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Financial and Strategic Planning in Ontario Municipalities: Examining the Theoretical Framework and Linkages Between Municipal Financial and Strategic Planning in Ontario

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Financial and Strategic Planning in Ontario Municipalities:

Examining the Theoretical Framework and Linkages
Between Municipal Financial and Strategic Planning in Ontario.

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MPA Research Report

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Brian Geerts
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Abstract

Municipal councils in Ontario are charged with the administration and control of organizations through the Municipal Act, 2001. Councils are responsible for the financial and service performance of a wide variety of activities. Should the activities and finances be poorly linked, this could lead to an accountability disconnect. This research explores how well municipalities in Ontario link strategic planning to financial planning, and how they communicate this to the public. Nine municipalities were randomly selected representing small, medium, and large municipalities in the south, central, and northern regions of the province. Municipalities primarily rely on their corporate strategic plans and asset management plans to manage their initiatives and assets; these publicly available documents were used to evaluate connections between financial planning, strategic planning, and public communication. Results indicate some level of maturation with strategic planning and financial planning, and clear public communication. Only 56% of municipalities connected their budget to a strategic plan. Loss aversion information was more frequently published (89%), explaining the individual financial impacts to stakeholders. Regarding loss aversion, municipalities rarely published individualized gains to contextualize individualized losses or costs (33%). In regards to this framing, a municipality's ability to influence public opinion by publishing its performance is largely in its own hands. Pressure to satisfy the public may incentivize politicians to highlight 'easy wins' to sway overall public opinion. Effective strategic planning linked to financial planning undermines these incentives by contextualizing strategic priorities using published goals and measuring progress.

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Research Ethics Statement

The ethics and processes for this research project conform to the standards of Western University; only publicly available information was used. The researcher had no conflict of interest in the outcomes of the research. This research involved minimal risk to participants and does not involve vulnerable participants.

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Introduction

Municipal councils in Ontario are charged with the administration and control of municipal organizations through the Municipal Act, 2001 (Ontario Municipal Act, 2001). Management and control of organizations is about “steering organizations through the environments through which they operate, to achieve both short-term and longer-term goals” (Otley et al., 2014).

Municipalities are created as “creatures of the province” to administer government services at a local level (Magnusson, 2005). Across government and the private sector, financial performance of corporations is a common indicator of results (Stout, 2012). If financial performance is not clearly linked to service delivery, how does that affect political and organizational effectiveness? As per the Municipal Act (2001), the primary financial planning tool for local government is the budget, however many other acts have their own performance and reporting requirements. This requires municipalities to submit over 225 separate reports annually to the province and regulatory bodies (AMCTO, 2017).

As to municipal strategic planning, official plans are required to be maintained by every municipality to govern planning and development. In comparison, budgets were designed for the management of public services, although influence from private business is common through the historical record (Rubin, 1993). Budgets form the basis for allocating resources to deliver public services. Therefore, through that allocation, budgets determine strategic decisions, but do they supply enough information that can be used to hold leaders accountable for public services as well as public spending? Since municipal councils’ responsibility is for service delivery while using finance as a tool to meet service delivery ends, financial resource

allocation decisions by municipal councils should be dependent on clear contextual information supplied alongside financial information. This information is not required or is not required to be presented alongside budgetary information (Ontario Municipal Act, 2001). While some basic contextual information is required after-the-fact through Financial Information Returns (FIR), the systematic disconnect between the plan (budget) and the actuals (FIR) lead to an accountability disconnect. Without clear connections between strategic planning and financial allocations, budgets may act as a substitute for strategic planning with insufficient public transparency. When financial information alone is provided with little context during public debates or discussion, municipal councils' performance management of their organization via the budget process may have unintended consequences. Gabris (1992) posited that "rationalistic" strategic plans don't necessarily mesh with "incremental" characteristics of municipal budget systems, but the reality may not be that black and white. Effective strategic planning should link plans to resources. This research will explore the following research question:

How well do municipalities in Ontario link strategic planning to financial planning, and how do they communicate this to the public?

This question has great significance to the over-all intention of budget as a performance management tool for Ontario municipalities. While municipalities may have performance measurement and management systems for few or many of their public programs, if they are not closely tied to performance indicators in the budget process, councils will not have the

appropriate frame of reference to allocate resources and manage outputs or outcomes of public programs. If there are complaints that the municipality is not meeting the goals of its strategic plan, does that mean that the budget is not being spent? If this strategic and financial information is presented to council but is not laid out clearly for the public, then the public will be unable to ascertain if the financial allocations meet their needs and desires. This potential disconnect between financial and service performance also clouds political accountabilities as the connection between financial performance, service performance, and political will or vision is weak. In the broader business sense, this disconnect has been identified repeatedly by others (Drucker, 1954; Ghalayini and Noble, 1996; Goold and Quinn, 1990; Fitzgerald, 1988; Johnson and Kaplan, 1987), and would provide greater accountability when applied to municipal politics.

As we explore the topic further, it is important to have a common understanding of terms. Performance Measurement Systems (PMeS) and Performance Management systems (PMaS) will be frequently referenced in this research, and can have significant differences in meaning. Performance Measurement Systems are typically used to develop comparability within and between businesses and time periods. The term can be quite broadly applied, leading to uncertainty of the meaning in each specific context (Franco-Santos et al, 2007). Based on Franco-Santos et al.'s systematic literature review in 2007, they developed a set of key categories to define performance measurement systems' role, including specific conditions within which they operate:

- (1) “measure performance” - This category encompasses the role of monitoring progress and measuring/evaluating performance;
- (2) “strategy management” - This category comprises the roles of planning, strategy formulation, implementation/execution, and organizational alignment;
- (3) “communication” - This comprises the roles of internal and external communication, benchmarking and compliance with regulations;
- (4) “influence behaviour” - This category encompasses the roles of rewarding or compensating behaviour, managing relationships, and control; and
- (5) “learning and improvement” - This comprises the roles of feedback, double-loop learning, and performance improvement.

Broadbent and Laughlin (2009), as well as others (Ferreira and Otley, 2009; Malmi and Brown, 2008), define performance management systems as a broad set of management control mechanisms used by leaders and employees with the overall purpose of facilitating the delivery of organizational goals by influencing people’s behaviour and performance. For the purpose of this study, any reference to Continuous Improvement and Continuous Quality Improvement Programs are contained within the definition of PMaS. PMaS were previously known as management control systems, which focused mostly on financial and budgetary controls (Ferreira and Otley, 2009; Otley, 1999). Examples of a PMaS would include a work measurement system, work priority management system, or worker reward system.

In the municipal democratic context, the 5 key categories of “measure performance, strategy management, communication, influence behaviour, and learning and improvement” all closely relate to public perception of what a city delivers to its citizens. This brings us to the idea of public value. Public value describes the value that an organization contributes to society, in a broader sense than shareholder value alone which primarily focuses on financial returns (Friedrich & Eerma, 2018; Moore, 1995). To contextualize the cost-benefit of taxation and fees against municipal services, it is in a municipality’s best interest to demonstrate the value that citizens and others receive in exchange for their financial contributions. While it is simple to compare tax burdens, fee structures, and other financial tools over time and across jurisdictions, public value lies in the eyes and mind of the citizen. Values are highly variable between individuals, cultures, and communities, demonstrating the need to develop a public value proposition with broad public appeal and common understanding.

When considering municipal resource allocation and the determination of public value, there may be side effects or unintended consequences of any particular set of decisions or actions. Baert (1991, p.201) defines unintended consequences as “a particular effect of purposive action which is different from what was wanted the moment of carrying out the act, and the want of which was a reason for carrying it out.” It is not clear in the original definition that a purposive action may have more than one effect, but it is assumed for the purpose of this research that an action may produce more than one effect. For example, a particular action measured and managed in a PMaS may produce the intended outcome as well as an unintended outcome. Baert (1991) explains that most research equates unintended consequences with

unanticipated, unforeseen, or unexpected effects. It is important to note that unintended consequences can be positive, negative, or neutral in comparison to the intended consequences.

Municipal Performance Management: Contextual Analysis

Municipalities in Ontario are legally created by the province and enabled through the Municipal Act, 2001. As 'creatures of the province' (Magnusson, 2005), these municipal corporations are accountable to the province for their performance in a hierarchical sense. However, since municipalities have their own elected officials and their own legal identity as a corporation, that accountability link is primarily at the local level. The Municipal Act (2001) is designed as enabling legislation, empowering municipalities to the activities as outlined in the act. In section 23.3, the act outlines powers that cannot be delegated, which includes the power to adopt and amend the budget of the municipality, while subsection 2 clarifies that nothing in 23.3(1) prevents a municipality from delegating its administrative powers. This fundamentally separates a municipal council's financial accountability from service delivery. As an example of provincial oversight, the province of Ontario operated the Municipal Performance Measurement Program, starting in the early 2000s and ending in 2014, during a time where performance management in municipalities was growing (Melkers & Willoughby, 2005). This mandatory program provided base level data for the public and the province to compare costs for service. Even with this pan-municipal performance measurement system, the measurements were heavily weighted in financial terms:

Table 1: Relative Types of Ontario MPMP Indicators

	Count of Standard Indicators	% of total
MPMP Numerical or unit Measures	57	37.5
MPMP Financial Measures	83	54.6
MPMP Relative (%) Measures	12	8

In the international context, a growing number of cities are subscribing to the ISO 37120: 2018 - Sustainable Cities and Community standard. This international standard allows the systematic comparison of performance metrics for municipalities and communities world-wide, with the majority of indicators being non-financial, focusing instead on service delivery and quality of life (ISO, 2020).

Considering the shift to a broader scheme of performance standardization introduced by the ISO 37120 standard and the individual's right to choose their leadership as espoused through the Charter of Rights & Freedoms, let us discuss the forces at work in personal choice and behavioural economics.

Behavioural Economics

Beyond systemic variances innate to PMA's theoretical foundations, municipal decisions made by council are subject to the individual human strengths and frailties of each individual municipal councillor and administrator. Aside from political pressures that may compete with

rational decision making, decisions are also subject to human biases that decision makers may or may not be aware of as an individual or group. Consideration must be given to behavioural economics in the municipal context.

In any institution, behavioural economics will be influenced by habits, routines, and customs of actors, with their decisions being framed within their abilities and environment (Kahneman & Tversky, 1996). Social rewards for following institutional patterns of decision making may beget similar decisions as those made in the past. In contrast to the simplicity and scientific rigour of managing through detailed performance metrics, decision makers in municipalities may benefit from being aware of the work of Daniel Kahneman and Amos Tversky. According to their work, actors may not behave as neoclassical economists may predict; individuals are not necessarily rational and self-interested. Assumptions made about the rationality of actors framed by utility theory does not fit well for all decision-making processes. There are additional factors to consider other than maximization of utility, such as benefits gained through cooperation – a critical consideration in the democratic context. In addition, errors in perception or recollection of events may induce errors in decision making (Kahneman & Tversky, 1996). As municipal politicians consider a multitude of factors during budget deliberations and/or strategic planning, these effects, social rewards, and errors may influence choices or allocations.

For example, Rick (2011) explores the phenomena of loss aversion. Humans commonly evaluate losses and gains asymmetrically, leading to reduced rationality when decision making. The gain or loss scenario, the order in which the pros and cons are considered, and the feeling

that losses are felt more than comparable gains, all factor in when an individual is considering gaining or losing an item or service. He observes that ownership itself has inducement towards liking, and losses may be experienced more acutely than gains (Rick, 2011).

These irrational behaviours were further explored by Kahneman & Tversky (1996) considering actors' heuristics and biases. The heuristics and biases approach they developed suggests that human judgements are often affected by 'judgemental heuristics' such as the availability heuristic (how easily an event comes to mind represents the frequency that this event happens), the representativeness heuristic ("the degree to which [an event] 1- is similar in essential characteristics to its parent population, and 2- reflects the salient features of the process by which it is generated" (Kahneman & Tversky, 1972)). Beyond individual heuristics, societal norms also provide a framing and relatively common set of values or judgements affecting gains and losses or other norms. These norms affect naturally intuitive predictions of event probability, leading to significantly under-rated or neglected risks by actors and decision makers, whether they are leaders or voters.

When we consider these mental short-cuts combined with the relatively short event horizon that the fixed 4-year election cycle creates, how do municipalities assess their environment and take calculated risks of benefit to the community? Thaler et al. (1997) explored "myopic loss aversion," that is an observed tendency for actors to be more sensitive to losses than to gains, as well as a tendency to evaluate outcomes frequently using mental accounting. Mental accounting is a cognitive activity that people use to aggregate how transactions are grouped

temporarily and cross-sectionally; this mental accounting frames decision making. Loss aversion explains the phenomena that people tend to be more sensitive to decreases in their wealth than to increases, with losses weighted about twice as strongly as gains. In order to offset these perceived losses to tax payers, must municipalities be able to demonstrate their services are twice as valuable as the tax dollars paid?

Exploring this temporal risk aversion heuristic further, Tversky & Kahneman (1991) identify that choice depends on a status quo or reference level of actors. In scenarios where the reference point is changed, preference order may be reversed. A central assumption of this theory is that losses or disadvantages will have a greater influence than gains or advantages will. This “reference dependence” means gains or losses are only calculated to a relative reference point. “Loss aversion” was previously referenced, and “diminishing sensitivity” means that the value of gains or losses decreases with size or impact. Note this has an asymmetric value/gain curve; this observation begs the question: is loss aversion irrational? The value function of the asymmetry between gains and losses points to three observations:

- 1) “organisms habituate to steady states”
- 2) “marginal response to change diminishes”
- 3) “pain is more urgent than pleasure” (Tversky & Kahneman, 1991).

Knowing these evaluations of gains and losses are frequent during resource allocation (budgeting) processes, how do decision makers maximize their decision outputs to generate public value? Khalil (2013) reviews two types of maximization based on an individual’s beliefs.

If the objective or intent is wellbeing, then beliefs are practical; if the objective is truth, then beliefs are scientific. Khalil observes that rational choice theory has not addressed these differing belief frameworks. If an agent makes an 'error' in a scientific belief framework, their decision should not be considered irrational, as they are making a rational decision and maximizing their practical wellbeing and not truth. Actors do not necessarily work only within one framework; utility may not be the ultimate or only guiding influence. For example, would the quest for truth be substituted for safety if the relative costs change? How do agents deal with the relative cost of competing choices as they form their belief? Khalil (2013) reviews three choices that actors must face:

1. Rational choice
2. Heuristics, and
3. Biases.

Considering Khalil's analysis (2013), we must acknowledge that municipal decision makers have limits to their rationality and computational power, leaving us with Herbert Simon's notion of 'bounded rationality' (Simon, 1957; Heukelom, 2009). We can expect municipal decision makers to behave in a rational manner within their specific context and within their abilities. Some of the previous transactional examples on loss aversion may not translate well to non-purchase type decisions; this is where Kahneman, Tversky, and Thaler's further work on the "endowment effect" fits well. In the context of the endowment effect, the carriers of utility (municipal service delivery) are not 'owning' or 'not owning', but rather they monitor or manage a change in state – interpreted as a loss or gain. As losses are typically weighted heavier than gains, this therefore has an influence on 'mental accounting' balance. Errors or

'illogics' also creep into decision making when actors neglect to treat money as fungible (Kahneman et al, 2004). Complicating things further, observers may use a different framework of analysis from decision makers regarding objectives of truth and wellbeing.

Tversky and Kahneman (1992) highlight the challenges in evaluating decision alternatives in uncertain environments in their development of prospect theory. They observe five phenomena of choice that violate the traditional view of expected utility theory:

1. Framing effects: variations in framing affect preferences.
2. Non-linear preferences: utility of risky prospects is non-linear; perception of probability affects observed preferences.
3. Source dependence: willingness to bet on uncertain events depends not only on degree of uncertainty but on source.
4. Risk seeking: risk aversion is generally assumed except in the following observed examples such as actors may prefer a small probability of winning a large prize over the expected value of that prospect. Also, risk seeking is common when actors must choose between a sure loss and a probability of a larger loss.
5. Loss aversion: losses loom larger than gains. Asymmetry between gains and losses is too extreme to be explained by income effects or decreasing risk aversion.

Classical utility theory would posit that the utility of an uncertain prospect would be the sum of the utility's outcomes, weighted by each probability (Tversky & Kahneman, 1992). However, utility theory does not consider fully the environment within which the actor makes their

decision. Tversky & Kahneman (1992) develop prospect theory to address this issue with two phases:

1. Framing: the decision maker constructs a representation of the acts, outcomes, etc.
2. Valuation: the decision maker assigns value to each prospect and chooses accordingly.

They expand our understanding of value by using prospect theory to identify the following characteristics of value:

1. Value is carried by gains and losses, not final assets.
2. Value of each outcome is modified by a weight, not an additive probability.

According to the second characteristic above, actors have a mental weighting applied to their value of each potential outcome; Tversky & Kahneman observe that the principle of diminishing sensitivity applies to weighting of outcomes – the key reference point is the boundary determining gains from losses. “Evidence indicates that human choices are orderly, although not always rational in the traditional sense of the word” (Tversky & Kahneman, 1992, p. 317). So how does this understanding of prospect theory affect municipal resource allocation? First, let us examine other potentially unintended consequences.

Unintended Consequences

While specific study of unintended consequences in performance management is limited, there is a growing body of research on behavioural economics which sheds light on “goal-oriented action” and “the science of the unexpected.” Consider the ratchet effects of performance restriction as described by Charness et al. in 2011. In general, service providers may restrict outputs if increased outputs will increase future output expectations. While municipalities may

have internal performance systems to manage inputs, outputs, and outcomes, if there is public transparency to the process, administrators may restrict outputs to manage future expectations (Arce et al., 2017; Cardella & Depew, 2018). While there is evidence that the management skills of top management teams have a strong influence on the performance of municipal organizations (Carmeli, 2006), public transparency levels will influence performance ratchet effects.

The positive impacts of performance measurement have been studied with a focus on strategic alignment, communication, corporate control, or accounting performance. However, far fewer studies have identified common negative impacts (Franco-Santos et al., 2018, p.696). A few studies have identified common negative side effects, including measure fixation, myopia, gaming, or manipulation of data (Bevan and Hood, 2006; Smith, 1995a). Should the unintended negative consequences not be considered, systematic disadvantages may outweigh the advantages or may introduce other undesirable outcomes. Let us consider theory developed by Monica Franco-Santos and David Otley (2018) and others, and test these assumptions against the realities of the Ontario municipal context. Based on the literature and theoretical development performed by Franco-Santos et al (2018, p. 697), undesirable unintended consequences are more likely to happen when systems are designed using false assumptions about behaviour and the likelihood of uncertainties. Assumptions are not necessarily conscious decisions, but may be due to ignorance, errors, self-fulfilling forecasts, immediate short-term concerns, or variances in ideology. These assumptions become part of the performance measurement and management tool and may change outcomes by altering social relationships or modifying information that is used for decision making. These variations

may cause unintended consequences whose costs are greater than the benefits. Franco-Santos et al. (2018, p. 697) identify three impacts that their theoretical work has on existing research:

1. Provides words of caution regarding uncritical adoption of agency theory assumptions when designing PMSs,
2. Contributes to previous performance management contingency research providing additional evidence regarding the importance of 'fit' between control mechanisms and their environment, and
3. Study enriched understanding of the effectiveness of PMSs by illuminating the reasons why unintended consequences may occur, so they can be minimized, although never eliminated.

Based on the literature review, this study will focus on testing whether budget documents provide contextual performance information so the most common unintended consequences of performance management can be avoided in Ontario municipalities (Franco-Santos et al., 2018).

Performance Management Systems

Common Assumptions

Franco-Santos et al. (2018, p. 700) identify several common assumptions in performance management systems:

- Each control system or subsystem is considered a PMS in its own right (Ferreira and Otley, 2009; Malmi and Brown, 2008; Otley, 1999).
 - Subsystems are often designed by different people and at different points in time.
 - Subsystems often work differently within different organizational functions and at different hierarchical levels.
 - These separate or differing systems are assumed to act in a coordinated way to help the organization attain its goals (although this is rarely achieved in practice according to Otley (2016)).
- Control mechanisms are understood to be connected to each other in different ways.
 - According to Weick (1976), these systems could be considered to be 'tightly' or 'loosely' connected to each other.
 - Some connections could have causal relationships.
- PMSs are constantly evolving, including the evolution of control mechanisms and system elements.
- Control mechanisms for a PMS can be formal or informal.
 - Formal control mechanisms include tangible objects that can be controlled and changed.
 - Informal controls include less tangible social factors that could include peer pressure, social routines, or other phenomena that are more difficult to investigate and change. Franco-Santos (2018, p.700) notes that there is a general understanding in literature that the unintended dysfunctional effects of formal

controls can be mitigated by the use of informal means, despite little explanation of the observation.

- PMSs are built on implicit or explicit mental models that predict likely outcomes (Otley and Berry, 1980).
 - Operational actors or managers may have important distinctions in their mental models, and therefore could use control mechanisms differently.
 - Designers' models are often based on assumptions about people, systems, and environmental conditions, as well as the control mechanisms that best suit the organization's drivers of success.

Franco-Santos et al. (2018, p. 701) identify three theories with a primary influence on PMSs. These three theories provide a foundation for the creation and management of PMSs, and testing the prevalence of these theories will provide a context for analysis. The three foundational theories are as follows:

- Contingency theory of accounting (Shepherd and Suddaby, 2017; Weick, 1989)
 - This theory posits that control mechanisms are most effective when tailored to fit specific circumstances, not universally applied.
- Agency theory (Eisenhard, 1989; Jensen and Meckling, 1976)
 - This theory posits that organizations seek to meet the expectations of their owners, and that employees are self-serving, opportunistic, effort-averse, and risk-averse. To mitigate these self-interests, agency theory applies monitoring systems with explicit goals and performance measures that provide information

used to assess employee behaviour and the results of their actions; incentive systems can be used to leverage self-interest and encourage employees to focus on the organization's goals.

- Stewardship theory (Davis et al., 1997; Hernandez, 2012)
 - This theory is also used to explain the same choice, use, and consequences of control mechanisms but suggests that the assumptions of agency theory are too restrictive and reliance on the restrictive assumptions causes could lead to undesirable consequences. This theory's main assumption is that organizations often have multiple and complex goals, employees can act as stewards, and can have a shared sense of responsibility with multiple stakeholders. This theory relies on the assumption that uncertainty is the natural state, and monitoring or incentive controls may undermine the stewardship of the employees. This theory is viewed as being 'enabling' rather than Agency theory's 'directive' approach (Franco-Santos and Doherty, 2017)

Waddington (2016) identifies research coming from sociology with a focus on 'unrecognized, unintended, and emergent consequences of goal-oriented action' while Portes (2000) reviews the 'science of the unexpected'. Fundamental to this discussion the definition of unintended consequences. Baert (1991, p. 201) defines them as "a particular effect of purposive action which is different from what was wanted the moment of carrying out the act, and the want of which was a reason for carrying it out". The term 'purposive action' was originally used by economists and politicians (Smith, 1759) but was popularized by Merton (1936). It is not clear

in the definition that a purposive action may have more than one effect, but it is assumed for the purpose of this research that an action may produce more than one effect.

Systematic Assumptions

Baert (1991), Mica et al (2011), Merton (1936) and Franco-Santos et al. (2018 p.702) identify the following shared assumptions in research and theorization in regard to unintended consequences:

- There is a 'recognized intention' by the primary actor.
- Any 'purposive social action' will unavoidably have unintended consequences, irrespective of whether they are beneficial or detrimental.
- There is an assumed spectrum from unintended-functional to unintended-dysfunctional for all possible unintended consequences.
- Unintended consequences may be minimized but never completely eliminated.
- Some unintended consequences may be expected by actors, other consequences not.
- Minimization of the undesirable consequences must be theorized and managed to prevent a PMaS backfire.

Merton (1936) identified five factors that could limit the actors' ability to anticipate consequences of their actions:

- Lacking knowledge or ignorance of knowledge they possess,
- Appraising current and future situations incorrectly, and therefore affect action choice,
- Weighting short-term consequences heavily, over long-term consequences,

- Fundamental values may justify necessity of actions, and
- Preconceived ideas concerning possible outcomes affect judgement (or self-fulfilling prophecy).

Elias (1997; 1998) tied these limiting factors together under an umbrella argument, explaining that unintended consequences are the result of existing social relationships. When social relationships are complex, each actor would have a limited understanding of the whole environment and therefore actions based on this incomplete knowledge could have unintended consequences (Mennell, 1977). This study will gain insight into these effects by examining specific examples of unintended consequences through systematic review.

Common Unintended Consequences

This study will work within Franco-Santos et al.'s (2018) framework of the most commonly experienced unintended consequences of PMaSS and their causes, as described in their literature review. The authors note that the framework primarily identifies unintended consequences of a negative or dysfunctional nature, and that any positive or functional effects have been largely overlooked in existing research. In addition, most research focuses on the review of directive control measures endorsed by agency theorists such as Eisenhard (1989) and Jensen and Meckling (1976). Little study has been done on stewardship-based PMaSS where the enablement of actors is the focus. Franco-Santos et al. (2018) distills five categories of unintended consequences in PMaS systems:

- Directive PMaSS encourage strategic behaviour or gaming in individuals, potentially breaching ethical norms.

- Directive PMSs are associated with information manipulation used to meet performance targets.
- PMSs can generate 'selective attention' both in what is measured and the timing of measurement. PMS changes managers' focus to short-term objectives (myopia) rather than actions that may have greater long-term benefits.
- Directive PMSs can create an illusion of control, increasing belief in assumptions of performance rather than actual performance.
- Directive and enabling PMSs commonly alter social relationships within organizations. Directive systems can promote transactional relationships and erode trust. Enabling systems can reduce mistrust and corruption.

Other unintended consequences can include: increased managerial time cost for PMS (Cox, 2005), movement away from professional values or standards (Tan and Rae, 2009), decreased well-being or morale (Bonner and Sprinkle, 2002), stifling of innovation (Lindsay et al., 2014), and inequalities (Cuguelero-Escofet and Rosanas, 2016). Franco-Santos (2018) notes that a significant amount of research into dysfunctional effects in PMS has been done in public sector organizations and the majority of consequences were deemed to be perverse. In the for-profit sector, the studied unintended consequences seem to be more aligned with strategic behaviour including information manipulation and short-termism or myopia (Healy, 1985).

Cause and Effect: Outcomes of Performance Management Systems

Unintended Consequences in Performance Management Systems

Franco-Santos (2018) identified three most common causes of unintended consequences in PMAss:

- Managers perceive increased performance pressure (Li, 2015; Merchant, 1990). Increased performance pressure increases potential for negative behaviours, which may be internalized or rationalized and lead to decreased trust in social interactions. Based on agency theory, directive PMAss controls send a message to employees that they cannot be trusted. Based on this influence, employees trend towards opportunistic behaviour (Cardinaels and Yin, 2015) and therefore influence social norms in the same direction. In mission-focused entities, professional values dominate (steward rather than self-interest) while theories of behaviour, relationships, and complex contextual factors can cause direct controls to tend towards negative outcomes (Chwastiak, 2006; Kerpershoek et al., 2016; McCann et al., 2015).
- The specific design or use of PMAss (Hopwood, 1972; Mannion and Braithwaite, 2012) can lead to unintended consequences. For example, the link between performance measurement and rewards is a critical choice, as actors' sense of gain or loss can lead to strategic behaviour, coordination effects, collaboration issues, and negative social dynamics (Lowe and Shaw, 1968).

- Environmental complexity (Conrad and Guven Uslu, 2012; Cox, 2005) can also lead to unintended consequences. Managers' uncertainty in complex systems may lead them to react to financial pressures by gaming the system (Merchant, 1990). Continuous change in leadership can create increased uncertainty and increased opportunities for gaming (Berliner, 1956). Highly regulated and complex environments such as hospitals or airports provide more opportunities for side effects in directive PMS environments. Finally, some researchers found that underlying assumptions about human behaviour cause unintended consequences (Cardinaels and Yin, 2015; Franco-Santos et al., 2017).

Testing A New Theory of Unintended Consequences in Performance

Management Systems

Franco-Santos et al (2018) proposed new theories that could govern management of unintended consequences in PMSs:

- "An identified set of ideal PMS types will maximize the fit between the chosen control mechanisms and the existing organizational conditions:"
 - Fit is best determined by careful design of 'purposeful actions' (Merton 1936) in the PMS.
 - Organizations have a variety of control mechanisms available to them (Bedford et al 2016) with a directive or enabling focus.
- Goal alignment and goal uncertainty
 - Managers choose controls using two factors: they make assumptions about the level of goal alignment, and also about goal uncertainty (Broadbent and Laughlin

2009). Franco-Santos et al. (2018) proposed a framework for the management of unintended consequences based on the understanding of goal-alignment and the environmental characteristics affecting goal uncertainty (see proposed framework in Figure 1). In this model, when managers assume that workers act opportunistically (goal alignment) and when they are less certain about outcomes (goal certainty), PMS actions aligned with agency theory (directive) will prevail. In situations where there is high goal certainty and high goal alignment, enabling PMS systems will emerge aligned with stewardship theory. Although agency and stewardship approaches are not mutually exclusive (Franco-Santos et al. 2014), exploring how municipalities use these systems is related to this research. Much of the existing research on PMSs focuses on agency-based systems, but organizations with complex goals, such as municipalities, will endure problems under agency-focused PMS (Franco-Santos et al. 2018). This research is aligned with contingency research (Chenhall 2003; Otley 2016) which explains how appropriate controls are unlikely to be universal; different circumstances may require different controls.

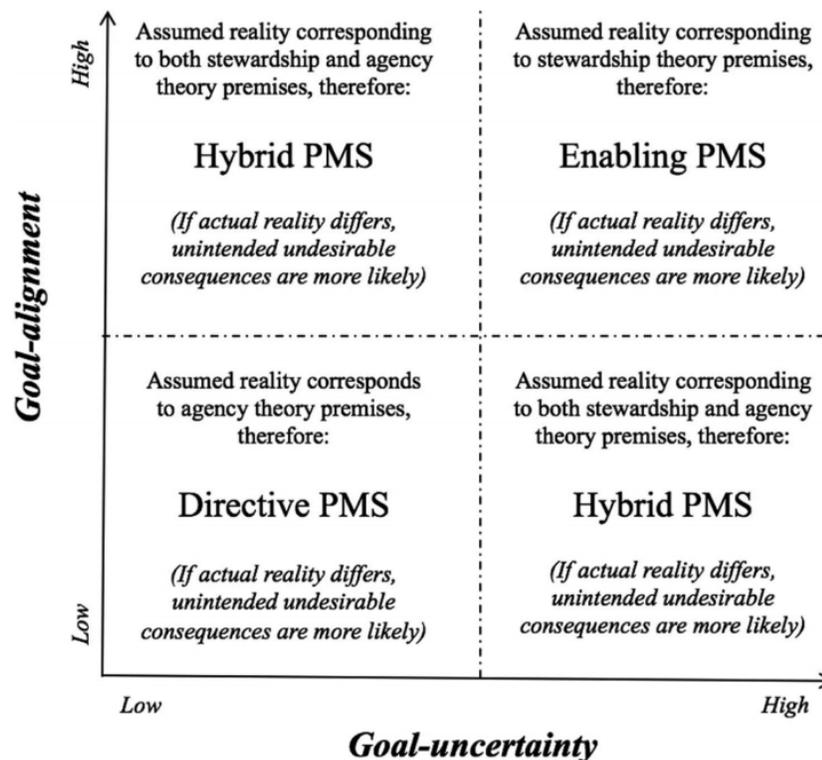


Figure 1: Franco-Santos et al.'s (2018) proposed framework for managing the unintended consequences of PMSs

Performance Budgeting

Rivenbark and Kelly reviewed municipal performance measures in the context of multiple accountabilities and process management in their 2006 article "Performance Budgeting in Municipal Government." They surveyed municipalities to determine their capacity to build performance measurement capabilities into the municipal budgeting process and evaluated their use during budget development. The authors used financial, political, and performance accountabilities to frame the performance measures discussion and analysis in an interpretivist approach. They defined performance budgeting as the act of using performance results to

inform allocation decisions during budget preparation and adoption. Rivenbark and Kelly (2006) defined their methodology to evaluate the level of performance budgeting adoption, while normalizing the data for other influences including size of municipality. The outcomes of this research indicate that there is wide variability in the implementation of performance measures across public administration bodies, but some consistency exists in the adoption rates for different internal procedures. The authors did not address any effect that their narrow definition of performance management may have had on the outcomes; as they created this new definition for the study it is difficult to compare if these results accurately connect to other research or real-world situations.

Alternatively, Charbonneau & Bellavance (2015) performed a statistical analysis of the determinants of general, management, budgeting, and reporting uses of performance information in the municipal performance management system in Quebec. Their research had no general hypothesis but sought to diagnose potential problems in the implementation and use of performance management at the local level. The research strategy used deductive reasoning to evaluate survey results, with survey questions targeted to analyze the depth to which participants used performance indicators. This study aimed to “identify the factors, whether uncontrollable or controllable, that account for the uses of performance measurement by municipal managers.” The existing provincial performance management system made use of fourteen mandatory indicators, but several common services were left out including libraries, fire, and police. The authors used descriptive statistics to analyze the different uses of management indicators, with a thorough discussion on the limitations of the data and of

previous studies. Two results are noteworthy. First, the authors found that indicators were used more frequently when they showed encouraging results. Secondly, the positive influence of leadership was not observed for performance management in Quebec. Other significant findings showed that neither municipality population nor budget have a significant association with the use of performance management. This study was well constructed and thoroughly implemented. It revealed some surprising trends, including debunking a connection between municipality size and the implementation of performance management. The study also found strong evidence of 'blame avoidance' being a strong factor in declining internal performance. The authors also thoroughly evaluated the limitations of the study which gave credibility and an accurate framework with which to understand the results.

Research Methodology

Considering the extensive existing research on PMA and less extensive research on municipal performance, this study will review a sample of Ontario municipalities and compare public documents regarding their strategic alignment with financial planning. While this research focuses on two indicators of strategic planning, it is important to note that there are over 250 annual reporting requirements (AMCTO, 2017) for each municipality in the province, demonstrating that municipal performance measurement and management is of interest to the province and many regulatory agencies. Administrators must bear in mind all the requirements of every regulatory agency during budget development, and these considerations will be reflected financially in budget planning documents. However, it is the overall strategy of the

municipality that guides the allocation of finite resources, therefore the strategic plans, asset management plans, and budgets are the guiding documents for these major decisions.

Considering that the size and location of municipalities may have an influence on their behaviours, municipalities have been chosen to represent small, medium, and large communities in their respective region. Municipalities were randomly selected from south, central, and northern Ontario. To remove the strategic inter-dependencies and financial complexities of two-tier municipalities, only single tier municipalities were selected for this study. While this does remove a significant portion of the total municipal study pool, there are 173 single-tier out of the total 444 Ontario municipalities, including 32 cities, 23 municipalities, 28 towns, 85 townships, and 5 villages (AMO, 2020). This distribution demonstrates there are still representative samples within single tier municipal organizations. Fixed population figures were not used as the size selection criteria, as municipal population density is unevenly distributed within the province. The largest cities in the north and south are relatively small when compared to cities in the central area including the greater Toronto area. The following municipalities were randomly selected for this study:

	Small (population)	Medium	Large
South	Ingersoll (14k)	Chatham-Kent (106k)	London (426k)
Central	Haldimand (50k)	Sudbury (169k)	Mississauga (770k)
North	Temiskaming Shores (10k)	Timmins (43k)	Thunder Bay (113k)

		*strategic plan website	
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(Statistics Canada, 2016)

Search for relevant documents was completed using both Google searches and the embedded search feature of each municipal website. To ensure consistency among the municipal comparators, Asset Management Plans, Strategic Plans, and 2020 Annual Budget documents were used as study instruments. Each document was retrieved from each municipality's public website. Analysis of these documents demonstrated how effectively some municipalities in Ontario are aligning their financial and strategic plans. By law, all municipalities in Ontario must have an Asset Management Plan and published budget documents, but strategic plans are optional (aside from Official Plans, which are strategic in nature). For budget analysis, 2020 annual budgets were used for all municipalities. The following documents were used in this analysis:

Table 2: Inventory of documents used for research

	Asset Management Plan	Strategic Plan
Haldimand	2017	None
Ingersoll	2016	None
Temiskaming	2015	2013 - "Municipal Cultural Plan"
Chatham-Kent	2017	2005
Sudbury	2016	2019-2027
Timmins	2019	2011-2020

London	2019	2019-2023
Mississauga	2019	2009
Thunder Bay	2016	2019-2022

It is important to note that “None” under Strategic Plan in Table 2 does not indicate that the municipality has no strategic planning complete; all study municipalities had some department-specific strategic plans available to the public. However, these municipalities did not have a broad strategic plan governing all strategic decisions. For example, Haldimand County had a section on their website titled “Strategic Plans,” containing two documents: Economic Development Strategy and Tourism Action Plan. While both of these documents will guide decision making in their respective municipal services, there is still an absence of high-level strategic vision. In contrast, Chatham-Kent’s strategic plan webpage had 281 plans, reports, and studies available to the public including an over-arching strategic plan to tie them all together. While many of the Chatham-Kent documents have a very specific focus, such as bridge financing or arena business plans, the public presentation of the information as “strategic” speaks to the breadth of municipal considerations and gives context to strategic decision making. In the sample municipalities, there was one aberration from the standard “Strategic Plan” document in title: Temiskaming Shores titled their strategic plan a “Municipal Cultural Plan,” demonstrating their strategic pivot from a resource-based economy to a culture-based economy. Despite the difference in title, this document was deemed a corporate strategic plan for the purpose of this study due to its broad strategic focus.

Considering the existing literature and effects of behavioural economics, this analysis will use the following key categories (Franco-Santos et al., 2007) to review performance measurement systems' municipal role at the Council level:

- (1) "measure performance" - This category encompasses the role of monitoring progress and measuring/evaluating performance;
- (2) "strategy management" - This category comprises the roles of planning, strategy formulation, implementation/execution, and organizational alignment;
- (3) "communication" - This comprises the roles of internal and external communication, benchmarking and compliance with regulations;
- (4) "influence behaviour" - This category encompasses the roles of rewarding or compensating behaviour, managing relationships, and control; and
- (5) "learning and improvement" - This comprises the roles of feedback, double-loop learning, and performance improvement.

Analysis

The following analysis reviews the public information for the nine randomly selected municipalities regarding the links to resource allocation and strategic planning. Table 3 identifies six indicators used to evaluate these connections. Two "budget linking" indicators identify whether, through written text or website links, the financial budget information is connected in some way to strategic plans. "Financial allocation" refers to any kind of budget breakdown showing the relative fund allocations for tax and/or fee based public services. "Service PMaS Information" refers to information showing the planned performance or units of

service for public services or allocation areas. “Individualized costs noted” indicates whether there is an individualized breakdown of financial costs, such as “a x% tax increase represents a \$xx.xx increase to the municipal tax bill for an average home valued at \$xxx,xxx” or fee examples, such as “a x.x% increase to fees moves next year’s public swim costs to \$x.xx.” This type of information adds individual cost context so that an individual tax- or fee-payer can put the change in their own financial context. This allows them to contextualize the financial change in terms of financial losses or gains compared to service delivery; service delivery should be assumed to be equivalent for comparison purposes but was more often than not unstated. “Individualized gains noted” is similar in meaning but is an indicator of what service improvements an individual tax- or rate-payer may gain in their personal context. Please remember that for this research, two-tier municipalities have been excluded to simplify the sample pool and variables. However, there may be differing trends in this excluded sample set that would differ from these results; further research could verify similarities or differences. Table 3 summarizes the analysis of asset management plans, strategic plans, financial allocation information, service PMaS information, individualized costs, individualized gains, and the identified indicators for each sample municipality.

Table 3: Analysis of strategy and performance links to budget in 6 Ontario municipalities

	Population	Area	Budget linking to Asset Management Plan	Budget linking Strategic Plan	Financial Allocation Information	Service PMaS Information	Individualized costs noted	Individualized gains noted	Example Indicators
Ingersoll	Small	South	No	No	Yes	No	Yes	No	Primarily financial information presented
Haldimand	Small	Central	Yes	No	Yes	No	Yes	No	Primarily financial information presented
Temiskaming	Small	North	No	No	Yes	No	No	No	Financial information only
Chatham-Kent	Medium	South	Yes	Yes	Yes	Yes	Yes	No	"Council Priorities" strategic link to financial allocations
Sudbury	Medium	Central	Yes	Yes	Yes	Yes	Yes	Yes	Strategic links: business cases, public "budget allocator" to set their own priorities, service benchmarking report, annual BMA comparative study (9 years), municipal benchmarking network (MBN Can), monthly performance dashboards
Timmins	Medium	North	Yes	No	Yes	No	Yes	No	Most recent FIR and MPMP data published, but MPMP out of date.

London	Large	South	Yes	Yes	Yes	Yes	Yes	Yes	Strategic plan not linked on website but mentioned 37 times in budget report; business cases used to link financial costs of strategic initiatives; some for cost savings initiatives, others justify new or changed programs. London's strategic plan dashboard shows PMA5 information for the top level of leadership
Mississauga	Large	Central	Yes	Yes	Yes	No	Yes	Yes	Strategic links using business cases; budget allocator tool with no tie to actual service levels; Strategic Plan does have item completion tracker. Budget executive summary listed contextual individual gains to users, such as transit use, new community centre, cricket pitch, etc.
Thunder Bay	Large	North	Yes	Yes	Yes	No	Yes	Yes	Budget lists specific local improvements to sidewalks, storm water, roads, parks, lighting, linked to AMP.

The size of municipality in this study shows some level of development or maturation toward linking strategic plans to financial plans. . By law, all municipalities must have financial budgets and asset management plans published. This research supports an assumption that resourcing available at larger municipalities may allow increased depth to strategic planning that smaller municipalities may not be able to pursue; 78% of the municipalities in this study linked their budget to their asset management plan. All of the large and medium municipalities in the study link their asset management plans to their financial budgets, and most to their strategic plans. Small municipalities tended to present the budget as a stand-alone financial plan. As to spatial distribution, a clear pattern of linking finances to strategic plans does not emerge, while acknowledging that the sample size is also too small to offer any statistically significant spatial analysis. All of the central municipalities and two-thirds of the north and south regions connected their budget to their asset management plans.

As to spatial distribution of strategic plan links (Table 4), 56% of the municipalities made the budget link to their strategic plan; two-thirds in both south and central regions, and one-third in the north. Total indicators based on spatial distribution indicate that there could be more links to strategic planning and information that could compensate for loss aversion in the central and south areas (central 72%, north 50%, south 66%).

Table 4: Spatial distribution of link indicators

Values	Central	North	South	Grand Total
Sum of Website or document cross-linking AMP	3	2	2	7
Sum of Website or document linking SP	2	1	2	5
Sum of General Financial Allocation Information	3	3	3	9
Sum of Service PMA S Information	0	0	2	2
Sum of Individualized costs noted	3	2	3	8
Sum of Individualized gains noted	2	1	0	3
Total #	13	9	12	
Total %	72%	50%	66%	

Population distribution (Table 5) shows similar trends to spatial distribution; areas with higher populations show more links between financial and strategic planning. This study shows that larger cities make more links between financial and strategic planning, and also provide information that could compensate for the effects of loss aversion: large 83%, medium 72%, small 33%.

Table 5: Population distribution of link indicators

Values	Large	Medium	Small	Grand Total
Sum of Website or document cross-linking AMP	3	3	1	7
Sum of Website or document linking SP	3	2	0	5
Sum of General Financial Allocation Information	3	3	3	9
Sum of Service PMA S Information	1	1	0	2
Sum of Individualized costs noted	3	3	2	8
Sum of Individualized gains noted	2	1	0	3
Total #	15	13	6	
Total %	83%	72%	33%	

Table 6 summarizes the distribution matrix by population and area for each factor, with sums following for all factors.

Table 6: Distribution matrix by population category and location

Row Labels	Large	Medium	Small	Grand Total
Central				
Sum of Website or document cross-linking AMP	1	1	1	3
Sum of Website or document linking SP	1	1	0	2
Sum of General Financial Allocation Information	1	1	1	3
Sum of Service PMA S Information	0	0	0	0
Sum of Individualized costs noted	1	1	1	3
Sum of Individualized gains noted	1	1	0	2
North				
Sum of Website or document cross-linking AMP	1	1	0	2
Sum of Website or document linking SP	1	0	0	1
Sum of General Financial Allocation Information	1	1	1	3
Sum of Service PMA S Information	0	0	0	0
Sum of Individualized costs noted	1	1	0	2
Sum of Individualized gains noted	1	0	0	1
South				
Sum of Website or document cross-linking AMP	1	1	0	2
Sum of Website or document linking SP	1	1	0	2
Sum of General Financial Allocation Information	1	1	1	3
Sum of Service PMA S Information	1	1	0	2
Sum of Individualized costs noted	1	1	1	3
Sum of Individualized gains noted	0	0	0	0
Total Sum of Website or document cross-linking AMP	3	3	1	7
Total Sum of Website or document linking SP	3	2	0	5
Total Sum of General Financial Allocation Information	3	3	3	9
Total Sum of Service PMA S Information	1	1	0	2
Total Sum of Individualized costs noted	3	3	2	8
Total Sum of Individualized gains noted	2	1	0	3

Measuring Performance

Considering this new data and the existing literature, several observations can be made in line with existing research. Otley & Barry (1980) note that actors or managers may have important

distinctions in their understanding of mental or explicit models. This difference may cause them to use control mechanisms differently. Franco-Santos et al. (2018) proposed that “PM(a)S types will maximize the fit between the chosen control mechanism and the existing organizational conditions,” considering Merton’s (1936) “purposeful actions” and Bedford et al.’s (2016) directive or enabling foci. Municipal strategic plans should clarify goal alignment and goal certainty, including identifying environmental characteristics that could affect goal uncertainty (Broadbent and Laughlin 2009). Looking at the data, municipalities that clarify their goals through their strategic and budget plans enable their municipal administrators to use a stewardship-based approach. Smaller municipalities with limited financial links to strategy will drive their administrators to agency-focused approaches. This is not to say that one or another approach is superior; contingency research by Chenhall (2003) and Otley (2016) supports that one approach may not be universal across organizations. This contingency approach further supports the development of municipal strategic plans rooted in local culture and context. However, based on the regulatory framework within which municipalities operate, they likely have much more in common than they have differences.

As municipal leaders are chosen from their local population to representatively make judgements and decisions on issues, municipal strategic planning emerges as the critical tool to engage citizens in priority setting to provide what they deem as the most appropriate public good to maintain the community that they envision. This citizen-driven strategy is the basis for democracy, and is further supported by servant leadership theory (Parris, 2012).

Strategy Management

Neoliberalism and capitalist business strategy are brought to mind as claims that government should be “run like a business.” While this may be suggested to mean government needs to be financially “lean,” it also supports the assertion that strategic planning is crucial in order for municipalities to remain as strategically focused as a business enterprise would be.

Contextually, many of the largest private businesses in the world have less-than-majority market shares; municipalities’ complex strategies are fundamentally different from businesses in the way that citizens or customers can self-select their services. Municipal strategy is about focusing limited resources on what will benefit citizens the most - having a strategy and measuring performance is key. Citizens living in municipalities with a published strategic plan will have less difficulty understanding their municipality’s intentions. However, the majority of this study’s municipalities (77%) published no performance measurement data tied to their strategic plans. In addition, the strategic plans were on a multi-year cycle while budgets in all municipalities are approved annually. Citizens should know at least annually if the efforts of the municipality, including the budget, are working towards and meeting the organization’s goals. It is key that the PMaS and PMeS are synchronized so that resource allocation and performance reporting can be made at complementary intervals.

If these systems are out of synchronization, what drives municipal strategy? The province mandates financial reporting and asset management plans, their scope, and reporting intervals, and many more details. This ensures that municipalities do not lose control of their financial obligations and therefore impact the finances of the province. This research indicates that

smaller municipalities in Ontario, irrespective of general location develop strategic plans less frequently than higher populated comparators. While this could be due to the smaller financial or staff resources of these municipalities, it also could be driven by other environmental factors. Municipal councillors in small municipalities represent relatively small numbers of constituents and often smaller physical jurisdictions; this lack of published strategic planning may only indicate that these smaller municipalities do not require a plan as the elected representatives may have a deeper knowledge and understanding of local issues, and the breadth of issues may be limited by local environmental factors. However, if this is true, it is still subject to the myopic limitations of the four-year election cycle.

Communication

Communication of all of the strategic information is key to understanding performance success. One could argue that this study primarily analyzes the effectiveness of strategy communication, and not the prevalence or interconnectedness of strategy itself. As local leaders, municipal administrations need to communicate their plans and report their results to be held appropriately accountable. Clear communication of plans and results will minimize the tendency towards gaming, such as setting easily achievable results. The positive aspects of communication have already been discussed in the Measurement Performance and Strategy Management sections earlier. There is one key element of communication that is infrequently found in this study: while individualized costs are common among study municipalities, individualized gains are much less frequently published. Eighty-nine percent of study municipalities published individualized costs such as “xx% tax increase per household”, while

only 33% attempted to individualize gains. As previously noted, losses are much more acutely felt than gains so it is imperative for municipalities to demonstrate the cost benefit to the citizen, even as far as doubling the effort in demonstrating gains to mitigate loss aversion effects.

Influence Behaviour

Beyond loss aversion, municipal councils are democratically incentivized to please the majority of their stakeholders, or at least voters, and the primary information about their performance is published by their own organization. The democratic importance of framing performance could easily lead to gaming and the setting of easily accomplished tasks to present regular 'wins' to the public (Merchant, 1990). In contrast, the strategic planning process undermines these negative incentives by planning and publishing the goals at the outset of a planning period. While this does not remove any political calculus involved in public opinion and re-election strategy, it tips the scales in favour of public transparency. While this study focused on the main drivers of costs and strategy in Ontario municipalities, these are not the only anchors that the public has to measure municipal performance. Learning and improvement are the final outcomes of effective performance management systems.

Learning & Improvement

Finally, learning and organizational improvement are a key output of effective PMaS and should be an output of an effective strategy, performance management subsystems, and ultimately municipal electoral accountability. All of the subject municipalities that published strategic

plans noted a planning horizon and planning cycle; this is crucial to keep the strategy and related resource allocations relevant to the community over time. Community cultures vary for many reasons, and can change over time and due to forces within or without – all requiring learning and improvement highlighted in the strategic plans and asset management plans. All plans followed a contingency style, shaping the plan to the community’s vision, desires, environment, and resources.

Conclusion

This research has revealed some clear links and patterns in budget allocations and strategic planning in several representative Ontario municipalities. While each plan or budget may be considered a control system in its own right (Ferreira and Otley 2009; Malmi and Brown 2008; Otley 1999), the importance of linking the multiplicity of municipal plans and strategies to finite resources remains clear. All documents must be “tightly connected” (Otley 2016, Weich 1976) to effectively deliver services to the public and remain accountable. The province and its regulatory bodies prescribe bounds and directives to municipalities and enable them through the Municipal Act (2001) and other acts to carry out these duties, but it is clear that municipalities use more than one way to accomplish these tasks. Municipalities will benefit by linking their multiple plans and initiatives under one strategic plan to ensure matching prioritization to finite resources. This matching will also allow the public to better frame their decisions to ensure wise use of resources and to elect responsive and responsible representatives. Limited strategy will drive service providers to directive or agency-based systems and may lead to Procrustean budgeting when perspectives are disconnected or

myopic. In the absence of a strategic plan, the municipal budget becomes the primary strategic tool. In these situations, it is crucial for decision makers to understand their environment and the behavioural economics related to the budget as a performance management system. Municipalities deliver a wide variety of services that make performance management complicated, but this should be the driver to ensure performance is managed transparently, rather than letting loss aversion lead strategy. While municipalities are 'creatures of the province,' they have their own elected officials and processes for political accountability. There is no one set of values for any municipality or Ontarian; the municipal political system must be leveraged effectively by linking finance, strategy, and politics to provide municipally and culturally relevant local services to citizens.

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