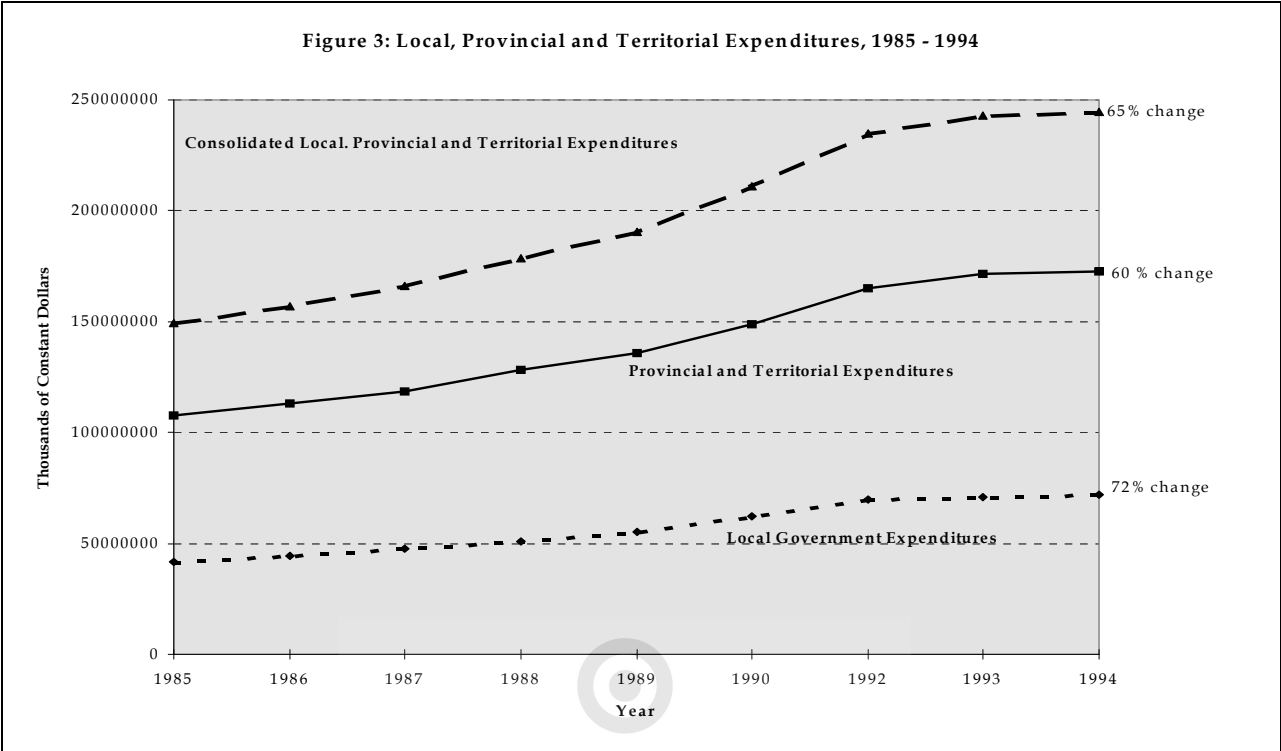
At the local levels, population, social and economic shifts and other factors encourage many functional changes. Equally important is the degree to which territorial and sovereignty adjustments are made. Higgins (1986) states that:

Units of local government in Canada seem to be in a state of almost constant flux as the nature of provincial / local relations changes in ways that affect the sovereignty possessed by local governments. Further, the population and territorial size of units of local government change relatively frequently through annexation, the creation of new municipalities, consolidation or dissolution of existing units, and the creation of second tier or regional metropolitan units (Higgins, 1986: 320).

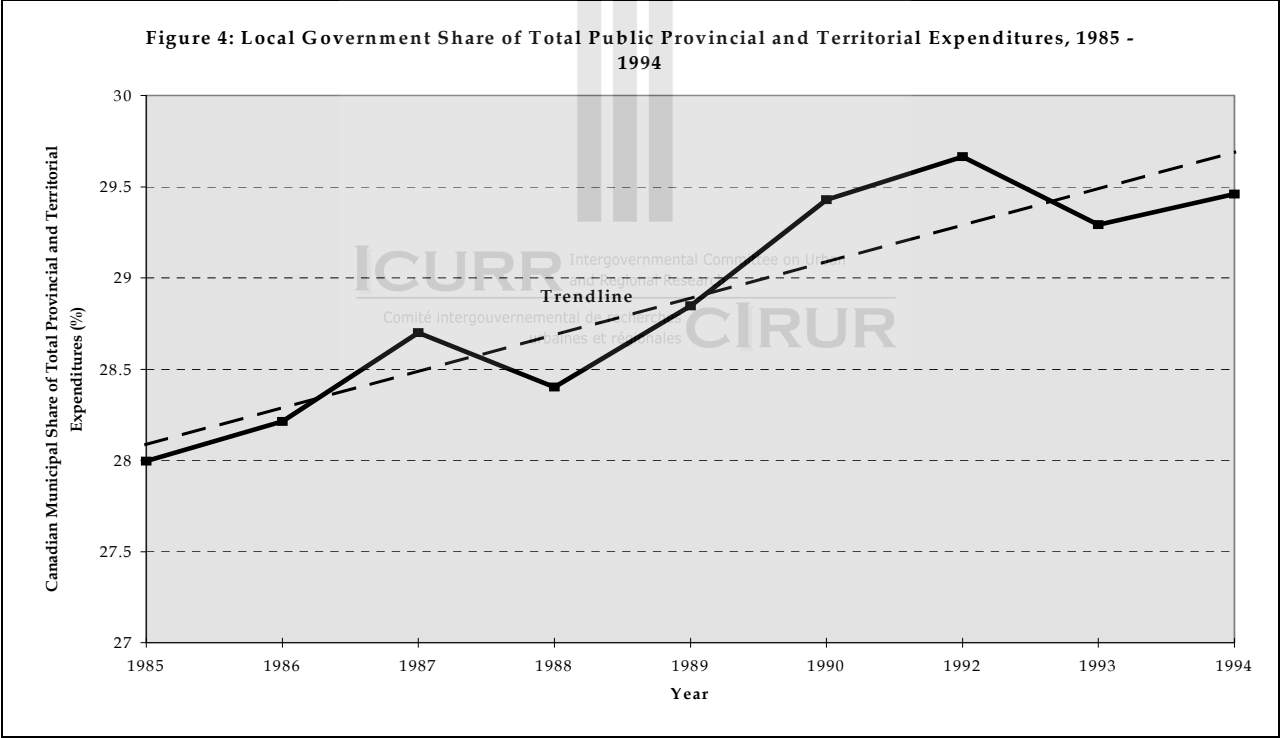
Canadian municipal governments are again in a period of functional and structural "flux." Fiscal stresses and socio-political pressures have risen to the top of the agenda. On the financial side, the rate of growth of own source revenues, such as property taxes and user fees, has been greater than the growth rate of provincial and territorial intergovernmental transfers (Figure 2). As well, total municipal expenditures have been rising faster than provincial and territorial expenditures, and consequently are accounting for a growing proportion of total public expenditures in the combined municipal and territorial/provincial sector (Figures 3 and 4). As a result, local governments are being forced to rely increasingly on own source revenues and/or drop some services or reduce service levels.



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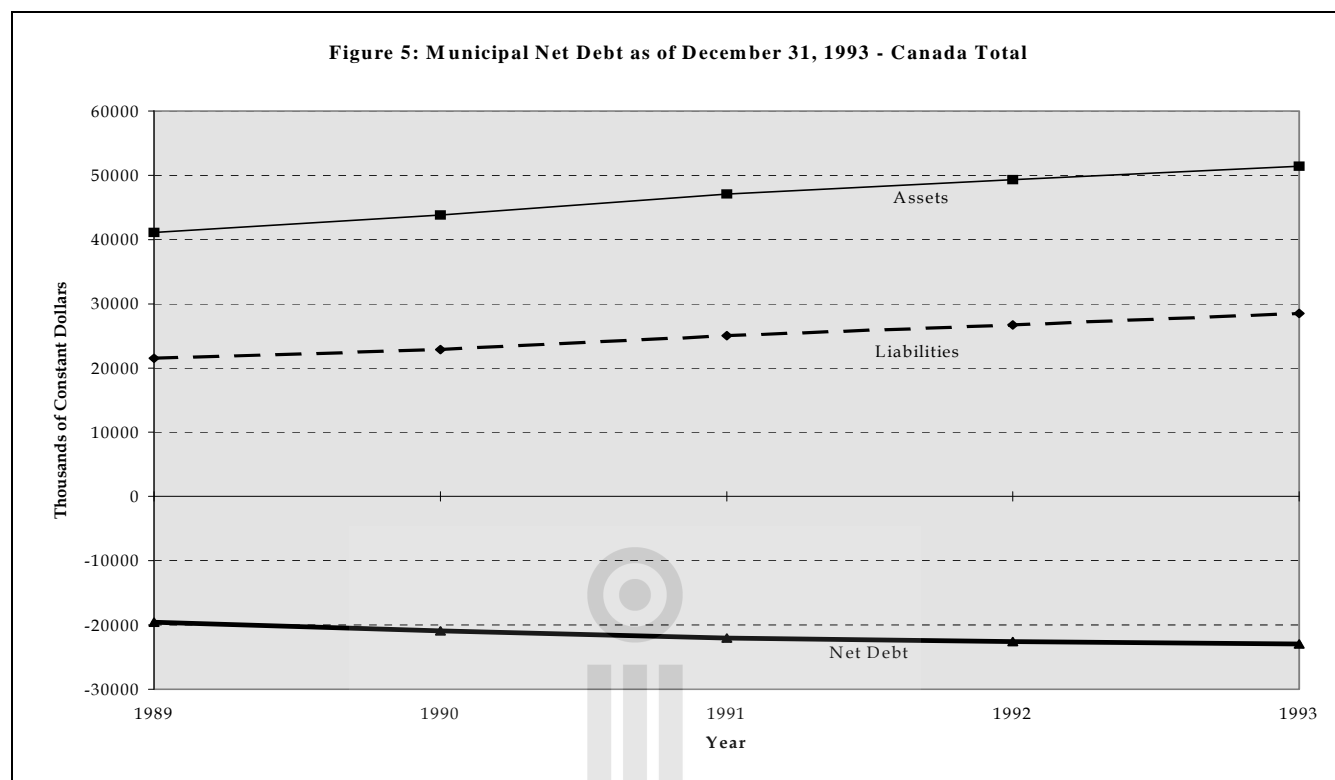


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Additionally, the municipal net debt has been steadily increasing as municipalities borrow in order to maintain their service levels (Figure 5).



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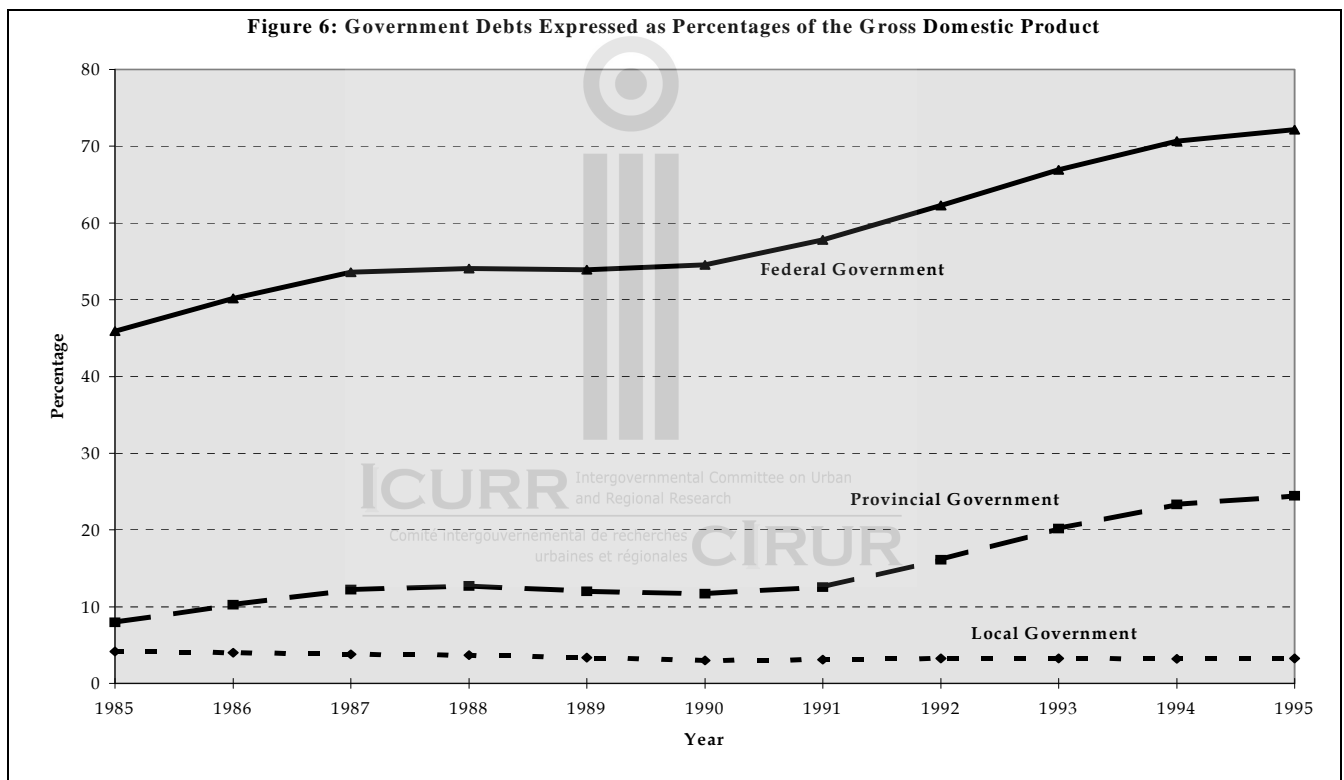
These fiscal stresses are now combining to encourage Canada's local governments and their provincial and territorial partners to examine their operating systems and structures and their roles within and among themselves.

Although the basic institutions of Canada's local governments (including municipalities) have remained fundamentally unaltered since the passing of the *Baldwin Act* over 150 years ago, their functions have been redefined by the senior levels of government. For many years, the provincial and territorial governments allowed local governments to assume a large part of their own local responsibilities, with considerable autonomy (Rowat, 1965). For example, in 1926 the proportion of local gross expenditure (before intergovernmental transfers) as compared to total public expenditures virtually equalled that of the federal government (39.5 per cent compared to 39.6 per cent) leaving the provinces with a much smaller proportion (20.5 per cent). In the 1930s this proportion began to change. The federal and provincial governments were pressured to intervene in local affairs. By the outbreak of the Second World War each province, with the exception of Prince Edward Island, had set up a municipal affairs department to oversee local communities (Tindal and Tindal, 1990).

With increased urbanisation and the growth in demand for social services, the federal and provincial governments assumed many of the functions that had previously been locally administered. There was a perceived need at all levels to improve the standards of efficiency, effectiveness and equity in the provision of local services (Hamel and Jalbert, 1991); it was felt that the local level was not capable of ensuring these standards. Yet despite this alleged deficiency, there have been few concerted efforts to re-examine the fundamental assumptions behind Canadian local government or to re-shape local government institutions. True, there have been a number of structural and functional innovations over that time (e.g., Regional governments, M.R.C.s), but the legal status and many of the original structures that make up Canadian local governments have remained essentially unchanged.

As local service demands have changed, many service delivery responsibilities have been shifted downward from the senior to the local levels (e.g., social services in some provinces), and new delivery structures formed to administer them (e.g., social service boards). The most dramatic of these shifts have been spawned by regional or national economic shifts, or in response to determined political efforts initiated at the provincial and territorial levels. The functional shifts of the Depression years and the establishment of regional government in the 1970s are both reflections of, and responses to, changes in the provincial political - economic culture. In the 1980s and 1990s changes in the economic climate, new organisational cultures and increasing public awareness of and involvement in decision-making have contributed to a revival of the reform debate and have spawned many new ideas.

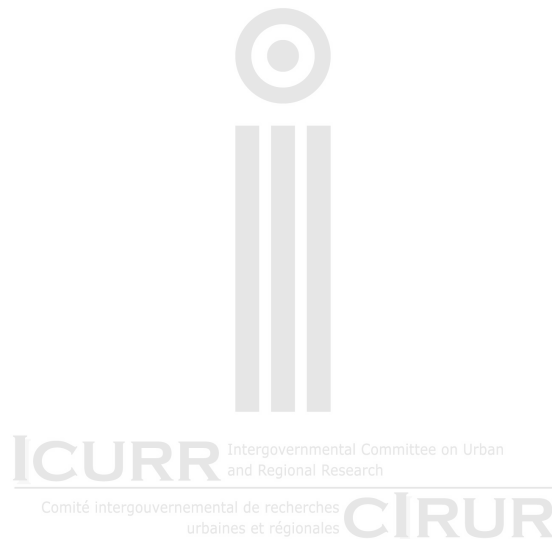
In addition, senior levels of government, faced with burgeoning debts and budgetary deficits (Figure 6), are under pressure to ensure that the operations of all levels of government are as efficient, effective and responsive as possible. While the deficits have been accumulated almost exclusively by the senior levels, and while most of these deficits are due to federal monetary policies and (to a lesser extent) provincial program expenditures (McQuaig 1995; Hurtig 1992), the remedial structural and functional efficiency programs will inevitably have their greatest impact at the local level.



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2.4 Summary

For various reasons, municipalities (as central components of local governments) have adopted two main roles in the governance of Canada's cities, towns, regions, counties and townships: service provider and maker of local public policy. The emphases on these roles and constituent functions have evolved with a changing economic and political landscape. The external and internal (community) socio-economic and political systems are never stagnant and like most systems are open, dynamic and responsive. While it is true that the current operating environments and the service demands that are placed upon local governments are very different from what they were a century ago, the municipal fiscal environments continue to be the primary influences on the characteristics of the municipal system. In other words, financial resources and their relative scarcity or abundance largely dictate the directions that the municipal institutions have taken.



Chapter 3

Viability: The Historical Perspective

3.1 Changes in Local Government

3.1.1 The 1920s to the 1940s

Most Canadian municipal governments currently use the tax on real property as their primary revenue source. Although many of the functions of local government have changed, the property tax has remained the primary funding mechanism. It can be administered effectively at the local level and was long considered adequate for the purposes for which it was conceived (Plunkett, 1972). A fairly low property tax could finance many of the basic services that local governments provided: care of the poor, a rudimentary road system and basic education.

Increasing urbanisation, accompanied by greater concentration of the population, made these traditional local government responsibilities ever more important. At the same time there was an attitudinal shift on the part of the citizenry toward government at all levels (Plunkett and Betts, 1978). As Kenneth Crawford put it in 1954:

Government ceased to be regarded as an institution primarily concerned with protective and regulator functions, and at the local level to provide essentially physical services. It came to be considered as an institution that should be concerned with positive programs for the benefit of the citizens, to protect them against social and economic hazards, to compensate them for personal and economic handicaps, and to assure to each, what, at any given period, is assumed to be a reasonable standard of living.

Crawford was addressing a turning point in the history of local government in Canada that occurred in the years immediately before and after the Depression. At this juncture, the municipalities ceased to be liberal institutions based on statute and confined to purely regulatory concerns, and became proactive agents of wealth redistribution in the emerging welfare state, with greatly augmented roles.

In addition to the introduction of these new redistributive policies and service expectations, pressures upon the traditional services of municipal government continued to expand at a rapid pace. For example, as the use of the automobile became more widespread, a need developed for a more extensive and high quality road system. As well, what was known as “poor relief” was extended in the 1930s to include a number of welfare services (Tindal and Tindal 1990). The field of education was also expanding as an increasingly complex industrial society demanded a more skilled labour force. Thus, the foci of municipal concerns shifted from relatively inexpensive maintenance and regulatory activities to costly construction and operational expenditures on both capital and current accounts (Plunkett 1972:32).

This evolution forced radical economies in municipal services and the indefinite postponement of expenditures for essential maintenance and construction. With the outbreak of the Second World War, these expenditures were further postponed because of war-time scarcities and the diversion of men, women and material to meet war requirements (Plunkett: 32).

The effect of these socio-economic changes upon municipal finances can be seen in Table 1 below. This Table illustrates the extent of the impact that both economic events had on municipal government

revenues and expenditures. Of particular significance are the increases in the total expenditures: they rose by 131 per cent over the eight year period from 1945 to 1953. This is compared to an increase of only 13 percent during the fifteen year period from 1930 - 1945. Clearly, the post-war period was one of rapid growth and unparalleled municipal spending. The infrastructure and building maintenance requirements that had been postponed during the Depression and the war years were carried out over a comparatively short time. Post-war immigration, the return of the troops from overseas and a post-war baby boom all led to dramatic increases in servicing demands, particularly in the urban fringe and suburban areas.

Table 1: Municipal Financial Developments Reflecting the Effects of the Depression, World War II and the Immediate Post-War Period, 1930, 1945, 1953¹ (millions of current dollars)

| | 1930 (\$) | 1945 (\$) | 1953 (\$) | 1930- 1945 (\$) | 1945- 1953 (\$) | 1930- 1945 (%) | 1945- 1953 (%) |
|--|--------------|-----------|--------------|--------------------|--------------------|-------------------|-------------------|
| Total Urban Municipal debt | 1155 | 824 | 1643 | -331 | +819 | -28.5 | +99.3 |
| Total Urban Municipal Current Expenditure | 247 | 273 | 631 | +26 | +358 | +13.0 | +131.0 |
| Total Urban Municipal Current Revenue | 235 | 281 | 647 | +46 | +366 | +19.0 | +130.0 |
| Total Urban Property Taxation | 128 | 192 | 427 | +64 | +235 | +50.0 | +122.0 |

The drain on the municipal revenue base reached a crisis during the Depression of the 1930s. Unemployment relief was seen by the senior levels of government as a municipal responsibility. This burden quickly became fiscally intolerable to the municipalities. Eventually, the Federal authorities stepped in and assumed about 80 per cent of the funding requirement for the relief system. However, even 20 percent of this funding was too burdensome for many municipalities, since they were also faced with massive unemployment that placed additional strains upon their ability to collect revenues from local sources.

Clearly, these drastic positive and negative external and internal impacts on the municipality's roles made viability very much a concern for many municipal governments. The senior levels of government responded by assuming some local responsibilities, by increasing the funding for some of these services (e.g., health care), or by structurally changing these local units in the hope of greater efficiencies and larger revenue bases.

¹ From Plunkett (1972).

3.1.2 Municipal Government Change, 1953 - 1996

The increasingly intensive servicing demands and the growing public expectations that were being placed upon Canada's urban areas had a dramatic impact upon municipal governments in the immediate post-war period (Bourne, 1991). Large cities in Canada were growing at an accelerated pace with rapidly expanding suburbs, discontinuous urban fringes and other "greenfield" developments, as well as space-extensive industrial, commercial and other activities. These burgeoning urban-centred regions accentuated the need for changes to the traditional systems and structures (Gertler and Crowley, 1979).

The original municipal institutions that had been designed to meet the servicing needs of the local citizenry were not equipped to handle these augmented service requirements. They had been meant only "to carry out the public functions and to operate within the restricted area boundaries considered appropriate for the time" (Tindal and Tindal, 1990). As well, many of the traditional territorial boundaries that had been established a century earlier were now outdated. Several local functions now spilled over from one municipality to another. As a result, new special purpose boards and commissions were established to deliver specific services. Many of these bodies did not conform to the traditional corporate boundaries or were functionally outside the usual purview of local authorities. The 1961 census, for example, identifies eighteen areas that contained populations of 100,000 or more. Within these eighteen areas there were approximately 260 separate municipal government jurisdictions, together with an additional unknown number of quasi-independent single-purpose authorities such as school boards, water boards, and transit and utility commissions. There was an enormous degree of structural and functional fragmentation that, even a decade earlier, had been judged ill-equipped to handle the servicing needs of the day (Brittain, 1951).

The demands for expansion of municipal boundaries had and continue to have a major impact on the rural and suburban areas of Canada's metropolitan regions and on the older central cities. Through the capacity pressures that these demands induce, the viability of these municipalities are under increased strain.

Many new municipal structures have been created to meet the new challenges and augmented demands. Some of these have been broad and comprehensive: Metropolitan Toronto, Winnipeg Unicity and the Halifax/Dartmouth/Bedford/Halifax County amalgamation. Yet for a variety of reasons, most local government reform, including municipal reform, have proceeded incrementally. Moreover, they have emerged as a result of an absence of policy, rather than resulting from a major policy initiative.

Reorganisation of form and function, commonplace in Western democracies, is part of the evolution of any governmental system (Sancton, 1985). As socio-demographic changes take place, structures and functions evolve or are deliberately modified to meet the emerging servicing and governance needs. Such reforms can take the form of comprehensive policy responses (e.g., a local government reform program) or of relatively minor adjustments (e.g., amalgamations, annexations, boundary adjustments). Full-scale proactive policy responses can involve long-term projects that can take years to complete. The pressures that must be addressed, however, often require immediate action. Thus, overarching and well-researched policy responses may not be practical. As a result, most changes to the local government landscape involve piecemeal alterations to the status quo.

For example, when a municipality suddenly loses a significant proportion of its revenue base due to the loss of a major industry, maintenance of existing servicing levels becomes an onerous burden. In the short-term, it can no longer maintain these levels without dramatically raising local property taxes.

In the longer term, amalgamation with a neighbouring municipality in order to capture economies of scale may become an attractive option.

3.2 Viability Standards: The Provincial and Territorial Policy Context

Because a perceived lack of viability frequently elicits a provincial or territorial policy response, we can gain insight into the way senior governments define and approach viability by examining some of these reactive policies. Policy documents, for example, Nova Scotia's *Task Force on Local Government* (1992), use the term "problem situations" to discuss aspects of viability. They may analyse the conditions that created these problem situations or identify their component parts.

Nova Scotia's 1992 report is a good illustration of a comprehensive policy development process. A Task Force engaged in extensive consultations with the stakeholders in the municipal system (e.g., the Union of Nova Scotia Municipalities). It also identified a number of functional and territorial problem areas by developing a research agenda for Nova Scotia's municipalities and then explaining and questioning the normative roles for local government, the principles that underlie these roles and the pressures that are forcing these roles to change. The existing system and the structures within it were then compared to this conceptual framework, and a number of deficiencies emerged for which solutions were suggested.

In Alberta, extensive provincial fiscal restructuring programs have pushed the province to the forefront of local government reform and consolidation in Canada (Diamant and Pike, 1996).² The new *Municipal Government Act* (1994) and its fiscal reduction plan, *A Better Way: A Plan for Securing Alberta's Future* (1995) have provided a clear policy basis for restructuring initiatives. The fiscal restructuring was designed to lead municipalities to "review their organisational structure and service levels. To save on costs and increase efficiency, a number of municipalities may seek to pursue joint administration or amalgamation with other municipalities" (Government of Alberta, 1994). These policies have been re-emphasised in news releases and statements such as a February 1996 notice announcing that a number of municipalities were at, or were approaching their debt limits. The Minister of Municipal Affairs stated that "it bears repeating that municipalities should give some serious thought to ideas such as sharing services with neighbouring municipalities or amalgamating with a neighbour to reduce administration costs" (Government of Alberta press release, February 8, 1996). In the context of viability, it can be argued that the external influences of the Province's fiscal policies and the encouragement of municipal restructuring could have the effect of making a number of municipalities non-viable.

3.3 Population Standards of Viability

While largely confined to fiscal parameters and measurements, Alberta's policies are much more comprehensive than some past provincial viability definitions and policies. Minimum population as a viability standard has been popular in many local government studies in Ontario. Drawing upon the policy document that recommended the establishment of Ontario's system of regional governments (*Design for Development, Phase 2*, 1968), Paul Hickey (1973) came to a number of conclusions about Ontario's small municipalities. Posing the question: "Are these municipalities administratively viable?," Hickey maintained that in most cases, they were not.

² As this Report was going to press, Ontario initiated an even more extensive programme of local government restructuring, involving all school boards, several municipal amalgamations (including all cities and the borough of East York in Metropolitan Toronto), continuing reductions in Provincial transfers and a decision to implement major reallocations of functions and associated costs (e.g., public transit, social housing, and higher welfare costs to the municipal level).

He also pointed out that the *Design for Development, Phase 2* report recommended that the minimum population of a local municipality in a region should be between 8,000 and 10,000 and that the largest municipalities discussed were well below 8,000. The report's recommendation rested on the conviction that small municipalities lack the effective administrative and decision-making capacity needed for efficient service delivery. This reasoning led to the conclusion that the solution to the administrative problems of small municipalities lay in the "consolidation, enlargement and rationalisation of the Ontario system of municipal governments" (Hickey, 1973). The report and Hickey pay little attention to other influences upon the capacity of the small municipalities, other than those directly related to population size.

Similar conclusions regarding the population size of a municipality and its capacity were illustrated in a 1979 report to the Federation of Canadian Municipalities prepared by Woods, Gordon and Co. (Douglas, McClew, et al., 1979). Using the term "capability" in lieu of "capacity", this pan-Canadian study looked at management and planning capabilities as functions of advanced management practices (e.g., use of a management committee, presence of workload measures, administrative human resource development practices) and management resources (e.g., personnel policy manuals, access to computer facilities, presence of a C.A.O.). The research showed that the presence of these practices and resources generally increased in relation to the population size of the municipality.

If we return to the description of capacity as the ability to absorb internal and external stresses, then the results of this study are quite significant. They demonstrate a clear relationship between the overall capacity of the local government and its population size. This is an important contribution to the current research yet it cannot be viewed in isolation from the other variables (governance and community viability). Moreover, it is not clear to what degree this increased management capacity affects municipal viability as a whole.

In recent years a population standard has been referred to in some local government reports and studies. The authors of the 1989 report *County Government in Ontario* recommend that "strong local municipalities, as administrative units should have a sufficient population base to support efficient, cost-effective services. In principle, local municipal corporations should have a minimum population base of 4,000." (Consultation Committee to the Minister of Municipal Affairs, 1989). Although it is recognised that this "optimum size can depend on a number of factors and that 4,000 is considered a guideline," the Committee concluded that 4,000 is an appropriate target size given the results of previous studies, "natural" service areas, and a minimum number of staff required to deliver these services.

Even more current is the 1996 policy initiative taken by the Province of Quebec. The Province has clearly outlined population standards in each phase of its consolidation statement. For example, the first phase of its policy "is aimed at entities composed of villages and parishes or natural communities and at small urban areas with a population of less than 10,000. The main goal of this first phase is the merger of 416 existing municipalities into 179 new municipalities" (Province of Quebec, 1996). While the subsequent phases target areas with higher populations, clearly the bulk of the consolidation efforts are aimed at the smaller units.

Small size *can* imply a smaller revenue base, and therefore limited financial and perhaps governance capacity. It *can* be difficult for those areas with low populations to capture economies of scale completely and thus deliver services as efficiently as their larger neighbours. And, as described above, larger municipalities *may* have greater management capacities than their smaller neighbours. But it is argued here that population in and of itself is not a factor that should be used in viability determinations. A simple population standard will not be suggested in the context of this report. We argue here that varying degrees of capacity can exist in even the smallest municipalities, whether that capacity is

expressed in terms of finance, governance or community. Establishing a viability population threshold of even 1,000 persons — small by provincial policy standards — would label 51 of Saskatchewan’s 510 urban municipal units as non-viable, despite many other signs of fiscal and community health including community growth and low and falling debts (Government of Saskatchewan, 1994). More important than the population size of the municipality is the trend of the population (e.g., age structure) and the rate of change. These elements play a major role in the conceptual framework developed in this report.

C.G. Crawford (1954) summarises the problems in the use of a population standard when, quoting from a 1947 British Boundary Commission study, he wrote:

It is not possible by any process of arithmetic or logic to arrive at exact figures for an optimum size of a local government or unit either in relation to local government as a whole or to any one function or group of functions. At best, one can, to use an engineering term, arrive at a reasonable tolerance, and it is fairly certain that even in regard to that there will be special cases demanding exceptional treatment.

3.4 Territorial Size and Viability

Size here refers to the physical size or territorial area of the local unit. There are two facets of the territorial size assessments of viability. The first involves the municipality’s physical area. For example, is a smaller and compact unit more or less viable than one that is large and sprawling? This is a difficult question to address since small, compact municipalities may have lower servicing costs due to the need for a lower quantity of infrastructure components (e.g., fewer feet of sewer pipe). Conversely, the compactness of the municipality may imply a growth boundary where the local revenue base has attained its maximum reach and is stagnant or no longer expanding. The municipality may experience capacity pressures because local revenues have reached their limit. This is vital in the face of increasing expenditures and decreasing external revenues.

Another territorial size issue is the tendency of small communities to be located within relatively large, undeveloped areas. Research has shown that, on average, 87 percent of the area of smaller municipalities is undeveloped. This pattern creates constant pressures for the improvement of roads and water distribution (Douglas, McClew, et al., 1979). There is a tendency to expand into these “greenfield” zones for development purposes rather than to intensify services in the built-up areas. This inclination increases the need for hard services such as sewer and water, and demand for snow clearing, school bussing and other services.

An adjunct to the physical area question concerns the number of local governments within a given region. There are usually fewer municipalities of greater physical size within a defined region; conversely, there are generally more units when each municipality covers only a small territory. Can viability of the individual local government within a system or the system itself be appraised using the number of individual municipalities as a factor? Are some local government roles and functions carried out more efficiently and effectively by larger or smaller municipalities? Similarly, do a small number of consolidated local governments fare better or worse in terms of governance than a large number of highly fragmented units? Are larger units more or less viable than smaller units? The issues that surround these questions are extremely complex. A separate report would be needed to address them completely. Yet the main points

of contention in this debate regarding the ideal spatial configurations of local governments do merit some attention here.³

The number of local governments within a given region is referred to in the public finance and local government literature as “fragmentation”. Municipal government structural fragmentation can take one or both of two forms: vertical or horizontal fragmentation. Vertical fragmentation refers to the number of *tiers* of local government within a region, while horizontal fragmentation refers to the number of units at the same level. A multi-tiered system, such as regional government in Ontario or the District Council system in the U.K., are systems that exhibit a relatively high degree of vertical fragmentation. A system of low vertical fragmentation is one where there is only a single municipality in a region.

Saskatchewan’s system of municipal government, with 834 municipalities and a high proportion of units per capita, shows a high degree of horizontal fragmentation. As elsewhere in Canada, this structural fragmentation is exacerbated, in many jurisdictions, by the presence of a plethora of special purpose agencies, boards, and commissions. These bodies exemplify a high degree of role fragmentation. Many of them, such as school boards, exercise a high degree of authority and in many cases have access to as many or more resources than do the formal local government units (i.e. the municipalities). However, most of these organizations and groups are performing roles that are under the direct or indirect authority of the province or municipality. For example, in Northern Ontario, Planning Boards carry out the policies of both the province and the local government under whose jurisdiction they operate. The roles that Planning Boards occupy are statutorily under the purview of the Provincial government. The degree of horizontal fragmentation is lessened with the merging of same-tier units and/or the abolition of special purpose bodies.

But does the proliferation of these bodies influence municipal viability, as several provinces appear to believe? For more than thirty years, debate over how best to organise and analyse local government in Western democracies has revolved around two theoretical perspectives. One, rooted in the civic reform tradition that emerged in the early part of this century, maintained that there were too many governments in the urban areas. The solution was simple: reduce the total number of governments and this will, in turn, lead to economies and efficiencies in the provision of local services. It would also focus political responsibility and assure a more integrated governmental response to area-wide problems.

A “new” perspective began to evolve with the publication of Charles Tiebout’s “A Pure Theory of Local Expenditures” (Tiebout, 1956). This model, loosely termed the “public choice school” was elaborated on a few years later in “The Organisation of Government in Metropolitan Areas: A Theoretical Inquiry” by Ostrom, Tiebout and Warren (1961). These theorists saw the need to retain many units of local government in each area in order to optimise opportunities for individuals to choose a tax-service package that best suited their needs (Lyons and Lowery, 1989).

³ For further information about these debates, the reader may wish to consult the following: John A. Marshall. 1996. *Local Government Re-organization: Form, Function and Roles*. Unpublished Major Research Paper, University of Guelph.; George A. Boyne. 1992. “Local Government Structure and Performance: Lessons from America.” *Public Administration*. v. 70, Autumn, 1992; W. Derkson. 1988. “Municipal Amalgamation and the Doubtful Relationship between Size and Performance,” *Local Government Studies*. 14:6.; Drew Dolan, 1990. “Local Government Fragmentation: Does it Drive up the Cost of Government?” *Urban Affairs Quarterly*. 26:1, September, 1990, 28 - 45.; Christopher Leo. 1986. *Strong Government, Weak Government: Classifying Municipal Structural Change*. Research and Working Papers, Institute of Urban Studies, University of Winnipeg; K. Newton. 1982. “Is small really beautiful? Is big really so ugly? Size, effectiveness and democracy in local government,” *Political Studies*. 30:2.

There are several reasons to promote the proliferation of administrative and governance units, rather than the consolidationist model. Many studies have empirically demonstrated the financial and governance benefits of the polycentric viewpoint, one that sees the municipal government's primary role as an enabler or agent of service provision.

Public choice adherents see the municipality as but one of a number of players within the local economy, one that exercises varying degrees of influence, but is nonetheless simply another *market* force. Its democratic/representative role and its legitimacy are dependent upon its ability to be successful in the provision of the common goods and services that its tax-paying residents desire and will pay for. It is a service-oriented role where the representative function emerges from, and in accordance with, the municipal government's service provision efficiency. A high level of decentralisation can provide the ratepayer with a "better" choice of services. The fragmented system, it is argued makes for more efficient and effective services, and better governance. These, in turn, enhance the capacities of municipalities and make for their long-term viability.

A number of arguments have been put forward in favour of vertical and horizontal functional and structural integration. They centre around the following⁴:

- *Financial benefits.* A frequent response to economic downturns or tax revolts that produce a decline in revenue is to strive for efficiency and economy in the provision of public services. Consolidation would seemingly lead to greater co-ordination and improved service quality as well as producing economies of scale. Indeed, according to some observers, economies of scale require consolidation. Because the per unit cost of any local output (e.g., local government service) is inversely proportional to the number of units being produced, one can argue that larger local governments, with their greater population should be able to spend more economically.
- *Overgovernment on a per capita basis.* O'Brien (1993) notes that there is a perception in some provinces that there is simply too much government and that this state leads to inefficiencies and duplication of services.
- *Economic development.* The economic results of the emergence of the global economy (e.g., the decline of parts of the manufacturing sector in southern Ontario) and the proliferation of free trade agreements have served to accentuate the importance of external decisions on local and regional economies. Competition among several localities within a region can serve to detrimentally fragment the region's economic potential with undesirable win/lose outcomes. This is competition that should be targeted at external rather than internal competitors. In other words, businesses in the same economic region may have a difficult time working as a unified force if complementary public bodies do not exist on a similar regional level.
- *The need for regional planning* (O'Brien, 1993). Regional planning is necessary in order to effectively manage change. These changes include a number of social and economic developments such as rapid population growth, economic decline, environmental concerns, hard services infrastructure needs or the impact of technological change. An anticipated benefit from consolidation is more comprehensive and integrated regional land use planning.
- *Intergovernmental financial and economic pressures.* Local governments have become a target for financial cutbacks at the provincial and territorial levels. Consolidation of smaller municipalities may give the smaller units a better base from which to "weather the storm". Some provinces as they

⁴ Much of the following text about the perceived benefits of consolidation is based on O'Brien, 1993.

attempt to rationalise spending priorities may see municipalities as drains on the government's coffers. Thus they either intentionally or unintentionally encourage consolidation by curtailing or eliminating specific intergovernmental transfers.

In conclusion, consolidationists argue that the reduction of a number of smaller local governments into one or a few larger units can produce or lead to economic as well as service equity and governance benefits. These benefits serve to enhance or at least preserve the municipality's capacities and thus its overall viability.

3.5 Who Is Right? Are More or Fewer Units More or Less Viable?

Both sides of the debate can be right under different circumstances. There is no universal solution to, or prescription for resolving the argument. In some cases, a highly fragmented system may exacerbate specific capacity stresses that individual local governments are experiencing. For example, the presence of a large number of municipalities within a region may induce diseconomies of scale and/or duplication of services. On the other hand, a region that has a few large units may be perceived as an unresponsive bureaucratic machine with little or no access available to the citizenry, thus inducing stresses upon the governance capacity of the municipalities. Different scenarios may impact upon the different capacities in different ways, both positive and negative. It is this notion of capacity that is addressed in the following chapter.

3.6 Summary

Local government systems, including municipalities, have undergone significant change over the last 65 years. Municipalities are no strangers to adaptation and significant reform, in terms of roles, functions, and structures.

There have been pressures upon local governments to formulate comprehensive policy responses to meet financial and other challenges. Many approaches designed to address viability questions have been examined and applied. The clearest efforts to conceptualise and measure viability have come from research and practitioner reports that use financial indicators. For example, Alberta's use of debt and expenditure measures can be far more indicative of states of viability than simple population or area size standards. Yet population and territorial measures can further our understanding of viability.

The complex issues of vertical and horizontal fragmentation remain key to local government systems. They directly influence both the delegated and the assumed roles and functions of municipalities.

Chapter 4

Capacity and Viability

4.1 Introduction

Despite an expanding literature on local government, municipal administration and related fields, there is no firm consensus on a definition of capacity (see e.g., Baker, 1982; Barro, 1986; Palmer, 1993; Collinge and Leach, 1995). Capacity, as a generic term implies an ability to “hold” or “retain”. This report proposes a direct relationship between municipal capacity and municipal viability (Figure 7 on the following page). *Capacity, as it relates to viability, is the degree to which a municipality can absorb stresses upon the local government’s role as a service provider and/or agent of governance.* Conceptually at least, at some point the stresses strain the capacity of the municipality to a limit where the very viability of the local government is threatened.

Usually, a state of non-viability is reached slowly. However, disastrous circumstances such as a flood, may propel a previously viable local government into a state of non-viability. The municipalities damaged by the 1996 Saguenay floods in the Province of Quebec were made, temporarily at least, non-viable. Their capacities were dramatically affected in a short time and to a large degree. Mining, fishing and other single-industry communities can also be subjected to severe strain by economic downturns that jeopardise the entire municipal financial base (Lucas, 1971; Saarinen, 1992). This is not to imply that capacities cannot be “recharged:” resilient municipalities engage in “capacity-building” programs that may restore their viability.

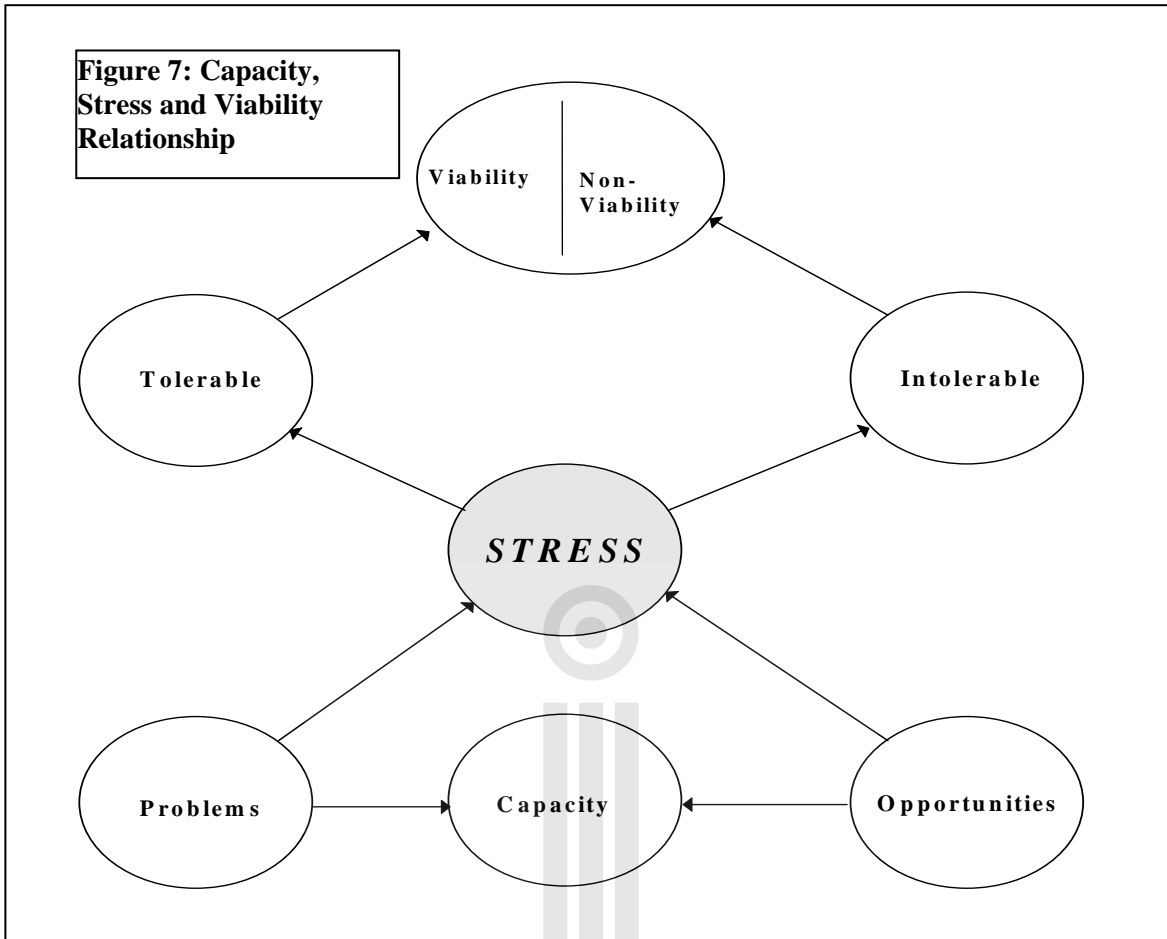
Stress, a term with many negative connotations, is not the only factor to influence a municipality’s viability. Such factors may be positive as well as negative. A local government may take proactive steps to increase its capacity and thus enhance the municipality’s viability (Douglas, McClew, et al., 1979). While it is vital to the purpose of this study to probe negative stresses on local government capacity that threaten its viability, it is also imperative to acknowledge the positive forces that can influence viability.

4.2 Capacity Building

The capacity of a municipality can be enhanced through the use of progressive policy management and/or administrative planning techniques (e.g., Total Quality Management, Management by Objective), innovative servicing arrangements (e.g., joint service provision, privatisation), or other initiatives (e.g., management retreats, innovative use of community volunteers). Alternatively, the positive force may simply be a progressive and open-minded council, reeve or mayor whose presence, leadership and

actions augment the organisation’s capacity, and thus reinforce its viability. This leadership may come from the elected official(s), and/or directly from the community.

It is not untypical for Canadian communities build upon their capacities in response to a crisis or a series of crises. One example is Granum, Alberta (Douglas, 1993). Throughout this century, Granum was hurt by a number of economic and property-based disasters. In 1980, circumstances led to a provincial inspection of the Town’s books which revealed a staggering deficit. After narrowly averting a provincial take-over of the Town’s operations, the townspeople took a number of steps to ameliorate the situation. A new council was elected, new staff were hired and infrastructure was improved. The community was turning itself around!



Then in 1984, the people of Granum once again were met by a series of disasters. One of the town’s grain elevators burned down and a large fire lay waste to much of the Town’s tax base. But once again the community responded through a number of proactive measures. By 1992, the Town had not experienced a tax increase for five years and the municipal financial situation was in surplus.

The story of Granum is a story of resilience and local capacity building. The seemingly insurmountable stresses that the Town and community encountered were met by a series of measures that sought to alleviate or mitigate these stresses. Although the resilience of the Town has been formidable, it appears its resilience may now have reached a breaking point. In 1996, one third of the Town’s electorate asked the Province to carry out a study to address the possible dissolution of the Town.

Measures designed to increase the capacity of a local government allow it to accomplish a couple of things. Increased capacity enables it to absorb the pressures that it faces. More resilient, it can “roll with the punches.” Increased capacity also permits the local government to be more proactive. It can anticipate and plan for future events and circumstances, for both problems and opportunities.

In summary, viability is associated both with the capacity to respond successfully to problems that emerge (reactive capacity) and the capacity to initiate effective action before problems appear or opportunities present (proactive capacity).

Although many negative stresses can be mitigated through capacity-building techniques, sometimes these stresses are not recognised immediately or are non-mitigable. Either way, the impacts strain the capacity of the municipality, thus endangering its overall viability. If these stresses can be identified, defined and explained, a better understanding may be achieved about the critical stress levels that might deplete the capacity of a particular municipality. But such measurements are rife with pitfalls. Some of these are addressed in the next section.

4.3 The Complexities of Viability

While it may be possible to measure most of the stresses that may adversely affect the capacity and, in turn, the viability of a municipal unit, **this report does not contend that an overarching quantification of viability in and of itself is possible.** This statement is made for a number of reasons:

- a) The stresses that may be placed upon municipalities do not share an agreed upon definition and may not be the same either in type, timing, duration, intensity, scope or in measurement. They also may occur in different permutations and combinations. A stress upon a municipality may involve significant declines in its tax base (e.g., the closure of a major business), dysfunctional behaviour of council, incompetence in administration, an unexpected surge in service demands or inadequate inter-municipal services agreements. There may be similarities between these stresses, but the significant differences in their definitions and measurements make it impossible to arrive at a universal definition of viability.

This point emphasises that the problem is so complex or so “wicked” as to defy quantification. As economist Harry Kitchen phrased it: “You will just be making it up if you think you can come up with a standard definition of viability; there are just too many dynamic variables to consider” (personal interview, 1996).

- b) Standardised measurements for many of the stresses do not exist across Canada. There is no uniform set of municipal accounting practices or national reporting formats. This creates difficulties when one tries to develop an aggregate index of viability.
- c) Even if a quantifiable index were possible, much of the data that would be needed for such a tool is either be unavailable (e.g., data for small municipalities) or outdated (e.g., Census socio-economic data).

4.4 Working Definitions

The literature on evaluating the municipality’s “condition” discusses many areas of assessment: financial, community and governance. Our challenge has been to synthesise the concepts in the literature and those gathered from Canadian local government professionals, and present them in such a way that they convey the range of views and some of the most commonly held conceptions of the term “viability”. First, however, a set of working definitions must be outlined.

Municipal Financial Viability: The ability of the municipality to sustain and expand its financial capacity (e.g., bank deposits, physical assets, credit rating) and the ability to resist, adapt to and anticipate the stresses that are placed upon this capacity.

Viability of Municipal Governance: The ability of the municipality to sustain its governance capacity and the ability to resist, adapt to and anticipate the stresses that are placed upon this capacity.

Community Viability: The ability of the community to sustain and expand its capacity, and the ability to resist, adapt to and anticipate stresses that are placed upon this capacity.

Municipal Viability: An aggregate term that describes a municipality’s capacities to respond to and anticipate positive and negative stresses, and the degree to which these conditions have compromised or enhanced its abilities to carry out its fundamental roles and functions. It is this definition of municipal viability that best illustrates the difficulties of measurement.

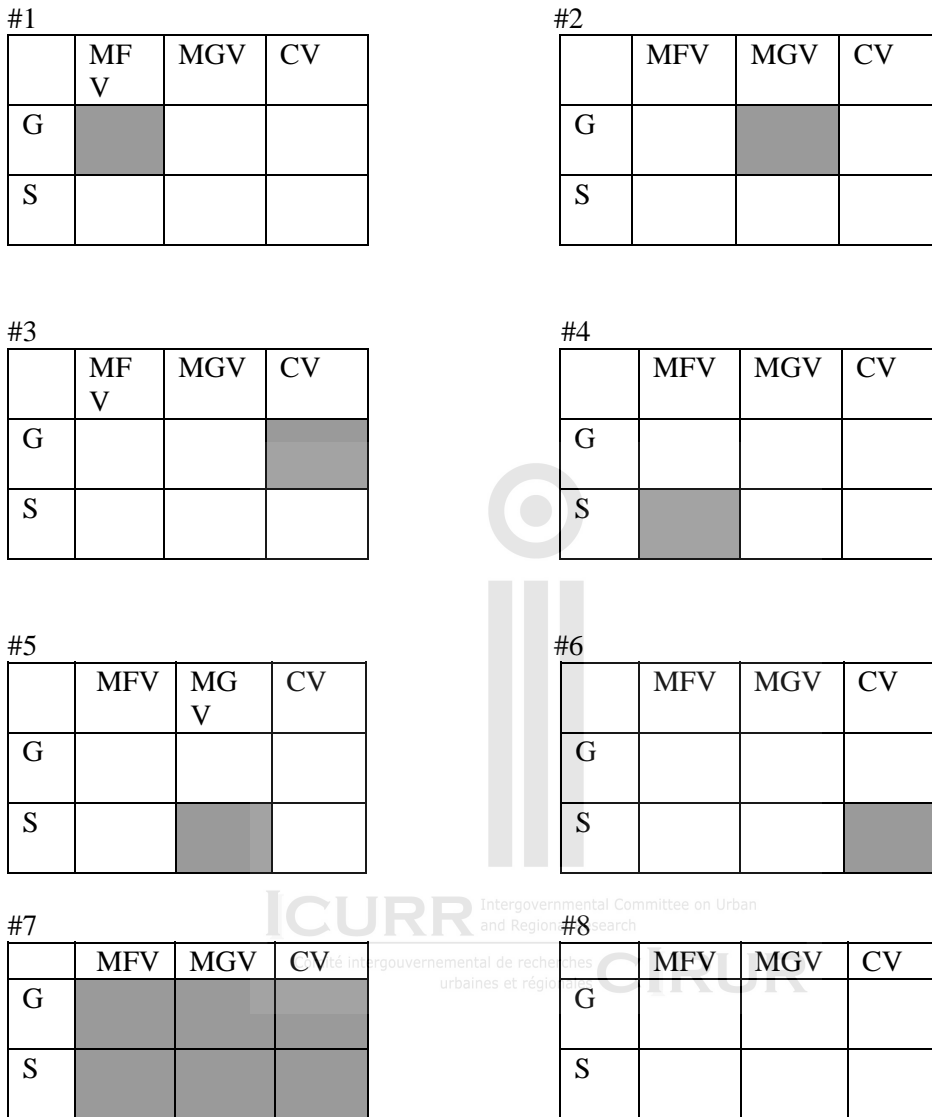
If we assume that municipal government has two basic roles: that of governance and that of service provision, and if we assume that municipal viability is some aggregate of financial, governance and community viability, then a matrix illustrating the interactions between the roles of municipal government and viability can be developed.

Figure 8: Matrix -- Municipal Government Roles and Viability

| | Municipal Financial Viability (MFV) | Municipal Governance Viability (MGV) | Community Viability (CV) |
|---------------------|-------------------------------------|--------------------------------------|--------------------------|
| Governance Role (G) | | | |
| Service Role (S) | | | |

If we further assume that, as a minimum condition for municipal viability, no more than *one* of the components of viability may be under stress, then a number of scenarios can be envisioned.

Figure 9: Viability Scenarios



For instance, municipality #1 is experiencing a threat to its financial viability, affecting its governance role. Possibly, the municipal debt has reached a level where the council has to curtail an expensive public consultation process. Municipality #4 is experiencing viability difficulties that are limiting its ability to carry out its service role. For example, a high level of debt may be inhibiting the local government from incurring new debt for the purchase of an additional fire truck. Municipality #7 may be completely non-viable, while Municipality #8 may be experiencing no viability problems.

Obviously, the possible combinations and permutations of these scenarios are numerous. It also must be remembered that where the capacity of one component may be under grave pressure, high capacity in another component may be sufficient to offset the negative effects. To illustrate, Municipality #4 may not be able to purchase the new fire truck on its own, but the council and administration may be able to devise

an innovative funding mechanism or alternative delivery technique. It is a “cross-impact” such as this that complicates things further.

Additional complications may be introduced if we incorporate factors of intensity and duration. A short term fiscal crisis may be efficiently managed if it is understood to be short-term. A longer term, systemic erosion of the community's economy may have structural implications for the municipality's finances (e.g., tax base) or for the political climate needed for effective governance (e.g., apathy, cynicism). The matrices could, therefore, be expanded to include “high”, “medium”, and “low” impacts (positive and negative) on the municipality's three dimensions of viability (i.e., finance, governance and community), while each of these impacts could be further classified as “short”, “medium”, and “long” term. Then we would have to attend to the complexities of cross-impacts (positive and negative); and so on.

It is considerations such as these that make the quantification of viability very difficult, if not impossible. True, composite indices *could* be designed, but our contention that the complexities of these indices would outweigh any benefit that they might have either in terms of academic exploration or in terms of practical application. Added to this difficulty is an added dimension of measurement complexities.

4.5 Measurement Problems and Issues

Even if the many complexities involved in the quantification of viability are put aside for the moment, there are still a number of significant problems around the measurement of any measure and units of measurement that may be chosen.

4.5.1 Measurement Type

A major problem related to measurement is that there are several ways to describe the same data. After stressing the importance of using standardised measures whenever possible, Brian Stipak (1990) gives an example of the effect that the choice of data presentation can have on the results of an analysis. Stipak describes three customary measures of government expenditure: per capita, per \$1,000 of personal income and per cent of total expenditure. To determine whether the measurement type used skewed the perception of the expenditure levels, he used all three measurement techniques to assess local government overhead (administrative) services. A data base was created that examined the alternative ways of presenting the data through the use of a correlation analysis. This analysis showed that there was a high correlation between measures standardised by population and personal income, but great differences between these two measures and the measure standardised by total expenditures. Thus Stipak concluded that the choice of the data measurement can significantly alter the results.

To make the same point, Stipak re-examined an analysis (Bernick, 1990) which purported to show a positive and significant relationship between overhead expenses and the size of government. Bernick had used a geometric model involving the log 10 of total expenditures and per capita government overhead. However, Stipak found that when one replaces the per capita measure with a measure that puts “government” expenditures over total expenditures, there is no evidence that expenditures increase with size. In fact, there seems to be a slight decrease.

This study is useful because it demonstrates empirically the importance of the type of measurement when analysing the effects of a structural or functional change in expenditure levels.

4.5.2 Data Availability and Timeliness

One of the most serious problems is the lack of timely and accurate data. The data may be unavailable because it is either not collected at that level (e.g., macroeconomic information on income levels or housing for sub-metropolitan areas), or may not be disclosed (e.g., Federal regulations prevent Census disclosure so as to not breach confidentiality). Studies of rural areas that fall below a defined population threshold suffer especially from a lack of data availability (Bollman, 1992).

The data may also be outdated. The Census is taken every five years in Canada, with the full census occurring every ten. By the time the data is released, it is usually more than two years old. This can be a problem. For example, if some type of socio-economic data is being used as a tool to discover levels of stress (e.g., employment change), major employment shifts that may have taken place within the intercensal period may be overlooked with serious effects on the data analysis.

4.5.3 Level Versus Trends

Many indicators of stresses upon a municipality's capacity and viability can be expressed as either a level for a given point in time or a rate of change over time (e.g., the number of delinquent taxes for a given year versus year-to-year changes). The former measures where we are, the latter, the direction in which we are going. As Ross and Greenfield (1980) pointed out, a place that is in poor shape but getting better may be in better condition or experiencing less stress than a place that is in bad shape and getting worse, but it is hard to establish whether this is so.

While measures of stress are usually expressed as levels (e.g., point in time data), trend data would seem to be more relevant, and were preferred by several of the respondents to our survey. After all, static levels can only provide point-in-time information, making it hard to know in which direction the numbers are leading us. However, there are several reasons why most of the data descriptions are expressed as levels. The first is that the cost involved in the collection of longitudinal data, the "raw material" for the establishment of trends, can be prohibitive. The second is that data expressed in terms of levels is generally more accessible. Comparative data sets (e.g., for performance assessments such as tax draw per 1000 square feet of new retail space) are available even less often.

4.5.4 Area of Study

A major difficulty is due to the fact that no municipality exists as a closed system. Most local government studies use the municipal unit and its corporate boundaries as the spatial parameters of the research. Indeed, this is our definition of a "municipality." As a practical matter, data is usually available only within these political-administrative terms and bounds. However, the modern municipality co-exists and interacts with other organizations (public and private) and other local governments in often complex and extensive ways. Revenue sharing, joint-servicing agreements, and boundary-overlapping regional boards can easily distort the revenue or expenditure picture that municipal revenue/expenditure schedules convey. It is then difficult to separate the municipal measures and to derive comparative measures needed for techniques such as benchmarking.

4.6 Summary

Municipal capacity is a central concept in our discussion of municipal viability. The positive and negative forces which challenge a municipality's financial, governance and community capacities directly influence its viability in terms of its aggregate roles in governance and the provision of services. However, it is important to recognise some of the problems that can arise in the definitions of viability and especially in the process of measurement. Cross impacts and the intensity and duration of stresses provide the analyst with a vast array of possible scenarios. The sources of the data, and various approaches that can be taken in the presentation of data, pose very real methodological and practical challenges. These challenges can place practical bounds on some of the components of the framework being investigated here. Furthermore, an understanding of the different forms of data measurement, and

of their implications, gives the researcher a reference point against which any measures can be critically scrutinised.

Some of these issues are elaborated upon in the next chapter that describes and analyses various measures and interpretations of financial viability.



Chapter 5

Financial Viability

5.1 Introduction

The “financial viability” of a municipality is seldom discussed in the literature. Studies generally argue that “fiscal stress or distress” or “financial stress or distress” negatively affect the “capacity” of the municipality (e.g., Ferguson and Ladd, 1986). Nowhere in the literature are there explicit suggestions about where fiscal stress reaches the point where the municipality is no longer viable.

Financial and functional characteristics of local governments have received the most attention in the literature. Issues of governance and the viability of communities have often taken a back seat to the fiscal issues.¹ It was also this area that received most attention from those who took part in our trans-Canada surveys. The focus on the municipality’s fiscal characteristics and problems is hardly surprising. The importance and the dominance of the service provider role has already been examined. Canadian municipalities finance these local services through a number of different sources: local property taxes, fees for services, other charges and unconditional and conditional senior government transfers. A simple definition of financial viability may state that when these sources of revenue are not adequate to meet the servicing needs of the local residents, then the municipal unit is not financially viable. Some questions arise from the use of this simple definition:

- a) Is a municipality non-viable if this is only a one-time revenue shortfall?
- b) What if the servicing needs (or demands), in terms of types of services and/or level of services, are too high for the available revenue sources?
- c) What if the revenue sources are too low?

“Financial stress” may be a more accurate term to apply to a situation where there is a revenue shortfall. An implicit but recurrent theme throughout the literature and the survey responses is that “viability” is associated with a *long-term situation*, involves “trends” as opposed to “once-off” observations, assumes a number of negative variables instead of only one or a few, and implies a “lack of capacity” on the part of the local unit to meet the minimum servicing obligations that the local residents have deemed to be desirable. Overall, it signifies a chronic and serious condition.

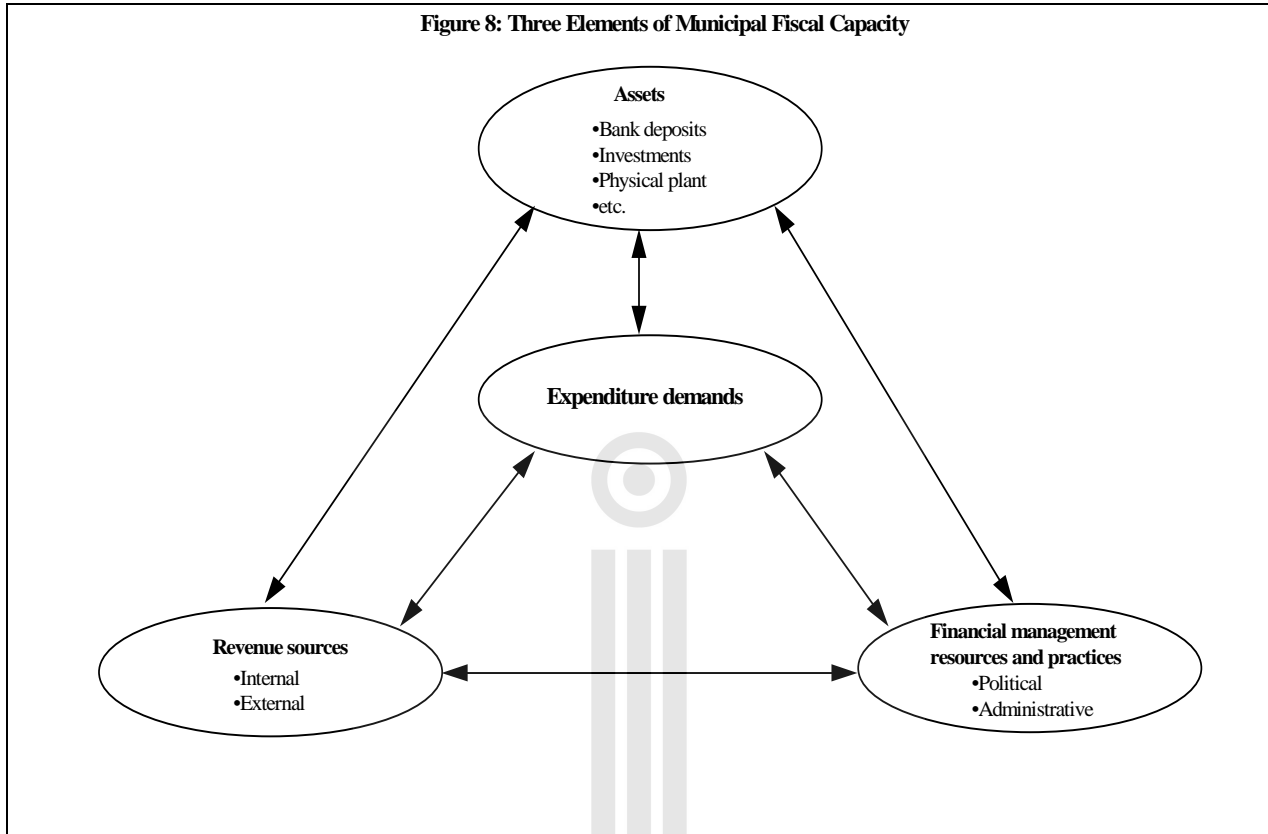
5.2 Financial or Fiscal Capacity

Fiscal capacity is a concept that is rooted in applied public finance rather than economic theory and, as such, is more an *intuitive or common-sense notion than a rigorously defined analytical category* (Barro, 1986). Despite this seeming lack of empirical rigour, a general interpretation has been that fiscal capacity represents the financing capability of governments, or measures the inherent ability of a government to generate required resources.

5.3 Influences upon Fiscal Capacity

¹ It is worthwhile noting that although Canadian literature sources were preferred and used as much as possible in the course of this research, the current section, addressing financial viability and financial measurements and stresses, has been largely derived from American sources, particularly from the work of the International City/County Managers Association (ICMA) and the Advisory Commission on Intergovernmental Relations (ACIR). Both of these organizations, based in the United States, have published extensively on the evaluation of government (particularly local government) financial conditions. The ICMA, albeit an American-based organization is generally perceived as a legitimate North American authority and involves many Canadian practitioners. For example, the renowned Canadian practitioner Cy Armstrong was a former president of the ICMA.

Figure 10 seeks to capture the main factors that influence fiscal capacity: the nature and amount of local assets, the “management capacity” of the municipality, and internal/external alterations in the municipality’s revenue base. Expenditure demands place varying degrees of stress upon these three components of financial capacity.



5.3.1 Local Assets

This component of municipal capacity includes the liquid, property, personnel and organisational assets that a municipality may possess. These assets are heavily influenced by both internal and external revenue sources as well as by the municipality’s administrative and political management capacity (Douglas, McClew, et al., 1979). Examples of these assets are: cash, personnel and physical plant (e.g., buildings), and equipment (e.g., road graders, fire trucks). Some municipalities have significant assets in utility companies. Such assets are a vital component of overall fiscal capacity.

5.3.2 Financial Management Ability

This component of aggregate local government financial capacity includes the internal administrative and political capacities of the municipality to engage in proactive “capacity building” or, in the negative sense, the lack thereof. This viability determinant, introduced under the previous heading of “Capacity Building,” is an aspect of the conceptual framework of capacity (see Table 2 in Douglas, McClew, et al. 1979).

5.3.3 External and Internal Influences

This aspect of fiscal capacity may be defined most simply as the conceptual maximum amount of revenue a municipality could raise from internal and external sources (Ferguson and Ladd, 1986).

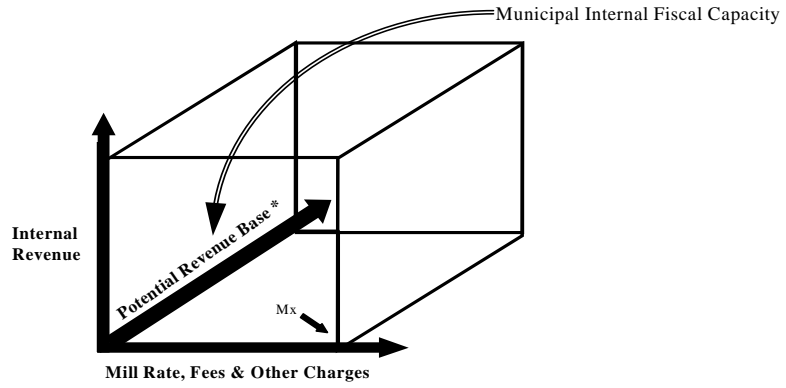
Barro (1986) discusses a number of propositions about fiscal capacity. Two of these are relevant to our current discussion.

- a) Local fiscal capacity is an attribute of an area and refers to the revenue-raising potential of the administrative body(ies) within that area. For example, local fiscal capacity refers to the revenue raising ability of the local governments and all of the boards and commissions directly or indirectly under its jurisdiction (e.g., planning authorities, utility commissions).
- b) Local fiscal capacity refers to own-source revenues. It does not refer to external (provincial or territorial) aid. This proposition is a potential problem in the Canadian context since many of the territorial local units are not funded through their tax base, but receive all their funding as a territorial block grant. Despite ever lower provincial government transfers to the local level, intergovernmental funding is still a significant part of the revenue base of most Canadian municipalities. The Northwest Territories (N.W.T.) currently have tax-based local governments that derive much of their revenue from the local real property tax, and non-tax municipalities who get all of their funding from the Territorial government. The Territorial government is currently reviewing municipal funding arrangements.

Given the above definitions of local fiscal capacity, non-tax based municipalities would be said to be devoid of fiscal capacity. It appears, then, that an addendum to the definition must be provided to account for those municipal governments that clearly have a degree of fiscal capacity, although not in the traditional sense. This is what we mean when we refer to “external fiscal capacity” as a part of total municipal fiscal capacity

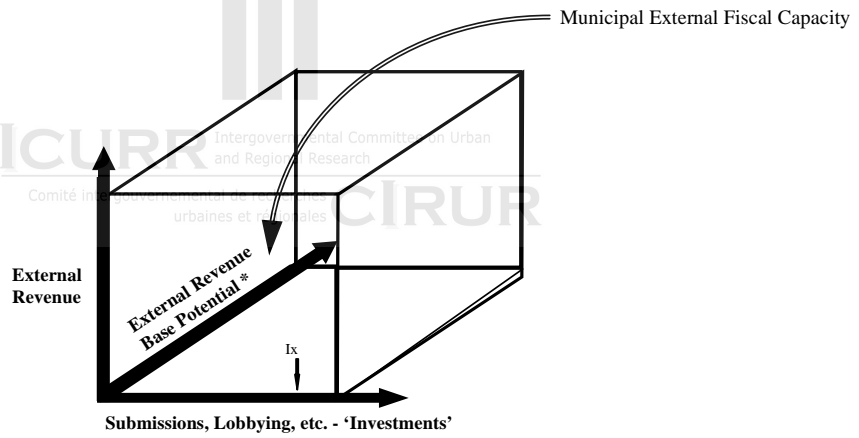
Figures 11 and 12 (which follow) convey the concept of fiscal capacity and its relationship to effort and viability. As more effort is applied to the internal sources of revenue (e.g., as mill rates are increased) or as additional intergovernmental transfers are requested, there is a strain upon the municipality’s capacity to absorb these increased efforts or stresses. There is a “drop-off” or critical point at which ratepayers will refuse to pay any additional taxes (internal capacity) or the senior government will refuse any further request for subsidies or similar transfers (external capacity). This juncture is a point or, more likely, a “zone” of non-viability.

Figure 9: Municipal Fiscal Effort and Capacity



* - Assessment from residences, commercial and industrial properties, fees and charges, grants in lieu, etc.
 Ix - Theoretical outer limit of resident taxpayer tolerance or ability to pay - i.e., degree of 'effort'

Figure 10: Municipal Fiscal Effort and Capacity



* - Federal, provincial and territorial policies, programmes, projects, etc., with funding transfers
 Mx - Outer limit of municipality's investment tolerance - i.e., degree of "effort"

Tax effort is often expressed as a percentage of the total local fiscal capacity actually used to raise revenues. These percentages may be interpreted in several ways, but they usually signify a relative measure of tax effort. Jurisdictions that have to exert a high tax effort are generally thought to be vulnerable to fiscal instability such as “tax revolts” (Reeder, 1990). Therefore, a municipality that has to exert a high degree of tax effort may be experiencing stresses upon its capacity and, thus, its viability. The effort indicators tend to be effective tax rates, such as property taxes.

Another way to depict effort is to imagine it as the mill rate on property assessment that is applied to the capacity (the total taxable assessment). The greater the effort, the greater the drain on the internal capacity of the municipality and the greater the potential stress on its financial viability should unforeseen problems (e.g., mine closures, infrastructure accidents) or opportunities (e.g., a multi-municipal investment project) arise. There are important relationships between effort and capacity as well as between capacity and viability.

5.4 Perceptions of Municipal Financial Viability

To varying degrees, the financial practices of Canadian local government are regulated by their respective provinces or territories. Until recently, there has been very little fiscal autonomy at the local level.² These strict regulations appear to have been a result of the lack of recognition given to the local level in the Canadian Constitution. Constitutional recognition is assigned only to the federal and provincial and territorial levels. Local governments are designated a responsibility of the provinces in Section 92 (8) of the Constitution Act. For this reason, local governments are often described as the “creatures” or the children of the provinces and territories. These senior levels can assign whatever roles, functions and standards they see fit as long as they are not under the statutorily specified purview of either the federal, the provincial or the territorial governments. For example, a provincial government may not grant to a municipality the power to establish a bank or issue money, for these are matters that, under the Act, are exclusively reserved to the federal government. But within the Act, each province and territory has the authority to designate duties, make regulations and set standards with which the municipal institutions must comply. Each has developed their local governments in its own fashion and has taken a different approach to many issues such as local financial autonomy.

These differences were confirmed early in the course of the research. It quickly became apparent that each province and territory takes different approaches and uses various tools to measure the fiscal conditions of its local governments. Because of the fragmented status of municipal governments, there are no Canada-wide fiscal guidelines which municipalities have to abide by; standards are difficult to identify and many comparative and definitional problems arise.

Many of the definitions supplied by the provinces and the territories, and the tools used to measure “viability” (as the respondents defined it) are not used by senior governments to assess viability *per se*, but as measures to determine unconditional grant levels or to establish the limits of local government indebtedness. Nonetheless, the responses were vital in order to understand what measures are in current use.

² Alberta is current eliminating many of its intergovernmental transfers while simultaneously conferring more fiscal autonomy to the local level. Ontario too is proposing the re-allocations of several financial responsibilities (e.g., property assessment, roads and welfare costs to the municipal level, and education costs to the Province).

5.5 The Financial Measures

The literature does not directly establish hard and fast threshold fiscal levels to describe the financial health of a municipality. The provincial and territorial survey respondents, while providing a number of valuable indicators, also did not describe a definitive set of characteristics when they were asked to define “financial viability.” The respondents were given the following as a working definition: *The ability to sustain and expand the municipality’s financial base.*

Each of the selected provincial and territorial senior officials was sent a pre-tested “Municipal Financial Viability” survey over a six-week period in May and June 1996 (See Appendix for the response rates for all three surveys). These included (but were not limited to) Directors of Local Government Departments, Directors of Local Government Research, and Directors of Local Government Finance as well as the Canada Mortgage and Housing Corporation. All fourteen surveys distributed were completed to varying degrees of detail. In addition, telephone interviews with five experts within various fields of local government research and practice were carried out to build upon the survey findings, test aspects of the emerging conceptual framework, and elicit ideas and approaches that had not emerged in the project.

5.6 Provincial Definitions of Financial Viability

The provincial and territorial respondents offered a wide range of definitions of “financial viability:”

- The ability to provide the services required under legislation and/or required by the public at a cost the public is willing to pay.
- The ability to exist as a continuing body with access to sufficient financial resources to sustain itself for a reasonable predictable future whether the financial base (and thus service outputs) are either expanding or contracting.
- The ability of a municipality to financially maintain and provide the level of services anticipated by its ratepayers.
- A municipal/community government’s ability to maintain existing service levels, withstand economic disruptions, and meet the demands of growth, decline and change.
- The ability to raise sufficient funds to provide a basic range of services at a service level acceptable to recipients and tax payers at large.
- “Financial condition” refers to a local government’s ability to: generate enough revenue over its normal budgetary period to meet expenditures and not incur defaults; pay all costs of doing business, in the long run; and maintain existing service levels while withstanding both local and regional disruptions, and the demands of natural growth, decline and change.
- The ability to generate sufficient revenues to meet short and long term obligations. Revenues need to be sufficient to pay for at least the minimum essential services that businesses need for a safe and healthy environment and to pay for additional services that residents and businesses want and need to grow economically, socially and culturally.
- The ability to fund the municipal infrastructure and services that the municipal Council and electorate deem necessary to sustain public health and safety of its citizens and economies and social well-being of the community.
- A municipality’s ability to sustain growth of its economic base (tax base denominator) so as to maintain service levels and stable tax rates.
- Having the financial capacity to met the long term service needs of the community.

5.7 Main Themes

A number of common themes arise from the above definitions:

- There is a service component to the concept of viability. Viability is seen as an ability to provide some basic level of services, and to maintain the infrastructure necessary to sustain these services.
- These basic services promote the health, safety and well-being of the community.
- Viability is something that is not temporally static, but rather a concept that is enduring over time.
- It is the ability to adapt to changing external or internal economic conditions, whether they be positive in the sense of growth demands or negative as in economic disruptions.

These main themes were identified by the survey participants. Many of the tools that operationalise these themes are already in use as fiscal assessment tools, for example, to determine granting levels. Others were indicated by the respondents to be acceptable for use in the development of the conceptual framework.

A number of indicators of fiscal stress that may lead to viability difficulties, found in various sectors of the literature (e.g., public administration, public finance) were included in the survey. These indicators are outlined below along with brief descriptions, the source of the measures and, where relevant, specific survey respondent comments on the measure.

Many of the measures in this financial section were adapted from the International City/County Management Association (ICMA) publication *Evaluating Financial Condition: a Handbook for Local Government* (1994). This useful handbook was frequently mentioned by informants in the municipal sector as an indispensable source of financial assessment information and practical tools. Many of the methods outlined in this publication can be adapted for use by Canadian municipalities. Yet others, especially many of the debt indicators, are not necessarily applicable to the Canadian condition because of the different methods used in Canada to accrue and fund debt, and to regulate the level of local debt.

For the purposes of this study, the measures of financial viability are grouped as: revenue-based measures, expenditure-based measures, and debt-based measures.

5.8 Revenue-Based Measures

The revenue characteristics and trends of a municipal government are key aspects of its overall fiscal condition. The levels and trends of the revenues are critical and are direct indicators of a municipality's fiscal capacity. Since local taxation is, in most cases, the municipality's main source of revenue, the ability to raise revenue is largely dependent upon taxation characteristics.

5.8.1 Ability to Raise Revenue

The generic term "ability to raise revenues" can be interpreted in several ways. Generally, the literature and the survey respondents see it in terms that involve some measure of the tax base, or as an indicator of current tax effort.

Tax base is usually expressed as the sum total of all real property assessments. These include residential, commercial and business assessments. It does not include (in most cases) business levies, user fees or licenses, or intergovernmental transfers. Municipalities determine and collect their tax-based revenues by applying a ratio or a mill rate, which is expressed as dollars of tax per \$1,000 of assessed value, to the actual or market assessed value of the individual properties. In many jurisdictions, different "classes" of properties have varying proportions of the total mill rate applied to their component properties. In some provinces (e.g., P.E.I. and Ontario) residential class properties are taxed at a lesser proportion of the full mill rate, while commercial and industrial properties are assessed at the full mill value. In most

jurisdictions where some form of variable mill rate is permitted, a *lower* rate is applied against residential properties. The exception is British Columbia, where provincial assumption of the taxation of non-residential property for educational purposes has resulted in a decrease in the proportion of education property taxes accounted for by non-residential property (Bird and Slack, 1993).

Many respondents indicated that “tax effort,” the extent to which a local government draws upon its tax base is used as a measure. For example, it was pointed out that taxation is the easiest revenue source to measure. This gauge is used by some provinces when reviewing specific capital (e.g., British Columbia) or other grant applications (e.g., Nova Scotia, Yukon and the N.W.T.). Although it is not generally used as an aggregate financial indicator, it is employed to assess specific cases where viability may be questioned. Another use of this measure is in the context of approving debentures or other instruments of debt funding (e.g. Manitoba).

The question of the use of levels versus trends arises in discussions of tax-based measures. The N.W.T., when calculating the Equalisation Grant for tax-based communities, monitors large fluctuations and increasing/decreasing trends rather than point-in-time levels. Indeed, level of tax effort is not seen to be important in most provinces and territories. After all, each local government has a different service level which may demand a different level of tax effort to maintain.

5.8.2 Per Capita or Per Residence Measures

According to some of the survey respondents, the level of taxation can be expressed as a per capita or per residence ratio, the choice of which ratio varying widely nation-wide. In British Columbia, for instance, the per capita measure means little to communities that have a large proportion of seasonal residents. In such cases, as one B.C. survey explained, the dollars per residence measure “provides a much better sense of financial burden.” This measure is important in examining the incremental financial burden of new borrowing, assessment loss impact or cost of a “new” service on the “average” home.

In Ontario, numerous other tax ratios have been used, for example, the average residential tax as a percentage of gross household income, tax dollars per square foot of office space by class of building, and tax dollars per square foot of shopping space in a mall. If the trendlines in any of these measures are upward, then this could indicate current or emergent stresses upon the capacity of the municipality to maintain service levels.

5.8.3 Reserve Fund Measures

A municipal reserve fund is a specific account where moneys are allocated, usually over a period of time, in order to fund a specific project. For example, a reserve fund could be established to finance the future purchase of a fire truck. A municipality would allocate funds to this budget item until there are adequate funds for the purchase. If reserve funds are permitted by the province or territory, there are usually restrictions on the purposes for which the funds can be used. Generally, reserve funds can only be spent on the item for which they were established.

Reserve fund measurements were included in the survey in order to address the issue of municipal responsiveness to sudden and dramatic changes (e.g., natural disasters, economic decline) which place severe stress upon the municipality’s financial capabilities. A reserve fund, whether restricted or unrestricted, could provide a source of readily accessible money.

Although some of the survey participants acknowledged that reserve fund balances are monitored, for the most part this measure is only used in conjunction with other measures. However, reserve fund ratios (e.g. as a proportion of the total revenues) are apparently not used in the assessment of viability, or even monitored on a regular basis. Nevertheless, there has been some internal use of ratios like this as guidelines when determining levels of unconditional granting formulas. One provincial department

suggested that a guideline of short term reserves equivalent to 25% of operating expenses be maintained. This practise is intended to avoid reliance upon short term loans and lines of credit.

In general, reserve fund balances are not directly used to assess the degree of fiscal stress upon a municipal unit. A B.C. respondent, however, acknowledged that “declining reserves, when other sources of revenue are also falling, are probably a strong indicator of impending financial viability issues.” Whether or not it is a strong negative indicator of viability, a trend of declining reserves may indicate strains on the local government’s fiscal capacity or be an early warning sign.

5.8.4 Provincial or Territorial Transfer/Tax Base Measure or Ratio

Intergovernmental transfers constitute a large (albeit decreasing) proportion of the total revenue base for most municipalities. This ratio was introduced in the surveys as a candidate measure of fiscal stress. Our aim was to examine the usefulness of such a measure to gauge the impact of withdrawal or reduction of intergovernmental transfers on the external fiscal capacity of the municipality. Few respondents used this measure as an indicator of viability, but some nonetheless thought it useful to monitor this ratio’s trends.

More popular was the use of the transfer figures as stand-alone indicators. Where these revenues represent a significant proportion of the operating expenditures, the loss of these revenues is likely to have a significant impact on services or force an increase in revenues from other sources, such as property taxes.

In British Columbia, the intergovernmental transfers measure is not applied as a specific test but must be placed on municipal property tax notices to inform property owners of the level of support the Province provides. The B.C. government sees this measure as “significant in terms of sensitivity to change in the analysis of a specific revenue component that is beyond the control of a local government.”

The Yukon government does monitor this level internally, using a transfers/total revenues ratio. The proportion varies from a high of 75% to a low of 25%. Generally, however, this ratio is considered to be too dependent on variable factors, such as specific infrastructure and program requirements, to be very useful as a stand-alone stress indicator.

5.8.5 A Measure based upon a High and Rising Rate of Property Tax Delinquencies

Each year, a percentage of residential and commercial property taxes go unpaid. While each jurisdiction has a system in place that helps ensure eventual full or partial collection of overdue taxes, this system is complex, and often politically contentious in small communities. Sometimes delinquencies can extend for more than three years before a “tax sale” is held to recover some of the arrears.

If this percentage of arrears increases over time, it may indicate an overall decline in the municipality’s economic health. Additionally, as the time span that arrears are present lengthens and if the level rises, the liquidity of the municipality is decreased, and there is less cash on hand to pay bills (ICMA, 1994).

While some of the provinces or territories regard the trends and levels of delinquent property taxes as measures of administrative effectiveness, rather than direct threats to capacity or viability, most provinces and territories monitor this level and the trends to varying degrees.

Some provinces and territories see the measure as quite useful and closely monitor the delinquency trends. For example, one province has set a delinquency rate ceiling of 10%. If a municipality's rate goes above this level, the province “wants to know why [this is occurring], what types of property [are affected] and what steps are being taken to collect.”

In the N.W.T. taxes receivable are monitored to see if municipalities are accumulating high balances which may affect the availability of working capital, and perhaps require short-term borrowing. Nova

Scotia insists that its municipal units fund a “valuation allowance.”³ This regulation acts as an incentive to keep delinquencies at a minimum.

5.9 Expenditure-Based Measures

For the purpose of this study, measures based upon the expenditure trends or patterns of a municipality were separated into two classifications: a general government or administrative efficiency measure; and an expenditure benchmarking measure.

Expenditure fund measures are useful to see the distribution of funds among programs. Some comparative studies have used expenditure-based measures. For the most part however, expenditure indicators are thought to be, at best, to illustrate political and administrative choices rather than to measure financial stress. For example, high expenditure patterns in the “general government” category may indicate administrative inefficiencies brought on by inefficient managerial practises, or they may indicate an enhanced administrative capacity due to high expenditures on professional training and development.

5.9.1 A General Government / Services Provision Expenditure Ratio

Some of the survey respondents do not use this indicator but expressed an interest in its ability to measure “what a municipality is doing.” There is the perception that, in some small municipalities, hard services (e.g., roads, water) are effectively self-financing and that the tax dollars are being devoted almost entirely toward council and administrative operations. In these cases, tax expenditures would seem to be almost entirely focused on governance and “community identity” associated with municipal status, rather than on service delivery.

Nova Scotia recognises the important influence that the level of general government expenditures can have on the full municipal picture. The general government item is excluded from the granting calculations to ensure that there is no temptation to increase expenditures in this area and attract greater operating grant allocations.

As in many of the indicators, this measure also has problems. In Ontario for example, general government data may not be consistent from municipality to municipality. Some local units budget line items such as debt service to general government, while others build the debt service component into the departments responsible for incurring the debt.

Several other jurisdictions have not used this indicator for any purpose and would not consider it as a test of viability. Nevertheless, all acknowledge that this measure has value as a descriptor of service choices and resultant expenditures.

5.9.2 Benchmark Expenditure Indicators

Benchmarking and other performance indicators are receiving a great deal of attention in the current public administration literature (e.g., Miller and Miller, 1992; Palmer, 1993; Fischer, 1994; Midwinter, 1994). Performance measurements are by no means a new phenomenon on the Canadian local government landscape; for example, the City of Thunder Bay developed a *Performance Measurement Manual and Catalogue* in 1980.

³ The valuation allowance requirement is a tool used by the Government of Nova Scotia to ensure that the local government does not allow high levels of tax arrears. Unless the municipality institutes a policy to allow “tax sale,” it is required to list as a liability an amount calculated using formulas based upon running averages of accounts receivable for taxes, or a combination of portions of outstanding commercial and business taxes.

Performance measurements may be defined as quantitative or qualitative tools to determine how effectively and efficiently programs or services are achieving set objectives. These measures “provide meaningful feedback to municipal councils, and their administrations on the impact of their work efforts. Depending on the measures, this feedback may take a number of forms but its primary purpose is to evaluate current accomplishments and thus allow future changes or improvements” (City of Thunder Bay, 1980).

Performance-based measures are usually derived from benchmarks that have been set by comparing municipalities of similar size and with similar servicing characteristics or by examining stand-alone, internal levels against pre-set standards. These measures usually focus upon:

- *Efficiency* or how much output is produced for a given input (e.g., tonnes of garbage pick-up per \$1,000 of expenditure)
- *Effectiveness* or whether the goal or objective is being achieved (e.g., whether or not the garbage gets picked-up, whether the pick-up is on time)
- *Workload/Demand* or the amount of work done (e.g., number of garbage bags picked up)
- *Economy* or dollar cost (e.g., per tonne of garbage picked up)

Unlike their American counterparts, most Canadian jurisdictions do not yet utilise benchmark indicators as comparative intermunicipal measurement tools. Some believe that the reasons for financial success or failure are too complex for a measure that uses a single or a simplistic variable as a benchmark. Others argue that the variables from which the benchmarks are derived (e.g., the length of the garbage route) may not be comparable from one service area to another.

There was however, a great deal of interest among the survey responses in the development of these indicators as reference tools, and, potentially, as tools to inform future policies. As this field advances in Canada, many respondents and the key informants felt that performance benchmarks will be an important tool in the evaluation of financial stresses and capacities.

5.10 Debt and Deficit-Based Measures

Like a household or a private business, a municipality must sometimes rely upon short or long-term debt to meet current operating obligations. Debt is a part of municipal finance. Generally, municipalities use short-term debt to make up for uneven cash flows or to finance capital works projects (ICMA, 1994).

In some provinces, such as Ontario, a cash-flow shortfall sometimes occurs between the time that many of the statutorily mandated payments must be made to local boards (e.g., school boards, social services boards) and the due date of the municipal tax bills. To meet these obligations and their day-to-day cash needs, a local government may take out a short-term loan from a financial institution or a municipal lending authority.

In other situations, local governments will borrow against their tax base in order to maintain an acceptable service level or to introduce new services (although the introduction of new services is quickly becoming a thing of the past). As with any debt, the cost in terms of interest charges can be high. Ideally, the local government should budget well in advance for capital replacements or, where possible, establish reserve funds for these purposes.

While it is difficult to dispute that poor debt management or excessive debt may cause viability difficulties, setting the level of debt or the “debt ceiling” that an individual municipality may incur can also be problematic. Ontario, for example, imposes an arbitrary debt ceiling on municipalities. This limits their ability to borrow to meet their capital needs, but it is an artificial ceiling. Municipalities may

remain viable over and above this ceiling, especially if their debt is held in long-term revenue bonds (on water treatment plants, for example). These debts are well supported and there is little chance of default. A more accurate estimate of the municipality's ability to handle debt may be established by using an index of per capita and per household burdens, and the trends relative to the municipality's revenue base.

In current discussions regarding regulatory measures related to the debt/deficit issue, a preference is often expressed for less arbitrary measures, ones better related to the local economic capability. For example, it has been suggested that categories such as "per household total municipal tax burden," "other typical expenses," and "median household income" be included as part of the debt limit calculation.

Comparative debt measures are difficult to establish due to varying attitudes, emphases and policies toward levels and types of debt among the provinces and territories. Each province and territory has different levels and measures of local government debt and different ways of establishing these levels. In addition, they place varying degrees of emphasis on the importance of debt and deficits. For example, Yukon simply monitors the debt from year to year, while other governments (e.g., Ontario and Alberta) are considerably less lenient. This diversity of approaches is further complicated by the variety of debt financing institutions that some of the provinces and territories employ. In some provinces, there is a special institution whose purpose is to fund municipal debt (e.g., The New Brunswick Municipal Finance Corporation, the Municipal Finance Authority of British Columbia). In other jurisdictions, (e.g., Ontario) the local governments can fund their debt through private financial institutions.

5.10.1 Level of Debt/Tax Base Measure or Ratio

Alberta has used this ratio in the past but now uses a debt service ratio based upon current revenues. By regulation, the province has set limits. Debt (long- and short-term) should not exceed 150% of revenue, and debt service must not exceed 25% of revenue. This province has placed a great deal of emphasis on this particular measure and has identified it as a telling indicator of viability. Respondents from Alberta indicated that this measure could be used as a basis for deeming a municipality non-viable.

Some provinces use this ratio to calculate municipal borrowing limits (e.g., B.C. and Manitoba) or grant funding levels (e.g., N.W.T.). Other ratios that are used in relation to debt are: debt/capita; debt/household; debt service levels as a percentage of operating revenues; and debt service levels as percentages of own-source revenues.

5.10.2 Operating Fund Deficits

Each province treats the issue of operating deficits and their significance to the viability of the municipality differently. Some do not allow the municipalities to incur any level of operating deficit, and others allow deficits for a set period.

Alberta, for example, permits operating deficits over a three year period, but the deficiency must be covered in the following year. Put another way, municipalities are statutorily obligated through the *Municipal Government Act* (section 244) to balance or exceed total expenditures and transfers with total revenues and transfers over a three-year period. According to one Alberta respondent, “Most shortfalls are small and can be covered easily... the difficulty comes when there is a large expenditure in year 3 that must be covered in year 4.”

In British Columbia, operating deficits are not permitted under statute. Any indication that current expenditures have exceeded current revenues plus appropriation of pre-existing surplus or reserve accounts triggers immediate action. One B.C. survey respondent commented that the “level of dependence on pre-existing reserves and surpluses to balance off expenditures is a critical indicator.”

5.10.3 Level and Trend of Outstanding Current Liabilities

Current liabilities are defined as the sum of all liabilities due at the end of the fiscal year, including short-term debt, current portion of long-term debt, all accounts payable, accrued liabilities and other current liabilities (ICMA, 1994). While the use of short term loans is an acceptable way to deal with interim cash flow difficulties, an increasing amount of short-term debt outstanding at the end of each successive year can indicate viability problems.

In Alberta, the current liability level is a part of the debt limit calculation. It appears that “when short term loans are increasing, and there is no obvious chance to use other assets for operations, this is a strong indicator of loss of viability. It is equivalent to trying to operate the household on credit cards. Ultimately, the system fails when revenues are no longer adequate to make the “easy” monthly payments” (Alberta survey respondent). Many of the survey respondents (e.g., Ontario) indicated a similar “hard-line” approach to high levels of, or persistent current liabilities.

Of all debt and deficit measures, this seems to be the most indicative of viability difficulties. An inability to meet current liabilities is far more serious than a high level of debt (however measured). An analogy is the homeowner who has an outstanding mortgage on their home. The mortgage, or debt, is serviced by making frequent and consistent payments on the interest and principal of the balance. The mortgage holder does not put much emphasis on the level of this mortgage; as long as the payments are made, the mortgagor sees little cause to worry. But if the mortgagee misses two or three of the payments, or in other words, fails to service the current liabilities, there is cause for concern.

5.11 Other Assessments of Financial Stress

Other innovative methods have been proposed to assess municipal financial condition besides those based upon the traditional measures of revenue, expenditures and debt levels. One such method, proposed by Otto and Edelman (1992), examines the number of innovative service arrangements that a municipality adopts and relates this to the degree of fiscal stress that the local government may be experiencing. An analysis is made of the existence or absence of a relationship among several socio-economic indicators (e.g., local government financial status, revenues, community size) and the degree of municipal innovation.

The authors ask: why do innovations take place? A theory called the “induced innovations hypothesis,” developed by Hayami and Ruttan (1981), implies that innovations in technology occur in response to, and

in the direction of, perceived factor scarcities or more generally changed economic conditions. The old adage “necessity is the mother of invention” is appropriate here.

Hayami and Ruttan applied this hypothesis to municipalities by examining the loss of revenue and the decline of the tax base in selected municipalities. These factors were expected to induce local government officials to search for alternative “non-tax methods of providing public services.” Among the non-tax methods outlined include: internal reorganisation within the existing structure, functional consolidation such as sharing facilities and personnel, geographic consolidation, and privatisation. The 1981 study maintained that there is a relationship between community preferences regarding institutional innovations and: financial status indicators, community size indicators, and indicators of access to human capital resources. The following hypotheses were tested:

- Communities with greater financial stress are more likely to seek out alternative forms of resources.
- Larger communities are more likely to adopt these measures because of economies of scale and specialised city resources (see Douglas, McClew et al. 1979 for size and innovation patterns).
- Adoption of innovations is likelier in areas where there is more access to human capital resources.
- Total tax assessment is inversely related to fiscal stress, thus negatively related to innovations.

At the conclusion of the study, most of the hypotheses were confirmed, yet some of them only marginally. This is one of the few studies that focuses solely on the use of alternative revenue sources and their relationships to community characteristics.

Although this is an interesting and novel approach to testing the stress in a municipality, the provincial and territorial survey respondents did not feel that measurement of the degree to which services are delivered through alternative means is a good indicator of capacity or viability. One of the responses was that although the use of such a measure would be interesting, it would relate more to an administrative choice of the council rather than an indicator of viability. In other words, it is more of an indicator of the organisational climate/culture or of individual political/administrative styles.

5.12 Financial Viability Summary

While no single aggregate measure of financial viability, and no “hard and fast” definitions exist, there is an abundance of literature on fiscal capacity and its constituent variables. The variability of these measures is a characteristic of local government. Within statutory regulations and guidelines, each municipality can decide upon the levels and types of services that will be provided to their residents. Residents in one municipality may pay substantially higher taxes than in a neighbouring municipality; but the services may be of a higher standard. Likewise, one municipality may place more emphasis on its role as a “local voice” rather than its service role. This may result in higher general government costs due to more frequent public meetings, longer office hours, or staff and council professional development costs. The residents in such a municipality may assent to such an emphasis on process, even if the associated costs may mean that the purchase of a new Zamboni for the community centre has to be delayed. Despite these complexities, some general financial viability indicators can be identified.

The concepts of capacity, effort and stress are integral to an understanding of viability, both financial and general. As seen in Figures 11 and 12, financial capacity can be conceptualised as the maximum resource base that can be exploited through the maximum effort that can be exerted in terms of revenue-gathering. This effort can be internal (e.g., the degree to which the theoretically maximum amount of taxation revenue is realised) or external (e.g., the degree to which the municipality avails itself of the theoretically maximum intergovernmental transfers). Declines in these indicators can signal a decline in the municipality’s viability.

In terms of specific measures, those that are based upon *revenue characteristics* are the most prevalent in the literature and the among survey responses. The *ability to raise revenue* is seen as a clear indicator of a municipality’s capacity, and thus its viability. Expenditure-based measurements are of limited use because the variability of the expenditure categories from region to region precludes the application of uniform standards. Yet this measurement category seems to be becoming more popular as senior levels of government look increasingly to standardisation as a means of assessment. The debt and deficit levels of Canadian municipalities are strictly regulated by the provinces and territories. The measures are used administratively as a tool to indicate when these levels have been exceeded.

Table 2 below summarises the findings of this measurement examination. It outlines the measures, the questions asked to address the measures, and the key characteristics. It is important to remember that this table presents an illustrative selection of indicators and only a sampling of questions that may be posed. Many other questions and interpretations are possible and indeed desirable in order to further our understanding of financial viability.

Table 2: Financial Viability Indicators

| Measures | Questions | Indicators |
|--------------------------|--|--|
| Revenue-based | <p><i>Is the tax effort potentially straining the fiscal capacity of the municipality?</i></p> <p><i>Are reserve funds being depleted?</i></p> | <ul style="list-style-type: none"> • A falling/rising mill rate • A falling/rising per capita or per square foot tax level • A declining/rising residential and/or commercial assessment base • Indications of taxpayer “revolts”/satisfaction e.g., decreased/increased frequency of tax-associated complaints • Property tax arrears are high and increasing/low • Declines in/additions to reserve funds combined with declining/rising sources of other revenues |
| Expenditure-based | <p><i>How do the levels and trends of expenditures “measure-up” against similar municipalities?</i></p> <p><i>Are the expenditures adequate or being administered efficiently to meet the local service needs?</i></p> | <ul style="list-style-type: none"> • Unit costs are higher/lower than in similar municipalities • Some services are delivered infrequently or inconsistently/on time |
| Debt-based | <p><i>What does the municipal debt “look like”?</i></p> <p><i>What does the municipal deficit “look like”?</i></p> | <ul style="list-style-type: none"> • High and rising/ low and falling levels of “short-term” debt at the end of the fiscal years • Deficits have/have not been accrued for a number of consecutive years |

Clearly, there is an abundance of empirical measures upon which to build a significant part of the municipal viability conceptual framework, from the financial perspective.

Chapter 6

Viability of Governance

6.1 Introduction

As previously outlined, the roles of Canadian governments at all levels are evolving in response to fundamental economic and social changes. In adjusting to these new demands and conditions, many provinces, territories and local governments are reviewing and reforming their systems of public management. They are reconsidering how government relates to citizens and enterprises, how best to ensure provision of public services, and how to define the inherent functions that governments must perform. In short, they are deeply concerned with maintaining the capacity to govern in the face of great change.

Although pressures for reform, regional characteristics, and phases of development differ widely, the three levels of government are increasingly coming to realise that new roles, functions, processes, structures and resource requirements must be explored and developed. Their agendas are driven by the perceived need for fiscal consolidation, by the effects brought about by the globalisation of the economy, and by the impossibility of meeting an apparently infinite set of demands through a finite set of public resources.

The literature contains various definitions of “governance.” One’s perception of governance is largely dependent upon the public roles, responsibilities and priorities that one assigns to local government in general, and to municipal government in particular. What makes governance “good” is the ability both to meet clearly defined service standards and to carry out the representative role properly. However, the focus for the most part has been on the service, or “business” role of local government: on outputs, the promotion of competition, the transparency of decision-making, the linking of costs and benefits, the provision of incentives, the encouragement of commitment and loyalty, the establishment of constraints, the maintenance of trust through fairness (Purchase and Hirshorn, 1994).

There are several ways to measure this service delivery side of local governance, the most popular being some measure of managerial/administrative efficiency and/or effectiveness. Conceptually, empirical and normative criteria are needed against which individual municipalities can be assessed. Within the public administration literature many such criteria employ engineering work standards (e.g., personnel per metre of road), whereas the economists emphasise cost minimisation (Deller et al., 1992). Whatever basis is used to set normative criteria, clear measures such as these are vital in the assessment of the service component of municipal capacity, stress and viability.

There are some (e.g., Tindal and Tindal, 1990) who support an augmented role of local government as a voice or representative of the local citizenry. They believe that Canadian local governments have too often been pre-occupied with improving service efficiencies at the local level. Historically, many of the reforms to the municipal systems have done little to enhance the representative role, and some have strongly undermined it. Reforms have been “so preoccupied with taking politics out of local government that they virtually disavowed the political role” (Tindal and Tindal 1990, 332). Politics is being de-politicised and handed over to the technically adept hands of technocrats (Friedmann, 1987).

Taking these opinions into account, any measurement of governance should include measurements of representation and responsiveness, including such indicators as the “openness” of the local government decision-making process and the vitality of the local political landscape as expressed by the participation

at election time. They can also include the degree of internal managerial capacity that enables the council and administration to carry out their respective roles effectively in both a service delivery and a local representative context.

As one of the survey respondents noted, viable governance is a very difficult concept to separate and define independently of other operations of the municipality. “Governance” in the representative sense is vital, but it must be integrated with the function (or service) concept. Another respondent claimed that without this integration, governance as a measure of viability is of doubtful utility.

6.2 Governance Capacity

A municipality’s governance capacity is not as readily definable as its financial capacity. The former is much more “wicked” than the latter. That is, it is more difficult to define the stresses and assess the effects that these stresses may have on overall viability. For example, no definable indicator measures governance capacity as effectively as the local property tax base might financial capacity. As with municipal fiscal capacity, there are several stresses that can and do negatively influence the capacity of governance. Conversely of course, governance capacity can also be increased through proactive steps on the part of the municipal, provincial or territorial governments, or through community-based action.

For the purposes of this research, the capacity of governance is defined as a function of four separate but interlinked composites:

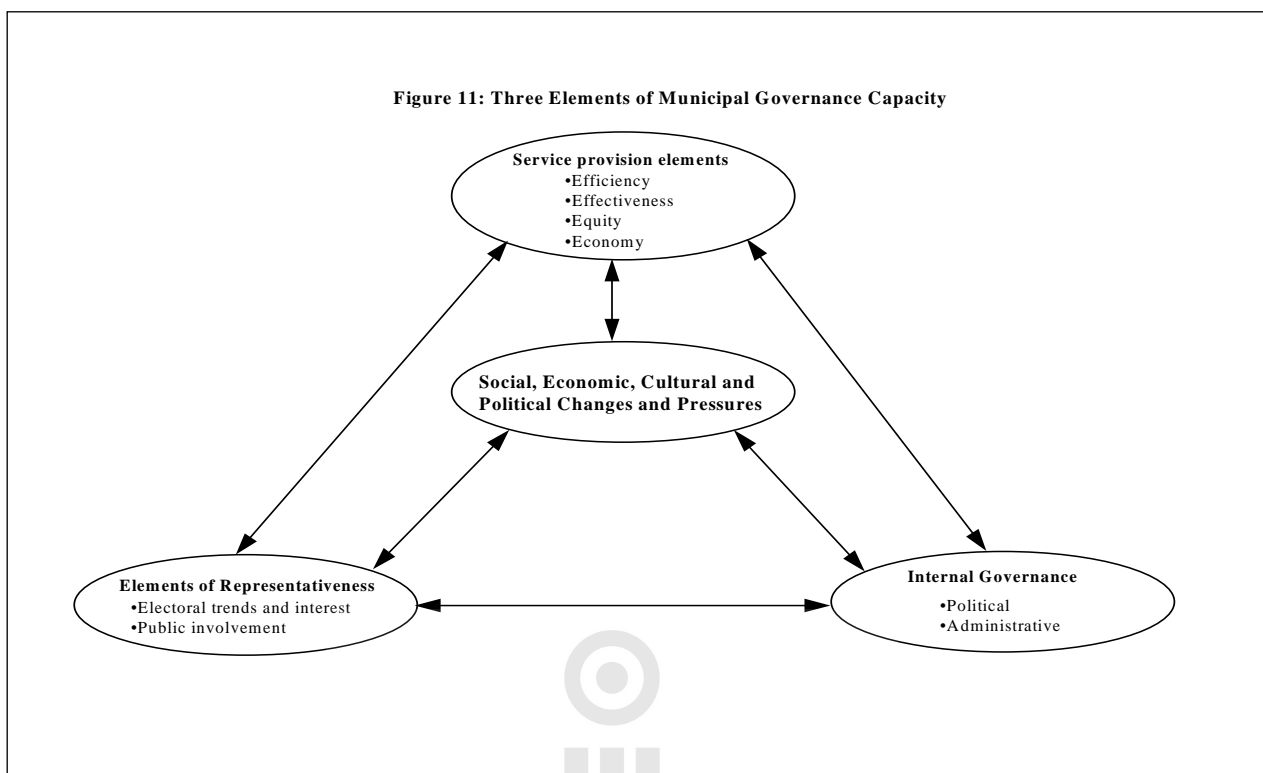
- The representativeness and responsiveness of the municipal government
- Community characteristics and changes
- Service provision characteristics
- Features of the internal, political/administrative governance system

The capacity of the municipality’s governance is affected by these characteristics. Each acts as a negative or a positive influence upon the capacity and thus the overall viability. Figure 13 illustrates how these elements influence each other and are influenced by changes in the internal and external fiscal and socio-economic environments. It is distilled from the literature and from the information provided by the survey participants and key informants.

6.3 The Measures of Governance

The “Governance Viability” survey was sent to provincial and territorial officials over a four week period in June of 1996. The respondents were the same as those for the “Financial Viability” survey. Of the fourteen surveys distributed, all were completed in varying degrees of detail.

The respondents were presented with the following working definition: “*Viability of municipal governance is the ability to sustain the municipality’s system of local government.*”



6.4 Definitions of Viability of Governance

A sampling of the provincial definitions of viability of governance is presented below.

A municipality's governance is viable if it is:

- a) able to govern and democratically represent the interests of the community;
- b) able to satisfy the responsibilities for administration and services in accordance with legislation;
- c) able to provide the services needed at a cost that residents are willing to pay.

Viability of governance can be defined using the following variables:

- a) The level and quality of services provided;
- b) The fairness, efficiency and effectiveness of municipalities' collection / allocation of revenues to provide these services;
- c) The responsiveness of local government to change, and resident preferences with respect to a) and b);
- d) The degree to which the residents know and trust that a), b), and c) are properly resourced, co-ordinated and monitored.

Governance is viable if:

- a) representation is fair, i.e., related to population or in the case of some special purpose bodies, related to financial contribution;
- b) the decision making process generally allows decisions to be made in an open process which considers key relevant factors and in a reasonable timeframe;
- c) there is reasonably broad resident involvement (though this is not essential).

In order to be viable, a municipality must be in a position, on the one hand, to offer its citizens an environment of quality and accessible municipal services which meet their expectations and which corresponds to their means, and on the other hand, to play a leadership role in its community as far as economic and social development are concerned. Consequently, the following factors should be considered:

- a) the human resources skills in the municipality (evaluation of the training of elected officers and of civil servants);
- b) the ongoing adaptation of structures to the municipal reality (evaluation of the municipal structures due to continuing decentralisation);
- c) the regrouping of municipalities and associated impacts in terms of costs.

6.5 Main Themes of the Respondents' Definitions

The main themes that emerged from the survey responses and the interviews confirmed the concepts that were found in the literature. The respondents regarded the concept of “viability of governance” as a function of:

- representativeness and responsiveness
- service effectiveness, efficiency and equity
- fairness and openness of the revenue and expenditure decision-making process
- internal political and administrative abilities

That is, they did not view the concept of viable municipal governance as a function solely of the service provision role or of the representative role, but rather, of both these roles. This insight is key in the development of the emerging conceptual framework.

6.6 Measures

6.6.1 Measure of the Frequency of Uncontested Council Seats and the Degree of Voter Turn-Out

Whether lack of participation in local elections indicates apathy (and perhaps a problem with viability) or a general satisfaction, comfort, confidence and trust in the current administration is a question to which neither the literature, nor the survey respondents or key informants gave a clear answer.

In Quebec, various electoral indicators are used to assess the vitality of local democracy. The degree of participation in municipal elections both from the standpoint of the number of candidates and the rate of voter participation are considered important. The survey respondents from Quebec saw this measure as indicative of the “municipalities’ abilities to raise electoral issues, and hence, an interest on the part of citizens in municipal political life.” However, the turnout rate in the municipal elections of that province is inferior to that of its provincial elections (52 per cent local election voter turnout compared to an 81 percent at the provincial level over the past twelve years). Indeed, a low participation rate is the norm in most if not all the provinces and territories, and Canada as a whole experiences some of the lowest local election turnouts in the industrialised world (Stewart, 1996).

Aside from Quebec, the use of an index measuring the number of acclaimed elections or the voter participation rate did not find much favour among the survey respondents. One respondent (from B.C.) pointed out that a better measure of viability “would be the frequency of when no one stands for municipal office and the Minister has to appoint members to council.” This, however, is an extremely rare occurrence even in sparsely populated areas.

The respondent from British Columbia pointed out that Vancouver, for example, has low levels of voter turn-out although it is clear that local government in Vancouver is quite viable. Manitoba Urban Affairs

notes that “voter turn-out needs to be referenced historically and regionally. Most significant are changes in the trendline rather than the degree to which voter turn-out is considered high or low.” The voter turnout indicator is fairly meaningless on its own and (like the other indicators) should not be viewed in isolation but rather as complementary to other gauges.

6.7 Representativeness and Responsiveness Measures

A dominant measure that arose in the surveys although not included as a formal survey question was an indicator that captured the “openness” of the local decision-making process. Some respondents believed that some indication of “open democracy” was necessary to determine the health of the municipality. For example, if a council felt it was indeed making decisions that were in the best interest of the community that it represented, then there would be no need to limit the accessibility of the public. On the other hand, if the resident’s confidence in the council’s decisions was flagging, then the council may be more likely to make decisions “behind closed doors” or otherwise attempt to curtail the public consultation processes.

Another measure that was not included in the surveys, but was often mentioned by the respondents was one that incorporated a variety of “customer satisfaction” measures. These baseline measures included a system of monitoring and following-up the delivery of the municipal services as measured by targeted surveys or other means (e.g., customer satisfaction cards). These surveys are intended to sustain excellent service and identify areas for improvement and are often used in a municipal business plan. It is an approach that is quickly finding a home in many provinces (e.g., Alberta and Ontario).

6.8 Service Provision Measures

6.8.1 Measure Based on the Degree to which Traditional Municipal Services are Delivered by Alternative Means

This measure was selected as a potential capacity stress indicator to test opinions on the linkage between capacity and the adoption of alternative service means. Otto and Edelman (1992) argued that the proliferation of these service delivery tools indicates a high degree of municipal financial capacity stress. One may not accept this conclusion, but it can be argued that the choice of an alternative means of delivery may indicate a high degree of internal political capacity, since the council and/or administration may be working toward mitigating or alleviating financial stresses.

It is not clear whether a greater proportion of service outsourcing indicates a lack of viability or cost/service innovation and efficiency. For example, many Alberta municipalities engage in such arrangements and, from Alberta’s point of view, this is a sign of good governance.

There was also some uncertainty on the part of the Ontario respondent about the significance of this characteristic as it relates to “good” or “bad” governance. Logically, alternative service delivery methods such as the use of intermunicipal contracts should be encouraged as a way of increasing efficiencies and taking advantage of economies of scale. But as the survey respondent pointed out, the Ontario government appears to regard the sharing of services as a sign of inadequate governance and to prefer the amalgamation of municipalities to intermunicipal arrangements to gain efficiencies.

In Quebec, the degree to which services are provided through alternative means is monitored by the Provincial authorities. Changes to the administrative and financial capacities of its municipalities have brought about a new system of servicing tools and corresponding structures. Several municipalities have initiated intermunicipal agreements and other functional realignments to ensure the accessibility and quality of the services offered to residents. The provincial government sees the degree and type of these alternative arrangements as indicative of the capacity of the municipality to absorb and adapt to changes.

From this study's perspective, it appears that this measure can be used as a yardstick to assess governance capacity.

However, there are conceptual limits to the extent to which the provision of services can be secured by means other than direct production. For example, if its role as service provider is given over totally to an outside or private source, can the local government be considered viable? On the other hand, consider a municipality that produces all services itself, but is only able to keep its office open for a few hours a week. Does this indicate a higher or lower level of viability than the municipality that outsources most of its services, but is able to staff its offices fully?

Two respondents indicated that the means by which services are provided are not significant in terms of municipal viability, or even a *measure* of the services provided. The cost and quality of the service, regardless of the means, are the variables that should be measured.

In sum, there does not seem to be a consensus about whether the use of alternative means of service delivery indicates stresses upon capacity, and therefore viability of governance, or whether it is actually a sign that a municipality, in terms of governance, is healthy and thriving.

6.8.2 Measure that Gauges the Efficiency and Effectiveness of the Service Being Delivered

More important to the survey respondents than the method by which services are delivered is whether or not services are being delivered efficiently and effectively. Cost per unit and service frequencies are the specific measures most often cited as being in use or considered for use by the various provincial and territorial departments.

The literature abounds in excellent discussions of efficiency in the public service and of efficiency measures (e.g., Hobson, 1994; Kitchen, 1994). Several of the survey respondents referred to these sources as containing valuable insights into the various ways of measuring the delivery of public services. Yet a detailed examination of the main concepts and measures of efficiency and effectiveness is beyond the bounds of this report. Future comprehensive research on Canadian municipalities would do well to focus on the use of these measures as comparative standards or benchmarks.

6.9 Internal Measures

Intergovernmental Committee on Urban and Regional Research

The existence or non-existence of a municipal "Strategic Plan" was seen by three respondents to be a good indicator of the governance capacity of the municipality (see also Douglas, McClew et al., 1979). A Strategic Plan might indicate that despite financial or other problems it might have, a municipality was at the very least proactive in its decision-making processes.

Other indicators of administrative capacity may include the extent of professional training undertaken by the administrative and political officers of the municipality, and the technological level of the municipal offices (e.g., whether the municipality has a computerised bookkeeping system).

6.10 Other Measures

Other measures used to indicate the condition of governance capacity have included:

- *Patterns of land ownership.* If one or a few landowners possess most of the land in the municipality, the degree to which its residents can democratically express themselves at the ballot box may be diminished. British Columbia considers this factor when assessing the potential formation of new municipalities.
- *The proportion of seasonal to permanent residents.* High imbalances can cause perceptions of inequitable service provision and a potential erosion of the governance capacity of the local government. For example in Ontario, a perennial complaint of seasonal property owners concerns their support of the local school systems through the local education tax. Despite this support, which in some areas exceeds 80% of the tax base, the children of these seasonal residents do not have access to these systems that their parents support financially.¹

6.11 Governance Summary

The measures of the viability of municipal governance have their conceptual basis in the main roles that Canadian local governments assume or have assigned to them, that of a service provider and of a local representative. These measures gauge components of either of these roles.

The literature, the surveys and the interviews reveal that service capacity measures such as levels of efficiency, effectiveness and equity, as well as inter-municipal benchmarks and customer service measures, display the highest potential for practical application in the determination of levels of viability. Indeed, many of the survey respondents expressed interest in the use and further development of composite measurements of representativeness and responsiveness. This should not be surprising since many of the recent broad local changes have created new servicing requirements and demands.

Demographic shifts (e.g., the different demands of an ageing population or the sometimes different demands of significant immigrant influxes) and other factors (e.g., changing service expectations) have combined to influence servicing costs and patterns. Changes to the service function of local government are not the only reasons why the survey respondents are interested in measures of viability of governance: the representative function too has been under pressure.

This chapter has outlined a few of the measures that may be utilised to assess capacity stresses that impact upon the viability of a municipality. It has also, once again, drawn attention to the importance of linkages between governance capacity and viability. Table 3 summarises many of the points made in this chapter.

¹ In January, 1997, the Ontario government introduced legislation to remove education funding from the local property tax system.

Table 3: Governance Viability Indicators

| Measures | Questions | Indicators |
|--|---|---|
| Participation | <i>What have been the electoral patterns in the municipality?</i> | <ul style="list-style-type: none"> • Filled/unfilled council seats for consecutive elections • High/low voter turnout compared to the surrounding region |
| Representative and Responsiveness | <p><i>What are the customers saying?</i></p> <p><i>On the whole, are council and committee meetings conducted openly?</i></p> | <ul style="list-style-type: none"> • Infrequent/frequent informal and formal complaints from ratepayers • Many/few closed meetings • Regular/irregular of meeting days and times • Inadequate/adequate advance notice of special meetings |
| Service Provision | <p><i>Are quality services on the whole delivered on time?</i></p> <p><i>Are services delivered efficiently?</i></p> | <ul style="list-style-type: none"> • Services are often sporadic and sometimes of questionable quality/consistently high quality • When compared to municipalities of similar size and with similar services, costs per unit are much higher/lower |
| Internal Political/Administrative | <p><i>Does the municipality have a strategic municipal plan?</i></p> <p><i>Do the council and staff regularly attend professional development meetings, workshops, conferences, etc.?</i></p> | <ul style="list-style-type: none"> • No/yes • Recent/dated • Infrequently/ frequently |

Chapter 7

Community Viability

7.1 Introduction

The rationale for including a measure of community viability as an important component of our discussion on municipal viability is based on the perception that, as one survey respondent put it, “You can have a community without a municipality, but you can’t have a municipality without a community.” A community can not be defined in the “old way” as solely a local geographic unit. As an increasing proportion of peoples’ activities and relationships (e.g. shopping, social contacts, recreational patterns), are carried on outside the home base (i.e., municipality), people begin to think differently about their municipality (Fuller, 1994). Once the feeling of belonging and the associated social interaction networks are altered through these pressures and experiences, local loyalties that are the bases for community viability begin to erode (Baker, 1982).

Community viability has been at the centre of Canadian public policy for many decades. Sometimes under the rubric of “regional development,” various federal and provincial governments have attempted to address inter-regional inequalities in income and employment opportunities. The eroding effects of involuntary outmigration from places such as Newfoundland, Cape Breton, rural Saskatchewan and elsewhere have been major considerations here (Newfoundland Royal Commission on Employment and Unemployment, 1986; Saskatchewan Royal Commission on Rural Life, 1956). The “stay option” has been called a central value relating to personal democratic choice, and to the viability of Canadian communities. Douglas, tracing the evolution of federal and provincial policies and programmes over the last half century, noted the slowly emerging focus on “community-based economic development” (Douglas, 1994a). “Community viability,” including but going beyond economic issues, has equally extensive and lengthy roots in this country (Douglas, 1993). The effects of size, location and remoteness, a vulnerable economic base, ageing, rudimentary social infrastructure and other factors have been identified as key considerations in the viability of rural communities. The rich record of community-based initiatives (“bootstrap operations”) and self-help innovations has also been noted (Douglas, 1989, 1993, 1994a). Lessons relating to strategic factors in community viability have been extracted from this record. They include visionary, assertive and energetic leadership, investment in volunteers, the galvanising effects of a crisis, inter-agency networking, coalition building and organisational development at the local level, systematic approaches to project identification and implementation through planning, creative use of external funds (usually public), the critical impact of “seed funding,” effective use of external resources (e.g. universities), and the community's ability to find common cause and persist in its efforts (Douglas, 1993).

“Community” is difficult to define precisely. Douglas (1993) defines community generically as a human group that shares a common interest. In the spatial context, communities have evolved through a combination of historical, geographical, economic and cultural factors (Barlow, 1981). The scope and the scale of the interactions and the interdependencies between individuals probably make community easier to define than it is to measure. Accurate measurement involves the identification of the area that the population of the community regularly looks to in order to satisfy all or most of its daily needs (Barlow, 1981). Once a community is formed, it becomes an essential element in the viability of a governmental area (Ontario Taxation Committee, 1967).

However defined, the capacities of a community periodically encounter stresses. These stresses, like those that affect municipal financial and governance capacities, can evolve from internal or external

sources. Internally, for example, rapidly ageing population may lessen a community's ability to retain and develop a residential labour force while placing increased strains upon community services such as transit and health care. Externally, for example, a senior government decision to close a major employer such as a Coast Guard Base, or the imposition of a resources extraction moratorium (e.g., on fishing) will have a serious impact upon the capacities of the communities involved.

The viability of a community is often couched in economic terms. Thus, a community with a manufacturing plant is often considered to be more viable than one that lacks such a relatively stable economic base. In addition, certain public institutions can also enhance a community's viability. For example, a community with a high school and a hospital is generally thought to be more viable than one without such facilities (Government of Saskatchewan, 1985).

However, the capacity of communities that rely on one or a few large employers is under considerably more pressure than a diversified economy. "Single industry towns" can be defined as communities with populations of less than 30,000 "in which at least 75% of the working population serves the single industry and its supporting institutional services" (Lucas, 1971 p.17). It is obvious that when the very survival of a community is either directly or indirectly reliant upon one employer, that community's economic capacity, and thus its viability, can easily be stressed.

Another important element of community viability is technological changes. Improvements or changes in technology can enhance the capacity of a community (e.g., introduction of a large, labour-intensive recycling facility) or decimate it (e.g., large-scale automation of a car-body plant) (Stabler and Olfert, 1992). Speaking about "ghost towns," Ron Brown remarks:

The urbanisation years brought a spate of highway building and road paving. Enjoying sudden access to larger towns, rural residents by-passed many of the old country villages where they formerly did all their shopping. Competition from highway transportation closed many of the smaller rail lines and villages that depended upon this link faded (Brown, 1979, 11).

Current and future stresses that technological developments may place upon communities include advances in computer technology and telecommunications that allow members of a community to work out of their homes. Changes such as these may have many unforeseen impacts upon communities (e.g., traffic volume employment training needs, zoning bylaws).

Of course, communities can proactively build upon their capacities to avoid or at least forestall threats to their viability. As an example, community economic development strategies can increase a community's capacity by building self-reliance and enabling local economic development activity to become self-financing (Douglas, 1994). Communities can and have mobilised to respond to the economic, social and environmental challenges of sustainable development (Tomalty and Pell, 1994; Hilts and Fuller, 1989; Douglas, 1996). A community can also be proactive by increasing the capacity of its local government to devise policy strategies (Collinge and Leach, 1995). Yet an unfortunate fact is that sometimes, despite the best efforts of those at the senior government levels and of the communities themselves, communities do disappear. All across Canada are examples of communities that, for one reason or another, have failed to remain viable.

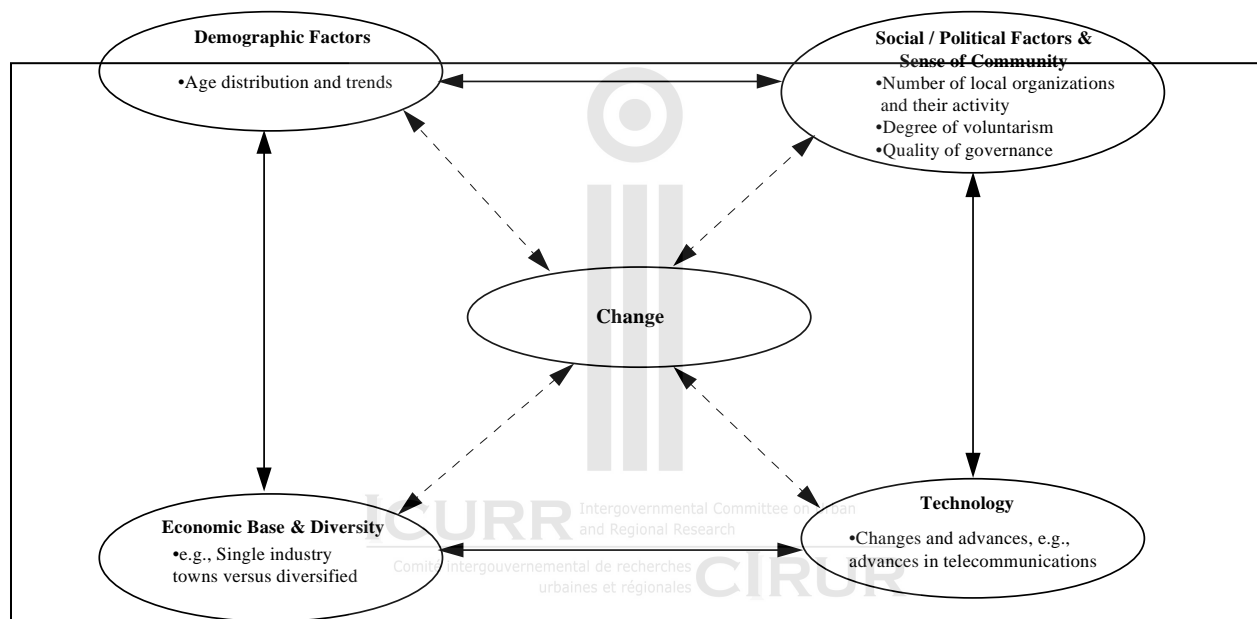
7.2 Community Capacity

From the above, we can isolate four factors that can impact upon the capacity of the community: social and political factors, demographic characteristics and trends, economic base changes/diversity and technological change.

7.3 Perceptions of Community Capacity and Viability

The threat to the viability of communities is most pronounced in rural and very small urban areas (Douglas, 1989). As with the other elements of municipal viability, rural communities are more exposed and vulnerable to internal and external pressures and threats. Urban areas, because of their greater potential for economies of scale, more diversified economies, and larger and denser population bases, are much more likely to be able to adapt and thrive than most of their rural cousins. The literature has responded to this rural need quite well by addressing many of the questions about viability in general terms, and analysing to the changing nature of rural contexts (e.g., Stabler and Olfert, 1992; OECD, 1990; Baker and Rugg, 1982).

Figure 12: Four Elements of Community Capacity



In their detailed study of the changes that have affected rural Saskatchewan communities, Stabler and Olfert (1992) looked at a number of factors that influence the viability of a community building upon central place theory ¹.

Within the framework of this theory, Stabler and Olfert investigated the following factors:

¹ Central place theory is a general concept which attempts to explain the relationships between the size (e.g., population), functions, (e.g., retail trade, business services, local government) and spacing of communities. The theory has identified regularities in “nested hierarchies” of communities characterised by many closely spaced small convenience centres (e.g., hamlets), fewer, larger centres with more functions and greater distances between them, up to a small number of regional towns or cities, and even for larger cities in metropolitan centres. Centres have an economic “reach” extending throughout the settlement system, while at the lower levels in the hierarchy the smaller rural centres will only have a few retail and service functions serving the daily needs of a small local market. This spatial concept (or adaptations of it) has been used to track the demise of smaller communities, urban economic concentration and a thinning out of the settlement system as a result of greatly expanded consumer mobility and corporate concentration. Central place theory provides useful insights into the dynamics of community capacity and viability. See Berry, 1988 for a more detailed description.

- Agricultural diversification
- Proximity to large urban areas
- Types of goods and services available
- Size, growth and other characteristics of the surrounding market
- Major investments near or in the community (e.g., manufacturing plants or mines)
- Public expenditures on infrastructure

The authors concluded that much of the capacity of rural communities had been reduced or made redundant by the development of improved technology. The preferences of rural residents in terms of the prices, availability and quality of products and services influenced the process of mergers and increased concentrations in the rural trade systems (Stabler and Olfert, 1992).

The effects of rural economic changes are also important to other aspects of viability (i.e., municipal financial and governance). According to Jack Stabler, a rural economist, “The basis of viability is economic; the other (financial and governance) components are results of the economic viability of the community” (interview with author, 1996). A decline in economic functions diminishes the ability of local governments to carry out their roles, either in a service or a representative sense, and eventually undermines the municipality’s financial capacity. These impacts are illustrated by Cook (1994) in two ways: in regard to the ability of the local government to maintain infrastructure, and the ability to sustain a tax base.

Cook, (1994) points out the difficulties that arise from “declining efficiency of existing infrastructure given excess capacity resulting from population decline.” Rural and small town residents provide many of the services for themselves that urban dwellers obtain from public sources. Small centres generally tend to provide common consumption goods such as water, sewer, and waste collection. Economies of scale allow costs of these public goods to fall as the size of the communities increase. This puts small centres at a distinct disadvantages in terms of efficiency.

Furthermore, the link between economic decline, community viability and viability of governance and local finances is also clear when the small community’s reliance on the property tax is considered. Smaller communities are more vulnerable to variations in property tax patterns due to their lower capacities (relative to urban areas) to absorb downturns in the economy. First, non-commercial property is the primary component of the rural and small community tax base. In several provinces (e.g., Manitoba, Nova Scotia), where variable mill rates are allowed, non-commercial properties may be assessed at a lower rate than non-residential (e.g., industrial and commercial). Thus, because of a higher proportion of rural land dedicated to agricultural and residential use than in urban and suburban areas, the property tax revenues realised by rural local governments may not be as high as those in urban areas. Second, because of their limited population base, smaller rural communities will feel the effect of outmigration more quickly and deeply than urban areas. For example, a plant shut-down resulting in a loss of 100 jobs will have a greater impact in a town of 1000 inhabitants than in a city of 100,000. Former employees may sell their homes and move from the area. Property values may decline and this will eventually be reflected in the municipal assessment base.

7.4 Mattson’s Community Viability Analysis

“Community viability analysis” using a set of tools to measure and assess a community’s vitality or viability, is beginning to gain some prominence in the American literature. This approach employs a number of demographic, cultural and socio-economic indicators within the analytical framework of central place theory. One version emphasises the importance of analysing a centre’s retail trade area in order to judge a community’s vitality (Mattson, 1996).

A strength of this approach is that the viability of the community is not based solely upon population size or spatial characteristics (e.g., distances from other centres). Also brought into play are the community's self-image and those social functional activities that occur within the community's horizontal linkages. By looking at factors such as these, this technique goes beyond central place theory as a socio-economic concept.

This process includes the following components:

- a) A catchment area analysis to determine the market trade area of the community being studied
- b) A commercial threshold analysis of the area and the surrounding communities for a range of goods and services
- c) A field survey of horizontal linkages (e.g., social service organizations, service clubs, churches, recreational organizations) of the study area as well as the other areas in the catchment region
- d) A comparison of the horizontal and vertical linkages among the selected communities to ascertain each community's viability status

This analytical technique is conceptually quite valuable. If used in combination with other tools, it may aid in a better understanding of integrated viability assessment methodologies. Yet, a couple of practical problems can arise that may inhibit the practical application of this approach. One is the cost of such research. Much of the data will not be readily available and the researcher will have to carry out costly primary data gathering. A second difficulty lies in the fact that the community viability analytical technique assumes the universal applicability of central place theory. If one does not accept this theory as valid, then the rest of the theoretical construct is suspect.

7.5 Measures

Each of the fourteen provincial and territorial officials was sent a “Community Viability” survey over a four week period in June, 1996. These respondents included those that participated in the previous surveys. All completed the surveys in varying degrees of detail.

The respondents were given the following working definition of community viability for their reference: *“Community viability is the ability of the community to sustain itself socially, economically and culturally and change (e.g., “grow”) if desired”*

7.6 Some Provincial Definitions of Community Viability

The concepts of “community” and their relationships to capacity and viability are quite complex and often confusing. Here is a sampling of some of the responses:

- What is a community? There are many types of communities e.g., the professional community, the neighbourhood.
- The viability of a community depends on people continuing to share common or similar values or interests.
- The viability of a community depends upon the community’s (as opposed to only its local government’s) ability to absorb change, manage change and thrive in the face of change
- Community viability is not restricted to whether or not a community “desires” to “grow”. In some cases, higher levels of government and external factors **require** communities to expand their capacity to operate programs and services.
- One must bring to bear all the economic factors which contribute to the development of a community such as:
 - a) the presence of businesses
 - b) the vitality of the local and regional entrepreneurship
 - c) the partnership between private enterprise, the government, and local and regional institutions as well as socio-economic and community associations
 - d) the type, diversity and ability that businesses have to develop and to compete in the context of the global economy

7.7 Measures of Community Viability

7.7.1 A Measure Based on a Population Profile and Population Trends of the Community

For the most part, the provincial and territorial survey respondents felt that population profiles and trends were not accurate gauges of community viability. One respondent pointed out that there are relatively wealthy and viable retirement communities, relatively poor and non-viable communities comprised of young persons, and vice-versa. However, another respondent did indicate that if the share of the population that is over 60 is increasing at a steady rate, this could signal future potential viability problems.

7.7.2 Measures Based on Various Economic Indicators

Some provinces and territories have looked at economic profiles as indicators of “ability to pay” for new municipal services and as measures of tax burden, but not as measures of community viability. While others would like to use such indicators, the respondents claimed that there is often a significant problem with data availability in rural and smaller areas, the very areas where viability problems are most likely to be encountered.

Despite the respondent’s concerns, economic characteristics, such as the strength and diversity of a community’s economic base, *do* have a significant impact on the capacity, and hence the viability, of a community. They may also have a cross impact on other components of municipal viability. One must

therefore ask such questions as: “Are the major economic activities that provide the tax base stable or growing?” and “Is there more than one major sector represented in the local economy?”

7.7.3 A Measure Based on Housing Analysis or Residential Trends

This indicator can be expressed in a number of different ways. First, one may examine the trend of building permit applications. Some of the provincial informants felt that this could indicate both the economic activity in the community and how appealing the community may appear to in-migrants. This measure can also be expressed as a function of housing stock availability (supply) or vacancy rates (demand). If there is a high and rising trend in vacancy rates and/or a drop in housing stock availability, this could be an indication of viability problems (ICMA, 1994). High vacancies can indicate high out-migration, and a low housing stock may diminish the residential tax base. While these measures may be useful in understanding some of the stresses that are placed upon a community, however, the availability of appropriate data (e.g., vacancy rate data in small municipalities) may present a problem.

The provincial respondents confirmed the utility of these indicators. One respondent pointed out that “the quality and condition of the housing stock and the growth rates might be a fair measure of demographic trends. If the housing stock in the community is deteriorating then it may be assumed that the ability of the community to sustain itself is deteriorating as well.”

7.7.4 A Measure of the Number and Trends of Social/Cultural Institutions

This indicator received much attention from the survey respondents. The rationale behind its inclusion was to develop a tool with which to assess “community strength.” Mattson (1996) uses such a measure in his study to assess indicators of community viability and many of the respondents and the key informants in our study stressed the importance of a system of social linkages to community viability. After all, if the churches are losing their congregations or the 4H clubs are ceasing operations due to lack of participation, or the local theatre goes bankrupt due to a lack of attendance, surely this must say something about the strength of the community (Baker, et al., 1991; Perry, 1987)!

A related view was shared by Richard Tindal and Allan O’Brien. They indicated that volunteer activity may be a better measure of community viability. Volunteers freely give their time to serve on committees, mount recreation programs or staff volunteer fire departments. The literature on the motivation of volunteers indicates that most volunteers are driven by a sense of common purpose toward a common goal, whether that goal is for the community-at-large or a specific organisation within the community (Ross, 1989).

7.8 Summary

Community viability is perhaps the most difficult to measure of the three components of viability, and yet it is definitely a central consideration and influence upon overall municipal viability. There are challenges both in defining the “community” and in measuring its “condition.” The problems involved in the definition of a community and the extent to which the community’s boundaries are contiguous with the municipality’s creates a plethora of measurement and other methodological issues. The measurement of the community’s conditions can be influenced by “who” is doing the measuring and on what assumptions that person is working. Despite these problems, any understanding of municipal viability would be incomplete without this community aspect. Table 4 summarises some measurements of community viability.

7.9 Summary of Measures of Municipal Viability

Undoubtedly, there are many angles from which municipal capacity and viability can be viewed and analysed. There is no right or wrong way to choose the measures or assign relative weighting. Many survey respondents and municipal experts emphasised the need for a holistic conceptualisation of viability and several components must be considered in such a task. Although the financial measures are vital to the overall viability of a municipality, they cannot be the sole components of a conceptual framework or a system of viability assessment. The governance and community aspects of the municipality, are arguably not as vital or “grounded” as the fiscal, but they *do* exert a great deal of influence upon the overall capacity of the municipality to absorb the stresses that impact upon its a viability. Commenting on a draft survey instrument at the outset of this research, a respondent remarked that the communities themselves, and the local factors of governance must be given at least as much weight as the financial balance sheet. The difficulty of measuring (especially quantifying) these factors must not by used as an excuse to ignore or discount them.

Table 4: Community Viability Indicators

| Measures | Questions | Indicators |
|---|---|--|
| Economic Characteristics: Base, Diversity and Growth | <p><i>What has been happening to the downtown area in recent years?</i></p> <p><i>Does the majority of the labour force work at one or two main industries in the community?</i></p> <p><i>Has the economic base been growing or shrinking in recent years?</i></p> | <ul style="list-style-type: none"> • High/low retail closures • good/poor development conditions • Yes, one or two industries account for the majority of the jobs/ No, diversified economic base • The economic base has been stagnant or shrinking/ growing |
| Social factors | <p><i>What has been happening to the memberships of social organisations, such as churches?</i></p> | <ul style="list-style-type: none"> • Memberships in most if not all organizations is shrinking/growing • Some groups are ceasing/starting operations in the community |
| Demographic Trends | <p><i>What has been the population growth trend in recent years?</i></p> <p><i>Has the population profile of the community been ageing?</i></p> | <ul style="list-style-type: none"> • Community has been losing/gaining population steadily over the past several years • In/outmigration of young labour force • Population is slowly ageing/remaining fairly stable • Decrease/increase in “dependency ratio” |
| Technological Changes | <p><i>Is the community dependent upon infrastructure that could be negatively affected by a technological change (e.g., a railway, an airport)?</i></p> | <ul style="list-style-type: none"> • Main access to the community is the branch line of a railroad on which most of its goods produced by the local economy are exported/ Many ways to access the community - technology provides access to new markets • Consolidation of fish plants, grain elevators/terminals/ new plants/industries etc., due to technological advances |

Chapter 8

Non-Viability — Some Illustrations

8.1 Introduction

There are many cases where the viability of a municipal unit was threatened or called into question. An outline of some of these cases will help to illustrate the many interpretations of what constitutes a viable or a non-viable municipality and the events and factors that led to such a state.

This chapter will briefly describe some municipalities that have chosen, or have been directed, to reorganise (either structurally or functionally) because of a variety of viability stresses to which they have been exposed. In each case we will emphasise the factors and the perceptions of the factors rather than the actual processes or mechanics of re-organisation.

To create a context for the measures and concepts of our analysis we first present two fictitious cases that illustrate the extremes of viability and non-viability. We then discuss four real municipalities whose viability has been questioned. Although these municipalities actually exist, the provinces that provided the details on them asked that their identities be concealed. For this reason, with the exception of Windsor, these cases are referred to only by numbers.

8.2 Fictional Case # 1 — “Brightville”

It is certainly possible to imagine the extremes of viability. The positive extreme could be represented by a municipality that is financially “thriving.” There is little strain on its revenue base; expenditures relative to revenues are low, and more important, the rate of expenditure growth is low and falling compared to similar municipalities; and, if there are municipal debts, they are long term and used to improve a modern and efficient infrastructure. Tax arrears are low and the collection turnover high. In short, it is a financially sound municipality with good fiscal planning and management and few or no anticipated short or long term problems.

On the governance front, the residents as a whole are generally satisfied with their municipal government. Although there are several hotly contested elections, the victors feel that being on council is a civic honour and a public service that they are pleased to carry out. They, and most of the residents do not perceive any degree of political or administrative incompetence. For the most part, they are confident that they are being represented fairly and effectively. The provincial or territorial government looks favourably on the municipal government in terms of its demonstrated ability to deliver a wide range of services efficiently, effectively and economically. The choices of the delivery vehicles of these various services (e.g., privatised services, intermunicipal delivery) were made in order to maximise economies of scale where possible and to avoid duplication of services. These policies, and all others, are made in a highly participatory manner with the council and the municipal administrators actively soliciting advice from the public. Much of this input becomes the starting point of the policy-making process. There is a strong sense of equity in the community and a very positive and constructive political process.

The community itself has a thriving and broad-based economy. Its primary settlement area has a healthy number of vacancies and residential and commercial building permits have been steadily increasing. The downtown is vibrant and there are few if any empty storefronts. The service clubs (e.g., 4-H, Rotary, Lions), religious associations and cultural groups are quite active and have little trouble finding new members. This trend is indicative of the overall volunteer participation and civic spirit in the community. Although the community has been buffeted by the ups and downs of the economy, it has weathered these

well and its population over the years has grown slowly but steadily. External and internal investments and employment opportunities are growing in the community's vibrant economy.

In short, this community is a pleasant place in which to live and work. Because it is financially viable, with little strain upon its revenue capacity, taxes are relatively low. All the local institutions of governance, including the local government, are respected and they reciprocate by carrying out their duties efficiently, effectively, economically, equitably and with philosophies that emphasise open and meaningful public access. It is a community that most of us would be glad to call home. On the other hand, just down the road is...

8.3 Fictional Case # 2 — “Gloomtown”

Unfortunately this municipality does not enjoy the same good fortune as its neighbour. It is at the other extreme of viability: a municipality that is completely non-viable. Its revenue capacity has been stretched for a number of years due to a declining tax base, decreasing intergovernmental transfers and a high percentage of tax arrears. An ageing physical plant has been the main cause contributing to large expenditure increases. This, combined with suspect financial management by the municipal administrator and the council have led to three consecutive years of current account deficits. The deficit situation has been further exacerbated by the high debt servicing costs of loans taken out to finance repairs to the municipal sewage treatment plant when it failed completely four years ago. Most financial indicators (e.g., historical, comparative, per capita, per household) indicate a declining revenue base, increased liabilities, and high risk. The province or territory has issued a number of warnings to the municipality about its declining financial fortunes.

The governance of this municipality is also in trouble. Two of the five council seats have gone unfilled for four consecutive elections. As well, the privatised garbage pick-up company often does not pick up on schedule because it has not been paid for a number of months. The remainder of the services are generally performed inefficiently and ineffectively, with preferential service reserved for the neighbourhoods in which the Reeve or Mayor and council live. These service decisions, like most of their decisions, are made in meetings behind closed doors in the council chamber or at the Reeve's home on an impromptu basis. The last two appointments to administration have been made without an open competition. The quit rate among employees has doubled in the last three years. A media/council feud has escalated.

Whereas the downtown of the viable community was vibrant and occupied by busy merchants and shoppers, this downtown is characterised by storefronts that are empty and in disrepair. This single-industry, resource-based community lost two of its major employers in the past five years: one to a nearby city and the other to another country, presumably as a result of a free trade agreement. Mostly because of these economic upheavals, the population level has been declining rapidly in recent years; out-migration has been the norm, especially among the younger workers. The local churches have seen a decline in their congregations. Service clubs and volunteer organizations have ceased or scaled down their operations. There is little civic pride and little hope for the future.

8.4 Case # 3 — Viability at the Time of the Great Depression

The Great Depression of the 1930s forced many municipalities into financial crisis. With the decline of commercial bases, municipal revenue sources were eroded. Furthermore, relief for the unemployed, becoming the predominant budget item, drained the already depleted municipal coffers. Windsor, Ontario was particularly hard hit due to the decline in automobile sales and the resulting steep levels of unemployment.

In the period immediately preceding the Depression, Windsor and the surrounding area was one of the fastest growing urban communities in Canada. A land speculation boom resulted from the perception that the area, due to its proximity to Detroit, was about to become the central location for Canada's burgeoning automobile industry. Municipalities incurred heavy debts installing services for massive expected growth (Kulisek and Price, 1988). When this did not materialise because of the economic downturn, the region's municipalities began to show signs that they might default on their debts. In the early 1930s the situation in the area was assessed by the Province and the municipal operations were taken over by a provincial Committee of Supervisors which implemented severe cost-cutting measures. In 1932, only 34 percent of the property taxes had been paid, and there was little market for those properties that had been put up for tax sales. Moreover, these desperate local conditions, by forcing municipalities potentially to default on their debt, threatened the financial status of the entire Province. This led the Province in an effort to mollify creditors, to initiate a number of amalgamation studies.

Several local plebiscites regarding the amalgamation of the city of Windsor and the surrounding area were held in 1934 (Kulisek and Price, 1988). The results were split, with two municipalities supporting amalgamation, one abstaining and one (Walkerville) voting heavily against it. Despite the split results and some persistent lobbying on behalf of Walkerville, the Amalgamation Bill was implemented in 1935.

8.4.1 Viability Issues

For a number of reasons, the area's financial viability was threatened. The costly expansion of the area's municipal infrastructure had been based on the potential of the local automobile industry, but this was destroyed by the Depression crisis. Although the community viability of some of the constituent communities appeared to be quite strong (80 percent of the residents of Walkerville voted against amalgamation), the municipal governments of the area were effectively nullified by the Province when it installed a governing Committee. The area was declared by the senior level to be non-viable in both a financial sense and in terms of governance.

8.5 Case # 4

Like many small communities close to a major provincial centre, this village was experiencing losses in population. A 15 percent decline (256 to 216) was seen between 1981 and 1991. The service levels in the village were generally acceptable to its residents, and the village functioned as a minor service centre for the largely agricultural surrounding area. Financially, the municipality was stable. The revenues were adequate to meet the various servicing arrangements for police, fire and roadwork.

The debt levels and tax rates were either lower than or at the same levels of many other villages of a similar size, on a per capita basis. Services were self-sustaining and user fees and other revenues were sufficient to cover the operating costs of the system. Financially, only the limited breadth of the village's tax base could be seen as a potential future problem. The village relied mainly on its residential assessment base. By comparison, an abutting Improvement District had a much broader assessment base with a higher ratio of its revenue coming from industrial source and a power utility.

The Village seemed financially viable; debt was under control, services were adequate and affordable, and taxes were not out of line. However, its modest economic base and its proximity to neighbouring sources of employment combined to erode this community. This is a good demonstration of non-viability that cannot be attributed directly to financial circumstances.

In 1990, a group of citizens petitioned the Village council to hold a plebiscite on the dissolution of the village. In response, the council referred the matter to the Province, which began an investigation of the case. During the course of the study, a number of interviews were held with selected ratepayers. These interviews revealed that ratepayers were prompted to ask for dissolution because they perceived the current local government to be inadequate and believed that the change would result in improved services and lower taxes. In the ensuing plebiscite, 60 percent of the residents voted for dissolution. The process was carried out and the Village was merged into the neighbouring Improvement District. The taxes stayed at roughly the same level, but the debt was reduced. The Village is now part of a ward in a much larger electoral area.

8.5.1 Viability Issues

Although the tax base was limited and static, the Village seemed to be financially viable. There was a potential problem with the water supply in the event that a major breakdown would bring high repair costs, but most of the financial measures that have been discussed were not at levels that would indicate a financial crisis. The interesting point about this case is that the *residents* prompted the dissolution. It would appear that the problem was one of governance: the community itself was viable but the municipal government was nonviable because it was not seen as an integral part of the community.

8.6 Case #5

This agriculturally-based village had a small population (approximately 280) but had experienced some growth in recent years, and residents were actively involved in the affairs of the community (Provincial Municipal Affairs, personal communication). In financial terms, however, the village was experiencing difficulty. The council had taken part in the federally sponsored National Infrastructure Plan which contributed two-thirds of capital costs for infrastructure projects. To pay for its share, the Village had to incur debt. Previously, the Provincial Environmental Department indicated to council that their water supply system was not up to provincial standards. The council interpreted this as a demand to invest in a new water system, an upgrading which it financed through a short-term bank credit. Consequently, the Village incurred debts that were over the provincial limits and even worse, the new water system project went over budget. The Village raised taxes and utility rates the following year but this did not generate sufficient resources to fully cover the costs. To exacerbate an already bad situation, the revenue base of the Village was being severely curtailed through the closing of its grain elevator and a reduction in intergovernmental unconditional grants.

The Province intervened in the affairs of the Village in 1996 and conducted a study that considered the dissolution of the municipality. It was found that the village could reduce 1996 taxes by up to 30 percent through dissolution. The result was the absorption of the Village into the Municipal District after a popular vote supported the measure.

8.6.1 Viability Issues

This case demonstrates many of the stresses upon the capacities of small municipalities. In the contemporary municipal world, even small units have to face many complex and fast-paced issues. To manage these issues effectively sometimes requires personnel with specific expertise and training (see Douglas et al., 1979). Often, a small municipality either does not have the resources to afford this expertise, or even fails to realise that this expertise is required. For example, the Village owned a computerised accounting system that possessed the software to track expenditure changes on a daily basis. The long-time administrator of the Village was unable to use this system. “As a result it is doubtful

that council had timely financial information or effective control over its current or capital budgeting and expenditures” (Provincial Municipal Affairs, personal communication). The Village’s financial capacity strain can in large part be attributed to a lack of administrative and/or political capacity. Failures of governance in the face of rapidly changing circumstances had a deleterious effect on the Village’s financial viability.

8.7 Case #6

In 1990, two neighbouring Saskatchewan Rural Municipalities (RMs) amalgamated. Municipality #1 was in a good financial position, while Municipality #2 was in financial distress (Saskatchewan Municipal Government, personal communication). At the time, Municipality #2 had a substantial deficit and was having difficulty meeting its financial obligations. It also found it hard to administer the daily operations of the municipality (Diamant and Pike, 1996).

Both municipalities stood to gain from amalgamation. Municipality #1 would be able to cut some of its expenditures that had become onerous due to cuts in provincial funding. Municipality #2 would have its debts assumed by the new, amalgamated municipality. The plebiscites, held after two council meetings on the matter, showed overwhelming support for the amalgamations, and the process was subsequently completed.

8.7.1 Viability Issues

In this instance, the amalgamation process was initiated by a local government that perceived a real threat to its viability. It was thought that by pursuing the amalgamation route, it could avoid a serious debt situation. The other municipality saw an advantage as well. Although its viability was not immediately threatened, the decreases in the grant levels indicated to the local government that a proactive measure was desirable. Both municipalities found common cause in different financial capacity stress situations.

8.8 Summary of Cases

Our examination of a few cases where the viability of municipalities was called into question demonstrates the complexities of capacity and, hence of viability questions. While sometimes the fiscal viability of a municipality may not be in question, (as in case # 4), other factors, such as a lack of confidence in the local government, can erode the capacity of the municipality and thus directly threaten its viability. In other cases, (e.g., the Windsor area or case #5), internal or external pressures upon the fiscal capacities of the municipalities have led to capacity stress and hence to viability problems.

The common thread that links all these cases, including the fictitious accounts, is that the municipalities and the communities have had to cope with current or imminent diminished capacity brought about by internal and/or external stresses. This situation led to actions, initiated by either the residents of the community, the municipal government or the provincial governments, that aimed to rebuild the eroding capacities. Often, particular structural and/or functional alignments contributed to these situations and helped to determine the outcome.

Chapter 9

Municipal Viability — A Conceptual Framework and Related Measures

9.1 Introduction

The objective of this study was: *to identify a model or models to define essential conditions for municipal viability, considering governance factors and financial measures.*

As suggested previously, it is neither possible nor necessary to establish a definitive set of conditions for municipal viability, much less to create a universally valid model. However, it is possible to develop a conceptual framework within which we can examine those characteristics that indicate present or future deficits or strengths in the capacity of municipalities and then to draw some general conclusions about municipal viability.

9.2 Determinants

At the beginning of this study, ICURR's Research Steering Committee named a number of determinants that could form the basis of such a framework. These are quoted below followed by comments based upon on the results of our research.

9.2.1 General Societal Attitudes to Government

In a democratic society, the population must be willing to cede certain individual rights to the society for the mutual benefit of all of its members. Without agreement on the role of government in society in general, it is doubtful whether any form or level of government is viable.

Comments: Assent to be governed is certainly a key component of the very existence of any governing system; at least within a democratic context. The legitimacy of power in general, and power at the local level in particular, rests in the statutes and institutions of governance and society's willingness to heed them. This is not only of academic interest. Today, not only are representative forms of democracy under severe scrutiny, but the very relevance of government and the status of public service are under relentless ideological pressure, in the United States and now in many parts of Canada.

9.2.2 Provincial Constitutional Obligations

The provincial government through confederation assumed certain obligations, one of which was the responsibility to establish and manage local government. The provincial response to this obligation is of major importance to municipal viability. If adequate powers of governance, appropriate responsibilities, and adequate financial resources are not conferred on local government, can local government be viable?

Comments: This is another key component of the emerging conceptual framework. Because of the Canadian municipality's subordinate role on the political landscape, its viability is determined to a large degree by the powers of governance and finance that are conferred upon it by the province or territory. Viability is largely a function of the perception by the province or territory of the importance of municipal governments in the delivery of services and/or as local political representatives. Through particular policies, some provinces are currently overshadowing the viability of their municipal systems, and that of individual municipalities. A problem with this part of any conceptual framework arises *if* one considers municipal governments to be merely politico-administrative extensions of the province or territory. Then the degrees of governance powers or financial adequacy becomes moot, being subject to the coming and going of political administrative priorities and the ideological convictions of senior levels of government. However, the constitutional authority which resides with the provinces, and territories, is accompanied by a *de facto* political responsibility to foster local governments which are not only effective

and efficient service delivery agents and administrative bodies, but also democratically responsive and representative community governments. Because of the subordinate constitutional status of municipal governments this is a complexity that must be accepted if one believes that a conceptual framework is indeed possible.

9.2.3 Program Responsibilities and Expectations

Typically municipal governments are expected by the Province or Territory to deliver a varying range of local services (and likely to be the local service agent for certain provincial or territorial services). If the Province requires local governments to deliver services at a level or standard beyond their capability, then municipal viability is at peril.

Comments: This component is closely linked to the one above in that it emphasises the importance of the senior government level in the determination of the viability of a municipality. The more provincial and territorial governments subscribe to local democracy and de-centralised decision-making that responds to local priorities, the greater the autonomy and political power which will have to be allocated to municipal councils (or to some variant of these elected bodies). Indeed, there is evidence that the more the senior level takes a “hands off” approach, the healthier and more viable are its constituent local bodies (Diamant and Pike, 1996).

9.2.4 Intergovernmental Environment and Relationships

While the fundamental intergovernmental relationship is between the Province and the municipality, the relationships among municipalities and between other government agencies and municipalities may support or damage the viability of the individual municipality. For example, if one municipality contracts all of its administrative and service functions to another municipality, is it still a real municipality?

Comments: The research results on this aspect of a conceptual framework are inconclusive. There are after all, two roles of municipal government: that of a service provider and of local representative. Conceptually, a municipality may still exist as the representative voice even if the provision of all or most of its services have been contracted out. While the roster of services provided to communities by or via their municipalities varies across the country and over time, new modalities of provision are being tested and adopted on a daily basis. The notion of a municipality acting on behalf of its electoral constituency to ensure the provision of all services (including administration) at appropriate levels and costs, does not of itself cancel its governance function.

9.2.5 Community Consent and Shared Values and Needs

If the essence of a democratic local government is governance and services, the population has to have enough values in common to be governed and a need to consume services delivered through the municipal structure. If there is no ‘community’ there is no municipality.

Comments: Yes, by definition, if there is no community or shared set of values, there is no municipality. However, in today’s society of highly mobile residents, and increased connectedness through communications technologies, most residents are in fact multi-community members (e.g., for employment, recreation, family, schooling) and have spatial affiliations well beyond their principal place of residence. Communities are being reconstituted. Municipalities are facing many new challenges in representing and in providing services for this ill defined “community.”

9.2.6 Ability to Sustain the Local Council

If there is not enough local interest to form a council with the powers to govern, there is no government. Complete failure to find a council is rare. More common are councils that are re-appointed by acclamation term after term. It is not always clear whether this is a sign of ongoing community agreement or apathy to the point where viability is an issue.

Comments: The research did not identify this aspect as vital. The literature and the research participants indicated that electoral acclamations may be a sign of apathy, or may be a sign of confidence in the existing council. For example, a head of council who serves for many terms may have a local knowledge and “feel” for the area that is respected and unmatched. On the other hand, successive elections in which

council seats are not filled may be a sign of public apathy. If there is widespread apathy, cynicism or burn-out, it will be visible in other aspects of community life. This aspect of the framework should, in most cases, be given a low priority when examining municipal viability.

9.2.7 Ability to Provide an Acceptable Range and Quality of Affordable Services

The local government has a service delivery function in addition to governance. Some services it must deliver itself and others it may choose to provide indirectly (by contracting out, etc.). However, the smaller the community, the fewer services it can afford to provide. If the community cannot provide the required services and/or levels of services to its residents, then it could be judged to be unviable.

Comments: The services that are provided by local governments must represent the desires of its residents. It is true, however, that smaller communities, by themselves or within alternative servicing arrangements like intermunicipal service agreements, sometimes have severe difficulties in providing the full range of local services that its ratepayers require, and may find it hard to provide the desired level of service(s). If this is the case, then the viability of the municipality should be questioned.

Pressure for services is not in itself an indicator of stress on capacity. New or expanded services may be introduced through additional taxes, re-priorization, new intermunicipal and other agreements. A persistent history of dissatisfaction, however, may be indicative of systemic stress on financial capacity and perhaps governance; expectations are beyond the taxpayer's willingness or ability to pay, and/or council has not effectively communicated the supply (price)/demand dilemma and/or is unable to craft innovative solutions to the provision problem.

9.2.8 Willingness and Ability to Finance Governance and Services

Ability to fund and consent to pay the costs of government are fundamental requirements of all levels of government. At the municipal level, revenue resources are constrained by legislation and public acceptance. If the costs of government exceed the capacity of the taxpayer to pay, the government is no longer financially viable.

Comments: This component of the framework, which relates to the concepts of effort and capacity, is central. If the local government cannot take steps to mitigate any over-extension of its capacity (from internal and external sources), and if it cannot negotiate a reduction in services and/or levels of services with its residents, then its viability is jeopardised.

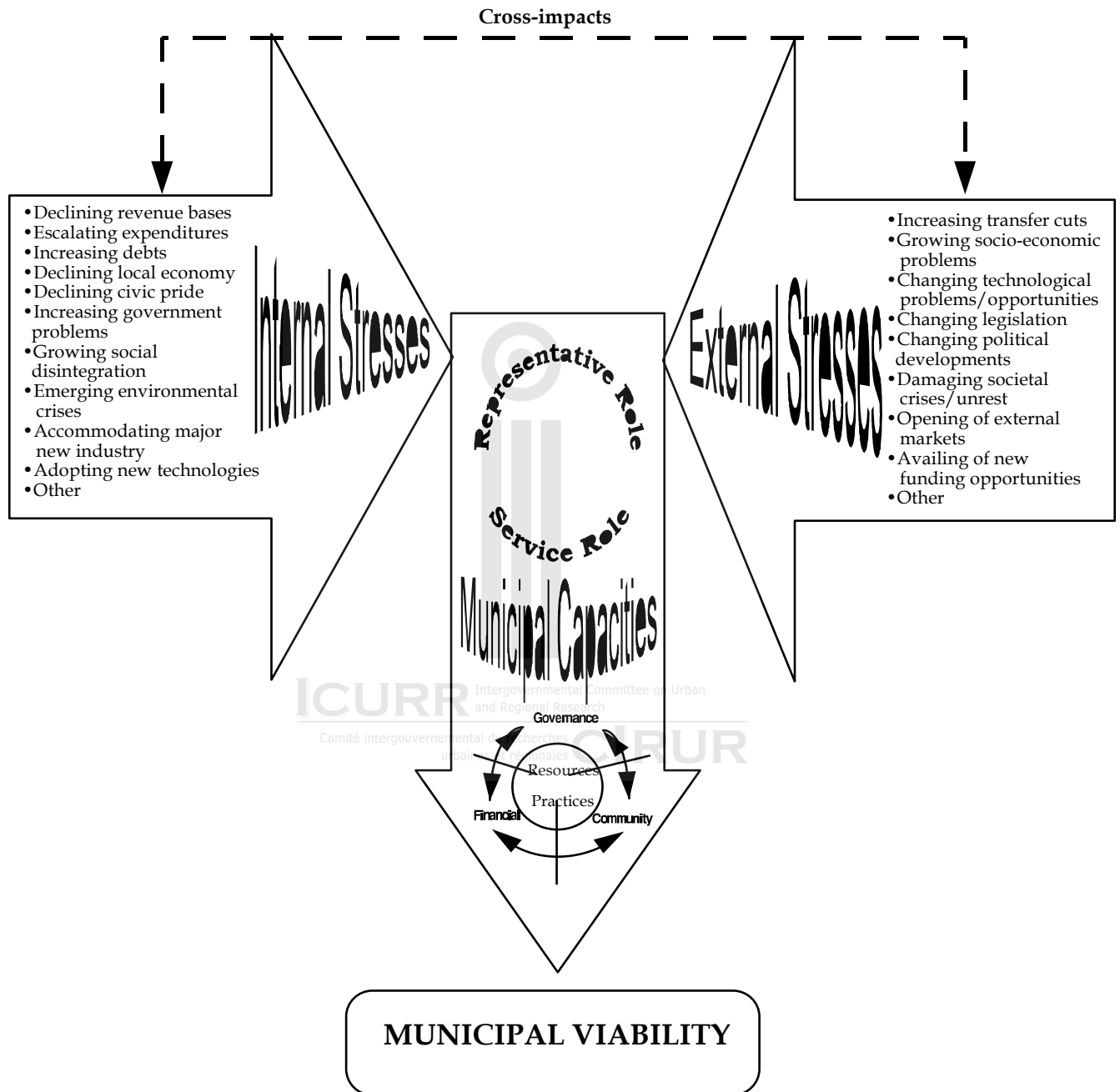
9.3 Further Development of the Conceptual Framework

The purpose of any conceptual framework is to *identify* and *relate* the most critical elements in the functioning of any system (e.g., a living cell, a corporate organisation). By succinctly depicting the key elements, and especially their inter-relationships, the framework should: a) enhance our understanding of the system, and b) inform any interventions in modifying the system.

Our proposed framework attempts to capture the concepts suggested by ICURR and combine them with additional concepts that were developed during the course of this research.

If viability is seen as a function of *stresses* upon *capacities*, then identifying, examining and describing these stresses should allow a basic framework to emerge. The processing of internal and external stresses is fundamental, which is why the *internal resources* (e.g., finances, personnel skills, political acumen, management creativity and flexibility, physical facilities) and *practices* (e.g., management teamwork, council/administration co-operation, council/community communications) are pivotal. Such strategic variables as role, functions, capacity, internal/external conditions, resources, practices, and stresses provide the underpinning for a useful conceptual framework (see Figure 15).

Figure 15: A Conceptual Framework of Municipal Viability



The complex concept of viability is associated with changing balances, a dynamic equilibrium between externally stipulated roles and prescribed functions (particularly those derived from provincial and territorial legislation) and internal demands for services and effective representation. The same dynamic balance must respond to rapidly changing economic and technological shifts that are transforming community economies and people's life spaces. These balances are achieved and restored through local economic development, political acumen and leadership and management talent. They are also crafted through the tireless commitment and vision of millions of community volunteers who are fundamental resources in the vitality and viability of Canada's communities (Douglas, 1993, 1996; Ross, 1989).

As noted, this is not a "model" of municipal viability. We have, however, been able to identify the strategic variables. These have been confirmed by the literature, our survey of researcher-practitioners, key informants and our own experiences. We have illustrated their interplay in complex cross-currents. In addition, we have addressed many of the issues associated with the measurement of these variables, particularly capacity, stress and the tripartite assessment of viability itself.

9.4 From Conceptual Framework to Assessment Protocol

Throughout this report, we have emphasised the capacity of local governments, particularly municipal organisations with respect to finances, governance, and community. Indeed, the conceptual framework of municipal viability proposed here has been built, from the beginning of this research, on the notions of fiscal, governance and community capacity.

Ideally, this framework could become the conceptual base for the evolution of a refined set of tools to monitor and assess the viability of a municipality. Municipal finance impact models for simulation and assessment (e.g., municipal recreation spending impacts on a local economy) are examples of such tools. Yet, it would be perilous to claim that if certain variables of the framework suggest a municipality's decline in viability, then the municipality as a whole is non-viable. Context is critical (e.g., rapidly growing urban fringe community, mining community, inner-city municipality, transforming retirement community). Longitudinal as against static analysis is both prudent and necessary as is comparative analysis, whatever its difficulties. In addition, the interrelationships among key values must be assigned a major role in any analysis. For example, a precarious fiscal position in one municipality which causes the province or territory all sorts of anxiety may be turned around by a radical shift in governance (e.g., vigorous local economic development), or a revamping of internal management (e.g., rigorous zero-based budgeting procedures). Another example might involve a rural community apparently in long-term decline as it moves from agricultural and related servicing towards a predominantly residential "exurban" function. The community may see a vigorous expansion of its tax base with new niche retailing and a concomitant reinvigoration of its public service resources. New residents may be actively concerned with the community's "quality of life," amenities, and new urban-type services. The complex interactions and dynamics that take place within and between the components of the framework preclude the advancement of any definitive and universally applicable protocol for analysis and assessment. We may never have definitive and quantifiable answers. Despite these inherent limitations, as this framework develops it should prove useful in assessments of general directions and trends of municipal viability.

Various internal and external stresses have constrained the capacities of Canada's municipalities to carry out their dual roles of service provider and local representative. The objective of this applied research was to develop a relevant conceptual framework within which issues of municipal viability could be discussed and examined. The complexities of municipal issues and the heterogeneous nature of the Canadian local government system preclude the development of a methodology which is reliable and universal as an assessment tool for detailed or definitive analysis. It is possible, however, to identify and relate strategic variables at the level of conceptual generalities, as demonstrated. But not far below that.

Yet, one hesitates to abandon the idea of an assessment protocol altogether. One of the key informants indicated that, given adequate information and adequate analytical resources, such a tool is *theoretically possible*. Toward this, a flexible assessment tree is illustrated in Figure 15. While this may be a rudimentary representation of a possible assessment process, it can serve as a starting point in the development of such a process, if indeed this is indeed shown to be practically feasible.

Our proposed assessment protocol begins with some degree of change in a municipality's external or internal conditions, such as an intergovernmental transfer reduction, a major social services opportunity or a decline in the tax base. This change exerts stress upon one or more of the aspects of viability: financial, governance or community and, in turn, draws upon their specific capacities to endure the stress. Of course, these capacities may influence each other positively or negatively. Put another way, there could be cross-impacts. An example may be where a decline in the tax base results in decreased revenues for the municipality. Because the municipality may not have the financial means to support a number of volunteer-based organizations, the community may be negatively affected. A positive impact could be where the same decline in the tax base brings about some innovative responses from council and administration (e.g., new fee-for-service procedures). Similarly, positive supports might emanate from the community (e.g., new public sector/volunteer partnerships). Such cross-impacts serve to ameliorate the capacity stresses evident in the municipality's finances.

If negative stresses are present and not offset immediately by positive cross-impacts, it may still well be that the stresses are tolerable or mitigable. Stress is tolerable if it is at a level that the municipality can "live with" without resorting to direct mitigation or does not force the municipality to cut back on its service or governance roles.

The stresses may be mitigable through actions taken either by internal stakeholders (e.g., the municipal government or the community) or external stakeholders (e.g., the provincial or territorial government). As an illustration, a municipality may be experiencing fiscal difficulties that are not tolerable and have not been adequately offset by cross-impacts. The municipality may respond by proposing a mitigation measure such as a new development surcharge. This surcharge may well be adequate to reduce or eliminate the stress upon the municipality's finances. On the other hand, the cross-impacts may preclude the implementation of this measure. Politically, the municipal government may be afraid to institute such a surcharge, or the community may simply reject the plan. In such a case, the development surcharge may not be an acceptable or effective mitigating action, and unless other measures are proposed and accepted, the stress upon the capacity may not be mitigable.

The next part of this protocol asks whether there is more than one capacity danger present. If so, and if positive cross-impacts have not alleviated the stress, then the overall viability of the municipal unit may be in danger. If only one aspect is threatened, then there is a greater likelihood that positive cross-impacts may serve to enhance that aspect's capacity. For example, a municipality that has experienced a revenue loss (e.g., lower intergovernmental transfers, decline in tax base) may have this stress alleviated by a cross impact such as enhanced administrative efficiency or community intervention. Yet if one (or both) of the other aspects are simultaneously experiencing non-mitigable and/or intolerable stress levels, then the presence of these positive cross impacts becomes less likely and there may be a real threat to the viability of the municipality.

It is our hope that the assumptions behind this viability assessment protocol will continue to be debated and refined, and that, through practical application, the protocol itself will evolve beyond its current rudimentary form.

9.5 Conclusion

This research report has examined a number of issues around the conceptualisation and measurement of municipal viability. An intensive review of the relevant literature, a pan-Canadian survey and a number of key informant interviews, enabled us to draw these questions and concepts together into a holistic framework for examining the viability of Canada’s municipalities.

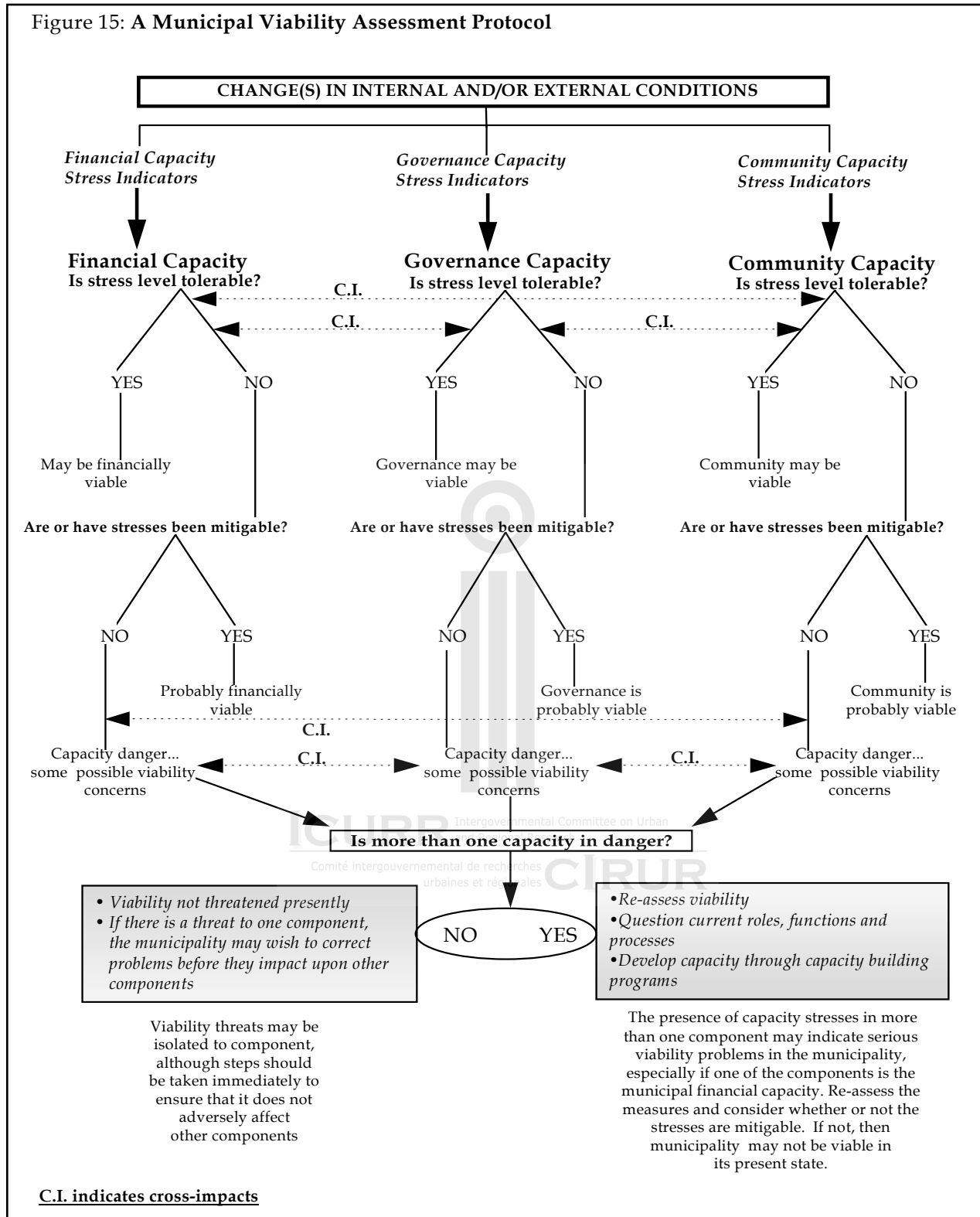
This research report raises more questions than it answers. To bring together the multitude of measurements of each aspect of municipal viability into a “plug and play model” has proven to be impossible. However, the study has contributed some new concepts; or at least new ways of looking at old concepts. We trust that the many talented and skilled men and women who work in and with Canada’s municipal governments, will discover ways to apply and refine these advances.

In the meantime, as Canada’s local governments grapple with the daunting changes that are facing them, this report may prove to be a valuable springboard from which to launch productive debates.



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Figure 15: A Municipal Viability Assessment Protocol



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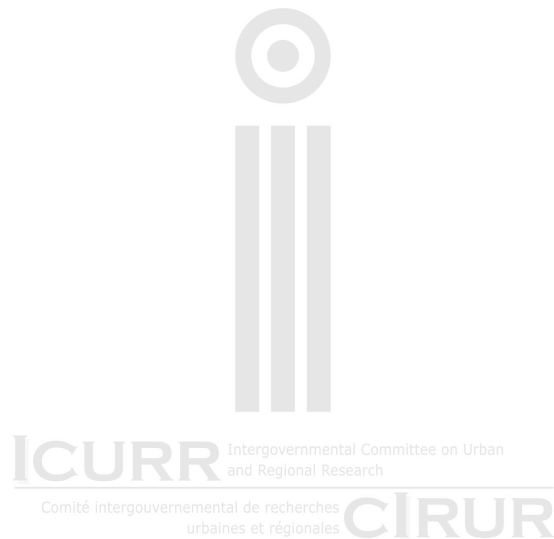
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Appendix: Surveys And Survey Results

1. MUNICIPAL FINANCIAL VIABILITY SURVEY

1. (a) Does your Province / Territory have standards of municipal financial viability?
1. (b) If “YES”, are these standards defined by statute/regulation in your Province/Territory?
2. Using the operating definitions of “viability “ and “financial viability” on the previous page only as a guideline, how would *you* define “financial viability”?
3. In the following questions, we are asking you to comment on the various measures of financial viability that have been identified through the pre-test of this survey, or from the literature. Please indicate whether your Province / Territory *has used* such a measure in the determination of financial viability or, in your opinion, *should consider* such a measure.
 - (a) A measure that is based upon the ability to raise revenue (e.g. tax base, fees, charges etc.)
 - (b) A “general government” / services provision (e.g. Parks and Recreation, Roads, Planning and Development) expenditure ratio.
 - (c) Level of taxation (e.g. \$/capita, \$/residence)
 - (d) A level of debt / tax base measure or ratio
 - (e) A level of debt / total revenues ratio
 - (f) A reserve fund / tax base measure or ratio
 - (g) A reserve fund / total revenues ratio
 - (h) A Provincial or Territorial transfer / tax base measure or ratio
 - (i) A Provincial or Territorial transfers / total expenditures ratio
 - (j) A measure that examines operating fund revenue-expenditure imbalances in which current expenditures significantly exceeded current revenues in one fiscal period
 - (k) A measure that is based upon a high and rising rate of property tax delinquencies
 - (l) A measure of the level of short-term loans outstanding at the end of the fiscal year.
 - (m) A measure of the level of current operating liabilities over current assets at the end of the fiscal year.
 - (n) A measure of the degree to which services are supported by taxes or by fees and charges
 - (o) A measure that employs a pre-set standard or benchmark based upon a measurable expenditure indicator (for example, total expenditures per capita or household)
 - (p) A measure that uses the ratings provided by a debt rating agency (e.g. Moodys or Standard and Poors)
 - (q) A measure that examines the trends in levels of tax revenues in relation to median taxpayer income trends
 - (r) Are there any measures or standards of financial viability that we have missed?

4. Are you aware of any been recent (1990 -) studies conducted in your Province / Territory or elsewhere that may aid in the establishment of financial measures of municipal viability?

| <i>Financial Viability Survey</i> | | | | | | | | | | | | | |
|--|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----|
| Question # | Alberta | B.C. | Manitoba | N.B. | Nfld. | N.W.T. | N.S. | Ontario | P.E.I. | Sask. | Quebec | Yukon | |
| 1(a) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| 1(b) | 1 | | | | 1 | | 1 | 1 | | | | 1 | 6 |
| 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| 3(a) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | 1 | 1 | 11 |
| b) | 1 | 1 | 1 | | | | 1 | 1 | 1 | | 1 | 1 | 9 |
| c) | 1 | 1 | 1 | 1 | | | 1 | 1 | 1 | | 1 | 1 | 9 |
| d) | 1 | 1 | 1 | 1 | | | 1 | 1 | 1 | 1 | 1 | 1 | 11 |
| e) | 1 | 1 | 1 | | | | 1 | 1 | 1 | | 1 | 1 | 9 |
| f) | | 1 | | | 1 | | 1 | | | | 1 | | 4 |
| g) | 1 | 1 | | | | | 1 | | | | 1 | | 4 |
| h) | 1 | 1 | | | 1 | | 1 | | | | 1 | | 5 |
| i) | 1 | 1 | 1 | 1 | | | | 1 | | | 1 | 1 | 8 |
| j) | 1 | 1 | 1 | 1 | | | 1 | 1 | 1 | | 1 | 1 | 10 |
| k) | 1 | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | | 1 | 1 | 10 |
| l) | 1 | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | | 1 | 1 | 10 |
| m) | 1 | 1 | 1 | 1 | | | 1 | 1 | 1 | | 1 | 1 | 10 |
| n) | 1 | 1 | 1 | 1 | | | | 1 | 1 | | 1 | 1 | 9 |
| o) | 1 | 1 | 1 | 1 | | | 1 | 1 | 1 | | 1 | 1 | 10 |
| p) | 1 | 1 | | | 1 | | 1 | 1 | 1 | | 1 | 1 | 9 |
| q) | 1 | 1 | 1 | 1 | | | | 1 | | | | 1 | 6 |
| r) | 1 | 1 | | | 1 | | | 1 | | | | 1 | 6 |
| 4 | 1 | 1 | 1 | | | | | | | | | 1 | 8 |
| Total out of 22 | 21 | 21 | 16 | 18 | 3 | 17 | 18 | 14 | 3 | 18 | 19 | 16 | |
| Percentage | 95.45 | 95.45 | 72.73 | 81.82 | 13.64 | 77.27 | 81.82 | 63.64 | 13.64 | 81.82 | 86.36 | 72.73 | |
| 1 indicates that a response was given | | | | | | | | | | | | | |

2. MUNICIPAL GOVERNANCE VIABILITY SURVEY

- 1.(a) Does your Province/Territory have standards that measure the viability of municipal governance?
- 1.(b) If “YES”, are these standards statutorily defined in your Province / Territory?
2. Using the operating definitions of “viability” and “viability of governance” on the previous page as guidelines, how would *you* define the term “viability of governance”?
3. Which of the following indicators should be or have you or your department /organisation used when assessing a municipality’s viability of governance?
 - (a) A measure of the frequency of uncontested Councils seats (i.e. acclaimed Council members
 - (b) A measure based on level (%) of voter turn-out
 - (c) A measure that uses a community descriptor or standard based upon a measurable demographic / socio-economic or spatial feature (e.g. population density, population change, average income of residents or physical size of the municipality)
 - (d) A measure that examines the rates and directions of changes in community descriptors or standards based upon measurable demographic / socio-economic or spatial features (e.g. population density, population change, average income of residents or physical size of the municipality)
 - (e) A comparative measure *between* municipalities or classes of municipalities relating to the characteristics outlined above in (d) or other characteristics
 - (f) A comparative measure of the rates of changes *between* municipalities or classes of municipalities relating to the characteristics outlined above in d) or other characteristics
 - (g) A measure that is based the degree to which “traditional” municipal services are delivered by an alternative means (e.g. by another municipality(ies), shared services agreements, privatised service provision).
 - (h) Other measures or standards used to assess viability of governance
 - (i) Have there been recent (1990 -) studies conducted in your Province / Territory or elsewhere that may aid in the establishment and examination of measures of viability of governance?

| <i>Governance Viability Survey</i> | | | | | | | | | | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|----------|--------|
| Question # | Alberta | B.C. | Manitoba | N.B. | Nfld. | N.W.T | N.S. | Ontario | P.E.I. | Sask. | Quebec | Yukon | Totals |
| 1(a) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| 1(b) | 1 | | | | | 1 | | | | 1 | 1 | 1 | 5 |
| 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 14 |
| 3(a) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | 11 |
| b) | 1 | 1 | 1 | | 1 | 1 | | 1 | | 1 | 1 | | 8 |
| c) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| d) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 11 |
| e) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 11 |
| f) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | 1 | 1 | | 9 |
| g) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| h) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | 11 |
| i) | 1 | 1 | 1 | 1 | | | | 1 | 1 | | 1 | 1 | 9 |
| Total out of 12 | 12 | 11 | 11 | 10 | 10 | 11 | 10 | 10 | 7 | 12 | 12 | 7 | |
| Percentage | 100 | 91.67 | 91.67 | 83.33 | 83.33 | 91.67 | 83.33 | 83.33 | 58.33 | 100.00 | 100.00 | 58.33 | |
| 1 indicates that a response was given | | | | | | | | | | | | | |

3. COMMUNITY VIABILITY SURVEY

- 1.(a) Does your Province/Territory have standards of community viability?
- 1.(b) If “YES”, are these standards statutorily defined in your Province / Territory?.
2. Using the operational definitions of “viability” and “community viability” on the preceding page as a guidelines, how do *you* define “community viability”?
3. Which of the following indicators *should* be or *have you* or your department /organisation used when assessing the viability of a community?
 - (a) A measure based upon a population profile of the community (e.g. an “older” population)
 - (b) A measure based upon *changes and/or rates of changes* in the population profile of the community (e.g. a rapidly/slowing “ageing” population)
 - (c) A measure that examines various economic indicators (e.g. employment and income statistics)
 - (d) A measure that examines *changes in and trends* of various economic indicators (e.g. employment statistics, income statistics etc.)
 - (e) A measure that is based upon some method of residential analysis (e.g. new housing starts, housing types)
 - (f) A measure that analyses residential trends or changes (e.g. new housing starts, housing types)
 - (g) A measure that examines the number or types of social institutions (e.g. churches, post offices, theatres) per capita compared to other communities within the same region
 - (h) A measure that examines trends and changes in the number and types social institutions (e.g. churches, post offices, theatres) per capita compared to other communities within the same region
 - (i) Other measures or standards used to assess community viability

| Governance Viability Survey | | | | | | | | | | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|----------|--------|
| Question # | Alberta | B.C. | Manitoba | N.B. | Nfld. | N.W.T. | N.S. | Ontario | P.E.I. | Sask. | Quebec | Yukon | Totals |
| 1(a) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| 1(b) | 1 | | | | | | 1 | | | | 1 | 1 | 5 |
| 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 14 |
| 3(a) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | 11 |
| b) | 1 | 1 | 1 | | 1 | 1 | | 1 | | | 1 | 1 | 8 |
| c) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| d) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 11 |
| e) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 11 |
| f) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | 1 | 1 | 9 |
| g) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 |
| h) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | 1 | 1 | 11 |
| i) | 1 | 1 | 1 | 1 | | | | 1 | 1 | | 1 | 1 | 9 |
| Total out of 12 | 12 | 11 | 11 | 10 | 10 | 11 | 10 | 10 | 7 | 12 | 12 | 7 | |
| Percentage | 100 | 91.67 | 91.67 | 83.33 | 83.33 | 91.67 | 83.33 | 83.33 | 58.33 | 100.00 | 100.00 | 58.33 | |
| 1 indicates that a response was given | | | | | | | | | | | | | |