

**SMALL, RURAL, AND REMOTE COMMUNITIES:
THE ANATOMY OF RISK**

**A paper prepared for
the Panel on the Role of Government**

by

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SMALL, RURAL AND REMOTE COMMUNITIES: THE ANATOMY OF RISK¹

As part of its mandate on “Healthy Communities: Investing in Social Capital,” the Panel on the Role of Government asked us to examine, first, the role that the provincial government should play in responding to the challenges faced by the province’s larger cities and city-regions (the challenge of maintaining “Vibrant Cities and City-Regions”), and second, the very different set of challenges faced by small, rural, and remote communities (defined here as “Communities at Risk”). This paper examines the provincial government’s role in responding to the increased social, economic, and fiscal challenges facing communities at risk. A separate paper examines the importance of vibrant cities and city-regions to the provincial economy and social well-being and how to address the challenges they face.

This paper is divided into six sections:

- € The first section sets *the context* for the identification and analysis of communities at risk by reviewing recent growth and development trends in the province as a whole. It highlights the changes that have occurred in the population, social structure, and the economy of the province and the geographical distribution of those changes. This section demonstrates that growth has become increasingly concentrated in a few metropolitan areas in the southern part of the province, largely driven by immigration and growth in the services sector, while the rest of the province shows an overall decline in population and economic activity.
- € The second section describes the *varied characteristics* of small, rural, and remote communities (as the most obvious kind of communities at risk). These communities are characterized by their small size, older demographic structure, population decline, economic specialization, dual labour markets, and geographic isolation. They are, as a result, highly vulnerable to economic and social changes over which they have little or no control.
- € The third section defines the *specific challenges* facing communities at risk, with particular emphasis on three sets of issues: economic, social, and fiscal.
- € The fourth section describes the *current relationships* between communities at risk and the provincial government. Although these relationships are similar in broad outline to the provincial relationship with other municipalities in Ontario, there are differences when it comes to balancing local and provincial resources and needs, especially in remote, unincorporated communities. This section also describes some of the provincial

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transfers to municipalities and tax incentives to businesses in northern municipalities.

- € The fifth section addresses the question of the *most appropriate form* and level of government at the sub-provincial level for small, rural, and remote communities. It describes and evaluates the advantages and disadvantages of a number of governance options: two-tier government, single-tier government, inter-municipal agreements, special purpose districts, senior government funding of services, and intergovernmental transfers. This discussion is followed by a review of current governance structures in northern Ontario.

- € The sixth and concluding section summarizes the *general findings* of the paper and, as a basis for further discussion, offers *recommendations* for policy changes and initiatives that would improve the ability of communities at risk to meet their coming challenges.

1 SETTING THE CONTEXT: ONTARIO'S CHANGING LANDSCAPE

Current debates on the nature and role of local and regional governments, and discussions of which communities are most “at risk,” must be situated within the context of recent growth and development trends in the province. That context points to an Ontario that is evolving in directions that depart in a number of fundamental ways from previous history. This section of the report offers a brief overview of changes in the social structure and population of the province, an analysis of shifts in the components of population growth, and an assessment of trends in the geographical distribution of urban growth and change. A subsequent section will focus on economic and structural change.

As in other western nations, Canada and Ontario have witnessed a series of dramatic social transformations that have altered the social character and landscapes of the province. These include, most prominently, *the demographic transition*, the shift from the immediate post-war baby boom to the current situation of historically low fertility levels. The combined result has been slower overall growth, huge differentials in the size of individual age cohorts, and a rapidly aging population.

Second, in parallel, we have seen an equally sharp transition in *life styles and choices of living arrangements*, with an increasing diversity in family and household characteristics. Average household size has shrunk from 4.0 persons in the 1960s to less than 2.7 persons in 2001, and as many as 40 percent of all households are now single person households or non-traditional families. This, in turn, has altered the demand for housing and social services, as well as the composition of the labour force, and shifted the locations and thus the political jurisdictions in which those pressures are expressed.

Third, *immigration* has become the largest source of population growth nationally (over 50 percent) and an even larger proportion at the urban level. Immigration has also become overwhelmingly a metropolitan phenomenon, and the principal source of cultural change in the province's cities. In the Toronto region, for example, over 75 percent of recent population

growth is attributable to immigration. Urban growth in this region then is a direct result of policy decisions. In contrast, net domestic migration exchanges with the rest of the country are either zero or negative, depending on how the region is defined.² Only in a few other cities in the province is the contribution of immigration even close to 50 percent.

The *geographical distribution of immigrants*, however, is more uneven than these figures suggest. Six urban regions in the province together receive over 90 percent of all immigrants to Ontario; most of the rest of the province receives few, if any. This situation is unlikely to change in the future. Nor are recent immigrants likely to disperse into slow-growth areas unless there is a significant change in the distribution of incentives, notably employment opportunities and cultural services. It is not unreasonable to argue that the principal factor accounting for differences in the growth rate between growing and declining communities is the distribution of immigration.

Moreover, the fact that this flow of immigrants is predominantly from *non-traditional source countries* is rapidly changing the face and cultural feel of those cities that are receiving immigrants. These places are becoming very different in terms of the level of ethno-cultural diversity from the rest of the province.

The combined outcomes of these trends *pose new challenges* for any efforts directed at the *rationalization and reorganization of government*, and for decisions on public and private investment and social services provision. Population growth in the province has become increasingly concentrated in a few selected metropolitan areas, and particularly in the larger metropolitan areas or city regions of southern Ontario. The result is that the province can now be divided, in terms of social change and economic vitality, into two distinct types of regions. The core is the central Ontario urbanized region, extending from Cobourg and Peterborough in the east to Barrie-Orillia-Collingwood in the north, to Kitchener-Waterloo-Guelph in the west, and the Niagara-St. Catharines region in the south. This region housed over 7.4 million people in 2001, and accounted for over 86 percent of provincial population growth during the most recent census period. Adding three other metropolitan nodes - Ottawa, London and Windsor - captures almost 100 percent of provincial growth.

The rest of the province, in contrast, exhibits *overall population decline*, and relatively *little job growth*, despite the economic boom of the late 1990s (Ontario Smart Growth Secretariat 2003). Virtually all rural areas of the province are in relative, if not absolute, population decline.³

² The most frequently used definitions of the Toronto region are: 1) the census metropolitan area or CMA (population 4.8 million in 2001); 2) the Greater Toronto Area or GTA (population 5.2 million); 3) various extended urban regions that include all or part of the Golden Horseshoe (population over 7.0 million); and 4) the Central Ontario urban region as defined by the Ontario Smart Growth Secretariat (population 7.4 million). The Toronto CMA had a net domestic migration loss of 44,000 over the last census period (1996-2001), with most of that loss to Oshawa, Hamilton and the surrounding region. The GTA had a small positive migration balance, and the balance increased as the size of the region increased.

³ The definition of rural varies with the purpose, and the agency involved, but here it is used to

Moreover, most of the smaller urban areas (CMAs and CAs) located in the periphery of southern Ontario, from Sarnia and Owen Sound in the west to Cornwall and Pembroke in the east, and all urban centres in the north - including the two metropolitan areas of Sudbury and Thunder Bay - declined in population during the recent 1996-2001 period (Table 1). Although the rates of decline in Table 1 may seem small, it should be noted that these figures refer only to the last five years. If the same rates are projected over two or three decades the level of decline becomes dramatic.

Moreover, the current demographic structures of most regions in the 'rest-of-the-province', excluding those for aboriginal communities, are such that future population decline is actually built in, unless current trends in domestic migration and immigration can be reversed. It is in this huge area of the province that we find most of the communities that might be classified as most 'at risk.'

2 CHARACTERISTICS OF SMALL, RURAL, AND REMOTE COMMUNITIES: COMMUNITIES AT RISK

The characteristics of communities that lie outside the main urbanized areas of the province are as varied as the settings of those communities. Some are traditional service centres located in declining agricultural zones, others are the locations of primary production in areas of natural resource extraction, still others are small manufacturing or transportation centres that have been bypassed. Others are large urban communities, still others are small or intermediate size towns and cities, but most of the declining centres are relatively small.

Despite this wide variation, there is evidence that some properties are common to settlements located in all peripheral regions. Here we draw on evidence provided by studies of Australia (Hugo et al., 2003), Russia and Israel (Portnov and Pearlmutter, 1999), other western countries including the US (Gradus and Lithwick, 2000), and Canada (Bourne, 2000; Polèse and Shearmur, 2002).

Generally, such communities tend to be characterized, in relative terms, as sharing some or all of the following attributes:

- ∄ their small size, in terms of population, market and labour supply
- ∄ their physical isolation from other, and particularly larger, urban centres
- ∄ their lack of economic diversification
- ∄ a weak and declining economic base and limited employment opportunities
- ∄ high production and servicing costs
- ∄ a limited range of public and private services
- ∄ a small, low-density and often declining rural service hinterland

delimit areas that are not part of (i.e. located outside) census metropolitan areas (CMAs) and census agglomerations (CAs). The latter have a minimum population of 10,000.

TABLE 1: URBAN DECLINE IN ONTARIO'S PERIPHERY, 2001

CMAs and CAs	Population in 000s		% Change
	1996	2001	1996-2001
THE NORTH:			
METRO AREAS: CMAs (>100,000)			
Sudbury	165.6	155.6	-6.0
Thunder Bay	126.6	121.9	-3.7
LARGE CITIES: CAs (>50,000)			
Sault Ste. Marie	83.6	78.9	-5.6
North Bay	64.8	63.7	-1.7
Timmins	47.5	43.7	-8.0
SMALL URBAN: CAs (>10,000)			
Kenora	16.4	15.8	-3.2
Haileybury	13.7	12.9	-6.2
Elliot Lake	13.6	12.0	-12.0
ALL SMALL URBAN SETTLEMENTS IN THE NORTH			-5.3
EASTERN ONTARIO:			
CAs (10,000 - 100,000)			
Belleville	87.9	87.4	-0.5
Cornwall	58.9	57.6	-2.4
Pembroke	24.6	23.6	-4.2
Petawawa	15.3	14.4	-5.9
WEST/SOUTHWEST:			
CAs (10,000 - 110,000)			
Chatham-Kent	109.7	107.7	-1.8
Sarnia	90.7	88.3	-2.6
Owen Sound	31.7	31.6	-0.2

Notes: CMAs = Census Metropolitan Areas

CAs = Census Agglomerations

Both definitions include a city or town and where applicable adjacent suburbs that are closely linked to those cities or towns.

Source: Statistics Canada; calculations by the authors.

- € a limited attractiveness for new capital investment and in-migrants
- € often, a harsh climate, and
- € in some regions and countries, a large native population.

These structural characteristics, in turn, lead to particular kinds of social, occupational and employment attributes. Small, rural and remote communities typically display unusual age structures, with fewer individuals in the prime working age group of 19 to 64. As a result they have a larger proportion of children and older people, and overall an aging population, and thus high levels of social dependency. Since young adults tend to migrate out of such communities, both of these characteristics tend to become self-perpetuating.

Their employment and occupational structures are also truncated in that they are focussed on only a few sectors and a limited number of employers, and tend to lack jobs in the senior levels of management. Such labour markets are considered to be dualistic. Overall labour force participation rates, on average, also tend to be lower, especially among the female population, while unemployment rates and labour turnover rates are also higher.

As a direct consequence many small communities have a bi-polar income distribution, with many low-income and marginal workers and only a few higher income workers in the more specialized employment categories. This dualism is especially the case in isolated resource-based communities in the north where employers may have to pay a wage premium, and perhaps a housing allowance, for certain types of workers, because of the higher costs of living. Such communities also have a truncated fiscal base, and thus find it difficult to support the wide range of social services, medical facilities, infrastructure and cultural and recreational activities that people increasingly expect.

2.1 A Classification of Rural and Remote Communities

Ideally, for this project we would construct a detailed classification of all small, rural and remote municipalities in Ontario based on, among the other attributes, the nature of the economic base, the relative lack of economic diversity, population size, demographic structure, and the relative level of remoteness. But we do not have the data or resources to undertake such a task.

There are, however, examples available for other countries with peripheries that are roughly comparable to Canada's. In one study from Australia, Graeme Hugo and colleagues (Bamford, Dunne and Hugo, 1999) have developed an accessibility/remoteness index for all 11,338 populated localities in the country based on their degree of access (typically by road) to one of 200 service centres in the country's urban hierarchy. The index also measured the size of the centre to which residents had the most convenient access. The result was a ranking of localities from highly accessible to high remoteness. A statistical analysis then demonstrated that there were systematic differences between the characteristics of these localities according to their remoteness index, and an inverse relationship between the local growth rate and the remoteness index.

In Canada there is no classification of places in rural or northern Canada, nor any agreement on what such a classification should look like.⁴ The closest we have is a study undertaken by Statistics Canada that examined all 3,600 non-urban (but inhabited) census subdivisions in Canada that were located outside of the country's major cities and urban centres (McNiven, Puderer and Jones, 2000). The latter included the 27 census metropolitan areas (CMAs) with over 100,000 population and 112 census urban agglomerations (CAs) with populations between 10,000 and 100,000. The authors then estimated the proportion of the employed work force of each of the 3,600 places who worked outside the community in a nearby CMA or CA. In effect they have divided the country into zones, called metropolitan influence zones (MIZs), measured by the intensity of commuting and thus the degree of economic integration with metropolitan (CMA) and urban (CA) areas. Finally, they compared the properties of non-urban (non-CMA/CA) communities based on their level of economic integration with any metropolitan area or city.

One result of this analysis for the province of Ontario is included here as Figure 1. In effect the map shows the degree of remoteness, with places that have zero commuting to a CMA/CA as the most isolated. Much of Ontario, including portions of southern Ontario, qualifies as remote.⁵ Not surprisingly, the characteristics of these remote communities differed systematically with increasing distance from – and therefore less integration with – an urban area. Average growth rates also declined as the degree of proximity to and level of integration (commuting) with an urban area decreased. For all communities with less than substantial linkages and integration with an urban area (defined here as zero percent commuting to a CMA or CA), average population growth rates were negative.

Not surprisingly, there is a strong correspondence between the geography of population growth/decline described above and local economic dynamism and growth potential. Recent data on entrepreneurial activity (small businesses with 1-49 employees) in Ontario's cities and towns illustrates that economic vitality varies according to a very similar geography (Table 2). Generally speaking, the more remote and isolated the community, the worse its economic performance in terms of small business generation. At the same time, it is clear from Table 2 that such communities are *not* limited to northern Ontario.

⁴ The Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) considers rural Southern Ontario to be the area of the province that is south of Muskoka and outside of the cities of Hamilton, Ottawa, London, and Windsor, the Greater Toronto Area, and the Regions of Niagara and Waterloo. Within the seven urban areas above, municipalities with a population less than 100,000 are also considered to be rural. The Ontario Ministry of Northern Development and Mines reports that the rural population accounts for 13.9 percent of the total population in southern Ontario and one-third of the total population in northern Ontario.

⁵ To the extent that population density is a measure of remoteness, it can be noted that the relatively small population in northern Ontario located over a large geographic area results in a population density of 1.0 person per square kilometre compared to 104.4 persons per square kilometre in Southern Ontario. The population of northern Ontario represents only 7.4 percent of the provincial population yet the land area represents 89 percent of the provincial total.

To conclude, communities can be seen to be “at risk” in differing degrees and for many reasons. They can also be found in highly varied settings, from neighbourhoods in the inner city to small towns and cities, and to most rural communities located outside the areas of metropolitan influence and commuting. They are also spread from the southern parts of the province to the far north. There are, of course, some small towns and rural communities that are growing, for example, in recreational and retirement areas that are rich in amenities. But, again, very few of these communities are located outside of the field of influence and access zone of metropolitan areas.

Table 3 provides an illustrative typology of small, rural, and remote communities in Ontario. In this table, communities are classified by their size and their degree of remoteness. Although the challenges vary among communities within this framework, we will demonstrate in Section 2 why the challenges are likely to be the greatest for the smallest and most geographically isolated communities.

To restate the argument, the vulnerability of communities to economic dislocation, demographic change and population decline is significantly enhanced when those communities are small, economically specialized, and geographically isolated. In particular, if they are remote from a metropolitan area or large city, there is little or no possibility of *substituting* for a loss of a job or changes in the locations of jobs, and for access to services without changing ones place of residence. In this case, the lack of substitution means the inability of securing another job (or services) in the home community because the market is so small, or in an adjacent community because that place is too far away. Location really does matter.

2.2 Defining the Challenges Facing Communities at Risk

In what sense are small, rural, remote communities more “at risk” than others? Given their characteristics as outlined above, they are at risk for two principal reasons. First, they are at risk in the sense of potential economic dislocation and demographic decline because they are the *most vulnerable* to changes in external economic conditions and markets. They are vulnerable precisely because of the economic challenges they face: their economies tend to be overly dependent on one or a few sectors (and even one or a few employers). Opportunities in the local labour market are consequently limited, making such locations less attractive to highly educated workers. The locally generated labour supply often lacks diversity and depth, due to selective out-migration of many of the most highly educated and skilled workers. The relative scarcity of amenities and consequent limitations on local *quality of place* make the attraction and retention of talented labour all the more difficult. Investment capital is often limited, and production and investment decisions tend to be controlled by non-residents. The absence of a critical mass of firms in the same or related sectors means that specialized local services and infrastructure to support employers are usually in short supply, adding to the cost and difficulty of local production. A decline in the demand for, or prices of, their limited range of products, or depletion of the resource stock on which they are dependent, can have immediate and devastating effects.

TABLE 2: SMALL BUSINESSES IN ONTARIO CENSUS AGGLOMERATIONS

Census Agglomerations	Small businesses* (thousands) 2002	Change in number of small businesses 1998-2002	Rank in Canada	Change in CMA/CA population 1998-2002	Rank in Canada
Barrie	3.6	19.2%	2	16.7%	1
Collingwood	0.5	13.6%	4	2.0%	29
Guelph	3.0	8.5%	9	7.3%	6
Midland	0.8	8.0%	10	0.8%	43
Strathroy	0.3	6.4%	12	2.7%	23
Kenora	0.6	6.2%	13	-2.3%	80
Lindsay	0.6	6.0%	14	1.3%	37
Orillia	1.0	4.0%	17	3.9%	17
Tillsonburg	0.4	3.8%	18	4.4%	14
Leamington	1.3	2.8%	22	4.7%	12
Peterborough	2.8	2.4%	25	1.5%	33
Brantford	2.3	2.3%	26	1.4%	36
Port Hope	0.2	2.1%	27	0.7%	46
Chatham	1.6	1.0%	32	-1.2%	71
Kingston	3.4	0.9%	33	1.1%	40
Cornwall	1.4	0.4%	35	-1.7%	75
Woodstock	0.8	0.3%	38	1.7%	30
Stratford	0.7	-0.1%	40	1.6%	32
Brockville	1.0	-0.9%	44	-0.7%	67
Belleville	2.5	-1.0%	45	-0.4%	61
Owen Sound	0.9	-1.3%	48	-0.1%	60
Cobourg	0.4	-2.4%	54	4.2%	15
Haileybury	0.5	-3.5%	67	-4.4%	99
Simcoe	0.4	-3.8%	70	0.4%	52
Pembroke	0.7	-4.2%	75	-3.0%	87
Sarnia	2.0	-4.8%	77	-1.8%	77
North Bay	1.8	-5.0%	78	-1.2%	70
Timmins	1.1	-5.4%	81	-5.7%	108
Hawkesbury	0.4	-5.5%	83	0.1%	56
Sault Ste Marie	1.8	-5.6%	85	-4.0%	96
Elliot Lake	0.2	-8.6%	100	-8.6%	110

* includes enterprises with between 1 and 49 employees.

Source: BMO (2003) Exhibits 2 and 6.

TABLE 3: AN ILLUSTRATIVE TYPOLOGY OF SMALL, RURAL AND REMOTE COMMUNITIES: Ontario Examples

Settlement Size	Degree of Remoteness/Isolation/Accessibility			
	Within Metro Region	Adjacent to Metro Region	Not Adjacent but Near Metro Region	Isolated
Rural <1,000 <400 p/km ²	King Twp Scugog	Haldimand	Grey County	Most of Northern, Eastern Ontario
Small towns <10,000	Beamsville Caledon East Tottenham	Ingersoll Smith Falls Tweed	Bancroft Mount Forest Walkerton	Dryden Hearst Wawa
Small City >10,000 <30,000	Dundas Orangeville Uxbridge	Midland Leamington Lindsay Port Hope	Elliot Lake Owen Sound Pembroke	Kenora Kirkland Lake
Large City >30,000 <100,000	Newmarket Clarington Welland	Belleville Brantford Chatham Peterborough	Brockville Cornwall Sarnia	North Bay Sault Ste Marie Timmins

Notes: 1) Metro region: Defined as all CMAs (census metropolitan areas) with populations over 100,000 in 2001.

2) Isolated places defined as those in which commuting to work (or for services) to a metropolitan area is impractical or impossible because of long distances and high transportation costs.

Second, they are at risk because this lack of economic diversity and the limited degree of local control mean they are the *least capable* of responding and adapting to external economic shocks. They have fewer economic sectors over which to spread the impacts of a sudden decline in activity in one sector or industry. Peripheral areas in general tend to exhibit both economic marginality and high levels of income dependency.

Some of these conditions reflect the relatively small size of the communities involved. But the challenges are magnified when the communities are also remote or spatially isolated.

Remoteness implies many things, but by definition it means an increase in the costs and difficulties in transportation, construction and the provision of services. There is also a *price*

premium for almost all goods in remote communities due to higher transportation costs and/or limited local competition in the retail sector. Few goods, other than land and housing, cost less in such communities. Remoteness also implies isolation of potential employers from suppliers and markets. Where the goods or services being supplied or demanded are standardized and simple, this translates strictly into a cost disadvantage. On the other hand, for more specialized or customized goods and services, isolation limits opportunities for the face-to-face contact that is acknowledged to be so important for the sharing of knowledge that is increasingly important to successful innovation and production (Storper and Venables 2002).

These characteristics combine to limit the potential for small, isolated local communities to shift their economic base toward more knowledge-intensive activities – even with widespread access to broadband communication networks. While the availability of new information and communication technologies can help offset some of the disadvantages that local producers currently face, it can certainly not eliminate the most fundamental of these. Those knowledge-intensive economic activities that rely on a high degree of face-to-face interaction, or that depend on a deep, rich labour force of highly educated people in specialized occupational categories can only thrive in urban centres that are large enough to support diversity, variety and a high quality of place. This means that enhanced telecommunications connectivity to many smaller and remote communities will create only limited opportunities for knowledge-based economic activity. Viable activities might include e-commerce services such as call centres and web design.

Therefore, it is important not to promote false hopes that such technologies can bring about anything more than a selective decentralization of economic activity to remote communities. Moreover, given the demographic trends documented earlier, it is simply unrealistic to devise regional development strategies predicated on the assumption of future growth. This objective is difficult to suppress, since it has been engrained in economic development practice for many decades. This mindset is reflected, for example, in the recent report of the Smart Growth Panel for Northeastern Ontario (2003), which accepts uncritically that community viability should be based on: “growth in population, growth in economic activity, and growth in household income” (Ontario Smart Growth Secretariat, 2003, p. 7). On the basis of the analysis presented in this report, such an approach clearly needs to be reconsidered.

In its broadest definition, however, remoteness not only means high costs or other limitations on producers but, as argued above, a relative lack of access to opportunities, especially jobs, and to social and consumer services, especially specialized services. Undoubtedly the most difficult situation is when extreme physical isolation is compounded by a declining economy and a harsh physical environment.

Remoteness can be measured, as outlined in the previous section, by a location that is sufficiently far removed from the nearest community, particularly a larger urban centre, such that out-commuting on a daily basis is impossible, and access to services, especially emergency social and medical services, is difficult or impossible on a real-time basis. One obvious example is the situation when someone loses his or her job in their own community but finds that it is not possible to access (that is, to substitute for) employment lost in one community with a new job in

the next community simply because it is too far away, or when transportation connections are poor or too expensive. They cannot change jobs without moving, and thus without substantial costs and inconvenience. The problem with respect to access to medical services is even more apparent.

The problem is somewhat different in more intensively settled areas of the province. For example, even in a community at risk of economic dislocation, such as an agricultural community, that is located within (or close to) commuting distance of a major urban centre, residents have the opportunity – or at least the potential – to seek employment (or access to services) elsewhere without relocating. This is a different situation than that for residents of a community that is far removed from any other opportunities. For the latter there is no potential spatial substitution of employment opportunities. As growth in the province becomes more uneven, and peripheral areas continue to decline, the problems will be magnified.

The *social challenges* that flow from these attributes, as outlined in our paper on Vibrant Cities, revolve around the themes of demographic change and the effects of economic restructuring on employment and income opportunities. The demographic structure of most small and isolated communities builds in subsequent population decline (as shown in Table 1.1), and inevitably means higher servicing costs because of an aging population and high levels of social dependency. At the very least, this implies the need for a stronger role for senior levels of government in responding to the challenges.

Is decline, in demographic or economic terms, always a problem? The answer is no. It is possible for a community to age, or downsize, gracefully in ways that are both efficient and equitable. But it is not easy to do so. Decline, even more than growth, tends to be selective. At the same time senior governments are caught in a dilemma: how to support a reasonable level of jobs and social services, without extremely high levels of subsidy and without increasing levels of social dependency, while also trying to manage decline.

The major *fiscal challenge* facing communities at risk is providing an adequate level of services at a reasonable tax rate. Because of the vast distances involved with remote communities, services such as police and fire protection are limited, garbage collection is often non-existent, and land use planning is often performed by a senior level of government. Local services mainly comprise roads, sewer and water, garbage disposal, social services, and recreation.⁶

On the expenditure side, low population density often means very high per capita expenditures. For example, local governments in small, rural, and remote communities with small populations are unable to take advantage of economies of scale in administration. Expenditures on roads, water and sewers are often higher because of the harsh climatic conditions and terrain (tundra). Expenditures on recreation and culture are considerably higher on a per capita basis because

⁶ With respect to water and sewers in rural areas, public health considerations require that government regulate and monitor the quality of water from private systems. With respect to garbage disposal, there is also a need to ensure that garbage is transported to landfill sites.

almost every municipality has a community centre, an ice arena, and a variety of recreational programs. Fire and police expenditures tend to be lower, however, because fire protection equipment is much less sophisticated than in more urbanized areas (no high rise buildings and a relatively small geographical area to cover) and fire departments are often comprised of volunteers. The response time cannot compare with that in urban areas because of the distances and there are no externalities because the properties are so far apart. Policing is almost always the responsibility of a senior level of government because of the economies of scale associated with that service.

On the revenue side, small rural and remote areas do not generally have sufficient capacity to finance local expenditures. In theory, the sources of revenue available to local governments in remote and rural areas are the same as local governments elsewhere: property taxes, user fees and intergovernmental transfers. In reality, however, the characteristics of the population and the tax base in remote areas restrict the use of many of these revenue sources.

It is difficult for some communities to levy a property tax because the tax base is limited relative to local needs. One reason is the lack of private ownership of properties in remote areas so that there are fewer properties to tax. Furthermore, the value of properties in remote communities tends to be much lower than the value in urban areas and is often lower than the cost of construction.⁷ The proportion of property tax revenues levied on agricultural land, forests, mines, and pipelines is likely to be higher in remote areas than in urban areas. The nature of these properties requires different tax treatment than other commercial and industrial properties. There is little or no assessment growth in northern municipalities. As noted by the Smart Growth Panel for Northeastern Ontario (Ontario Smart Growth Secretariat, 2003, p. 34), “the property-tax base of municipalities has been under increasing strain.” Fewer commercial and industrial taxpayers (resulting from closures of mines and other industries) mean higher taxes for the remaining taxpayers. Finally, property owners in unincorporated communities pay a Provincial Land Tax (PLT) which, as will be noted below, is considerably less than what the property taxes would be in most cases.

The high cost of services means that user fees are less likely to cover the full cost of service provision. Moreover, user fees that are appropriate in a large urban context may be less appropriate in small and remote communities. For example, user fees may not be appropriate for recreational services in remote areas because of the positive externalities associated with arenas and recreation centres. The benefits of these services extend beyond the users of the facilities. It could be argued, for example, that arenas and recreation centres provide a social service to the community, especially for youth, because there are few alternatives in remote communities. If full cost pricing is charged, those who would use the facility might engage in less socially acceptable activities. In other words, there are significant external benefits that even on the strict efficiency criteria call for at least some level of subsidization. Similarly, user fees for garbage (solid waste) may act as a disincentive for using the service and may encourage individuals to

⁷ A market value that is lower than the construction cost reflects the unwillingness or inability of individuals to pay the price that covers the cost in these communities.

dispose of their garbage on land outside the municipal boundary.

3 CURRENT RELATIONSHIPS BETWEEN COMMUNITIES AT RISK AND THE PROVINCIAL GOVERNMENT

The current relationships between communities at risk and the provincial government are similar to the relationship between municipalities in general and the Province.⁸ There are over 100 unincorporated communities in Northern Ontario, however, which have a somewhat different relationship with the Province. Furthermore, there are additional transfer programs for communities at risk. Unincorporated communities and transfers are discussed below.

3.1 Unincorporated Communities

Municipalities in Northern Ontario are located in ten territorial districts: Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay, and Timiskaming. These districts are not municipal units and the municipalities located within them are single-tier municipalities (cities, towns, townships, and villages). Most of the geographic area of Northern Ontario, however, is not organized for municipal purposes. This means that there are people living in areas without municipal organization, mostly in small, unincorporated communities (sometimes referred to as unorganised territories).

For those municipalities located in these districts, the relationship with the Province is similar to that of municipalities in the rest of the province. These municipalities are responsible for delivering similar services, they levy property taxes, user fees, and other revenue sources and they are eligible for unconditional grant funding under the Community Reinvestment Fund (CRF). District Social Services Administration Boards (DSSABs) are responsible for the delivery of Ontario Works, child care, social housing (and in some cases also for land ambulance).⁹

In the unincorporated communities, property owners pay a Provincial Land Tax (PLT) to the Province. In turn, the Province funds some services in these communities (see below). The PLT is similar to a property tax except that the assessment (based on values in the 1940s) is seriously out of date and the tax rate of 1.5 percent of assessed value has not changed since 1954 (Ontario Fair Tax Commission, 1993, p. 74). The PLT serves as the tax base for local services boards (optional bodies that may deliver some local services). Residents of most of the unincorporated communities also pay property taxes for education. The assessment base for education purposes, however, is more up-to-date than the PLT. As part of local government reform in 1998, there were plans to update PLT assessments but this reassessment has not yet been implemented.

⁸ These are described in our paper on Vibrant Cities and City-Regions.

⁹ DSSABs are similar to Consolidated Municipal Service Managers (CMSMs) in Southern Ontario.

TABLE 4: SERVICE DELIVERY AND FUNDING IN NORTHERN ONTARIO

Service	Delivery Mechanism	Finance
Ontario Works	DSSAB (or ASB)	For municipalities, the Province pays 80% of the program cost and 50% of administrative costs; for unincorporated areas, Province pays 100%
Child Care	DSSAB (or ASB)	Province pays 80% of program costs and 50% of administrative costs
Social Housing	DSSAB (or ASB)	Municipalities are responsible for the costs through DSSABs
Land Ambulance	DSSAB (or ASB)	Province pays 50%
Public Health	DSSAB (or ASB)	Province pays 50% of costs for municipalities and 100% of costs for unincorporated areas
Homes for the Aged	DSSAB (or ASB)	Municipalities are responsible for costs through DSSABs
Libraries	LSB	Province provides some funding through Operating Grants Program
Economic Development	ASB (optional)	Various provincial funding options
Airports	ASB (optional)	Municipalities fund airports; Province provides support for remote airports
Land Use Planning	ASB (optional)	ASBs would be responsible for costs
Provincial Offences	ASB (optional)	Municipalities (and ASBs) are responsible for costs
Waste Management	ASB (optional)	Waste management systems are owned privately or by municipalities or MNR
Police	ASB (optional)	Municipalities are responsible for costs; Province pays for OPP unincorporated areas
Emergency Preparedness/ Response	ASB (optional)	
Roads and Bridges	ASB (optional)	Municipalities pay for local roads
Roads	LRB	Funded by LRB levies and the Province

Source: Based on information in Ontario Ministry of Northern Development and Mines (2000)

All unincorporated communities are contained within DSSABs and some are located in Local Services Boards (LSBs) and Local Roads Boards (LRBs).¹⁰ For those unorganised communities in local boards, the Province pays their share of the costs of delivering services. Table 4 shows who delivers services in municipalities and in the unorganized communities of Northern Ontario and who pays for them. As noted below in section 4.2, Area Services Boards can be used to consolidate service delivery over a broad range of services but these have not yet been implemented.

In unincorporated communities, the Province provides 100 percent funding for public health program delivery and for Healthy Babies/Healthy Children, vaccines, speech and audiology, genetics, and provincial sexual health resources. The Ministry of Education pays for education in unincorporated communities. The Province supports the system of remote airports across Northern Ontario. Policing in unincorporated communities is provided by the OPP and the costs are funded by the Province. In terms of land use planning (not shown in Table 4), the Ministry of Natural Resources administers a small number of restricted area orders in territory without municipal organization. In areas designated as restricted, the Ministry issues permits that are required to erect a building or structure or to make improvements to lands. Some waste management systems in Northern Ontario are owned by the Ministry of Natural Resources.

3.2 Provincial Transfers to Small, Rural, and Remote Communities¹¹

The Province provides financial assistance to small, rural, and remote communities through a variety of transfer programs. Some examples are provided in this section of the report. In the 2000 Budget, for example, the Province announced a two-year \$600 million Ontario Small Town and Rural Development Initiative (OSTAR) for infrastructure and economic development. All upper and lower tier municipalities in Ontario may apply for funds under OSTAR with the exception of municipalities in the Greater Toronto Area, the City of Hamilton, the Region of Waterloo, the City of Ottawa, the City of Greater Sudbury, the Region of Niagara, the City of Thunder Bay, the City of London and the City of Windsor.¹² Any municipalities with a population of less than 100,000 within any of the above urban areas are, nevertheless, eligible to apply to OSTAR. Local Services Boards in Northern Ontario are also eligible.

¹⁰ These boards are described in Section 4.2 below.

¹¹ The federal government also invests in programs and services in Northern Ontario communities, for example, under Industry Canada's Federal Economic Development Initiative for Northern Ontario (FedNor). FedNor's programs and services are divided under five categories: connectedness (developing and enhancing telecommunications infrastructure in Northern Ontario communities); innovation (moving towards a knowledge-based economy); trade (expanding the export and trading activities of small and medium-sized businesses); investment (enhancing economic growth through investment opportunities); and community partnerships (supporting community-based economic development efforts that create employment and stimulate growth).

¹² These municipalities are eligible for SuperBuild's Millenium Partnerships Initiative.

The intent of OSTAR funds is to help municipalities to provide infrastructure in agricultural and rural areas and small towns and cities. Eligible communities need to make proposals to the Province that focus on economic development and quality of life, especially with respect to health and safety (for example, water and sewers, roads and bridges, etc.). As part of the OSTAR initiative, the Rural Economic Development Program offered by OMAFRA provides cost-shared funding to address barriers to economic growth.

The Northern Ontario Heritage Fund Corporation (NOHFC) is a funding program of the Ministry of Northern Development and Mines (MNDM) to assist northern communities with conditional grants, forgivable performance loans, and incentive term loans. The program components include: infrastructure, telecommunications, tourism, strategic partnerships, and community foundations.

Recent initiatives under NOHFC include the following:¹³

- € The Far North Assistance Program Supporting the Northern Ontario Economy is an infrastructure program to support economic growth by enhancing the region's ability to attract and retain investment and improve the quality of life for residents. This program is aimed at remote northern communities.
- € The Capital Assistance to Enhance Drinking Water Protection in Northern Ontario is a program to assist northern communities to upgrade municipal water infrastructure.
- € The Capital Assistance Program for Northern Communities is a program to upgrade local infrastructure in the North necessary to attract new investment and improve the quality of life of residents.
- € The Economic Diversification Assistance Program is designed to encourage economic diversity in those communities that rely on one or a few industries. Funding is provided where there has been a economic disruption due to a major downturn in the local economy. Priority is given to northern communities that are heavily reliant on a single industry (equal to 30 percent or more of a community's total workforce employed in one economic sector) or who are experiencing a significant economic disruption resulting in permanent displacement of at least 10 percent of the workforce in one industry, or who are experiencing difficulties due to a significant economic disruption in the last five years. Private-public partnerships, government agency partnerships, municipalities, First Nations, Local Services Boards, and not-for-profit corporations with projects in Northern Ontario are eligible for funding. Under this program, municipalities needed to pre-qualify for assistance before the end of 2002. Five communities were designated for assistance under this program (for example, Manitouwadge, Nipissing, and Mattawa). They are eligible to submit projects over the next year for approval. NOHFC will fund 75 percent of eligible costs up to a maximum of \$5 million for each community.

¹³ For an evaluation of these types of economic development programs, see Section 5.2 below.

The Ministry of Municipal Affairs and Housing provides a Special Assistance Grant to municipalities facing abnormal financial difficulties arising from circumstances beyond their control. Examples where assistance may be provided include a loss in assessment in a single industry town or an unusual capital expenditure requirement. Municipalities have to apply to the Ministry for funding. The decision of the Ministry to grant funding depends on the financial situation of the municipality (for example, the state of reserves, the extent of tax arrears, the amount of long-term debt, etc.). The Ministry of Municipal Affairs and Housing also provides northern transition assistance under the Municipal Restructuring Fund. Following a restructuring, grants are provided for costs associated with the restructuring such as the consolidation of by-laws and updating computer systems.

3.3 Tax Incentive Zones

In 2003, the Ontario government announced the province's first tax incentive zone to cover all of northern Ontario. The purpose of establishing a tax incentive zone in the north is to encourage businesses to invest and expand in smaller, rural and northern communities. Within this zone, eligible businesses would not have to pay the provincial business education tax, the capital tax, or the employer health tax. Municipalities will also have to provide full municipal property tax relief. These tax incentives will be in place as of January 1, 2004 for 10 years. To be eligible for tax incentives, businesses must commit to a minimum of five jobs and a \$100,000 investment. An evaluation of these types of tax incentives can be found in section 5.2.4 below.

4 THE APPROPRIATE LEVEL OF GOVERNMENT AT THE SUB-PROVINCIAL LEVEL

In terms of economic theory, the major role assigned to sub-provincial or local governments is to provide goods and services within a particular geographic area to residents who are willing to pay for them (Bird and Slack, 1993, p. 16). If the benefits of particular services are confined to local jurisdictions (the actions of one municipality have no effect on other municipalities), efficiency is enhanced because the mix and level of services can vary according to local preferences. It is argued that local officials are in a better position to respond to local tastes and preferences than are officials of senior levels of government.¹⁴

A strong local government is one that is efficient and effective in the delivery of service, on the one hand, and accountable and responsive to its citizens on the other. Municipalities have to be

¹⁴ The provision of local services does not mean that the municipality has to produce the goods and services themselves, however. Rather, the role of local government is to make decisions about which services to provide and how to provide them. Municipalities could, for example, contract out service delivery to another government or to the private sector. See Osborne and Gaebler (1992).

small enough to provide access and large enough to be able to support a wide range of services in an efficient and effective way. If the municipality is too small (and remote) to deliver services effectively, however, then political access is less meaningful. In particular, municipalities need an adequate tax base and qualified personnel.

As noted earlier, some small municipalities do not have a large enough tax base to be economically viable. In particular, they often cannot finance major capital expenditures such as road graders and fire equipment. Their limited debt capacity further inhibits their ability to make capital expenditures. Since the size of the population is small, these municipalities cannot take advantage of economies of scale in service provision. Furthermore, their remoteness often prevents them from taking advantage of economies of scale by contracting out services to neighbouring municipalities or to the private sector. As a result, small communities in remote areas tend to concentrate on the provision of a few basic services (Dougherty et al., 1999, p. 8).

Inadequate resources may also mean that small and remote communities may face administrative difficulties because they are unable to find suitably qualified full-time staff. These communities have limited training opportunities to develop and maintain qualified personnel (Dougherty et al., 1999, p. 19). Some municipalities operate with a part-time staff; others operate with staff that are required to have a wide range of expertise. Specialization is virtually impossible. The lack of qualified staff limits the ability of elected officials to respond to the needs of their constituents (Ontario, 1989). Some of these problems may be overcome, however, by contracting out to other governments or the private sector or by sharing expertise among municipalities, when required.

Another option increasingly applied in other countries is to take advantage of new communication technologies to encourage both representative government and participatory democracy, as well as the provision of information and some services, particularly for certain groups and those in remote districts. The best-known example is that of **e-government** in which many of the political, information and management elements of local government, like distance education and e-commerce, can be carried on through the internet over vast distances where face-to-face participation is difficult or impossible. Several experiments in the area of “intelligent development and governance” are underway in both Europe and Australia (Grieco, 2000), and have been widely applied in services such as health services that involve assessment and frequent feedback. The obvious limitation is that other services, notably ground-based services, simply cannot be delivered in this fashion, but others can and at lower cost. The challenge is to find the best balance of public participation and service provision through technological innovation.

In terms of access and accountability, the lack of mobility for some segments of the population in remote communities brings into question the role of local government. If residents are not mobile, then they are unlikely to respond to taxes and expenditures by moving to other communities. To the extent that the efficiency of local government relies on it being responsive to local citizens, its role in remote areas is more complicated than in urban areas to the extent that proximity means greater access to politicians.¹⁵

¹⁵ See Litvack et al. (1998, p. 2) for a discussion of the limitations of “voice” and “exit” in

4.1 Governance Options

There are several options that may be considered for structuring municipal government in remote areas:

- ∄ two-tier governments
- ∄ a single-tier government that provides all services
- ∄ inter-municipal agreements
- ∄ special purpose districts
- ∄ senior level of government responsible for funding some municipal services
- ∄ intergovernmental transfers.¹⁶

Each of these options is evaluated according to its ability to achieve a number of criteria. These include: the capacity to benefit from economies of scale, the opportunity to internalize spillovers (external benefits and costs), the capacity for being accessible and accountable to citizens, the opportunity for citizens to satisfy local preferences, and the ability to fund expenditures in a fair and equitable manner.¹⁷

Two-Tier Government

A two-tier municipal structure is generally appropriate in large geographic and metropolitan areas, typically where there are a number of contiguous municipalities responsible for a variety of municipal services. The upper tier is generally responsible for services that benefit the entire region; that generate benefit or cost spillovers (externalities) across the entire area; that are primarily income redistributive (social services, social housing); that display economies of scale (water, sewer, and solid waste); and that are to be provided at uniform levels and standards across the entire area. For services that do not display these characteristics and where local responsiveness is important, responsibility generally rests with the local municipality where one exists.

Within a two-tier structure, each level of government has its own revenue base (local taxes and user charges). For lower-tier services, funding comes from a local revenue base that is contained within the local community. For upper-tier services, the revenue base encompasses the entire area. Grants from a senior level of government can also play a role.

In remote areas where municipalities are isolated from each other, distances are such that the benefits or costs of services provided by one municipality are unlikely to spill over into adjacent

smaller municipalities and rural areas in developing countries where mobility is limited.

¹⁶ For a discussion of similar options for metropolitan areas, see Slack (2001).

¹⁷ These criteria are explained in more detail in our paper on Vibrant Cities and City-Regions.

municipalities. Similarly, distances between municipalities and their isolation from each other prevents them from benefiting from economies of scale in the provision of services whose costs per unit decline as the number of residents served increases. Hence, the rationale for a two-tier structure at the municipal level in remote areas is less compelling than it is for larger metropolitan areas but it still has some merit, particularly if there is a desire to share the costs of services over a broader area. This type of redistribution raises the question of who should subsidize small, isolated communities, however: taxpayers in other communities in the region or taxpayers across the province.

Single-Tier Government

In a single-tier structure, there is only one level of municipal government that is responsible for all municipal services. In remote areas, municipalities are generally small and isolated from each other.

There may be advantages from small annexations where properties are located just outside municipal boundaries and residents of these neighbouring communities are using services within the municipality without paying for them. There is less justification, however, for large-scale amalgamations of several small, isolated communities since the externalities are unlikely to extend that far and there are no economies of scale to be gained.

Small, isolated municipalities in remote areas usually face higher per unit costs of service delivery than do larger urban areas. Furthermore, these municipalities almost always have a smaller and less diversified revenue base from which they can raise locally generated revenues. This combination of higher per unit costs and lower fiscal capacity raises the question of whether or not there are ways within a single-tier structure that local services could be provided in a less costly fashion or whether they should be funded differently than in larger metropolitan areas. Some of these options are considered below.

Inter-Municipal Agreements

An inter-municipal agreement exists when one municipality agrees contractually to buy a service from another municipality, generally an adjacent municipality. These agreements may exist for a variety of services but are most common for water provision, fire and police protection, and maintenance of roads (snowploughing, in particular). They are used more frequently in small municipalities (villages and townships, for example) than in large municipalities (cities and towns). The rationale for entering an agreement is almost always cost savings - it is deemed to be less costly to buy a service from an adjacent municipality than it is to provide it on its own because it can achieve benefits from economies of scale.

Although these agreements have been used for a long time in many smaller contiguous municipalities, they are less likely to work or be appropriate where municipalities, such as those in remote areas, are isolated from each other. Again, the reason is that a municipality is unlikely to benefit from buying services from other municipalities where distances between them are large.

Special Purpose Districts

In areas where there are a number of contiguous municipalities, special purpose districts are sometimes used to provide a range of services for each municipality within the district. Service responsibilities of special purpose districts generally include those that generate externalities; benefit from economies of scale; are income redistributive; and for which district wide uniform standards are important. Where special purpose districts exist, they play the same role and perform the same functions as an upper-tier level of municipal government in a two-tier structure. They are less formal in terms of governing structure, however, because they generally have a board with members appointed from the different municipal councils. Problems similar to a two-tier structure for non-contiguous municipalities in remote areas would also occur with special purpose districts.

Provision of Services by Senior Levels of Government

Given that municipalities in remote areas are typically unable to take advantage of economies of scale in service provision and given their smaller and less diversified tax base, one option is that senior levels of government provide local services instead of municipalities. This option has certain obvious advantages, especially in terms of spreading the costs and increasing the range of services but it could seriously hinder accountability if there is no direct link between individual consumption of a service and payment for it. When individuals receive a service for which they are not taxed or charged a fee, there is an incentive for them to consume more than they would if they paid for it.

The provision of services by a senior level of government also raises concerns about local responsiveness. It may be less appropriate for a senior level of government to provide services because it is further removed from local residents, making it difficult to determine the quality and quantity of output to provide in each municipality. Senior levels of government are likely to be less responsive and less accountable to local residents than a local government. At the same time, it is only senior governments that can ensure a uniform, minimum standard of service across their jurisdictions.

Reliance on Intergovernmental Transfers

Another option is for senior levels of government to provide grant assistance to communities in remote areas and have the municipalities deliver and fund local services themselves. If service provision is considerably more expensive and considerably higher levels of financial assistance are required, there is a question about the use of provincial resources to foster communities artificially in remote areas.¹⁸ An important issue of debate is whether communities that cannot survive in the absence of disproportionate senior government funding (when compared to other urban areas) should exist at all.

¹⁸ The issue is not whether taxpayers in remote communities should be excluded from paying for municipal services. Clearly, they should pay at least some of the costs of services if accountability, fairness, and efficiency are to be achieved.

Arguments can be made for and against government subsidization of remote areas. If a municipality in a remote area is essential for the provision of an important public service such as national security or some territorial imperative, the ‘public good’ benefit of this service and the externalities associated with it may justify higher grant assistance from senior levels of government to keep these communities viable. If the existence of municipalities in remote areas does not provide “public good” benefits, there may be less justification for large subsidies to these communities. For example, in the case of a company town where the municipality’s existence is vital to the success of the company, justification for grant funding is less obvious.

The argument against subsidizing remote areas is based largely on efficiency criteria. Reliance on grant funding reduces the incentive for residents of these municipalities to leave and move to areas where there are greater employment and educational opportunities. If provincial economic efficiency is an important objective, then encouraging mobility of labour out of remote areas may be more appropriate than providing subsidies which encourage them to stay. That is not to say that they should not remain in these communities but rather that there is no economic justification for higher subsidies. Politics sometimes leads to a different conclusion, however, because people form emotional attachments to communities and politicians are reluctant to move them even though the long term costs are high.

There are also critical social dimensions to the debate on the subsidization of rural and remote communities based on equity rather than efficiency criteria. The principal social argument in support of subsidization is that thousands of people currently live in these communities and most are unlikely to move. They also expect and deserve levels of public services that are similar, within obvious limits, to those enjoyed by residents elsewhere in the province. There are obvious trade-offs here for both residents and governments; somewhat lower service levels and reduced choices in exchange for less expensive land and housing, easier access to natural environments, and lower levels of pollution and congestion. The broader theoretical argument for subsidization is drawn from the concept of **place-based equity**, that is that people have rights to public goods whenever they choose to locate. In other words, there is an obligation on the larger society to provide minimum levels of services to all citizens wherever they live. At the same time there is a strong argument for discouraging the construction of new settlements in the most remote areas of the province.

4.2 Governance Structures in Small, Rural, and Remote Communities

Small, rural, and remote communities are located in all parts of the province, as noted earlier. There are three types of municipal government structure in southern Ontario: the regional system, the county system, and the single-tier system. In the regional system, there is an upper-tier municipality that provides area-wide services (such as social services, social housing, regional roads, policing, waste management, and other services) and a lower-tier municipality that provides local services (fire, parks and recreation, for example). The county system is also a two-tier system with the county providing some services and the lower-tiers providing some services. Cities and separated towns that are located in a county but are not part of the county system are referred to as single-tier municipalities (examples include London, Windsor, and

Sarnia). Single-tier municipalities also include cities (such as Ottawa and Toronto) that are not located in counties or two-tier regions.

Small, rural and remote communities in southern Ontario are located within the county and regional systems. For those services provided by the upper tier, communities at risk enjoy comparable services to other communities and share the costs. Through the upper tier, some redistribution takes place from wealthy communities to poor communities. In some cases, special area rates are levied in the urban parts of the region or county to reflect the fact that more services are provided in urban areas than in the rural communities. Special area rates are levied for services such as fire protection, transit, and garbage collection.

Municipalities in Northern Ontario are located in one of 10 territorial districts and the District Municipality of Muskoka.¹⁹ There are 155 municipalities, 104 First Nations, and over 150 unincorporated communities, including 44 Local Services Boards. The population of Northern Ontario is about 840,000. These districts are not municipal units and the municipalities located within them are single-tier municipalities (cities, towns, townships, and villages). There are no county governments and no regional governments in Northern Ontario. District Social Services Administration Boards (DSSABs) are the delivery agents for social services; Area Services Boards (ASBs) can be used to consolidate service delivery for a broader range of services.²⁰

According to the 1996 Census, there were over 50,000 people living in unincorporated communities in Northern Ontario.²¹ For social services, unincorporated communities are included in DSSABs. They may also be part of an Area Services Board (ASB), a Local Services Board (LSB) or a Local Roads Board (LRB). These are each described below.

District Social Services Administration Boards

District Social Services Administration Boards were developed by the Ministry of Community and Social Services under the DSSAB Act. DSSABs have been established in each of the northern districts for the purpose of managing Ontario Works, child care, and social housing programs and services. DSSABs also have the option of delivering public health and land ambulance services. To date, some boards have taken responsibility for land ambulance but no boards have taken responsibility for public health.

The municipalities in each district and the unincorporated communities are part of the DSSAB. The powers and duties of boards are set out in the DSSAB Act. The composition of each board and the qualifications and term of office of the members are prescribed by regulations. Under Section 11(c) of the Act, the Lieutenant Governor in Council may make regulations with respect to “the division of each district into areas, the appointment of members representing the areas to each board having regard to the proportionate distribution amongst the areas of population,

¹⁹ These districts are listed in Section 4.1 above.

²⁰ DSSABs and ASBs are described further below.

²¹ This number is significantly lower now because of annexations that have taken place since 1996.

assessment of rateable property and assessment in territories without municipal organization and providing for the further appointment by the Lieutenant Governor in Council of members at large, prescribing the qualifications for appointment and fixing the number of members for each board and the terms of office of members.”²²

Each municipality is responsible for funding a share of the costs of social services and the Board may impose a penalty for non-compliance. The same cost sharing principle applies to the unincorporated areas and the municipalities that are part of the Board. Unorganized (unincorporated) territories may defray costs of providing social services by recovering them as part of the PLT levied by the Province. There is one DSSAB in each of the ten territorial districts in Northern Ontario.

Area Services Boards

Area Services Boards are legal corporations established by a Minister’s Order under the Northern Services Boards Act (NSBA). The ten territorial districts and the District Municipality of Muskoka are eligible to set up an Area Services Board (ASB). One or more municipalities or local services boards or the residents of an unorganized territory may make a proposal to the Minister to establish an ASB for the purpose of consolidating service delivery. The purpose of ASBs is to “facilitate the consolidation of service delivery over large geographic areas involving municipalities and unorganized territory to allow for increased efficiency and accountability in area-wide service delivery” (Ontario Ministry of Northern Development and Mines, 2000, p. 3). The Board consists of members appointed by participating municipal councils and by members elected by residents of the unorganized territories in the board area.

ASBs are similar to DSSABs but can manage and deliver a broader range of services. ASBs are responsible for the management and delivery of six core services (Ontario Works, Child Care, Social Housing, Land Ambulance, Public Health, and Homes for the Aged). They may also choose to deliver optional services such as police services, Provincial Offences, waste management, economic development, airports, roads and bridges, emergency preparedness and response, land use planning, and any other service requested by the ASB and agreed to by the Minister of Northern Development and Mines.

The Board may charge fees for the services it provides and it may make investments, incur debts, and establish reserve funds in the same way as can a municipality. ASBs may also levy property taxes to fund service delivery under one of two taxation models. Under the first taxation model, the Board’s costs are apportioned among municipalities and the unorganized territory. The Board

²² As an example, regulations prescribe that the District of Sault Ste. Marie Social Services Administration Board shall consist of nine members as follows: Area 1 (the jurisdiction of the City of Sault Ste. Marie) shall have six members appointed by its municipal council to represent Area 1; Area 2 (the jurisdiction of Prince Township) shall have one member appointed by its municipal council to represent Area 2; and Area 3 (territory without municipal organization) shall have two members selected by the residents of that area to represent Area 3.

requisitions the required amounts from the municipalities and the Province. Under the second taxation model, the Board has new taxation powers. Rather than requisitioning funds from the municipalities and the Province, it taxes property directly. The same ASB tax rate applies to the same property class in each municipality and in the unorganized territory. The municipality acts as the tax collector and remits the amounts required to the Board. In the unorganized territory, however, the Board levies and collects the tax. The PLT would no longer apply to the Board area.

There are currently no ASBs in Ontario because their creation is dependent on the reform of the PLT. For the equitable sharing of costs among communities, it is essential that the same tax base be used for taxation purposes. As noted earlier, the PLT tax base is out of date and not at all comparable to the municipal property tax base. The reform of the PLT has not yet been implemented.

Local Services Boards

Any territory without municipal organization may establish a Local Services Board (LSB). Any ten property owners (18 years of age or older) that are Canadian citizens may establish an LSB by calling a meeting and giving proper notice of the meeting. The LSB includes a Chair and a Secretary and recommendations are conducted by a majority vote. The powers to provide, maintain, and improve services in the Board area by the LSB are designated by the Minister of Northern Development and Mines. Each year the Minister of Finance sends the Provincial Land Tax assessment to the Board. The LSB is required to prepare an annual budget and send it to the Minister. The budget includes capital and operating expenditures, revenues, the means of generating revenues, and any proposed rates to be added to the PLT. The Province levies the rates (which have to be approved by a majority vote of the inhabitants present and voting at a meeting called for that purpose) as part of the PLT. The Province provides funds to the Board, based on the Board's budget. Other revenue sources include fees for the provision of services and other amounts raised or granted to the Board. The Board can dissolve itself (with the approval of the Minister) or the Minister can dissolve it.

There are currently 45 LSBs in unincorporated areas in Northern Ontario (Ontario Ministry of Northern Development and Mines, 2003). The Northern Services Boards Act (NSBA) has increased the powers of LSBs to include local roads and public library service. This change is expected to reduce the number of single-purpose bodies in some of the unincorporated areas.

Local Roads Boards

Territories without municipal organization can also establish Local Roads Boards (LRBs). Ten or more landowners that wish to establish an LRB must write a proposal outlining the local roads area and give proper notice of the first meeting. A majority vote of landowners who attend the first meeting determines the area to submit a petition to the Minister of Transportation requesting approval of the area. The Minister ultimately determines the area.

The duties of the Board include road inspections and, within the limits of funding and Ministerial approval, determining the necessary work to be performed on the roads and entering into contracts for the performance of the work. As with LSBs, board elections are held once a year, the LRB may be dissolved by majority vote or by the Minister. The LRB levies property taxes to pay for running the operation of the Board. The Province provides additional funds. The Board must submit proposals to the Minister to access the funds for road work.

The advantage of special purpose boards, such as those described above, is that the cost of services is shared among the communities. In the case of DSSABs and ASBs, the costs are shared among municipalities and unincorporated communities in the board's geographic area. In the case of LSBs and LRBs, the costs are shared among residents in the unincorporated areas. LSBs and LRBs also ensure that the specified services are provided in these communities. Where costs are shared among municipalities and/or unincorporated communities, it is less clear if economies of scale are achieved or whether there are any spillovers being internalized. Moreover, given the out-of-date tax base in unincorporated communities, the fairness of the cost sharing method is also questionable.

5 CONCLUSIONS: IMPROVING THE ABILITY OF COMMUNITIES AT RISK TO MEET COMING CHALLENGES

5.1 Summary of Recent Trends

This section summarizes the general findings of this paper:

1. The principal dimension of recent population and social change in the province is the *geographical unevenness of that change*. As the rate of provincial population growth slows, only a few areas of the province can be expected to grow in the future. Most of the province outside of the major metropolitan regions, and their adjacent hinterlands, is declining. The sharpest contrast is between communities in the north and south of the province; and this *north-south divide* is growing. But, there are many parts of the south of the province, notably in eastern and western Ontario, that are also declining.
2. The demographic structure of the province ensures *a rapidly aging population* in future decades, and the population will age most rapidly in rural areas and in small and declining communities on the periphery. These communities, on average, already have an older population and most exhibit high out-migration rates, especially among the young, and low in-migration rates.
3. The key component to future urban and regional population growth in Ontario is *the level of immigration*; those areas receiving few immigrants, except for First Nation communities (where the rate of natural increase remains high), will decline in population.

4. There is *no single generic model* of “communities at risk.” Nevertheless, most rural areas, small towns, and isolated communities outside of the zone of metropolitan influence share similar attributes. Because of their small size and limited economic base, for example, these communities tend to be *the most vulnerable* to external economic and social change, and to have the least social and economic *capacity* and fewest fiscal resources to respond to those changes.
5. Among the dominant characteristics of communities at risk are *the lack of economic diversity and opportunity*, combined with high levels of *social dependency*, and a *weak tax base*. These attributes become far more serious challenges if the community is also geographically remote. *Remoteness* is generally defined as distance from – and thus limited accessibility to – large cities and metropolitan areas and the wide range of facilities, services and jobs that they offer.
6. Small, remote communities face several specific *economic challenges*, including over-dependence on a small number of sectors and employers, thin local labour markets, difficulty in attracting and retaining highly educated workers, limited sources of investment capital to support local entrepreneurial activity, a relatively underdeveloped local supply base of specialized goods, services and infrastructure, and a limited ability to engage in the direct, face-to-face exchange of knowledge with customers and suppliers.
7. Most communities in the periphery *cannot be self-sustaining*, economically, socially or fiscally. The smallest and most remote communities tend to be characterized by increasingly polarized income distributions, dual labour markets, and high levels of social dependency. The combined result is that *the demand for social services* will be greatest in those parts of the province defined here as extremely remote. These communities have the least capacity and fewest resources to meet these increased demands. This is especially true in the fields of health care, education, and social welfare.
8. Many small and remote communities have *an inadequate local tax base* to be fiscally viable. Without a larger assessment base, these municipalities cannot finance major capital expenditures such as road construction and fire equipment. Small municipalities also have limited borrowing capacity that further restricts their ability to undertake major capital expenditures.
9. At the same time, the *cost of services* is higher because these communities are unable to take advantage of economies of scale due to their size, and because transportation and living costs are often high. The result is that services are often inadequate (e.g. fire services, water and sewers, and health), and/or standards of repair and maintenance are lower.
10. Small, remote municipal governments also have difficulty finding and retaining suitably *qualified personnel*, especially at the salaries they can afford to pay. Many

small municipalities operate with part-time staff. When the numbers of staff available are limited, each staff member is required to take on several different functions for which they may not have appropriate training. There is also little or no opportunity for specialization.

11. Our three principal areas of enquiry – the economic, social, and fiscal challenges facing small, rural and remote communities – have *different spatial dimensions*. Fiscal issues are unambiguously tied to municipal jurisdictions and political boundaries, the other two are often not limited by such boundaries. This means that public policies in these fields have to operate at different scales, which are frequently larger than existing municipalities. This, in turn, supports the argument for regional governments.
12. In developing *new settlement strategies* for non-metropolitan areas of the province, and in defining any new intergovernmental relationships that would support such a system, equal weight must be given to both efficiency and accountability arguments and to arguments based on equity, social justice and the concept of *place-based rights*, as defined above. The former arguments, on balance, would support the existence of small local governments and lower levels of direct involvement and subsidies by the provincial government; the latter would support larger municipalities and a more aggressive role for the Province.
13. For communities at risk *a special approach* is needed, especially for isolated communities in northern Ontario. At the very least communities at risk have to be viewed in the larger regional context of which they are a part. And, as for all peripheries, senior levels of government must assume different, and likely greater responsibilities than in non-peripheral areas.
14. The information and telecommunications revolution, rather than dispersing growth and prosperity more widely, has actually had the reverse effect of concentrating development, as our paper on vibrant cities demonstrates. Nevertheless, as Polèse and Shearmur (2002) argue, based on a study of Quebec and the Atlantic provinces, the growth of the information society does offer some potential for improving access to information and services in remote communities. This, in turn, may enhance both *production and consumption opportunities* for such communities. However, as our analysis suggests, the greatest potential opportunities are likely to be concentrated in the larger centres and in those small communities that have higher levels of accessibility (i.e. lower levels of remoteness).

5.2 Recommendations

The following recommendations are intended to serve as suggestions for discussion and debate regarding potential policy changes and other initiatives that could improve the ability of communities at risk to meet their future challenges:

5.2.1 Settlement Strategies

1. The Province needs to develop *a distinct and comprehensive strategy* for small, rural and particularly remote communities, a strategy that recognizes both the trends outlined above and the equally distinctive characteristics and needs of these communities. Given the demographic realities documented above, and the likelihood of continued economic contraction in these areas, such a strategy must inevitably involve the development of policies that both anticipate and accommodate *widespread population decline*. As noted earlier, decline is not necessarily a problem if it is not too rapid, if its effects on the quality of life are not too severe, and if it is properly managed. If it is not properly managed, its costs and social consequences can be both substantial and inequitable.
2. At the same time, however, planning for decline is obviously a politically charged issue, and likely to become more so in the future. Unfortunately, similar questions are typically avoided. The recent report of the Smart Growth Panel for Northeastern Ontario, for example, does not raise the issue of planning for decline.
3. At the very least, the provincial government will have to work together through a series of *partnerships* with local governments and regional authorities to develop strategies that recognize the inevitability of decline of many such communities and then build on the specific advantages and attractions that do exist in such locations.
4. There are currently many government programs, both provincial and federal, that are directed to northern communities in this province, many of which have been described in this paper. There is, however, a clear need for much *better coordination* of these government programs and policy initiatives. This may require the creation of an *inter-departmental committee of Cabinet*, specifically for small, rural and remote communities that brings together representatives from a range of relevant provincial departments and agencies – e.g. in agriculture, northern development, tourism, municipal affairs and housing, and transportation.
5. At the same time, hard choices have to be made. The provincial government cannot provide subsidies to everyone everywhere in the province. Nor can all small communities survive, and provide a reasonable minimum level of services and jobs, within a climate of population and economic decline. The continuing experience of Newfoundland's outports, in which numerous small and isolated communities have been shut down and their residents relocated, is a case in point.
6. The province should also consider *restricting further settlement expansion* in the north by drawing firm lines indicating where it would and would not guarantee access to public services.

7. One part of this settlement strategy will have to be devising innovative methods of “planning for downsizing” or, as defined above, *planning for decline* among existing communities, but done on a thoughtful and humane basis. This will initially require convincing communities that their future is smaller, and then working with those communities to achieve that shrinkage while maintaining a viable and vibrant quality of life. It is possible to enhance the “quality of place” in such communities even with a significant decline in total population. This will also require, in some extreme instances, the introduction of *provincial relocation grants* to enable firms and individuals to move to more viable settlement locations. Ideally those locations would be regional growth centres in the same general region. Those grants, in the long run, will almost certainly be less expensive than the public costs involved in maintaining everyone in high cost and isolated locations.
8. To achieve economies of scale in service provision it will be *necessary to concentrate growth and resources* - not only private development but public investment in specialized (i.e. high-order) services – in designated urban growth centres. This will require a region-wide approach, involving local, regional, and provincial agencies and considerable inter-governmental cooperation. Deciding on where to concentrate such services also requires a settlement strategy that incorporates both the designation of growth centres and community downsizing. The Nordic countries (especially Sweden, Finland, Norway) have been able to build and maintain viable cities in remote regions by concentrating public resources, including government and public sector employment, while also relocating populations from less viable regions. In most instances, such policy initiatives have incorporated relocation grants to assist in the cost of moving and in securing housing and jobs in the new locations.

5.2.2 Economic Development

1. Economic development strategies and diversification efforts should be designed to promote growth in those communities that have the greatest potential to support it – that is, in those places that have (or can reasonably achieve) the critical mass to support a high quality of place. These strategies could include investing in physical infrastructure such as roads, water, and sewers as well as in knowledge infrastructure. While it is recognized that an appealing natural environment offering opportunities for recreational activity can be a major asset contributing to local quality of life, this alone is insufficient in the absence of more urban-focused quality of place attributes. In those communities without sufficient potential, the goal of provincial policy should be to facilitate downsizing in an orderly and systematic way.
2. While it is fashionable to pursue economic development strategies for smaller and remote communities that promote diversification, it should be acknowledged that regionally appropriate activities must form the basis for a sound economic development effort. For many such communities, these opportunities will continue to be found in the resource development sector or in tourism. Efforts to increase the

knowledge-intensity of such activities can improve their long-term competitiveness and job-generating capacity, but such efforts can realistically bear fruit only when they are concentrated in those urban communities that are large enough to sustain the all-important qualities of place that have been identified in this report as crucial factors in the attraction and retention of talented labour.

3. Government services – especially education and healthcare – should be enhanced and strengthened in larger, better connected communities with the greatest potential to achieve critical mass, in order to attain the quality and range necessary to attract and retain mobile people and capital.
4. The location of public sector employment has always been a major component of economic development strategies, although often indirectly. Small and declining communities typically have significantly higher proportions of their labour force employed in the public sector. This is a reflection of both the decline in private sector employment and the higher levels of need in such communities for health and social services. Decisions on the location of employment in the provincial government and its agencies should become part of any strategy to maintain and enhance local economies in peripheral regions.
5. Is there an argument for providing subsidies to new immigrants to encourage them to settle in small and remote communities, especially in the north? The answer is that it depends on other initiatives. It is possible to increase the flow of new immigrants to these communities but the potential scale of the flow is limited by practical factors. Also, such a policy should not be introduced without a substantial increase in the level of support from the federal government for settlement services for new immigrants. Nor should immigrants be encouraged to move to these communities unless the destinations are deemed to be permanent settlements, and they are supported by investment in infrastructure and service provision as part of an overall province-wide strategy.

5.2.3 Opportunities and New Information Technologies

1. Wider and better use could be made of *modern communication technologies*, notably those described as e-democracy, e-government, e-business and e-services. Their purpose is to enhance economic activity, to improve the democratic process and encourage civic participation in isolated and peripheral regions, as well as to strengthen the availability of and level of accessibility to both public information and services. These technologies offer the only feasible solution to the problems of communication and service delivery posed by very low population densities, vast distances and extreme remoteness.
2. Excellent examples of the *applications of such technologies* are already available in Canada and in a number of other countries, in terms of:

- € the provision of distance education
- € municipal web-based information sites
- € electronic voting
- € allowing consultations with politicians and public officials
- € skills training and job search
- € marketing and innovation in business
- € the monitoring and evaluation of health and well-being.

All of these applications of new technologies are worthy of further consideration in Ontario. Some, notably distance education and job search, have been widely applied, while others are clearly more experimental. To evaluate the scale, cost and effectiveness of these e-based technologies, the provincial government should undertake a *series of experiments* involving several communities at risk in different settings.

5.2.4 Finance

1. If small and remote communities are to be maintained as *viable places to live and work*, they should be *as financially self-sufficient as is possible*. This means that, to the extent that it is possible, users should pay the full costs of local services and property taxes should be more closely related to the actual benefits received from those services. In this regard, the PLT in unorganised communities needs to be updated so that this tax more closely reflects the benefits received from local services.
2. Small and remote communities are more likely to be financially viable if their expenditure responsibilities more closely match their revenues. The need to *revisit the allocation of expenditure responsibilities and revenues* between the provincial government and its cities, as recommended in our Vibrant Cities paper, also applies in small, rural, and remote communities. In particular, the uploading of social services and social housing to the provincial government would also reduce the financial pressures on these communities.
3. Given the limited size of the property tax base and the high cost of services, however, property taxes and user fees will not bring in sufficient revenues for these communities to fund their expenditures. It is clear that, in most instances, *some level of subsidy* will be required for these communities to be able to provide basic local services. The actual level of subsidy required will depend on local conditions.
4. To the extent that maintaining most (but not necessarily all) of these communities is *in the provincial and national interest*, the provincial and federal governments should provide a substantial proportion of those subsidies. An example of the provincial interest would be to maintain a network of regional service centres to support economic development initiatives and to facilitate service delivery. This means grants

from the federal and provincial governments to municipalities to cover some of the costs of providing local services will be necessary. To the extent that the continued existence of these communities is in the interest of the larger regions in which they are located, taxpayers in those regions should also contribute to subsidizing these communities (as they do at present for some services through, for example, DSSABs).

5. There is, however, *no feasible substitute for direct provincial involvement* in the planning and financing of such communities and in the provision of services to their residents. At the same time, we recognize that there will be difficult trade-offs between the desire for local *control and autonomy* in small communities on the one hand, and the need for provincial resources and direct political and financial *accountability* on the other.
6. There is also a need to maintain and enhance *the level of social capital* in designated small and remote communities, including support grants for local civic organizations, labour force training, business innovation, and the retention of public sector expertise.
7. In terms of other tax revenues, *local income taxes are not recommended* for small, remote communities. Although local income taxes may have some advantages in large metropolitan areas (as noted in our paper on Vibrant Cities), some of these advantages disappear in remote communities where there are problems around the prevalence of a dual economy and frequent worker mobility. The imposition of an income tax by a remote municipality is a problem because the tax is based on place of permanent residency. This means that the municipality where the worker earned his/her income and benefited from municipally-provided services for part of the year would not receive any tax revenue from this individual.
8. The rationale for a municipal sales tax in remote areas may be stronger than for a municipal income tax mainly because the *sales tax base is less mobile*. Consumers in one municipality are unlikely to shop elsewhere to avoid the tax or tax differential because of distance and travel costs. Furthermore, the tax is levied on permanent residents and visitors. As noted in our paper on Vibrant Cities, however, local sales taxes have been rejected on the grounds that the current retail sales tax in Ontario taxes inputs heavily and is detrimental to economic growth. Although a value added tax may get around some of these problems, it is unlikely to bring in much revenue in these communities.
9. Hotel and motel occupancy taxes were recommended for large cities and city-regions but are unlikely to result in sufficient revenues in small, remote communities to make them worthwhile.
10. A *fuel tax may show some promise* in small, remote communities. Since the vast majority of roads in remote communities do not extend beyond the boundaries of the

community, a tax on fuel could be viewed as a tax on residents and businesses who benefit from the local road system.

11. Tax incentives, such as the recently proposed tax incentive zone for northern Ontario, generally lead to a *deterioration of the tax base* and are often accompanied by low levels of public services. Not only do tax incentives distort business location decisions, lower taxes for specific firms mean higher taxes for all other taxpayers.. Other options to attract firms such as investing in infrastructure are more promising, if that is an appropriate objective (see earlier discussion on settlement strategies). For example, the provision of services that, at the same time, provide direct benefits to existing residents and firms is preferable to tax incentives. In particular, the provision of new roads or a new school, for example, would influence firms' location decisions but it would also provide a tangible resource to the community.

5.2.5 Governance

1. The most appropriate models of local and regional government, and their relationships with the provincial government, will have to be different in rural and remote regions, especially in the north, from those that are suitable and feasible in the large urban regions.
2. In the north, the argument supporting regional levels of governance is even stronger than that in the southern parts of the province, but for different reasons. As noted above, the economic and social challenges facing these communities transcend municipal boundaries and thus necessitate policies on a region-wide basis. The strength of the argument is recognized in the proliferation of regional service boards and agencies in the north.
3. *A modified form of two-tier system* seems most suitable and practical given vast distances, low population densities, limited municipal fiscal resources, and current expenditure responsibilities at the local level (if social services and social housing were uploaded to the provincial level as recommended above, the need for a two-tier system in the north might be less obvious, however). In a two-tier system, the upper tier in some instances would be directly elected bodies; in other instances where densities are very low, the province or a designated authority might serve as the upper tier. A two-tier structure would allow for some sharing of costs over a wider geographic area and a degree of local participation in decision-making.

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