

An Exploration of Municipal Financial Accountability in BC

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Executive Summary

Accountability is a topic of interest in the public sector and is an area of critique by the public and stakeholders directed at all levels of government. Accountability is a major element of governance worldwide and has seen an increase in attention in the last decade. Financial accountability is a demonstration of the efficient, effective, and prudent spending of public resources. Financial accountability typically focuses on elements such as budgets, legislated mandated reporting and accounting, but may also include value-for-money evaluations.

This report is written for the Local Government Policy and Research Branch of the BC Ministry of Community, Sport and Cultural Development. The goal of this report is to examine current accountability frameworks for comparison against BC to determine if any gaps exist in the BC municipal financial accountability framework, and if so, how they could be remedied. The report will provide knowledge about BC's municipal financial accountability framework and how it relates to academic critique, jurisdictional realities and expert opinion.

The philosophy with which BC governs its municipalities recognizes autonomy and encourages direct accountability from the municipality to the citizen. The current governance and accountability frameworks in BC are built to reflect this philosophy. The current financial accountability measures in BC municipalities include, in part, audited financial statements, annual reports including mandatory public consultation, setting and reporting back on self-determined objectives and measures, and a robust borrowing framework. Local governments have many stakeholders who hold largely divergent views. While local government stakeholder organizations hold that taxation is high and accountability is low, local governments feel that any tax increases are in direct response to service demands and the downloading of responsibilities by senior governments without committing additional funding.

Methodology and Approach

The methodology for the research conducted for this report includes a literature review, a jurisdictional scan and interviews. The literature review focuses on academic literature with an emphasis on municipal government, defining accountability from a financial and municipal focus, identifying tools that jurisdictions use to deliver accountability and elements that all successful financial accountability methods must contain. The literature review draws upon both academic and professional sources and material was chosen that was recent, relevant and covered jurisdictions with a similar municipal government structure. A preliminary accountability continuum model was created based on the background context and the concepts derived from the literature review. A jurisdictional

scan was then conducted to evaluate the draft model and review what other municipal jurisdictions, primarily in Canada, are doing to deliver financial accountability. Finally, interviews were conducted to gather commentary on financial accountability. The interviewees were individuals selected due to their expertise and level of respect in their fields.

Findings

The literature review results demonstrate that the most important elements of accountability are the inclusion of stakeholders and that the evolution of accountability best practices goes beyond reporting financial information. While accountability is present in both the public and private sector, the public generally has greater expectations about accountability in the public sector. The types of instruments used to demonstrate accountability are varied, with the most common tools being performance measurement, attest, compliance and value-for-money auditing and restructuring including amalgamation and decentralization. The design of indicators or practices in any financial accountability system is key and should be developed in concert with stakeholders and extend beyond output measures to also include outcome measures.

The knowledge communicated in this report assisted in the creation of an accountability continuum that charts the natural progress of accountability in a municipality. This idea for the continuum arose out of the literature review and in consultation with the client. The three phases of the continuum are planning, reporting and remedying. Planning occurs before a program or action and establishes direction and goals. Reporting occurs after the event has begun or concluded and reviews what has occurred. Remedying is the culmination of the first two steps and follows through to provide improvements and resolutions to the outcomes reported. These three phases were supported by a scan of municipal financial accountability practices in other jurisdictions, with a particular focus on Canadian provinces.

Interviews conducted with local government and financial expertise provides general, though not unanimous, support of the current BC municipal accountability framework. The majority of interviewees felt that fiscal accountability is the more inclusive term for referring to financial aspects beyond pure budgeting and requirements. The interviewees reflected on and supported the notion of BC having a unique approach to local government that includes elements such as autonomy, direct municipal relations with citizens and a hands-off approach. Improvements and areas of focus were suggested for potential enhancements, including increasing participation in public engagement opportunities and a caution towards the effectiveness of preset performance measurement programs.

Discussion

The literature review, combined with discussions with the client, provided the idea of the accountability continuum and the jurisdictional scan provided support for the preliminary model. The interviews suggested a revised model. While the categories and phases of the preliminary model are supported, revisions were included to reflect the importance of public engagement, the transitional areas between the phases and the iterative nature of the accountability continuum. Categories from the preliminary model are still relevant to the revised model, although their order is flexible due to the added presence of the transitional areas.

The BC municipal financial accountability framework is robust according to the accountability continuum and satisfies all phases and 10 of 11 categories of the preliminary model. The BC framework already contains the iterative and public engagement elements found in the revised continuum, however given the added transitional areas some framework elements may be viewed as fulfilling a different part of the revised continuum. The strength of the system does not suggest that improvements cannot be made to build on existing successful practices that have limited scope or are only practiced in a small number of jurisdictions. Comparison of the BC framework to the revised model reveals that there are possibilities for enhanced public engagement.

Recommendations

Recommendations focus on the two main categories of findings in the discussion: that current limited measures that resulted in a strong continuum comparison should be circulated and that current public engagement practices should be enhanced. Disseminating the current practices can be accomplished through the communication of best practices as displayed in other BC communities and encouraging the development of new measures of accountability. Enhanced public engagement can be accomplished through increasing the public knowledge of the current measures, making information easier for the public to access, and expanding the participation in current engagement requirements. Finally, a lack of a clear understanding of financial accountability in either the literature or expert interviews suggests the requirement of a common vernacular.

- Recommendation 1: Adopt a financial accountability lexicon to provide common goals and direction with stakeholders.
- Recommendation 2: Develop a best practices guide to disseminate the best current accountability practices to all municipalities.
- Recommendation 3: Encourage innovation to provide assistance and incentive for efforts within current authority.
- Recommendation 4: Create a One-Stop-Shop for information to increase the ease of access and awareness of current reporting requirements.

- Recommendation 5: Enhance current use of public engagement to better utilize existing engagement provisions and efforts.
- Recommendation 6: Increase education and awareness in both the public and municipal staff in order to inform regarding expectations, methods of participation and resources available.

Conclusion

BC's municipal financial accountability framework is strong and contains all the elements set out by the accountability continuum. The continuum suggests that current practices could be disseminated throughout all municipalities and the enhancement of public engagement would both reflect the current philosophy towards local government governance and leverage strength in the current framework. All enhancements to accountability will inevitably increase public confidence in government and present a co-benefit to another large issue affecting local governments.

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Introduction

Accountability is a topic historically linked to government policies and practices. This report focuses on the financial branch of accountability that includes following budgetary and legislative requirements with regards to fiscal management, as well as the general value-for-money, efficient and prudent spending of public funds and the demonstration of these facts to the public. Definitions, meaning and roles for municipal financial accountability are explored throughout the report.

Recent trends in local government management, both nationally and internationally, have taken steps towards a more transparent fiscal system and the introduction of thorough financial accountability frameworks. An increased focus has also recently been placed on results management (McDavid & Hawthorn, 2005). Jurisdictions including Nova Scotia, Quebec and Ontario have been introducing roles such as a Municipal Auditor General, while the majority of jurisdictions in Canada have multi-layered financial accountability systems and requirements. Well practiced accountability, particularly financial accountability, impacts citizen confidence in government and has peripheral impacts including higher voter turnout and greater citizen participation. The importance of, and attention to, accountability has risen in part due to the economic crisis and the bankruptcy of some municipalities in the United States.

In BC, the subject of municipal financial accountability is a frequent topic of interest in the media and the theme of many reports and editorials by business and tax groups. The study of financial accountability may be viewed in terms of who accountability is to, for example, the public or businesses, and who controls the accountability, for example the province or the municipality themselves. This is particularly relevant to BC given the legislative and philosophical approach to collaboration, the recognition of municipal autonomy and the deliberate strengthening of municipal accountability directly to citizens that is inherent in the current BC municipal financial accountability framework.

This report is written for the Local Government Policy and Research branch of the BC Ministry of Community, Sport and Cultural Development and is intended to determine if BC's municipal financial accountability framework is robust or if it contains gaps. This report provides the client with an understanding of the current municipal financial accountability landscape elsewhere in Canada, within the unique context of BC's current financial accountability system and the philosophy of BC towards governing local governments. This report is divided into seven sections. The first section lays out the background context of BC's municipal structure, financial accountability requirements, the Provincial government approach to municipal autonomy and the positions of stakeholders.

The second section describes the methodology of the research and potential weaknesses. The third and fourth sections provide the bulk of the research, with the third analyzing the academic literature and fourth conducting a jurisdictional scan of practices of municipal financial accountability. The literature review contributes to the creation of an accountability continuum that is supported by the jurisdictional scan and revised based on the findings of the interview findings, found in the fifth section. The interviews were conducted with municipal and financial experts. The application of the research is laid out in section six, discussion, and section seven, that presents recommendations, a revised continuum and counsel for next steps arising out of the research and analysis.

While, for the purposes of this report, financial accountability has been selected as the phrase throughout, in the literature and in common practice the term is often referred to as fiscal accountability. The decision to use the term “financial” was reached through discussions with the client, who felt that “fiscal” generally implies a direct relationship with budgets. The intent of this report is to look at all aspects of accountability related to a wider range of financial themes or issues. The choice, meaning and interchangeable use of the terms is further explored in the literature review and findings sections.

Financial accountability provisions in BC often apply to all of the broader levels of local government, and BC’s local government structure includes numerous configurations and complex features of local governance that do not exist in parallel elsewhere. The research components of this report will therefore focus on municipalities only. Regional districts, the Islands Trust, improvement districts, and parks boards in BC are outside the scope of this report and are only discussed in the background and context section to provide a sense of the greater local government system in BC. Discussions of local government beyond the background and context section refer to municipalities only.

1 Background and Context

A review of the current state of local government is required for a thorough analysis of any gaps. This review provides an overview of the local government structure and governance in BC by examining the current structure of BC local governments, how the Provincial government approaches its authority over local governments, and the current financial accountability requirements in BC. The views of a variety of stakeholders are provided in order to demonstrate the range of views of BC municipal financial accountability, and finally the client and their interest in the topic is described.

1.1 Local Government Organization and Structure in BC

Local government in BC includes municipalities, regional districts and other unique entities such as the Islands Trust. These local government structures are provincially legislated under Acts. The two main acts are the *Local Government Act* and the *Community Charter*, but provincially legislated local government structure is also found in the *Islands Trust Act* and the *Vancouver Charter*.

There are 160 municipalities in BC divided into four categories: villages, towns, districts and cities. Municipalities are represented by elected officials, including a mayor and anywhere from four to eight councillors, according to population. The size of BC municipalities varies greatly, from municipalities with populations under 250 to those with over 600,000 (Local Government Department, n.d.-a). The services municipalities provide also vary widely and may include roads, animal control, waste disposal, recreation and police and fire protection.

There are 27 regional districts in BC whose boundaries cover nearly the entire province. Regional districts are composed of a mix of municipalities and electoral areas. Electoral areas are smaller sections within a regional district that represent unincorporated areas. The southern gulf islands form the Islands Trust, and are governed by elected trustees who are responsible for the area's planning decisions. The City of Vancouver is part of the Greater Vancouver Regional District, also referred to as Metro Vancouver, and is legislated under its own unique Act, the *Vancouver Charter*.

1.2 BC's Approach to Local Government Governance

Municipalities in BC are provided autonomy and recognition under the *Community Charter* (Local Government Department, n.d.-a). BC is acknowledged for and prides itself on having a distinct approach to local government. This philosophy towards governance is essential to a true understanding of the environment in which financial accountability

currently exists, as well as a comprehensive analysis of potential additions to the current system.

The Province has a history of not interfering in local government decisions, and lateral governance is a key principle guiding the BC local government system (Paget, 2008). The absence of a municipal board, such as the Alberta Local Government Board or Ontario's Municipal Board (OMB), puts BC in the minority and this absence reflects the approach to reject the role of the province acting as overseer and controller (Paget, 2008).

According to Andrew Sancton (2009), BC has a relaxed attitude towards local government that has led in part to the genial relations between the two. Sancton (2009) goes on to characterize BC's approach to local government as having an attitude of gentle imposition, a fact reflected by a history of legislating more self-determination for local governments. He notes that while the Province continues to remain involved in issues such as transportation, local governments in BC are largely able to determine their own structure and organization (Sancton, 2009). This is a unique situation in Canada as other provincial governments tend to be more involved in municipal affairs. The current accountability framework exists as a balance to the broad powers of the *Community Charter*, and the philosophies and purposes of autonomy are countered by the corporate accountability requirements. BC is also differentiated from other local government structures across Canada by its use of regional districts and the large number of local governments present in the province (189) (see Appendix A- Types and Numbers of Municipalities in Each Province).

The Union of British Columbia Municipalities (UBCM) is an integral part of the local government system in BC. As a single body representing all local governments in BC, the UBCM provides a unified voice for local governments in communicating with the Province. There is a long history of collaboration and a strong relationship between the UBCM and Province. The *Community Charter* requires consultation with the UBCM on a number of issues and before amending or changing local government Acts.

1.3 Current Financial Accountability Requirements for BC's Local Governments

Municipalities have legislated requirements for reporting financial activities. They include a combination of financial planning, public reporting and financial officers. Financial planning is operational and long term, public reporting is of both financial and non-financial matters, and financial officers are individuals within or with authority in the municipal system who are involved in municipal accountability. The combination of these features created the current BC municipal accountability framework.

Municipal accountability measures in the Province reflect BC's philosophy towards local government and are designed with an emphasis on keeping local issues and accountability local. The measures of accountability are therefore usually controlled by the municipality even in the cases where the measure is a legislated requirement. The accountability measures are towards the public and the majority of measures report directly to the public. For example:

- Accountability to the Public: Annual report, Public Consultation, Five-year financial plan and budget, Statement of Financial Information, Audited Financial Statements, Ombudsman and Privacy Commissioner and Inspector of Municipalities; and
- Accountability to the Province: Five year financial plan and budget, Statement of Financial Information, and Audited Financial Statements.

Accountability can be viewed in these terms by of the level of intervention and the direction of accountability. The level of intervention can be either direct through legislated requirements or indirect and municipally initiated. This represents who is in control of the accountability measure. Accountability is in service of someone, and recent trends have seen an increase in accountability directly to citizens. The two criteria are established for each BC municipal accountability measures in Appendix B- Control and Direction of Accountability.

1.3.1 Planning & Reporting

The *Community Charter* requires local governments to produce a financial statement and have a financial audit performed annually. This audit is of the financial statements only, and must be performed by an independent third party auditor.

Local governments must also prepare a Statement of Financial Information (SOFI) each year. The SOFI must be made available to the public no later than three months after the end of the fiscal year (March 31st) and be kept available for three years. The SOFI is regulated in the *Financial Information Act*, and includes statements of assets and liabilities, an operational statement, a schedule of debts, and a schedule of guarantee and indemnity agreements (Ministry of Finance, n.d.). Six months after the end of the fiscal year, a SOFI must be released to the public and include schedules for staff remunerations and expenses as well as payments to suppliers (Ministry of Finance, n.d.). All financial reporting must follow General Accepted Accounting Principles (GAAP).

The Annual Municipal Report is another requirement of the *Community Charter* and includes information about the services and activities of the municipality, the audited financial statements and the SOFI. The annual report sets out the goals and objectives of

the municipality for the future and upcoming year and demonstrates progress towards previously set goals and objectives. The annual report also contains information on operations, services and corporate structure, and can include other details that councils think are appropriate. The report must be presented at a public meeting and made available for public inspection (Local Government Department, n.d.-b).

Elector approval is required for certain types of borrowing. The combination of elector approval, the role of the Inspector of Municipalities and the MFA creates an extensive borrowing framework in BC. In addition, a five year financial plan is a required budgeting practice for all local governments. This financial plan must include revenue and taxation planning information, and undergo public consultations through a public meeting. The report must also be made publically available.

Finally, the Province publishes a schedule of financial statistics related to local government financial statements and tax rate information (Local Government Department, n.d.-c). These statistics are submitted to the Province by local governments.

1.3.2 Financial Officers and Offices

The Inspector of Municipalities (Inspector) is a statutory officer for local governments and undertakes duties such as the passing of borrowing bylaws. The Inspector is appointed by the Lieutenant Governor in Council and is attached to the Ministry responsible for local government. The Inspector provides advice on financial matters and must approve all bylaws for borrowing and long term debt. The Inspector does have the authority to conduct inquiries, either by complaint or self-initiated, though this authority is rarely used.

Independent Officers of the legislature have limited authority to inspect or review local governments. The Office of the Ombudsperson is an avenue of review open for both provincial and municipal affairs and has authority over administrative matters. The Ombudsperson has the power to investigate and report on complaints about government submitted by the public (Bish & Clemens, 2008). The Information and Privacy Commissioner can investigate complaints related to municipal Freedom of Information (FOI) requests and protection of privacy duties.

The BC Provincial Office of the Auditor General (OAG) does not audit local governments. The OAG has authority to conduct financial attest, compliance and value-for-money performance audits on government reporting entity (GRE) organizations. Local governments are not in the GRE as their revenues are largely 'own source'. The OAG mandate allows only for the review of provincial transfers to local governments. In 2010,

the OAG released a report auditing local government infrastructure grants (Auditor General of British Columbia, 2010).

The Municipal Finance Authority (MFA) is a unique entity and an important aspect of local government finance. MFA membership is with regional districts directly, and deals with municipalities indirectly. While the MFA is not a direct financial accountability body involved in the reporting requirements of BC municipalities, it nonetheless functions as a representative of all BC local governments on matters of financial lending and borrowing. Specifically, the MFA defines its role as “pool[ing] the borrowing and investment needs of BC communities and through a collective structure is able to provide a range of low cost and flexible financial services” (2003). The MFA’s role is defined by its own act, the *Municipal Finance Authority Act*. The MFA’s AAA (triple A) credit rating and low borrowing rates are in part due to the high standing of BC local governments. This high standing is undoubtedly affected by perceptions of financial accountability and should be considered when discussing local government finance.

1.4 Stakeholder Perspectives

Municipal governments have numerous stakeholders, including citizens and businesses, both of whom are taxpayers. The stakeholders’ perspective is reflected in this report due to the strong and discrete views represented by these groups and the impact these views have on municipal dialogue and public opinion. The divergent stakeholders’ perspectives result in differences and conflict of opinion that play out with greater frequency in the media. The perspective gap between the taxpayers and businesses versus the local government is growing, as is the amount of discussion and pressure from and to both groups. This section will reflect the reports and documents issued by the business, taxpayer and local government organization perspective.

1.4.1 Business Perspective

Canadian Federation of Independent Business (CFIB)

The CFIB publishes a BC Municipal Spending Report every year. This CFIB report has focused in the last several years on the unsustainable spending of municipalities. The CFIB states that “municipal operating spending across the province grew 2.01 times faster than inflation and population growth over the period 2000 to 2008” (Canadian Federation of Independent Business, 2010a). The report states that less than 1 in 10 BC municipalities have kept their spending growth in line with population and inflation. In addition, the report finds that growth in operating spending has achieved its highest increase in the last 10 years. According to the CFIB, these facts will result in increased taxes and user fees for all taxpayers.

A small business survey conducted in 2008 by CFIB resulted in 48% of respondents saying the value-for-money of municipal public services was poor. The CFIB attributes the lack of attention this is receiving from elected officials as a result of the perspectives of the frequent users of the services, namely residents, outweighing businesses (Canadian Federation of Independent Business, 2010b). A large obstacle to greater accountability is the lack of data collected.

The CFIB identifies the sources of municipal revenue as being 48% taxation and 32% the sale of services, including user fees and fines. In addition, they state that the rate of sale of services increased at 3.6 times the rate of inflation, demonstrating that the gap between expenditures and revenues has been filled with the sale of services (Canadian Federation of Independent Business, 2010b). Small businesses pay an average of 2.9 times the property tax of residents, and up to seven times the property tax rate in some municipalities.

The opposite side to revenue is spending or expenditures. While acknowledging the difficulty in comparing services across municipalities due to issues such as population and geographic size and terrain, the CFIB groups municipalities according to population and determines that the majority of BC municipalities' spending per capita is higher than inflation and in many cases has seen large increases. Municipal expenditure drivers are identified as municipal wages, the salaries and benefits of employees and the provision of services beyond the core (Canadian Federation of Independent Business, 2010b). The CFIB acknowledges the challenges that will be raised to their reports, including the difficulty in comparing municipalities and the large effect of timeliness.

To address the issues raised, the CFIB recommends two options. First, limit operating spending increases to population and inflation growth. This could include freezing municipal wages until they are closer to those in the private sector, use zero-based budgeting and define and offer only core services. Second, create an independent municipal auditor general. In a 2008 CFIB survey, 85% of small businesses agreed that municipalities should be subject to an independent audit of expenditures and 44% agreed that there was sufficient accountability and transparency in local government (Canadian Federation of Independent Business, p. 22-24, 2010b).

Business Council of BC (BCBC)

The Business Council of BC has positions on business issues, and published a report in 2008 on the *Key Business Issues of the Upcoming Municipal Election*. In the document, the BCBC outlines the inequality of business taxation when businesses consumer fewer services than residents and there is no avenue for appeal on tax rates and ratios. The BCBC calls on the Province to legislate a maximum business-to-residential property tax ratio.

The BCBC acknowledges that some elements of municipal financing are not under the control of municipalities, including fewer transfer dollars and downloading and constrained revenue raising abilities. Municipalities should adopt innovative financial policies that could help solve the issues of limited revenue and rising expenditures and include for example P3s, more user-pay models and municipal bonds.

Regional cooperation for service delivery provides an opportunity to provide “benefits to taxpayers and produce [sic] better overall results” (Business Council of British Columbia, p.2, 2008). This amalgamation of service delivery in areas such as emergency services, administration, procurement and parks and recreation could provide an economy of scale.

BC Chamber of Commerce (BCCC)

In their *2010-2011 Policy and Positions Manual*, the BCCC addresses a number of priority areas, including ‘Reform of Local Government’. The BCCC has many focuses for reform, but of importance to financial accountability is the section on the creation of equity in BC’s property tax system. Under this heading, the BCBC addresses municipal transparency and accountability. For transparency, the organization reports that cross-municipal comparison is difficult and figures are open to disguise or concealment. For accountability, the organization finds the current audited financial statements are insufficient. Both transparency and accountability arguments are backed by the Chamber’s recommendation for a MAG who could review taxation and spending and provide value-for-money review.

The Chamber makes six recommendations related to the property tax system. The recommendations include a review of municipal funding, oversight, control and relief related to property taxes and provide an incremental and scheduled implementation to allow municipalities and taxpayers to adjust to the changes. The recommendations relating directly to municipal financial accountability are (The BC Chamber of Commerce, p.72-73, 2010):

- The introduction of an annual reporting system that outlines the taxes, fees, and levies for both the municipality and those collected by the municipality for other authorities. The reporting system should be consistent to assist municipal comparisons; and
- Create an office or tool that can review municipal taxation and keep municipalities competitive. A Provincial municipal Auditor General is provided as an example of that tool.

The BCCC report states that the enabling nature of the *Community Charter* combined with the general structure of BC’s local governments has created an unsustainable, uncompetitive, inconsistent and uncertain environment that is a particular burden to

business. The BCCC expresses the view that the *Community Charter* gives municipality's greater authority with no greater accountability.

1.4.2 Taxpayer Perspective

Canadian Taxpayers Federation (CTF)

The Canadian Taxpayers Federation states that in order for municipalities to be more accountable, there must be more provincial control over local government. In an abridged article from the Vancouver Sun, the CTF argues that the accountability of municipalities is in jeopardy due to high and uncontrolled property tax ratios, particularly for industry and businesses, and inflated municipal salaries. They call for a property tax cap and one property tax rate to create strong communities and accountable municipal governments (Canadian Taxpayers Federation, 2009).

Vancouver Fair Tax Coalition (VFTC)

The Vancouver Fair Tax Coalition echoes the sentiments of the other business associations in calling for a cap and reduction of property taxes for businesses. The VFTC states that a shift of the burden to residential taxpayers would result in more accountability from Council regarding property tax rates, given that residents are the only taxpayer class with a vote (Renshaw, 2007).

1.4.3 Local Government Perspective

Union of BC Municipalities

The UBCM endorses resolutions every year for response from the province. Though no direct resolution has been endorsed regarding municipal accountability, the UBCM has been endorsing and receiving responses from the Province for many years on related issues including revenue, spending and reporting.

In May 2011, the UBCM published a counter report to the taxpayer and business organizations' accounts of increase municipal spending and poor fiscal management. The UBCM report, *Comment of Fiscal Management in British Columbia's Municipalities* (UBCM, 2011) provides a unified local government voice that states municipal spending has increased because of an increased demand for services. The type of demand is particularly focused on costly items including protective services such as police and fire and recreation services such as pools and ice rinks. The UBCM also accounts for increased spending due to cost pressures that result from senior governments downloading responsibilities onto local governments.

The UBCM argues that municipal spending on general government services as a percentage of total municipal spending has decreased over time. To counter the CFIB argument that local governments should only be providing residents with core services the UBCM reminds readers that each local government is able to determine for itself the services it will provide. A major argument of the CFIB is the high municipal employee wages. The UBCM responds that labour costs are a negotiated process with labour unions that result in collective agreements that cannot be systematically changed by Council.

The issues of taxation raised by the taxpayer and business organizations are countered by the UBCM as businesses can pass tax costs down to customers, unlike residents, and that any non-residential tax cap would result in a material tax shift to residential taxes. In addition, the UBCM argues that a better measure of tax equality is to see that the percentage of tax burden has increased over the last 10 years on residents but has remained constant for businesses. According to the UBCM, an argument for a taxation system that reflects only on services consumed or received does not reflect the public nature of taxation that attempts to produce public benefits for all, and businesses received benefits that are not measures including social stability and employee health.

A final emphasis in the UBCM report is that despite businesses being excluded from voting in local government elections, individuals with business or professional backgrounds make up the majority of local government Councils.

1.4.4 Summary

The organizations discussed, the CFIB, the UBCM, the BCCC and the BCBC, represent the views of their membership regarding municipal issues, including municipal financial accountability. The business and taxpayer associations regard property taxes as inequitable and unreasonable, particularly to business given the amount of services consumed. They report that the problems and inequality of the property tax system reveal financially unaccountable municipal governments and municipal decisions. The unified local government voice of the UBCM, on the other hand, feels that their service demands have grown due to both public demand and higher government downloading and consider that businesses benefit from services not directly consumed by the business. These perspectives reflect the complex, polarizing and interconnected stakeholder positions that an analysis and review of municipal financial accountability system is, in part, attempting to balance. A gap exists between the opinion of those representing local governments and those representing the taxpayer and business organizations.

1.5 Client

The Local Government Policy and Research Branch of the Ministry of Community, Sport and Cultural Development provides services and leadership in policy development, legislative program management, program development, intergovernmental relations, research and economic analyses. The branch has the role of leading implementation, evaluation and education regarding the local government system and changes to legislation as well as initiating research and analysis of the local government system, including monitoring emerging issues and tracking trends affecting local government systems elsewhere.

At a high level, the branch leads policy research and development on a variety of topics related to local government. Accountability is a prominent issue in many government initiatives. Large scale projects within the ministry, including those related to financial accountability, are led by the branch. For example, the branch is managing the implementation of the recommendations issued in 2010 from the Local Elections Task for improving local government elections. The Province committed to introducing these recommendations in time for the 2014 local government elections.

The Policy and Research Branch is a part of the local government department. The department has a long history as a department in the Provincial government and the core of the department has remained the same throughout the many changes in government organization in the last several decades. Other branches in the department include governance and structure, intergovernmental relations and planning, infrastructure and finance and the University Endowment Lands.

This project began through discussions with the client and a review of a long inventory of potential topics of interest to the client. Research and analysis of the general trends and popularity related to accountability, including greater financial accountability, in other jurisdictions and potential implications for BC falls under the responsibility of the client. In addition, issues relating to greater financial accountability measures that would likely require legislative change would be administered and researched by the client. The relationship between the Province and the UBCM is largely managed by the client. Issues impacting the UBCM membership, including the critique of financial accountability and the subsequent release of the UBCM report, require reflection and attention from the province and therefore the client. Finally, stakeholder critiques of the municipal financial accountability system also identify the province as a responsible party. A full understanding and analysis of the system being reviewed and the solutions being suggested is required by the client in order to perform their duties and fulfill their responsibilities. This report aims

to begin to analyze the system by way of academia, other jurisdictions and expert interviews.

After the selection of this topic and during the beginning stages of this research, a Liberal party leadership campaign was underway for a new Premier for the Province of BC. Christy Clark was the eventual successful leadership candidate, and her platform document *Families First for Change* raised the issue of reviewing municipal taxation and stated that it was Premier Clark's goal to review the municipal taxation formula, create a Municipal Auditor General (MAG), and work with UBCM to ensure municipalities have the funds they require (Christy Clark.ca, 2011). According to the platform, a MAG would be part of the current Office of the Auditor General and offer advice on financial decisions as well as provide accountability. This report is not intended to be a response to the platform commitment, nor was the decision on topic, research or recommendations in any way influenced by it.

2 Methodology

The methodological approaches to information collection for the purposes of this project include a literature review, a scan of actions in other jurisdictions, and interviews with selected individuals. The approach of all research components of the report was to conduct a thorough, representative, current and balanced study that could be brought together for a final analysis. Following the description of how each research component was approached, the research and methodological weaknesses are examined.

2.1 Literature Review

The literature review focuses on the general topic of accountability, specifically, on the meaning and reasons for accountability, tools used to achieve accountability, measures or criteria used to quantify accountability and finally, academic analysis of accountability measures in other, mainly Western, jurisdictions.

The literature review is based on a variety of sources. The Client has an in-branch library that subscribes to public administration focused journals and contains a large number of books and publications on most conceivable topics related to local government. The client supported the literature review through the purchase of items deemed to be important to the analysis of the report. Further literature was attained through the online collections available at the University of Victoria library and interlibrary loans. Finally, academic literature was also obtained through the members of the Client branch who suggested materials. Many of the branch staff are interested in academic development and stay up-to-date on current publications and articles, as well as publishing articles themselves.

In order to ensure a balance of academic articles, a thorough search was conducted before the articles were selected based on applicability and practical use. Initially all articles related to the search topics were collected before being evaluated based on the focuses and the common reference to certain authors. For example, Kloot appears to be the eminent scholar on Australian local government accountability. The abundance of sources was controlled by collating those with very similar findings or topics with much of the information repeated.

It is common practice to use the bibliographical information of articles to determine similar articles and provide a further supply of article ideas. While this was one of the techniques used, the search for literature was attempting to discover those sources not already having been digested for use in the articles already read and referenced.

All sources contained in the literature review are from peer reviewed journals, well respected authors or common sources of information. A variety of government publications, non-profit organizations, professional association and academic literature was used, though a conscious evaluation was made regarding the bias of the piece. Articles from people or organizations that could be considered lobbyists are not referenced in the literature review and instead stakeholder views are reflected in the background and context section.

The criteria used to evaluate the applicability and use of articles included having been written in or after 1999, relating to local government and reflecting a public sector perspective. The literature review was important to this report not simply to add an academic element to the Masters report, but also to provide the Client with an academic perspective given their respect for work reflecting both academic and practical approaches. The literature review contained in the report is organized under the headings of accountability, tools, and academic findings of jurisdictional practices.

2.2 Jurisdictional Scan

A jurisdictional scan is a way of looking at the work on the topic that has already been completed or is currently underway in other locations. The jurisdictional scan was conducted in order to demonstrate the other accountability frameworks in existence and to examine the preliminary model of the accountability continuum. This preliminary accountability continuum, built from the understanding gained through the context and literature review and discussions with the client, contains a model of the process of accountability including planning, reporting and remedying. The jurisdiction scan supported the preliminary continuum and is organized accordingly to its phases and categories.

Jurisdictions were chosen based on their relative similarities to BC in governance structure or for their recognition as leaders in the field of accountability practices. Certain countries, namely the UK and Australia, are common areas of comparison and also fit the other criteria of having English language information or state controlled local governments. The jurisdictional scan is of jurisdictions whose systems of governance are similar to BC, although the approach to accountability and philosophy of governance may be different, thereby providing a comparatively common framework for comparison.

A key element of accountability is accessibility, and the information contained in the jurisdictional scan is a synopsis of the details provided on government or local

organizational web pages. Findings are organized based on the preliminary accountability continuum. These phases are broken down into examples of tools, with supporting examples from jurisdictions.

2.3 Interviews

Interviews were conducted with 11 individuals in order to obtain an understanding of BC's system and gain knowledge from individuals with selected expertise who could offer information essential to the analysis of accountability in BC.

The list of interviewees was created in discussion with the client. Given the public nature of the report and the client, and the potential for controversy, participants were selected based on their expertise in the fields of local governance and finance and their known candidness to discuss new ideas. Individuals were not selected based on their relationship with the client, but based on their respected status in their fields.

A letter was sent by email from the client to the interviewees to introduce the project, after which the author contacted them directly to set up appointment times and follow up on their desire to participate. One week before the interview, the subjects were emailed point form subject areas of the questions.

The interviews were semi-structure and questions asked during the 30-60 minute interviews were open-ended, pre-determined questions. While the questions were set in advance, the nature of the discussion during the interviews did allow unlisted questions to be asked in order to gain knowledge on specific areas of interest to or expertise of the interviewee. Questions were developed based on the desire to obtain information on the current systems and their practicability and usefulness, opinions on the current or other potential systems, general views on accountability and future threats or issues for local governments.

Interviews were conducted in March and April 2011, with most interviews occurring at the branch office and some at the interviewee's workplace. A total of 15 individuals were invited to participate, and 11 did. Interview participations consisted of a variety of former and current mayors, city managers, deputy ministers and academics (see Appendix E- Interview Subject Biographies). The interviews began with a brief introduction, the signing of a consent form and finally the interviews questions were asked (see Appendix D- Interview Questions). Digital audio recordings of the interviews were taken along with limited notes. The recordings were transcribed in limited point form by an assistant who was present during the interviews and ran the recorder, took notes and acted as a witness. The interviews were then analyzed for themes and categories, resulting in the findings section.

An important element of this interview process was the lack of anonymity. All individuals were informed of and consented to having their responses attributed. Anonymity would have been difficult to protect given the relatively small number of interviewees and the client desire that these individuals in particular were chosen due to their expertise. The attribution of comments and opinions adds weight and volition to the comments and thereby the findings section.

2.4 Methodology Weaknesses

Some potential weaknesses exist in the methodology of this report and its research. For the literature, the sheer number of possible articles may have resulted in some key opinions, findings or information being omitted or simply not being discovered. The particular nature of the topic included elements of accountability, financial, municipal government, public sector and western countries and was so specific that few articles were perfect and therefore certain elements had to be included despite their not completely fitting with the overall research question.

In the jurisdictional scan, the approach of only including information readily available through the internet as a way of judging ease of information access could have limited the findings and neglected an innovative or important element of an accountability system. BC has details of approximately 75% of the elements of the current municipal financial accountability framework easily accessible online, and this provides an example that the entire sense of a jurisdictions' framework may be difficult to gain through online means only.

The interviews were conducted with a limited number of individuals and given the potential sensitivity of the topic the range of individuals or questions could have been limited. The interviewees were specifically selected for their inside knowledge of the municipal financial accountability system. Finally, the interviews responses could have been impacted by the Christy Clark platform referenced in the background context. The projects are unrelated but the public nature of the platform may have influenced the opinions or comments of interviewees in their responses.

3 Literature Review

The focus of this review reflects a balance struck between the prevailing academic opinion in this large body of research, and the key themes that kept arising. These include the nature of accountability and municipal accountability in particular, and the most common measures of accountability.

The literature review is organized to first create an understanding of the meaning, influences, reasons and elements of accountability. The review then explores the most common tools of performance measurement and auditing, as well as restructuring tools that could enhance an understanding of a modern and applicable municipal financial accountability system in BC. These tools provide a brief survey of alternatives for consideration in the event changes are required or considered for BC municipalities and to reflect the large number of tools available for accountability. The final section is devoted to the measures and indicators of municipal financial accountability and reflects the specific information and particulars of practicing accountability. The final section of the Literature Review is devoted to the measures and indicators of municipal financial accountability to reflect specific information about how accountability is practiced. This measures and criteria section is important for any jurisdiction moving on from selecting a tool to establishing program parameters and design.

3.1 Defining Accountability

Municipal accountability is the focus of a large amount of academic literature. This is particularly surprising as local governments in general are not often the major focus of government studies. Accountability is currently a trendy topic and in the public consciousness of late, a fact in part due to a general increase in social consciousness, higher citizen expectations relating to the outcomes of and access to government, the explosion of media attention with the 24/7 news cycle, and the interconnected nature of today's global world. Modern municipal accountability generally extends beyond financial features and can include many facets of municipal scope, including political, professional, administrative, contractual, public, managerial and economic accountability (Martell, 2007 & Kloot and Martin, 2001; Yilmaz et. al, 2008; Pollanen, 2005). Municipal accountability focuses service delivery and the financing of those service, the two main responsibilities of modern municipalities. Local government accountability themes or spheres are varied and can include municipal performance, ethical conduct, reporting, conflicts of interest, rights to reconsideration, public consultation, and avenues of complaint or appeal and dispute resolution (ICURR, 2011; Thomas, 2007; Caron & Hunt, 2006). Accountability after the

project or program is considered reporting or reactive accountability while accountability before or during a process is considered participation or proactive accountability (Lee, 2006; Caron & Hunt, 2006).

Given the complex nature of this topic, a definition of municipal accountability needs to reflect many elements. A definition of accountability would need to include reference to its interconnectedness with transparency and its focus on openness about plans, actions and decisions of government (Eden & Hyndman, 1999, Caron & Hunt, 2006). Accountability is the responsibility to share the reasons, information, and decisions of government operations and actions to the elector, who may demand it, in order to equalize the balance of information (Kluvers, 2003, Kloot and Martin 2001). Municipal accountability provides an opportunity to demonstrate to taxpayers the safeguarding of public funds through prudent spending and sound decision making. This opportunity allows both elected officials and staff the opportunity to justify choices (Coleman et. al, 2009), and also helps educate and inform voters. Citizens express accountability by voting for elected officials, and the perceptions of the level of accountability will often influence the way a citizen votes. It is a common expression that citizens hold their governments accountable by going to the polls every three years.

3.2 Importance of Accountability

Accountability in municipal government exists for supporting democracy, justifying government spending choices to taxpayers and increasing public confidence.

Accountability at its strongest empowers both citizens and local governments in the creation and availability of information (Yilmaz, 2008). Municipalities can use the tools, authorities and opportunity for accountability to implement goals, advertise their actions and services, and share information and widespread messaging to change behaviour (Lee, 2006).

Accountability can be passive, through the simple release of information, or active, through emphasis of the generally open nature and cooperative transparency of municipal organization. The interest of taxpayers is essential to reinforcing the need for and proper engagement in accountability, as Kluvers' (2003) discovered in a study of accountability in Australian local governments. Accountability provides an openness of the entire municipal organization to the public, since reporting, information sharing and the dealing with results links municipal staff, elected officials and the public. Staff become an essential element of accountability by providing data to both Council and the public and thereby increasing their importance and presence in the eyes of both groups (Lee, 2006).

Promoting public trust is the chief motivation for accountability in the public sector. Communities will not have confidence in municipal organizations that are closed and that the public does not understand. Public trust is closely linked with civic apathy or disinterest, as citizens must seek out or at the very least be open to information in order to start understanding and be engaged. A general lack of interest on the part of the public in matters of government may be due in part to the failure of local governments to demonstrate the importance of accountability (Lee, 2006; Hildebrand, 2007). Low public trust in government is impacted by scandal and negative media reports, public opinion, economic climate, lack of transparency and trust in the political leaders (Thomas, 2007; Caron & Hunt, 2006). Accountability should focus on being an environment of equal ground where an open culture of information provides education and context to an interested public, who through their understanding of municipal operations come to trust in the decisions and actions of Municipal Council and staff.

Public engagement assists public trust. Public engagement is directly linked to voter turnout, which is at historic lows in many jurisdictions. A resident who is respected and informed by elected officials will have a higher probability of becoming engaged in Council, voting, and general municipal activities. Voter turnout, public engagement, and accountability are entwined and an increase in one will positively impact the others.

3.2.1 Public versus Private Accountability

While accountability is used in both the private and public sectors, the business of public accountability is unique given that the public sector uses taxpayers' money and concerns extend beyond a bottom-line. While private enterprise operates under a system of market competition, the public sector does not allow the taxpayer much choice and therefore the notion of accountability takes on more importance (Kluvers, 2003). Private sector accountability differs from that of the public sector, but it is leading the way in providing accountability that extends beyond purely financial aspects and includes performance information.

The public sector use of taxpayer dollars results in a large list of stakeholders that is more expansive than the private sector. These stakeholders include taxpayers, service users, the larger community, residents, elected officials, creditors, investors, higher levels of government, and even the global community as for example in the reduction of GHGs. (Blann, 2010; Kloot & Martin 2001; Yilmaz et. al, 2008; Eden & Hyndman, 1999). Determining to whom a municipality owes accountability is as complex a task as defining the term accountability. A study by Kloot and Martin (2001) of local government managers in Australia reveals that the level of accountability owed to taxpayers is the highest level,

followed by accountability to elected officials, the greater community and finally, to the state.

Local government is a distinct segment of public sector accountability due to its unique mandate to provide services directly to citizens. Virtually every resident in BC will consume one or more municipal services throughout each day. Municipal services vary from the traditional ones, such as sewers and roads, to the recently expanded sphere that includes environmental responsibility and social services, such as affordable housing. Consequently, many systems of local government accountability relate to the evaluation of the efficiency and effectiveness of service provision. This authority has been encouraged in recent years through the introduction of enabling legislation for local governments that has resulted in increased autonomy. More encompassing reporting requirements arose as a result of this increased autonomy (Kloot and Martin, 2010).

3.2.2 Going Beyond Financial Performance

The financial performance of a municipality may be influenced by internal factors, for example Council deciding to spend funds on a service, or external factors such as centre like the impacts of a recession. Both internal and external factors are key to accountable spending (Zafra-Gomez et. al., 2009). Accountability for the public sector should extend beyond financial parameters as the responsibility of government is not wholly reflected in a simple account of fiscal management. The key to providing non-financial information is to place the data in context. Financial measurements and reporting are the easiest to quantify and are most commonly found in traditional compliance reporting. Despite the long tradition of financial reporting, simple financial reports that meet legal requirements are inadequate to account for all government responsibilities (Kluvers, 2003, Kloot and Martin 2001).

Recent trends in municipal accountability are directing accountability attention towards an expanded notion of reporting for services and operations and including aspects such as performance and value-for-money type audits. The common practice of financial only reporting, through devices such as an annual report, do not fulfill the requirements of government to report on all aspects of their performance (Lee, 2006). Government has an obligation to be accountable for all its responsibilities, not just financial. The general public has difficulty digesting reports that are long, difficult to understand or filled with pages of numbers created by auditors or accountants.

3.2.3 New Public Management

Municipal financial accountability literature with a new public management (NPM) perspective uses the philosophy to ask about the level of accountability required to citizens from contractors providing services on behalf of the municipality. Contracts offered to the private sector from the public sector must have clearly defined reporting expectations (Kluvers, 2003; Pollanen, 2005). The municipality is responsible for establishing accountability for services that taxpayer dollars are purchasing. It is a best practice to establish in advance the reporting requirements and expectations for these contracted private enterprises.

NPM literature emphasizes other aspects of the accountability landscape, including efforts to change, reporting for accountability purposes, and how it is reported. The scope of reporting should include financial information but expand beyond it (Kluvers, 2003, Zafra-Gomez et. al., 2009), and organizations should focus on outcomes as well as inputs (Kloot and Martin, 2010; Kluvers, 2003; Eden & Hyndman, 1999; Hildebrand, 2007). The slightly adjusted scope of municipal accountability casts a wider net to include information beyond finance that is emphasized in non-NPM literature but also encourages reporting on more complex aspects than inputs and outputs such as outcomes and performance.

3.2.4 Other Jurisdictions

The large majority of municipal accountability literature is studied from the perspective and examination of a particular jurisdiction, although the knowledge gained is analyzed on a more general basis and can be broadly applicable. Municipal accountability literature emanates from across the globe and frequently includes Western countries, specifically Australia, Britain, and Canada. While these countries will be the focus of this report, the breadth of the topic is such that articles and websites are available on accountability practices from countries such as Uganda, Tanzania, India and Botswana.

Kloot and Martin (2001, 2010) make the interesting distinction in their review of local government accountability in Australia that accountability is more important in a rural setting than a metropolitan one. They attribute this to the urban centres generally receiving higher amounts of funding. Rural areas often struggle with limited financial human resource capacity and have less private sector competition for public tenders, all of which increase the difficulty for rural areas to achieve financial accountability.

3.3 Instruments of Accountability

As an academic study, accountability is frequently analyzed in reference to a particular jurisdiction, or a specific method. Attest or compliance audits of financial statements and affairs are the most common form of accountability and show projected versus actual spending. Monitoring performance and demonstrating sound budgeting practices are not sufficient to establish accountability given the complexity, fluidity and multifaceted aspects of a municipal organization and municipal service delivery (Kloot and Martin, 2010; Kluvers, 2003). The differences between public and private sector organizations highlight the need for expanded accountability beyond financial measures. The public sector does not operate for profit, and offers services for the good of the public it serves and not the organization. Accountability measures should reflect the fact that operations in the public sector are run for reasons other than the bottom line as they are in the private sector. For example, social services may not turn a profit but are an important service provided by government. Municipalities need the legislation and authority to monitor their own performance and in particular the authority to independently secure and offer services (Yilmaz et. al., 2008).

Instruments or tools used to achieve accountability vary. Some instruments are formalized and imposed through legislation or regulations, while many others are organic and are initiated by the municipalities themselves and as a result vary widely across a jurisdiction. Jurisdictions must be cautious when imposing a large number of requirements as they encourage the appearance of a problem that requires intervention. Hildebrand (2007) lists potential tools for accountability, including “strategic planning, budgeting, performance reporting, evaluation and audits, benchmarking, program and performance monitoring and risk management” (p. 1). The choice of tools used by a jurisdiction will depend on a number of factors, including municipal structure, environment, services, existing frameworks and the buy-in of stakeholders.

Accountability is advertised as improving spending efficiency, though this is not always the case. Public engagement has been found in some cases to have a positive influence on costs and one facet of accountability (Geys et. al. 2010). Many accountability practices directly or indirectly impact public engagement. This public engagement is often achieved through increased communications using a variety of tools both traditional and non-traditional. Traditional tools include newspapers and town hall meetings, and non-traditional includes the internet and emails. Communication tools expand almost daily, and are particularly tied to advances in technology and non-traditional methods. Current attention is focused on the proliferation of the types and uses of social media. The Kloot and Martin (2010) survey of Australian local governments discovered that many municipalities used direct communication between the Mayor and Council and citizens through radio spots or regular

newspaper columns. Communication provides municipalities the opportunity to demonstrate accountability. The by-product of accountability is often public engagement. Some jurisdictions encourage the idea of citizens holding government responsible by providing citizen oversight bodies, and reinforcing the belief that accountability measures should be both bottom up and top down (Yilmaz et al., 2008).

The municipal accountability literature includes focuses on tools for performance measurement, auditing and decentralization or amalgamation and these are expanded on in greater detail below. These tools are only three of a large variety of practical means for implementing and demonstrating accountability. It must be noted that tools are rarely solitary and most jurisdictions practice more than one instrument in their attempt to manage municipal accountability.

3.3.1 Performance measurement

While the terms performance measurement and performance management are closely linked and are sometimes interchanged, the reality is that performance measures are used to inform performance management. McDavid and Hawthorn (2005) define performance measurement as being “straightforward; program objectives and corresponding outcomes are identified; measures are found to track outcomes, and data are gathered which permit managers to monitor performance” (p. 4). Performance management is concerned with the management of performance including the aspects of input, output and outcomes and the elements which will later be measured. McDavid and Hawthorn (2005) define performance management as “organizational management that relies on evidence about policy and program accomplishments to connect strategic priorities to outcomes and make decisions about current and future directions” (p. 445). Performance measurement focuses on efficiency and effectiveness and less on the comparison or appraisal of indicators. Performance measurement and performance management both serve residents, elected officials and staff.

Performance measurement is a tool designed to ensure validity, legitimacy and functionality in accountability and is an effective tool in combating the duality of the municipal mandate in balancing citizens’ demand for more services with the desire for low taxes (Streib & Poister, 1999; Hildebrand, 2007). Performance measures are flexible in their design and can include both financial and non-financial indicators, allowing municipalities to set targets of service delivery and cost and compare the two. Performance measurement is often linked with benchmarking where measures are compared across jurisdictions.

Performance measures are being linked with accountability both in literature and practice. Measures are able to demonstrate performance and achievement and are being used by municipalities as tangible, clear and finite ingredients for organizational efficiency and public accountability. A performance measurement system aim is to go beyond traditional accountability reporting schemes. Indicators are singular measures and are used to demonstrate the efficiency and effectiveness of public programs through outcomes and impacts in order to impact decisions and planning (Kloot, 1999; Kuhlman 2010; Zafra-Gomez et. al., 2009; Pollanen, 2005). Indicators are used to create an overall picture of performance by covering all elements of a program or service, for example a variety of indicators covering the range of cost, inputs, impacts, outcomes, use and others.

Essentials

Establishment of a performance measurement system requires determining what organizational aspects the municipality wants to enhance, setting indicators with a measurable scale, establishing goals to enhance the chosen feature, allocating resources to achieving that goal, weighing indicators against outcomes and attributing rewards or penalties for performance (Kloot, 1999; Martell, 2007). The most effective performance measurement will identify gaps between outcomes and goals, use the gaps to focus service improvement and resources, and measure again to ensure success.

Performance measures should take into account differences amongst people, location or situation in order to make intra-jurisdictional comparisons more constructive. Examples of these include organizational differences, socio-economic factors such as the rate of unemployment or income per capita, and environment (Zafra-Gomez et. al., 2009; Pollanen, 2005). Performance measurement systems tend to have a large number of measures or indicators. The number should be reduced to the most key ones with the aim of increasing the participation of stakeholders and the use amongst decision makers (Kluvers, 2003).

Rationale

Performance measurement is one tool of accountability available to municipal governments. It looks at both financial and non-financial elements and therefore is able to more effectively demonstrate elements of value for money, a popular request from both citizens and high level governments alike (Kloot, 1999). Performance measurement in particular, and accountability in general, provides municipalities with the ability to demonstrate to higher level governments their prudent spending decisions which may prove an important argument when discussing new funding opportunities. Performance measurement also provides information to both users and citizens, and helps service delivery decisions (Callanan, 2010).

The use of performance measures has increased as municipal government roles and responsibilities change. Performance measures are fostered when they are used by, and assist the work of, individual citizens, municipal staff and elected officials (Kloot 1999, Agocs and Brunett-Jailly, 2010). The popularity of performance measures has increased as demands for accountability in general increase, and performance measures in particular are identified by the public and practitioners as having the appropriate level of review required to improve performance.

The Use of Performance Measurement

The prevalence of performance measurement as a tool of municipal accountability is due to the desire to provide the best, most efficient services with the public's resources and ensure that means of evaluation and transparency are built into the organizational framework (Agocs and Brunett-Jailly, 2010).

The literature emphasizes that performance measures be designed with public sector stakeholder involvement to increase successful implementation (Kluvers, 2003). Public involvement will not only increase public engagement but also create a sense of ownership and interest in the outcomes.

Performance measures provide local government with the opportunity to (Callanan, p. 347, 2010):

- demonstrate the impact of policies and services to help staff and elected officials make decisions,
- show, as an elected body, commitment to and achievement of accountability,
- inform the public and users of performance,
- provide higher level governments the means of both monitoring performance and demonstrate sound fiscal practices, and
- enhance the communication between elected officials and the public.

Performance measures create a communication and information exchange that links the public and elected officials.

Challenges

Successful performance measurement systems are organic, led by both organizations and residents, and reflect the requirements of that particular municipality. Serious challenges arise when the flexibility to mould indicators to suit an organizations' structure, location or situation is not allowed and a single, one-size-fits-all, top down approach is taken. In this situation the sheer amount of data required to have a universal system burdens both those reporting and those digesting the information. The danger of the bottom up approach to reporting where the municipality defines the criteria is the fluctuations that can occur due to the changing elected councils and their whims (Callanan, 2010).

The proliferation of performance measurement in many jurisdictions means that new jurisdictions may benefit from their experience. Jurisdictions have discovered that despite the intent of performance measurement, the execution of services is not always improved, either from a service or cost perspective (Agocs and Brunet-Jailly, 2010, Streib & Poister, 1999; Pollanen, 2005; Eden & Hyndman, 1999). Performance measurement is proficient at discovering inefficiencies. The challenge exists in finding performance measures that result in different decision making or that result in fixes to those inefficiencies. Despite the emphasis in the literature on outcomes, their measurement is difficult and may be restricted due to a lack of data or resources (McDavid & Hawthorn, 2005).

The literature identifies a range of difficulties and important elements that municipalities should consider when introducing and using a performance measurement system. The creation of the performance measurement system requires the management of two-way dialogues between government and stakeholders, all with different views. It is important to create reasonable stakeholder expectations of the program and recognize that creating the measures will not necessarily create engagement (Agocs and Brunet-Jailly, 2010). The measures themselves must be defined and require determining who, what, when and how indicators will be measured. Useful measures require continual revision (Streib & Poister, 1999). Limiting capacity to a performance measurement system could include a variety of factors, including lack of political or managerial will or a lack of human or financial capacity, that require thoughtful reflection when designing a system. The impact of performance measures and reporting requires consideration and cognizant instrument design. These include impacts to the organization, public perception, service delivery and staff anonymity (Pollanen, 2005).

Challenges can be minimized if they are recognized and dealt with up front. The number of jurisdictions to learn from provides a large body of knowledge can be drawn from for experience, best practices and solutions.

3.3.2 Auditing

The relationship between municipal financial accountability and auditing is strong, and general agreement exists in the academic and public sector that audits should be undertaken (Agocs and Brunet-Jailly, 2010; Kluvers, 2003). Jurisdictions that practice, encourage and promote municipal financial accountability use auditing. Auditing types include financial or attest audits, compliance audits and value-for-money or performance audits. Attest audits test the financial statements against the GAAP, and can also be referred to as financial audits. Attest audits are generally the basic level of auditing present in both public and

private sector organizations. Compliance audit verifies that financial decisions and operations followed established procedures or guidelines. These guidelines can be internally or externally set. Finally, value-for-money audits look at the nature of financial spending and determine if funds were spent in an efficient and effective manner. Value-for-money audits may also be referred to as performance audits.

Compliance auditing is well documented in the literature, well guided by professional organizations and widely adopted by local governments. Value-for-money audit is increasing in popularity and thus best practices are largely still being developed. Audits standards and practices are established by professional associations and it is these standards that help maintain the credibility of reporting (Mayne, 2010).

Independence

Independence is essential to audits and greatly impacts their usefulness. This includes attest, compliance or value-for-money audits. Both real and perceived independence are important, and many organizations emphasize the independence of their auditors through external committees or organizational structure. Perceptions of legitimacy and credibility are increased when auditor recommendations appear to be independent of the organization. This is particularly true of auditors reporting on value-for-money evaluations (Epstein, 2010; Audit Commission, 2010; Mayne, 2010).

Independence should be maintained to uphold credibility and objectivity, as questions about the independence of data or analysis could impair the decisions resulting from recommendations or results (Blann, 2010). Many public and private organizations change their financial or private sector or contracted auditors frequently to avoid the perception that the same auditor is being chosen due to the close relationship with the organization. Independence may be affected by familial or financial interests, restrictions on information access, and formal or implied relationships between the parties (Blann, 2010; Audit Commission, 2010).

Audit Characteristics

Both traditional and non traditional types of auditor roles exist. Traditional auditing involves the check and assessment of reports and data. Non traditional auditing involves the auditor participating in the creation of performance indicators and extending the scope beyond compliance and financial aspects (Epstein et. al. 2004; Mayne, 2010). Performance audits are a common label for a non-traditional audit, and often result in the application of traditional financial auditing concepts to assist in conducting a qualitative or outcome based review.

Performance audits are well regarded by citizens and politicians, for financial aspects with an emphasis on balance sheets and for attest and performance aspects with a focus on value-for-money through efficiency and effectiveness. The evolution of performance auditing to an accepted and standard practice of accountability will require further development on the part of the auditors, professional associations, and users (Mayne, 2010).

Implications

Auditing, either for pure budgetary balance sheet measure or for value-for-money, does not exist in a vacuum. Tools of accountability generally coexist. A jurisdiction may use performance measures to ensure its services are running smoothly and accomplishing the established goals. The use of value-for-money audits can identify areas of inefficiency and opportunities for improvement.

Auditors generally lack the ability to enforce their recommendations. Oftentimes, it is the threat of a negative report and public shaming that result in audited organizations reacting and complying (Audit Commission, 2010). When considering more extensive audit systems, municipalities should keep in mind the value-for-money of performance auditing. Where both audit and performance measurement exist as a means of accountability tools, the audit function is rarely used to evaluate the performance measurement system (Epstein, et. al. 2004).

3.3.3 Restructuring

Restructuring incorporates decentralization and amalgamation. Decentralization is the division of municipal boundaries and amalgamation is the removal and reformation of municipal boundaries. Arguments for both sides often cite accountability as reasons for restructuring and success is mixed or not strongly correlated in both cases. Examples and critiques of restructuring are examined below from an academic perspective through the lens of various jurisdictions.

Decentralization

Decentralization allows for technical and production efficiency yet limits the efficiency of distribution and allocation, particularly in the smaller regions (Cornell University, 2006b). In particular, decentralization encourages the belief that all problems are local and therefore have a local solution (Cornell University, 2006a).

In the City of Rio de Janeiro, decentralization was instituted in an attempt to strengthen democracy through increased access to politicians, encouraging participation, allowing

greater access to administrative services and allowing the municipality to have greater responsiveness to the unique demands of different locales (Martell, 2007). Decentralization offers the promise of greater accountability and efficiency, yet the results are often weaker than expected.

Brazilian municipalities have difficulty forecasting and retrieving revenues, which make financial accountability difficult. Rio de Janeiro implemented innovative practices including discounts for timely payments, payment in instalments, lottery prizes and better accounts receivable tracking software to encourage timely payment of taxes and fines (Martell, 2007).

Decentralization for the purposes of achieving greater accountability is a fairly rare occurrence. In BC, decentralization has occurred recently in the division of the Comox-Strathcona Regional District into two separate regional districts. The primary driver for this split was services and service agreements. Inequality was perceived by some as Strathcona provided a large portion of the Comox electoral areas' water, and the expense of another system would have been shared amongst the residents of the whole region. Examples of decentralization are fewer than those of amalgamation, and success requires "settings where there are strong traditions of democracy, accountability and professionalism in subnational government" (Cornell University, 2006b).

Amalgamation

Amalgamation is often branded as being the action that will bring about higher municipal accountability. This includes "tax cuts, cost-savings, increased levels of service efficiency, [and] enhanced government accountability" (Sharma, p. 17, 2007). Opponents will argue that these promises are rarely delivered in cases of amalgamation.

New Brunswick amalgamated several small communities and the towns of Newcastle and Chatham to create Miramichi, and Nova Scotia amalgamated the regions surrounding Halifax-Dartmouth. Both amalgamations were an attempt to increase financial accountability. Accountability issues in these regions related to equitable services and taxation. Of particular concern was the accountability surrounding business taxation businesses would locate just outside the urban or municipal boundary and pay the rural tax rate, while enjoying municipal services (Vojnovic, 2000).

After amalgamation, both regions saw limited improvements to accountability. Miramichi reported that as a result of amalgamation, rural jurisdictions saw large tax increase to pay for services that were centrally located and they may likely not ever take advantage of, such as streetlights. A municipality attempting to gain accountability and more efficient and cost

effective service provision, cross-municipal agreements may be a better solution than amalgamation (Vojnovic, 2000).

The States of Victoria and South Australia in Australia saw widespread state imposed amalgamation as a result of fiscal realities. South Australia allowed local government to direct the amalgamation themselves and to negotiate the systems and boundaries that worked best for them, and resulted in a more successful transition than imposing the new structure as was seen in the State of Victoria (Kloot and Martin, 2001).

Ontario led an ambitious municipal restructuring campaign in the mid-1990's. Its aims were similar to the aims of most jurisdictions contemplating restructuring, and included coordinating policies across regions, providing equity and efficiency for taxpayers, cost effective administration, and revenue generation (Sharma, 2007; Lightbody, 2009). Amalgamation discussions begun by the City of Kingston in support of a Greater Kingston Area focused on the increased accountability between a group of municipalities that were increasingly dependent on intra-municipal service agreements (Sharma, 2007). The City sold many of the same benefits as other jurisdictions encouraging amalgamation, including greater accountability for the taxpayer and streamlining the current agreements between municipalities. A report on the potential amalgamation revealed that cost savings would be had at the trade-off of higher taxes for the outlying municipalities, and the discussions were forced to be reconciled through mediation (Sharma, 2007). In the end, success was found through the creation of a new City of Kingston that did not simply overtake the outside municipalities, but instead reformed as a completely new organization.

The creation of the City of Toronto combined six communities into one jumbo municipality, and is often cited as a high profile and recent case of large scale municipal amalgamation. Reasons for the amalgamation differ and may include inter-municipal competition, the inefficiency of doubling up of services, and confusion among taxpayers (Sharma, 2007). The predicted savings of the amalgamation differed, but were up to \$800 million and it is these savings, and the financial accountability that savings represent, that likely created the catalyst for the new City of Toronto. This amalgamation drew many polarized viewpoints and much criticism, and there continues to be discussion over its success.

3.4 Elements of Accountability Mechanisms

Certain elements apply to all tools of accountability. These elements include effectiveness, equitability, economy, customer service and satisfaction, comparison across public and private sectors, efficiency, and productivity or output (Agocs and Brunet-Jailly, 2010;

Kloot, 1999; Vojnovic, 2000). These elements are likely to be found in the four general steps of accountability that include planning and internal and external consultation, data collection, internal and external reporting and finally benchmarking or resolutions.

Measures of accountability should include both proactive and reactive measures. An example of a proactive measure would be the level of tree growth per year before a program of CO2 reduction, and a reactive measure would be the level of tree growth after implementation. Limiting reporting to post-event aspects reinforces the perspective that reactions and resolutions can be implemented. In order for evaluation to be a success, focus should expand beyond post-event reporting and also include fixes and implementation of learning (Kluvers, 2003).

Jurisdictions often focus their attention on reporting and measuring the easiest indicators despite the importance of indicators that are difficult to attain. Easy measures are often quantitative and related to hard services such as engineering type services while flexible measures are often qualitative and include items such as social services (Pollanen, 2005). The more traditional elements of municipal service delivery have been focused around hard services such as roads and sewers, while the recent evolution of service delivery into broader services such as social services has meant more need for greater and more difficult reporting. Despite the difficulty in measuring or reporting on elements of efficiency and effectiveness they are essential to an evaluation of outcomes (Pollanen, 2005; Eden & Hyndman, 1999; Mayne, 2010).

3.4.1 Results measurement

Indicators are the quantitative values or qualitative signs that are recorded and compared across time, jurisdiction or program evolution to reveal performance. Indicators and the items they are measuring should evaluate both financial and non-financial elements, such as quality and outcomes. Services are too complex to justify only financial evaluation (Kloot, 1999; Pollanen, 2005; Eden & Hyndman, 1999). Indicators may measure the customer satisfaction, effectiveness, outcomes and strategic alignment of the softer, more social services as well as the harder services. Creating objectives whose data is easy to gather and correct, and whose results are easily comparable, will encourage accountability reporting, particularly if rewards are tied to evaluation (Kluvers, 2003). The strongest internal and external reports will be plain language, visually appealing, brief and cover easily digestible information such as performance targets and aims and objectives. Reports that focus on detailed financial statements are not easily comprehended by the general public, though they are equally essential to the larger scope of municipal accountability. Reporting requires timely collection of information as timely information is necessary for the

judgement of municipal organizations by external bodies or the public (Yilmaz et. al, 2008).

3.4.2 Keys to Success

Indicators and measures should reflect individual jurisdictions and be unique or flexible to adjust to differences such as geography, population, political climate, culture, social condition and organizational structure. Accountability mechanisms that encourage public engagement should be used in conjunction with traditional accountability mechanisms (Yilmaz, et. al, 2008).

Literature and general public focus often centers on the measures, the results, the reporting and the impacts of the public information. The collection and recording of information is a key and often overlooked aspect of accountability. Data are an essential part of performance management. Ambiguity, lack of required information, cost, and susceptibility to manipulation are all elements of data management that should be considered in the application of a performance measurement system (Pollanen, 2005). External audits can be conducted to ensure valid information of the financial data and non-financial data.

The success or failure of new measures depends on the direction of reform, political will and the design of the tools or measures (Kuhlmann, 2010). Organic systems of accountability have a higher acceptance and success rate amongst staff, elected officials and the public who are invested in the results. Accountability success is unlikely if there is little or no municipal control of the outcomes. A municipality cannot increase natural water flow and therefore should not measure volume to evaluate the fresh water system.

Community consultation conducted during a policy or issue discussion raises the level of accountability of a local government and public expectations. These raised expectations should be considered given the emphasis in the literature of the great benefits of the involvement of the public in the development of indicators, particularly in a performance measurement system.

Frequent measurement allows for earlier intervention in the case of negative reports. This may increase the visibility and opinion of accountability and yet at the same time over reporting should also be avoided (Kloot and Martin, 2001). While the general public understanding of accountability is that there can never be too much accountability and therefore new measures should and are added, practical application and academic study have revealed that sensible and economical use of accountability measures makes them more efficient and able to respond (Thomas, 2007 & Kloot and Martin, 2010). The trend of

expanding legislative requirements for accountability requires careful thought and new measures require consideration against existing responsibilities.

The essential element of an accountability system is demonstration of the legal use of funds, due process, the measurement of goals and the comparison of objectives to outcomes (Kloot and Martin 2001, Thomas 2007). Accountability involves holding elected officials responsible for their actions, and holding them responsible requires reporting their achievements (Caron & Hunt, 2006). The actual and perceived success of an accountability framework depends on the nature of the reporting and the elements being reported on.

3.5 Conclusion

Public sector accountability functions to justify spending to taxpayers. This simple notion reflects the possibility that accountability exists to raise public awareness, public trust and public engagement. Recent increases in the focus of accountability are largely due to media attention, technological advances leading to the availability of government data and the extension of accountability beyond traditional financial information to more inclusive and non-financial areas.

The methods of attaining accountability are diverse and these methods vary greatly depending on cultural and social approaches to government and information, as well as geographic, population and resource differences. Performance measurement is a potential method of accountability that involves creating a set of measures that can properly account for the range of services provided by a municipality. The credibility of auditing as a method of accountability relies greatly on independence. Auditing has evolved, like accountability, beyond compliance and attest to items such as performance auditing. Both decentralization and amalgamation promise savings and access to government and better accountability, but in reality results are mixed and improvements are limited. Restructuring is a frequent trend in local governments. Often the intention to address accountability and cost efficiency does not result in large improvements, and instead the impression of progress or change is the true improvement. Many examples of restructuring exist in Canada alone and the lessons gained from their experiences may influence the decision of a jurisdiction to reorganize or expect large scale improvements.

Successful methods of demonstrating accountability need to be defined by users, evolve organically from the bottom up and be flexible to jurisdictional difference. Indicators and measures of accountability need to be reflective of more than efficiency and effectiveness and unit input for unit output. Best practices in accountability are found where an emphasis

is also placed on outcomes and qualitative items. Accountability and its impact will depend on motivation and methods.

4 Preliminary Model

Following the knowledge gained through the background context and the literature review, and in consultation with the client, a preliminary model of accountability was developed. It was designed to allow both macro discussion about the types of accountability and the comparison of a general model of accountability to BC's current framework. The continuum also allows for a structured way of understanding the vast possibilities of financial accountability.

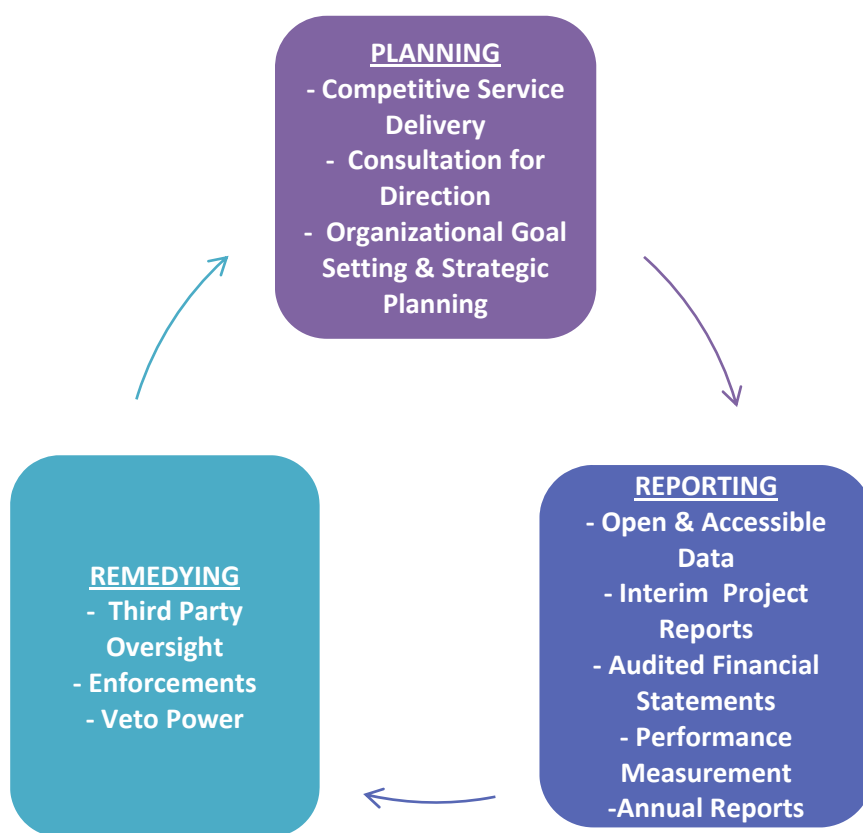
Accountability does not exist solely at one point in the democratic process. The responsibility to be transparent and responsible exists from the time an issue is being discussed, through to a decision, planning, execution, follow-up, review and lessons learned. There are almost as many issues to be accountable for as there are ways to be accountable, and the preliminary accountability continuum presents a possible model for viewing and containing the scope of municipal accountability. The three phases of the accountability continuum are planning, reporting, and remedying as shown in Figure 1. Planning begins at the definition of an issue, program or service (action) and ends at the point where the action is implemented. It establishes the direction and goals of a program or action. Reporting is the dissemination of information and results following the program or action and often provides continuity with elements established in the planning, such as goals. Remedying addresses issues reported upon in the second phase, and follows through to provide improvements and resolutions to the outcomes reported.

Figure 1- Preliminary Continuum of Financial Accountability



Each phase of the continuum contains a set of proposed categories that reflect mechanisms for achieving that phase of accountability. For example, planning can be executed through the accountability mechanism of consultation for direction, reporting can be executed through accountable information provisions such as an annual report and remedying can be executed by enforcing financial accountability requirements through withholding funding. The eleven categories represent the spectrum of accountability options within each phase, and reflect the broad nature municipal accountability. These categories can be further organized within each phase to represent different ranges or rigour. For example in reporting, publishing data online is less rigorous than creating the data and material necessary for an annual report. The categories are shown in Figure 2.

Figure 2- Categories within the Continuum of Financial Accountability



The next section of this report will use the preliminary accountability continuum as a template to inventory accountability mechanisms found in a variety of jurisdictions. Both the phases and the categories of the continuum will be reviewed through jurisdictional examples.

5 Jurisdictional Scan

Information for the jurisdictional scan was limited to easily accessible web material in order to reflect the information readily available to the public. Accountability requires transparency, and the tools would not be effective if information were not made publicly available. The information contained in this section is largely obtained from the websites from local governments and from associated organizations.

The literature review has established that for complete accountability, non-financial accountability aspects must also be considered. The methods and some of the jurisdictional examples outlined below may relate to both financial and non-financial types of accountability, or related only to one. For instance, while the Ontario Municipal Board is an example of the use of veto power, it reviews and can overrule decisions related to land use and planning. This is clearly not financial accountability, and yet the justification for that type of tool as an appeal of a Council's decision could be applied to financial accountability.

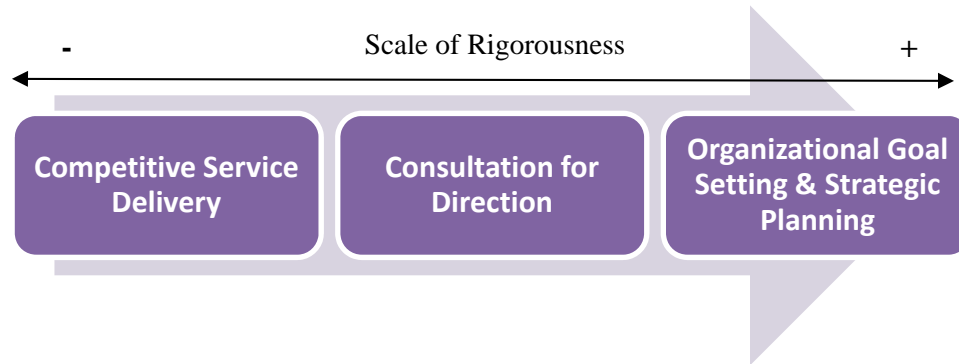
The preliminary model of the accountability continuum is populated by the jurisdictional scan through examples from a variety of primarily Canadian jurisdictions. These jurisdictions were chosen because of their similarity in provincial structure and responsibility over municipal governments, strong municipal structures and a variety of accountability mechanisms they have in place. The categories proposed in the preliminary model of the accountability continuum, as set out in the previous section, are organized along a rigorousness scale to demonstrate increments in rigorousness within the three main phases. For example, third party oversight is a less rigorous example of remedying than a veto or enforcement. This scale of rigorousness is located at the top of each phase breakdown shown in Figures 3, 4 and 5 below. The concepts of level of intervention and the direction of accountability established in the background are set out for each jurisdictional example in Appendix B- Control and Direction of Accountability.

5.1 Planning

Planning is the first phase of accountability. The basic, most visible and common level of planning is budgeting. The prediction of future spending gives something to measure against and provides a baseline against which an organization can prove its prudent operations. Beyond budgeting, planning can include open service tendering, consultation for direction and goal setting. For accountability, looking forward is equally as important as looking back. Planning for good practices and accountability *and* executing the plan

enhances public confidence. The spectrum of rigorousness is established for the three categories of the planning continuum before each category is described and jurisdictional examples are provided by name, location, an explanation and the authority and direction of the measure.

Figure 3- Planning Continuum



5.1.1 Competitive service delivery

Citizens expect and deserve municipal services that are delivered efficiently and effectively. While traditionally municipal organizations delivered services themselves, it is becoming increasingly popular for municipal organizations to look to the private sector to perform services, an arrangement that is often represented in the form of a Public-Private Partnership (PPP). The competition of private sector organizations for municipal service delivery can encourage competitive pricing where there are multiple service providers. External service tenders are offered for municipal services, though more often than not the tender process is practice or policy rather than requirement.

Compulsory competitive tendering- *State of Victoria, Australia*

Local government in the Australian state of Victoria must issue public notice and ask for tenders for contracts with a value of over \$150,000 for the purchase of goods or \$200,000 for services (State Government of Victoria, 2010). Council is not forced to accept the bid with the lowest price in order to ensure that price does not override quality (State Government of Victoria, 2010). This often places the municipally, in-house offered services directly in competition with private sector offered services. The program aimed to increase the efficiency and effectiveness of service delivery to clients while taking the opportunity to clearly define client needs and service goals (Alam & Pacher, 2000). The result of compulsory competitive tendering in Victoria has largely been positive changes to employee attitude, accountability, and organizational management and culture (Alam & Pacher, 2000).

5.1.2 Consultation for Direction

Actively seeking public input for direction is one element of financial accountability where the municipality deliberately and directly seeks public opinion while setting out the plan and goals for the organization, rather than relying on citizens to read a report or look at financial statements.

As the literature review emphasized, the engagement of the public during the planning of a program or process, including an organization process such as a budget, is key to success. The goal of many accountability practices is to achieve public engagement throughout accountability. Traditional engagement is focused around informing, rather than the inclusion of the public in the planning process. Consultation for direction means citizens are directly involved with municipal procedures and are aware of and demand better operations. Certain jurisdictions demonstrate a concerted effort to engage their citizens from the planning phase:

Participatory Budget – “Our City, Our Budget, Our Future”- *Calgary*

Calgary Council is seeking public input in planning the 2012-2014 City budget. The initiative seeks citizen input on what they value, what is a priority, where money is best spent and what tradeoffs citizens are prepared to make (City of Calgary, 2011a). The three phase process involves interactively creating an engagement process, multiple opportunities to establish priorities for the budget, and finally a discussion of the input to establish pros and cons (City of Calgary, 2011b).

This initiative is going beyond the traditional public engagement of seeking feedback to include the public’s input on planning and priority setting. Calgary is making full use of technology to assist in this project, and has developed a blog with the opportunity to comment, a dedicated website, YouTube videos, a Twitter account, iPhone apps, an email newsletter and Facebook.

Participatory democracy- *Montreal*

The presence of a participatory democracy section on the website for the City of Montreal demonstrates the municipality’s desire to show citizens how to participate and the actions they are taking to encourage engagement. The engagement begins at planning but continues through a variety of opportunities. The simple task of having a one-stop-shop to see all the possible ways to get involved will promote participation and engagement.

Highlighted on the website are elements including participating in public consultations, the ability to initiate a public consultation, standing committees that encouraging debates with public officials and the public and a Task Force on

Democracy (Ville de Montréal, n.d.-a). The Task Force on Democracy is directly responsible for the introduction of the Ombudsman for the City and the ability to initiate public consultations.

5.1.3 Organizational Goal Setting and Strategic Planning

Organization goal setting is the representation of accountability and results, through specific targets, that are clearly correlated to the larger goals and missions of the municipal organization. This goal setting demonstrates sound planning and enhances the capability for the public to understand where their government is going. In both the public and private sector, organizational goal setting is more formally known as strategic planning. The most effective organizational goal setting process also allows for some form of evaluation and adjustment of targets on an ongoing basis.

Strategic Plan Goals- *City of Edmonton*

The City of Edmonton has a 10 year Strategic Plan that sets out a framework to achieve a future vision for the City (The City of Edmonton, 2011). The framework sets out the vision, and establishes 10 year goals that are each broken into 3 year interim goals and performance measures. The changing nature of the vision, path and goals are reflected in an annual update.

For Alberta generally, goals may be included in the Municipal development plan (Alberta *Municipal Government Act*, s. 632). Strategic planning is further highlighted on the Alberta Municipal Affairs website as a way to ask, and answer, questions about the current situation and the future and a way to set a mission and goals. Strategic planning is not a requirement for Alberta municipalities, although it is identified as an important task for municipalities for planning within resources (Government of Alberta- Municipal Affairs, n.d.).

Council Plan- *State of Victoria, Australia*

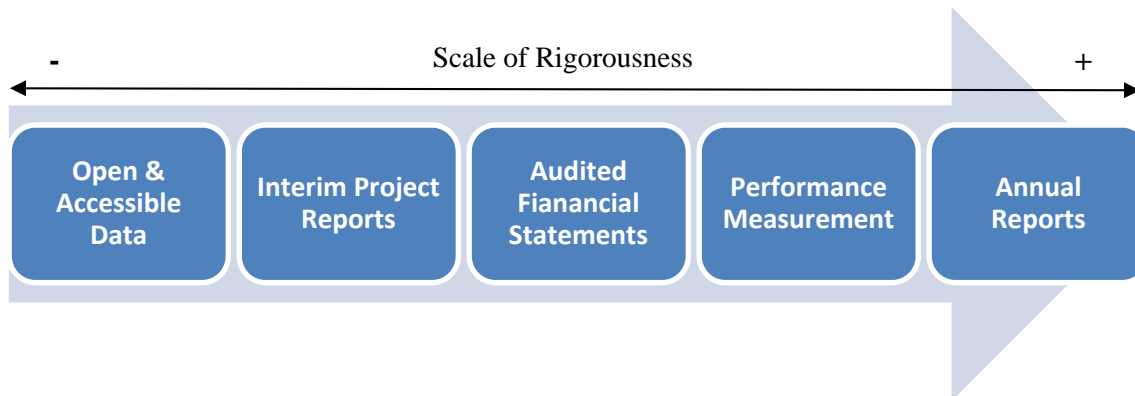
The *Local Government Act* for the State of Victoria in Australia lays out the requirements for Council to prepare a Council Plan (s.125). The Plan is for a new council and is a type of strategic plan for the group for the next four year term. Requirements for the plan include objectives, indicators, resource plan, must be open to public submission, and other items specified by regulation. The plan must be reviewed every year for accuracy and adjusted accordingly. It provides a means of ensuring consistency even as governance or staff changes, other issues arise or Council is tempted to change the planned direction of operations and service.

5.2 Reporting

Reporting is frequently what people think of when considering accountability. The types of reporting available vary almost as much as the issues to report on. For municipal financial accountability and the purposes of this report, reporting will be the release of information to the public for the purposes of allowing citizens to be informed about municipal operations, spending or decisions. Reporting can be viewed by what is reported and how it is reported. The majority of the examples provided below are what is being reported, and the how is generally through some action by the municipality. The exception to this is the audited financial statements, where the ‘what’ is the statements, and the ‘how’ is through the requirement to have an independent auditor.

This section focuses on specific reporting methods, including open data, interim project reports, audited financial statements, performance measurement and annual reports. The spectrum of rigorousness is established for the five categories of the reporting continuum before each category is described and jurisdictional examples are provided by name, location, an explanation and the authority and direction of the measure.

Figure 4- Reporting Continuum



5.2.1 Open and Accessible Data

Open data websites are a very clear way municipalities are addressing the need for accountability. Providing public access to data allows citizens not only the ability to find the information but also allows for comparison and the impression that the municipality is laying everything out in the open. Open and accessible data, in the forms discussed below, is a relatively new development in municipal financial accountability and is highly dependent on the use of web technology.

Opening up government- Data.gov.uk - United Kingdom

This new website aims to increase the transparency of public sector data by making it easily accessible. In fact, the data available goes beyond public sector data and includes information that government may use to evaluate or affect decisions. While some data on this site was previously available, this website created a one-stop-shop. The website currently contains over 5,400 data sets. Local government local government data sets include council tax levies, expenditures over £500, financial statistics, and approximately 780 other data sets (Her Majesty's Government, n.d.).

This truly user friendly website is visually appealing and interactive and contains an effective search function, a wiki, a blog and a suggestions area to post ideas about future data sets or presentations. Examples of recent public suggestions included information on the radiation levels in UK following the March 2011 earthquake and Tsunami in Japan or a map of Britain showing the roads that have been sanded after a snowfall. The availability of over 100 applications (apps) that use the data sets suggests the data.gov.uk website is particularly current and engaged in public interests.

Open Data - Cities of Edmonton, Ottawa and Toronto

The cities of Edmonton, Ottawa, Toronto and Vancouver all offer open data catalogues where citizens can access a large amount of data on the computer. The municipalities have recently joined a partnership to create a framework for open data, which aims to “enhance current open data initiatives in the areas of data standards, terms of use agreements and open data website design” (City of Ottawa, n.d.). Often the data sets are accompanied by apps for technology including Blackberries and iPhones that have been designed by the public.

These data sets include information on services, facilities, recreation, transportation, elections, policies, meetings, and a myriad of other categories that citizens may find useful. Outside of this partnership, other municipalities are also developing similar open data projects, including Mississauga, Nanaimo, and Calgary (Davies, Lithwick, & Canada, 2010).

5.2.2 Interim Project Reports

Reporting midway through a project, or evaluating progress during a program or service, allows for mid project corrections and also prevents the appearance that reporting, and therefore accountability and adjustments, can only occur once a project or program is complete. A large majority of interim project reporting in Canadian municipalities outside

of BC is project or policy based, and is done on an ad-hoc, irregular, project by project basis rather than as a legislated requirement. A more common project reporting standard is found in the annual reports issued by the Provincial ministries responsible for local government.

Spirit of Alberta Progress Report- *Alberta*

In 2010, Alberta released a project report on its community culture policy named “The Spirit of Alberta.” The report, issued by the Provincial Minister of Culture and Community Spirit, is a public document that aims to give the public a sense of the work to date. The report highlighted the policy, major achievements, and lists the goals with the actions to date (Province of Alberta, 2010). The report stands as an example of a Provincial effort to communicate with the public on the progress of a more abstract feature that affects local governments.

Progress Report on Brownfield Redevelopment- *Ontario*

An example from Ontario of interim project reporting comes from a project on Brownfield redevelopment. The website provides a background to the evolution of the project and its various stages at different points in time (Ontario Ministry of Municipal Affairs and Housing, 2008). In addition, in 2004 the Ontario Ministry of Environment released a well regarded (Association of Municipalities of Ontario, 2005) report on the progress of test and inspection results of Ontario’s municipal drinking water systems.

5.2.3 Audited Financial Statements

Every province and territory in Canada required that municipalities conduct audits of their financial statements as part of their financial accountability practices. These financial audits are generally conducted by independent third party auditors. Audited financial statements represent the basic level of municipal financial accountability in Canada.

5.2.4 Performance Measurement

Performance measurement is a form of accountability that has made its way into a number of Canadian jurisdictions and has seen considerable attention in Australia and the UK. Performance measures are the comparison of an organization’s resources, actions and results to a set of predetermined indicators that are identical or similar across a number of municipalities for the sake of comparison. This benchmarking is relatively easy to compare and digest for the public. For instance, residents could compare if their municipality spent 10\$ per person on garbage collection last year while the next municipality spent 5\$ per person. As a source of information, performance measurement is an attempt to close the

gap between citizens and government decisions and performance. As illustrated in the literature review, the success of performance measurement is largely based upon the collaborative development of performance indicators that take into consideration differences in geography and population.

Municipal Performance Measurement Program (MPMP) - Ontario

The MPMP program was launched in 2000 as a mandatory requirement for all municipalities in Ontario and designed to improve their accountability. For 2010, the program used 59 measures for 12 services (Ontario Ministry of Municipal Affairs and Housing, 2011). These measures must be included in an annual report to the Province by the end of May, and reported to the public by the end of September. The Ontario Ministry of Municipal Affairs and Housing website provides a large number of documents including preparatory assistance documents such as templates and handbooks and archival data. The program has had its challenges and criticisms, including concern from some municipalities and concern over the timeliness of that data being released, often over one year later. Despite these setbacks, the program is generally providing citizens with increased awareness and understanding of municipal operations, finance and services, and providing municipalities with the opportunity for inter-municipal comparison and changes over time (Burke, 2006).

Ontario Municipal Benchmarking Initiative (OMBI)

The OMBI was created, in part, to reflect the importance of involving municipalities in the creation of the MPMP, and is a collective of progressive senior municipal staff and experts who assist in the development of performance measures and comparison frameworks (Burke, 2006). The goal of the OMBI is to help “Councils, staff and citizens understand where their administrators are performing well and where they can make improvements” (Ontario Municipal CAO's Benchmarking Initiative, 2009).

Municipal Indicators- Nova Scotia

The Municipal Indicators from the Service Nova Scotia and Municipal Relations Department aim to provide a basis of information and accountability through indicators on governance, performance, community and financial indicators (Service Nova Scotia and Municipal Relations, 2011). The program is a joint Provincial-Municipal initiative wherein 41 indicators can prompt analysis or investigation and provide further info (Institute of Public Administration of Canada, 2004). The information is accessible to the public, other municipalities and the province and is self-reported. The introductory material to the Municipal Indicators correctly contains a disclosure that the indicators are not a complete picture on their

own, and that those comparing indicators should remember that many acceptable reasons exist for differences, such as location.

5.2.5 Annual reporting

The private sector offers its stockholders an annual report to reflect on the year's performance and goals for the future. In the public sector, a similar report exists in many Canadian municipalities to provide financial information to the public in the context of service delivery and other government activities. Annual reports vary in content and form but all have the general aim of providing the intended audience with an overview of operations.

Financial Information Return (FIR) - Ontario

Municipalities in Ontario are required to report each year on "financial and statistical information." The financial information return measures are thorough and very specific, with even the smallest jurisdictions reporting around 80 pages of information. Information on past reporting years both by municipality and provincial summaries is available on the FIR website, along with financial statements and the tools for municipalities to complete their FIR's (Ontario Ministry of Municipal Affairs and Housing, 2010a).

Annual Reports- Cities of Edmonton and Calgary

Annual reports for municipalities in Alberta are a legislated requirement and must contain financial statements and an auditor's report. Municipalities, such as Edmonton, use the annual report as an opportunity to include information including "significant financial policies, strategies and events" (The City of Edmonton, n.d.). The City of Edmonton website provides reports back to 2003, organized into financial results and operational annual reports and summary financial reports. The City of Calgary publishes extensive annual reports that include financial reporting but also items such as statistic, administration and operations information and a rundown of infrastructure, achievements and employees. Reports from 2006 are available on the City's website. In addition, the City of Calgary has been conducting three year planning for its extensive business plan and budget.

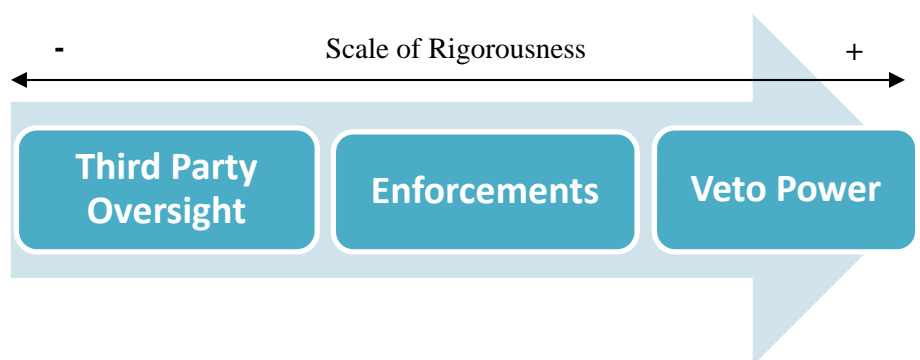
5.3 Remediating

Remediating is representative of those steps that occur after the reporting phase. While remediating appears on the continuum in the last, or latest, spot, the circular nature of the continuum allows for reporting to directly inform the next planning phase. The ideal form of remediating would have its information and learning feed back into the next

planning phase. Remedying depends on the provisions in place and in Canada these provisions are often third party oversight, veto power or enforcements.

The remedying section is not just intended to detail accountability practices that have some type of enforcement power, but also to develop a list of practices where the act of transparent discussion can influence decision makers and empower citizens with the knowledge required to demand change from their municipality. The spectrum of rigorousness is established for the three categories of the remedying continuum before each category is described and jurisdictional examples are provided by name, location, an explanation and the authority and direction of the measure.

Figure 5- Remedying Continuum



5.3.1 Third party oversight

The enforcement power of third party oversight is, for the most part, not direct enforcement but rather independent review and guidance on an issue undertaken by an individual or office whose findings can identify a path of resolution for citizens and decision makers. For example, a recommendation to spend more money on staff training does not force the municipality to act, but the public nature of the recommendation and arming the public with this knowledge will often lead to a similar remedy. Some examples of third party oversight from other jurisdictions:

Chief Auditor (CA) - Quebec

In Quebec, municipalities with a population of 100,000 or more are required to have a chief auditor officer under the Quebec *Cities and Towns Act* s.107, 108 and 113. The CA is appointed by Council for seven years and the funding of the CA is an apportionment of a certain percentage of operating expenses. The responsibilities of the CA include financial, operations compliance and value-for-money audits.

Quebec cities with populations over 100,000 include Montreal, Quebec, Laval and Gatineau.

Statutory Accountability Requirements- *City of Toronto*

Toronto, under the City of Toronto Acts, must have its own Auditor General, Ombudsman and Municipal Integrity Commissioner. The Auditor General and Ombudsman for the city of Toronto do not generally deal with citizen complaints, and instead there are other avenues for citizen complaint including a fraud and waste hotline. The Auditor General is responsible for both financial management and value-for-money review, is located within the structure of the municipal organization and reports directly to Council (City of Toronto, n.d.). The City introduced the position of the Auditor General on its own in 2002 and the legislation followed in 2006 (City of Toronto, n.d.). The Ombudsman's role is to investigate complaints of administrative unfairness. The Commissioner generally deals with complaints from Council or the public on conduct, processes and policies surrounding ethical behaviour and has no power to enforce its recommendations. Council has the discretion to impose the suggested penalties (ICURR, 2008).

Optional Statutory Accountability Requirements for other regions of Ontario

The accountability roles of Municipal Auditor General, Ombudsman and Municipal Integrity Commissioner are optional for all other municipalities in Ontario. The Municipal Auditor General has been introduced in Sudbury, Markham, Ottawa and Oshawa and is being lobbied for in other jurisdictions, including the Niagara region, London, Windsor and Oakville.

Investigations into a Municipal Auditor General- *Alberta*

In 2009, a private members bill was introduced in Alberta that proposed the creation of a Municipal Auditor General position. Before second reading, the bill was referred to the Standing Committee on Community Services for further study, including accepting submissions from the public. The committee has since recommended that the Bill not go forward, and instead the Ministry of Municipal Affairs is leading the delivery of a four points approach on increasing municipal accountability as recommended by the Committee. The four steps include (Standing Committee on Community Services, 2009):

- The publication of management letters;
- Easier access to financial statements, with one location on the Ministry website for the public to access reports;
- Regular corporate reviews by the Province of small jurisdictions; and
- Increasing the awareness of the independent nature of municipal auditors, for example changing the auditor every year.

City Auditor's Office- *Calgary*

The City of Calgary has an independent City Auditor who is hired by and reports to Council. This Auditor position is established by bylaw through s. 210 of the *Municipal Government Act* that allows Council to establish a designated officer position to carry out specific powers, duties and functions. The responsibilities of the office include overseeing administration, particularly related to the City Manager, and ensuring the accountable use of funds, including value-for-money (The City of Calgary, 2010).

Office of the Auditor General (OAG) - *Manitoba*

The OAG for Manitoba has a similar authority to that in BC where the provincial OAG can audit the distribution of public funds, including those funds that are provided to municipalities. The OAG for Manitoba does not have the direct or legislative authority to audit municipal governments, but has undertaken a limited number of self-initiated municipal audits (L. Nesbitt, personal communication, April 19, 2011). Between 2002 and 2009, five audits conducted were categorized as municipal affairs (Office of the Auditor General of Manitoba, n.d.).

Office of the Auditor General (AG) - *Halifax Regional Municipality*

Amendments in 2008 to the Halifax Regional Municipality (HRM) Municipal Charter required Halifax Regional Council to appoint an Auditor General. The Auditor General was chosen in September 2009 to lead a seven year term and has the authority to examine the accounts, procedures and programs of the Municipality, any related municipal organization and any recipient of municipal grant funds. The HRM AG is independent and reports to Council through the Audit Committee. The mandate of the HRM AG is to protect the public interests and “provide[s] assistance to Halifax Regional Council in holding itself and the administration accountable for the sound administration of HRM’s financial accounts and transactions and achieving value-for-money in the operation of the Municipality” (Halifax Regional Municipality, 2010).

Municipal Auditor General- *Nova Scotia*

In 2007, a memorandum of understanding (MOU) was signed between the Province of Nova Scotia and the Union of Nova Scotia Municipalities (UNSM) regarding “advances in the Progress of Municipal Government” (Province of Nova Scotia, 2010). This MOU included areas where municipal costs to fulfilling provincial responsibilities could be reduced and provided measures for working towards the establishment of a MAG. Amendments to the *Municipal Government Act* in 2008 allowed the Minister to appoint a MAG after consultations with the UNSM.

Following the MOU, a joint committee was struck with staff from the Province and the UNSM to look at MAG options. After examining research and meeting with stakeholders, the committee created a number of options. The recommended option was a “hybrid” model that involves the creation of an office of two individuals, a MAG and an administrative position. The MAG in this model would “determine, approve, supervise and coordinate audit work to be purchased from and conducted by private sector firms.” The Province set a target implementation date of April 2011.

Ombudsman

An Ombudsman is an individual who impartially and independently reviews, generally at the request or complaint of a citizen, administrative decisions, recommendations or actions that a municipal organization including Council, staff or a related board has undertaken or not undertaken.

The role of Ombudsman is common across Canadian municipalities. The application of the role differs, however, and includes the Provincial Ombudsman having municipal authority, no Ombudsman with municipal authority and municipality specific Ombudsman (see Appendix C- Ombudsman Authority). It appears that many jurisdictions hold the role of Ombudsman as a very basic level of accountability and independent review for issues outside of the financial realm.

Montreal is unique in its position of having a Municipal Ombudsman located within the municipality that is not required by legislation and was in fact established by request through a Task Force on Democracy summit (Ville de Montréal, n.d.-b).

5.3.2 Enforcements

The term enforcement often refers to the authority of the Courts. All Canadian municipal jurisdictions have the Courts as an overruling authority, and therefore enforcement here means avenues outside the Court system. Enforcement can be either punishments or rewards and are a way of enticing certain behaviour. While relatively rare in Canada, enforcements for municipal performance are more common in the UK and Australia, where poor performance can cause a service to be taken away from municipality’s responsibility in the UK or lead to forced boundary changes and amalgamations in Australia. Many Canadian jurisdictions use public reporting and in some cases public shaming to allow citizens to hold government to account. Another, more subtle but perhaps more common

method, is for the Provincial government to quietly intervene in cases of mismanagement or poor reporting.

Withholding funding- *Ontario and Saskatchewan*

Under certain conditions in Saskatchewan, for example failing to file finance statements, provincial funding may be withheld by the Minister (ICURR, 2008). In Ontario, if required financial information is withheld or if a required tax-by-law is not passed the Minister of Finance may withhold funding or money payable by the Province to a municipality (ICURR, 2008).

5.3.3 Veto power

Veto power in the realm of accountability addresses the ability or authority to overrule certain decisions of a Municipal Council or its related organizations. Across Canada, veto power is found most often in Municipal boards. These boards are commonly used for the appeal of property assessment or municipal boards. Board authority is generally focussed on planning and land use items but can also include a general authority that may be applied to financial, and board structure and principles could be applied to a municipal board with any number of authorities or mandates. In addition, boards with the authority to change property assessments will directly influence the property revenue of the municipality and therefore its financial planning and sustainability. Other veto powers, such as Ministerial Authority, represent a single figure having the ability to overrule a municipal decision.

Ontario Municipal Board (OMB)

The Ontario Municipal Board is an administrative tribunal for land use planning applications and appeals, comprised of individuals appointed by Provincial Cabinet (Ontario Ministry of Municipal Affairs and Housing, 2010b). The board hears issues related to planning or financing of land use issues such as development costs charges and land expropriation (Government of Ontario, 2010). The OMB hears local issues and considers them on a wider, provincial scale and can overrule the decisions of a municipal Council. The OMB issues decisions and orders on its findings. The orders are registered with the Superior Court of Justice and are therefore enforced as orders of the court (Government of Ontario, 2010).

Ministerial Authority- *Alberta*

The Municipal Government Act of Alberta provides the Minister of Municipal Affairs with the authority to conduct municipal corporate reviews and inspections. Additionally, the Minister may appoint an official administrator if it is deemed necessary to oversee the Council actions (Legislative Assembly of Alberta, 2009). In the last several years this authority has been used to conduct six reviews, 12

inspections and appoint 11 official administrators (Legislative Assembly of Alberta, 2009). The purpose of the review is to provide constructive advice, and the purpose of the inspection is to conduct a more in depth formal review. The Minister may issue binding orders to a local government following an inspection.

Municipal Government Board (MGB) - Alberta

The Municipal Government Board of Alberta has been established to hear issues arising from the *Municipal Government Act*, and can make decisions and hear appeals. The MGB has the authority to rule on issues such as property assessment, intra-municipal and municipal-management body disputes, land annexation and any other matter the Ministry may determine. The board is comprised of a Chair and 41 board members, and in 2008/2009 heard 3,671 cases (Government of Alberta, n.d.).

Manitoba Municipal Board (MMB)

The MMB is similar to the Alberta MGB, and is a quasi-judicial tribunal. The Board addresses issues such as appeals of property assessment, borrowing, zoning or subdivision by-laws, boundary applications including amalgamations and dissolutions, dispute resolution between municipalities for certain matters, and other assorted issues (Province of Manitoba, n.d.). The MMB is the only municipal entity in Manitoba that the Auditor General of Manitoba has the explicit authority to audit. The Board decisions are independent of the direction of government officials.

5.4 Summary

Methods of addressing and demonstrating accountability are varied and numerous as shown in the variety of examples available from locations throughout Canada and a few limited overseas jurisdictions. The findings of the jurisdictional scan support the accountability continuum and are summarized in Table 1.

Table 1- Summary Jurisdictional Findings by Continuum Category

	Planning	Reporting	Remedying
Competitive Tendering	Australia- State of Victoria		
Consultation for Direction	City of Calgary, City of Montreal		
Organizational Goal Setting	City of Edmonton, Australia- State of Victoria		
Open & Accessible Data		UK, Cities of Edmonton, Ottawa and Toronto	
Interim Project Reports		Alberta, Ontario	
Audited Financial Statements		BC, AB, SK, B, ON, QU, NB, NS, PEI, NL, YK, NT, NU	
Performance Measurement		Ontario, Alberta, Nova Scotia	
Annual Reports		Ontario, Alberta	
Third Party Oversight			Quebec, Ontario, Alberta, Manitoba, Nova Scotia
Enforcements			Ontario, Saskatchewan
Veto Power			Ontario, Alberta, Manitoba

A continuum of accountability was created as a way of conceptualizing the diverse environment that is captured by notions of financial accountability. In the continuum, the three major phases of methods are planning, reporting and remedying. The jurisdictional examples provided in this section act as examples of practices that are currently used and create the opportunity to learn from others and examine BC's municipal accountability measures in light of what other jurisdictions are doing.

In order to better understand the nature of all accountability methods, it should be clear who is in control of that particular method and who the method is attempting to demonstrate accountability to. This aids in the analysis of gaps and opportunities. For BC, where the emphasis is on a local-citizen accountability framework, a system where other financial accountability controls or directions are emphasized would difficult to implement successfully.

6 Interviews

Interviews were conducted with 11 individuals with local government expertise, financial expertise, or both (see Appendix E- Interview Subject Biographies). With a variety of backgrounds, the interviewees provided practical opinions, expertise and information on a range of items related to municipal financial accountability. Individual interviewees will be named but not directly quoted. The findings from the interviews will define financial accountability as understood by the interviewees, characterize the philosophy towards local governments in BC and address improvements or additions to the current system.

6.1 Fiscal vs. Financial Accountability

As previously discussed in the report, differentiation between the terms “fiscal accountability” and “financial accountability” is difficult. The interviews began with a question regarding the classification of the two terms, in order to ensure all participants were discussing the term that to them was larger and more encompassing. The responses created an opportunity to engage in the concept and fabric of financial accountability.

Dale Wall and Jim McDavid identified several elements that comprise financial accountability. These include probity, honesty, money used for the intended process, efficiency and effectiveness, accounting for revenue and revenue sources, and the process of budgeting and expenditures. Wall went on to qualify that in a system of fiscal accountability, expenditures should match levels of demand for services and that the term encompasses both fees and taxes. Barry Gagnon succinctly summarized financial accountability as being accountable to the public when using municipal and public resources. Gerry Armstrong identified a weakness in financial accountability when the vague notion of the voter, to whom accountability is generally thought to be due, is not further defined. Malcolm Gaston expressed this as requiring organization to think about users, stakeholders, and the product of accountability.

The Broader Term

Wall, Armstrong, Gagnon, Dave Morris, Richard Taylor, Stan Westby, and Judy Rogers all defined fiscal accountability as being the more inclusive term that generally consists of considerations beyond pure balance sheet or budgeting practices. By this understanding financial accountability is the general accounting system. Rogers pointed out that in her opinion, financial accountability was more the system related to the working accountability of audits and balance sheets, while fiscal accountability considered the best interest of the taxpayer. Financial matters such as policy, longer term planning and organizational goals relate to fiscal accountability, according to Morris, while Taylor and Armstrong

summarized financial accountability as being the legislative framework, oversights and reporting requirements. Wallace suggested that fiscal accountability is a forward looking practice.

McDavid, Frank Leonard and Gaston identified the term financial accountability as having a larger scope than fiscal accountability. Financial accountability relates to how money is raised and spent, versus fiscal accountability, which is more related to expenditures, McDavid said. Financial accountability is not what you spent but how you spent it, and fiscal refers to the balance sheet and analysis side, according to Leonard. To Gaston, fiscal is the narrow definition referring to the number side of the issue while financial accountability is broader and includes not only how the money was spent but also the broader concept of administration, following regulation, value-for-money, efficiency, and outcomes.

The importance of financial accountability

Financial accountability is important because of the relationship between the taxpayer and the elected official, as well as elected officials and municipal staff spending money that is not theirs. Gaston and Leonard both provide a straightforward response that is both the definition of and reason for, financial accountability: the best use of public money.

Wall and Morris suggested that the responsibility for ensuring money is spent well and in a transparent and open manner, as well as reporting, falls to both staff and elected officials. Wall went on to emphasize that there are good business incentives for practicing financial accountability. Morris raised the idea that some municipalities only report to fulfill a requirement while others go above and beyond to make reporting understandable. Westby suggested that financial accountability is also a fulfillment of legislative requirements to confirm that the organization is a prudent manager of the assets and resources of the community.

Rogers felt that as a government employee, practicing financial accountability was part of her job to ensure that the organization could speak to the use and allocation of funds to the public. In financial accountability, Gagnon pointed out, public assets and objectives need to be carried out in a way that meets the predetermined procedures and requirements. Wallace reinforced this idea by stating that financial accountability sets out to achieve predictability and security.

Financial accountability exists because it is the right thing to do, but there need to be a focus on standards and reporting requirements so there is some consistency across jurisdictions, Taylor said.

6.2 BC's approach to local government

As emphasized throughout the report, all considerations of changes or analysis of local government must reflect and be cognizant of the relationship and philosophy with which BC governs local governments. The interviewees have all been a part of the local government system in one capacity or another and while their experience is varied from provincial to local, elected to staff, academic to professional, the sense of an irregular approach to local governance was acknowledged by a number of the participants.

Autonomy

The *Community Charter* established municipalities to be autonomous, responsible and accountable levels of government. BC is unique in this aspect, with its philosophy of non-interference and, according to Wallace, its hands-off attitude. Taylor recalls that many other provincial governments in Canada questioned this move. In BC, the belief continues to be that sovereignty of the individual local government is primary and regional governments, including regional districts operate as confederal governments. Their consent is required for the regional activities they choose to participate in, according to McDavid. He emphasized that even public performance reporting for BC local governments is far less a top down requirement, and that it is a way for local governments to learn from the process.

The approach to local government in BC was defined by Morris as being delegated authority with oversight. The interviewees generally agreed that the flexibility of municipalities in BC is not reflected in other jurisdictions across Canada.

In general, BC has moved away from direct ministerial-local government intervention to encourage more local government- citizen accountability. Wall termed this “keeping local matters local,” with systems designed to encourage the local government-citizen relationship. He listed ethical conduct rules as an example. Rogers identified that local governments deal with the practical application of government policy and the larger scale policy work and major project development is done at a larger provincial scale. It is the local work and resources that ensure that residents can turn their water on.

Westby expressed that residual changes are still being felt following the *Community Charter* process. Municipalities do not know how to take advantage of the shift from requirement to empowerment. He also found that the autonomy offered to municipalities has resulted in a reluctance to adopt creative practices that may be difficult in the short run, but good long term behaviour and the attitude of ‘I don’t have to’ often prevails. Morris expressed that the general local government system in BC is good and is usually supported by good people, but that some intervention is still needed from time to time.

Reflections on the System

The relationship between municipalities and funding provides a good example of the applications of public sector confidence. A provincially created financial accountability framework exists that includes the MFA to provide a collective for low cost borrowing, the Inspector role for approving borrowing bylaws, required elector assent for long term borrowing and the requirement to present balanced budgets. The requirements enhance fiscal responsibility. These checks and balances, said Wall, represent a lot of thought regarding how municipalities cannot take business style risks. Leonard pointed out that it is the combination of the financial tools and requirements that has helped BC local governments avoid the difficulties found in the US with municipalities declaring bankruptcy or failing due to the recession.

Armstrong pointed to municipal property tax authority as an example of an area where the Province has created a basic structure but largely allows municipalities the ability to make their own rules.

A unique characteristic of BC versus other jurisdictions in Canada is its united, singular organization for elected local government officials. The UBCM represents all municipalities in BC and through their regional districts represents both urban and rural issues. This has a large impact on the province's approach to local governments, according to Armstrong. Wallace points out the benefit of providing a single voice of local governments to the province rather than the segmented voice found in other provinces.

6.3 Potential Framework Improvements

In addition to discussing the understanding of financial accountability and the approach of BC towards local governments, the interviewees suggested general areas where additional accountability measures could be focused. These possible progressions include minor enhancements to the current system and other areas of focus. The basic municipal financial accountability framework was familiar to interviewees, and these suggestions arose not out of a specific question to identify what should be done but organically out of a general discussion of the current system.

Potential enhancements to current system

As suggested elsewhere in the report, Provincial policies towards the local government system in BC have created an autonomous order of local government. According to Armstrong, this autonomy is intended for municipalities to be able to not only make decisions, but also be accountable to their electorate for those decisions. This supports the framework of municipal financial accountability in place in BC.

The province and municipalities currently have different systems of accountability, and Wallace suggested that requirements should be brought into alignment. For example, municipalities cannot budget for a deficit, while the Province can. Gaston noted that in his experience in the UK, recent developments introduced standardized performance measures that are independently audited and publicly reported. The province can play a stronger role and may have stepped back too much, according to Morris, since modest intervention and a guiding hand may be necessary from time to time.

A number of additional enhancements to the current system were suggested. Leonard noted that required public consultation for annual reporting should be better used as a broader opportunity for public input into local governance. Participation in these types of meetings is generally low, unless there is a very contentious issue to discuss, and the opportunity to use the meeting as a financial accountability session should be refined. Wallace offered a number of ideas, including creating a single taxation rate and communicating best practices across municipalities that can save the organizations money. Wall also raised the importance of the focus on innovation and innovative practices for cost savings. Finally, Taylor suggested more programs with direct funding from the federal to local government. A current example is the Gas Tax program administered by the UBCM. This program has designed a variety of accountability measures and is unique in Canada for providing funding before completion of the project and direct payment to local governments.

Other Areas of Focus

Further suggestions were made by interviewees regarding opportunities for changes that could be made in addition to the current system. These changes are potential areas for future focus or study and not only reflect many of the findings in the literature review and jurisdictional scan, but also generally continue in the same philosophy of the current financial accountability framework of direct citizen-municipal accountability.

Morris noted that municipalities should not discount the value of an open conversation with taxpayers, most notably with industry, to help create a dialogue of understanding. While this and other types of open public engagement should be encouraged, said Armstrong, municipalities must accept that they cannot force participation.

All accountability measures should focus on 'to whom' or 'to what' instead of the abstract and popular notion of the 'voter,' added Armstrong. In addition, Morris noted that municipalities should be open to using all the tools available to them, such as PPP. There should be an increased accountability focus relating to taxation, as this is the issue of greatest controversy, remarked McDavid.

Wall noted that cross-jurisdictional partnerships could realize cost savings and innovation. An example could be the sharing of a computer system. Westby offered an example from New Zealand that may prove to be useful to BC, where New Zealand has an extensive asset management system, and before any asset is approved a plan must be in place to account for operations, management and replacement costs, and a sinking fund. Leonard suggested that other jurisdictions may do as his does and consider municipal staff being included in bidding to perform external tenders. This helps insure municipalities against the boom and bust cycles of the economy that affect municipal revenues. External bidding may also assist municipalities in retaining and attracting staff who are an asset that is often difficult to find in a boom. Both McDavid and Westby suggested the use of full cost accounting to capture all costs, including sunk and overhead costs. It should be considered that the software for full cost accounting is expensive and may prove difficult for smaller jurisdictions to purchase.

Financial accountability measures should be evaluated in terms of the cost of going through the process, for example the cost of an auditor for the audited financial statements, versus the cost of transparency, commented Barry Gagnon, as in the case of accountability requirements such as competitive tendering and issuing request for proposals (RFP). Wallace also suggested that tendering should carefully consider cost and quality.

6.4 Challenges and Opportunities

Both challenges and opportunities exist in the current financial accountability framework. Neither challenges nor opportunities are greater than the other, simply challenges must be in the awareness of all parties, while opportunities may be easier to develop for the enhancement or development of a more robust, more framework. Both challenges and opportunities present areas of potential focus for greater system understanding, enhancement or refinement.

Challenges

The landscape of BC municipalities is varied. The province's population distribution and geography vary greatly. The large number of small jurisdictions raises the challenge of capacity for operations and accountability, noted Leonard, while Wall commented that smaller jurisdictions may need more supervision. The variety between municipalities also creates a difficulty when choosing one tool of accountability to apply to all, Westby said.

General challenges to municipal financial accountability include both perceptions and actions. Wall said that financial accountability, both the reality and the perception, is affected by a few cases of irresponsible spending. These few cases impact all local

governments. Rogers commented that cities get themselves into trouble by doing things they should not, for example participating in the housing market.

Downloading of Provincial services is often blamed as the reason for the fiscal challenges facing municipalities. Many provincial fights and challenges end up affecting municipalities. Increased health and education costs decrease the dollars available for partnered infrastructure dollars, Gagnon said. Municipalities then must take this challenge and look for potential influences. For example, improving community health through recreation may lead to more provincial dollars available in the future for municipalities by lowering provincial health costs. Municipalities are allowing their roles to expand informally, not formally, said Rogers. Taylor cautioned municipalities to be careful of provincial offices intervening in municipal affairs as often an authority with only an advisory capacity leads to an unhappy public, a statement that contradicts the comments of other interviewees.

Challenges exist within specific tools also, as was discussed in the literature review. Taylor said that performance measures have difficulty measuring outcomes instead of outputs, and McDavid noted that performance measures do not necessarily improve effectiveness or efficiency and in fact many just lead to accountability by appearances. Wall commented that performance measures require significant effort for marginal value and in fact does not necessarily address all costs. Gaston noted that an individual who enforces recommendations runs the risk of becoming part of the system and so is no longer independent.

Municipal financial accountability stakeholders include the public and businesses, although businesses tend to speak out more against municipal financial decisions and accountability. Businesses feel less engaged in the decisions of service delivery, remarked Wall, but still pay high costs. This is one of the reasons for the repeated calls for a corporate vote. Wall also noted that public expectations and standards have increased. Gagnon suggested public expectations should be managed, particularly given that expectations are unrealistic.

Opportunities

The unique nature of BC's geography, philosophy to local government and municipal financial accountability system create opportunities for further enhancements to that system.

Wallace noted that Ministry staff are a huge resource for helping local governments with all financial matters, including accountability. This is a resource that is often underutilized by municipalities. Westby and Morris noted that the public, municipalities and the Province should take further advantage of information, including important comparative stats

currently collected by the Province. Opportunities can be found in saving for capital and infrastructure replacement, strategic investment and use of land and tracking unfunded liabilities, according to Rogers.

Jim McDavid commented that a one size fits all approach is not good for accountability measures. This is nicely reflected in BC's current system of annual progress reporting measures established and defined by municipalities themselves.

Interviewees were not asked directly for specific changes or possible additions to BC's current financial accountability system. The items contained in this section reveal the suggestions or areas of focus that arose naturally during conversations on municipal financial accountability and specifically BC's framework. Taylor noted that implementation of any changes should always be incremental rather than a "big bang," while Armstrong remarked that though there do not appear to be many options between doing nothing and an atomic bomb; any middle ground is worth considering.

6.5 Conclusion

The interview responses reflected the wide view of definitions of accountability, including differences between the terms financial accountability and fiscal accountability. The respondents agreed that all accountability, regardless of the term used, refers to the responsibility of a public body to the taxpayer to demonstrate where, why and how taxes have been spent. The majority of respondents also supported the presence of a current philosophy of governing local governments that is unique to BC. The unique philosophical approach of the province to local governments is often unquantifiable, and exists largely through practice and in the attitude and mind of those involved. The interviews reflected upon this and provided a glimpse at the guiding, not enforcing, hand of the province in encouraging municipal-citizen engagement.

Despite general, though not unanimous, support for the strength of BC's current municipal financial accountability framework suggestions were offered for potential improvement. These included further public engagement, making data available to the public, accounting for full costs, and the importance of flexibility to respond to the variety of municipalities in BC.

7 Discussion

The goal of this report is to examine current accountability frameworks for comparison against BC to determine if any gaps exist in the BC municipal financial accountability framework, and if so, how they could be remedied. Background context information and discussions with the client provided a firm understanding of BC's current system. The academic perspective on municipal financial accountability was then explored, followed by the creation of a preliminary model of an accountability continuum. The continuum was examined using examples from other jurisdictions and expert interviews were conducted to provide a deeper sense of municipal financial accountability in BC. In this section the preliminary continuum model is further reviewed and compared to the current framework of municipal financial accountability in BC. Using the model, gaps and areas of improvement are identified.

7.1 Reviewing the model

Some elements of the literature review were difficult to capture in the preliminary continuum model and were less reflective of true accountability measures. For example, while restructuring was presented in the literature as a possibility for addressing accountability, the results described discounted the actual effectiveness of amalgamation and decentralization on accountability. In addition, restructuring is a tool often used for other local government issues including regional economic development and its sole use is not the achievement of accountability. Finally, given that the scope of this report is limited to municipalities, BC's multi-layered and complex local government system would have to be discussed in order to truly consider all repercussions of restructuring as a viable option for addressing municipal financial accountability in BC. Instead, the literature review focused on themes including public participation and the sharing of data. It is these elements, that were identified as being successful and effective, that became central to the continuum.

The accountability continuum contained the phases of planning, reporting and remedying as well as 11 categories within those three phases. While jurisdictional examples were found to support all of the categories, for some of the categories it proved more difficult to find many cases. For example, interim project reporting is not often seen in a municipal context. Some categories proved to be quite multifaceted and veto power includes both municipal boards and ministerial authority. The categories in the continuum all proved to be substantive and had jurisdictional realities to reinforce the model's structure. The organization of the categories, however, requires some refinement. Certain roles may be

located between two phases or categories, and a more effective model would be less rigid in its divisions of phases and phases into categories.

Reviewing the model against the interviewee responses was difficult, in part due to the fact that most interview subjects had limited cross-jurisdictional experience and were largely only familiar with BC's municipal accountability system. In addition, the interview subjects were asked questions and gave responses on general municipal financial accountability items including the general philosophy of local government governance in BC and definitions of fiscal and financial accountability, and not on specific measures in place or on the preliminary continuum itself.

Nevertheless, the interview responses allowed the continuum to be strategically examined by practical, BC minded commentary. The spirit of all three model phases was reflected in the interviews. In addition, common themes found in the interviews were echoed in earlier research but are absent from the model are discussed in further detail below.

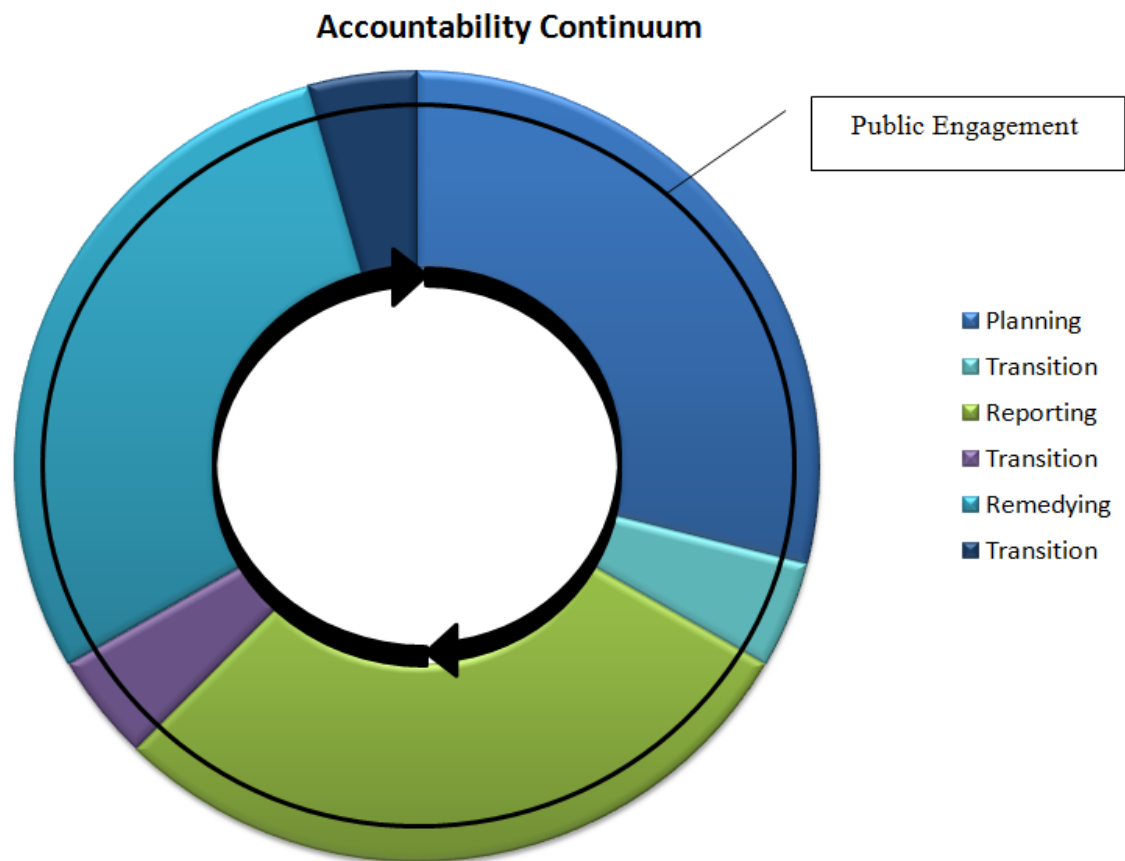
Notwithstanding the robust BC model supported by many of the interviewees, there are opportunities for improvement. Interviewees' suggestions of opportunities for improvement arose organically from discussions on the framework in use. Even individuals who emphasized the strength of the system in place were able to find potential enhancements. By using the framework as a template, these opportunities can be methodically explored.

Some themes that arose throughout all research phases are not reflected in the preliminary framework as their importance was not yet realized. The importance of the public throughout the process, particularly in designing accountability measures, was emphasized throughout the literature review. The importance of the public to the delivery and success of accountability was referenced in the interviews, particularly in the areas where BC municipalities are already attempting to engage the public, with limited success. The iterative nature of the continuum process was seen initially by the interwoven nature of accountability, as demonstrated in the literature review and jurisdictional scan where accountability was anything but linear and directional. The interviews reinforced the importance of this iterative process by acknowledging the complexity of accountability and reflected that accountability in a municipality is never static or complete. All the definitions of accountability reflected in the research focused on the public, and its right to know that public funds are being spent in an efficient and prudent manner. This creates a high importance for the public availability of data. The interviews noted the amount of information created by municipalities and the efforts to make it available, while acknowledging that the current state of a gap in perception between stakeholders such as businesses and residents and local governments demonstrates that the information is not bridging the gap.

7.2 Revised Model

The major phases of the preliminary accountability continuum were recognized and supported through the methods used by other jurisdictions and expert interview comments. Some adjustments were made as a result of jurisdictional research and stakeholder interviews. A revised model is described and presented in Figure 6.

Figure 6- Revised Continuum of Financial Accountability



The revised model includes changes to reflect:

Public Engagement: The research revealed a strong emphasis on the importance of engaging the public throughout the entire accountability process. The literature review placed a particular emphasis on the success of accountability measures reflecting the level of involvement of the public in the planning and structure of the accountability measure, such as performance measurement. The public is represented in only one particular category, consultation for direction, in the preliminary model. Here, in the revised model, it is placed as a continuous thread throughout the continuum. The public represent the

primary audience of accountability and it is both their involvement and expectation of accountability that drives, perpetuates and sustains public sector accountability.

While methods to achieve public engagement differ, current trends generally involve the use of technology. With continued technological advances the opportunities and expectations regarding its use by government increases. Even the current trend of social media has had a progression from MySpace to Facebook to Twitter. Difficulties arise in finding appropriate methods to achieve the level of engagement expected with technology. There are also concerns about privacy, security, and its limited use among the elderly and minority groups.

Transition areas: The preliminary model defined categories as fitting into one of three phases each with their own set of categories. For example, remedying generally occurs after the report of findings or outcomes. In a BC context, the Inspector of Municipalities is an example of remedying. Closer examination of the operations, responsibilities and authorities of the Inspector reveals that the placement would most appropriately be between reporting and remedying. BC's municipal annual reports provide information on what has occurred in the past year and what the goals are for the future. The opportunity and likelihood to link the two suggest that reporting out on previous actions and engaging those reports to create future goals has bridged reporting and remedying. While more rigid remedying authorities such as a veto power simply change what has already occurred, recommendations provided by third party oversight such as a municipal auditor general could represent a transition between the remedying of a prior project and beginning another project that incorporated the auditor's suggestions.

Allowing for transitional areas reflects the diverse nature of accountability measures practices by municipal governments globally and creates the possibility of transition activities that may fit into two phases. These transitional areas also present the opportunity to create new measures of municipal financial accountability that may serve both purposes.

Iterative process: The preliminary model contains three distinct phases, with each phase leading to the next. In reality, the phases are more transitional and in fact even iterative. Accountability requires not only one process to lead to the other, but also for the process portrayed in the continuum to be continuous, easily initiated and conducted throughout a project or service. In order to reflect these changes, the gaps between the phases have been removed, the distinct arrows leading one phase into the next have been removed, and all phases have been joined together in a single circle. The continuous arrows included to emphasize the perpetual nature of the continuum. The value of an iterative process can be seen most clearly by viewing one of the categories or examples within remedying, who rely on having been informed or initiated by a reporting process. For example, withholding

funding as seen in Ontario and Saskatchewan (remedying) requires the failure of financial reporting (reporting) that was required through budgeting practices (planning).

The preliminary model also included a more detailed version that included 11 categories within the three phases. These categories were necessary to allocate characteristics of the jurisdictional scan. The categories remain a part of the revised model and were supported through the jurisdiction examples and interview comments. The additions to the revised model of the iterative process and public engagement enhance the existing categories and add dimensions to the possible measures associated but do not change the categories themselves. The implications of the transition areas, however, impacts the categories as some jurisdictions examples of a particular category may now be in the transition areas rather than in the original order based on rigorousness. While the revised model changes the potential placement of measures or categories with the added presence of transitional areas, the basic categories and do not change and any variations are jurisdictionally specific.

Elements that were not included in the revised model include the impact of stakeholder views and the resulting perception gap between the local government practitioners and the business and taxpaying stakeholders. The exclusion of these elements was due to both the difficulty in representing them graphically, and the variable impact they likely have on the accountability continuum based on jurisdiction. For example, while BC has one local government representation organization, the UBCM, many provinces have several and therefore the impact of each on the overall continuum would be lessened.

While relatively minor, the changes to the preliminary framework establish a more robust model for viewing and evaluating municipal financial accountability.

7.3 Comparing the model against BC

The continuum was created for the purpose of providing a model against which to analyze BC's municipal financial accountability system. The revised model contains all of the original elements of the continuum and the categories with additional elements of public engagement, transition areas and a more iterative process.

BC is compared against the continuum phases and categories in Table 2. The table also lays out the level of fulfillment of the continuum for every Province in Canada. BC appears to have a thorough municipal accountability framework that covers virtually every category and phase of the continuum and is second only to Ontario for the realization of the most categories. An examination of the jurisdictions and phases reveals that all jurisdictions,

with the exception of PEI, fulfill the phase requirements of the continuum. This phase fulfillment can occur despite having as little as one measure to represent the role of the entire phase. Thus, the value of the further breakdown of the phases into categories is revealed. When evaluated against categories BC's system is robust and satisfies 10 of the 11 categories.

As discussed in the previous section, the categories of the continuum remain relevant to the revised model and are affected only by the transitional areas. The transitional areas affect the BC model as the organization of some of BC's measures will shift. The BC Inspector of Municipalities role is placed in the transition between reporting and remedying, rather than being placed at the beginning of the remedying continuum as an example of third party oversight. The annual reporting process of BC includes goal and direction setting that is planned for and then reported out. The annual report for BC would be most applicable in the transition zone between planning and reporting as the single measure fulfills both functions. A closer examination of the recommendations of the Ombudsman and Privacy Commissioner with regards to municipalities may reveal that their roles may locate the officers in the transition between remedying and planning.

The other two elements of the revised model, iterative process and public engagement, are both found in the current BC system. Using the annual report as an example once again, the report can qualify in multiple phases and categories and takes accountability through the entire process. Public engagement is a legislated requirement for elements of the BC accountability system although the details are often left to the discretion of the municipality. The interviews revealed that jurisdictions may not be using the public engagement tools to their full capacity, and given the importance of public engagement to accountability and the continuum there is an opportunity to further consult, discuss and inform the public on decisions, operations and outcomes.

Table 2 displays that BC satisfies all save one category of the continuum. The strength of the BC system does not suggest that improvements cannot be made to build on existing successful practices that have limited scope or are only practiced in a small number of jurisdictions. For example, the City of Vancouver has an open data program that fits into the category of open and accessible data in the reporting phase. Many municipalities also share public reports on their websites, however there is no standard for what is available or where to access such information. Areas where a check appears may require more attention to encourage the use of the flexible provisions currently available that some BC municipalities are using to show creativity and innovation but that other municipalities have not fully taken advantage of. The majority of financial accountability measures in BC are flexible, however the openness of the annual report is flexibility most often used.

Table 2- Continuum Categories by Jurisdiction

		BC	AB	SK	MB	ON	QC ¹	NL	NS	NB	PE
Planning	Competitive Tendering		✓	✓	✓		✓	✓	✓	✓	
	Consultation for Direction	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Organizational goal setting & strategic planning		✓		✓	✓	✓		✓	✓	
Reporting	Annual Reporting		✓	✓		✓	✓		✓		
	Financial Reporting		✓	✓	✓	✓	✓	✓	✓	✓	✓
	Open Data	✓	✓	✓			✓	✓			
	Interim Project Reports		✓				✓				
	Performance measurement		✓	✓		✓	✓		✓		
Remedying	Third Party Oversight		✓		✓	✓	✓	✓	✓	✓	
	Veto Power	✓	✓	✓		✓	✓				
	Enforcement (excluding Courts)						✓		✓		

¹ Note: The information obtained for Quebec may not be fully representative because of the language barrier.

7.4 Areas of Improvement

A comparison of BC's municipal financial accountability system to the revised continuum found that opportunities exist for improving the system and fall into the categories of promoting innovation and enhancing public engagement. These themes were direct suggestions and general outcomes of the interview responses, reflect findings and emphases in the literature review and jurisdictional scan and reveal the areas of the revised continuum where opportunity for leveraging current strength exists. These improvements reflect the generally strong performance of BC's municipal financial accountability framework against the accountability continuum and the opportunities that are still available for development.

A first basic step to a robust system of accountability is a common understanding of the goals and general purposes through the establishment of a general language around financial accountability. If all parties are aware of the scope they are working within and towards, and what the others are talking about when referring to accountability, it may help bridge the perception gap that exists current between local governments and the taxpayers and business associations. The interviews revealed that individual understanding of financial versus fiscal accountability vary greatly, and a common understanding of the language will better define the goal that all measures and efforts are attempting to achieve.

Promoting innovation will allow current practices that are limited in scope or adoption to circulate to a broader audience and encourage the uptake of strong examples of financial accountability. Disseminating the current best practices will allow other municipalities to benefit from the investment in process, success and lessons of their neighbours and apply these measures, as applicable, in their own jurisdictions. In addition to relying on municipalities that innovate new financial accountability measures on their own, municipalities should be encouraged to develop and promote new measures within their existing flexible authority.

Enhancing public engagement will allow current requirements for public consultation to be leveraged into broader public input and increase understanding about the business of municipalities. The public is the reason for accountability and further connecting with them and to them will fulfill the tenets of accountability. Increasing the knowledge of current requirements and operations, allowing the public to access and digest the information in a way that is the easiest and most appealing to them and looking into ways to get the public involved will all strengthen the ties between municipalities and the public whom they serve.

Motivation is key to ensuring that BC municipalities work towards improving the current accountability system, and was identified by the client as being a likely obstacle to the

implementation of more or further financial accountability measures. Motivations are most effectively addressed by creating an engaged public who will have a better understanding of what the municipality does, digest current accountability reporting and may demand more from their municipality.

The broad and flexible nature of the local government legislation in BC creates a variety of ways to fulfill financial accountability requirements. The requirements combined with the motivation of the municipality and the ability or capacity to do more will leverage strengths to enhance an already robust municipal financial accountability framework.

8 Recommendations and Conclusion

This section identifies and details recommended next steps for the client given the research conducted and findings discussed in this report. These recommendations flow from the discussion and provide specific actions for implementing the areas of improvement should the client wish to proceed with the findings of this report. Each of the potential areas of improvement identified in the previous section is further explored below through the lens of leveraging current strengths within the financial accountability system. The conclusion follows and provides final thoughts on the report.

8.1 Recommendations

8.1.1 Create Common Understanding of accountability

Recommendation 1: Adopt a financial accountability lexicon

A common understanding among all stakeholders of the municipal government system will assist all in focusing attentions on the same elements of financial accountability. The language for this general goal could be developed in partnership with stakeholders, including the UBCM, business and tax organizations and the Province. Suggested language, arising from the research conducted in this report:

“The BC Provincial government, through the Ministry of Community, Sport and Cultural Development, encourages municipalities, by means of legislation and principles, to practice *financial accountability*, or the responsible, efficient and effective spending of public money according to that public and their best interests and demonstrating that responsibility in an open and honest manner.”

8.1.2 Promote Innovation

Recommendation 2: Develop Best Practices Guide

The client could consider developing a best practices guide in partnership with the entire Local Government Department of the Ministry. This best practices guide would follow the purpose and template of a similar guide produced in 2004, ‘Regulatory Best Practices Guide’. The guide would be for stakeholders, primarily local governments, and be provided to them. The aims of the ‘Accountability Best Practices Guide’ would be to highlight what the broad powers enable municipalities to do, provide case studies of accountability practices, and the concepts behind the powers and requirements.

Recommendation 3: Encourage Innovation

Innovation could be encouraged and promoted. Municipalities across BC already demonstrate municipal financial accountability that extends beyond the requirements dictated by legislation. The client could encourage these innovations, and provide assistance to promote their success and development. By working with municipalities themselves, the client can assist by providing templates, distributing examples of commendable efforts towards financial accountability and encouraging the discussion on innovative practices. Examples could include sharing the practical learning from current innovations in open data in large jurisdictions, and exploring the idea with municipalities of pilot projects such as producing a value for money report card as part of the annual report. Partnerships in this project could include Civic Info BC, which already provides a great deal of resources to the local government community.

8.1.3 Enhance Public Engagement

Recommendation 4: Create a One-Stop-Shop for Information

Given the amount of information already created and reported by local governments, both to the public and directly to the Province, the client could develop a Ministry led website that creates one location for all local government reporting. This website would benefit from the involvement of UBCM for content development and public input to test for user friendliness. The website purpose would be to create one location where all interested parties, from citizens, media, businesses and interests groups, could go to access all the publicly reported material from local governments. Website content could include annual reports, SOFIs, five year financial plans and budgets and borrowing bylaws.

Recommendation 5: Enhance current use of public engagement

Public engagement is highlighted in the revised accountability continuum as being a key aspect of accountability. Given that public engagement and consultation is already built into the BC municipal accountability system, the client could focus its attention on increasing the public aspect of that engagement equation. Igniting the interests of the public in order to bring the crowds to the public meetings is a challenge facing most municipalities. The client could create a focus group of stakeholders to develop options, recommendations or best practices for increasing the use and effectiveness of public engagement in the current municipal accountability framework.

Recommendation 6: Increase education and awareness

The client could work with stakeholders to increase education around and awareness of current municipal financial accountability practices. This includes awareness with the public and organizations that have a stake in municipalities, and municipalities themselves. Education and increasing the awareness of the public of current financial accountability measures could be coordinated with a variety of groups, including research institutes, academia, and other organizations that are viewed as having independent analysis and products. For municipalities themselves, an internal campaign with partners such as the UBCM and LGMA could increase capacity by informing local governments of the tools available to them, including for example staff at the Ministry who can answer questions and provide guidance.

8.2 Conclusion

This report provides an exploration of the current BC framework, stakeholder opinion, academic assessment, and provided new material in jurisdictional examples and interviews. The accountability continuum creates a valuable tool for viewing and building accountability and was created through the knowledge gained in the report research. The continuum identifies 11 key categories under the three phases of accountability. The preliminary continuum benefited from jurisdictional scan support while the interview commentary added a more iterative process, transitional areas and the importance of public engagement to the revised continuum. A comparison of BC against the revised model revealed a general robustness, but suggested areas to leverage strength including promoting innovation and enhancing public engagement.

Early examination of the current BC municipal financial accountability system revealed gaps in perception between stakeholders, including taxpayers and business organizations, and local governments. This gap is a potential subject of further research. The analysis and recommendations provided in this report that focus on innovation and further engaging the public may result in an understanding of how to approach these differences in perception. An informed public is more likely to be an engaged public and a public who better understands and respects the decisions and operations of their municipality.

BC's municipal financial accountability framework is strong and contains all the elements set out by the accountability continuum. The continuum suggests that current practices could be disseminated throughout all municipalities and the enhancement of public engagement would both reflect the current philosophy towards local government governance and leverage strength in the current framework. All enhancements to accountability will inevitably increase public confidence in government and therefore

present a co-benefit by addressing this other significant challenge affecting local governments.

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Appendices

Appendix A: Types and Number of Municipalities in Each Province

Types and Number of Municipalities in Each Province*

Province	Total Number of Units	Number of Local Municipalities	Supramunicipal Structures	Other Quasi-municipal or Sub-municipal Structures
Québec	1147	775 rural municipalities 372 cities and towns	87 regional county municipalities 2 metropolitan communities	
Ontario**	448	50 cities 108 towns 4 separated municipalities 11 villages 245 townships	50 upper-tier municipalities	
Manitoba	199	9 cities 2 Local Government Districts 51 towns 21 villages 116 rural municipalities		
Alberta	352	15 cities 4 specialized municipalities 64 municipal districts 110 towns 104 villages 52 summer villages 3 special areas		7 improvement districts 8 Metis settlements
Saskatchewan***	829	13 cities 147 towns 311 villages 43 resort villages 133 rural municipalities 173 hamlets		
British Columbia	154	44 cities 15 towns 52 district municipalities 40 villages 1 Indian Government 1 island municipality 1 resort municipality	27 regional districts	
Prince Edward Island	75	2 cities 7 towns 66 communities		
Nova Scotia	77	3 regional municipalities 31 towns 21 rural municipalities		22 villages
New Brunswick	103	9 cities 25 towns 69 villages		289 Local Service Districts 1 rural community
Newfoundland	286	3 cities 282 towns	1 regional council	182 Local Service Districts
Yukon	8	1 city 3 towns 4 villages 2 hamlets		13 unincorporated communities 8 rural communities
Nunavut	25	24 hamlets 1 town		
Northwest Territories	16	1 city 10 hamlets 4 towns 1 village		

* Except for Indian reserves, which are under the direct and exclusive jurisdiction of the federal government.

** In Ontario, the Frontenac Management Board is included, since it has virtually the same powers as a municipality.

*** In the case of Saskatchewan, the data for urban and rural municipalities and the northern region were combined in the same category, even though these three types of municipalities are governed by different legislation.

Source: Collin, Jean Pierre and Léveillé, Jacques. (2003). Appendix 2. Municipal Organization in Canada: Tradition and Transformation, Varying from Province to Province. Groupe de recherche sur l'innovation municipale, the Institut de Ciències Politiques i Socials of the Universitat Autònoma de Barcelona, the Centre per la Innovació Local.

Appendix B: Control and Direction of Accountability

BC's Accountability Framework		
Tool	Control of	Accountability to
Annual report- Council's objectives and measures	Province provides general guidelines, LG fills in the details	Province, Public
Public Consultation	LG runs meetings, incorporates comments	Public
Borrowing Framework (including elector assent, MFA)	Provincial legislative framework for assent and MFA, public	Public, MFA
Five-year financial plan and budget	Province provides general guidelines, LG fills in the details	Province, Public
Statement of Financial Information	Provincial requirement	Province, Public
Audited Financial Statements	Provincial requirements, conducted by third party	Province, Public
Annual report- progress reporting	Provincial provides general guidelines, LG	Public
Ombudsman and Privacy Commissioner	Province	Public
Inspector of Municipalities	Provincial legislated role	Municipalities, Public

Jurisdictional Examples			
Jurisdiction	Tool	Control of	Accountability to
State of Victoria, Australia	Compulsory Competitive Tendering	Legislated requirement	State, business
Calgary	Participatory Budget	Municipality	All residents and Users
Montreal	Participatory Democracy	Municipality and Public	Public
Edmonton	Strategic Plan	Municipal Initiative	Public, Business
State of Victoria, Australia	Council Plan	State legislated requirement	State
United Kingdom	Opening Up Government	National Government	Public
Edmonton, Ottawa, Toronto	Open Data	Municipalities	Public
Alberta	Spirit of Alberta Progress Report	Province	Public

Ontario	Progress Report on Brownfield Redevelopment	Province	Public
All Canadian Municipalities	Audited Financial Statements	Legislated requirement	Province/Territory and Public
Ontario	Municipal Performance Measurement Program	Province	Province and Public
Ontario	Ontario Municipal Benchmarking Initiative	Municipalities	Municipal Staff, Elected Officials and Public
Alberta	Municipal Excellence Network	Province	Intra-Municipal Co-operation
Nova Scotia	Municipal Indicators	Province/Municipalities	Public
Ontario	Financial Information Return	Province	Province and Public
Quebec	Chief Auditor	Legislated requirement	Province and Public
Toronto	Statutory Accountability Requirements	Legislated requirement	Province and Public
Alberta	Investigations into a Municipal Auditor General	Province	Province and Public
Calgary	City Auditor's Office	Municipality	Elected Officials and Public
Manitoba	Office of the Auditor General of Manitoba	Province	Province and Public
Halifax Regional Municipality	Office of the Auditor General	Legislated requirement	Province, Elected Officials and Public
Nova Scotia	Municipal Auditor General	Legislated authority	Province, Municipalities and Public
Ontario and Saskatchewan	Withholding Funding	Province	Provincial taxpayers and Public
Ontario	Ontario Municipal Board	Province	Public
Alberta	Ministerial Authority	Province	Province
Alberta	Municipal Government Board	Province	Public
Manitoba	Manitoba Municipal Board	Province	Public

Appendix C: Ombudsman Table

Municipal review authority for provincial Ombudsman	No Ombudsman representative for municipalities	Municipal directed Ombudsman
New Brunswick	PEI	Montreal
Nova Scotia	Alberta	Toronto (required)
Ontario (limited to closed meeting issues)	Newfoundland and Labrador	Ontario - by choice (e.g. Ottawa)
Manitoba	Saskatchewan	Quebec (by choice)
Yukon (at the municipalities request)		
Northwest Territories		
British Columbia		

Appendix D: Interview Questions

Introductory Questions

- Could you tell us a bit about your background and experience in local government?
- You told us about your experience in/as (...) - what has that experience taught you about local government finance?/ How does your experience/perspective as a (...) inform your understanding and opinion of municipal financial accountability?
 - As a (...), what was your experience with the BC (municipal) financial accountability system?

Foundations- Understanding Municipal Financial Accountability

- How would you define financial accountability?
- What does financial accountability set out to achieve?
- The terms of ‘financial’ and ‘fiscal’ accountability are often interchanged – what, if any, difference do you perceive with the terms?

Current approaches to FA

- BC is often cited as having a different approach to governing its local governments. How would you describe the approach/philosophy of BC to local government governance?
- How would you describe (or what do you know about) BC’s approach to and system of municipal financial accountability?
- Are you aware of what other jurisdictions are doing to address (municipal financial accountability)?

Trends Pressures

- Recent media attention has focused on how municipal spending is growing faster than inflation and population growth. What do you think of this?
 - Is this the case? What is causing this, if true, or if not- why the attention?
- What are the pressures being felt by municipalities when it comes to accountability?
 - For example, top down/provincial requirements? Bottom up/citizen pressure?

Practicability of Academic and Jurisdictional Practices

- I’ve begun a scan of the financial accountability best practices in the academic literature, and a look at what other jurisdictions are doing. Examples of the findings so far include
 - performance measurement (with citizen and elected official involved in the creation of indicators)
 - Compulsory competitive tendering, including for municipally provided services

- What is your reaction to the feasibility, logic and creativity of these practices?
- Are/where are these found in BC's local government financial accountability system?
- If any of these characteristics are missing from BC's current system of financial accountability, what does their absence mean? Do you feel it's a deliberate omission or an oversight?

Concluding Questions- Next steps, etc.

- What do you see as the greatest threats or opportunities facing local government in the future, with regards to financial management, spending and accountability? These can be short, medium or long term.
- What are your ideas about addressing the threats or exploiting the opportunities?
- Is there anything else you'd like to say that were not covered in the questions? Would you like to add any more comments to the information you have provided in this interview?

Additional Questions based on individual experience: (possibilities, in lieu of or in addition to basic question set)

- What are the main principles of an 'audit' that provide for fiscal accountability?
- To what extent do you think financial accountability in local government could (or should) adopt provincial audit processes?
- Are any specific audit issues that would be different between provincial and local level audits?
- I'm very interested in your experience with Audit Scotland.
 - How would you describe the Audit and/or Best Value system for local governments in Scotland?
 - The success (+) and lessons (-) of their system?
 - What's the difference between a 'best value' and a 'financial audit'?
 - What's the different between local government and local authorities?
 - What lessons could be learning or in your opinion would be a worthwhile addition to BC's system?
 - Based on your knowledge, do (and if so, how) Scotland and BC's approach to financial accountability differ? How about their approach to local government?

Appendix E: Interview Subject Biographies

Dale Wall

Dale Wall has worked with the Province of BC for over 25 years, and retired as Deputy Minister of Community and Rural Development in 2010. Prior to his appointment as DM, Mr. Wall was the ADM for the Local Government Department. Mr. Wall has also worked for the Ministry of Finance and the Cabinet Planning Secretariat. His major policy projects during his time with the Provincial government included development of the variable tax rate system, legislation governing the assessment and taxation of major industrial properties and the creation of the Greater Vancouver Transportation Authority. A former member of the Board of Examiners, Mr. Wall has an MPA from UVic and graduated from SFU with a BA in geography/history.

Jim McDavid

Jim McDavid is a faculty member at the School of Public Administration at the University of Victoria, and has a PhD and two MA's in Political Science. Dr. McDavid is a co-director of the UVic Local Government Institute. A former Dean of the Faculty of Human and Social Development (1990-1996), Dr. McDavid joined the UVic School of Public Administration as an associate professor in 1980 and as a full professor in 1989. Dr. McDavid has authored and co-authored numerous articles, including "Program Evaluation in British Columbia in a Time of Transition", and coauthored numerous titles including "Will Evaluation Prosper in the Future" and "Joining Public Accountability and Performance Management: A Case Study of Lethbridge, Alberta".

Dave Morris

Dave Morris is a former City Manager for the District of Kitimat. Now a consultant, Mr. Morris is also a former Executive Director of the Local Government Services Division of the Ministry of Municipal Affairs, LGMA Executive Director, and Administrator with the District of Coldstream and Treasurer.

Barry Gagnon

Barry Gagnon is currently the Chief Administrative Officer and Corporate Administrator in Enderby, and a former CAO at North Okanagan Regional District. He began his local government career in the finance department at the City of Quesnel, and also served as treasurer in Mackenzie and Chief Financial Officer and Treasurer in Armstrong.

Malcolm Gaston

Malcolm Gaston has extensive experience in the UK, where he worked with Audit Scotland on the Best Value performance audit of local government and with the UK National Audit

Office. Mr. Gaston has worked as both a Chief Financial Officer at a Scottish Crown Agency and with two of the Big Four accounting firms. He holds both Canadian and UK accounting designations and an MA in psychology from the University of Glasgow. Mr. Gaston has been with the Office of the Auditor General since 2005 and is currently an Assistant Auditor General with responsibility for auditing performance and governance.

Steve Wallace

Steve Wallace is the former Mayor of Quesnel (1990- 2002), and has formerly served as both president of the UBCM and vice-president of the Federation of Canadian Municipalities. Steve Wallace currently operates Wallace Driving School and contributes to the Driving section of the Times Colonist.

Stan Westby

Stan Westby is the Chief Administrative Officer for the City of Powell River. Mr. Westby is a Chartered Accountant, and holds degrees in accounting and biology and a Masters in Accounting. Mr. Westby is former co-chair of the Committee on Canadian Issues for the Government Finance Officers Association of the United States and Canada, past president of the Government Finance Officers Association of BC, and former chair of the Local Government Asset Management Working Group of BC.

Judy Rogers

Judy Rogers is the former City Manager for the City of Vancouver (1999-2008) and spent the previous 10 years working for the city including as assistant city manager, deputy city manager, and director of both social planning and the equal employment office. Ms. Rogers has also served as a member of the Board of Directors of the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Games. Ms. Rogers has an undergraduate degree from UBC in community recreation and an MPA from UVic.

Richard Taylor.

Richard Taylor is the former executive director of the UBCM (1985-2007) and has served or is serving on numerous boards, including the Board of Examiners, the Board of Directors of the Local Government Leadership Academy and the Municipal Pension Plan Board of Trustees. Mr. Taylor is a co-author of the book *First Century*, which according to ABC Book World, “provides a fascinating account of an important journey through B.C.’s shifting political and social landscape” (Forsythe, n.d.).

Frank Leonard

Frank Leonard has been the Mayor of the District of Saanich since 1996 and has served on Council since 1986. Mr. Leonard has been Director of the Capital Regional District and Capital Regional Hospital District since 1987 and served as Chair for five years. He is also

currently Chair of the MFA, Chair of the Saanich Police Board, a Trustee for the Municipal Pension Plan and a Director for the BC Investment Management Corporation. Mr. Leonard is currently the Director of the Victoria Regional Transit Commission. His past municipal experience is vast and includes President of the UBCM, various roles with the FCM, and President of the Association of Vancouver Island and Coastal Communities. Mr. Leonard has both a BA and an MA from UVic.

Gerry Armstrong

Gerry Armstrong is a former deputy minister of Community Services, Advanced Education, Finance, Forests and Environment. Mr. Armstrong has served as a consultant for UBCM and has an Honours BC from UBC and an MA in Economic Theory from Northwestern University in Chicago.