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## A Discussion of Municipal Finance and Administration

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The preparation of this address has been a real pleasure to me. It has given me a welcome opportunity to acquaint myself more thoroughly with Nova Scotian affairs, and especially with the operations and problems of your municipal units. As my study progressed, it became more and more apparent to me that Nova Scotians are a conservative people, and that this trait is responsible in large degree for the relatively sound conduct of your municipal governments, so widely known and favourably regarded throughout Canada.

In this connection, it may be worthy of note that in a great many departments of civic administration, it has been found that the problems of the larger and more populous municipalities are more difficult to control, and that the quality of efficiency is less pronounced than in the smaller units, and it seems to me that in this respect Nova Scotia as a Province has many advantages that other Provinces and States do not possess. Sometimes we glory in size and in numbers, but after all is not the final test how well, how thoroughly, we perform the duties and tasks allotted to us, in the particular field or sphere in which we are privileged to serve?

In recent issues of the Proceedings of the Union of Nova Scotia Municipalities, which it has been my privilege to read, I found consistent evidence of the thoughtful interest of the delegates in the work of better government. My only regret is that these Proceedings are not more widely distributed among

municipal officials throughout Canada, so that they might study the excellent papers included on various aspects of municipal business. The care and study and time spent in the preparation and editing of the contributions is apparent in the uniformly high calibre of the publication, and I congratulate the Union on having as members and executive a group of people who are so genuinely devoted to the object of the organization, namely "the general improvement and facilitation of every branch of municipal government and administration." It was a source of satisfaction to me to read some of the resolutions which have been passed, and to realize the sane and sound views expressed therein.

It is only natural that the evident interest displayed by your Union in municipal affairs and in public service should encourage the Governors of Dalhousie University to propose and establish a major course in Public Administration. Public business is our biggest enterprise, and there never has been a more urgent need for gifted and highly trained men in this field than now—men who are thoroughly familiar with the various aspects of government, and imbued with the sense of trusteeship which public service demands.

The difficulties of recent years have heightened the already perplexing task of government, and in some instances, regrettable to say, those temporarily vested with authority, have made injudicious statements, advocated unsound policies and instituted arbitrary and unfair measures, which have had a most unfortunate effect at home and abroad on the credit of our governments and municipalities. It takes years of patient, conscientious performance to establish credit; but only a brief period of unwise action to tear it down. One of our outstanding cities, through the consistent efforts of previous councils and efficient administrators over a period of fifty years, had established sound credit and an excellent reputation in the financial markets of Canada, Great Britain and in the United States, for the observance of its obligations. Quite recently in the space of but a few minutes—just sufficient time to convey the news by cable and wireless—all that had been accomplished was destroyed; its credit was lost, the price of its securities fell away, and under no conceivable circumstances could it find a market for its bonds—all the result of unwise and injudicious action on the part of the authorities

Again, a recent newspaper editorial reports a member of one of our Provincial legislatures saying—"In less than 30 years this Province won confidence and credit in the markets of the world, but in less than 30 minutes, through repudiation of covenanted obligations, that credit was lost".

Contrast these sad and costly experiences with the record of such a city as Ottawa—a city which has always honoured its obligations; which has not even suggested a modification in interest rates on its outstanding debt. It recently sought tenders for an issue of \$610,000. serial debentures running from one to five years, bearing 2%, and received a price of 100.74, the money thus costing the city 1.65% per annum.

Or take the case of your own Province, which has an unblemished credit record. Within the last three or four months it made an offering of twenty year  $3\frac{1}{4}\%$  bonds to the extent of  $4\frac{1}{2}$  millions of dollars, and promptly received a price of  $99\frac{1}{2}$ , the money thus costing it the relatively low price of 3.28%.

**Historical Sketch of Nova Scotia Municipal Development**—Let us leave the morass of our present difficulties for a moment, and step onto firmer ground to take a brief look at the growth of self-government. Nova Scotia is an interesting study in itself, and dates back to the early history of this country. Out of the territory East of the Penobscot and South of the St. Lawrence were carved the three Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island. The Scottish King of England, in his grant to Sir William Alexander in 1621, called the territory Nova Scotia. To the French it was known as Acadie. In 1769, the Isle of St. Jean was granted a separate government, and was not renamed Prince Edward Island until 1799. In 1784 the Loyalists on the River St. John became a separate unit, and in the naming of the new Province the House of Brunswick was honoured. In the same year, also, the Island of Cape Breton was granted a separate government, but was re-annexed to Nova Scotia in 1820.

Under the French, feudal ideas dominated local administration. During the uncertain tenure of the British from 1710 to 1758, French deputies and English justices of the peace mediated between the governors and the governed. Wolfe's victories

were followed by the authoritative administration of the justices of the peace in general sessions. Administration was carried on under their jurisdiction until 1841, when Halifax was incorporated under its own charter. In the interval self-government in provincial matters had led to the establishment of counties and districts for electoral purposes.

Joseph Howe was the instigator and the acknowledged champion of responsible government in Nova Scotia. It was during his term of office as Provincial Secretary that an Act was passed in 1850, providing for the division of Halifax County into townships. In 1855 provision was made for local governments in the Counties of Yarmouth, Annapolis, Kings and Queens, the counties in which the New England influence was strongest. The next year all other counties and a number of districts were granted local government. In the same year townships were granted powers of self-government. Both the County and the Township Acts were permissive until made compulsory in 1879.

The towns were most anxious to secure the privilege of self-government; more particularly the privilege of assessing for local purposes and of borrowing money. Each town sought incorporation by Special Act—Pictou in 1876, Dartmouth in 1873, Truro and New Glasgow in 1875, Windsor in 1878, Parrsboro in 1889, Lunenburg in 1888, Sydney and North Sydney in 1885, and Kentville in 1886. Sydney reached the status of a city in 1903. The evolution of local self-government had been slow, but when it was finally established it was upon foundations well and truly laid.

**Present Condition of Nova Scotia Municipal Finance—**In Nova Scotia today there are two cities, forty-three towns and twenty-four "municipalities" carrying on the business of local self-government. That this is a project of extensive proportions is attested by the fact that the combined net assessment of all the units in 1935 was \$171,345,143; that there was outstanding \$33,866,913. in gross total debt; that current receipts totalled \$12,850,491. and expenditures \$12,731,025. That municipal business has been well carried on is indicated by the fact that, to my knowledge, no Nova Scotia municipality has ever been in serious financial straits. Maritime municipal units were fortunate in that they did not respond to the undue optimism

of the period from 1921 to 1929 to nearly the same extent as the rest of Canada. During these eight years the total Canadian municipal debt increased from \$837,370,367. to \$1,193,971,195., or by 42.58%. Nova Scotia municipal indebtedness increased from \$22,451,743. to \$29,029,119., or by 29.2%. As a consequence they entered the depression years in a much sounder position, with a smaller capital debt and a smaller burden of taxation, and as a consequence were in a much better position to withstand the effects of falling tax and other revenues.

A survey of the somewhat more important factors to be found in the operation of Nova Scotia's 69 municipal units for the period 1931 to 1935 is worthy of careful consideration, and they are briefly set down as follows:

(000 omitted) December 31st.

Net Assessment	1931	1932	1933	1934	1935
All Cities.....	71,614	72,869	71,651	70,940	70,573
All Towns.....	59,017	59,478	58,369	57,683	57,884
All Municipalities.....	46,644	46,217	44,228	43,078	42,887
	<u>177,275</u>	<u>178,564</u>	<u>174,248</u>	<u>171,701</u>	<u>171,344</u>
<b>Debenture Debt</b>					
All Cities.....	17,358	17,119	18,425	18,368	18,784
Sinking Fund on hand	4,592	4,651	4,883	5,270	5,731
Total.....	<u>12,766</u>	<u>12,468</u>	<u>13,542</u>	<u>13,098</u>	<u>13,053</u>
All Towns.....	12,372	12,825	13,061	13,107	13,107
Sinking Fund on hand	3,985	3,995	3,998	4,047	4,368
Total.....	<u>8,387</u>	<u>8,830</u>	<u>9,063</u>	<u>9,060</u>	<u>8,739</u>
All "Municipalities".....	1,655	1,662	1,845	1,842	1,975
Sinking Fund on hand	691	664	687	712	761
Total.....	<u>964</u>	<u>998</u>	<u>1,158</u>	<u>1,130</u>	<u>1,214</u>
<b>Sinking Fund Shortages</b>					
All Cities.....	...	...	79	...	...
All Towns.....	154	175	206	273	152
All "Municipalities".....	5	4	4	19	10
Total.....	<u>159</u>	<u>179</u>	<u>289</u>	<u>292</u>	<u>162</u>
<b>Tax Arrears</b>					
All Cities.....	998	1,458	1,762	1,888	1,915
All Towns.....	1,167	1,427	1,761	1,948	1,880
All "Municipalities".....	796	991	1,320	1,479	1,489
Total.....	<u>2,961</u>	<u>3,876</u>	<u>4,843</u>	<u>5,315</u>	<u>5,284</u>

(000 omitted) December 31st.

<b>Floating Debt</b>	<b>1931</b>	<b>1932</b>	<b>1933</b>	<b>1934</b>	<b>1935</b>
All Cities.....	858	878	1,486	1,261	1,268
All Towns.....	1,279	1,103	1,138	922	933
All "Municipalities".....	686	766	834	913	848
<b>Total.....</b>	<b>2,823</b>	<b>2,747</b>	<b>3,458</b>	<b>3,096</b>	<b>3,049</b>

**Average Interest Coupon  
Rate %**

Cities.....	4.86	4.85	4.75	4.91	4.89
Towns.....	4.97	5.18	5.88	5.16	5.16

It will be noticed

- (1) Net assessment in Cities in the past five years declined 1.45%; in Towns 1.92%; in "Municipalities" 8.05%; or in all 3.36%. These declines are not unexpected, in the light of a general lowering of property values, and are in keeping with the general experience of many Canadian municipalities during this period.
- (2) Total debenture debt (gross less sinking fund) in Cities increased 2.25%; in Towns 4.20%; in "Municipalities" 25.93%, and for all 4.02%. With falling assessment the tendency to increase debt is not healthy. It is generally the forerunner of increased taxation. Then again, the shortage in sinking fund, while absent in the case of Cities, shows little abatement for Towns and an actual increase for "Municipalities". This is a matter which, if not promptly rectified, must lead to serious consequences.
- (3) Tax arrears in Cities increased 91.88%; in Towns 61.10%; in "Municipalities" 87.06%; in all 78.45%. This record is far from satisfactory; in fact (if I may say so) it is very disturbing. Inordinate increase in tax arrears is one of the chief factors which forced default in municipalities in other Provinces.
- (4) Floating debt in the Cities increased 47.78%; in Towns decreased 27.05%; in "Municipalities" increased 23.61%; in all increased 8.00%. This item chiefly current loans from banks, would naturally increase with increasing tax arrears, and is another

the truth of the comment in (3) above. Without analyzing the individual annual statements of the Towns, it is difficult to understand why there should be a decrease in floating debt, when there is an increase in tax arrears.

- (5) Average interest coupon rate for all funded debt for Cities is practically the same in 1935—4.89%—as it was in 1931—4.86%; while for Towns the rate has increased from 4.97% to 5.16%. It would be expected, if there is necessity in the near future for new borrowings, that loans for best credit could be obtained at between  $3\frac{1}{4}$  and 4%. The tendency therefore would be as old loans are paid off the average interest coupon rate would decline. If funded debt had been created on the instalment plan instead of on the sinking fund plan, today's average interest rate would have been less than it is.

This cursory comparison suggests the advisability of a somewhat more careful and detailed analysis being made in the case of each unit. The trend disclosed in certain respects is somewhat disquieting, and would at least indicate, without further investigation, that steps should be taken to bring about such changes as would correct the slipping tendency, and especially to ensure each municipality living within its cash income.

**Defects in Our Municipal Structure Leading to Default**—There are 3,978 municipalities in Canada which have been empowered by their respective legislatures to incur debt. On the whole their financial record is such that they will compare most favourably with the administration of the senior governments of this country; in fact, some of these major units have much to learn from our junior institutions in the way of controlling current expenditures. Out of a total annual current expenditure of some 160 millions of dollars, the total deficits amount to about  $20\frac{1}{2}$  millions. If there be eliminated those municipalities whose affairs have been very badly handled, and whose deficits are substantial, the record of the great majority of our municipalities is most creditable in that they are living within their incomes. But the municipal defaults which have

occurred in Canada during the past five years represent one of our major national problems. Of a present total municipal debt of approximately \$1,287,300,000., it is estimated that no less than \$141,200,000., or 9.9% is in default. This has seriously affected the credit of other municipalities, as well as governments. The following comparison by Provinces of defaulted debt to total debt presents some striking contrasts, and while the statement is believed to set forth the actual facts as at this time, it is feared that if the stories emanating from Western Canada are forerunners of what is likely to take place, the figures may be greatly altered:

	Estimated Debt in default in either principal or interest or both (millions)	Total Municipal Debt (millions)	% of Total Municipal Debt in default
British Columbia.....	\$ 11.2	\$131.1	8.5%
Alberta.....	.5	75.2	.7%
Saskatchewan.....	4.0	63.7	6.3%
Manitoba.....	12.0	119.9	10.0%
Ontario.....	98.5	483.9	20.3%
Quebec.....	15.0	496.4	3.0%
New Brunswick.....	0	26.5	....
Nova Scotia.....	0	33.3	....
Prince Edward Island.....	0	2.4	....
<b>Total.....</b>	<b>\$141.2</b>	<b>\$1,432.4</b>	<b>9.9%</b>

The record of Nova Scotia and the other two Maritime Provinces is one in which you may take pride. However, without detracting in any way from this fact, I wish to discuss some faults inherent in greater or lesser degree throughout our entire Canadian municipal structure. The last five years have brought to light certain unsound administrative tendencies, which have led many municipalities to acknowledge inability to carry on. We must learn from experience; we must take cognizance of these faults and be forever endeavouring to avoid the pitfalls which lead to financial difficulty.

**Main Causes of Municipal Defaults**—Let us turn for a moment and examine the five main causes of the municipal



defaults which have occurred within the last five years throughout Canada.

- (a) **Over-optimism in Incurring Debt**—During the period 1922 to 1929, many people in Canada were carried away with the idea of a "new economic era". Business was booming; salaries and wages were high; our standard of living was growing rapidly; money was easy to get and easy to spend. Those who dared to point out the inevitable collapse of the boom were laughed to scorn. The fever of acquisition spread inevitably to municipal councils, and especially to those of suburban areas adjoining the more important cities. New areas were opened up and supplied with sidewalks, streets, sewers and local improvements in anticipation of early settlement. New and greater schools were built; municipal buildings, fire halls and recreation centres were acquired; new public utilities were undertaken; social, hospital and medical services were expanded. Taxation was increasing, but most of us were getting too much of a thrill out of making money to worry about where our money went. A small increase in our municipal tax bill was scarcely noticed. In any event, was this prosperity not here to last, and could we not pay for these improvements out of all the money we were going to receive in the future? Inevitably the boom collapsed. Paper profits disappeared, and we suddenly found once more that it was necessary to work for a living. Our ability to pay for these newly acquired debts and to maintain our ambitious social services, was not so great as we had thought, and it yearly continued to grow less.

It is not fair to saddle our municipal councils of those days with the entire blame for our present situation. Many councils were elected on platforms involving large capital expenditures. The ratepayers who thus encouraged them are largely responsible for the difficulties which have followed. Then again, our municipalities—very generally—had been granted altogether too generous credits both on capital and current account. It is believed that some might have

been spared default if from time to time their financial advisers had examined the municipalities' statements more carefully, and warned them of the dangers that were fast approaching.

- (b) **Failure to Live Within Income**—The training which many municipal officers had during the boom period was bad. Councils in good years were in the habit of demanding and receiving from their taxpayers money sufficient to cover all expenditures. Many councils, when the depression set in, failed to realize that municipal revenues must decline as the result of falling real estate values, reduced rentals and personal revenue, declining assessments, and lessened tax collections; or, if they did, they chose to disregard this vital fact. Expenditures were maintained at previous levels on the assumption that all taxes levied for would be paid. Little or no attempt was made to bring the year's expenditures down in line with falling revenues and actual cash tax collections of the year. Tax arrears continued to pile up, and temporary loans were obtained from banks to bridge the gulf between cash receipts and cash disbursements. Inevitably the municipality found its line of credit at its banks exhausted, and default occurred.

It is just as essential for a municipality to live within its income as for an individual. Municipal budgets should contain a provision or reserve for uncollectible taxes. It is the exception to collect 100% of the levy made. Each year's cash receipts should be sufficient to pay all commitments of that year in cash.

- (c) **Rigidity of Expenditures**—One of the main weaknesses inherent in our municipal structure is that municipal expenditures are not readily controllable. The very nature of many of the services which a municipality undertakes to provide for its citizens necessitates the incurring of capital debt, and the consequent liability on the part of taxpayers for its repayment—principal and interest—extended over a number

of years. In addition, maintenance of the services so provided necessitates a certain annual outlay. Analysis of municipal statements will reveal the large proportion that uncontrollable expenditures, such as debt charges, and in measure educational costs, etc., bear to the total of all expenditures in the municipal budget. In Nova Scotia on the average these amount to between 45 and 50%. While educational costs have been referred to as uncontrollable—this may be true so far as municipal councils are concerned—they yet are controllable by school trustees and boards.

It must also be borne in mind that the balance of the expenditures, so-called controllable expenditures, for fire and police protection, health and sanitation, ordinary repairs and improvements, administration, etc., are only capable of being controlled to a relatively small degree. There is a point beyond which these services may not be reduced if the municipality is to continue to function as such.

This very rigidity in expenditure makes our municipalities exceptionally vulnerable to conditions such as have been experienced in the past several years. Any means by which we can make our municipal expenditures more elastic, so that they can be lowered readily in times of declining revenues, will remove one of the main causes of default and one of the main difficulties of administration.

- (d) **Lax Administration**—The administration of any municipality's affairs requires well-trained and effective public personnel, possessing a sound knowledge of municipal finance, and an appreciation of the functions of a municipal unit. It is feared that too often in the past, in many cases, councillors were elected who were not well qualified for the position; permanent officials have been appointed through favouritism, with an eye to politics rather than to their qualifications. Administration thus became casual and inefficient; previous mistakes and errors were perpetuated. Too often tax collectors were only tax receivers; assessors

were not expert in determining values and sometimes not impartial;\* treasurers failed to relate expenditure to income, or to regulate debt to the capacity of the taxpayer, and councillors failed to check officials, to observe the trend of affairs, and thus did not fulfill their obligation as trustees for the ratepayers. On the other hand, we have in some of our municipalities officials competent, well-trained and devoted to duty; councillors high minded, sincerely proud of their municipality and extremely conscientious of the trust reposed in them, and as a rule there is found in such a community a marked respect for law on the part of citizens.

- (e) **Relief Expenditures**—The effects of the decline in practically every type of business, and the throwing out of work of a large group previously gainfully employed, developed additional problems for our municipalities—relief expenditure on a substantial scale; increased taxes; lessened ability to pay taxes, and a large body of assessment taken over for non-payment of taxes. The question of whether relief expenditures are properly a charge upon municipal exchequers is not germane to the present discussion. The fact is that municipalities have had imposed upon them large expenditures for this purpose, which the municipal structure was not designed to carry.

While in several cases of default an attempt has been made to prove that the added burden of unemployment relief has been the main reason for municipalities' breakdown, it was found upon careful analysis that such view was not warranted. It was merely a contributory cause. In most of such instances, and especially in the ten suburban municipalities centering around Toronto now in default, the chief reason for disaster was that they had proceeded to furnish themselves with facilities far in advance of their actual need, and to incur capital debt therefor not justified by a sound assessment, nor by the ability of those owning

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\* It is believed that not infrequently assessors have violated their oath by taking instructions from councils as to the basis upon which assessment should be made.

property to pay the necessary debt charges, as well as the added costs incident to the upkeep and operation of such new improvements, schools, equipment, etc. When the resultant taxes were levied, inability to pay became evident and there also crept into the administration some laxity in collecting taxes.

Municipal budgets could not stand the strain of declining tax and other revenues, and at the same time of increasing expenditures. Controllable expenditures could not be reduced sufficiently to make room for the added charges for relief.

It has been well pointed out "that the real cause of governmental deficit is not the so-called depression. This was the occasion but not the cause. The real causes are the establishment of uneconomic standards of government and private living in buoyant times, which standards carry over into depressed times, the undermining of moral fibre developed by years of pioneering, and a loss or diminution of the power of the body politic to think straight, or even, it would sometimes appear, to think at all."

**Requisites of Sound Municipal Administration—**  
How may we turn these experiences of the past to account, and build our municipal finances on a sounder basis for the future? We know that there are certain pitfalls into which municipalities may stumble, we know the inevitable effects which may be expected, and we must be forever on our guard lest they happen to us.

Experience of the past has taught us that the following are requisites of sound municipal administration:

- (a) **Equitable and Revenue-Producing Assessment—**  
The assessment of a municipality is the base upon which the whole structure rests. It is essential that it be equitable and reasonable. No greater ground for dissatisfaction or dissension can exist in a municipality than an unfair or unjust assessment. Therefore, the assessor should be efficient, impartial and capable in determining values. In the discharge of his under-

takings he should be freed from all outside influences, including members of Council. His duties are clear, and he should have the moral support of the whole administrative body.

The practice of exempting industrial, other business or residential properties from taxation, in whole or in part, for a period of years, is tantamount to subsidizing special types of business and individuals, and tends to create a preferred class in the community, which of course is undesirable. Many instances might be cited. One important municipality in the Province of Quebec with a population of 40,000 contains a number of important industries. The gross assessed value of all properties was 71 millions of dollars, which included non-taxable (churches, schools, government buildings, etc.) properties of 19 millions, and industrial properties, wholly or partially exempt from taxation, of some 18 million dollars, thus reducing the assessment tax revenue base to 34 millions. All of the exempt properties obtain the benefits of the general services furnished by the City, but do not share in the cost, which is borne by those taxed. At present this municipality, which badly needs tax revenue, would welcome income from these exempted industrial and business properties, but of course is unable to obtain it until the present agreements for exemption run out several years hence.

It should be the aim of a municipality to have as diversified an assessment as possible. A town which specializes in one type of industry suffers severely when a depression takes place in that particular industry. Several municipalities in Quebec were in sore financial straits through the distress in the pulp and paper industry, and the City of East Windsor, Ontario—largely a one-industry city—was compelled to default when the automobile industry nearly collapsed. The efficiently run municipality, with a low demand for taxes, will automatically attract industry to its borders, other things being equal. A low tax rate is one of the best advertisements any municipality can have.

The assessment must also be a live assessment—a revenue-producing assessment. When the mill rate is determined and the tax levied on it, the assessment should produce the revenue intended to cover the budgeted expenditures. In one Ontario municipality, upon investigation it was found that on 35% of the assessment no taxes had been paid for three years. Notwithstanding, taxes continued to be levied on this assessment, and expenditures were based on the assumption that 100% of the levy would be collected, because no provision was made in the budget for uncollectible taxes. In this particular municipality, when the assessment was purged, it was found that 76% of the total accumulated arrears of taxes which had been carried on the balance sheet as a good asset were uncollectible and had to be eliminated.

Sound municipal practice demands that the record be cleansed each year of dead or non-revenue-producing assessment. Analysis of tax arrears against the individual properties quickly indicates those properties from which no revenue may be expected.

- (b) **Prompt Completion of the Year's Budget**—The budgeting of current expenditures and revenue has become so universal and so efficient that no municipality, which claims to be operating soundly, would be found without it, and yet in analyzing some budgets it is astounding to note that revenue is often included that cannot be realized; further, that tax levies are assumed to be the equivalent of tax revenues; that expenditures are deliberately understated; that certain current expenditures, such as relief, etc., are entered as current, when it is known that they will be borrowed and ultimately capitalized and funded. Because the two sides of a prepared budget bring out the same total, it does not necessarily mean that we have a balanced budget.

Then again, the budget is not a document to be drawn up, examined at the commencement of the year, and put away until budget times comes around the next year. It is a document which contains twelve

columns of estimated revenue and twelve columns of estimated expenditure, one for each month of the year, and is to be studied, compared and analyzed at the end of each month, with the month's actual revenues and expenditures; also with the actual accumulated revenues and expenditures for the expired period of the year. It is a chart which tells you the direction in which you are going, and whether you are on the right track or heading for trouble.

The preparation of the budget should be the first undertaking of the incoming Council. A great deal of preliminary detail should be carried out by the permanent officials before the municipality's new year commences. It is believed that no sound reason can be advanced for the budget not being prepared, considered by Council and passed within one month after the beginning of the fiscal year. Any number of excuses will be forthcoming that this cannot be done, but they all disappear if there is the desire and the will to do it. The books and accounts of the previous year can be closed, reconciled, audited and the balance sheet completed within twenty days after the close of the fiscal year. The longer this is delayed, the greater will be the difficulty in completing it. Practically all our banks, trust, loan and insurance companies have their annual statements compiled and audited within ten days after the close of the year.

Early consideration of the budget is important because it enables the administration to readjust the new year's expenditures promptly in accordance with changing conditions. It is well known that some Councils permit unwarranted expenditures to continue several months after the beginning of the new year, simply because of delay in bringing down the year's budget. The new year's expenditures start on the first day of the year and in the intervening four or five months disbursements have been incurred which do not conform to any budgetary scheme.

Promptness and competency on the part of the administration enhance the credit and reputation of the municipality. On the other hand, laxity in these



matters tends to breed laxity throughout the whole administrative staff and even throughout the community, thereby resulting in a lack of pride on the part of citizens and a dilatoriness in meeting their tax obligations.

It is just as essential for a municipality to have a capital budget extending over the next five years, as to have an annual current budget. This should list proposed capital improvements in the order of their importance; should estimate their cost and should allocate revenue to meet the costs. It should of course be revised annually so that currently the municipality will always have before it a five year capital program. Financial conditions change, but in any one year only those capital expenditures should be authorized which can be financed and paid for without embarrassment to credit or to taxpayer.

- (c) **Early and Efficient Collection of Taxes**—An efficient system of tax collection is indispensable. Increasing tax arrears in a municipality indicate an approaching financial storm. It may be caused by unsound assessment; or by laxity and inefficiency in collection. It is invariably accompanied by straining of credit, heavy bank borrowings, and costly interest charges.

Recently there has been compiled by the Citizens' Research Institute a comparison of tax arrears as a percentage of the current year's tax levy for certain municipalities throughout Canada, which is worthy of study:

MUNICIPALITIES	YEAR					
	1930	1931	1932	1933	1934	1935
<b>Population 10,000 or over</b>						
Western Group (15 places) . . . . .	29.7%	35.4%	42.7%	51.2%	57.8%	60.4%
Ontario " (36 places) . . . . .	24.5	28.3	34.9	42.0	41.2	36.1
Quebec " (18 places) . . . . .	40.7	42.1	56.2	65.8	58.8	58.0
Maritime " ( 6 places) . . . . .	33.7	36.6	37.1	44.8	45.8	46.8
Weighted Average All Groups . . . . .	30.2	33.8	42.4	50.6	50.1	47.9
<b>Population 2,000 to 10,000</b>						
Western Group (32 places) . . . . .	37.7%	45.9%	53.3%	56.9%	65.2%	70.4%
Ontario " (91 places) . . . . .	33.3	41.1	46.0	52.5	51.7	51.9
Quebec " (15 places) . . . . .	56.3	66.6	67.7	66.2	56.7	52.5
Maritime " (31 places) . . . . .	42.9	48.6	55.6	64.0	64.3	63.0
Weighted Average All Groups . . . . .	36.4	44.0	49.4	55.4	55.8	56.7

These figures afford a very good cross-section of municipal experience in the four main sections of Canada. The trend of tax arrears is very interesting and instructive, and I leave it with you to draw your own conclusions in your own particular field and way.

Should not the official charged with the collection of taxes regard himself as analagous to the accountant in a mercantile or industrial concern in charge of receivables? His duty is to see that the accounts and bills receivable are paid promptly when due. Upon failure he immediately takes steps to obtain satisfaction. He knows that the longer the bill or account is outstanding the greater is the likelihood of loss. Moreover, his efficiency is more or less judged by his ability to effect collections. He recognizes that bank borrowings have been made because of credit which has been extended, and his object is to decrease his firm's borrowings at the earliest possible time in order to preserve its credit and save interest charges. Many of our municipal officials do regard their duties in this light, with the result that in such cases arrears of taxes are kept down to a minimum, bank borrowings and interest charges are unknown or very light, and in addition community pride and interest is developed and sustained.

Adherence to the following practical points has been most helpful:

- (1) Taxes made payable in two or three instalments, either at the beginning of the fourth and ninth months, or at the beginning of the fourth, seventh and tenth months. Income is thus made to synchronize closely with expenditures, heavy bank loans are avoided and interest charges minimized. Then again, taxes will be met more promptly due to the smaller and frequent payments.
- (2) A studied system of discounts for payment of second and third instalments with the first, and penalties for failure to pay any instalment when due.
- (3) An efficient system of tax collection and records.

- (4) The use of the legislative machinery to enforce the payment of taxes.
- (5) A well organized plan on the part of Councils, citizens and newspapers to popularize prompt payment of taxes.
- (6) The lower the rate at which the levy is set, the greater will be the percentage of taxes collected.

It is rare in these days to come across a municipality which can genuinely reduce its tax rates. Genuinely is emphasized because municipalities have been known to bring about an apparent reduction in the tax rate by omitting legitimate expenditures, increasing revenue improperly, or failing to provide adequate reserves. Port Arthur, Ontario, is an outstanding example where there has been a genuine reduction in the tax rate for the year 1936. Georgetown and Listowel in Ontario are other instances of tax reduction. In these cases the rates were reduced by from one to three mills for 1936.

I should like also to record here the recent experience of the City of Hamilton, Ontario, which has a population of 154,020, composed to a large extent of industrial workers. Taxes and other current revenue received for the six months to June 30th, 1936 were \$5,225,781., compared with \$4,813,640. in the similar period of 1935. Expenditures for relief for the six months of 1936 were \$980,179., compared with \$1,254,421. in 1935. Number on relief June 30th, 1936 was 16,692, compared with 20,434 at the same date in 1935. Hamilton is a city which has greatly improved its administration in recent times, and these figures clearly indicate the result.

- (d) **Ability to Live Within Income**—Insistence that the year's expenditures shall not exceed the year's revenue should be a first principle with municipal administrations. It is not sound finance to close the year with either a bank overdraft or a number of accounts payable. This is not an idealistic or theoretical

aim, but is one which our best municipalities carry out and which can be carried out by all municipalities.

It is recognized that practically no municipality collects 100% of its taxes within the year that levy is made. It is also recognized that practically no municipality spends less than 100% of its estimated expenditures. The course then to pursue in order to make income balance expenditure is to include in the levy, for "uncollected taxes," an amount representing the approximate shortage on collection according to past experience. In the first year that this principle is adopted there will be a somewhat higher mill rate, but in succeeding years it will be lower, owing to all payments received on account of arrears being available. For succeeding years, in addition there will be less to borrow and consequently smaller charges for bank interest.

As an illustration, one of the Ontario municipalities did not provide for "uncollectible taxes," and thus practically year in and year out permitted yearly expenditures to exceed yearly revenue. It became such a usual state of affairs that Councils and officials accepted it as the common practice—an 80% current collection was regarded as satisfactory—then 75% and even 70% did not cause alarm. Arrears and bank loans piled up. In 1927 only 60% of the taxes levied were received, and by 1931 this percentage was only 30%. Tax arrears mounted until at the close of 1931 accumulated arrears represented 156% of the 1931 levy, and bank borrowings had increased to 94% of the 1931 levy and about 60% of the total arrears. This municipality today is in default and its downfall is directly traceable to a complete disregard of the principle that applies to corporations and governments as well as individuals, that yearly expenditures should not exceed yearly income.

- (e) **Avoidance of Excessive Capital Debt**—There is no part of municipal administration which requires greater judgment than the question of whether or not

to incur additional capital debt. It should never be incurred unless some corresponding capital asset is acquired, and the term of the debt should not exceed the useful life of that asset. There is no doubt that in a number of instances debt incurred without a vote of the people has been responsible for defaults. It is important to bear in mind that every capital debt commits the ratepayer to provide additional tax revenue to meet annual debt payments extending over 10 to 30 years. Before deciding, the administration should satisfy itself that:

- (1) The asset to be acquired or the work to be done is absolutely essential.
- (2) The revenue-producing capacity of a sound and conservative assessment is adequate, and that ratepayers are able to carry the additional debt charges, and the added cost of upkeep and operation of the new undertaking.

Debt charges comprise the main uncontrollable expenditures in the municipal budget. Why should municipalities not adopt a partial pay-as-you-go policy? In our personal affairs we do not mortgage our house to 100% of its value. If we buy on the instalment plan, we must make a substantial down payment. Similarly in a municipality, why should not debentures be issued to say only 80% of the cost of the improvement, and the balance be obtained by a direct levy in the mill rate? If this were done it would act as a great deterrent to a too rapid accumulation of debt, because the decision to incur debt would be followed immediately by a substantial increase in the mill rate.

May I sound a warning against the unsound principle of short term borrowing for capital purposes, because short term money is cheap. Capital borrowings should be made on a permanent basis at the time when the work is completed, and on terms and conditions that the loan will be paid in full at maturity without re-financing or refunding. Short term capital

has been responsible for many of our embarrassments. Also, the continued funding of relief costs is unsound. As a temporary expedient some few years ago, when relief expenditures came upon municipalities somewhat unexpectedly and involved substantial amounts, part funding may have been excusable, but relief now has to be regarded as an annual recurring expense, and necessitates making provision for it as a current expenditure in the budget, in the same way as any other yearly charge. To do otherwise must lead inevitably to heavier and heavier taxation.

- (f) **A Sound Basis for Local Improvement Debt—** While the local improvement system of carrying out certain works is not extensively used in the Maritime Provinces, I believe, it may be pointed out that unfortunately in some other Provinces many local improvements were undertaken on the initiation of Council without the electorate's consent, or only on the petition of the frontage taxpayers whose properties abutted on the works. The result in many cases was that wherever real estate speculation developed, the Council was prevailed upon to incur debt. Local improvement debt, unless soundly warranted, is one of the most insidious and heart-breaking obligations the taxpayer has to contend with, in that it imposes an added burden upon all taxpayers, and especially upon those whose property is supposed to be benefited. Analysis of the tax arrears of many defaulting municipalities indicates that the major portion of the arrears are on properties carrying heavy local improvement levies.

No local improvement should be undertaken in connection with any speculative real estate development, unless the whole of the cost is paid by those responsible for the development at the time the work is undertaken.

It must be remembered that debt incurred for local improvements constitutes a direct debt of the municipality, and that if the special rates assessed against the property benefitted are not collectible or

are not sufficient, then the deficit must be made up by an increase in the general tax rate. In many instances such inability to collect has taken place, and has been one of the main reasons for default. Study should be given to the effect that the imposition of heavy local improvement taxes will have on the value of the property. Often, instead of enhancing values, as has so frequently been stated, local improvements depress values. The property owner's share of the cost, plus the increase in general tax rate which nearly all local improvements impose, not infrequently creates such a heavy lien that the property becomes unsaleable or greatly reduced in value, and is finally permitted to revert to the municipality for non-payment of taxes.

- (g) **Assurance that Public Utilities are Self-Supporting**—There is no argument against a municipality embarking upon municipally owned waterworks, electric light plants, etc., if, after a careful estimate of revenue and expenditures, the enterprise can be proved to be self-supporting. The principle is recognized as sound. These utilities, however, require competent administration and the charges for the service must be ample to pay all operating expenses, maintenance charges and all charges for interest and principal on the debt incurred against it. Like local improvement debt, bonds issued for public utilities constitute a part of the general obligation of the municipality, and if the utilities are not self-supporting all deficits must be levied for in the general tax rate and become an added burden on all ratepayers. Therefore, there should be exercised a very sound control of the amount of capital debt authorized for all types of public utilities.
- (h) **Avoidance of Guaranteeing Debentures**—Guarantee of debentures or assumption of any contingent liability by a municipality should not be countenanced. If local industries cannot obtain financial accommodation through the ordinary channels, it is extremely doubtful if the municipality should assume the risk. When such a guarantee is given, of course no municipality expects to be called upon to implement its

guarantee. Yet suddenly many administrations have had to assume payment of the guaranteed debt, and an added tax levy has been immediately imposed upon the ratepayer. Unfortunately several Ontario municipalities have suffered severely in the assumption of debt obligations and in the granting of their guarantee for inter-urban electric railways and industrial undertakings. A short time ago the City of Brantford, Ontario, had judgment entered against it for \$125,000. for street railway bonds, which it never expected that it would be called upon to liquidate, and for which it had made no provision. Municipalities in and around Windsor also have been saddled with heavy obligations in connection with two inter-urban electric railway enterprises which, when launched, were expected to be self-supporting. Perhaps it is only fair to say in connection with the last instance that powerful influence was exerted which the municipalities found it almost impossible to ignore.

- (i) **Control of Educational Costs**—More rigid control over capital and current expenditures for education appears to be urgently needed. There has not been evidence yet of a realization of the seriousness of the situation. On the average no less than \$40. out of every \$100. of taxes levied by municipalities is absorbed for educational purposes. It was pointed out in connection with a governmental investigation recently made, that since 1914 the cost of education in Canada has increased by 275%. A very large part of the funded debt of municipalities has been incurred for schools, and in some instances these buildings are both elaborate and expensive.

In a recently published article it was pointed out by a prominent educationalist of the United States, after a study of English educational institutions, that many of them were housed in buildings that would be considered archaic on this side of the Atlantic, but that the general quality of their product was nevertheless most excellent. Is it not possible that we in Canada have been inclined in the last fifteen years



to over-emphasize the type of building, with the result that too great a portion of the funds available for education have been diverted into carrying charges and upkeep on buildings? Have we not incorporated in these buildings and the grounds surrounding them, services and facilities which are not absolutely essential in acquiring a sound education? After all, the buildings are but a means to an end, and that end should be the proper instruction of the youth of the land in the art of living.

School Boards in our various municipalities should be as deeply interested in the establishment of a reasonable tax rate—one that the ratepayer can pay—as are those administering purely municipal affairs. Then again, School Boards must realize that they cannot always depend upon the receipt of the whole of the levy made by the municipality for school purposes. If it should have a poor collection, say 75%, it cannot indefinitely continue to pay to the School Board 100% of the school levy. The time may come when certain municipalities can pay to School Boards each year only that proportion of the school levy which has been actually collected in that year.

**Types of Debenture Debt**—Analysis of the outstanding debenture debt of Nova Scotia municipalities indicates that by far the majority of the issues have been based on the sinking fund method, as against the instalment or serial method, which is now almost universal with Ontario and Western municipalities. Sinking fund debentures, as issued, are payable at the end of a specified time, say 10, 15 or 30 years, and in the meantime year by year a sinking fund is accumulated by the municipality or by trustees on its behalf, presumably sufficient to meet the debt when it falls due. The instalment method provides for the retirement of a specified amount (approximately equivalent to the yearly amount set aside in the sinking fund) of the debt each year, so that at the end of the time it is paid off automatically.

The essential difference between the two methods is that under the instalment method the annual tax which is levied for the repayment of the debt is utilized in the year in which it is

collected for the actual repayment and retirement of a definite part of the debt, thus reducing the debt annually. The sinking fund method accumulates the annual tax levy referred to, at interest, for the period of the debt, through investment in securities, until the debt matures as a whole.

**Instalment vs Sinking Fund**—The advantages of the instalment method compared with the sinking fund are:

- (1) The annual tax levied to provide for the payment of the debt is usually less under the instalment plan than under the sinking fund. The reason for this is that it would be dangerous to assume that the annual sinking fund would earn, over the life of the loan, as high a rate of interest as the loan itself carries.

As an illustration of the saving to the ratepayers in adopting the instalment method as contrasted with the sinking fund method, I refer to the experience of one of our larger cities which had to raise \$1,500,000 by the issuance of ten year debentures. Had they been issued on the sinking fund plan, the annual tax levy for repayment of the debt would have been \$205,846., but according to the instalment method, it was only \$194,256.—a yearly saving to the taxpayer of \$11,588., and a total saving in the ten years of \$115,880.

- (2) By the instalment method the gross debt is being reduced each year by the retirement and cancellation of debentures represented by the annual instalments. By the sinking fund method the gross debt remains stationary for the whole period of the loan, whether five, ten, fifteen or thirty years. No part of it is retired until the end of the loan period.
- (3) By the instalment method there is no necessity to keep a highly technical and exceedingly voluminous account for each debenture debt; the annual retirement of debt and the cancellation of equivalent debentures eliminates this procedure. The sinking fund method necessitates that there be opened a separate account for each debenture debt; that there be credited each year the sinking fund instalment; and that there shall also in the same account be credited to the pre-

vious year's accumulation interest at the rate at which the sinking fund has been established. The sinking fund method also necessitates a test being made each year in each account to determine that it is sufficient with subsequent credits and accumulations to meet the original debt at maturity.

- (4) The instalment method does not require the purchase of securities by the municipality or by trustees acting for it. The sinking fund method entails the necessity of purchasing suitable securities each year for the investment of sinking fund accumulations. This requires skill and judgment in respect to quality, date of maturity and yields.
- (5) By the instalment method there is no alternative, except acknowledgment of default, for a municipality's failure to provide for payment and retirement of the yearly proportion of the debenture debt for which it annually taxes its ratepayers. In the sinking fund method, unfortunately, annual payments which should be paid into the sinking fund, for the ultimate liquidation of the debt, are not always made, in the hope, often not realized, that the amount can be paid into the sinking fund later. This action is prompted by the pressure for payment of expenses and current obligations.

**Sinking Funds**—The issuance of debentures by the sinking fund method involves possible losses in the investment and care of sinking fund moneys. In Nova Scotia this is done away with to some extent by certain municipalities having their sinking funds administered by a trust company, but it should be remembered that no super man or even trust corporation has an infallible record in the investment of moneys. It is almost impossible not to suffer some losses; it is most difficult to be able to make the right kind of investments immediately when funds are available; it is impossible to know that year in and year out investments can be chosen to yield the essential minimum rate; it is impossible always to purchase securities which will mature exactly when the sinking fund debt falls due. All of these elements are associated with the administration of sinking funds. Why should we invite all these difficulties when they can be avoided?

The dangers referred to may be illustrated most clearly by reference to defects in the practical handling of sinking funds which have been uncovered by investigation, some of these defects having caused serious losses to the ratepayers.

- (1) The annual sinking fund instalment—according to necessity—should be invested immediately it is due, at a rate of interest at least equal to that which the sinking fund is supposed to earn.

In one particular municipality the sinking fund was calculated on an earning basis of  $4\frac{1}{2}\%$  but the instalments were allowed to remain in a savings account earning only  $3\%$ . Then again it was discovered that some of the securities had been purchased to yield only  $4\%$ . Of course there could be only one result when the sinking fund debts matured—namely, the sinking fund was not equal to the maturing debt, and that of course meant a further levy upon the unfortunate taxpayer in order to make up the deficiency.

- (2) The accumulations of the sinking fund should be invested in unquestioned securities which can be realized upon when the respective debts fall due, so that they may be promptly met.

Here is the condition in one of our outstanding cities, which has a funded debt of \$43,206,563., and has persisted in issuing sinking fund debentures instead of instalment debentures. In the sinking fund investments, which totalled \$14,556,956., on last analysis there was not a single bond of the Dominion of Canada and only \$50,000. of bonds guaranteed by the Dominion. There was not a single direct obligation of any one of the Provinces. Of the municipal debentures held,  $25\%$  were debentures of municipalities in default. Other securities comprised first mortgages on real estate, agreements for the sale of real estate, some properties and a small amount of cash. What a commentary on the judgment of those who made these investments! If this municipality had issued its bonds on the instalment plan, its gross debt would have been reduced by over fifteen million dollars and its rate-

payers saved from impending increased taxation to meet the inevitable loss which will be sustained.

- (3) The amounts turned over to the sinking fund should be accurately accounted for, and an assurance given that such amounts will be sufficient to meet the maturing debt.

I would like to quote the experiences of a third municipality which issued twenty years ago debentures for \$65,000., maturing in 1933. When the Treasurer was faced with the necessity of digging up funds out of the sinking fund to meet it, he found they were not there. Such investments as were on hand did not mature in 1933. He attempted to effect a sale, or realize upon those that were available. This could be done only at a loss which would deplete the fund. It was also found that the sinking fund was woefully short of the amount that it should have accumulated. What was he to do? The debt was due in a few months and had to be met promptly; otherwise the municipality would default and its credit would be destroyed. He was authorized to put out a new issue of debentures to refund the old debt, with the consequence that the poor taxpayers were compelled to commence all over again to pay yearly taxes for a loan which they had already paid for in taxes during the past twenty years.

In another municipality it was discovered that regularly for years, while the ratepayers had been taxed and levies collected for the annual amount due the sinking fund, the levies had not been paid into that fund, but had been utilized in part for current expenditures. All that remained for the sinking fund were several years' arrears of taxes. In this case when the debenture debt fell due, a crisis was reached, and in order to prevent default or suit against the municipality being instituted, special power was obtained to issue new debentures for the old debt, and while the authorities knew that these new debentures could not be marketed, the holders of the original debentures were approached and requested to exchange their maturing debentures for the new ones. Finally part

of the old debt was liquidated by taking moneys from the sinking fund which should have been applicable to other debts, and part settled by the exchange of the new securities as described.

- (4) Another unsound practice which has come to light in recent years is the sale by a municipality to its own sinking fund of issues of its own bonds, for relief purposes, for deficits or other intangibles, which bonds could not be sold on the open market. The effect of this is that instead of the sinking fund money being utilized for sound investments, it is employed to cover up defects in municipal administration and to load the sinking fund with unmarketable and otherwise undesirable securities.

**Tests of the Sinking Fund**—Those municipalities which have outstanding debentures repayable by the sinking fund method should have a yearly investigation to ascertain whether the accumulations of sinking fund on hand, plus future payments to be made into it, are sufficient to discharge the sinking fund debts at maturity. It is very rarely that any reference is made in the Treasurer's or Auditor's report to this most important subject. There should also be given in the Auditor's statement a complete list of the securities held for the sinking fund, as well as their cost and latest market value.

**Marketability of Sinking Fund Debentures**—In the past, investment houses, which are the chief purchasers of municipal securities which they later retail to investors, rather encouraged the issue of bonds by the sinking fund method, in preference to the instalment, mainly because of convenience in marketing. But practically all those houses that have given the subject intelligent study, and have the best interest of the municipality at heart, now unhesitatingly recommend the instalment type of debenture.

The objection has been raised against instalment debentures that, because the London market is not accustomed to them they cannot easily be marketed there. The objection is a practical one, but no municipality would be justified in running all the risks enumerated, and others, in issuing sinking fund debentures,

for the chance of obtaining a slightly better price for its securities. In this connection, while sometimes in the past a better price was obtained in disposing of securities in United States or Great Britain, it is most questionable, in view of the losses recently occasioned in the purchase of exchange to meet interest and principal requirements in these countries, whether on the whole it would not have been less costly to have marketed them at home.

**Some Suggestions on Municipal Practice**—From investigation of the administration methods of many municipalities have evolved the suggestions and comments which follow. It has seemed that, through the adoption of ideas along these lines, some definite improvement could be brought about in the general conduct of municipal affairs.

- (a) **Accounting and Auditing**—There is a matter which, although somewhat delicate, should be referred to, and that is the primitive, inefficient and careless way in which many of the records, books and accounts of a number of municipalities are kept. Opportunity has been afforded to examine the records of municipalities, and it has been a startling surprise to discover the unsatisfactory conditions of several of them. It is no wonder under such circumstances that certain municipalities' statements are not forthcoming promptly after the close of the year; it is no wonder that excuses are made that budgets cannot be prepared and presented until several months of the new year have passed; it is no wonder that tax demands are delayed; that tax arrears are permitted to mount, and that excessive debts are undertaken. On the other hand, the annual reports of a number of our municipalities—and this applies especially to the more important ones—are models in the presentation of the facts, and clearly indicate that the officials are most efficient and have a keen appreciation of the duties of their office.

There is one other observation to be made in this connection, and that is that while the affairs of all municipalities are supposed to be audited, the extent of the audit in some instances is very superficial, and

here again this applies especially to the smaller units. Should there not be provision made in our municipal statutes that the affairs of every municipality should be audited by a chartered accountant, or some one of equivalent standing, and that the complete audited statement for the year should be available for Council within twenty days after the close of the year? Moreover, the somewhat common custom of auditing the affairs of the municipality only at the close of the year is not adequate. An audit to be of any value should be a continuous one—performed monthly—and any irregularity found should be made known promptly to the Council. To my knowledge these principles have been put into effect, with the result that Councils and officials have been constantly informed of current operations and of the general trend of affairs.

- (b) **Annual Report of Greatest Enterprise**—If you enquire from any of the town people if they have read or examined the annual statement of their greatest enterprise—and the one in which they have the greatest stake—they appear surprised and astonished, not knowing what enterprise you mean. When you explain that you have reference to their own town, village or township, they appear still more amazed at such an enquiry. Few have stopped to consider what return on their annual tax investment they receive in dividends, by way of various forms of services—schools, health, police and fire protection, roadways, sewers, etc. And is it not rather remarkable that our ratepayer-shareholders are so careless and indifferent of the annual operations of what should be their greatest interest and concern?

On the other hand, can we reasonably expect people to read municipal reports in the form in which some of them are put out at present. You would think some were designed to discourage anyone from reading them. Many of our municipal reports are a jumble of figures and statements, uninviting, unedited, unexplained, and practically defying the ordinary reader to determine what has taken place—whether the muni-



unicipality has had a good, a bad, or an indifferent year. The operations of a municipality are comparatively simple, and are capable of being presented to the taxpayer from year to year so that a thoroughly intelligent knowledge can be obtained. Behind these operations lies a human story—the daily happenings in the community's home. A report prepared on this basis could be made so interesting that every contributor to the municipal exchequer would look forward eagerly to its appearance. Every municipality should publish its annual statement in its own local press. Space occupying a whole page, if necessary, should be used. It should be edited and set up in such an attractive form that it would be inviting to read.

Why should not the senior official or head of council present an annual report to the ratepayers, somewhat along these lines, the assumption being that the municipality's fiscal year ended on December 31st:

### **To the Ratepayers of Kingsland**

Your Council, as your representatives, present herewith the usual annual statement of your affairs, together with revenue statement and balance sheet, and direct special attention to the annual meeting of citizens and ratepayers, which will take place in the Town Hall on 28th of January, 1937, at 8 p.m.

**Tax Rate**—The tax rate for the year was 35 mills—a decrease of one mill compared with that of the preceding year, due to a decrease in school expenditure. Credit should be accorded the school board or trustees for this result, and for their cooperation during the past year.

**Assessed Valuation**—The yearly assessment of real property, which was completed in the month of October and confirmed early in the following month, amounted to \$12,000,000., an increase of \$750,000. for the year. No increase in the basis of assessment was made, but fortunately two new plants have been established, and thirty new residences erected, with other sundry improvements. The low tax rate has been, it is believed, a factor in producing these results.

**Current Taxes**—The tax levy for the year amounted to \$420,000., payable in three instalments—1st of May, August and November. Payments were on the whole promptly met, and in aggregate represented 89% of the year's levy, compared with 84% in 1935. Penalties, in accordance with the Municipal Act, were added for failure to pay promptly. Vigorous efforts are being made to collect the balance unpaid—\$46,200. Less unemployment, which had a tendency to improve business is believed to be responsible for better tax collections.

**Arrears of Taxes**—Of the tax arrears of \$75,000., which were brought forward on the 1st of January 1936, it is gratifying to report that 80% was paid during the year, leaving \$15,000. still unpaid. It is regretted that the properties on which these taxes are unpaid will be brought to tax sale on 1st of December, if taxes are not paid before that date.

**Banking**—At the beginning of the year, there were no bank loans on current or capital account. On the contrary, the previous year ended (31st of December 1935) with a credit balance on current account of \$15,000., which was brought forward and made available for current expenses in the month of January 1936. Between 1st of February and 1st of May (when first instalment of taxes fell due) it was essential to secure bank loans aggregating \$90,000. This, however, was repaid promptly on 1st of May, and as there was a steady flow of revenue somewhat in excess of current expenditure, it was unnecessary to seek any fresh loans. The year closed with a credit balance of \$23,000. The bank interest charges for the whole year, less small amount received on credit balance, amounts to \$720. As no new capital works were undertaken, no borrowing on capital account was necessary.

Paragraphs might then follow referring, in readable and popular language, to other activities and operations, as follows:

- (1) Total municipal expenditures and revenue of the year.
- (2) School Board revenue and expenditures

(3) Waterworks operations and year's results (4) Electric light operations and year's results (5) County relations, county tax rate, etc. (6) Fire and police protection (7) New works undertaken, etc. (8) Debenture debt (9) Parks, library, recreation, health (10) Auditor's report (11) Personnel of municipality and boards, etc. (12) Progress of municipality, etc. (13) Unemployment, etc.

It is believed that a report somewhat along these lines would be welcomed and would keep the ratepayers informed as to how their community was operating, and how their money was being spent.

No privately run commercial enterprise would think of overlooking this important duty to its shareholders. Is it not logical, then, for us to advocate similar treatment of ratepayers at the hands of their elected representatives, whose operations they direct and control? The annual ratepayers' meeting would be comparable to the annual meeting of a corporation. Interest in this meeting could be built up by council, officers and the press, and it would afford a splendid opportunity for country and town citizens to meet in a friendly way with those whom they have charged with the conduct of their affairs, to discuss and comment on the activities of their enterprise for the year just completed, and on plans and programme for the future. It is suggested that the report referred to be prepared and mailed to the ratepayers before the meeting, so that they might study it and be prepared to ask intelligent questions on points which interested them.

I am convinced that, if properly handled, such community meetings would be extremely helpful and valuable in building up interest in the town or village, in developing an intelligent concern in municipal affairs, and in promoting a sense of proprietorship which would go far in assuring sound practices.

**Our Newspapers**—One powerful influence in municipal affairs is the local newspaper. Being in a position to formulate and mould public opinion, the local newspapers should accept the responsibility thus imposed upon them; that is, to analyze the services being provided; to give facts and figures concern-

ing their own municipal situation, drawing comparisons with the past and with other similar municipalities, and interpreting information intelligently and in an unbiased way. They should be in a position to give sound advice and opinions on all municipal problems, and to educate and interest the citizens in municipal affairs.

In many municipalities which today stand highest, there is in the background an alert press to which much of the credit is due. One of our Ontario municipalities is recognized quite generally to be exceedingly well conducted. Editorials on municipal affairs which have been published in that City's paper are among the finest I have seen anywhere. Its position today is due in some measure to the cooperation which the local press has given in securing good government over past years. On the other hand, there are examples of an overly-optimistic press leading ratepayers and officials to believe erroneously that increased expenditures were warranted and the acquisition of additional capital debt justified. Civic pride should be tempered at all times with good judgment, and expenditures considered in relation to the taxpayer's pocket book.

**Provincial Control and Supervision**—It is evident from reading your Proceedings that you have had under consideration for some years the formation of a department of government specially charged with municipal affairs. I congratulate you on the success of your endeavours. Much will be accomplished by your recently formed Department of Municipal Affairs in the cohesion and correlation of municipal business. The conditions which have been found to exist in those municipalities throughout Canada where impartial examination has been made are in some instances most disquieting. I am sure that the rules, regulations and requirements of your newly formed Department will be such as will greatly improve any defects which at present exist. The following are some plans of procedure which have been found useful by similar departments in other Provinces:

- (a) A thoroughly competent and efficient supervisor in charge.
- (b) Establishment of standard forms for returns to be completed and lodged with the Department not later than say the 31st of January in each year.

- (c) The immediate examination and checking of these returns.
- (d) If deemed necessary comparison of them with the municipality's own records.
- (e) The collection and compilation of municipal statistics with a complete analysis of operations and a report interpreting the results and the general conditions and administration of the municipality.
- (f) The prescribing of a form of municipal accounts and system of auditing.
- (g) Recommendation of new legislation.

The Department, of course, should pass upon and approve all municipal borrowings, and should have power to veto borrowings where deemed necessary. Impartial and expert advice on the need for the loan, the type of loan, its term, money market conditions, etc., would be of inestimable help to officials. In the case of municipalities in default or whose financial condition is causing concern, the Department should have very definite and wide powers to supervise them.

**Competent Officials**—Successive Councils are, of course, responsible for the character of the personnel. They are in a position similar to that of Directors of a financial or mercantile corporation, and among their duties should be that of placing proper officials in charge; also seeing that proper accounting methods are installed and maintained; that proper statements are submitted to them, and further that they receive detailed information with regard to all the operations of the municipality from month to month.

It is freely recognized that in a number of our municipalities the officials are capable and efficient, many of them being of good professional standing or recognized experts, thoroughly trustworthy and devoted to their duties, and the Councils of these municipalities are not only to be congratulated because

experience and who are far from efficient, and in such instances Councils must accept the responsibility for the unsatisfactory results which usually come from such a condition.

**Citizenship**—My remarks thus far have dealt to a great extent with the financial aspect of municipal administration. Important and fundamental as is this phase of government, I wish to close on another note which I believe to be even more vital in the successful conduct of our public affairs in the future, namely, our attitude toward the business of government; or to put it differently, our sense of citizenship, particularly as it applies to our municipal governments. Many people are inclined to regard local governments as the least important link in our chain of governing bodies. They lend their enthusiastic interest and support to Federal and Provincial campaigns, but when it comes to local municipal elections, an appallingly large number have not even sufficient interest to go out to the polls and cast their votes. Yet in reality this is the time when it is most important that they should do so, for of all governments the municipal has the closest link, the most intimate and personal connection, with the group of people whom it serves. It determines the type of schools our children shall attend and engages the teachers who instruct them; it safeguards our health by providing adequate sanitation equipment, waterworks, light, parks and playgrounds, and by making and enforcing such regulations as the local health officers deem necessary for the community; it contributes to our mental and physical comfort by providing the advantages of adequate police and fire protection. In short, it is to our local municipal governments that we must look to make our communities the sort of places in which we want to live.

- How often have we heard it said, particularly of some of your well-run Maritime boroughs from which so many of Canada's noted sons have come, that such and such a place has outstanding educational facilities. When we investigate we generally find that a group of men and women have interested themselves in seeing that those responsible for education in their community were sound, wise and able citizens who would give of their best to the problems which confronted them. Wherever a community excels in some phase of its administration—whether it be fine schools, sound finance, an efficient police force—as a rule you

will find in its municipal administration men who are just, men who are wise, men who are honest and who place in authority those whom they know will follow out the highest principles of citizenship by putting "personality above privilege, principle above party, service above self-interest."

It was once said by a great authority on government that we suffer from the bad citizenship of good men, and I am afraid that this is as true today as it ever was. Here in the Maritimes, however, where your boroughs are comparatively small, and where it is not so hard to develop a sense of personal responsibility for local government, you have a splendid and challenging opportunity to lead the way in fostering a new sense of citizenship. In regard to municipal government here as compared with other parts of the Dominion, you have the advantage that the small business has over the large corporation. It is much easier to foster that sense of personal interest and enthusiasm that assures a full measure of success to the undertaking. You have already accomplished much by giving the rest of Canada a splendid example of sound municipal administration. Could there not be added that fire of loyal and zealous citizenship which would be the seed of a new attitude throughout Canada, by which our people would come to give to their municipal governments the same degree of interest and attention that they would give to their private enterprises? The business of government has been compared to a huge industrial factory—noisy, dirty, full of ruthless and unpleasant features—but out of which are produced things that are beautiful and necessary to our lives. We can never hope to achieve the finest from this factory till the finest element of our people enter it, in spite of all its noise and tumult, and make their personal contribution toward achieving the best that human effort can accomplish.