

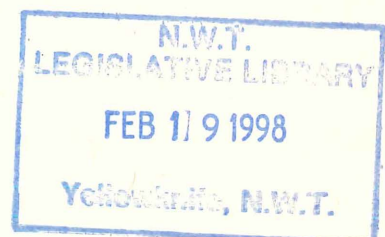


Office of the Auditor General  
of Canada

DEPARTMENT OF MUNICIPAL AND COMMUNITY AFFAIRS

REPORT OF THE AUDITOR GENERAL OF CANADA

FEBRUARY 1998







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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable Sam Gargan  
Speaker of the Legislative Assembly  
Government of the Northwest Territories  
Yellowknife, NT

I have the honour to transmit herewith my report on our study of Municipal and Community Affairs pertaining to municipal financing, as requested by the Legislative Assembly.

A handwritten signature in black ink, reading "L. Denis Desautels".

L. Denis Desautels, FCA  
Auditor General of Canada

OTTAWA, February 1998



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# Chapter 1

## Introduction

### 1.0 Request from the Legislative Assembly

On 8 October 1996, the Legislative Assembly requested the Auditor General to conduct an independent review of how the Department of Municipal and Community Affairs (MACA) assesses and determines the financial health of communities through municipal reporting processes. This request was recommended by the Standing Committee on Government Operations in its report for the year ended 31 March 1995.

### 1.1 Other Ongoing Initiatives

At the time of this request, the government was developing a community empowerment initiative under which individual municipalities could assume more program responsibilities along with block funding. Throughout our review, we received many comments on this initiative, which we intersperse where appropriate throughout this report. Municipal officials had strong opinions on community empowerment. Some felt that it would be good for their municipality, while others were opposed.

During the conduct of this review, the GNWT had various discussions with municipalities about block funding arrangements for the future. We have not explicitly reviewed these as they were not finalized at the time. We will review block funding arrangements as part of our regular work in future years.

At the same time, MACA is changing some of its operations, is downsizing and has experienced recent

staff turnover. Throughout this report, we note various initiatives under way in the Department.

### 1.2 Other Departments and Agencies

Other GNWT departments and agencies have their own relationships with municipalities. For example, Public Works and Services, the Power Corporation, Petroleum Products, Transportation, the Housing Corporation and others each have interactions with most if not all of the municipalities. We have not explicitly considered these other entities in the context of municipalities, unless their involvement has a direct relationship to MACA.

However, we recognize that as MACA is not the only department to operate at the municipal level, the recommendations contained in this report can also apply to the others. A spirit of co-operation between departments and agencies operating in the same physical jurisdiction is necessary for better efficiency and effectiveness and to cut back on bureaucracy and costs.

### 1.3 Terminology

Under the various acts, there are different names used to describe communities, depending on their status. Some are municipal corporations, others are settlements and some unincorporated communities are neither.

In this report, to avoid the use of multiple terms, we refer to all communities as municipalities irrespective of their status. Similarly, we refer to the Government of the Northwest Territories as the GNWT.



# Chapter 2

## Theme of Our Work

### 2.0 Theme of Our Work

A significant theme of our work for the Legislative Assembly has been the completeness and appropriateness of information made available to members that they may find useful in their work. The quality and availability of this information is essential for the Assembly to be able to make the hard decisions that are needed to allocate scarce resources. With governments reducing expenditures, and getting deficits under control, good information underscores the importance of managing resources wisely.

### 2.1 The Purpose of This Study

People in municipalities are the heart of the Northwest Territories. But they do not all speak with a single voice. In April 1999, the Territories will divide and Nunavut residents will have their own homeland. In the west, we noted vigorous discussion about the constitutional future, with different groups advocating a variety of solutions. However, with all this current and future change, people still live in their municipalities and the challenge to improve and maintain them continues.

Throughout this study, and from our discussions with many people, we identified tough questions not always talked about openly. We do not believe that avoiding these questions is good for the future and have therefore raised them where it seems appropriate. For example, the whole issue of who should and could pay for local services is a difficult question. In this report, we note these issues in the context of the subject matter being discussed.

In some cases, people allude to, but do not specify, their concerns about duplication of effort caused by more than one department or agency functioning in the same area. An example is assessing individual or family needs for social assistance or services. There is no common approach to collecting information on needs that are

duplicated by several entities territorially and by some federal services. It would make more sense, and likely save a lot of money and red tape, to have a one-window approach to collecting data and dealing with similar issues. It has been suggested to us that this approach could be orchestrated through the municipalities themselves.

We have not audited the government's planning process in detail, but it needs to be modified to meet current realities. The process, particularly the capital process, has its origins in the past when money was plentiful and allocating it was the main challenge. Now, tough allocation decisions reflect the reality that funds are scarce and not all identified needs can be met; yet the process has not changed significantly to reflect the paradigm shifts. The result is a tortuous multi-faceted process that municipalities find confusing.

### 2.2 Objectives

Our objectives were:

To conduct an independent review of how MACA assesses and determines the financial health of communities through financial reporting and other processes.

In addition, we had three sub-objectives:

- to acquire sufficient understanding and information to enable us to identify significant issues and management activities pertaining to municipal financing;
- to inform members of the Legislative Assembly and others about current and potential issues in municipalities that have financial and accountability implications; and
- to provide our comments and observations on municipal management, from both the local and the departmental side.

## 2.3 Scope and Approach

This study is based on:

- a review of published and departmental information pertaining to municipalities and how they are managed;
- a review of territorial legislation pertaining to municipalities;
- interviews with a variety of municipal staff, local politicians, and departmental staff in both headquarters and regions (Inuvik, and Iqaluit);
- review of documents in departmental files;
- interviews with staff of the NWT Association of Municipalities in Yellowknife;
- visits to 10 municipalities:  
Yellowknife, Hay River, Fort Resolution, Inuvik, Tsiigehtchic, Fort McPherson, Rankin Inlet, Iqaluit, Pangnirtung and Cape Dorset; and
- attendance at a conference of the NWT Association of Municipalities in Rankin Inlet in May 1997, which provided more opportunity to meet with and discuss issues with a variety of municipal leaders from across the Territories.

## 2.4 Study Team

Roger Simpson  
Gordon MacFadyen  
Tammy Squires  
Adriana Opara  
Vivian Simpkin

For information, please contact Roger Simpson, the responsible auditor, at (403) 495-2028.

## 2.5 Opinions

As one would expect, we were offered many strong opinions on many subjects. In preparing this report, we have noted those comments that broadly relate to municipal affairs and the Department, where they point to areas needing improvement. We have not included comments of a specific personal nature, unless we judged them to be relevant to the subject.

## 2.6 Appreciation

We want to thank everyone for their comments and the time made available to us. The input was valuable and helped us to understand the complex issues and relationships that exist in the northern municipal structure, caught in a changing world.

# Chapter 3

## Background

### 3.0 Changes and Context

Many municipalities in the Northwest Territories are relatively recent creations. Just a few generations ago, many people lived on the land, not in permanent settlements. As the population moved to permanent locations, this brought various social challenges as well as practical issues to be addressed, such as community infrastructure, housing, education, jobs, health care and recreation. Permanent settlements were established close to trading posts, or vice versa in some cases, and their subsequent growth has put a premium on such things as potable water supply, appropriate land for building, transportation, garbage disposal and sewage treatment. The majority of municipalities do not have road access, and rely on water or air transportation.

### 3.1 Services Provided

Permanent settlements also produced the need for government services and a supply of funds. While the GNWT in Yellowknife historically provided many facets of service and management from headquarters and regions, municipalities now have their own governance structures, increased management responsibility and an increasing level of management skills. The GNWT, including MACA, has a variety of

service standards governing their relationships with municipalities.

### 3.2 Changing Environment

If readers reflect back over the past 50 years, the changes in the north have been enormous. Many of the processes introduced and imposed have been based on southern standards and related technologies; some of these undoubtedly worked, but others have proved to be less than ideal. Factors and changes such as reduced funding, division, population growth, land claim settlements, a more highly educated population, changed expectations, and the merging of traditional beliefs with a modern technically oriented world have had a profound impact on the north. It is in this climate of change that services provided to municipalities by central governments are increasingly under stress.

Between the 1981 and 1996 census, the number of residents increased by 41 percent. While absolute numbers are low in many municipalities, the rates of growth are significant.

Adjusting to all of these changes will likely mean that municipalities will have to move toward greater self-sufficiency in decision making and funding.

Exhibit 1

Census Population by Region							
	Census 1981	Census 1986	Census 1991	Census 1996	5-year % change	10-year % change	15-year % change
Baffin	8,300	9,975	11,385	13,218	16.1	32.5	59.3
Keewatin	4,327	4,986	5,834	6,868	17.7	37.7	58.9
Kitikmeot	3,285	3,750	4,386	5,067	15.5	35.1	56.1
Inuvik	7,485	8,411	8,491	9,024	6.3	7.3	20.5
Fort Smith	22,344	25,116	27,553	30,225	9.7	20.3	35.0
Total	45,741	52,238	57,649	64,402	11.7	23.2	40.8

### 3.3 Legislation

Much of what happens in NWT municipalities is determined by legislation. There are currently four separate but related acts that provide the legislative framework for all municipalities. These are the *Cities, Towns and Villages Act, Hamlets Act, Charter Communities Act, and Settlements Act*. These acts set out the governance models for the level of municipality and various provisions concerning financial management. MACA is proposing various changes to the existing legislation.

### 3.4 Types of Municipality

Under the *Cities, Towns and Villages Act*, there are only seven municipalities, one city, five towns and one village in the Northwest Territories that have the power to levy their own taxes. Thirty-five hamlets are legislated by the *Hamlets Act*, and these do not have taxing authority. Three settlements have corporation status and are subject to the provisions of the

*Settlements Act*, and three charter communities come under the *Charter Communities Act*. Fifteen communities have no legal municipal status, and a further 400 people live in unorganized communities.

### 3.5 Varying Sizes

Of the 63 recognized permanent locations, the largest is Yellowknife with a population of 17,275. At the other end of the scale, several unorganized locations have populations of less than 100, and a further six charter communities, settlements and hamlets have less than 200 residents. (Exhibit 2).

In addition, the NWT has two Indian reserves that are under federal jurisdiction. One of them also receives funding from departments of the GNWT, but it is not clear whether both levels of government are funding the same things. MACA has informed us that it does not routinely obtain federal information on specific reserves.

Exhibit 2

Municipalities and Population				Population	Percentage
<b>City</b>					
Yellowknife				17,275	27
<b>Towns and villages</b>					
Fort Smith	2,441	Iqaluit	4,220	15,623	24
Hay River	3,611	Norman Wells	798		
Inuvik	3,296	Fort Simpson	1,257		
<b>Hamlets</b>					
Aklavik	727	Kimmirut	397	27,057	42
Arctic Bay	639	Kugluktuk	1,201		
Arviat	1,559	Pangnirtung	1,243		
Baker Lake	1,385	Paulatuk	277		
Broughton Island	488	Pelly Bay	496		
Cambridge Bay	1,351	Pond Inlet	1,154		
Cape Dorset	1,118	Rae-Edzo	1,662		
Chesterfield Inlet	337	Rankin Inlet	2,058		
Clyde River	708	Repulse Bay	559		
Coral Harbour	669	Resolute	198		
Fort Liard	512	Sachs Harbour	135		
Fort McPherson	878	Sanikiluaq	631		
Fort Providence	748	Taloyoak	648		
Gjoa Haven	879	Tuktoyaktuk	943		
Grise Fiord	148	Tulita	450		
Hall Beach	543	Wha Ti	418		
Holman	423	Whale Cove	301		
Igloolik	1,174				



## Exhibit 2 (cont'd)

Municipalities and Population		Population	Percentage
<b>Settlements</b>			
Behdzi Ahda	90	712	1
Enterprise	86		
Fort Resolution	536		
<b>Charter communities</b>			
Deline	616	1,422	2
Fort Good Hope	644		
Tsiigehtchic	162		
<b>Unincorporated Communities</b>			
Bathurst Inlet	18	1,906	3
Dechi Laot'i	135		
Detah	190		
Hay River Reserve	253		
Jean Marie River	53		
Ka' a' Gee Tu	36		
Lutselk'e	304		
Nahanni Butte	75		
<b>Unorganized communities</b>			
		407	1
		<u>64,402</u>	<u>100</u>

### 3.6 Increasing or Decreasing Numbers

Under each of the acts, new municipalities can be established by the Minister at the request of 25 residents (except for the *Settlements Act*, which is unspecific about numbers), or by the Minister on his or her initiative. Upon incorporation, presumably the new corporation could then apply for GNWT-funded services.

With the exception of one single industry mining community, Pine Point, we are not aware of any municipalities that have been closed down, or of any intent or discussions about doing so. However, at least one jurisdiction in the south seems to be looking at doing this.

In a recent paper (November 1996) titled *Municipal Viability Issues*, the Province of Alberta makes the point that the Province can no longer afford to provide the financial and technical support it once did and that municipalities are now responsible for managing their

local governments using only the resources they have available. In other words, some Alberta communities are coming to a point where their existing local government structure will no longer be workable or affordable. The bottom-line is that some individual communities may not be able to exist in the future. The paper also says that each municipality should conduct a self-examination to assess its own viability against five criteria, including its ability to:

- grow in population and economic terms;
- govern and democratically represent the interests of the community;
- satisfy the responsibilities for administration and services in accordance with legislation;
- provide the services needed at a cost that the residents are willing to pay; and
- fund services from its financial resources.



# Chapter 4

## Municipal Financial Leadership

### 4.0 Changing Roles

The legislation gives significant powers to the Minister of Municipal and Community Affairs (MACA) and sets out various processes for municipalities to follow. When the legislation was enacted, many municipalities needed hands-on help to manage their day-to-day affairs, and MACA provided much of this help, along with other departments and agencies.

More recently, many municipalities have matured and become less dependent on MACA help. With the growing confidence has come a greater spirit of independence from central government, at least in terms of management, if not in funding. One consequence of this is a less directive role for MACA, which now often finds itself in the position of offering help rather than insisting on giving it. The continuing evolution of these relationships points to a shift in responsibilities for financial leadership away from MACA and toward the individual municipalities. Thus, while MACA sets processes for budgeting, accounting and auditing, municipalities hire their own Senior Administrative Officers (SAO) and the Department is not involved in the hiring process unless requested by the municipality. This has mixed blessings; while the municipalities have greater independence, the tenure of some SAOs hired from distant locations at significant cost has been brief and expensive. Frequent turnover has an undesirable impact on management effectiveness.

MACA's mandate as outlined in the departmental establishment policy is:

“the development and maintenance of governments, responsive and responsible to the residents, with sufficient legal authority and resources to carry out municipal responsibilities, to provide their public programs and services essential to good community

life, and to deal effectively with other governments and organizations.”

The Department has advised us that a new mandate has been recently submitted to the Executive Council.

Municipal governments also have a significant leadership role, as they exist to serve the residents of a particular community. Municipal leadership takes several forms. Our study focussed only on financial leadership. In municipal governments, this responsibility falls on the mayor and council, who are elected, and the SAO, who is appointed by council. Many of the financial leadership tasks in a community fall on the SAO by legislation.

In reality, financial leadership is a partnership between MACA, with its legislated mandate, and the various municipalities, which are assuming a greater role in managing their own affairs. Later in this report, we will comment on how the partnership is working and how MACA discharges its responsibilities in light of downsizing and funding cuts.

For this type of partnership to work well, financial expertise is needed not only at the municipal level but also at MACA headquarters and regional offices.

Our study examined the relationship that exists among the municipalities, the GNWT and the residents. Specifically, we wanted to determine whether strong financial leadership and accountability exist in MACA, at both the headquarters and regional levels. We also reviewed whether the environment for strong financial leadership along with accountability and responsibility exists in municipal governments and what MACA is doing to develop this.

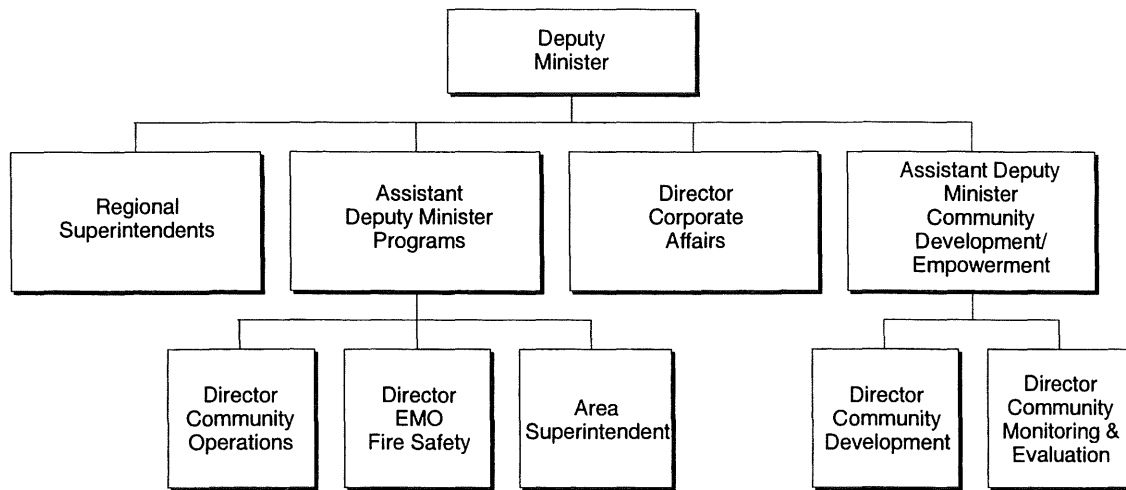
### 4.1 Departmental Organization

The Department is decentralized. In Yellowknife, five divisions report to a directorate comprising the deputy

minister and two assistant deputy ministers. Also reporting to the deputy minister are five regional superintendents, with one in each of the government's

regional centres. Exhibit 3 illustrates the departmental leadership structure.

**Exhibit 3**



**4.2 MACA as an Agent of Change**

The Department is the implementation body for one of the Legislative Assembly's key priorities empowering communities. MACA has developed a plan to begin implementation of community empowerment. This plan sees a significant shift for MACA away from program delivery and toward becoming a municipal regulator and monitor.

Partially driving the mandate change are funding cuts and staff downsizing. But making a change of such magnitude takes time, and MACA still has to carry out its existing responsibilities while helping municipalities make the transition to community empowerment.

A recent MACA reorganization resulted in the creation of a new Community Monitoring and Evaluation Division in headquarters. In June 1996, MACA created new positions for community empowerment officers in both headquarters and regions, and has staffed at least one position in each of the regions. However, the success in hiring for these positions has not been

matched in other areas, as MACA still has many vacant positions in the municipal operations and development functions. At the end of February 1997, 18 percent of the total complement was unfilled, as shown in Exhibit 4.

MACA has used the salary funding from unfilled positions to cover shortfalls elsewhere in its budget. It has the difficult task of trying to maximize the use of, and payback from, scarce human resources. MACA has to maintain some important current services, particularly at the regional levels, while developing the community empowerment function as directed by the Legislative Assembly, all within a climate of cutbacks. From our discussions with municipalities, it is clear that not all of them support community empowerment, and that most of them still need day-to-day support in basic areas. The staff vacancies noted above have occurred mostly in the day-to-day support areas, where the need seems to be most pressing from the municipalities' perspectives. These positions, staffed with the right people, could likely be of significant help in the community empowerment initiative.

## Exhibit 4

Region	Positions Approved in Business Plan	Positions Filled	Positions Unfilled	% Unfilled
Yellowknife	79	74	5	6
Fort Smith	21	11	10	48
Inuvik	18	15	3	17
Baffin	20	18	2	10
Keewatin	13	7	6	46
Kitikmeot	12	9	3	25
<b>Total</b>	163	134	29	18

While the Department has been successful in staffing its headquarters positions, it has had much less success in staffing and retaining personnel for its regional positions. Staffing regional positions is critical for the Department to succeed in supporting municipalities and developing interest in community empowerment. The Department has identified possible reasons for the problem of recruiting and retaining qualified staff. These include uncertainty in the general environment, caused by upcoming division and by increasing compensation in the marketplace.

**MACA should ensure that staff support to municipalities, particularly at the regional levels, meets current needs.**

*Department's response: MACA is making every effort to staff positions in its regional offices so that there is sufficient support for community governments.*

#### 4.3 Financial Staff

MACA has significant responsibilities and commensurate accountabilities for providing financial leadership to municipalities and accounting for departmental resources spent. The traditional method of accounting is through reporting on departmental spending, while the second, and much less developed, accounting method involves determining how well the Department spent its budget. Likewise, municipalities have a growing need to demonstrate their own accountabilities to stakeholders as they become more independent of government.

People with financial responsibilities and commensurate accountability need expertise and a common vision. Part of the necessary expertise is in finance and accounting to provide fiscal support in the pursuit of broad objectives. Attracting and retaining enough employees with this expertise will help to ensure that municipalities have access to departmental staff possessing appropriate knowledge to respond to questions and concerns in a timely and direct manner. Having staff with finance and accounting skills is particularly important for regional offices as they provide the front-line contact with municipalities, which need to have their questions answered promptly.

We reviewed the staff composition of the regional offices. Normally, a fully staffed regional office would employ one trained specialist accounting person dealing with communities. Of the five regions, only two offices employed a person in the position when we completed our field work, and neither individual has any accounting training. The Department has informed us that, since then, two additional people have been hired for these positions.

Hiring staff from local municipalities meets the objectives of the GNWT's affirmative action plan. But local hired staff must be given the right training and development if they are to do their jobs well.

**The Department should re-evaluate the mix of skills in the regional offices to consider the appropriateness of maintaining more employees with**

**financial management and professional accounting training.**

*Department's response: The Department is aiming to attract and retain employees with appropriate finance and accounting skills to work with communities; however, the Department is also seeking to hire employees with well-rounded abilities.*

#### **4.4 Senior Administrative Officer**

All municipal officers and politicians are individually and collectively accountable to the residents and to the GNWT for delivering or administering programs locally. Financial leadership is part of this overall responsibility, focussed through municipal legislation to the SAO.

It has been suggested to us that for a municipality to be financially healthy, it must maintain a capable SAO. There is then the question of what attributes a SAO should have to carry out the responsibilities successfully.

MACA recognizes that capable SAOs are a vital part of financially successful municipalities, and it commissioned the Government Studies Department of the University of Alberta's Faculty of Extension to prepare a development model. The model is designed to:

- identify training opportunities and career paths available to municipal staff;
- articulate the training opportunities and needs required to prepare SAOs to carry out their responsibilities effectively; and
- identify necessary components of a curriculum for a NWT SAO certification program.

Part of the model's development included a study identifying the job characteristics and specific activities of Northwest Territories SAOs, and discussion of appropriate curriculum subject matter.

The following key responsibility areas were identified:

- Financial Management
- Emergency Measures
- Legislation
- Public/Community Relations

- Council Meetings and Administration
- Land Planning, Classification, and Policy and Legislation
- Human Resource Management

The model did not explicitly address the SAOs' involvement in recreation and economic development, both of which can be significant responsibilities; nor did it include training on governance except for the segments on Council Meetings and Administration and Legislation. Finally, the model could likely benefit from a greater emphasis on accountability to the municipalities' stakeholders, including residents, politicians and the GNWT, among others.

#### **4.5 Hiring and Retaining Qualified SAOs**

##### **4.5.1 Need for good hiring practices**

The SAO is a key person in municipal management. While not all SAOs handle finances and accounting on a day-to-day basis, they are responsible for these functions. Selecting the right person for this job is extremely important. Hiring from a distance is expensive, and frequent turnover is disruptive to municipal management. As a minimum, hiring should be against clear standards, and candidates should be informed about all of the job attributes, including the personal and family implications of geographic and cultural change. Regular appraisal and feedback are also vital to effective operations. In all of the municipal locations we visited, none of the SAOs had had their performance formally appraised by the municipal council. A challenge for MACA is to find a balance to guide and influence the appointment of SAOs without imposing inflexible standards on municipalities.

**MACA should help the municipal mayors and councils to develop appropriate methods of providing meaningful and constructive feedback to SAOs.**

##### **4.5.2 MACA influence**

MACA can influence the hiring of qualified SAOs through legislation, regulation or guidelines by setting out the minimum qualifications required. While a prescriptive approach may not be seen as consistent with the move toward community empowerment, the cost and disruptions caused by SAO turnover need to be

minimized. Similarly, any incoming SAO who does not have all the necessary qualifications should be required to agree in writing to obtain them in the short term. To do otherwise is self-defeating in the longer term.

#### 4.5.3 Alternative arrangement

An alternative could be a partnership with either the Northwest Territories Association of Municipalities (NWTAMA) or the Association of Municipal Administrators of the Northwest Territories (AMANWT), to develop appropriate criteria and provide guidance to municipalities to ensure that proper and consistent job competitions are run.

#### 4.5.4 Cultural adjustments

A number of SAOs have been hired from the south and other locations. Hiring from outside the local area can bring its own set of challenges. SAOs need not only the necessary skills but also personal flexibility, such as the ability to settle in remote communities where the prevalent culture may be quite different from their previous experience.

In particular, the difficulty of hiring people who can make the cultural adjustments should not be underestimated. To be able to accept differences and in turn to be accepted into a community are highly important. An ability to fit into a community may also include some facility with local language; in any event, fluency in English is essential as a minimum.

During our interviews, we were informed of a number of cases where incoming SAOs or their families could not make the cultural and geographic adjustments and consequently did not stay in the job for long.

In the longer term, it could be beneficial to hire local SAOs. The training program mentioned in this report is a good start to providing an educational framework for northerners who aspire to take on such responsibilities.

#### 4.5.5 SAO turnover

We discussed SAO turnover (Exhibit 5) and found that some municipalities have had success in attracting and retaining successful staff, while others have struggled. We were informed that, on average, a SAO stays in position for just under four years. But these data should be looked at in the context of some municipalities having unusually high turnover, and others having little

or none. It would be appropriate for MACA, either itself or through a partner, to determine the conditions that will contribute to retaining SAOs for longer periods.

**Exhibit 5**

Municipality	Date of hiring current SAO	Number of SAOs in past 10 years
Broughton Island	7 December 1995	6
Fort Providence	22 February 1989	2
Iqaluit	October 1995	5
Hay River	9 May 1989	2

#### MACA should:

- **work closely with municipalities recruiting SAOs to develop clear standards for hiring, covering both local hires and those from other areas, including preparations for any cultural adjustments;**
- **work with the municipalities and their associations to ensure that all SAOs acquire the necessary qualifications within a defined time limit; and**
- **analyze the reasons for high SAO turnover and develop an approach, in concert with the municipalities, that provides the optimum package for attracting and retaining the best people.**

*Department's response: The Department's operating principles and values ascribe to a developmental rather than prescriptive approach when dealing with community governments. It therefore considers municipal employee management issues as the exclusive jurisdiction of community governments and, unless invited to do so, does not participate in this relationship. Having said that, the Department recognizes that it could play a role in developing the appropriate tools and materials required to manage employee performance.*

*The Department will make the NWT Association of Municipalities aware of the Auditor General's recommendations in this area, as those organizations may be more suitable to providing this type of human resource advice to their members. The Department will*

*endeavour to work with these organizations in the development of appropriate materials.*

#### **4.5.6 Economic cost and importance of municipal staff**

SAOs are responsible for the staff working in municipalities. At the end of 1995, municipal employees totalled over 1,500 and earned nearly \$56 million in annual pay, for an average of \$35,500. The average Territorial employee earned \$49,099 and the average NWT-based federal employee earned \$61,600. The margin of pay difference is significant and it might be useful for MACA to analyze if it can identify the related equivalencies.

### **4.6 SAO Training and Development**

#### **4.6.1 Training and certification**

MACA, in partnership with the AMANWT, created the NWT SAO Certification Program designed to provide opportunities for SAOs to gain education and experience in the key responsibility areas. We understand that the University examined existing programs in several provinces in developing its recommendations.

The program successfully attracted 11 participants for the first course offering—8 from municipalities and 3 from MACA. Graduation of the first class was in June 1997. The second group began in November 1996 and is scheduled to graduate in April 1998.

The program has three levels, with a graduation from each. The first level involves a residential session, with the majority of the students travelling to attend classes. Levels two and three are through distance learning.

MACA supports the certification program and provides an annual administrative subsidy. The remainder of the funding is from tuition fees collected from each participant's municipality. For level one, the fee was \$7,000 per person. While the dollar cost of the training may not be a limiting factor, the time commitment may be. The certification for level one was completed in a year, involving four two-week periods of residential

training. This kind of commitment is a major one for any municipality, particularly the small ones, but it is important.

From discussion with some participants, we learned that the first group was able to build relationships that will foster peer networks for sharing information. The participants were not as excited about level two because it involved all distance learning.

The networking benefits from this program should not be overlooked. It would be useful for the program to consider periodic refreshers in a residential setting so that SAOs can renew their contacts and make new ones. As the GNWT devolves more responsibility to municipalities, the contacts between SAOs, and possibly other staff, assume an even greater importance.

#### **4.6.2 Need to evaluate**

It will be important for MACA to evaluate the program to determine whether the cost and time commitments justify its continuation. Such an evaluation can determine whether the program provides SAOs with the kinds of skills needed in the proper depth at the proper time. There may be lessons to be learned, including other ways to make information available to help SAOs develop the required skills on a more cost-effective basis.

**In conjunction with the AMANWT, the Department should conduct an evaluation of the SAO Certification Program to determine whether it is providing the right information in the right depth at the right time.**

*Department's response: The Department agrees with the recommendation and has approached its partner, the AMANWT, to begin the process.*

*With respect to SAO training, the Department has invested considerable resources in a partnership with AMANWT for delivery of the SAO training program. As noted above, the Department and Association intend to review the program in the near future to ensure that it meets expectations. Initial feedback from the first year operational-level graduates has been positive.*



# Chapter 5

## Municipal Funding

### 5.0 Funding Sources

Municipalities currently receive funding for programs from a variety of sources. The largest components are contributions from MACA for capital and for operations and maintenance. Other sources of funding are special grants and contributions. The municipalities we studied are divided into two distinct categories, General Taxing Authorities (GTA) and Municipal Taxing Authorities (MTA). MACA funds municipalities differently, depending on which of these categories they fall into. MTA municipalities have the ability to generate revenues through taxation, resulting in a smaller component of their overall revenues being from MACA. GTA municipalities have less opportunity for raising local revenues and consequently receive a larger part of their overall funding from MACA.

Capital funding is based on an allocation of available resources based on need.

### 5.1 Factors to Be Understood in Municipal Funding

Operations and maintenance funding is based on policies approved by the Executive Council. The basic principle of funding is set out in the Establishment Policy, which states:

Local governments should provide essential municipal services on an equitable basis and should ensure safe, healthy and attractive environments for all residents.

#### 5.1.1 Municipal and settlement operating assistance policies

The current operating funding policy calls for funding equity and sets out formulas containing variables such as population, infrastructure, local costs and municipal organization structure. Both tax-based and

non-tax-based municipal corporations are eligible for the Municipal Operating Assistance Program (MOAP).

The program established a credit unit that determines the relative eligibility of non-tax based municipal corporations for funding. The program also established an equalization grant provided to tax-based municipal corporations to assist in the delivery of municipal programs and services. Under MOAP, Yellowknife, Hay River, Fort Smith, Inuvik and Fort Simpson receive block funding. Settlement corporations, settlements and other unincorporated designated communities are funded under the Settlement Operating Assistance Program (SOAP) by formula for a number of key municipal service areas, with fixed and variable factors. These are modified by the Northern Cost Index (NCI) if required. The NCI adjustment recognizes that not all municipalities have the same costs for common things, such as transportation costs, fuel costs, cost of living and climatic factors. The index looks at costs in different municipalities and compares them with Yellowknife as the base.

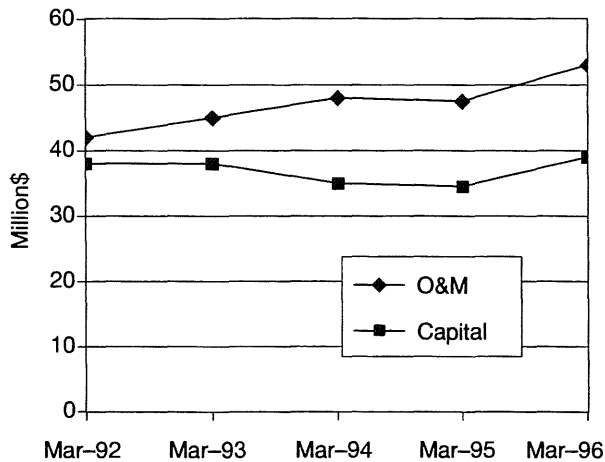
In addition to municipal funding through MACA, the GNWT and other agencies also directly subsidize various residents of the Northwest Territories in areas such as housing, fuel, power and wages.

#### 5.1.2 Future considerations

Exhibit 6 shows that operational funding to municipalities has been increasing, even though the GNWT's own revenue from the federal government is declining. Because of these fiscal realities the GNWT is emphasizing that future funding will be restricted.

This funding difficulty will have to be addressed. For example, population projections reveal that supporting the growing population at current levels of service will need a spending increase, not a decrease. The reality of reduced funding and a changing departmental role likely will mean that municipalities will have to find alternative funding to meet all their needs.

**Exhibit 6**  
**Analysis of Operations and Maintenance, and Capital Contributions by MACA over Five Years**



**5.1.3 Future operating funding needed for past and present capital expenditures**

Throughout the years, MACA has encouraged municipal growth and more independent operations by providing capital funding. As municipalities grow, the requirement for capital infrastructure increases, and this in turn requires increased future operations and maintenance funding.

**5.1.4 Municipal financing review**

The Department is currently reviewing municipal financing, including the components that make up the funding formula. MACA intends that its review will ensure fairness and equity to all municipalities, while taking into account the ability of a municipality to pay. One objective is to maximize the impact of scarce resources. Included in the review is consideration of the Northern Cost Index and the basis of funding for each component of the formula, for example, maintenance, utilities, staff housing and equipment.

**5.2 Tax revenues – mill rates**

A Municipal Taxing Authority (MTA) is a local government that has the authority to levy taxes under the *Property Assessment and Taxation Act*. This

currently includes the seven tax-based municipal corporations established under the *Cities, Towns and Villages Act*. The General Taxing Authority (GTA) covers the remaining municipalities. The GTA mill rate is substantially lower than rates in the MTAs. The GNWT sets GTA mill rates based on advice from Finance, while the individual tax-based municipalities set their own MTA rates. There are provisions in municipal legislation that allow municipalities to change from a GTA to a MTA. This would allow a municipality to tax properties locally and to collect revenues locally.

**5.2.1 Operating assistance and property taxation**

A significant portion of MTA revenues is derived from taxation and most of the remainder, approximately 25 percent, is from the government.

Residents of hamlets, which make up more than half of all the municipalities, pay very little tax because of the low GTA rate. These municipalities receive a significant portion of their revenues from the GNWT. The amount of GTA taxes levied does not influence MACA funding for municipal services. In other words, municipalities still get their entitlement under the formula, even if the GNWT collects low taxes under the GTA.

The low GTA rate provides a disincentive for GTA municipalities to change to MTA, which would require higher rates. Some municipalities that could change are reluctant to do so, often citing as the reason that increased property taxes would be a financial burden on residents. During our visits, one municipality did indicate that moving to a MTA would give it a better growth foundation. While some municipalities could likely shift from the GTA to MTA, others clearly have insufficient economic activity to warrant a change.

**Exhibit 7**  
**Contributions to Hamlets**

Population base	Contributions and other subsidies (per capita)
0 to 500	\$2,552
501 to 1,000	1,377
> 1,000	937

In the short term, the municipal financing review will assess whether and how municipalities can become

taxing authorities. But there are some practical difficulties to consider. Recently, the GNWT has had difficulty attracting qualified property assessors and presumably this would not be any easier for individual municipalities. Also, any municipality that made the change would also have to hire and train staff as well as develop assessment and collection policies.

But in terms of raising tax revenues, an alternative would be to change the GTA mill rate. This would help the GNWT finances, but not necessarily the municipalities and their residents.

There is a delicate balance between preserving a traditional way of life in municipalities that need continuing financial support and dealing with the future realities of change, which requires other injections of moneys, such as from economic development, to be able to afford services locally. Self-sufficiency comes at a price.

### 5.3 Municipal Capital Funding

Capital funding comes from various departments within the government. Annually, MACA identifies needs and determines final projects and produces a Capital Needs Assessment with both 5- and 20- year time horizons. This analysis feeds into the GNWT-wide Capital Needs Assessment, which is used by the government for overall capital funding allocation.

The process involves comparing identified needs against capital standards and criteria, which are used as benchmarks. Other factors are also taken into consideration, such as the short-term effect of projects on a municipality (“boom and bust”), insufficient resources or no need. MACA’s capital planning and resource allocation process is ongoing and each year’s funding can take more than a year to work out.

#### 5.3.1 Changes to municipal capital assistance

An amended capital assistance policy was implemented in June 1995. Included is a principle that “municipal governments and community authorities should contribute to the capital costs of their municipal infrastructure according to their ability to contribute.” MACA assessed NWT municipalities for their ability to pay, with six having the greatest ability to contribute, 13 a medium ability and 27 least able to contribute. One of the tax-based communities was assessed as having only

medium ability to contribute. Two of the three settlement corporations were not included in this analysis.

Exhibit 8 shows the proposed contributions by municipalities, based on MACA’s assessments of ability to pay.

### Exhibit 8 Ability to Contribute

#### a. For basic infrastructure projects

Project costs	Assessed ability to contribute		
	Most able	Medium ability	Least able
	<b>Contribution percentage</b>		
First \$100,000	30	15	5
Next \$900,000	20	5	0
Each additional dollar over \$1 million	10	0	0

#### b. For additional infrastructure projects

First \$100,000	100	75	50
Next \$900,000	75	50	25
Each additional dollar over \$1 million	75	50	25

The policy amendment caused problems for some municipalities. After discussions, MACA made a proposal to change the medium ability category, because of perceived deficiencies in the fairness of the assessment formula. A number of municipalities requested that their classification be changed from medium to least ability, because of the financial burden on their resources.

The Premier approved the change for the 1995–96 and 1996–97 fiscal years, which increased MACA costs by approximately \$500,000. The change approval for two years was intended to give MACA time to review the formula. However, for the 1997–98 fiscal year, MACA has not changed the formula but the issue is now included in the Municipal Financing Review.

**MACA should ensure that the Municipal Financing Review finalizes its assessment of ability to contribute and that the message is communicated clearly to all municipalities as soon as possible.**

*Department's response: The Municipal Finance Review working group will have a draft recommendation to municipalities completed in early 1998, on the formula for the ability to contribute. This will be presented to the Steering Committee and the NWTAM during the winter. Subject to review with the NWTAM, the new formula will be communicated to all municipalities. At the spring Annual General Meeting of the NWTAM, the new formula will be discussed further with a view to implementation. The final recommendation of the Steering Committee will be implemented subject to the approval of the Minister.*

**5.3.2 Mobile equipment**

The Department's mobile equipment capital program identifies standards and criteria to satisfy basic and additional needs. Additional needs include attachments that enhance equipment. Both types are funded by MACA.

For equipment to be replaced, MACA's policy, standards and criteria require it to be 12 years old and/or have 16,000 hours of use. As shown in Exhibit 9, MACA's definition of economic repair is that the cost of repairs exceeds 80 percent of the replacement value of a machine. But from discussions with MACA staff and a review of capital projects briefing notes, we noted that they use a different interpretation, namely that equipment will be replaced when the total cost of repairs exceeds 80 percent of depreciated value.

**Exhibit 9  
Performance Criteria and Major Repairs**

<b>Example of Replacement Criteria for Various Mobile Equipment</b>	
Fire pumper vehicles	After 20 years – vehicle becomes uncertifiable by Underwriters Laboratory of Canada
Bulldozers, front-end loaders, motor graders, backhoe/loaders, etc.	The equipment is 12 years old and/or has 16,000 hours of use, and is beyond economical repair
Economic repair	The total cost of minor repairs in the last 12 month period exceeds 80 percent of the replacement value of a new machine

When the 80 percent of depreciated value is used, the result will be much lower than if the replacement cost is used. Age alone does not make equipment uneconomical, and older pieces with low hours can likely be repaired economically when compared with the purchase price of new equipment.

A policy should stipulate that a new piece of equipment is justified when the old one is beyond economical repair, providing there is still a need for it. The capital funding process should ensure that all requests for capital equipment are reviewed carefully and completely to ensure that equipment is not replaced when the existing ones still have an economic life.

In times of scarce resources, municipalities need to be encouraged to think more about preventive maintenance as a measure of getting better economy from public spending. The Department notes that it reviews maintenance records under departmental policy, but records may not tell a full story of the current state of a piece of equipment. For expenditures of this magnitude, the minimum review should include a physical examination by a qualified person. MACA informed us that physical inspections are done.

But MACA's replacement standards and criteria do not include preventive maintenance requirements. Staff feel that they cannot impose preventive maintenance on municipalities, although they are aware that some use these techniques to prolong asset life. The extent and quality of preventive maintenance is dependent on the experience of municipal staff. In our opinion, preventive maintenance should become part of the capital and operational culture to get the longest and most cost-effective life from capital assets.

**MACA should review its current capital funding process and standards, emphasizing that all replaced equipment must be subjected to preventive maintenance practices using industry standards as a benchmark to ensure that they result in the most economical use of publicly funded assets. If the 80 percent rule is to be on depreciated values, MACA should amend the policy to reflect this.**

*Department's response: The Department is currently discussing the option of block funding communities for mobile equipment. We will continue to advise communities on replacement guidelines and continue our training efforts in preventive maintenance.*

# Chapter 6

## Municipal Planning and Budgeting

### 6.0 Background

As many municipalities mature, their dependency on the GNWT is changing. As they make more decisions locally, municipalities need to think about their priorities in light of available funding, the needs and expectations of residents, and alternatives to both programs offered and revenues generated. Locally based planning is an important tool to assist in decision making, and it is especially important in these times of change. Planning includes budgeting, but should go far beyond it. As populations grow and money gets tighter, longer-term decisions start to have much more impact on municipal futures. For example, a plan could include a vision for economic development, improved recreation, health and welfare of residents; and it should dovetail with housing needs, schools and other infrastructure, and the kinds of equipment needed and when. Overall, planning is part of a process whereby municipal leaders can manage change.

### 6.1 Departmental Involvement in Municipal Planning

During our review, we enquired whether municipally based planning is being carried out and, if so, what type of planning is being completed. Exhibit 10 reflects the type of planning for operations and maintenance spending being done in the municipalities we visited.

For a majority of municipalities, planning is limited to preparing annual budgets. MACA has been involved with communities on capital requirements, land use and zoning by-laws. In the summer of 1997, MACA started a new initiative involving strategic planning exercises with the municipalities.

Exhibit 10

Municipality	Type of Planning Being Carried Out
Yellowknife	Municipal Strategic Planning
Iqaluit	Specific Municipal Consultation and Budgeting
Inuvik	Budgeting
Hay River	Specific Municipal Consultation and Budgeting
Rankin Inlet	Budgeting
Pangnirtung	Municipal Strategic Planning
Cape Dorset	Budgeting
Fort Good Hope	Budgeting
Tsiigehtchic	Budgeting
Fort Resolution	Budgeting

#### 6.1.1 Other planning in municipalities

We have been told that several departments prepare plans for the same municipality and that these are not consolidated. It is not clear to us whether MACA even knows of, or has access to, these other plans. It is counterproductive for different entities to prepare their own plans for the same municipality and not bring them together, along with the municipality's own ideas, into a cohesive, municipality-wide plan that sets out a clear direction for all interested parties to follow. Staff has advised us that the capital plan for the next cycle is to be co-ordinated through MACA to ensure that there are no duplications or omissions.

**The GNWT should, through MACA, direct that all departments and agencies preparing plans for a particular municipality consolidate them.**

*Department's response: Each department may have operations and maintenance or capital plans for each municipality. In the area of capital planning, local municipality consultation is now co-ordinated through*

*MACA and there are regional and headquarters level meetings between all departments of the GNWT to ensure that there are no duplications or omissions. MACA is the integrating force within the GNWT and ensures that departments sponsoring municipal planning work are working as effectively as possible with municipal governments.*

## 6.2 Budgeting

A municipality must prepare a budget under municipal legislation, which also requires the budget to be forwarded to MACA. Generally, municipal budgeting involves determining total revenues and expenditures that it expects to receive and spend for the next fiscal period.

In the past, municipalities have had problems meeting these requirements because, for the majority, MACA provides most of the revenue. MACA was late in providing final funding amounts because of delays in the GNWT budgeting process. Municipalities objected to preparing provisional budgets for submission, which would be updated or redone when the Department provided final revenue amounts. Currently, the budgeting being carried out by many municipalities covers only the operations and maintenance part of expenditures.

## 6.3 Capital Budgeting

The capital budgeting process is confusing to many municipalities. MACA makes a distinction between capital planning and resource allocation, but this may not be as clear as it could be to municipalities.

Some formal communications with municipalities are not followed up with them, and the allocation of capital funding bears little resemblance to municipally identified priorities. Because of the complexity of the process and the many players and interests, this could be better explained to the municipalities. For example, as well as meeting with MACA and other GNWT officials, municipalities receive a letter from the Premier asking mayors to identify their capital priorities and they reply directly to the Premier. This part of the process was set up to let the Cabinet know the needs of municipalities firsthand before the information goes through due process, including committee meetings, input by members of the Legislative Assembly and Financial

Management Board allocation, all of which can result in changed funding.

MACA has capital plans for each municipality based on medium- to long-term plans that roll forward each year, incorporating changes based on changing circumstances. Thus, in the interim MACA lists capital projects for the municipality that are scheduled over the next five years, and this list goes back to the SAO who is asked to rank each of the projects in the MACA listing, based on the municipality's priorities. Some SAOs commented that they do not see a connection between the Premier's letter and the later project listing prepared by MACA, which has been changed by the various other inputs. Within this complex structure, MACA works with municipalities and other GNWT departments to complete the capital budgeting process (Exhibit 11).

### Exhibit 11

<p><b>PHASE I – Capital planning (municipal level)</b></p> <ul style="list-style-type: none"> <li>• MACA sends out a call letter notifying municipalities of the capital plan.</li> <li>• municipalities and MACA regional office input to 20-year plan (based on need)</li> <li>• municipalities and MACA regional office input to 5-year plan (using 20-year plan as source)</li> </ul>
<p><b>PHASE II – Resource allocation by municipality (done by MACA)</b></p> <ul style="list-style-type: none"> <li>• projects discussed by MACA senior management committee</li> <li>• approval for funding obtained from the Minister</li> <li>• Premier sends letter to municipalities asking for input on the proposed plan</li> <li>• municipalities provide feedback on proposed projects</li> </ul>
<p><b>PHASE III – Capital planning (territorial level)</b></p> <ul style="list-style-type: none"> <li>• Interdepartmental Committee on Capital Planning (ICCP) review</li> <li>• adjustments made based on community input and interdepartmental discussions</li> <li>• Financial Management Board Secretariat</li> </ul>
<p><b>PHASE IV – Resource allocation (territorial level)</b></p> <ul style="list-style-type: none"> <li>• presentation/substantiation to Standing Committee on Infrastructure</li> <li>• Legislative Assembly approval</li> </ul>

SAOs told us that because they have little control over and input into the municipal capital planning process, the funding allocation is a mystery to many of them. They see the process as cumbersome and not clearly

understood. Because there is a strong political element in the process, this fosters a suspicion that real needs in some municipalities are ignored to the benefit of others.

**In conjunction with the Premier's office, MACA should write to each municipality to follow up on the Premier's call letter, explaining any differences between the requested priorities and actual capital allocations made and the reasons why.**

*Department's response: With the elimination of the Regional Director's office in each region, MACA has been given the task of co-ordinating the capital planning process. While the present system does have flaws, the Department is working with municipalities, the Premier's office and the Financial Management Board Secretariat to make the process as simple and responsive as possible. Each municipality that writes to*

*the Premier's office regarding the capital plan receives written communication stating that their requests have been met or the reasons why they cannot be met.*

The capital budgeting process also seems to be flawed as it does not take into account all the factors that could lead to a more economical use of capital funds (Exhibit 12).

From our review of departmental correspondence, it is not clear whether the municipality actually needed a new grader or received one only because it was in the capital plan and the municipality met departmental standards and criteria.

Many municipalities have become more sophisticated and are both managing and delivering the capital projects contracts. But changing government priorities can cause problems (Exhibit 13).

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#### Exhibit 12

A municipality was eligible for and was offered a new grader at a cost of approximately \$170,000, based on MACA standards and criteria. The SAO told us the municipality believed that if it did not accept the offer, the funding would be lost.

A locally owned business has its own grader. The Department advised us that an unofficial meeting was held between MACA and the municipality. The option of privatization was discussed, but was rejected by the municipality. We were not provided any other information that would demonstrate if consideration was given as to whether this business could provide the service at lower cost.

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#### Exhibit 13

A municipality was scheduled to receive funding to build a new municipal hall. The tentative funding of \$660,000 was communicated by MACA to the municipality, which, assuming that the funding was firm, started to prepare a request for proposal (RFP).

Before the RFP was issued, the municipal engineer, during a trip to Yellowknife, learned by chance that the project funding had been changed. The municipal engineer immediately cancelled the RFP.

We reviewed departmental correspondence between MACA and the municipality. In response to an inquiry from the municipality's new Director of Finance prior to the municipal engineer's visit to Yellowknife, MACA provided a status report on the timing of the project funding. However, MACA's letter was not sent to either the Mayor or the SAO. Later, after the municipal engineer's return from Yellowknife, the Mayor wrote to MACA stating that there was a lack of consultation by the Department in regard to the changes in this project.

Block funding proposals by MACA should change this process and allow municipalities to better achieve their priorities. Block funding will encourage MTA municipalities to borrow from either the GNWT or banks to fund capital projects, if they can afford to make the repayments.

The first areas scheduled for block funding are minor road construction, site development, minor and additional sports equipment and open play spaces. Current legislation restricts GTA to borrowing only for land development. Based on past experience, MACA will have to work closely with municipalities to ensure that land developments are reviewed carefully to confirm that the project is sound, well managed, and appropriately controlled. MACA will also have to ensure that the municipality has the fiscal capacity to repay the loans without compromising other essential services.

Not all municipalities are yet capable or interested in managing block funding and the related risk of deficit financing. It will be important for municipalities to be confident that capital expenditure block funding is secure and not subject to funding changes.

**MACA should continue to work with municipalities and other departments to develop appropriate funding mechanisms that allow as much local control as possible, recognizing the necessity to protect the taxpayers.**

*Department's response: The Department recognizes the importance of broad strategic planning at the local level and the adoption of a planning culture by municipal councils so that they manage change more effectively and positively affect their own environment. As part of its reorganization, the Department has established dedicated resources and staff to work toward these goals.*

*Although the Department works closely with municipalities in the development of capital, land use and zoning by-laws, recreation and strategic planning, it must be recognized that these exercises and the resulting plans belong to the municipality and not the Department. Therefore, ultimate control over how they are used and co-ordinated with other initiatives is a municipal responsibility.*

*The Department agrees that it is necessary for it to co-operate with other GNWT departments and agencies on planning initiatives in all areas so that advice and assistance to municipalities is complementary. To do so, it has participated in the formation of an Interdepartmental Community Development Team with groups working on planning, training and funding. The first meeting of the planning group was in September 1997. One of the initial objectives of this group will be the consolidation of planning initiatives.*

#### **6.4 Next Steps in Municipal Planning**

Only three of the 10 municipalities we visited are doing any planning beyond budgeting. One of the municipalities prepared a broader municipal plan almost two years ago, but has done little with it since then. Detailed, broader planning is important to complete and update regularly so that changing circumstances can be acted upon and municipal plans can be amended to reflect them.

MACA has identified the importance of municipally-based planning and has just recently provided training to its regional municipal empowerment teams. The training provided guidance for getting municipalities interested in the concept and benefits of planning.

The Department, through Mount Allison University, has put together a program called "Stepping Forward, Putting Vision Into Action", which the regionally based empowerment teams will bring to municipalities. This is an important first step in bringing ideas and information to municipalities on the importance of broader planning and links to the GNWT's "Agenda for Change".

We raise a note of caution here that MACA must be careful to help the municipalities prepare their plans, but that departmental staff should not do the planning themselves. To be effective, municipalities will have to take ownership of the planning process so that the result is a local vision. Furthermore, the Department should be careful about paying consultants to prepare plans for municipalities. Having an expert available to assist in the processes and help evaluate alternatives is acceptable, but the plans should be from the municipal council.

This kind of development will take time and effort by MACA but the investment will pay off in the long term.



Through broader planning, municipalities will decide which programs they want to take from the GNWT in the empowerment process, presumably if they decide that they can afford them with the funding provided. This will be a major shift in decision making for municipalities as they move from being told what they can have to deciding for themselves.

The bottom line is that municipalities need to move toward a planning culture, but this also requires them to be weaned from the expectation that governments will pay. Furthermore, for the longer term, to be able to grow and move toward economic self-sufficiency, municipalities need a kind of “renewable” economic development policy, not a dependency on government funding or the short-term “boom and bust” activity stemming from capital projects. Although it is an extremely difficult issue for most smaller municipalities, they should not automatically assume that the GNWT will be able to keep to present funding levels. Strategically, smaller municipalities may be able to

develop alliances with others to form more viable units that might be better placed to attract investment.

**The Department should ensure that appropriate resources are made available so that municipalities can implement broader planning at a reasonable pace. As well, the regional empowerment teams should assess the progress of municipal planning regularly.**

*Department's response: The Department agrees that one of its key roles is to encourage the development of a planning culture within NWT municipal governments and that planning at the local level needs to be initiated and carried through by the municipality to be effective.*

*The Department has made resources available for municipally-based strategic planning in 1997–98 and in its 1998–99 Business Plan. Further, the work plans of the Community Based Planning section of the Departmental and Regional Community Empowerment staff clearly reflect the need to work with municipalities on the acceptance of planning as a valuable tool.*



# Chapter 7

## Willingness and Ability to Pay

### 7.0 Changing Circumstances

Numerous factors are contributing to changes in the north. Land claims are resulting in more money being given to certain groups, which will allow greater flexibility in economic decision making by the people. Division in 1999 will have major implications, although the impacts are not yet fully known or understood. Constitutional change in the Western NWT is an important topic that will likely have far-reaching effects, again somewhat unknown at this time. Central government fiscal restraint is a significant factor, and one that has to be dealt with in municipal financing. And community empowerment will likely change the way in which municipal programs are delivered and financed.

Against this backdrop of change is the need to recognize that municipal services will need to be approached differently, and the question of who pays for them has never been as important as it is now.

The move into communities over the past few generations has not been accompanied by significant growth in economic development. Present high levels of unemployment, coupled with a rapid population growth, put a strain on government's and municipalities' ability to cope financially. The result is a large number of social housing units, with low rents based on income scales, and a lack of opportunity for municipalities to move toward a local tax-based structure for municipal financing. A big question is whether this will change in the foreseeable future. Clearly, it is unlikely that there will be significant economic growth in some municipalities in the near future, with the result being a continued demand for ongoing public funding. In other cases, there are encouraging signs of development in the north that may create more opportunities for economic activity, resulting in a greater opportunity for change. In any event, financing from central government is

increasingly under strain and changes to the existing model will be necessary.

### 7.1 Balances

With few jobs in some municipalities, other aspects of community life are important, including preservation of traditional activities. Community wellness initiatives are crucial to a healthy existence and development, and recreational opportunities are important for building values and positive outlooks. Again, there is the question of who will be able to pay for these in the future.

Municipal community standards for housing, education and health (including water supply and sewage/garbage disposal), along with recreation and other facets of life, have to be maintained. Important questions are how much of the required standards can government afford and how much will it be reasonable to expect residents themselves to pay. Adding to the complexity is the large number of Aboriginal citizens who have a combination of historical rights and expectations from Canada. This adds to the difficult task of adjusting beliefs and commitments to the newer reality of fiscal restraint and user pay.

We have not attempted to deal with the issue of who should pay for municipal services. But in terms of people's ability to pay we found it difficult, within the scope of this report, to assess the financial capability of municipalities, or their residents, to bear a bigger share of the services themselves.

### 7.2 Who Can Afford to Pay, and How?

Increased local revenues can come from changes to the property tax regime, or through fees for services. Numerically, almost 90 percent of the NWT municipalities have no local property tax base.

### 7.3 Property Taxation

One of the barriers to increased municipally-based property taxation is the large number of government-provided social housing units, and the small number of privately owned housing units in some municipalities. The 1996 Housing Corporation Needs Assessment (with 1992 data in parentheses for comparison) showed total housing units of 18,738 (14,537), of which 12,913 (9,714) were privately owned and 5,825 (4,823) government-owned.

**Exhibit 14**  
**Northwest Territories Housing Corporation**  
**Needs Assessment**

	1996	1992
Private	12,913	9,714
Public	5,825	4,823
	18,738	14,537

Many of the private homes (5,807) are in Yellowknife, with almost 45 percent of the total. Only four other municipalities, all tax-based, had more private than government-owned homes, and 26 municipalities had fewer than 10 private homes. With the NWT Housing Corporation paying assessed taxes on publicly owned social housing units, local residents have no experience of direct property taxation at the municipal level. As a growing number of the privately owned homes are in General Taxing Authority municipalities, this may signal a trend that will allow more property taxation flexibility in the future.

#### 7.3.1 Taxation at the local level

The difference in government funding by municipality suggests that there may be some scope to re-examine how and what the government pays for. It also raises the possibility that more municipalities may be able to move toward a local taxation system, although some clearly cannot. Currently the mill rate for Municipal Taxing Authority municipalities averages 20 while the rate for the rest, covered by the GTA, is about 3.8. In MTAs, there is a higher degree of correlation between the levels of service and amount of tax and service fees paid by the residents.

#### 7.3.2 Legislation and municipal collection of delinquent taxes

Out of more than 60 municipalities, only 7 levy and collect their own taxes. Municipal officials expressed difficulties with the restrictiveness of the legislation in terms of collecting unpaid taxes. Present laws create a cumbersome process involving case-by-case applications to the courts, which is expensive and can take many months to effect. Similarly, in the GTA, the Department of Finance is responsible for tax billing and collection. Finance is restricted by policy in its ability to foreclose on property for non-payment of taxes. New legislation should help to streamline this process and allow municipal tax collection to become more efficient.

#### 7.3.3 Property assessment

The assessment rolls are outdated, by one year. The base year is adjusted annually for new developments or changes to property. This is accomplished by using MACA staff when visiting a municipality, or by contacting the municipality or other territorial or federal departments. The process does not always pick up property transactions such as unregistered sales. This in turn adds to collection costs and time, and may hinder the GNWT's chances of collecting unpaid taxes from the new owners. Furthermore, under the legislation, property assessments, the base year, must be prepared at least every nine years. Due to a lack of assessors, the nine-year time limit is coming close for some municipalities and has passed for others. Without valid assessments, the taxes collected are out-of-date. The challenge that awaits MACA is to use the few in-house resources, along with potential contractors, to ensure that all municipalities are assessed. This is scheduled to occur in 1998-99.

### 7.4 Public Expectations

Ongoing municipal financial subsidy support from the GNWT contributes to an expectation that government will, and must, continue to pay for municipal services. Officials from the municipalities we visited believe that some municipalities are treated better than others, that population-based funding formulas are out-of-date, and that impending division is causing some municipalities to get more than they should.

In particular, people in the municipalities we visited have concerns and difficulty understanding and accepting the current GNWT level of funding and the

cutbacks necessary for a balanced budget. While there is a general understanding of public sector cutbacks in many jurisdictions, this has not yet translated into a recognition that NWT municipalities will have to do with less in the future. Recognition of the need for municipalities to practise economy has not clearly reached everyone and some local officials indicated to us that expensive capital plans are still supported by elected representatives and some people in the GNWT.

The government could do a better job of spreading the message that expectations have to change, and "best solution" alternatives need to be found. Similarly, many myths about inequitable spending on some municipalities could be dispelled with better formal information from the centre.

## 7.5 Other Funding Sources

Identifying the ability of people in a municipality to pay for more is extremely difficult as not all residents have the same per capita income or personal assets.

Yet there are signs that some cash, significant amounts in some cases, flows into various municipalities. Identifying the sources and how much cash is no easy task, but where extra funds are available, the municipality may be able to support more projects locally without having to rely on money from the Government. For example, other sources of local revenue, such as land claim settlements, are not currently being considered in the allocation of MACA funding.

Along with land claim settlement cash, numerous government agencies provide program funding, such as Indian and Northern Affairs Canada's funding of Band Councils, Human Resources Development Canada programs, economic development funding, recreation salary subsidies, and so on. We did not track where these moneys were being spent, but it may be useful for the GNWT to try and identify cash flows in, and whether residents of some municipalities could bear a bigger share of their costs.

### 7.5.1 NWT incomes compared with the rest of Canada

The Statistics Quarterly Report of March 1997 showed the Canadian average income for 1994 (the last available year) at \$27,265, based on filed tax returns.

NWT average income on the same basis was \$32,608. The same report noted that 11 NWT municipalities had average incomes greater than the national average. However, we note that the cost of living is higher in the north.

### 7.5.2 Service fees

There are some municipalities that may have the potential to raise revenues when administering their own programs. MACA's operational funding process does not consider this when allocating resources. For example, during our visits we noted that some municipalities remove snow for residents from their home driveways, at the cost of the municipality. This is an opportunity to raise additional revenues based on user pay principles.

We noted that in Alberta, some municipalities require residents to remove snow at their own expense, not only from their own properties but also from abutting public sidewalks.

**MACA, in conjunction with other departments and agencies, should investigate where municipalities have other sources of revenue or have received other funding to cover basic needs.**

## 7.6 What Happens When Funding Ceases?

When is it reasonable to expect the people in a municipality to accept local responsibility for operating municipal assets and programs? Have years of the GNWT paying for most things created an expectation that it should always do so? Some municipalities may have residents who are not poor and who may have the ability to contribute more, if not in cash then probably in volunteer time.

Since many northern municipalities were established, the GNWT has provided capital and operating funds to build municipal facilities and operate them. Along with funding from other levels of government, residents have benefited from GNWT cash flows for municipal purposes. Most municipalities have received significant investment in capital infrastructure, including fire trucks, water and sewage services, office space and equipment, airports and docks and a variety of recreational facilities such as swimming pools and ice rinks, along with funding to operate them in whole or in part. The government has also funded heavy equipment for road grading and snow removal, plus social housing,

power and fuel supply, schools and economic development programming.

### 7.6.1 Recreational funding versus volunteers

Traditional northern culture was based on people helping people. But as lifestyle changes were introduced over the years, governments have convinced people that they can do many of those things for them. This has had the impact of making people less self-reliant and more dependent on provided services.

For example, to improve the quality of life in municipalities, the government decided to fund recreational activities. Such activities can have a beneficial effect on health. However, we noted examples of past spending on facilities where current use suggests that the originally defined need may have been questionable. Many municipalities were given capital contributions toward the building of curling rinks, but not all of these rinks are being used. We were informed that curling rinks in at least three municipalities were not used because of a lack of volunteers to run them.

Up to 1995–96, subsidies had been given for recreational personnel in municipalities. In 1996–97, the recreation and equalization components were consolidated. Recently, the subsidies have been reduced because of overall departmental reductions, and some municipalities have noted declines in recreational programs, to the point of extinction in some cases. Yet in other cases, recreational programs thrived after decreased funding because volunteers took up the slack and became an important part of the success. The issue is complex. The facts suggest that some residents will use the programs if someone else pays or puts in the effort, but not if they have to do it themselves. This raises the question of whether residents really wanted the facility in the first place, or if they took it because it was offered at no cost. If there was a genuine desire for these facilities by a municipality, logic suggests that local volunteers would see the benefits of continuing their operation, even if subsidized help disappeared. Where expensive facilities are presently unused, it should be determined whether these facilities need to be funded.

MACA staff have told us that the Department has a volunteer recognition program that honours outstanding

volunteer service annually. It might be useful to expand this recognition as a way of encouraging people to regain some of the older values of self-help and helping their neighbours.

### 7.6.2 Real needs or not?

MACA has also provided capital funds to municipalities based on their identified needs. However, the funding has been decreasing and not all municipalities have received the same investment. As an example, many municipalities are located near water and most residents cannot swim. Thus, MACA saw water safety as a real need, and funded many municipalities to build swimming pools. For 1997–98, the pool program has been cancelled, but the basic premise of water safety presumably still exists. MACA is administering water safety instruction on behalf of the RCMP, and it has been proved that this training will reach more of the people who need it.

MACA should:

- **encourage municipalities to promote and educate people on the benefits of volunteering, particularly where recreational programs are unused, or where underused facilities exist;**
- **ensure, prior to funding recreational facilities, that there is a municipal or local interest in continued operation in the event of subsidy withdrawal; and**
- **evaluate whether operations and maintenance funding should continue to be provided for currently unused facilities.**

*Department's response: Prior to funding recreational facilities, the municipality must demonstrate a need for the facility. On the premise that the municipal government is representative of its community and is the liaison between the residents and the government, it is anticipated that there is a need and a commitment to operate the facility after it is built. When a facility is no longer used by the municipality for the purpose for which it was built, the Department encourages the necessary means to transform the building for another use eligible under the Department's programs.*

# Chapter 8

## Monitoring, Evaluation and Reporting

### 8.0 Good Information Needed

MACA has the responsibility to develop financial leadership and administrative capacity. Measuring how well this is done requires MACA to monitor municipal activities. Techniques for doing this include reporting, periodic inspections, evaluations and networking between MACA and municipal staff. This requires some formal systems to obtain necessary information, in the right level of detail and on a timely basis, to augment knowledge gained from personal contacts and other means. Taken together, good information helps to make the best decisions, both at MACA and in municipalities.

### 8.1 Reporting Relationships

MACA is organized similarly to most other government departments. It maintains a headquarters group that provides administrative and policy advice to its regional offices. A strong regional presence is important, as MACA's primary customers are the municipalities, many of them remote from Yellowknife. For the Department to know whether municipalities are financially healthy, it must provide strong functional leadership and establish an effective reporting structure. This helps to ensure that decisions affecting municipalities are communicated quickly and local needs are responded to efficiently.

Under municipal legislation, MACA has strong powers to compel municipalities to provide information. But the present climate of greater empowerment, coupled with departmental downsizing and staff shortages, has required MACA to seek new and better ways of working co-operatively with its clients. In this evolution, MACA has lost some traditional power and its role is now far less directive and has become more advisory; however, it still retains the right of intervention in critical situations.

In today's real world, working together toward common goals needs a good combination of hard, reliable data and regular contacts at the personal level between trusted correspondents.

The municipalities' first line of contact is with MACA regional offices. The ability of a regional office to develop and maintain trusting working relationships with municipalities is an important step to knowing what is going on locally. For employees of a regional office to be aware of the problems in municipalities, they must visit them regularly.

For each of the municipalities we visited, we asked how often MACA staff visited. Municipal staff in the Inuvik region noted that MACA visits averaged three to four per year, but in the Baffin region there were no visits by the Municipal Finance Officer in the past year. In the Baffin region, a municipal visit involves high airfares and long travel times. In the Inuvik region, more municipalities are accessible by motor vehicle, at least at certain times of the year.

Aside from the financial barriers, it is also important for MACA to maintain enough qualified regional employees to address minor issues regularly before they develop into major issues.

**MACA should ensure that regional offices are sufficiently funded and staffed so that regular municipal visits can be carried out to identify and assist with municipal concerns early. It may be necessary for non-financial staff to carry out financial inquiries.**

*Department's response: As part of the 1997-98 Business Planning process, each region was allocated sufficient funds to staff all positions included in the Business Plan. However, the Department has experienced some difficulty in attracting qualified replacements to regional positions. Our experience*

*suggests that this may be occurring due to a number of reasons:*

- *people are reluctant to move to smaller communities;*
- *there is uncertainty over job security as we approach the creation of two new territories;*
- *there is a lack of skilled workers at the community level, especially for specialized professional positions; and*
- *other competing employers are attracting staff (e.g. the federal government, Aboriginal groups).*

*A recent competition for an engineer in the Baffin Region is a typical example of this problem. The position was put out to competition three times in the north without any success. The Department's Human Resources staff also advertised the position as a transfer assignment for existing GNWT staff without success.*

## **8.2 Monitoring Events and Results**

Even with greater municipal empowerment, MACA needs to know on a regular basis how well municipalities are doing, not just financially but in a variety of other areas as well.

### **8.2.1 Water and sewer subsidies**

For example, MACA recently reformed the municipal water and sewer subsidy program and replaced it with block funding.

The amount of block funding paid followed a comprehensive planning study that evaluated all municipalities' collective efficiency at delivering water and collecting sewage. The study determined that a standard for municipal water and sewage efficiency could be approximately 75 percent of theoretical capacity.

MACA funding is now based on the assumption that all municipalities reach this level of efficiency, even though some do not. Some operate only at 20 percent efficiency and the funding received may not be sufficient to meet current costs.

MACA believes that the resulting local revenue shortfall will encourage municipalities to become more efficient and eliminate water and sewer deficits. However, we

question whether all municipalities will be able to attain this standard because of varying local conditions.

There could be other consequences as well, such as local increases in the price of water and sewage services, which might discourage residents from using as much as they need, or reductions in service delivery that in turn might have consequences for health and hygiene.

MACA will have to monitor such changes closely, to ensure that they are working. Clearly, knowing whether policies are working requires measuring the results obtained and comparing them against the defined objectives. In this case, water and sewage efficiency improvements and deficit reduction are the objectives to be monitored.

The Department has contracted with the company that conducted the original efficiency study to work with municipalities to help them improve their efficiency. MACA staff in headquarters are required to monitor municipal water charges by all municipalities to ensure that customers are paying a fair price for the service.

MACA encourages the municipalities to meet its overall efficiency target, and planned to recalculate the efficiency factors annually. This would provide updated information that could change municipal funding for water and sewage. However, some municipalities expressed concern that recalculation after only one year would give them too little time to improve efficiency, and funding levels that are constantly changing do not allow sufficient time for them to assess whether they can manage with the moneys provided.

**MACA should ensure that it has sufficient consultation with municipalities about funding changes so that all parties are fully aware of the reasons and have a common understanding of the goals to be reached along with the time frames involved.**

*Department's response: When the changes to the Water Sewerage Services Subsidy Program (WSSSP) were being introduced in 1996, the Department ensured that communities were well informed of the planned changes. The Department sent letters explaining the changes to communities, made a presentation at the NWTAM annual general meeting, and conducted regional information sessions. Based on feedback from the communities, the Department delayed the introduction*



*of WSSSP funding changes for three months to allow the communities more time to prepare for the changes.*

*The Department recognizes that annual recalculations may not provide all communities with adequate time to improve efficiency. As a result, funding levels for 1997–98 have remained at essentially the same levels as in 1996–97. The Department will look at changing the requirement to review funding levels from an annual to a biannual review.*

*With the move to block funding, the Department is now less concerned with program administration and more focussed on monitoring communities' economic rates to ensure that customers are paying a fair price for the service.*

*This consultation process is working well for the two major joint MACA-NWTAM initiatives that are currently under way: the Municipal Legislative Review and the Municipal Financing Review.*

### **8.2.2 Other departmental program devolution**

We have not examined all other programs being devolved to municipalities by other departments and agencies. But we are aware that the NWT Housing Corporation has entered into agreements with some municipalities allowing them to take over the operation of local social and staff housing previously administered by housing authorities and associations. Under these arrangements, municipalities will be given block funding for housing operations by the Corporation and allowed to keep 50 percent of any annual surplus, but they will be responsible for 100 percent of any deficits. It is hoped that this will encourage municipal economy and efficiency in housing operations, but it comes at a risk if deficits are incurred.

### **8.3 Municipal Awareness of Future Changes**

The GNWT, through various departments, is negotiating community empowerment agreements with municipal leaders. The departments are discussing the transfer of program responsibilities with municipalities on a one-by-one basis.

MACA has been named as the lead department in the community empowerment initiative. This presumably means that MACA should be at least aware of, and possibly involved in, all transfer negotiations between

municipalities and other government departments, so that the government can speak with one voice.

One municipality recently negotiated with Health and Social Services for the transfer of a hospital from that department. The municipality hired a consultant to review the transfer agreement and any serious incremental financial obligations that would arise after the transfer. MACA was not directly involved in this transfer.

MACA's mandated responsibility is to facilitate municipal evolution and growth. Municipalities need a resource to provide due diligence when they consider taking on additional responsibilities. Often there are issues and complexities that go beyond the obvious ones, and that may not be set out clearly in formal agreements. All these implications need to be considered at the time of transfer. MACA should have a direct role in this process.

Any transfers of assets or responsibilities to municipalities may have a long-term impact on their financial abilities. MACA should be working with the municipalities to develop goals and ways to measure future success so that the Department can get an early warning if their financial health comes under stress.

## **8.4 Current Departmental Financial Reporting and Monitoring**

### **8.4.1 Requirements for audited financial statements**

MACA has developed most of its current financial reporting and monitoring according to the requirements of the various municipal acts. For example, section 144(3)(c) of the *Cities, Towns, and Villages Act* requires that "the financial statements must be prepared ... in accordance with the guidelines issued by the Minister." MACA prepares annually a set of instructions to auditors that outlines the guidelines MACA would like municipalities to use when preparing financial statements. However, MACA's standards for reporting are not understood by some municipalities, which indicated to us that the resulting statements do not meet local needs. Almost all of the municipalities we visited commented that the financial statement format requested by MACA was confusing to their council and costly to maintain.

What is not clear to us is whether MACA has studied the financial statement needs of the municipalities. As

municipalities take on more responsibility, their own financial reporting needs should be considered along with those of the GNWT.

**MACA should consult with the municipalities to identify their needs for financial statement content, timeliness and any other factors important to them, and work together to develop a new reporting format that meets the current and evolving needs of all parties.**

*Department's response: The Department plans to conduct a needs assessment to see what stakeholders require from municipal financial statements. Municipalities, as a primary stakeholder, will be consulted during this needs assessment. The information gathered in this review will form the basis for future financial statement requirements. The Department will still maintain reporting requirements in accordance with the Public Sector Accounting and Auditing recommendations to ensure that NWT community financial statements maintain Canadian generally accepted accounting standards for local governments; however, the Department will work toward eliminating any unnecessary reporting requirements.*

*One of the main areas of discussion in the Municipal Legislative Review is the balance between ministerial and municipal powers and responsibilities. Some areas identified in the review concern debentures, auditors, inspections and administrators. In addition to the work being done in the Legislative Review, the Department is committed to building municipal capacity in the areas of self-monitoring and self-evaluation.*

From MACA's point of view, it is important that all municipalities prepare information uniformly so that the data can be aggregated and compared. Yet when we surveyed various departmental officials, we determined that not much is done with financial statements once they are received, often many months after the year-end.

Departmental staff seemed more concerned with municipalities that were late in submitting their financial statements than with assessing the quality of the information or what the information means.

Annual audited financial statements can be valuable tools if they are timely and analyzed properly. But they should not be a substitute for other more current

information that can provide early warnings of problems.

**As part of its municipal legislative review, MACA should assess its reporting, monitoring and evaluation needs and fully discuss them with the municipalities.**

#### 8.4.2 Municipal inspections

MACA is also mandated by municipal legislation to conduct annual inspections. Section 189 of both the *Cities, Towns, and Villages Act* and the *Hamlets Act* requires that every municipal corporation, at least once a year and at any other time that the Minister may require, have its:

- records, books and accounts examined;
- management and administration reviewed; and
- financial affairs examined by a municipal inspector.

On average, it has been three years since MACA did the last inspections, due to a conscious decision to discontinue them. MACA informed us that the inspections had evolved into a very long and expensive compliance audit and did not achieve much. Over the years, MACA had developed a checklist used by its staff to assess compliance with a set of standards that a well-run municipality should maintain. Staff felt that the inspection exercise had become preoccupied with filling out the checklist and issuing a list of deficiencies, rather than dealing with substantive financial issues. The inspectors spent more time commenting on out-of-date by-laws than evaluating whether the municipal management and administration were operating well.

Current staff shortages, financial restraint and staff's informed view that inspections were not cost-effective have forced MACA to try a different approach. Starting with the March 1992 year end, MACA headquarters staff prepared a report on the financial condition of the various funds maintained by municipalities. This report, provided to regional superintendents and senior Yellowknife staff, allowed them to compare these data among all municipalities. This can be useful, but in this case the source of the information was the audited financial statements of the municipalities, many of which were submitted long after the year-end. This type of management report can be much more useful if it uses real-time information. Otherwise it cannot provide

early warnings of developing problems. MACA did not prepare a similar report for the 1996 year-end, but plans to do so for 1997.

In the current climate, working in partnership with municipalities to improve their ability to produce and share accurate and timely financial information is extremely important. We did not review whether all municipalities have the ability, including systems, computers and trained staff, to keep their books up-to-date and produce timely reporting. Some indicated to us that they rely on their auditors to finalize their bookkeeping and produce statements, once or twice a year. Other municipalities appear to be quite sophisticated and can likely do all of their accounting on their own, accurately and on time. In our view, this is an area that MACA should continue to invest in by working with and encouraging municipal improvement. The result would be much-improved quality and timeliness of critical data, allowing both parties to respond quickly to solve emerging problems.

Although we did not consider them in this report, other types of regular information on non-financial performance measurement can be extremely useful. MACA could work with municipalities to identify other reporting attributes that could be useful to both parties.

Coupled with this, we feel that some form of periodic evaluation or review by MACA, which does not have to be subjective or intrusive, can foster the team approach and help the Department to account to the Legislative Assembly for the funds appropriated. Inspections do not have to be done only once a year on a full basis, but regular visits by regional staff could examine various things and file reports with headquarters. In total, they can be used as partial measurement of MACA's success in implementing policies leading to municipal growth and development.

**MACA should:**

- **work with municipalities to help them improve their bookkeeping and accounting processes, so that they can produce regular, timely and accurate data; and**
- **use the inspection provisions in municipal legislation as a means to evaluate both the Department's and the municipalities' success in achieving growth and development.**

*Department's response: The Department plans to update its Community Financial Administration Manual during the 1997-98 and 1998-99 fiscal years. It also has a Municipal Accounting course that corresponds to the contents of this manual. The course material is scheduled for an update in 1998-99, after the manual is updated. Once both updates are completed, all regional affairs/operations staff will be trained in the new material so they can provide ongoing assistance to municipalities in the areas of finance and administration, bookkeeping and accounting.*

*The Department agrees that information, to be of most value, should be timely, accurate and relevant. The GNWT and ARDICOM Digital Communications Inc. signed a five-year contract that will see the development of a high-speed telecommunications network linking all municipalities in the north. These communication enhancements will increase the Department's ability to receive and monitor timely municipal information.*

*The Department is moving from an annual compliance form of municipal evaluation to a more comprehensive, risk-based, operational evaluation approach. It is anticipated that the scope of these enhanced evaluations will involve input from both the municipality and the Department. Any gaps identified in evaluations will be linked to training and development plans to build municipal capacity.*

**8.4.3 Current monitoring**

MACA requires municipalities to send periodic financial statements to the local regional office. For some these are monthly statements, while for others they are quarterly, depending on whether a particular municipality is on a close-watch basis or is considered by staff to be financially sound.

Most of the regular hands-on monitoring is done by regional staff. The regional offices prepare a quarterly report of the various fund balances shown in the statements, which they send to headquarters for consolidation into one spreadsheet. The staff in the regions we visited also prepared a narrative analysis that compares current results with historical results.

There seems to be some duplication here between the analyses made by regional staff and by headquarters staff. If the regions are doing this work on time and well, it is not clear to us why the same regular financial information is also required in Yellowknife. For

example, we did not find any criteria used by headquarters staff to review the fund balances, other than to identify if the amount is positive. Apart from the fund balance analyses, we are not aware of more sophisticated analyses being prepared from these periodic statements by either the regions or headquarters.

We did note, however, that the monthly or quarterly financial statements are not always prepared on the same basis as the annual ones. In other words, monthly or quarterly statements often use a cash basis, while annual ones use an accrual basis. There is a danger of comparing results from different methods. A cash basis of accounting will not identify bills due but not yet paid.

The regions also monitor municipal by-laws passed by local councils. This can allow staff to identify the kinds of issues being addressed in a municipality. The regions also send copies of municipal by-laws to headquarters, but we could not establish what they are used for. Practically, there are too many by-laws for headquarters staff to do anything with, except file them. Regional staff wondered why headquarters requires this information.

Audited financial statements and accompanying management letters also provide the Department with valuable, albeit not very timely, financial information. Several regional offices have developed their own management letter tracking system that allows them to follow up on the progress of municipalities in implementing any suggested recommendations.

The main concern in relying only on audited financial statements is that it is costly, and the statements are completed only once a year and are often late being received. It is time-consuming for MACA to compile and analyze information on a macro level, given that there are over 60 sets of financial statements. As well, there are limitations on the kinds of information that can be obtained from financial statements. Analysis of financial statements will provide only part of the story. Audited financial statements are a valuable tool for assessing the financial stewardship of a municipality for past periods, but should be only a part of the requirements for financial monitoring, which needs real-time information.

Staff in the regions try to keep current with developments in the municipalities, but feel that they

have little influence. If a municipality does not want to accept advice from departmental staff, or if it fails to provide information requested by regional staff, the only legal recourse available to MACA is removing the SAO and/or the council and appointing a municipal administrator. This alternative is rarely used and only in extreme circumstances.

There are also administrative options open to MACA staff. For example, in the Baffin region it is common for MACA staff to withhold monthly contributions until the municipality provides reports that are due. This has proved to be effective in getting reports filed on a more timely basis.

The current situation points out the need to develop, nurture and maintain effective partnerships between MACA and municipal staff, and local politicians. It also indicates the need for an updated protocol between the Department and municipalities setting out clearly the current responsibilities of each. Although current legislation gives MACA powers to compel, practical relationships now depend on everyone working together.

**MACA should:**

- **reduce the flow of information from regions to headquarters so that only the data needed centrally is sent; and**
- **empower the regional offices with appropriate staff and mechanisms so they can be fully responsible for monitoring, with appropriate reports to head office.**

*Department's response: With the creation of the new Community Monitoring and Evaluation division in headquarters, the Department will re-evaluate the roles and responsibilities that regional and headquarters staff must play in the area of monitoring and evaluation. The Department must co-ordinate these roles to effectively and efficiently use its limited resources in this area.*

*The Department has developed a draft Early Warning System for financial health that examines key financial performance indicators. Staff are also working on expanding monitoring to key non-financial performance indicators as well. This has yet to be implemented.*

*As indicated previously, the Department has encountered difficulty in hiring regional staff, including those with formal accounting training and experience. Recently, the Department did hire a person with an*

*accounting degree for the Municipal Affairs position in the Inuvik regional office. But, based on recent hiring trends, this will probably be the exception rather than the rule. The Department's recent reorganization should compensate for this since it established technical and specialist positions in headquarters (including those with professional accounting training) to provide ongoing training and support to the regional office, when needed.*

#### **8.4.4 Improving the timeliness of feedback and information to municipalities**

Most decision making needs timely information to make the best decisions. This is true whether it is a departmental or municipal decision. Municipal staff

noted that timely assistance from MACA is not always available (Exhibit 15). They expressed frustration about the long response time, and about departmental staff turnover reducing corporate memory. Some SAOs mentioned that they found it more efficient to contact their counterparts in other municipalities than the staff in MACA. While this may have a positive benefit if it fosters a closer working relationship between municipalities, it does weaken the Department's image and undermine its role.

**MACA should monitor and improve its response time when dealing with municipal needs.**

*Department's response: The Department will work toward improving the timeliness of feedback and information to municipalities.*

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#### **Exhibit 15**

In one case, the government transferred land lease administration to municipalities. This included responsibility for issuing annual invoices for lease payments. In one municipality, staff asked the Department to provide copies of all the lease agreements, so that the municipality could issue invoices. MACA provided only half of the agreements. As a result, the municipality could issue invoices for only the half that it had, and the remaining invoices were issued out of Yellowknife. This lack of information to the municipality caused a great deal of confusion because lessees did not know where, or to whom, they should pay their bills.

Staff in the municipality were frustrated by the experience because not only did the regional office provide little support in this case, but they had to wait even longer when the SAO attempted to deal with MACA headquarters.



# Chapter 9

## What Does the Future Hold?

**9.1** Clearly, no one can answer this question easily. But there are some facts that cannot be ignored. Government funding is shrinking but the needs of residents are growing, fuelled by population increases and demands for a better life. Holding on to traditional life styles but marrying these with the realities of a high-technology modern world and changing expectations will likely cause many problems before solutions. In light of all these changes, developing better municipal services is still an admirable goal but government and residents will have to answer the question of who will, or can, pay for them.

Northern realities force us to conclude that municipalities will continue to depend on the public purse. Equity for all is a nice ideal, but municipal residents in other parts of Canada are also not all treated equally. Lifestyle and personal choice come at a price. The history of the north has contributed to the expectations and dependencies, and this is difficult to change. But the important question for discussion is, where do northerners go from here?

### **9.2 Conclusion**

The Legislative Assembly is interested in whether MACA is doing a good job monitoring the financial health of municipalities. In our opinion, the Department does a good job in some aspects but less so in others. But there are some circumstances that have contributed to this, and some opportunities for change:

1. With the move toward community empowerment, MACA has a less directive role than before.
2. MACA has no role in the highly important selection and hiring of SAOs.
3. Planning processes were designed when funds were more readily available. Now that they are scarce, the processes could be improved to provide greater efficiency and better understanding by client

municipalities, as well as to promote better co-ordination and co-operation with other departments and agencies.

4. MACA's operational budget has been reduced significantly, affecting its ability to attract and retain the right kind of staff. Staff turnover and shortages in both headquarters and the regions has a major impact on the quality of the job done, including a loss of corporate knowledge. Headquarters has suffered most of the staff downsizing. Unused budgets for salaries and benefits are being used to cover shortfalls elsewhere.

5. Some old approaches developed when resources were readily available need to be changed to reflect the major changes taking place in the north. While the loss of corporate knowledge can be significant in some ways, it can be a blessing in other ways as old fixed ideas can be replaced by new flexible approaches. But, as far as we can see, there has been little investment in training MACA staff to deal with the changes, acquire new skills and develop the needed new approaches.

6. There may be too much emphasis on relatively slow paper reporting and not enough on bringing together diverse, real-time information from multiple sources to enable a quick reaction to emerging issues.

7. Political demands at the micro level take up a lot of time. For some MLAs, the importance of obtaining a new piece of equipment for a specific municipality is still highly important even though the capital allocation process should deal with such issues.

8. Interdepartmental co-operation and co-ordination seem to be improving, but we still see examples of "turf wars" that impede efficiency, add to costs and red tape, and frustrate the municipalities.

9. As we have pointed out in this report, there is a need to modernize the relationships and rethink the roles that are now municipal as opposed to territorial, and change the processes to reflect the new arrangements.

