



METROPOLITAN HALIFAX
CHAMBER OF COMMERCE

Where do we go from here?

*Report of the Metropolitan Halifax Chamber of Commerce
Task Force on Municipal Issues*

As approved by the Board of Directors on March 25, 1998.

Executive Summary

In October of 1997 the Metropolitan Halifax Chamber of Commerce formed a Task Force on Municipal Issues. The objective was to determine how and where the Chamber could offer further advice and assistance to HRM as it dealt with its continuing fiscal difficulties. The Task Force engaged in four months of extensive consultation with Chamber members, municipal staff, management and council as it discussed the issues and concerns surrounding the functioning of HRM.

HRM is a large service organization with a diverse client base and a complex corporate structure and there are no simple, short-term solutions to the challenges which it is facing. Yet, HRM lacks a clear corporate vision and a strategic plan to achieve that vision. Nor does it have a system in place to compare its product to other similar service providers. In addition, there are no tools to manage corporate expenditures in the face of rising costs. The result, as with any business in this situation, is continual increases in the cost to consumers of the services being provided. This is not effective or efficient management of taxpayer's resources.

Continuing increases in spending and taxation will eventually stifle business growth and economic development in HRM. In order to avoid this eventuality the Task Force believes that there are some basic steps which HRM must take:

RECOMMENDATION 1:

a) That HRM engage in a long term planning process over the next 12 months to set goals and objectives, priorities, service standards and targets (including costs) to deal with the organization's debt and finances.

RECOMMENDATION 2:

- a) That HRM adopt a governance model and adhere to it.*
- b) Establish baselines, statistics and service comparisons to test achievement of goals and objectives.*
- c) Implement a rigorous periodic review of services to be provided by HRM.*

RECOMMENDATION 3:

- a) That HRM's top priority be to get its expenditures under control.*
- b) That HRM find new and innovative ways to deliver the services they believe the community needs using the resources which are available within the community.*

RECOMMENDATION 4:

- a) That HRM link with interested stakeholders to discuss and develop options for an improved tax structure for HRM.*
- b) That the Metropolitan Halifax Chamber of Commerce work closely with HRM in monitoring progress towards the achievement of the changes proposed by the Task Force and to report back to the local business community.*

Task Force Background

The Metropolitan Halifax Chamber of Commerce (the Chamber) was an active

supporter of municipal amalgamation and continues to believe that a single regional municipal unit should lead to major benefits for the greater Halifax area. In principle, a unified municipal government should be better able to promote sustained and coordinated economic growth and achieve more effective resolutions of problems and maximize returns from opportunities in the Metro region. They should be able to do this without seeing tax rates rise to the point where the region becomes uncompetitive.

In the fall of 1995, in the period leading up to the creation of HRM, the Chamber created a statement of principles which we felt should be applied by HRM to extract the greatest possible benefit from amalgamation. These principles represented the expectations of the metro business community coming out of amalgamation. Their publication was an effort to guide the new municipality in the achievement of these expectations. These principles focused on controlling revenues and expenditures and delivering effective and efficient programs and services (see appendix A for the complete Statement of Principles).

In June 1997, upon the completion of the first fiscal year for the new municipality, HRM faced a significant fiscal shortfall. Because of this, the Chamber felt it necessary to restate our position about the need for a clear long range plan for HRM, strong workable controls on municipal expenditures and, a fair and predictable taxation structure (see Appendix B for the full text of this June 16, 1997 submission to Council).

This second look at how HRM was progressing post-amalgamation led the Chamber to form a special Task Force of members to look more closely at HRM's processes and goals. The objective was to determine how and where the Chamber could offer further advice and assistance to HRM as it dealt with its' continuing fiscal difficulties. This Task Force was formed in October of 1997 and was chaired by Mr. John Prentice of MT&T Business Communications (see appendix C for a complete list of Task Force members).

The Task Force was designed as a collaborative effort. Representation from all Chamber committees and the membership at large was invited. The Task Force has held a series of meetings with the nine policy committees of the Chamber, the Chamber's Board and other stakeholders in an effort to identify

the key areas of concern for businesses of different types and sizes. This report represents a summary of that work and its findings.

Facts About HRM

At the outset, some basic facts about the demographics of HRM and the current status of its operations and taxation were collected. HRM's 1996 population was 332,518 and constituted approximately one third of the provincial total. At the same time, HRM's contribution to the provincial Gross Domestic Product has been estimated to be considerably greater than that.

The population of HRM between 1991 and 1996 grew by 3.7%, the number of dwelling units increased by 5.3%, and the Consumer Price Index went up 5.07%. Unemployment in HRM stood at 9% in 1996, higher than many other urban centres in Canada. Over this same period the number of business establishments rose by 12.5% and total employment grew between 1987 and 1996 by 11.75%. While growth in manufacturing in HRM was 21.5% our primary industry remained the service sector. Almost 91% of our businesses identify their clients as being in the Atlantic region.

Over the last five years municipal expenditures continued to grow at a rate similar to population growth. Internally HRM has a staff of 3611 and spent approximately \$411 million in 1995-1996. This represents a 4.1% growth in spending since 1991. This spending level represents \$1226 per capita for every resident of HRM. Of this spending, 23.5% or \$96 million falls into an area which can be termed "provincial service spending", which is a combination of non-discretionary expenditures on social services (\$22 million) and education (\$74 million), both areas of provincial jurisdiction.

Spending growth has meant both increases in taxes and increases in debt. The total debt of HRM is greater than \$300 million dollars and continues to rise. In 1997, 65% of the municipal capital budget, or \$45.5 million out of a \$70 million budget, was funded through borrowing.

Despite this significant level of expenditure, the HRM seems to have only an incremental budgetary process supported by basically discretionary financial

management systems. There are few, if any, service standards or cost targets in place and no key value indicators have been defined as critical.

On the taxation side, amalgamation has seen some improvement in the multi levelled tax structure. However, there are still multiple commercial and residential rates and as many as 12 individual business taxes. Commercial taxation continues to be based on a variable multiplier of the residential rates. Because of this, the commercial share of the total HRM tax revenue has seen no decline over the past five years despite a major reduction in the assessed value of commercial real estate in Metro.

Comparators, Competitors and Capitals

How are we doing in comparison to similar enterprises delivering the same or similar services? In order to answer this question the Task Force selected a group of seven cities to which HRM's performance could be matched. This group is made up of two reasonable comparators (London and Waterloo, Ontario), two perceived competitors (Moncton and Saint John, New Brunswick), and three provincial capitals (Victoria, BC, St. John's Newfoundland and Regina, Saskatchewan).

These cities were selected for varying reasons including similarity of size, impact of a significant university presence, or the presence of port facilities. While our comparison is only preliminary in nature, and can not completely allow for variations in tax structures and service or cost mixes in the various municipalities, the overall results are not favourable.

For example, from the perspective of a top line comparison of per capita spending on services, HRM costs are higher than all of the selected municipalities listed above. (see appendix D for complete figures). At the same time, our business community supplies a greater contribution to municipal revenues compared to this same group of communities.

It is the view of the Task Force that meaningful, factual comparisons are a critical tool for HRM and one which must be used effectively in any plan that HRM develops to address the municipality's current difficulties.

The current efforts within HRM to complete activity based costing can supply

a baseline for comparing HRM service delivery to other municipalities and to the private sector. The Chamber urges HRM to build on their current work and move forward with open and transparent benchmarking activities.

In the absence of this type of active, ongoing, comparison concerned stakeholders are left with only top line readily available figures from which to draw service delivery conclusions. Conclusions which do not cast HRM in a good light and do little to increase taxpayer confidence in our municipal government.

Key Issues

Based on the facts about HRM outlined above it is clear that, in the absence of firm action, HRM will have significant requirements for spending controls, service evaluation and potential service reductions in the coming years. This is of particular significance given the current debt position of HRM, the projected requirements for future capital expenditures and the growth trends in non-discretionary spending areas. HRM will be severely limited in its ability to make investments that may be in the best long-term interests of the region. With this conclusion in mind the Task Force focussed its work around three key issues: Leadership, Accountability and, Expenditure and Taxation Control.

HRM Leadership

RECOMMENDATION 1:

That HRM engage in a long term planning process over the next 12 months to set goals and objectives, priorities, service standards and targets (including costs) to deal with the organization's debt and finances.

“Who speaks for HRM?”. The Chamber asked this question in 1997, when there seemed to be no clear plan for how HRM would develop over time, what services would be provided by HRM nor what objectives the wider community was setting for itself. Regrettably, this question still has no clear answer in 1998.

The key role of municipal government is to lead its community - not just to decide how to service it. The Task Force recommends that, in partnership with key community stakeholders, HRM engage in a long term planning process over the next 12 months to set goals and objectives, priorities, service standards and targets (including costs) to deal with its fiscal future.

We recommend a model which includes as preliminary elements:

1. Situational analysis
 - what are our strengths?
 - what are our weaknesses?
 - our opportunities, our challenges?
 - our current environment (demographics, legal, economic, environmental, social, political)?
2. Define what HRM is
 - what is our main function?
 - what we do: core, peripheral, complementary, diversification?
3. Direction statement (where we want to be/go) - Establish goals in areas of significance
 - economic growth/dynamism
 - institutional flexibility to deal with opportunities/surprises, e.g. the port
 - relations with Province. HRM dominates provincial GDP but not decision making at the provincial level.
4. Set out guiding principles
 - how we do things?
 - what is important to us?
 - what do we value, our core ethics?
5. Set priorities for all municipal activities
 - what must we do?
 - what is it important for us to do, but not critical?
 - what would be desirable for us to do, but not important?
 - what is not municipal responsibility?

- identify alternative methods for delivering or financing what we need to do.
 - identify long term revenues required.
6. Set standards and deliverables to be met for each priority area
- one year
 - three years

In setting long range goals and objectives HRM should then:

1. Establish three year goals and objectives
 - organized by asset (people, financial, infrastructure, economic (marketing), environmental, information)
 - which are quantifiable, realistic with start and target dates.
 - identifying who is responsible for implementing or initiating what on a three year horizon
2. Establish a one-year plan
 - which includes priorities (quantifiable, realistic)
 - which has start and target dates
 - which identifies who is responsible for what within one year
 - setting a one year budget (attempting to be comprehensive)
 - making evaluations an essential part of how HRM works, focusing on establishing critical success factors.
3. Form a planning committee to lead the long term planning process.
 - internal representation should include councillors, employees at several levels within HRM and commissioners, with emphasis placed upon front-line employees.
 - external representation should include the Greater Halifax Partnership, ratepayers associations and the Chamber.
 - committee should have no more than 12 members
 - the planning process be transparent to citizens and businesses of HRM and that focus/discussion groups be incorporated into the process.
 - present a preliminary plan to Council by the end of 1998.

HRM Accountability

RECOMMENDATION 2:

- a) That HRM adopt a governance model and adhere to it.*
- b) Establish baselines, statistics and service comparisons to test achievement of goals and objectives.*
- c) Implement a rigorous periodic review of services to be provided by HRM.*

Having a clear plan for the future is a critical step towards a vibrant and successful municipal unit. But not the only step. In its work with HRM the Chamber has continually run across the question of overlap and uncertainty as to roles and responsibilities. In particular, it seems that HRM lacks a vision as to what role Council should play and what is the role and responsibility of senior staff.

This confusion must be eliminated before any plan, long term or short, can be successfully followed. A governance model is necessary for predictability, consistency and credibility. HRM must ask itself “What Should a Governing Body Do?” In doing so the Task Force recommends they:

1. Adopt a governance model and adhere to it
 - what is the general area of responsibility for Council?
 - what is the role of administration?
 - how does Council judge the success or failure of administration?
 - how can team work help effectiveness? (set roles, agree, act.)

Within any governance model, however, there must be clear baselines for performance evaluation and responsibility. HRM is beginning this process through development of its “Activity Based Costing” model and its efforts to develop service standards. In building on this work the Task Force recommends that HRM:

1. Establish baselines, statistics and service comparisons
 - establish a cycle of reporting both for activities and revenues - revenues so business has clear and predictable taxes; activities so that service expectations are clear

- identify service areas for appropriate and comparable measures
 - identify clear, explicit and timely measures
 - identify comparison communities and rationale for their selection
2. Implement a periodic review of services to be provided by HRM
- measure and manage services based on goals and targets
 - achieve fair and comparable service value
 - rationalize services relative to needs and chosen direction
- explicitly understand and apply the concept of service value
 - regularly test the competitiveness of internally provided services against the private sector

HRM must be active in setting targets and in measuring progress towards those targets. Only within such a framework can administration appropriately keep politicians from intrusion, and can politicians set policy. HRM must have the capability to be accountable and to demonstrate progress against established priorities.

Controlling Expenditures and Taxation

RECOMMENDATION 3:

- a) That HRM's top priority be to get its expenditures under control.*
- b) That HRM look for new and innovative ways to deliver the services they believe the community needs using the resources which are available within the community.*

The top priority for HRM must be to get its expenditures under control. The recently tabled operating budget showed a 5% increase in projected spending and the tax increases to go with it. Increased taxation, even within an equitable tax structure, is not the answer. Putting a plan in place for the future and avoiding overlap between Council and staff in assigning responsibility for implementing it will allow HRM to do just that.

HRM must find new and innovative ways to deliver the services they believe

the community needs using the resources which are available within the community. For example, the Chamber has consistently encouraged HRM to investigate as part of their goal setting the need to consider re-engineering their service delivery methods. Are they delivering the services the community needs in the way the community needs to receive them? This is not only an issue of goals, but also an issue of costs to achieve the identified goals. Setting objectives and developing a future plan inherently involve such considerations. Realizing the cost implications of such choices gives meaning to the bottom line of the organization and highlights the crossover effects between various choices.

As HRM becomes better able to identify priorities and desired levels of service, the option of testing the value for service by introducing competition through contracting out becomes a more viable alternative. Setting a desired level of service and identifying the cost of delivering that service internally allows for a thoughtful consideration of private sector alternatives. This process will have a stronger likelihood of success than simply introducing outsourcing on an ad hoc or experimental basis and then hoping for the best. Models from other communities should be examined for guidance.

In gaining control of its expenditures HRM must remember it is not alone. The business community and the residential tax payer can be sources of not only revenue but of programs and services themselves. Public-private partnering offers HRM a chance to work with business and taxpayers to pool their resources to solve shared problems, rather than to take from business and taxpayers to solve municipal problems unilaterally.

To do this effectively, however, the community must be in a position to offer real assistance to HRM. One way of ensuring that there are healthy viable partners for HRM within our community is to stop using the tax system as a tool to drain needed resources away from corporate and private citizens. In order to achieve this innovative end we recommend that:

1. Until a new, unified, tax structure is put into place the commercial multiplier not be adjusted above its current level.
2. HRM develop a new tax structure with some key provisions being:
 - a single commercial tax rate

- no area rates
- a single residential tax rate
- the school tax imposed in the former City of Halifax should be phased out, supplementary funding should not be limited to the former City of Halifax
- the commercial tax rate should be a percentage of the residential rate and there should be a maximum multiple fixed
- user fees should only be imposed where there is a special service to a special group

In addition to the concrete recommendations above, other issues were debated at length by the task Force. These items do have an impact upon the Municipality and should be addressed at some point in the near future.

First, the current system of Business Occupancy Taxation is inequitable to the taxpayer and provides no security to the Municipality. One option which could be considered is a single tax rate system. Although this would be preferable overall there must be some safeguards built in for property owners with vacant space which is currently not subject to occupancy tax.

Second, there is a lack of confidence in the ability of the assessment process to validly measure market value. The tax base is regularly eroded by successful appeals of properties which are over assessed but not counterbalanced by Municipal appeals on properties which are significantly under assessed. Until confidence is restored in the assessment process, a coherent simple tax structure is likely to meet with community resistance.

One proposed solution which the Task Force heard was to place the onus of setting assessed values upon the commercial and residential taxpayer. This procedure would be very similar to the self reporting process for income tax. Assessors would then become auditors with a system of penalties for fraudulent returns. This would provide a fixed minimum base for the total commercial assessment and be more equitable to the taxpayer. Such a suggestion is a true shift in the current way of doing things, and one worthy of further debate.

The Task Force would like to emphasize that both of the areas discussed above are very complex and would require further study prior to making firm

recommendations as to future action.

Going Forward Together

RECOMMENDATION 4:

a) That HRM link with interested stakeholders to discuss and develop options for an improved tax structure for HRM.

b) That the Metropolitan Halifax Chamber of Commerce work closely with HRM in monitoring progress towards the achievement of the changes proposed by the Task Force and to report back to the local business community.

Coming out of the Task Force's consultations was a clear message that the government of HRM must not only focus on servicing the municipality but on leading it as well. HRM must have a long term vision with goals and objectives which will move us there over time. Internal accountability structures must be clarified and the tax structures simplified in order to support this long term plan. The Chamber will continue to monitor developments within HRM and report to our members on a quarterly basis about the progress being made to achieve the necessary change

The Chamber of Commerce looks forward to continuing to work with HRM to assist them wherever possible in moving forward with the suggestions made above. For example, the Chamber's Economic Development Committee has already completed a Place Audit of HRM which could supply a starting point for a planning and visioning session to set the goals for HRM as it moves into the new Millennium.

In addition, we believe a joint group, led by HRM, and including other community stakeholders like the Chamber could supply some valuable input into specific taxation issues and tax structure alternatives. Together this community can create and maintain an effective municipal government which delivers a high level of service in a cost effective way. We can do this without continually increasing taxes and creating a disincentive to economic growth.

APPENDIX A



METRO AMALGAMATION—STATEMENT OF PRINCIPLES

REVENUE AND EXPENSES

- RE1. The Municipality should have a multi-year plan for revenues and expenditures and a goal to create an employment-friendly environment.
- RE2. Municipal expenditures should be limited to areas mandated by legislation.
- RE3. The level of business taxes should be tested for competitiveness against other cities in the region and on the continent.
- RE4. The municipality should move over a five-year transition to a single commercial tax rate with ongoing differentials only considered where there are clear differences in services.
- RE5. Commercial rates should not exceed a multiple of residential rates fixed by law.

SERVICES

- S1. Services should be provided on a user-pay basis. Services should be separated into two groups—those where a single level of service is required across the municipality, and those where the level of service may be determined at a local level.
 - a) Initially, services in both groups should be set at pre-amalgamation levels.
 - b) Where a single service level is required, this should be implemented as soon as feasible.
 - c) Where services levels are determined locally, and an area wants to change its levels of services and associated taxation, this should be done through community councils.
- S2. The municipality should establish standards (tested for competitiveness) against which the performance of its services can be measured.
- S3. The private sector should be used whenever it can provide services at a better overall value.

PROGRAMS

- P1. Programs involving income redistribution (such as welfare) should be funded at the provincial level using the progressive tax system.
- P2. Encouragement for development should only be considered when there is a net economic benefit to the municipality in strategically targeted areas.

APPENDIX B



METROPOLITAN HALIFAX
CHAMBER OF COMMERCE

'The Voice of Business'

The Strategic Direction of Halifax Regional Municipality

**Submission to
Halifax Regional Council**

**Submitted by
the Metropolitan Halifax Chamber of Commerce**

June 16, 1997

Municipal taxation continues to be one of the highest priority items for our members. The Metropolitan Halifax Chamber of Commerce is continuing, therefore, to monitor with great interest the proposed solutions being brought forward to resolve the \$26.3 million shortfall in the proposed 1997-1998 Operating Budget. The Chamber is of the view that this financial dilemma underscores a need and creates an opportunity for launching several initiatives which will contribute to the long term financial stability and strategic positioning of HRM. The three key areas we would like to address are:

I. Long Range Planning for HRM

HRM needs a coherent long term plan that reflects a vision for the municipality which is shared by Council, staff, and the public.

The development of a strategic plan has previously been advocated by the Chamber. We were pleased to see that HRM has identified a list of “follow-up items” and has developed a three year projection of revenues and expenditures. We still feel, however, that HRM needs a more comprehensive longer term plan. This new long term plan should be capable of being clearly communicated to the public and should facilitate ongoing monitoring and bench marking. To this end, the business community would be pleased to play a supporting role and participate in the development of a shared vision for HRM.

The proposed comprehensive audit of the activities of HRM offers the possibility of some real efficiency gains through a re-thinking of the most efficient and cost

effective way of delivering all municipal services. These “audits” should also form the basis for setting clear performance standards by which municipal taxpayers can measure the effectiveness of the municipal services being provided.

.../2

II. Expenditure Control

The solution to present and future budgeting deficits does not lie in taxing the overtaxed. HRM must reduce its expenditures to meet its revenues. Creative, bold and, innovative approaches are required.

The boundaries of HRM encompass a number of areas with aging infrastructure. The debt servicing requirements of the municipality are very close to the 10% ceiling soon to be imposed under the Municipal Act. In light of the Capital Budget constraints, the private sector would welcome opportunities to provide the capital investment for needed infrastructure. For instance, HRM is to be commended for looking to a public/private partnership to provide a “Halifax Harbour Solution”.

We encourage HRM to remain alert to cost reduction measures which can be achieved by contracting out or putting out to public tender those service delivery areas not critical to public safety. This could eliminate the need to maintain stand-by resources in a number of service delivery areas.

We commend HRM for recommending pension bylaw changes to allow for the utilization of any pension fund surplus to help offset the costs of early retirements. This is a common practice in the business community.

III. Tax Structure

HRM must have a tax structure that does not place an unfair burden on the local business community.

A competitive tax rate is one of the key factors in attracting or keeping businesses in Metro.

The Chamber is disappointed that Council continues to look to the business community to finance fiscal expansion. We are very concerned with the projection of continuing increases in commercial taxation. Shifting the burden of HRM's fiscal difficulties onto the shoulders of Business is unfair and does little to help the long term stability of the municipal tax base.

The business community needs a predictable tax structure in order to grow along with HRM. The Chamber supports the introduction of a uniform commercial multiplier for all of HRM. By varying the commercial multiplier on an annual basis, however, HRM hinders the long term planning of existing businesses and makes HRM less attractive to new businesses looking to locate here.

The Chamber urges Council to place a permanent cap on the multiplier. This would introduce a greater level of certainty for both the municipal budgetary process and individual businesses in Metro.

In Conclusion

The Chamber will be forming a Task Force to assist Council, staff and other interested parties in finding solutions to the fiscal difficulties of the new municipality.

The Chamber believes that HRM must continue to bring its expenditures under control while developing clear and understandable goals for the future. We are fully prepared to offer our support to help HRM achieve these objectives through an active strategic planning process.

How to Contact the Chamber of Commerce

Mail: P.O. Box 8990, Halifax, NS, B3K 5M6

Phone: 468-7111

Fax: 468-7333

APPENDIX C

METROPOLITAN HALIFAX CHAMBER OF COMMERCE
TASK FORCE ON MUNICIPAL ISSUES

TASK FORCE MEMBERS

Chair :

John Prentice, Vice President, Business Communications, Maritime Tel & Tel

Members:

Amery Boyer, The Human Element

Peter Doig, Scotia Investments Ltd.

Charles J.L. Hardy, Hardy Appraisals

John Hesseltine, Porter Dillon Ltd.

John Jozsa, Porter Dillon Ltd.

John Kitz, Burnside Realty

Frank A. Mader CA, Green Haley Jain

Kim West, McArthur Thompson & Law

Chamber Staff Liaison:

Charles Cirtwill

APPENDIX D

Although the Task Force has attempted to complete a preliminary comparison of HRM to other communities, the service and tax relationship between HRM and the province and our inability to compare the service and cost mix between municipalities means that we can reach no specific conclusions at this time. In Task Force's view, completing meaningful, factual comparisons as a means of benchmarking HRM's performance against other municipalities, is an important activity for HRM to consider.

Others

London Waterloo

- Commercial % of total tax revenue: average 34.5%
- Average spending per capita: \$737 for Waterloo, \$1004 for London

Capitals

St. John's Regina Victoria

- Commercial % of total tax revenue: average 45%
- Average spending per capita: \$936 for St. John's, \$1015 for Regina, \$492 for Victoria.
- Commercial % of total tax revenue for other N.S. municipalities: average 37.8%

Competitors

Moncton Saint John

- Average spending per capita: \$554 for Moncton, \$676 for St. John

Sources: HRM budgets(various years), 1996 budgets for various cities, Dept of Municipal Affairs for N.S. and N.B., Statistics Canada, HRM Place Audit