

WORKSHOP ON LOCAL GOVERNANCE

Mike Kelly Boardroom, Shaw Building

March 29, 1999, 9:00 - 12:00

In Attendance:

Harry Baglole, workshop chair and Director, Institute of Island Studies
Sigfus Jonsson, guest speaker, Expert-Ice Ltd.
Ed MacDonald, workshop speaker and Research Director, Institute of Island Studies

John Barry, Municipal Affairs, Community Services and Attorney General
Bill Buell, Community Development Secretariat, Dept. of Development
Frank Driscoll, Chair, Institute of Island Studies Board
Lisa Doyle McBain, Executive Director, PEI Federation of Municipalities
Harry Gaudet, Administrator, City of Charlottetown
Diane Griffin, Councillor, Town of Stratford
Kingley Lewis, Provincial Planning, Community Services and Attorney General
Albert MacDonald, Director, Community Services and Attorney General
Wendy MacDonald, Wendy MacDonald & Associates Inc.
Lorne Moase, Acting Executive Director, PEI Federation of Municipalities
Dave Riley, Deputy Minister, Community Services and Attorney General
Leo Walsh, Deputy Minister, Intergovernmental Affairs

Introduction

The workshop opened with a round of introductions by those present, following which Harry Baglole welcomed participants. He noted that the Institute is in its second year of a formal Public Policy Partnership with the province, and that community development issues form a key part of its agenda. His involvement in community development, dating back to the Rural Development Council, has led to a conviction that local government – its role, powers, and resources – is critically important to local development.

The North Atlantic Islands Program, coordinated by the Institute during 1992 - 1998, has reinforced this conviction, and has brought insights and expertise to PEI – including those to be provided by the workshop's guest speaker, Sigfus Jonsson. Harry then noted that the Institute, the Department of Community Services and Attorney General, and the PEI Federation of Municipalities had undertaken a project in 1998 to describe and map the "geography of governance" in PEI. The study examines the boundaries, powers, and responsibilities of each unit of local governance in the province, as well as some aspects of provincial and federal service delivery. Together, the partners had engaged Andrew Cousins as a research associate to carry out the work. Interim copies of the study were provided to those present. It was noted that the final study will include a number of maps, which are still being prepared. Copies of the final report will be distributed once the maps are completed. Harry then introduced Ed MacDonald, Director of Research at the Institute of Island Studies, to provide a verbal overview of the report.

The Geography of Governance: Overview

Ed opened by thanking the Department of Community Services and Attorney General for their participation in and support for the project. He then reviewed the study's key findings, supported by an overhead presentation showing the maps of the various local and service delivery boundaries. Some points highlighted in the talk:

- X PEI has a tremendous range of overlapping and nested government units and services, most of which emerged and evolved independently of each other, with little consideration of efficiency or duplication.
- X The majority of PEI's communities have less than 400 people, with a very small base of local leadership and resources to provide services. The minority which have official plans and by-laws are an indicator of those actually able to play a significant role in their own affairs.
- X The membership of the PEI Federation of Municipalities accounts for fewer than half the municipalities but four-fifths of the population of municipalities.
- X Many communities are currently not able to handle increased authority over their affairs. If communities are to play a greater role, it will be necessary to increase resources and authority at the local level.

Harry thanked Ed for his review, and noted the emphasis placed by the provincial government on communities, as evinced in part by the recent establishment of the Community Development Secretariat under Bill Buell's leadership. He observed that historically, the establishment of each new service has cut PEI up along different lines, and has been administered from the centre, rather than building a critical mass of jurisdiction at the local level.

Ed drew attention to the differences in voter turnouts. In Iceland, turnout for municipal elections averages 90%, while in PEI it averages about 25%, according to workshop participants. It was noted, however, that in communities with a significant role, such as Stratford, turnout is in the range of 65%, reflecting its greater relevance to voters.

Harry then introduced Sigfus Jonsson. A former municipal administrator, and now owner and principal of an international consulting firm, Expert-Ice Ltd, Sigfus was responsible for planning and implementing the municipal reform process in Iceland (?). Sigfus had been asked to review *The Geography of Governance*, and to provide some constructive commentary and advice for PEI.

Commentary and Recommendations: Sigfus Jonsson

Sigfus opened his review by noting that although he had received his university education in England, he had very little exposure to the English models and tradition of local government. Rather, his experience and philosophy of local government was rooted in the Nordic model, which emphasizes very strong local government, places high priority on efficiency, and features

rapid adaptation and adoption of innovative approaches.

General Advice

He then set out some general advice for consideration:

- X PEI should have one municipalities act, with the same status for all municipalities, so that changes to the Act would affect all equally.
- X There should be no unincorporated areas in PEI. It was recognized that this was difficult politically, but if government is downloading major function like health and education, all citizens must have an opportunity for representation at that level. The need might not seem obvious now in PEI, but if the local role becomes greater, the need will grow.
- X Membership in the Federation of Municipalities should be compulsory, and the Federation's role should be clearly defined in the *Municipalities Act*. It should be recognized as the body which represents the common interests of municipalities, and negotiates on their behalf.
- X Councillors should be elected "at large", in an open ward system. While this is part of the English and North American system rather than the Nordic model, he felt it was a valuable approach as it encourages councillors to represent the whole of their municipality, rather their own district.
- X The municipal level should be strengthened, a recommendation explored in detail below.
- X The operations of municipalities should be improved, also further addressed below.

Participants discussed some of these suggestions:

- X It was noted that an at-large electoral system is under discussion at present. Traditionally, however, Island politicians are elected to represent a geographic area, and it was felt that a shift to at-large representation might be difficult. In Nordic countries, meanwhile, a party system exists at the local level, with lists of candidates for each party, elected by proportional representation.
- X The governance structure of Iceland, other Nordic countries, and PEI was considered. As Iceland is a unitary state, its municipalities carry many of the responsibilities that lie with provinces in the Canadian context. In Sweden, Norway, and Denmark, however, a middle level of government exists, although weaker than Canadian provinces. Nordic provinces are responsible for health, secondary education, roads, environmental protection, and serve as units for delivery of federal services. Sigfus observed that there are not really enough functions for three strong levels; one must be weaker.

Strengthening the Municipal Level

Sigfus outlined six specific measures that he suggested would strengthen the local level of government in PEI. He then reviewed each recommendation in detail.

Recommendation 1. Give municipalities an independent tax base.

Sigfus observed that it might be more challenging to create an independent municipal tax base in Canada compared to Iceland, given that in Canada the income tax is reserved to the federal and provincial levels of government. In Iceland, meanwhile, about 11 or 12% of taxable income (**not** income tax revenues) is earmarked for the local level. Use of taxable income rather than revenues as the base allows the national level of government to engage in tax policy measures, such as exemption of lower income individuals, while not affecting local governments.

In the PEI context, Sigfus suggested that an independent tax base for local governments could include:

- X a share of the income tax;
- X property taxes (the current municipal/provincial structure of property tax in PEI was viewed by participants as probably hard to change);
- X water and sewerage charges;
- X service fees (this may be a particularly appropriate approach as functions expand, e.g. housing, transit, recreation facilities, early childhood facilities. In Iceland, all children aged two to six are guaranteed a place in municipal playschools, funded one-third through parent fees and two-thirds operating plus all capital costs by the municipality.)
- X environmental taxes (a valuable means to build awareness and influence behaviour around such issues as waste generation and handling.)

Recommendation 2. Set up an equalization fund for municipalities.

Sigfus noted that an equalization system was essential in order to ensure that all municipalities had the financial capability to provide services. He suggested that such a system should include the following features:

- X It should be jointly financed by the municipalities and the province; if financed by municipalities only, it becomes zero-sum, creating tensions among communities. Ed observed that parallel issues exist with the Canadian system of federal-provincial equalization.
- X It should include support for “service-heavy” municipalities, based on established parameters with little scope for manipulation by municipalities. In Iceland, the main criterion is the proportion of dependent population, i.e. children, youth, and senior citizens, services to whom account for 50% of municipal costs in Iceland. Other criteria include the size of the municipality, based on the premise that a large area and dispersed population is more costly to serve, and the share of groups in need of social assistance (e.g. unemployed, single parents, persons with disabilities and addictions.) In Iceland, these latter groups are concentrated in urban areas. National institutions maintain statistics on the number of persons who are unemployed, disabled, etc. as a basis for the

municipal formula.

- X Equalization should also include a component of support to low-income municipalities. While the previous approach equalizes by need, this approach equalizes by income. An issue exists as to how much to equalize – to the top, for equity? to the average? or only a portion of the gap, to promote initiative and effort by the municipality?
- X As well, the equalization system should include support for municipal capital infrastructure.
- X Funds should be provided on the basis of general principles, rather than earmarked for specific purposes. Sigfus indicated that earmarking funds encourages over-investment, as it is difficult for elected officials to say no if budget is available. Accordingly, Nordic countries are trying to shift from earmarked support to general principles.

Recommendation 3. Download functions to municipalities.

Sigfus set out a list of functions that could or should be downloaded to ten, or fifteen, or perhaps twenty restructured municipalities across PEI, including:

- X elementary education;
- X social assistance;
- X services for persons with disabilities;
- X harbours;
- X water and sewage;
- X waste collection and management;
- X social housing;
- X land use planning;
- X local economic development;
- X sports and recreation.

These suggestions were discussed at some length by participants:

- X Generally, Sigfus indicated, Nordic experience has shown that a critical mass of 5,000 people is needed in order for municipalities to effectively take responsibility for services such as education, social assistance, and seniors' programs. Local governments are much better at dealing with individuals, he suggested. Pensions, unemployment insurance, and income support for the disabled, meanwhile, have been found to be best handled at the national level. In the PEI context, it was noted, with Charlottetown and Summerside accounting for some 60,000 people, this minimum of 5,000 suggested that the remainder of PEI would be made up of a maximum of fifteen or so municipalities.
- X With regard to education, it was noted that although PEI has three school boards, it has some ten zones with regard to school families, and just over fifty elementary schools.

Sigfus opined that the teachers' union would likely be the strongest opponent of such a decentralization measure. On the other hand, participants cited the history of consolidation, noting that teachers had opposed consolidation, fearing loss of local identity. The province had pushed it for reasons of consistency; however, a counterview existed that elementary schools could have remained under local jurisdiction as they were less complex in their curriculum and capital needs. Sigfus indicated that the Nordic experience is that, compared to a centralized approach, local governments run elementary education more efficiently, are more responsive to their communities with regard to such things as community use of facilities, and are more effective in integrating social, child, and family services around the school. In Iceland, elementary school is defined as schooling to the age of sixteen.

- X It was noted that at one time the city of Charlottetown had carried out all the functions on the list, and that over time many functions that are municipal elsewhere had been uploaded to the province. This trend continues today with waste management. It was asserted that most Islanders would say that this trend has mostly been for the better and that they are comfortable with the current split. Improvements in the consistency of education and equity of welfare services were noted, relative to the past and compared to other provinces with systems split between provincial and municipal levels.
- X The point was made that local government is about more than service delivery – it is also about local democracy. A paradox was noted in that empowerment has been talked about over the years while at the same time, local power and capacity are being steadily reduced, and power is being centralized through appointed commissions and bodies. It was felt that this trend fosters dependency, whereas increased authority at the local level would encourage communities to take responsibility for their future.
- X Increased authority at the local level was also cited as a means to reduce out-migration and the rural-urban shift. Giving communities more resources and authority would improve their capacity to improve their quality of life and amenities.
- X In reviewing the remainder of the list, Sigfus made a couple of points:
 - With regard to harbours, he noted that in Iceland, the harbour is the heart of fishing communities, and that it was surprising to see that in PEI communities do not take responsibility for their harbours.
 - With regard to persons with disabilities, he noted that the trend to de-institutionalization is taking place in Iceland as well as in North America, shifting responsibility from the national to the local level.

Recommendation 4. Establish larger governance units through a democratic process.

Sigfus recommended a voluntary process of municipal amalgamation, as has been carried out in Iceland. There, the number of municipalities has been reduced from 206 to 124 *since 19??*, and the process is continuing. Ideally, Sigfus felt, there should be no more than thirty or forty

municipalities in Iceland, but he predicted that there would be some sixty or seventy by the end of the process. Generally, he indicated, youth support amalgamation, while vested interests, particularly the farming community, have been opposed, fearing the loss of traditional privileges.

The process used in Iceland and suggested for PEI was to set up a Commission on Municipal Boundaries, and establish principles to guide its work, such as a critical mass of population (e.g. the minimum of 5,000 noted above); and a dispersion pattern that included a single major centre, ideally centred in the unit, as opposed to two strong towns. The Commission would carry out its work and submit amalgamation proposals for public consideration. These would then be subject to a vote in a referendum.

Participants expressed doubt that such proposals would win public approval, noting that in Canada, municipal amalgamation has always been forced. Sigfus suggested that with the right process, this need not be the outcome. He indicated that the next step of the process involves setting up regional boundary commissions to amend the proposals and resubmit them to the public. [?? *New smaller commissions in each region? or same one as before?*] In Iceland, only one amalgamation was approved in the first round of proposals, which called for large units. The next step broke up these proposed units into smaller groupings. The public knew that the first step involved the biggest units, and that they would have a chance to vote on smaller units as the process proceeded. In one case cited as an example, the town voted 90% in favour of amalgamation, while 65% of residents in the surrounding rural areas were initially opposed. Prior to the second vote, a coalition of rural youth and other interests sympathetic to the town campaigned in favour of amalgamation, achieving a narrow win in both areas (albeit subsequently overturned on a technicality).

Iceland's process is governed by clear rules. If, for example, six communities are affected by a proposal, all six must approve amalgamation. If only four out of six, say, approve amalgamation, then those four communities can join and the other two stay separate. In one case, eleven out of twelve communities in a northern valley of Iceland approved amalgamation, while the twelfth stayed out. Sigfus suggested that it was just a matter of time before the final community also joined, as it is now disadvantaged by having to purchase all its services from the large municipality or set up joint arrangements for service delivery.

Generally, communities have been motivated to amalgamate in the hope of being able to provide better services and a better quality of life to their residents, offsetting the lure of out-migration to Reykjavik or off-island. To ensure this outcome, Sigfus indicated, the amalgamation process should be carried out as part of a larger local government reform process involving increased authority and resources for the local level. As such, there is top-down encouragement but local control of the process.

Participants raised some issues related to these recommendations:

- X It was noted that the proposed units should involve communities of interest. In the case of Halifax, it was thought that the final unit was too large and too disparate to become a coherent, cohesive municipality. In the PEI context, this raises the question of whether a rural area with a town in the centre is an appropriate community of interest given the

differences between, say, Montague and surrounding areas.

- X It was noted that the downloading of functions to municipalities would affect the role of Members of the Legislative Assembly. Some thought this might be a barrier, while others saw it as a positive development.

Finally, Sigfus suggested, the process should include the incorporation of unincorporated areas into the new municipal units. This too was felt by participants to be potentially difficult in the PEI context, given the likely property tax impacts for residents of currently unincorporated areas. These various concerns led Sigfus to his next recommendation.

Recommendation 5. Carry out experimental pilots as part of the reform process.

If reform could not be achieved all at once, Sigfus suggested, an incremental approach could be taken through the use of pilot projects. This approach, common in Scandinavia, involves the following aspects:

- X A special *Pilot Municipalities Act* is passed, setting out the scope and range, terms and conditions of the initiative, which is limited to, e.g. five years in duration.
- X A joint provincial-municipal board is established to administer the pilot.
- X The board defines the criteria for municipal involvement, and then selects a fixed number of Pilot Municipalities to participate.
- X Each municipality is permitted to apply for a set maximum of experimental measures. If, for example, the legislation lists ten areas, a municipality might be allowed to apply for a maximum of two or three measures – rather than allowing everybody to experiment with everything.
- X Each project must be approved first by the provincial department responsible for the area, and then by the Pilot Municipality Board.
- X Accountability is ensured by engaging an independent auditor through a tender process to audit the initiative annually and evaluate it upon its conclusion, and by an annual report to the Legislature by the Minister responsible.
- X Examples of initiatives include the following:
 - exceptions to existing laws and requirements, e.g. greater discretionary authority for building inspectors;
 - freedom from specified provincial regulations such as building codes, in response to local circumstances;
 - delivery of provincial services under contract (e.g. one Iceland town of 2,000 took on a community health care centre, services to the disabled, and a manor);

- new ways of coordinating services among different levels, i.e., local, provincial, and agencies, boards and commissions (ABCs).

Generally the rules under these initiatives are meant to define the parameters, not to restrict the initiative, Sigfus explained. The purpose of these initiatives is to build a positive climate and motivation for broader local government reform. Where the initiatives involve greater flexibility, e.g. building codes, the initiatives generally involve more local discretion to respond to local needs and circumstances in the administration and interpretation of the rules, rather than changing the rules.

With regard to funding, in Iceland, the national government pays for the cost of these initiatives. As Sigfus noted, they would pay these costs anyway. The exercise however is likely not altogether cost-free for municipalities. In both Iceland and PEI, participants agreed, municipalities tend to feel that downloading generally results in net costs. Nonetheless, Sigfus suggested, this pilot approach had considerable merit as a gradual approach to local governance reform.

Recommendation 6: Create a strong role for municipalities in local economic development.

Sigfus then turned to the field of local economic development as an area particularly appropriate for a greater municipal role. Specific functions might include advisory services, facilities, and support services for business; tourism facilities; promotion of the municipality as a place to do business; human resource development; and possibly financial incentives to business. Regarding the latter, he felt that often financial incentives were not a good idea, but that there was a place for them. To cite a couple of examples:

- X A town which Sigfus had managed in the 1960s had been threatened by the collapse of the herring fishery. The town gathered money (through such measures as foregoing street paving for ten years) and invested in a 40% share in a new fishing company and trawler fleet. The town is now one of the most prosperous fishing communities in the North Atlantic.
- X In another example, the world's leading halibut aquaculture firm was begun by a local government in Iceland. The firm is now partnering with a Nova Scotia firm.

Improve the Operations of Municipalities

Sigfus closed his remarks with some observations on how to improve the operations of municipalities:

- X Promote strong leadership by councillors. The stronger the role of the municipality, the easier it will be to attract good candidates to run for office. The local government level then serves as a training ground for participation in provincial or national public office.
- X Employ professional, although not over-qualified staff. Again, the more significant the

role of municipalities, the easier it will be to attract good staff.

- X Establish efficient structures and procedures, say three or four functional departments, with a good committee structure paralleling them.
- X Contract out construction work and services like waste management to the private sector for more efficient and cost-effective delivery. (A question was raised about union concerns over contracting out. Sigfus indicated that all municipal workers in Iceland are unionized, but that they have tended to support contracting out, as pay and conditions are better in the private sector. In PEI, participants noted, the opposite holds.)
- X Refrain from over-investment, particularly in infrastructure.
- X Avoid ABCs and inter-municipal joint operations. ABCs fragment and diffuse the power and responsibilities of local governments, Sigfus suggested. Iceland is doing its best to reduce or eliminate their use, to ensure that it has two strong, accountable, capable levels of government. He also warned against inter-municipal projects, suggesting that these arrangements lacked accountability and were undemocratic. These bodies live in their own world, holding a monopoly over the service they provide and constantly demanding funding increases.
- X Cross-train staff and use them for multiple functions -- difficult for national and provincial governments to do, but achievable by municipalities. For example, in Iceland, firefighters on night shift clean the buses.
- X Involve the private sector, through PPPs, to benefit from their solutions and ideas. Sigfus noted that he is involved in Iceland's first PPP, as founder of a construction company currently building a technical school for the national government, with forecast savings of \$4 - 6 million over 25 years. School administrators, he suggested, are not interested in broken windows and leaking roofs, and find it difficult to get the funds they need for proper maintenance. The controversial status of 3-P in PEI was noted by participants and acknowledged by Sigfus; however, he drew a distinction between privatizing an existing operation, which is difficult and complex, and starting afresh with a 3-P on a new project, which is more feasible.

Sigfus closed by referring to other projects in which he is currently involved, including a policy rethink of Danish local government, and a land use plan for the eight municipalities in the Reykjavik area. He distributed an overview of the former and an environmental scan related to the latter.

Discussion

Participants thanked Sigfus for a very thought-provoking presentation, then turned to a discussion of issues and next steps.

- X The impetus for reform in Iceland was identified as coming from their Federation of

Municipalities, which is totally funded from the municipal-national Equalization Fund. Differences in the PEI context were noted, i.e. that the PEI Federation includes a minority of the province's municipalities — and if all were included, very small units would make up the majority of the members. Although Iceland's municipalities also vary greatly in size, they are all uniform in legal status, in contrast to the varying categories of municipalities in PEI.

- X Issues around differential levels of taxation in unincorporated areas, small municipalities, and larger municipalities were noted as a barrier. Strong incentives would be needed, it was suggested, to overcome this barrier. These might include greater control over local economic development, improved services, and greater equity. It was noted that these factors had played a role in the fifteen-year effort leading up to PEI's urban municipal reforms of the mid-1990s.

- X The approach of a pilot municipality or municipalities was seen as holding potential, particularly in areas of the province such as West Prince or Evangeline with a historical or cultural motivation for greater autonomy over their affairs.

- X With regard to the inclusion of unincorporated areas, it was suggested that the Newfoundland attempt at voluntary reform merited consideration, despite its less than full success. Comparable issues of municipal reform in other Canadian provinces were noted.

- X To achieve follow-up on the workshop, it was agreed that the following measures will be taken:
 - The Federation of Municipalities will release the final report on *The Geography of Governance*, complete with maps, at its Annual Meeting on May 31.
 - The Institute of Island Studies and/or Sigfus will prepare a short essay drawing on the workshop presentation and submit it to the Guardian as an opinion piece.
 - Detailed notes on the workshop will be prepared and widely distributed by the Institute.