

Municipal *Performance* Measurement Program



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This report summarizes Municipal Performance Measurement Program (MPMP) results contained in the 2003 Financial Information Return and includes results for 2001 and 2002. If the definition of a measure has been refined, results are shown for those years which use the same definition.

It summarizes data reported by municipalities as of December 31, 2005 and does not reflect subsequent changes in data by municipalities or returns submitted at a later time. Outlying results, including results that appear to contain an error in calculation, are not included in the summary statistics in order to provide more representative statistics. The report should not be relied on as a substitute for legal or professional advice, and the user is responsible for how the report may be used or applied.

Municipal performance measures are authorized under the *Municipal Act, 2001*. Every year the minister writes to municipalities, informing them of the formal requirements of the program, including a list of performance measures. The minister's letter and the annual list of performance measures are posted on the ministry's web site at www.mah.gov.on.ca under the heading, Municipal Performance Measurement Program.

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Part I: Municipal Performance Measurement Program (MPMP)

Foreword

I am very pleased to provide you with the Municipal Performance Measurement Program summary results for 2003, the fourth year of the program.

The purpose of this document is to provide municipalities with a comprehensive survey of MPMP results to enable you to examine your results against those groupings which your municipality would logically fall within. For example, we have grouped municipalities by geography and population, and prepared summary statistics for each. This system of grouping is only one way in which you may find the results helpful – there may be other ways of organizing municipal results that might also serve your interests. While this Summary Report does not identify or single out individual municipalities, you can obtain these results directly from a municipality, often posted on their website.

The report will be of interest to municipal administrators, elected officials and members of the public. It is intended to enhance discussion about municipal service delivery and prompt municipalities to investigate best practices, such as those identified by the Ontario Centre for Municipal Best Practices (OCMBP).

We encourage you to explore this document, and welcome any comments or suggestions that you may have. Please address your comments to:

Larry Clay, Director
Municipal Performance and Accountability Branch
Ministry of Municipal Affairs and Housing
Larry.clay@mah.gov.on.ca
(416) 585-6022

Program

Many services Ontarians use and enjoy each day, including drinking water, fire protection, policing, garbage collection, recycling, roadways and public transit are provided by municipal government. Municipal councils are responsible for setting priorities on how tax dollars will be spent, including how much will be spent on each service area and what level of service is feasible for the available money. Decisions also reflect regulatory requirements and the need to limit municipal risk.

All Ontario municipalities share in the commitment to provide their taxpayers with good services and good value for money. But how can taxpayers, municipal councillors and municipal administrators evaluate municipal services?

One solution is to track a municipality's own performance year after year. Another approach is to compare the municipality's results with those of other, similar municipalities.

Municipalities have a long history of reporting financial and statistical information to the province following the end of every calendar year. From this information we know how much a municipality spends on broad service areas like fire protection or garbage collection. But, this does not provide insight into how efficiently or effectively the municipality delivers services or local circumstances.

To provide municipal administrators, residents and municipal councils with information that can help them evaluate service delivery, the Ontario government introduced a new and innovative program to measure municipal performance in 2000. The Municipal Performance Measurement Program (MPMP) is the first comprehensive program of its kind in North America. All Ontario municipalities provide information on the efficiency and effectiveness of municipal services in ten key areas:

- Municipal government
- Fire protection
- Police services
- Roadways
- Public transit
- Drinking water
- Wastewater (Sewers)
- Storm water management
- Solid waste
- Land use planning

These service areas were selected initially because they are primarily a municipal responsibility and represent a high percentage of the municipal budget. Another consideration was that municipalities already collect most of the data needed to calculate performance measures for these services.

Advisory Committee

At the end of the first year of the program, the Ministry of Municipal Affairs formed a Municipal Performance Measurement Program Advisory Committee to guide the development of the program. The Advisory Committee consists of representatives from municipal associations such as the Association of Municipalities of Ontario, the Ontario Municipal CAO's Benchmarking Initiative (OMBI), the Ontario Centre for Municipal Best Practices (OCMBP) and staff from a group of representative municipalities. Specialized working groups annually review the performance measures and make recommendations to redefine and improve the measures and instructions.

Municipalities Report Results to the Public

Every year, every municipality provides information on its performance measurement results to the province and its residents. Many municipalities provide performance measurement information on their web sites. Others take out newspaper ads, mail the information or include performance measurement information in the property tax bill. The objective is for municipalities to share information with taxpayers. This can enhance conversations between taxpayers and their elected representatives about local priorities and results.

Benefits

The benefits of reporting performance measurement results to the public are significant: ranging from improved accountability to improved service delivery. How? Reporting to the public should generate public interest in the decisions council makes, encouraging further communication. Municipalities are interested in how other municipalities are doing, generating informal comparisons and discussions about the details of service delivery.

Table 1: Benefits of Municipal Performance Measurement Program

Municipal Performance Measurement Program

What MPMP is:

- **Management tool.**
Municipalities can track performance over time.
- **Comparable.**
Standardized definitions and formulas for performance measures make comparisons possible between municipalities.
- **Balanced information.**
Information is provided on both service quality and costs for most services.
- **Universal.**
All Ontario municipalities responsible for a service report performance measures on that service.

What performance measurement encourages:

- **Accountability.**
Reporting to the public improves municipal government accountability to taxpayers.
- **Communication.**
Encourages discussion between taxpayers and council.
Encourages discussions between municipalities.
- **Priority setting.**
Performance measures can assist council in setting priorities and allocating tax dollars to services in the municipal budget.
- **Monitoring the municipal budget.**
Performance measures help monitor whether budgeted costs and expected service levels are met.
- **Focus.**
Attention is focused on results, leading to closer review of how service is delivered, how well it is delivered, what it costs and impacts on the community.
- **Setting targets.**
Improvements in performance can occur simply by setting clear, measurable targets.
- **Best practices.**
Performance measures are a starting point for identifying best practices, such as those researched and identified by the Ontario Centre for Municipal Best Practices.
- **Improved service delivery.**
Improved communication, setting targets, comparisons, a focus on service, and access to a directory of best practices can lead to improved service delivery.

Performance measures focus on results and can help council evaluate how well budget decisions achieved municipal goals. Municipal staff can translate goals into performance measurement targets. Performance relative to goals can help council determine whether to reallocate tax dollars between competing services.

Simply measuring a service in a regular, consistent manner focuses attention on a service and this focus is the beginning of service improvements. Improvements can take the form of lowering the cost of service delivery, changing the level of service or finding a better way of doing business.

Best Practices

Performance measures are also a starting point for the identification of municipal best practices. The Ontario Centre for Municipal Best Practices has developed a virtual electronic library of best practices. The Centre uses Municipal Performance Measurement Program results as a starting point for identifying municipalities for in-depth follow-up. The Centre researches, identifies and posts best practices on their web site: www.municipalbestpractices.ca. Municipalities are encouraged to review the practices posted and determine which are applicable to their own circumstances. This encourages the transfer of operational experience between municipalities.

Measuring Both Efficiency and Effectiveness

Performance measures look at two dimensions of service delivery—efficiency and effectiveness.

Efficiency measures provide information on the cost of delivering services. For example, we can measure the day to day costs of treating drinking water. This provides a standard measurement that applies to all municipalities, regardless of population.

However, efficiency measures tell only part of the story. Residents also want to know about the quality of service. Effectiveness measures describe performance relative to a goal. For drinking water, municipalities report the weighted number of days when a boil water advisory, issued by the Medical Officer of Health and applicable to a municipal water supply, was in effect. Together, the efficiency and effectiveness measures provide a more complete picture of what is spent and what is achieved given local conditions.

Many municipalities include a brief description of local circumstances in their report to taxpayers. Local circumstances affect results and should be considered in any comparison of outcomes between municipalities. For example, geography and micro-climate are factors influencing the efficiency and effectiveness measures for winter maintenance of roadways.

Table 2: How to Tell Efficiency & Effectiveness Measures Apart

How to Tell Efficiency & Effectiveness Measures Apart

Efficiency measures

- **Often described as inputs/outputs.**
- **Inputs are usually dollars.**
- **Often expressed as cost per unit.**

Operating costs for paved roads per lane kilometre.

Operating costs for solid waste diversion (recycling) per tonne or per household.

Effectiveness measures

- **Measure quality.**
- **Measure extent to which a goal is achieved.**
- **Often expressed as a percentage.**

Percentage of paved lane kilometres where the condition is rated as good to very good.

Percentage of residential solid waste diverted.

- **Also expressed as a rate using 2 different kinds of units.**

Property crime rate per 1,000 persons.

Number of conventional transit passenger trips per person in the service area in a year.

Who Reports a Measure

Under the Municipal Performance Measurement Program, municipalities complete a measure only if their level of government is responsible for the service. For example, if a regional municipality in Southern Ontario is responsible for wastewater treatment, only the regional municipality reports the measure. Local area municipalities do not report the measure. If both the regional government and the local government share responsibility for delivering a service, such as winter maintenance of roadways, both the region and the local area municipalities report the measure.

In both the North and South, single-tier municipalities are responsible for all municipal services delivered to residents, with the exception of social and health services delivered by Consolidated Municipal Service Managers or District Social Services Administration Boards. Regardless of whether single-tier municipalities contract out a service, provide it jointly with other municipalities or provide it in-house, they report performance measures which correspond to the services they deliver.

Presenting Results for 2003

Municipalities are required to report results to their taxpayers annually. However, there has also been interest in a comprehensive survey of results done in a way that does not single out any individual municipality. Municipalities are affected by many local factors such as demographics, geography, urban/rural mix and assessment base. By grouping municipalities by geography, municipal type and population, it is possible to see patterns in results. The range and median allow municipalities to compare their own results with other, similar municipalities.

How to Find Your Municipality's Group

Table 3: Municipal Groups Used in 2003 Summary

Municipal Groups	Number of Municipalities
North	
< 5,000	128
5,000 – 19,999	14
40,000+	4
South	
Regions and former regions	12
Counties	22
Single-tiers	
< 10,000	5
10,000 – 99,999	17
100,000+	4
Lower-tiers	
< 5,000	69
5,000 – 9,999	71
10,000 – 19,999	64
20,000 – 39,999	15
40,000 – 99,999	11
100,000+	11
All Municipalities	447

To evaluate results, two major groups were established: Northern Ontario and Southern Ontario. Northern Ontario can be distinguished from Southern Ontario on many dimensions. It is primarily rural, is characterized by more dispersed settlement patterns, and higher costs for municipal service delivery relative to Southern Ontario.

Northern municipalities are organized as single-tier municipalities with the exception of the District of Muskoka.

In the Summary of Results, Northern municipalities are divided into three population groups. Note that there were no municipalities with populations between 20,000 and 40,000 in 2003.

In the South, several forms of municipal government exist: single-tiers, upper-tiers (regions and counties) and lower-tiers or local municipalities. Please see a discussion of municipal government structure in the section, In Depth—Municipal Government Structure.

Because upper-tier governments and single-tier governments have responsibilities distinct from local area municipalities, separate groups have been created for them. The group called “regions and former regions” includes the following single-tier municipalities which were previously regional governments: Toronto, Ottawa, Hamilton, Greater Sudbury, Haldimand, Norfolk.

The District of Muskoka and the City of Greater Sudbury are located in the North but have traditionally been included in Southern Ontario for purposes of ministry financial analysis. Note that the District of Muskoka has a two-tier regional style government although it is described as a District.

Also, the County of Oxford functions as a regional municipality and has traditionally been analyzed with regional municipalities. It is therefore included in the group, regions and former regions.

By organizing results by geography, municipal type and population, the user can immediately determine where his/her own municipality is and how results for the group compare with the results published by the municipality.

Measures Refer to a One Year Time Period

Performance measures are based on data for a one year period—the calendar year. The calendar year is used because it corresponds to the municipal fiscal year. As an example, the property crime rate per 1,000 persons is based on the number of actual incidents of property crime reported during the reporting year. A few measures specifically refer to the one year time frame in the description of the measure, but most do not. An example of a measure that refers to a year is the number of wastewater main backups per 100 kilometres of wastewater main in a year. In this measure, the year reference is added to clarify that data is based on a one year period as opposed to one month.

There are two exceptions concerning planning measures for the preservation of agricultural land. These measures are based on changes in hectares between the reporting year and the base year of 2000. The longer time frame makes it possible to see the impact of changes in land use.

Table 4: Check List for Comparisons

Check List for Comparisons	
Local Circumstances	<p>Demographics and Physical Characteristics of Municipality.</p> <ul style="list-style-type: none"> ✓ Population and population growth. ✓ Demographics. ✓ Geography: North/South. ✓ Urban/Rural. ✓ Climate. <p>Local Cost of Doing Business.</p> <ul style="list-style-type: none"> ✓ Local wage rates, cost of materials, cost of transportation, whether there is a competitive market for service providers. ✓ Contract provisions. <p>Other Circumstances.</p> <ul style="list-style-type: none"> ✓ See notes to Municipal Performance Measurement Program results reported by municipality to taxpayers.
Council Decisions and Budget	<p>Council Decisions on Service Level.</p> <ul style="list-style-type: none"> ✓ Service level. ✓ Whether service is delivered to all or part of municipality. Example: sanitary sewer service provided only to urban areas. <p>Council Decisions on How Service is Delivered.</p> <ul style="list-style-type: none"> ✓ In-house, contracted out, joint service agreements with other municipalities, etc. <p>Municipal Budget.</p> <ul style="list-style-type: none"> ✓ Size of municipal budget. ✓ Assessment base including residential, farm and commercial/industrial mix. Assessment growth.
Municipal Structure	<p>Municipal Responsibilities Differ with Structure.</p> <ul style="list-style-type: none"> ✓ Municipalities with different municipal structures have different responsibilities. Similarly, regions that became single-tiers have added responsibilities although they are grouped with former regions. <p>Two-tier Government in South and Shared Responsibility.</p> <ul style="list-style-type: none"> ✓ If responsibility for a service is shared by two levels of government in a two-tier system in Southern Ontario, the services performed will influence operating costs and efficiency results.

Check List for Comparisons	
Service Area Measured	<p>Factors Specific to Each Service.</p> <ul style="list-style-type: none"> ✓ See list of factors for every measure. <p>Age of Infrastructure.</p> <ul style="list-style-type: none"> ✓ An aging infrastructure may result in higher costs for repairs and rehabilitation; effectiveness measures may be influenced. Example: paved roads.
Reporting Issues	<p>Reporting in Financial Information Return.</p> <ul style="list-style-type: none"> ✓ Method of allocating indirect costs included in general government to other services. ✓ Whether administrative costs for a department are included. Example: Are administrative costs for the transportation department included in the cost of paved roads? ✓ Whether a municipality makes transfer payments between departments and records these as interfunctional adjustments in the Financial Information Return. ✓ Errors in reporting, including errors in calculations, e.g. megalitres of water. ✓ Data estimated versus data precisely measured.
Summary Statistics	<p>Number of Municipalities Reporting a Measure.</p> <ul style="list-style-type: none"> ✓ If few municipalities report a measure, results have limited use for comparisons.

Making Comparisons

Municipalities have been placed into groups that recognize geography, municipal type and population. This helps encourage comparisons between similar municipalities. Table 5 provides a more detailed look at the factors that should be weighed when considering which municipalities should be compared to your municipality. The Check List for Comparisons is organized into six areas: local circumstances, council decisions and budget, municipal structure, service area measured, reporting issues and summary statistics.

Service level decisions are crucial and are linked to the size of the municipal budget. Municipal budgets are themselves linked to the assessment base on which property taxes are levied. There are significant differences between municipalities which reflect the mix of residential, farm, commercial and industrial properties.

Financial reporting practices, including the treatment of indirect costs also have a significant impact on results. Please see the In-depth feature on indirect costs.

Statistics

For the province as a whole and for each group of municipalities, the median, range and number of municipalities reporting a measure are presented. These statistics allow a municipality to evaluate its own results relative to those of other municipalities. The median result for 2003 is shown as a bar graph. A frequency distribution is also included to provide an overview of the results from all municipalities. In order to report meaningful results, the data set used to calculate these statistics excludes municipalities which have outlying results or appear to have made an error in calculation.

Range

The range measures the spread of the data. The range is presented as the minimum or lowest value, and the maximum or highest value.

Median

While people are familiar with averages, the median provides a statistic that measures the middle value in a group, without being influenced by extreme values.

In a data set which is ordered from low to high, the median is the measurement in the middle. Half the measurements will be below the median and half will be above it.

Evaluating Results

Superior results will vary with the measure. For efficiency measures, results below the median will represent lower costs per unit. For effectiveness measures, the best results could be either higher or lower than the median. For the measure, violent crime rate per 1,000 persons, a result below the median will represent a better outcome. For the measure, percentage of residential solid waste diverted, a result above the median will represent a higher percentage of solid waste recycled.

Number of Municipalities Reporting the Measure

The number of municipalities reporting a measure varies from measure to measure. The number excludes municipalities with outlying values and those which appear to have made an error in calculation. Conditions used to evaluate data are described in the results table for each measure.

Before comparing the median result with your municipality's result, it is important to know how many municipalities in the group reported the measure. When only a small number of municipalities report a measure, the summary statistics will be less reliable for making comparisons.

If the number of municipalities in a group is small, the median may significantly change if the number of municipalities reporting a measure changes from year to year.

Frequency Distribution

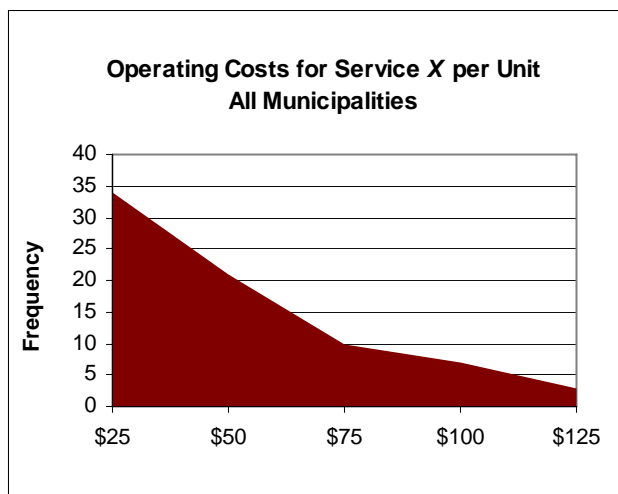
Each measure is graphed as a frequency distribution in order to show how all the results are concentrated. In a frequency distribution, results are arranged in groups and the number of results within each group is counted (frequency).

Example: 75 municipalities report an efficiency measure and the data ranges from \$2.04 per unit to \$121.50 per unit. Equal intervals are created to accommodate the range of data. Next, the number of results that fall within each interval is counted—this is the frequency.

Intervals	Frequency (count)	Label on x-axis
\$0.00 to \$25.00	34	\$25
\$25.01 to 50.00	21	\$50
\$50.01 to 75.00	10	\$75
\$75.01 to \$100.00	7	\$100
\$100.01 to \$125.00	3	\$125

The frequency distribution is graphed in Figure 1.

Figure 1: Example of Frequency Distribution



The number of municipalities reporting results within each interval is reported on the y-axis. The intervals representing unit cost are shown on the x-axis. The highest value in each interval is represented.

Looking only at the graph, we can see that about 34 municipalities had unit costs between \$0.01 and \$25.00. Around 20 municipalities had unit costs between \$25.01 and \$50.00.

Note that a frequency distribution will vary from measure to measure because it reflects the data actually reported by municipalities. As a reference, a “normal distribution” is symmetrical and resembles a bell.

For a few effectiveness measures, where municipalities may report a result of zero, the first interval in the frequency distribution is zero. An example is the weighted number of days when a boil water advisory is in effect. For all other measures, the first interval is represented by the highest value in a group. For example, if an interval contains all values from \$0.00 to \$25.00, the interval is represented as \$25.00 on the x-axis. The second interval is represented as \$50.00 and contains all values from \$25.01 to \$50.00.

Graphs, Tables and Explanations

Results for each measure are displayed as a table, a bar graph and a frequency distribution. See the beginning of the DATA section for a discussion of how to read the results. In Part II, Summary of 2003 Results, the section for each service area contains the objective of the measure and a list of factors that influence results. Municipalities themselves described these factors in the notes accompanying the performance measurement schedules in the Financial Information Return.



TIP: Performance measures are fractions. Look for the formula for each measure.

Sifting Through the Raw Data

The raw data reported for each measure is examined for errors before it is included in the Summary. Staff looked for errors in the reporting of the numerator and the denominator. Errors in either can lead to artificially low or high results.

If a result appeared unusual, staff checked the Notes schedule for additional explanatory information. If no explanation was provided for the “outlier”, the result was excluded from the statistics for the measure. The performance measure was also earmarked for follow-up by ministry staff.

Following Up Performance Measurement Results

Trend Over Time

Most performance measures reported for the 2003 reporting year use the same formulas and definitions as the measures for 2001. This means municipalities can begin to track their own performance over time. However, if a municipality changed its method of allocating indirect costs in 2003, then its results for previous years are not directly comparable unless results are restated. Please see the section entitled In-Depth—Indirect Costs.

Trend over time is a valuable analytical technique. Municipal performance normally does not change radically from year to year. Instead, it tends to change gradually, either positively or negatively. The cumulative effect of small changes can indicate a trend that should be followed up.

Differences in Aggregate Statistics between 2003 and Previous Years

For each year included in this report, summary statistics were run from the Ministry database, the Municipal Access and Retrieval System (MARS). Since this is a live database, additional municipalities may have reported results or municipalities may have made revisions to earlier Financial Information Returns. These changes will affect the data extracted.

The conditions used to eliminate outlying values are identical for each year in the summary. If the conditions were changed for the 2003 Summary, results may vary from previous year reports.

Factors that Affect Year Over Year Results

- Changes in the method of allocating program support. The general government category of program support consists of indirect costs for functions used by all municipal departments.
- Closer scrutiny of the way expenditures are reported in Schedule 40, Revenue Fund Expenditures, leads to changes in reporting. For example, if a municipality historically included winter control on the line for roadways in Schedule 40, reporting the winter control separately can lead to more accurate reporting and changes in efficiency measures.

- A change in the number of municipalities reporting a measure from one year to the next will affect the median for the municipal group.
- Correction of errors in units without recasting previous years.
- Change in municipal priorities that results in a change in the amount budgeted for a service area.
- Change in service level.
- Change in service provider.
- Change in labour costs.
- Winter weather patterns affect winter control measures and affect the maintenance of paved and unpaved roads.
- Rainfall may affect wastewater and storm water management measures.

Comparing Municipal Performance to Summary Statistics

The median and range can help a municipality position its results relative to other municipalities in the North or South of similar population size and municipal type. The frequency distribution can help a municipality locate itself relative to all municipalities reporting the measure.

Efficiency Measures are “Broad Brush” Measures

In the Municipal Performance Measurement Program, efficiency measures are based on overall costs for broad service areas: fire services, conventional transit, garbage collection, etc. These macro measures provide an indication of the overall cost per unit. Over time, a trend may become evident. Further investigation is required to determine why spending per unit has changed. In short—performance measures help identify areas that need attention.

Results: What Do They Mean?

Snap judgments suggesting that results are simply good or poor are not appropriate in performance measurement. A municipality needs to determine why performance exceeds expectations or falls below expectations. Both kinds of results are worth investigating.

Certainly, a municipality would be interested in performance that was below expectation because it would want to discover ways to improve results. But it should be equally interested when performance exceeds expectations because it would want to repeat good performance and identify practices that it could copy elsewhere in its operations.

Trade-offs between Efficiency and Effectiveness

Spending trends should be viewed in tandem with effectiveness results. If spending per unit has decreased over time, what is the corresponding impact on effectiveness results?

Evaluating both efficiency and effectiveness results can highlight trade-offs between spending and service quality. There are several ways to balance cost and quality:

- Increasing effectiveness by spending more – higher cost per unit.
- Increasing effectiveness while holding cost per unit constant or reducing cost per unit.
- Keeping effectiveness constant while reducing cost per unit.
- Increasing efficiency by reducing effectiveness standards or service levels to reduce cost per unit.

Most municipalities are likely to find the second method the most preferable and the last method the least preferable, but all methods represent opportunities for balancing cost and quality.

Setting Municipal Performance Targets

Municipalities may set local targets for efficiency and effectiveness results. Setting performance targets does not mean that a standard will always be met. But it does mean that a process of target setting and monitoring is put in place. Measuring a service focuses attention on it and this attention can lead to improvements. Simply put — what gets measured, gets done.

Targets are affected by local circumstances and should be realistically set. When setting targets for the next fiscal year, municipalities should consider their long-term strategic plans, how much money is available, council's policy priorities, service demand and local circumstances.

IN DEPTH

Reporting Data to the Province

Data for the Municipal Performance Measurement Program is collected through the Financial Information Return (FIR) submitted annually by municipalities to the province. The Financial Information Return includes separate sections for efficiency (Schedule 91) and effectiveness (Schedule 92). A special section for notes (Schedule 93) allows municipalities to qualify their information and explain local circumstances that may have influenced efficiency and effectiveness results. A section is also provided on cross boundary service delivery (Schedule 95). This helps clarify the level of government responsible for a service and any contractual or joint service agreements between municipalities. Additional data, such as the number of kilometres in the municipal road system, is collected and assists in verifying data in the numerator and denominator (Schedule 94). Detailed instructions for completing these schedules are provided to municipalities.

Edit Rules

Edit rules are formulas built into the Financial Information Return that check entries. Edit rules have been created specifically for the efficiency and effectiveness measures. An error message is triggered if an inconsistency is detected or important information is not reported. Edit rules allow a municipality to self-correct an entry before the Return is submitted to the province and contribute to the overall accuracy of the Financial Information Return.

Although edit rules identify many errors, they cannot identify all mistakes. There may also be legitimate reasons why a result is higher or lower than the results for other municipalities in the same group. Explanatory notes in the performance measurement section of the Financial Information Return can help ministry staff determine whether an outlying result is legitimate or due to a calculation error.

In Part II, Summary of 2003 Results, tables and graphs are provided for each measure. Each table includes a list of conditions used to exclude errors and outliers.

Local Quality Assurance Issues

A variety of quality assurance activities occur in a municipality prior to submitting data for performance measurement in the Financial Information Return. Considering the factors in Table 5, each municipality compiles data using a variety of processes and review procedures that allow staff to assess the quality, completeness and accuracy of reported results. As these processes and the related performance reporting standards and tools evolve, summary reports like this one will provide new insights and more insights about performance.

IN DEPTH

Efficiency Measures: Operating costs

In the Municipal Performance Measurement Program, efficiency measures are usually expressed as cost per unit and are based on operating costs only.

Capital costs are not included because municipalities are required to expense all capital costs in the year in which an asset (land, equipment, buildings) is acquired. Capital costs also include major construction projects such as roadways or sewer systems. From year to year, capital expenditures may seem uneven, inflated in some years, low or non-existent in others. In the future, it is expected that municipalities will report capital assets on the balance sheet, and depreciate them every year. At that time, depreciation related to capital costs could be logically included in efficiency measures.

For each service, information is collected in the Financial Information Return using these operating cost categories:

- ✓ Salaries, wages and employee benefits.
- ✓ Materials.
- ✓ Contracted services.
- ✓ Rents and financial expenses.
 - Transfers to own funds (reserves, reserve funds, capital fund).
 - External transfers (to individuals and organizations).
- ✓ Interfunctional adjustments (transfers between departments).
- ✓ Allocation of program support.
 - Principal and interest payments on long term debt.

The costs marked with a ✓ are used to calculate the numerator for the efficiency measures which is simply described as “operating costs”. Note that principal and interest payments on long term debt and transfers to own funds are not included in the definition of operating costs. Consequently, the way a municipality funds its capital projects does not influence performance measurement results.

External transfers are payments which include municipal transfers to organizations and individuals, such as general welfare assistance. Starting in the 2005 Financial Information Return, external transfers will be included in the calculation of operating costs.

Costs are Reported on a Gross Basis

Operating costs are reported on a gross basis for the efficiency measures. This means that revenues from user fees and grants from the provincial and federal governments are not subtracted from operating costs. User fee policies also vary from municipality to municipality. If user fees were netted out, those municipalities with a policy of extensive user fees would appear to have lower costs per unit.

Provincial grants include grants for specific services as well as unconditional grants which may be used as the municipality sees fit to meet municipal priorities. Grants differ from municipality to municipality and grant policies change over time. Also, unconditional grants cannot be matched to a specific service. Therefore, grants are not netted from expenditures.

Exception: Netting Out Revenues Received from Other Municipalities

Under the Municipal Performance Measurement Program, if a municipality is responsible for delivering a service, the municipality reports the related performance measures. Some municipalities are responsible for a service, but choose to purchase the service from another municipality and enter into an appropriate contractual agreement. The municipality that acts as a service provider receives payment, or revenue, for its services. This municipality is permitted to subtract the revenue received from other municipalities from its operating costs.

Exception: Netting Out Revenue from the Sale of Resources Related to Garbage Disposal and Recycling

The working group of municipal staff experts that reviewed the solid waste measures felt that solid waste contracts within the municipal sector had an important component related to the sale of resources. The sale of resources related to disposal and diversion activities includes electricity production and landfill gas, landfill gas credits and royalties. Typically, contractors keep revenue from the sale of resources related to disposal and diversion activities as part of the contract. Therefore, revenue from the sale of resources is subtracted from operating costs for the solid waste measures for disposal, diversion and solid waste management. Note that tipping fees and user fees for garbage collection are not netted from operating costs since user fees are not netted out from operating costs for other service areas.

Revenues received from other municipalities are not netted out for solid waste measures.

IN DEPTH

Indirect Costs

Indirect costs are costs for services that are used by many departments of a municipality. Typically these include human resources, payroll, mailroom, etc. How indirect costs are allocated to different service areas can have a material impact on efficiency results. Indirect costs can be reported under general government or they can be included in the costs of each service area.

Before Municipal Performance Measurement Program (MPMP) schedules were added to the Financial Information Return, there was no policy concerning the treatment of indirect costs. It was left to each municipality to decide whether to include indirect costs in the cost of general government or include them in the cost of individual services. If a municipality chose to allocate indirect costs to services, it could use any allocation method.

When MPMP was introduced, it became very important to standardize the way municipalities handle indirect costs. Otherwise, a municipality that reports all indirect costs as part of general government will have high operating costs for general government. This will affect efficiency results — increasing operating costs for governance and corporate management as a percentage of total municipal operating costs. In addition, the municipality will have lower operating costs for other services and lower costs per unit.

Standardizing the Allocation of Indirect Costs

The ministry recognized that the treatment of indirect costs would need to be standardized to enable true comparisons of efficiency measures. The ministry examined methods for allocating indirect costs and reviewed how general government costs were reported. The ministry was particularly interested in the work being done by the Ontario Municipal CAO's Benchmarking Initiative (OMBI). OMBI proposed dividing general government costs into three categories:

- Governance.
- Corporate management.
- Program support.

Program support was defined as indirect costs that should be allocated to other service areas. Examples include information management, payroll, printing and graphics. Corporate management was defined as administrative costs that are less easily allocated. Examples include legal support, investments and

corporate communication. OMBI recommended corporate management not be allocated to other services.

OMBI also proposed that large municipalities use a method of allocating indirect costs based on the consumption of different program support services by municipal departments. For example, each department would be allocated a percentage of the costs of printing services—based on the number of impressions it ordered. These concepts were accepted and are used in completing the Financial Information Return.

Table 5: Moving to Standardized Reporting of Indirect Costs

Moving to Standardized Reporting of Indirect Costs

2001

- Transition year.
- Municipalities choose a set of general government categories:
 1. Members of council, general government support, corporate overhead; OR
 2. Governance, corporate management, program support.
- Municipality reports the efficiency measure for general government that matches the general government categories used.
- Municipalities allocate general government costs to other services. Amount allocated reflects general government categories used. If categories include members of council, then the subtotal for general government costs is allocated; if categories include governance, then program support is allocated.
- Municipalities free to choose the method of allocating general government costs.

When making comparisons, please be aware that differences in general government categories and differences in the method of allocating general government costs affect results.

2002 and Subsequent Years

- All municipalities required to use the general government categories of governance, corporate management and program support.
- All municipalities allocate program support to other services.
- Municipalities with populations of 100,000 or more are required to use the OMBI allocation method.
- Municipalities with populations under 100,000 use an allocation method based on operating costs for a service area as a percentage of total municipal operating costs.

IN DEPTH

Municipal Government Structure

The *Municipal Act, 2001* recognizes three types of municipalities: upper-tier municipalities and lower-tier municipalities within a two-tier municipal system, and single-tier municipalities which are not part of a two-tier system.

In two-tier systems, the upper-tier municipality, either a county or a regional government, delivers certain services to local municipalities within its boundaries. The intent is to deliver services used by all or most local municipalities more efficiently and effectively.

Two-tier governments exist only in Southern Ontario—with the exception of the District of Muskoka. The District of Muskoka is traditionally grouped with regional governments in the South for purposes of analysis. All other municipalities in Northern Ontario are single-tier municipalities.

Counties

The county is the older and more common form of upper-tier municipality. Counties have traditionally been a federation of the townships, towns and villages within the same geographic area. Cities were not originally part of the county structure, although some have joined the county structure in recent years. The County of Oxford has a municipal structure similar to that of regional governments although it is a county. The County of Oxford is traditionally analyzed with regional municipalities for purposes of ministry financial analysis. Therefore, it is included in the group of regions and former regions in this Summary.

Regional Municipalities

Regional municipalities are restructured two-tier governments established in the postwar period. Metropolitan Toronto was created in the 1950s; 12 others were created in the 1960s and early 1970s. Regional government is a modified, stronger form of the county structure and regional municipalities have significantly greater responsibilities than counties.

Single-Tiers in Southern Ontario

In 2003 there were 26 single-tiers in Southern Ontario. These municipalities are not represented on county council. However, in the past, some common services, such as homes for the aged, were usually provided by joint local boards. The powers of single-tier municipalities vary for historical reasons, depending on how and when they were created.

In 2001 a number of single-tier municipalities were created from former regional municipalities: Toronto, Ottawa, Greater Sudbury, Hamilton, Haldimand, Norfolk. Haldimand and Norfolk are grouped with single-tier municipalities for purposes of this report because their populations are under 100,000. The others are in the group called regions and former regions.

Northern Ontario

Northern Ontario is divided into 11 territorial districts which are administrative areas, not municipalities. The exception is the District of Muskoka which has a two-tier, regional type of government. All other municipalities in Northern Ontario are single-tiers. This includes the former Regional Municipality of Sudbury which amalgamated with area municipalities in 2001 to become the single-tier municipality of Greater Sudbury. Note that the District of Muskoka and Greater Sudbury have traditionally been analyzed with regional municipalities in Southern Ontario for purposes of ministry financial analysis. Therefore, these municipalities are grouped with Southern Ontario regions and former regions in this Summary.

Much of Northern Ontario is unorganized for municipal purposes. The Ministry of Northern Development and Mines assists inhabitants of unorganized territories set up local service boards to deliver basic services.

Consolidated Municipal Service Management

Consolidated municipal service management was introduced in 1997 to ensure that certain social and health services are planned and administered on a regional basis, whether a two-tier system is in place or not. Consolidated municipal service management is delivered by Consolidated Municipal Service Managers in the South (CMSMs) and by District Social Service Administration Boards in the North (DSSABs).

In the South, Consolidated Municipal Service Managers (CMSMs) are responsible for the delivery of social assistance, child care, and social housing, at a minimum. Consolidated Municipal Service Managers may also be given responsibility for land ambulance services, public health and the administration of portions of the *Provincial Offences Act*.

In Southern Ontario, 36 service areas were established and one municipality in each area was designated as the Consolidated Municipal Service Manager. All regional governments (some of which have since become single-tiers) and most county governments were designated. Separated municipalities have an agreement with the county in their area on the designation of the Consolidated Municipal Service Manager.

In some cases, municipalities other than the Consolidated Municipal Service Manager have been designated as service delivery agents for land ambulance and the administration of *Provincial Offences Act* services. To date, only regional governments and their successors have been given responsibility for public health.

In Northern Ontario, the City of Greater Sudbury was designated as a Consolidated Municipal Service Manager and 10 District Social Services Administration Boards (DSSABs) were created to serve the rest of the North. District Social Services Administration Boards are responsible for serving both municipalities and unorganized territory. At a minimum DSSABs manage the delivery of social assistance, child care and social housing and have the option to deliver land ambulance and public health.

Northern municipalities and the unorganized territories in their area also have the option to form an Area Service Board (ASB) to realize further cost savings and efficiencies by reducing the number of single-purpose bodies. ASBs would deliver services in six core areas: social assistance, child care, social housing, land ambulance, public health and homes for the aged. Northern communities organized as an ASB would have the option to deliver additional services including policing, waste management, economic

development, airports, roads and bridges, emergency preparedness, land use planning, and the administration of portions of the Provincial Offences Act.

Municipal Roles and Responsibilities

The *Municipal Act, 2001* grants municipalities broad authority to deliver services and operate facilities in ten spheres of jurisdiction. The spheres of jurisdiction replaced many specific provisions of the “old” *Municipal Act* and are intended to avoid the need for enabling legislation when new issues arise. The spheres of jurisdiction are:

- Highways.
- Transportation systems other than highways, including transit, ferries and airports.
- Waste management.
- Public utilities, including water supply and sewage treatment.
- Culture, parks, recreation and heritage.
- Drainage and flood control, excluding storm sewers, floodways.
- Structures, including signs and fences.
- Parking.
- Animals.
- Economic development services.

Other Acts also authorize municipal powers, including the *Planning Act* and the *Building Code Act, Fire Protection and Prevention Act, Police Services Act, Ontario Works Act* and *Social Housing Reform Act, 2000*.

Not all municipalities provide all services. In a two-tier system of municipal government, services may be assigned by legislation to upper-tiers or to lower-tiers. In some cases, responsibility may be shared by both levels of government. As an example, local municipalities are often responsible for collecting garbage, while the upper-tier is responsible for garbage disposal and broader waste management issues.

Certain responsibilities specified in the *Municipal Act, 2001* may be transferred from one level of government to another. The upper-tier council and a majority of lower-tier councils must vote in favour of the transfer. Also, the number of electors in the lower-tiers supporting the transfer must represent a majority of electors in the county or region.

Local Boards

There are many local boards involved in the provision of local services. These include health units, transit commissions, children's aid societies, and planning boards. Legislation administered by different ministries authorizes the establishment of local boards. For example, the *Health Protection and Promotion Act* administered by the Ministry of Health and Long Term Care provides for boards of health, and the *Public Libraries Act* administered by the Ministry of Citizenship governs public library boards.

The *Municipal Act, 2001* enables municipalities to establish a new type of board—the municipal service board. Municipal service boards may be created in five spheres of jurisdiction:

- Public utilities.
- Waste management.
- Transportation systems other than highways.
- Culture, parks, recreation and heritage.
- Parking, except on highways.

Members of municipal service boards are appointed by council, giving council significant control over the entity.

Some local boards, such as police service boards, are mandatory. Others, such as library boards, are optional and established at the discretion of council. Local boards also vary in the degree of independence from council. If council appoints some or all members of the board or has the right to approve funding, it may be able to exert considerable control. Mandatory boards are often beyond the effective control of council and make decisions and determine revenue requirements independently, or in compliance with existing standards or provincial legislation.

Consolidating Financial Activities of the Local Board

If a local board serves only one municipality, its financial transactions are fully consolidated in the Financial Information Return of the municipality. If one or more municipalities establish a joint local board, each municipality consolidates the board's financial transactions on a proportional basis in its Financial Information Return.