

Regional government

# It got off on the wrong foot

By STEVE ARNOLD  
Champion News Editor

For many people in Halton County, Regional government was as welcome as an unwanted pregnancy—but, they couldn't get rid of the child.

That simple fact was more responsible than anything else for the deficit crisis that shook Regional government to its ill laid foundations almost two years ago, according to the people most directly involved in solving the problems.

At its height, more than \$3 million slipped through holes in Halton's treasury, public works and social services departments.

Most of the financial problems have been corrected now and the deficits have been covered, but the cost of recovery for the Region and for many of the people involved was high.

Only two senior Regional staff survived the management review that was called after the full extent of the problems were known. All the others have either retired or have been demoted within the organization. One person was promoted.

What actually happened? Why was the upper tier of municipal government in Halton built on such an insecure foundation that it threatened to collapse completely?

Until 1980, Regional councillors lived secure in the thought that their "bare bones" budgeting, under which all requests for staff from Regional departments were cut until they bled, was an efficient and responsible way to execute their mandate to govern this area.

The first fissure in that dream appeared in an understated press release from then Chief Administrative Officer Ernie Reid in early August.

Mr. Reid reported that "serious errors" had been discovered in the 1980 budget of the Region and in the accounts being audited for 1979.

The net result was that an anticipated surplus of \$390,000 vanished, to be replaced by a sewer system deficit of \$723,533; a water system surplus of \$586,358 and a general services deficit of \$451,283.

As audited statements for 1978 became available, the picture grew even blacker as a general services deficit of \$343,451 and a sewer system deficit of \$438,451 were revealed. The water works, however, again produced a surplus that helped to offset some of the losses—this time by \$405,000.

This hadn't been caught earlier because the external auditors employed by the Region were nearly half-a-year late with their report on financial performance in 1979.

Speculation at the time was that the final figure would be even higher, with Oakville councillor Mac Anderson, then chairman of the administration and finance committee, predicting another \$103,000 would be added before the saga ended.

Although the size of the deficit was a surprise, there had been earlier rumors of financial problems at the Region. A month before the revelations, a story had appeared in The Canadian Champion speculating on the imminent retirement or resignation of chief administrative officer Ernie Reid.

Four weeks after that, as new totals poured out of Halton's ruptured finances, he took an early retirement, and \$68,000 in severance pay.

Ill health was cited as the main reason for his decision to leave job he had held since the formation of the Region.

Before the CAO cleaned out his office however,

other heads were being placed on the chopping block of council wrath.

Treasurer Don Farmer, another who had been with the Region since its formation, tendered his resignation.

He was appointed acting treasurer and later demoted to acting deputy-treasurer. Months later, he resigned to take a position with another Region.

Mr. Farmer, who had served for several years as treasurer of Burlington before taking the position with the Region, blamed the crisis on several factors, including the late receipt of the 1979 audit.

If those figures had been available in March 1980, when the budget was being prepared, the 1979 deficit would have been discovered and accounted for in 1980.

Unexpected increases in interest rates, that no one could have predicted, a chronic shortage of staff in the treasury department and a heavy workload were also given a portion of the blame.

While the CAO and treasurer suffered the immediate effects of council's anger, actions against other senior staff members were to wait until a consulting firm finished an expensive management review of the Region's structure.

The problem that got immediate attention however, was to find ways to cover the deficits before the end of the 1980 council term.

Provincial law prohibits municipalities from deficit budgeting and requires that the books be balanced at the end of every council term.

The only option they had, staff advised, was to cut amounts from spending plans for 1980 and reduce the level of service in what areas were necessary.

Eventually, budget cutting by the staff covered all but \$37,315 of the total deficit. The largest step taken was to use \$440,826 of reserve funds (money saved to provide working capital and money for road construction).

The Halton Region Police Commission trimmed \$40,000 from its budget; \$75,000 was realized by selling a piece of land to Halton Women's Place and \$7,200 were cut from actual budgets.

For a few brief days, councillors and bureaucrats breathed easier, thinking the problems had been solved—but, they had only completed the first act of the saga.

The next surprise was delivered by public works director Bob Moore, who revealed five major projects in his department were quickly running out of money and that debentures totalling \$793,000 would have to be sold if they were to be finished.

Committee members also responded by deferring sewer projects valued at \$176,590 and cutting traffic signal installations in Oakville and Georgetown for a savings of \$68,900.

Even before Regional mandarins had time to recover from that blow, it was revealed that taxpayers had financed an extra \$186,000 in interest charges because special taxes had not been collected for local improvement projects.

Mr. Anderson described the problem as "the type of job that sat in the corner of one of our departments because nobody wanted to do it."

As election day crept closer, councillors started to feel pressure for a Provincial inquiry of the Region's financial operations, especially from the embellient councillor Laurie Mannell of Oakville.

He was especially concerned over the effect on the future of the Region of using all the available

reserve money to cover the deficits.

"There should be some assessment of responsibility and assurance all the necessary corrective measures have been taken," Counc. Terry Mannell told members of the administration and finance committee, who eventually decided that nothing useful would be gained through such a study.

"The problem in this organization was simply one of mistakes. They were human mistakes and it's just a fluke that they all happened in the same year," commented Dennis Perlin, who at that time was serving as acting chief administrative officer.

Several municipalities in the Region were adding questions to the ballots for the upcoming election asking their voters how they felt about returning responsibility for water and sewer services to the local level.

For many voters, the answer to that question was decided when the Regional council voted to increase water and sewer charges by 25 per cent to cover yet another surprise deficit of \$500,000 in those accounts because of lower than expected revenues.

Four further deficits appeared during 1981 caused by a social trend, the weather, a quirk of the Region's payroll system and the after effects of the sewer surcharge debate.

First to appear was a \$290,000 problem with the police department payroll system.

Councillors were told that this latest deficit was because of a quirk in the system used by the Region to pay its staff. The system resulted in an extra pay day for employees every 11 years.

In the police situation, the regular pay day for the officers fell on Dec. 31, 1980, but there was no money in the budget to cover the expense. The police commission moved that pay to Jan. 2, so that it would be a 1981 expense, but, through a clerical error, the cheques were dated Dec. 31.

Halton Centennial Manor was in the news as the source of the next deficit to strike the Region when it was revealed that the home for the aged would be \$218,000 short of its budget for revenue in the dormitory section.

That problem was blamed on a shift away from that type of care for the elderly toward programs that allowed them to stay in the community for longer periods.

The sewer system provided the most recent worries for Halton's financial managers, turning up two huge deficits—one of which was quite beyond their control to predict or prevent.

That event was an unnaturally wet summer in 1981 that resulted in less water being taken from the Region's reservoirs than had been expected, resulting in lower bills to residents than had been budgeted for.

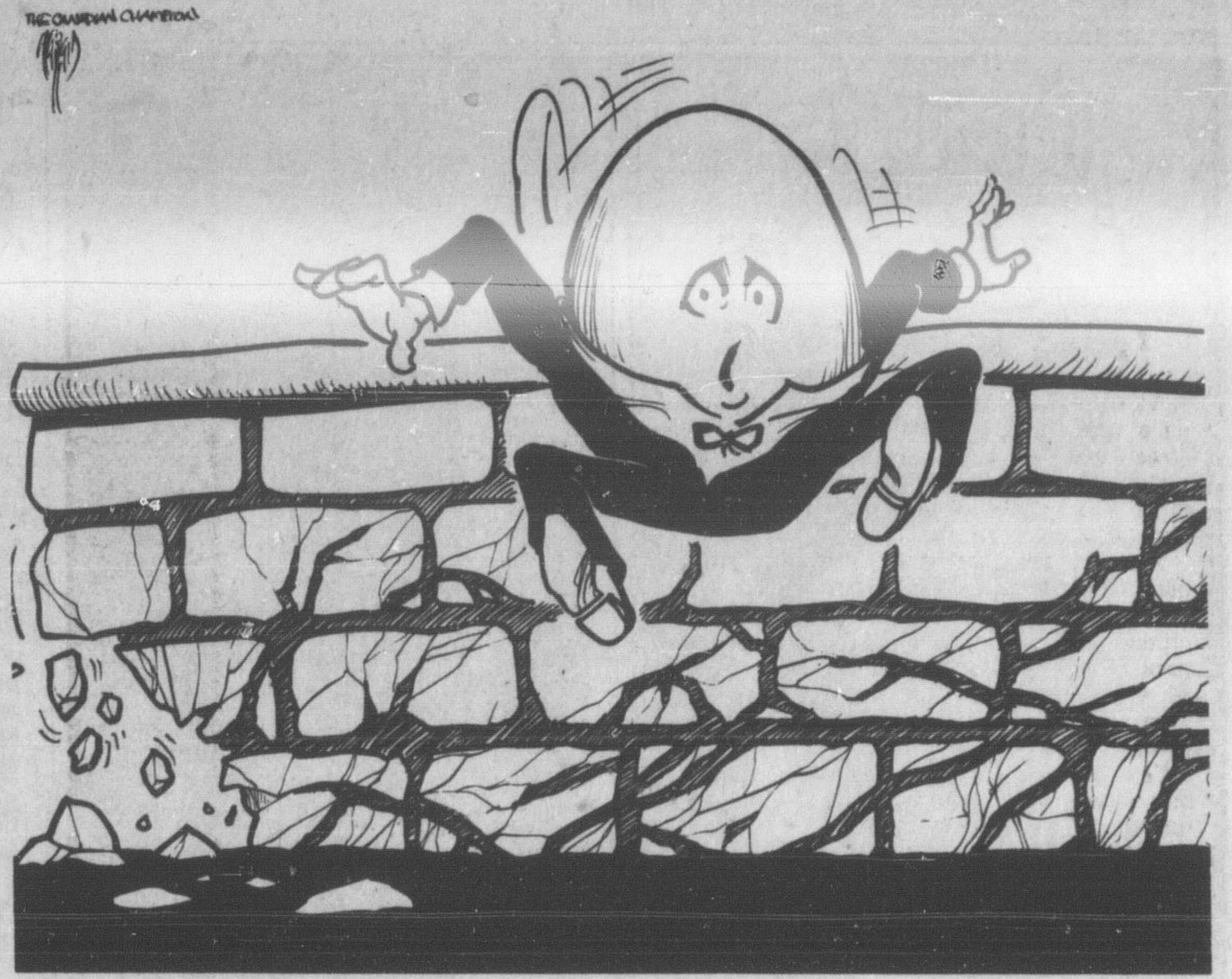
In that case, the bottom line was \$280,000.

One of the most contentious items to pass through Regional council in its strife filled life has been the sewer surcharge scheme.

That came back to haunt councillors once more during their deficit troubles when it was revealed that the revenue accounts for the sewer system were short \$442,000.

In explaining that problem, Dennis Perlin told councillors it was the result of more people than had been expected claiming refunds for sewer surcharges.

What went wrong with the system? Could it happen again?



## Why the problem?

# Political meddling probed

Political meddling was one of the major factors leading to the deficit problems experienced by Halton Region.

That was one of the major conclusions contained in the management study commissioned by Regional councillors following the discovery of massive deficits in several of their accounts.

Hickling-Johnson Ltd., management consultants, were paid \$80,000 by Regional council to study Halton's management system and suggest ways of improving the structure.

In the first of three volumes they issued on problems at the Region, the consultants said many of the troubles could be traced to "a lack of focus for political action at Regional Council."

This lack of focus, the consultants claimed, was the result of a political structure that increased conflict and denied the only truly regional leader a chance to exert full leadership.

The office of Regional chairman, according to the study, did not allow the chairman "the opportunity to exert full leadership."

Having the mayors of Halton's four municipalities also increased conflicts at council, the CAO and led to the tendency of councillors to make their budget decisions "without considering the level of service implications," the report stated.

"Often," the consultants wrote, "there is no apparent rationale for these decisions."

The fact that local residents and politicians were forced into Regional government, rather than having been allowed to choose the system for them-

selves, meant that many councillors took a very strong local bias with them to regional decision making sessions.

"Councillors tend to make decisions from the local point of view," the consultant wrote. "They do not consider the regional perspective, while staff perceive that council is more concerned with political expediency than with the welfare of the region."

As a means of solving these concerns, the consultants suggested a change in the political structure of the Region, moving away from the four committee system that had been used and making the position of chief administrative officer and Regional chairman stronger within the system.

Eventually, councillors approved a system of three committees, health and social services, planning and public works and administration and finance.

The Regional chairman is also chairman of administration and finance, which has the responsibility of reviewing the decisions of the other committees that have financial implications.

Aside from the problems of structure and attitude that led to the deficits, the consultants also said there was a major weakness in the treasury department which they felt was "understaffed for the tasks it had to perform. It was largely a staffing problem."

The cure recommended for the malady was a "fundamental reorganization of the treasury with a significant upgrading of the people staffing the leadership."

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