

## SPECIAL SECTION CITIES AND THEIR AGENDAS

# Canada's federal government reluctant to fund cities

BY ROBERT YOUNG

**C**ANADIAN MUNICIPALITIES ARE CONTINUING to press the federal government in Ottawa for increased funding – this despite the fact that municipalities in Canada fall squarely within the jurisdiction of the provincial governments. Economic forces seem to be accentuating the importance of the larger cities, which are growing fast, while municipalities in peripheral areas struggle with decline in population. Financial stress is widespread among Canadian municipalities of all sizes. Business interests, labour and academic allies of municipalities have pushed what they call their “cities agenda” in and around Parliament Hill in Ottawa. And the federal government has responded, especially during the

## Local governments chronically under-funded

**IN THIS THEMATIC SECTION ON LOCAL GOVERNMENT AND METROPOLITAN** regions in federal countries, our experts examine how municipalities in Brazil, Canada, India, South Africa and Spain go about delivering front-line services to their clamoring, burgeoning populations.

The common thread for these five countries is that local governments are struggling as they do not have the wherewithal to provide the costly services they are obliged to deliver and must rely on other orders of government for funds.

In Brazil, economics writer Brian Nicholson tells a fascinating tale of contrasts between the municipality of Altamira, which covers 159,700 square kilometers and Diadema, a city in the grimy industrial belt around Sao Paulo. Brazilian municipalities, depending on their size, receive funds in the form of transfers from the federal government or from states' value-added tax.

Canadian cities however are creations of provincial governments and Prof. Robert Young of University of Western Ontario

recounts how municipalities are scrambling for money, as the federal government under Prime Minister Stephen Harper disapproves of Ottawa circumventing the Constitution to help fund the cities, undoing a policy his predecessor had embarked upon.

In India, there are 60 cities with populations exceeding one million people. Journalist Rashme Sehgal notes that the mayor of Delhi, India's capital, is fuming, contending that Delhi has had its powers encroached upon by the state government. Indian cities raise the bulk of their revenues from property taxes, but require transfers from the central and state government for education, health and welfare.

South African cities are bustling with new construction as they prepare for the 2010 World Cup of Soccer. But there has been a proliferation of community protests over lack of service delivery by municipal governments, explains Annette Christmas of the University of the Western Cape.

In Spain, municipalities are also struggling with delivering services. Carlos Alba and Carmen Navarro of the Autonomous University of Madrid tell how Spaniards are counting on a general election in March to elect a government that will complete a reform meant to empower local government.



CITY OF OTTAWA/ROGER LALONDE

Ottawa City councillors march on Parliament in December 2007. Councillor Michel Bellemare, surrounded by his fellow councillors, repeats the call for Ottawa to give one cent of the federal sales tax to Canada's cities.

period of former prime minister Paul Martin's Liberal government, December 2003-January 2006. More recently, however, the pendulum has swung backward, as Stephen Harper's Conservative government, elected in 2006, has largely backtracked from bold initiatives on the municipal file. This illustrates a fundamental feature of federalism: when some pressing problem is not in the jurisdiction of a particular order of government, the constitution provides an excuse for that level of government not to address it.

Municipalities in Canada are "creatures of the provinces." Cities, towns, villages and rural municipalities fall under provincial jurisdiction. There are significant differences among the provinces as they relate to the municipalities, but there are commonalities as well. First, the country's municipalities are subject to provincial legislation concerning the environment,

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housing, land use, police and many other matters. Second, local governments are rather dependent on provincial government financial transfers, which make up about 16 per cent of municipal revenues. Federal transfers to municipalities, on the other hand, make up only about two per cent of their revenues. Finally, Canadian municipalities are heavily dependent on property-tax revenue, which does not rise automatically with economic growth. Property taxes are also visible and politically difficult to increase.

### Municipalities flex their muscles in Ottawa

Municipalities do have political power when they are united and determined. This is true in provinces dominated by cities. Rural inhabitants may resent this weight, but the City of Winnipeg's population makes up 60 per cent of that of the Province of Manitoba, while the three biggest Canadian cities – Toronto, Montreal and Vancouver – loom large in the provinces of Ontario, Quebec and British Columbia, where they account for 41 per cent, 47 per cent and 51 per cent of the respective

populations.

The federal government must also respond to urban voters. The three largest cities alone elect 85 of the 308 Members of Parliament, and most federal programs and expenditures are delivered in cities and towns. However, direct contact between Ottawa and the municipalities has waxed and waned over time. Until recently, the high point of engagement with municipalities was in the 1970s, through the short-lived federal Ministry of State for Urban Affairs. But the pendulum swung decisively towards more federal involvement when former prime minister Paul Martin's Liberal government took power in Ottawa.

### Pushing the 'Cities Agenda'

Pressure for change in the federal government's stance grew from the mid-1990s on. Continued urbanization created problems of growth in the larger centres, because foreign immigrants are attracted mainly to the largest cities. In Western Canada there was also a trend of Aboriginal people moving from reserves into cities. Meanwhile, peripheral municipalities struggled to continue providing services to declining or stagnant numbers of residents.

In some provinces, transfers to municipalities were reduced, arguably because of cuts to federal-provincial transfers after 1995. But the major issue was municipal infrastructure – the roads, sewers, bridges and water supply systems – both in the rapidly growing cities and in smaller towns and villages. The Federation of Canadian Municipalities (FCM), an increasingly expert and effective lobby in Ottawa, estimated the “infrastructure deficit” at some C\$60 billion, a sum clearly beyond the capacity of municipalities to handle alone. Consequently, pressure grew on the federal government to become more involved in solving municipal problems.

### Federal involvement in 2004

When the Martin government was formed in December 2003, the federal government did move. Mr. Martin had promised a “New Deal” for cities, even though this would mean surmounting the “reefs of entrenched ways and attitudes.” He quickly set up a Cities Secretariat within the Privy Council Office, the elite research and secretarial department of the Canadian government. By July 2004, there was a Minister of State responsible for the new portfolio of Infrastructure and Communities. In the first budget, municipalities were granted a 100 per cent rebate on their federal sales tax payments, a benefit estimated at C\$7 billion over 10 years, and C\$4 billion was allocated for cleaning up contaminated sites. The next budget delivered C\$5 billion in transfers to municipalities over the following five years, nominally from the federal share of the tax on gasoline, and another C\$300 million was added to the Green Municipal Funds which are administered through the Federation of Canadian Municipalities.

Beyond this, while the government awaited a report from an external advisory committee, Ottawa renewed urban development agreements with the cities of Vancouver and Winnipeg. These were tripartite, cost-shared pacts signed by the city, the province and the federal government, and they involved tightly co-ordinated programs and spending. New agreements were signed in 2005 with the cities of Regina and Saskatoon and the provincial government of Saskatchewan, and further negotia-

tions were being undertaken with other cities. While the negotiations with Toronto were taking place, the Martin government was defeated on a vote of confidence and, after winning the subsequent election, Stephen Harper and his Conservatives took power.

### The Cities Agenda meets 'Open Federalism'

To explain the current government's approach to municipalities – or, more precisely, its retrenchment and withdrawal from the daring initiatives of its predecessor – one needs to understand the broader framework of Mr. Harper's approach to federalism. Mr. Harper calls his approach “Open Federalism.” Significant principles of his approach include:

- There should be rectitude and order in federal-provincial relations, with principled agreements instead of improvised deals and last-minute compromises.
- Provinces are legitimate actors that occupy important areas of jurisdiction for which they are responsible.
- The constitutional division of powers should be respected, with the federal government focusing on its core functions such as defence, foreign affairs and the economic union (though Ottawa must continue its involvement in health, higher education and infrastructure, in a respectful and cooperative fashion).
- Quebec is a province with special responsibility for its culture and institutions, and it is of great importance that Quebecers perceive that federalism can work for them.

The implications of the Conservative approach to the municipal file are obvious. Municipalities fall within provincial jurisdiction. Determination to maintain provincial control has been strongest within Quebec governments. Municipalities might require more secure and stable revenues, but the provinces are the principal actors for municipal governments. Ottawa may devise policies to attack particular urban problems, such as crime and immigrant settlement, but continuous tripartite relations are not congruent with the doctrine of Open Federalism.

### Pulling back and re-engaging

Very quickly Harper's government folded the Department of Infrastructure and Communities into the much larger and older Department of Transport. Officially this resulted in a new “Transport, Infrastructure and Communities Portfolio,” but the separate position of deputy minister of Infrastructure and Communities did not survive long, and the communities branch has largely disappeared from official websites.

The Conservative government did extend the gasoline-tax transfers from the federal government to the municipalities until 2014, and it remains committed to infrastructure programs, where allocations have increased steadily. There are even signs of a new national urban transit policy.

But a clear signal about the Harper government's withdrawal from the ambitious agenda of its predecessor was delivered when the Prime Minister addressed the Federation of Canadian Municipalities in 2006.

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**CANADA [FROM PAGE 12]**

He complimented local governments, but referred several times to the “levels of government” in Canada, rather than the egalitarian designation of “orders of government” long coveted by the FCM. He maintained that “for decades - and especially in recent years - Ottawa has stuck its nose into provincial and local matters,” and insisted that Ottawa would confine new program spending to “jurisdictional areas that are clearly federal.” Significantly, he pointed to Quebec, which “zealously guards its constitutional responsibilities, including those for municipal affairs,” noting that the Quebec government had substantially increased its own transfers to municipalities.


**The pendulum swings**

To explain Ottawa’s swing back, it is difficult to appeal to constitutional jurisdiction as such, because the federal government has long been active in areas of provincial responsibility by virtue of the “federal spending power.” This power is invoked by the federal government when it makes certain direct transfers to people or when it offers transfers to provinces conditional on them delivering on their particular programs.

The reason for Ottawa’s pullback, one might argue, is that it

was possible. The division of jurisdiction in Canadian federalism, as elsewhere, provides a rationale for Ottawa not to act in some policy areas. In a unitary state, in contrast, one government is responsible for the entire scope of public policy, and public demands about some pressing local problem inevitably become a problem of the central government. An essential feature of a federation, in contrast, is that governments do not have responsibility for certain policy fields, and this absolves them from acting to solve such problems.

It is true that once involvement has become deep, as in the Canadian health care system, retreat is politically unthinkable. But on the cities and communities agenda, the Harper government can invoke the constitution to step back from new initiatives. And there are reasons for doing so. Such big undertakings raise expectations across the country and these are difficult to meet. The needs of Canadian communities are enormous, and there is a fear that municipal governments could become a bottomless pit for spending. For a federal government that is ambitious to act boldly in its areas of responsibility, such as defence, and

eager to cut taxes as well, there needs to be an excuse not to act in other areas. Insofar as Canadian municipalities are concerned, the constitution provides such a rationale. And so the pendulum has swung. 



Rebuilding an overpass that collapsed in Laval, Quebec, in 2006 took money as well as muscle. Canada’s cities face shortages of funds for replacing major parts of their aging infrastructure.