

Will that be an audit or a post-mortem?

B.C.'s local government auditor in a race against time in dealing with cash-strapped municipalities

BY DAPHNE BRAMHAM, VANCOUVER SUN MAY 6, 2013



Basia Ruta has raised an alarm bell over municipal financing challenges.

Photograph by: Wayne Leidenfrost, PNG Files, Vancouver Sun

B.C.'s auditor general for local governments has only been on the job since January, but Basia Ruta

has already made a blunt assessment of the problems facing municipalities.

In laying out her plan for the next three years, Ruta rated the overall risk to municipal economies, efficiency and effectiveness as "relatively high and expected to remain so due to factors such as aging infrastructure, growing population, a related 'infrastructure deficit,' funding constraints, deferral of maintenance, environmental sustainability and other resource and capability constraints."

She also raised concerns about fiscal management - everything from long-term budgeting to setting the tax rate to procuring goods and services.

Not mentioned in her service plan is that concern about municipal spending and priorities has been heightened because of the flood of "economic stimulus" money from both the federal and provincial government.

This money is often targeted at specific areas that are not top priorities for the municipality. The offer of "free" money that often requires some municipal matching contribution poses a conundrum for mayors and councillors.

If, for example, the grant is for transportation, but what you really need is a sewage plant upgrade, do you take the money? Or, do you stick to your priorities?

But for taxpayers in municipalities like Sechelt who have already organized protests against its council's spending habits, it may be too late for the auditor general to do anything more than a post-mortem.

Sechelt has a "structural deficit," according to an analysis done by Jim Cleghorn, a banker and chairman of the Sunshine Coast Economic Development task force.

Yet its council has committed to undertaking the largest capital project in the district's history - a \$22.4-million sewage plant using technology untried in North America at a cost higher than traditional treatment methods.

Federal and provincial infrastructure grants will cover half the cost. But for the rest, council plans to dip into two different reserve funds (with no plans or means to replace what's taken out) for \$6.9 million and borrow a further \$2.5 million.

In his widely circulated analysis, Cleghorn says that up until 2010, Sechelt ran surplus budgets even after accounting for the replacement costs of assets (a.k.a. depreciation).

But in 2011, Sechelt had a \$1-million deficit after posting \$2.5 million in depreciation costs. Last year's deficit was \$2 million and it's projected to be \$1.7 million in 2013.

Those deficits have been covered by reserve fund monies, which in turn have not been replaced.

To put that into perspective, in the district with 9,291 residents, Cleghorn calculates that to cover the \$1-million deficit alone would mean a tax increase of 14 per cent. To cover the 2012 deficit would require a 28-percent increase.

But what he emphasized is Sechelt's financial position is not unique.

"Many municipalities are now in similar straits and using the same strategy to balance their operating budgets," he says.

"The Local Government Act and the Community Charter apparently only consider a municipality to be in 'deficit' if they cannot cover expenditures excluding amortization expense."

And that's only part of the problem. The other part is a lethal mix of "good" politics and bad management.

Over the last decade, as property values rose, Cleghorn says, municipalities were able to collect the same amount of revenue even as they reduced the tax rate and increased spending.

In Sechelt, for example, the tax rate dropped 32 per cent between 2002 and 2012.

But now that property values are dropping, so are revenues. Politicians either need to reduce spending or increase the tax rates. They are loath to do either. Instead, they have resorted to taking money from reserve funds.

"Essentially," Cleghorn concludes, "municipal finances have become unsustainable in many communities without significant tax increases or expenditure reductions."

All of which highlights the need for a local government auditor general whose job is to ensure that municipal taxpayers are getting value for their money, and that the province's 190 local governments are accountable for both their spending and their management.

Audits may be done of the municipal government as a whole or be targeted at a specific program or service with the goal of improving not only that local government's operation, but potentially identifying good practices that may be of value to others.

Because Ruta is still setting up the office, it's likely that only three performance audits will be completed this year. The target is five audits in subsequent years, all within an annual budget of \$2.6 million.

For taxpayers, the only question is whether Ruta and her staff will be able to get to their troubled municipalities before it's too late.

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