Public Investment across Levels of Government: The Case of British Columbia, Canada

Authors*: Camila Vammalle
OECD Secretariat

* Input by Claire Charbit is gratefully acknowledged. The OECD greatly appreciates the assistance that it received from the regional administration on the questionnaire, mission and background material for this report.
Key messages

- *British Columbia has developed a number of institutions and practices to deal with co-ordination and municipal capacity issues.*

- *The governance system is based on a combination of formal and informal institutions, mechanisms and interactions between elected and non-elected decision makers.*

- *Guidelines for particular policies are sufficiently general to allow flexible interpretation and thus adaption of implementation to local needs.*

- *Vertical co-ordination between levels of government cannot be dissociated from horizontal co-ordination. Indeed, most of the institutions created for co-ordination purposes have a double mandate of both vertical co-ordination across levels of government and horizontal co-ordination among sectoral policies.*

- *Horizontal co-ordination between municipalities for regional development planning could be reinforced.*

_Federal institutions operating in the provincial regional context often perform a programme delivery role in combination with regional intelligence gathering to convey and represent provincial information and priorities in order to inform federal decision making, policy development and programme delivery._
1. Regional overview

Canada is one of the most decentralised countries in the OECD, with sub-national governments responsible for almost 70% of public spending and more than 90% of public investment, collecting almost 50% of the country’s total tax revenues. In addition, Canadian provinces enjoy considerable flexibility in their financial management. Compared to their counterparts in other federal countries, such as the German or Austrian Länder, Canadian provinces enjoy far greater autonomy both in terms of spending and revenues (Moody’s, 2012).

Canadian provinces have strong and distinct regional identities and cultures. To accommodate these, the federal Constitution and other guidelines usually define terms and conditions in a very broad way, so that each province can choose how to apply them to meet its own needs and identity. The advantage of such a system is that it provides flexibility. The drawback is that it creates complexity.

1.1. Institutional context

Canada is composed of ten provinces and three territories. Provinces are federal entities created by the Constitutional Law of 1867. They have sovereign powers, independently of the federal government. Their competencies are defined in the Constitution; residual powers (those not mentioned in the Constitution) fall within the mandate of the federal government. By contrast, territories are administrative divisions which were created by law by the federal government, which conceded them a number of legislative rights. Each province has its own Parliament, government, budget, courts, etc. The legislative assemblies of the provinces are unicameral and governing cabinets are formed, as other parliamentary systems, with the Premier usually heading the largest party in the assembly. Provincial competences include: property and civil rights, social protection, health, education, justice, municipalities.

For the purposes of regional development policy, provinces and territories are gathered in six regions, corresponding to the six regional development agencies’ (RDAs)/organisations’ areas of action. Regional development agencies/organisations play an important mediating role between the federal and provincial governments, as well as between the different sectoral policies in the region (Box 1). The province of British Columbia belongs to the region of Western Canada, which corresponds to the area of action of Western Economic Diversification Canada (WD). WD is a department of the government of Canada, headed by a federal Minister of State for Western Economic Diversification, based in Ottawa, and a Deputy Minister in the department’s head office in Edmonton, Alberta. Regional offices are located in each of the other Western Canada provinces, in Winnipeg (Manitoba), Saskatoon (Saskatchewan) and Vancouver (British Columbia) and a Liaison Office is located in Ottawa (capital of the federation). Regional offices are led by an Assistant Deputy Minister. WD has approximately 425 employees.

<table>
<thead>
<tr>
<th>Box 1. Canadian regional development agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>In creating the RDAs, the government of Canada intended to build strong, effective organisations run by senior officials, who were as engaged and attuned as possible with regional realities and the priorities of economic development. This guiding principle meant creating linkages and accessibility between the national government and provincial actors. While several national or sectoral departments enjoy a regional presence with satellite or regional offices (e.g. Fisheries and Oceans Canada, Transport Canada and Canadian Heritage), these departments’ higher level decision makers remain in Ottawa. While the regional presence of these departments provides working-level capacity across the country, a geographic barrier separates policy and programming decision makers in Ottawa from the regional entities.</td>
</tr>
<tr>
<td>There are five federal RDAs in Canada, which were created with a specific mandate to promote economic development. They include the Atlantic Canada Opportunities Agency (ACOA), the Canadian Northern Development Agency (CanNor), the Economic Development Agency of Canada for the Regions of Quebec (CEDQ), the Federal Economic Development Agency for Southern Ontario (FedDev Ontario) and Western Economic Diversification Canada</td>
</tr>
</tbody>
</table>

3
In addition, the Federal Economic Development Initiative in Northern Ontario (FedNor), part of Industry Canada, undertakes the same activities in Northern Ontario. The role of regional economic development agencies includes co-ordination and delivery of federal economic development activities at the regional level, as well as policy, research and advocacy. RDAs have a strong presence in their regions and consult widely with their partners and stakeholders, including provincial governments, not-for-profit organisations, business organisations and other interested groups.

All RDAs are responsible for economic development and diversification in their respective regions. All have a core programme – in WD’s case, the Western Diversification Program (WDP) – through which it makes strategic investments in initiatives intended to enhance and strengthen the economy of the region. RDAs have been seen by the federal government as an effective and capable service delivery agent for national programmes. As a result, Canada’s RDAs sometimes play an economic adjustment role by implementing, in co-operation with other departments, national programmes aimed at supporting struggling industries. For example, the Canadian Apparel and Textile Industries Program (CATIP) was developed by Industry Canada and implemented in Quebec with the collaboration of CEDQ. This programme was aimed at helping Canadian clothing and textile manufacturers become more competitive and better adjust to major changes in the industry and the marketplace.

Occasionally, RDAs have been asked to implement special intervention measures, such as community economic adjustment initiatives or the Community Adjustment Fund (CAF) and Recreational Infrastructure Canada (RInC) programmes under the federal Economic Action Plan (i.e. the stimulus plan during the 2008-2009 crisis). Lastly, RDAs have also delivered modern infrastructure programming in support of national initiatives such as the Municipal Rural Infrastructure Fund.


British Columbia is composed of 160 municipalities, covering 85% of the population (the territory of the province is not fully gridded, and a community must ask to become a municipality). Municipalities are very heterogeneous in size and population, ranging from less than 44 hectares and 200 inhabitants to the city of Vancouver which counts 603,000 inhabitants. Municipalities can govern themselves and provide and regulate local public services, such as: provision of drinking water, sewers, roads, fire protection, street lights, garbage/recycling collection, land-use planning, building inspection and parks. Municipalities are governed by a mayor and a council which are elected for three years. Each municipality is a member of a regional district to which their councils elect representatives. The board of directors of the regional district is used as a forum to discuss regional issues. There are 29 regional districts in British Columbia.

1.2. Socio-economic background

British Columbia is located on the Pacific coast of Canada, which gives it a privileged geographic location to move goods between North American and Asian markets. In addition, its two main ports, Prince Rupert and Metro Vancouver, are naturally deep harbours and ice-free year-round. It is, therefore, a natural gateway towards the Asia-Pacific region.

British Columbia is as large as Belgium, France and Germany combined. With 4.4 million inhabitants, it is home to 13% of Canadians and is the third most-populated Canadian province, after Ontario and Quebec. It is the fourth fastest-growing province in terms of population (+12% between 2000 and 2010). The share of population over 65 is slightly above the Canadian average (15% in 2010) and is growing slowly.

British Columbia accounted for 12.5% of GDP in 2010; its economic influence has been rising steadily over the last decade. The province experienced a period of high and steady growth from 2000 to 2008. After two years of recession in 2008 and 2009, it recovered rapidly, recording 3% real GDP growth as early as 2010 (Figure 1). The province’s unemployment rate stood at 7.6% in 2010, close to the Canadian average of 8.02% and well above the pre-crisis level of 4.3%. Hence, the economic turmoil had a relatively large impact on British Columbia’s labour market.
British Columbia’s economy is essentially service-oriented, with services accounting for 76% of regional GDP in 2011. However, because the region is richly endowed in natural resources, the share of the primary sector has historically been high. In 2011, agriculture, forestry, mining and energy still accounted for around 8% of gross value added in the province, despite a decline in the relative share of this sector over the last century. Manufacturing represented around 20% in 2011, having declined slightly since the late 1990s.

1.3. **Main strengths and challenges for British Columbia**

In general, British Columbia’s public administration is highly professional, with a long history of partnerships. Capacity standards, both in individual institutions and collectively, are very high, and attracting qualified public servants is not considered a challenge. Given the size of the province, British Columbia has developed strong, specific policy institutions to enhance scale efficiency for certain capacities, especially municipal ones (such as Partnerships BC, Metro Vancouver or Trans Link, studied below).

The multi-level governance system is complex and benefits from extensive and intensive interactions between the players (informal relationships). This creates a culture of information exchanges, which allows better trust and mutual understanding.

There is a clear and general recognition among different stakeholders across British Columbia that no one level of government or individual government can do things alone, as they are mutually dependent and usually do not have sufficient funding on their own. The need for partnerships and co-operation is, therefore, recognised by all.

Key elements which characterise public administration, federal-provincial engagement, policy development and programme delivery in the province include:

- reliance on both formal and informal initiatives and institutions, which tend to be complementary and mutually reinforcing;
- capacity in relationships and the willingness to spend time developing these relationships;

![Figure 1. Real GDP growth in British Columbia](source: OECD National Accounts.)
• an understanding that programme development and implementation is iterative and evolutionary; the capacity to adapt and make the most of the actual outcomes; and

• guidelines that are sufficiently general to allow flexible interpretation, allowing their implementation to be adapted to the local needs.

• changing nature of relations across levels of government. Municipalities are required to take on more responsibilities and are becoming increasingly vocal and present in the design, selection and implementation of projects. Provinces are looking for a clearer definition of their entitlements. These changes are still occurring and it is too early to evaluate them.

To address specific capacity and multi-level governance challenges, British Columbia has created specific institutions in charge of providing shared services between municipalities (such as water, sewage, regional transport, legal services, etc.). These institutions are now key players in the multi-level governance structure for public investment. They are of different legal types: federations, local public enterprises or non-profit private companies owned by the province, etc. They address issues of horizontal co-ordination between municipalities and issues of efficient scale (Metro Vancouver, Partnerships BC, Trans Link, Municipal Finance Authority, etc.); vertical relations among municipalities, the province and the federal government (Asia-Pacific Corridors and Gateway Initiative); and horizontal relations among sectoral policies (Trans Link). The role and functioning of these institutions will be detailed later.

2. Public investment in British Columbia

2.1. Background

There seems to be a dichotomy in public investment in Canada, and in British Columbia in particular. On the one hand, there is the basic infrastructure needed by communities to sustain their quality of life and environmental standards: transport (roads, bridges, curbs, sidewalks), water infrastructure (distribution, supply and treatment), wastewater systems (sanitary and storm sewers and related treatment facilities), transit systems (facilities, equipment and rolling stock), and other public infrastructure (including cultural, social, community and recreational facilities, and waste management facilities). Today, these are mainly the responsibility of municipalities. On the other hand, there are large strategic programmes to achieve national objectives such as the development of trade routes to Asia, etc. The federal and provincial governments are very involved in these programmes.

Municipal infrastructure is ageing and often insufficient

A recent study carried out by the Federation of Canadian Municipalities (2007) shows that, regarding the first category of infrastructure, the 1960s saw a wave of heavy investment in Canada by the federal, provincial and municipal governments, which then controlled 24%, 45% and 31% of the public capital stock respectively. Between 1955 and 1977, the rate of growth of the public capital stock closely matched the rate of growth of the population and urbanisation. By contrast, during 1978-2000, the rate of growth of investment was only 0.1% per year. In parallel, the provincial and federal governments reduced their relative share in infrastructure investment. By 2002, the federal share of capital stock had dropped to 7% while the municipal share had grown to over 50%. According to this study, if capital spending by municipal governments has increased during the early 2000s, this merely allows coping with the rate of growth of urbanisation over the past 15 years. Municipal infrastructure is ageing, as new investments were not sufficient to replace deteriorating stock. This national assessment also applies to British Columbia. The lack of adequate infrastructure is considered a key challenge by mayors and local politicians, as it directly affects the quality of life of citizens, as well as the competitiveness and productivity of the province, including its capacity to attract talent and firms (Fletcher and McArthur, 2010).
Linking British Columbia to the rest of the country and to the world: A strategic priority for the province and the federal government

British Columbia is strategically situated to transit merchandise and exports to Asia-Pacific, thus competing with the west coast ports of the United States for international trade traffic (Box 2). The province of British Columbia wanted to take advantage of this opportunity and made efforts to put its Gateway Initiative on the federal government’s agenda. Its efforts were successful and the initiative was thus led by the federal government (foreign trade is a federal issue). The objective for the province was to increase the number of containers transiting through British Columbia’s ports in order to create growth and employment in the province. The federal priority was to increase exports.

Public understanding of the Gateway concept and the economic benefits associated with enhanced transport infrastructure was initially limited, with many citizens raising concerns about the environment, noise, congestion, land use, etc. Partners in the Gateway Initiative had to, therefore, carry out extensive communication strategies for the project to be accepted by citizens, explaining what the project meant and how they would benefit from it.

Box 2. The Asia-Pacific Gateway and Corridor Initiative

The Asia-Pacific Gateway and Corridor Initiative (APGCI), launched in 2006, aims to increase trade flows between Asia and Canada, and to build, in British Columbia, the best transport network for supplying North America. It is constituted of a large transport network, including the largest Canadian airports, Lower Mainland and Prince Rupert ports and the main roads and railways to other regions in Canada and to the United States.

Major investments include the construction of an extra container terminal in Prince Rupert port and the opening of a third berth in Metro Vancouver’s port. The acquisition of two US railway companies and a policy in favour of greater openness of air traffic links with many countries should contribute to increase both rail and air transit.

As the initiative is considered a national priority by federal authorities, the Canadian federal government invested over CAD 1 billion in projects linked to the APGCI. Canadian provinces (British Columbia, Alberta, Saskatchewan and Manitoba) and municipalities financed an additional CAD 1.8 billion worth of investments. The project involves several other players: Transport Canada (leading the project), WD, railway companies and airport authorities.

A Pacific Gateway Alliance Committee, composed of provincial governments, federal authorities, key industry and non-profit players, was formed in the early stages of the initiative to identify priorities and improve co-ordination. The committee was re-created to set priorities for the second phase of the project. Regional gateway committees promote ongoing collaboration between the government of Canada, the relevant provincial governments and the private sector in the development of the APGCI.

The private sector was a key player in the development of the initiative. Indeed, total investments linked to the APGCI amount to over CAD 15 billion, with a major share of private funding. Representatives from the major industries were included in the selection of priorities and the development stage of the project. The private sector was also included in performance measurement: an Asia-Pacific Gateway Performance Table was established in 2008 as a time-limited, public-private engagement initiative to provide a means of assessing whether the significant infrastructure investments in the Asia-Pacific Gateway were resulting in performance improvements over time.

The APGCI is considered by British Columbian and federal authorities as a leading initiative to increase the country’s and province’s competitiveness, to generate business opportunities and to create jobs.

**Evolution of capital spending by the province of British Columbia**

Public investment (measured by capital spending) shows a steady increase in British Columbia from 2005 to 2012, with a little hike in the fiscal year 2009/2010 due to the stimulus plan launched by the federal government in March 2009 (which corresponded to 4% of the GDP over fiscal years 2009/2010 and 2010/2011). This plan helped public investment act in a counter-cyclical way, increasing by over 40% between 2007 and 2009 (Figure 2). After fiscal year 2011/2012, capital spending is expected to decrease, both in nominal terms and as a share of the provincial GDP, due to consolidation efforts (Figure 2).

![Figure 2. Evolution of capital spending by the province of British Columbia](image)

**Notes:** * Updated forecast. ** Budget estimate. *** Plan.

**Source:** Budget and fiscal plan 2012/2013-2014/2015.

### 2.2. Financing public investment

**“Municipal infrastructure deficit”: A national concern, and an important issue in British Columbia**

Municipalities build, own and maintain most of the infrastructure in Canada. Yet, over the past 20 years, they have seen their spending responsibilities grow while their revenue tools and fiscal environment have become more constrained. As municipalities are not allowed to run deficits on their operating budgets, they have used capital investment as an adjustment variable, and deferred needed investment when resources were tight. This has led to a deterioration of existing infrastructure and insufficient building of new infrastructure to meet the growing needs. According to a study carried out by the Federation of Canadian Municipalities in 2007, as time passes, the cost of fixing ageing infrastructure is climbing: it was estimated at CAD 12 billion in 1985 and CAD 60 billion in 2003. In 2007, the municipal infrastructure deficit – i.e. the total additional investment needed to repair and prevent deterioration in existing municipally owned infrastructure assets – was estimated at CAD 123 billion, which represented around 8% of national GDP, or more than 250% of national investment in 2007 (Federation of Canadian Municipalities, 2007). Figure 3 shows the breakdown of the municipal infrastructure deficit in Canada by category according to this study.
In addition to maintaining and repairing existing capital stock, new infrastructure is needed to meet the changing needs of municipalities due to demographic, socio-economic, environmental and other related reasons. Municipal capital investments are also often required to meet new regulations regarding the standards of service provision required. A survey carried out in 2007 by the Federation of Canadian Municipalities estimates that the projected need for new infrastructure in Canada is CAD 115 billion (Federation of Canadian Municipalities, 2007). These new infrastructure projects inevitably compete with existing assets for funding and increase the pressure on municipal budgets.

In British Columbia, municipalities own about 60% of public infrastructure and are responsible for their operation and maintenance. The municipal infrastructure funding gap (the difference between needed and available funding) is estimated to be in excess of CAD 10 billion (Fletcher and McArthur, 2010).

**Municipal revenue sources**

To finance this gap and the necessary new investments, municipalities in British Columbia mainly rely on revenue from property taxes and the sale of goods and services, which account for 31% and 20% of their total revenues respectively (Figure 4). In addition, an important share of their revenues come from earmarked grants from other levels of government (provincial and federal). These are mostly one-off capital grants that help finance a given infrastructure project, but do not allow predictability or financial stability, and do not provide for operating expenditure (Fletcher and McArthur, 2010).
Municipalities are not allowed to run deficits, even during downturns, which makes their budgets effectively pro-cyclical (as revenues from sales of goods and services tend to decrease during downturns, while spending usually increases, in particular in social protection). Municipalities can borrow for investment purposes, but borrowing must be approved by referendum (Fletcher and McArthur, 2010). Municipalities can borrow directly on financial markets or through the Municipal Finance Authority (Box 3).

**Box 3. Municipal Finance Authority**

The Municipal Finance Authority (MFA) of British Columbia was created in 1970, with the aim of financing most of regional districts’ and municipalities’ long-term debt. All local governments in British Columbia have joined the MFA system, except for the city of Vancouver. The city does not borrow through the MFA, but remains part of the joint guarantee, as it belongs to the Greater Vancouver Regional District. Governance of the authority is assured by members representing regional districts, in proportion to the districts’ population. Although the MFA initially only represented the collective long-term borrowing interests of local governments, Greater Vancouver water and sewer districts joined the agency in 1996, TransLink and regional hospital districts in 1999, and the Capital Region Emergency Services Telecommunications in 2005, *de facto* extending its responsibilities.

Debt issued by the MFA is backed by the revenues and assets of regional districts and municipalities, which have substantial taxing power, and revenues from the additional afore-mentioned members. The authority also established a debt reserve fund to which all members must contribute on the basis of debt re-paid. To this day, the MFA is unique in Canada, as it does not bear the explicit guarantee of the provincial government. In all other provinces where municipal borrowing entities exist, they are the “creatures” of their provincial governments. The MFA has had a continuous AAA rating since its creation.

The MFA’s mandate was expanded not only to borrow on behalf of its members, but also to leverage its larger scale and buying power to achieve better terms and competitive rates for investment funds (creation of the Pooled Investment Funds in 1989), and leasing contracts (1995).

In the first stages of the creation of the agency, a fierce debate opposed proponents of the MFA (who emphasised the potential economies of scale made possible by collective local borrowing) against those who argued that the provincial government was off-loading responsibilities onto local authorities. Proponents of the MFA...
emphasised the administrative and monetary economies of scale that collective borrowing would enable, and that bringing the full borrowing power of all of British Columbia’s local governments together would garner improved market acceptance and confidence. This was in line with the ideas behind the creation of the regional districts in British Columbia.

Source: Municipal Finance Authority website.

**Federal support for municipal investment: The Gas Tax Fund**

In 2005, the federal government created the Gas Tax Fund to support municipal infrastructure projects that contribute to three national priorities: cleaner air, cleaner water and reduced greenhouse gas emissions. It finances projects that fall in the following categories: drinking water, wastewater infrastructure, public transport, community energy systems, solid waste management and local roads. The federal government collects about CAD 5 billion per year in excise taxes on gasoline, diesel and aviation fuel, of which CAD 2 billion go into the Gas Tax Fund for municipal infrastructure. This represents a CAD 13 billion investment fund from 2005 to 2014. Every province in Canada receives a portion of the fund, which is determined at the provincial or territorial level based on population. In most provinces, the fund is delivered to and managed by the provincial government. In British Columbia, following the Gas Tax Agreement signed in 2005 by the federal government, the province and the Union of British Columbia Municipalities (UBCM), responsibility for managing the fund, allocating it to the municipalities and selecting the projects, was awarded to the UBCM. This represented CAD 636 million from 2005 to 2010.

**Other federal financing**

When a specific investment project corresponds to a national priority, the federal government also provides resources to finance it. These resources are often delivered by WD, which provides funding either through its own core programming or through non-core programming on behalf of the federal government (Box 4). In most cases – when it is also a provincial priority – the provincial government is required to provide funding, usually on an equal basis (50/50). Municipalities also sometimes contribute to the funding.

**Box 4. Western Economic Diversification Canada Programming**

WD receives an annual allocation, approved by Parliament, for grants and contributions that support a wide range of projects responding to Western Canada’s economic development needs and priorities.

WD’s grants and contributions support projects delivered directly by WD, either alone or in partnership with other organisations. Groups eligible to apply under WD’s programming include universities and other post-secondary academic institutions, research institutes, industry associations and other not-for-profit organisations.

- **Western Diversification Program (WDP)** is WD’s primary tool for grants and contributions. WDP invests in projects that support WD’s innovation, business development, community economic development and policy, advocacy and co-ordination activities including a number of partnerships undertaken with other levels of government.

WD uses two principal programme delivery mechanisms:

1. Direct engagement with interested parties to identify sound projects and enter into contribution agreements that support economic development and diversification activities.

2. Transfers to regional delivery organisations that provide a range of business development services to targeted groups (e.g. rural communities, women, francophones, small- and medium-sized enterprises). These
are known collectively as the Western Canada Business Service Network.

**National agreements**

WD delivers a number of national programmes in the western provinces, including:

- A new, two-year national programme that will invest over CAD 46 million in Western Canada for the rehabilitation and improvement of existing community infrastructure that is non-commercial and accessible to the public.

- The Economic Development Initiative will invest CAD 3.2 million in Western Canada over five years to support business and economic development that encourages sustainable growth in Western Canada’s francophone communities.

WD delivers the following national infrastructure programmes in Western Canada on behalf of Infrastructure Canada in areas such as water, wastewater, culture and recreation:

- The Municipal Rural Infrastructure Fund is investing CAD 276.4 million in Western Canada to improve and increase the stock of core public infrastructure for municipalities with populations of less than 250 000.

- The Building Canada Fund through the Communities Component is investing CAD 513.5 million in Western Canada to address the unique needs of communities with a population less than 100 000.

WD has already successfully delivered other national agreements, such as Canada’s Economic Action Plan – the Community Adjustment Fund (CAF) and Recreational Infrastructure Canada (RInC); Mountain Pine Beetle; and the Alberta and Saskatchewan Centennials “legacy” infrastructure component.


**Important role of independent institutions created by the province**

The province of British Columbia has delegated many of the functions that require high levels of investment (transport, ports, airports, etc.) to independent institutions, created by the province for specific purposes. These institutions also carry out public investment for municipalities, usually serving several municipalities (on a regional district level). For example, Trans Link designs and builds the public transport network in the regional district of Vancouver (Metro Vancouver) (Box 6). These institutions are responsible for funding public investment through their different sources of revenues (fees, taxes earmarked to finance them, etc.) and to issue debt when necessary. Most of these institutions have a balanced budget requirement. Their investment capacity, therefore, depends on the revenues earmarked for them and their borrowing capacity. In some cases, there is a high demand for more investment, but the institutions cannot respond to the demand as present funding sources are insufficient and politicians refuse to increase the share of taxes allocated to them. For example, there is an important demand for more public transport in the metropolitan region of Vancouver. Municipalities do not have sufficient revenues to increase their participation in Trans Link’s investments, and a proposal to increase the share of taxes allocated to it was refused. Trans Link’s suggestions to create new financing mechanisms (such as tolls, for example) were also refused by the provincial government, thus limiting the possibilities of financing some high-demand transport improvements. In addition, there is no federal strategy to develop public transport in Canada, so there is no federal programme to which Trans Link or the municipalities could apply.

An important and growing share of the province of British Columbia’s capital spending is actually done by its Crown corporations, and is therefore funded by future fees and benefits resulting from these investments, rather than by taxes (Figure 2). In 2011/2012, 44% of capital spending was expected to be self-financing.
Public-private partnerships

Public-private partnerships (PPPs) are frequently used in infrastructure projects, involving private operators mainly in the design and build phases. According to the regional questionnaire, there is scope for increasing the use of PPPs: the insufficient use of this type of contract was identified as a key challenge to the financing of public investment in British Columbia. However, opinions are divided regarding the efficacy of their use. The project to build the Canada Line Rapid Transit (which among others, connects the city of Vancouver to the airport), for example, was refused several times by Trans Link, as officials did not want to use PPPs while airport authorities insisted this was the most efficient way to finance and build it (Box 5).

Box 5. Canada Line

Transport systems to link the cities of Richmond and Vancouver had been studied for several decades. In 1999, during the consultation programme for the Trans Link Strategic Transportation Plan (1999), several government agencies expressed renewed interest in a rapid transit network to connect these two cities. Increases in passenger and cargo traffic at Vancouver International Airport prompted interest in a rail link to serve the growing employment base on Sea Island and existing and future passenger terminals.

In September 2000, Trans Link (then called the Greater Vancouver Transportation Authority), the province, the Vancouver Airport Authority (the local funding agencies) and the cities of Vancouver and Richmond agreed to participate in a three-phase project to evaluate the potential to build rapid transit between Vancouver and Richmond by 2010:

- Phase 1 – consisted of defining the organisation of the project and its objectives;
- Phase 2 – included an evaluation of the need to build the line, the potential to fund it and the potential for private investment;
- Phase 3 – project definition phase, culminated in a Project Definition Report which was delivered to the participating agencies in February 2003. The purpose of the report was to define the project and its financial implications to a level that would allow the local funding agencies to decide to proceed with the project. The project definition phase also marked the beginning of the procurement process. During this phase the agencies issued a Request for Expressions of Interest (RFEI) to determine the level of interest in the market.

Funding sources

Funding for this project was divided between several public and private actors. In particular, the federal and provincial governments and Trans Link (Box 7) together invested over CAD 1 billion, and the Vancouver Airport Authority (Box 8) contributed CAD 300 million. InTransitBC, the private consortium responsible for the construction of this project, invested another CAD 720 million.

Governance of the project

The Canada Line Rapid Transit Inc (CLCO), a wholly-owned and independently governed subsidiary of the Greater Vancouver Transportation Authority, was created to manage the competitive selection process and was responsible for overseeing the overall implementation of the project. In 2005, a PPP was signed with the private concessionaire, InTransitBC.

InTransitBC had the obligation of constructing the line for a fixed price and bearing budget risks. In compensation, the private consortium was awarded a 35-year operating period and will receive payments from TransLink and the province for operating and maintaining the line.

The project was completed 15 weeks ahead of schedule and opened in August 2009. It reached its break even


Impact of the crisis and consolidation on financial resources for public investment

Following the 2009 recession, the federal government implemented a fiscal strategy aimed at stimulating the economy and reducing the infrastructure deficit. The stimulus plan was highly concentrated on financial support for infrastructure investment (OECD, 2011). The stimulus programme is now phasing out and funds for investment are scarcer. This is particularly hard for municipalities, which see these funds fading out precisely at a time when business groups are also reducing their spending. The Gas Tax Fund is the only stable and predictable financing source for municipal public investment.

The province is also seeking to return to a balanced budget in fiscal year 2013/2014 and is therefore also projected to decrease capital spending, starting with the 2012/2013 budget (Figure 2). The scarcity of funds for public investment generates increased expectations from the programmes that are implemented. As politicians are accountable for all money spent, this translates into an increased interest in how the funds are spent and how decisions about public investment are taken and communicated.

3. Co-ordination for public investment across levels of government

3.1. Overview of co-ordination for public investment

Canada has developed a complex system to achieve multi-dimensional co-ordination (both vertically across levels of government, and horizontally among governments at the same level, as well as among institutions responsible for sectoral policies). This system is based on a relatively small number of institutions, which have multi-dimensional mandates. These institutions intervene for regular, “routine” investments (such as water, sewage, transport, etc.), but are also key players in special “strategic” initiatives, such as the Pacific Gateways and Corridors Initiative (Box 2).

Thanks to this intricate network of institutions, WD reports that co-ordination between levels of government is not considered to be an issue in British Columbia.

There are two particularities in British Columbia’s multi-level governance system:

- First, in many cases, vertical co-ordination between levels of government cannot be dissociated from horizontal co-ordination. Indeed, the institutions mentioned above often have a double mandate of both vertical co-ordination between levels of government and horizontal co-ordination between sectoral policies.

- Secondly, federal institutions in the province not only represent the interests of the central government, but are also used to convey provincial information and priorities to the federal authorities.

Provinces and territories in Canada regularly meet to discuss common issues, including those related to infrastructure. For example, the Council of the Federation, which consists of the 13 elected heads of provincial and territorial governments (“first ministers”), meets on a bi-annual basis, providing an opportunity for consultation among provinces and territories. There are various similar sector-specific councils of provincial/territorial ministers, as well as regional/bilateral premier meetings which are typically organised on an ad hoc basis.

3.2. Vertical co-ordination between the region and the federal government

RDAs play a key role in engaging the central government with the sub-national levels. The distance with the capital and the broad terms and conditions defining their creation allow RDAs to interpret and implement federal policies according to the region’s priorities and situation, as well as to act as a feedback channel representing the provinces’ concerns to the federal government. In addition, as each RDA includes several provinces, it also plays a role in co-ordinating – at least federal – policies across provinces. RDAs also play a role in delivering some federal programmes across provinces.

Western Economic Diversification Canada: A co-ordination hub across levels of government and across sectoral policies

WD’s mandate is mainly an economic one, focusing on enhancing innovation, business growth and productivity, and trade and investment. It also sometimes plays a role in co-ordinating information and activities across jurisdictions.³ Its mandate is to promote the development and diversification of Western Canada’s economy, co-ordinate federal economic activities in the west and reflect western Canadian interests in national decision making. See Box 4 for more information on WD.

Co-ordinating federal sectoral policies in regions and adapting them to regional needs

The Treasury Board Secretariat in Ottawa has created 13 regional federal councils (one per province and territory) to facilitate inter-departmental and inter-regional co-ordination among federal departments and agencies in each province or territory, as well as between the regions and Ottawa (Figure 5). They comprise the senior officials of the federal departments and agencies in each province and territory and are chaired by the heads of the RDAs. In addition, a large number of regional managers and staff are involved in the work of council’s sub-committees on a wide range of management and policy issues.

The regional federal councils come together on a regular basis to share information and identify public policy and public administration issues. They play an important role as an executive forum and in integrated and improved service delivery, two-way communication with Ottawa/headquarters on regional perspectives and federal initiatives, and co-operation with other jurisdictions. The RDAs play an important role in supporting the regional federal councils and in some cases assume a leadership position on strategic or programme areas.

Regional ministers offices

Co-ordination with the federal authorities is also assured through the regional ministers offices. Regional ministers represent regions/provinces (there is usually one regional minister for each province/region, except for Ontario and Quebec where there are two). Regional ministers are selected from within the Cabinet by the Prime Minister to undertake activities that go beyond their existing portfolio/departmental responsibilities.

Their key functions include:

- acting as the senior federal spokesperson on matters relating to the national government in the region (i.e. with the media and key stakeholders);
- representing regional interests and perspectives in the decision-making and policy development process and at Cabinet discussions;
- co-ordinating political activities as well as federal activities and announcements in the region; and
- liaising with respective provincial and municipal governments on issues of regional significance.

In British Columbia, the model is slightly different from that of other Canadian provinces. Instead of a single regional minister working in isolation, federal ministers from across the province have joined forces and share resources with the Regional Minister to establish the Ministers’ Regional Office – a larger and more integrated model than is found in other parts of the country, and which has facilitated the co-ordination of federal communications and political activity in the region.

3.3. Horizontal co-ordination between municipalities

If provinces in Canada are highly autonomous from the federal government, municipalities on the contrary are very dependent on the provincial governments. This is visible in British Columbia, where the province can create inter-municipal institutions, oblige municipalities to adhere to them and review their mandate when it considers it necessary. British Columbia has created a number of institutions with the aim to facilitate co-ordination between municipalities and reach efficient scale for service provision and public investment (regional districts, Trans Link, British Columbia Rail Company, etc.).

**Regional districts: Created by the province to serve municipalities**

British Columbia has created 28 regional districts. Regional districts are composed of several local governments (municipalities or rural areas – which do not necessarily belong to a specific municipality), and deliver services and joint investments for their member municipalities. Membership in a regional district is compulsory for all of the municipalities within its borders. Each municipality chooses from its council one representative for the regional district board.

Regional districts are required to operate with balanced budgets, but can borrow to financial investment (for example they can borrow from the MFA – see Box 3). They receive a share of the property tax collected by their member municipalities. In addition, each municipality pays for the services it receives from the regional district.

As stated above, one of the characteristics of Canada, and British Columbia in particular, is to provide general guidelines which are sufficiently broad to allow flexible interpretation, and adapting the general rule to the local need. Regional districts are yet another example of this. Membership in the regional district is compulsory, but once created, the board of the regional district decides which services and related investments it will jointly offer to its member municipalities. The services covered may thus be different among regional districts, depending on the specific needs and preferences of the member municipalities. Box 6 presents the particular example of the Metro Vancouver regional district.

### Box 6. Metro Vancouver

The regional district of Vancouver, Metro Vancouver, is a federation regrouping 22 municipalities, a First Nation (indigenous population’s land) and one electoral area (including several unincorporated areas, such as universities or the Barnston Islands). The area has a total of 2.3 million inhabitants, which is around half of British Columbia’s population.

It is responsible for delivering several public services and the related public investment that they require, including water, waste management, planning and housing, and provides a forum for discussion about region-wide issues. Although municipalities are not obliged to use all of the services provided (they may choose to provide some of
them independently), most of the time they do.

Metro Vancouver is directed by a board of 37 people representing the municipalities, whose vote shares are proportional to the municipal population. However, this large board and participative model implies very long decision-making processes.

Metro Vancouver relies on a very large capital budget (CAD 5 billion over the next ten years), and owns significant infrastructure, such as trunk lines on which municipalities can connect. Investments are mainly financed by user fees and property taxes, but the federation is also able to borrow from the MFA (see Box 3).

**British Columbia often creates independent institutions to deliver specific services to municipalities**

British Columbia has created a number of authorities who run specific public services for the municipalities. Once created, they are administered independently of the province, directed by a board that represents the relevant interests given their mandate (municipalities, regional districts, civil society, etc.). They are funded by specific taxes and fees and are not allowed to run budget deficits, but may borrow for capital investment (for example from the MFA). By providing services to a pool of municipalities, they allow for economies of scale and lower prices. For example, the province decided in 1999 to create Trans Link, an independent regional authority to which it gave the mandate of designing, building, financing and managing the public transit system in the regional district of Vancouver (Box 7). Previously, responsibility for public transport rested in Metro Vancouver.

**Box 7. Trans Link**

Trans Link is a regional transport authority responsible for designing, building, financing and managing the public transit system in the region of Metro Vancouver. It was created by the regional government of British Columbia in 1999.

Trans Link is self-supported and does not depend on transfers: it is funded by fares and user fees (around 30% of total funding), a share of municipal property taxes (around 20%) and a share of the provincial fuel tax (around 25%). Other funds come from levies on electricity bills and other small sources. As all other regional authorities in British Columbia, Trans Link is a self-financing organisation and not allowed to run deficits. It can borrow from the MFA to finance its investments, but has recently issued its own bonds on the financial market at better conditions than those provided by the MFA.

Trans Link is governed by several entities, including the Mayor’s Council on Regional Transportation, the Board of Directors and the Regional Transportation Commissioner. The Mayor’s Council consists of the 22 mayors of the municipalities within Metro Vancouver, and the Chief of the Tsawwassen First Nation. As plans for expansion or new funding sources only depend on mayors’ approval, the regional authority is often criticised for its lack of accountability. Yet it was actually created by British Columbia to avoid the mayors getting involved in public transport decisions, often blocking new initiatives for individual interests. The Mayor’s Council is also responsible for appointing the Board of Directors that oversees Trans Link’s management, as well as the Commissioner who is responsible for reviewing the strategic plans and reporting on performance.

The planning strategy developed by Trans Link integrates all modes of public transport (buses, rail and road). Plans must match land-use plans developed by Metro Vancouver. There is, therefore, close co-operation between the two institutions as far as planning is concerned. The provincial government also plays a key role since it has authority over legislation relative to Trans Link and its governance system.

The public rail system (Sky Train and West Coast Express) is operated by BC Rapid Transit Company, a publicly owned company which is also responsible for managing PPPs and concessions. In a similar way, the Coast Mountain Bus Company operates most of the bus service.

Union of British Columbia Municipalities: A creation of the municipalities

The Union of British Columbia Municipalities (UBCM) was created by municipalities in 1905. It plays a role in both horizontal and vertical co-ordination. Although membership is voluntary, all of British Columbia’s municipalities are members. UBCM’s board is carefully structured so as to have a fair representation of all municipalities (by geographical area, size, revenues, etc.). Its aim is to play an advocacy role and to “put tools in the toolbox”, so that local people can then make local decisions. British Columbia delegated the management of the Gas Tax Fund to UBCM, which is an arrangement unique in Canada.

The crisis increased incentives for municipal co-operation

As financial resources for public investment have become scarcer with the crisis, municipalities have become more willing to engage in common projects, in order to benefit from economies of scale and reduce costs.

4. Selecting and monitoring public investment projects

4.1. Organisational and management capacities

The province is very active in creating institutions that support municipal capacities in the management of public investment, while at the same time making sure that economies of scale are realised. As these institutions are specialised in a small number of activities, and serve a great number of municipalities, they have more specialised and more qualified staff than if municipalities had to carry out these activities themselves. This enhances the overall capacity of municipalities in British Columbia. The Municipal Finance Authority (Box 3), Metro Vancouver (Box 6), Trans Link (Box 7) and the Vancouver Airport Authority (Box 8) are examples of such institutions. The composition of the boards of these institutions with a balanced representation of the municipalities they serve, is crucial in ensuring the alignment of their incentives with those of the municipalities.

<table>
<thead>
<tr>
<th>Box 8. Vancouver Airport Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the 1980s, the Canadian government decided to devolve airports to local authorities. This devolution had three objectives: improve accountability; make airports commercially viable enterprises; and enhance local economic development. The government of Canada examined different models for devolving airports, such as fully privatising them, creating for-profit corporations or quasi-government authorities (Crown corporations). In the end, the government settled for a unique model for the 26 so-called “national airports” which encompassed devolving operations to private not-for-profit corporations, but retaining ownership of the airports’ land. The model is based on broad governance guidelines allowing each of the 26 national airports to develop their own, specific governance structure.</td>
</tr>
<tr>
<td>Vancouver Airport Authority is a local community-based corporation. It has no shareholders, and is a not-for-profit corporation. All its revenues are, therefore, re-invested in the airport. It receives no government subsidies, no tax money and no grants to operate the airport (besides some compensation funds after September 11th to increase security screening).</td>
</tr>
<tr>
<td>The board is composed of five representatives, who may not be active politicians: one from the city of Vancouver, one from the city of Richmond, one from Metro Vancouver and two from the federal government. In addition, four NGOs appoint members (representing civil society): the Professional Engineers and Geoscientists of British Columbia, the Chartered Accountants of British Columbia, the Law Society of British Columbia and the Vancouver Board of Trade. Finally, five directors are appointed from the community at large.</td>
</tr>
<tr>
<td>The federal Ministry of Transport Canada continues to play a role in the Airport Authority. First, it is the landlord, and the Airport Authority pays a ground rent. Transport Canada monitors compliance and conducts audits. Second, Transport Canada is a regulator: it dictates security regulations, Canadian Aviation Regulations, issues the Aerodrome</td>
</tr>
</tbody>
</table>
operator certificate. Finally, Transport Canada sets policies which affect the Airport Authority, such as international air policy, border policies, etc.

The role of the Airport Authority consists of operating the airport, providing the necessary infrastructure, developing the long-term development plans, maintaining relations with the community (for example noise management, environmental concerns) and facilitating economic development. The Airport Authority invested CAD 2 billion between 1992 and 2011. In January 2012, it announced a ten-year programme of a further CAD 1.8 billion. There are three sources of funding for these investments: operating revenues, debt and an airport improvement fee collected on passengers. Vancouver was the first airport in Canada to collect such a passenger fee. It has only increased twice in 20 years, and currently represents CAD 20 per passenger.

4.2. Strategic planning

Strategic planning facilitates horizontal co-ordination between sectoral policies but is less effective for co-ordination across municipalities

Strategic planning often requires co-ordination between different institutions. For example, Metro Vancouver is responsible for land-use planning, while Trans Link is responsible for transport planning. As these two strategic plans need to be compatible and co-ordinated, the two institutions mutually review and approve each other’s plans.

There seem to be more complementarities between local and regional authorities on technical aspects (for example transport infrastructure) than on softer issues, such as strategic planning and economic development policies. Within Metro Vancouver, for example, municipalities find it easier to reach agreement on the water infrastructure plan than on the transport plan, which has important regional development consequences, as each pursues its own interests. Fast-growing congested municipalities argue for more public transport in their areas (combating congestion), while less-populated areas plead for more public transport so to attract more citizens to their area (improving connectivity).

The difficulties that municipalities in Metro Vancouver encountered when trying to reach agreements on public transport plans were the main reason why the province assigned this sector to an independent body (Trans Link) in 1999. Trans Link now faces the opposite challenge: board members are designated by mayors, but mayors are only consulted when it comes to raising Trans Link’s budget. They do not intervene in transport plans. The results are often criticised as reflecting too technical an approach, with little concern about the impact of their decisions on the development of different areas. However, the model is very efficient for integrating transport solutions (rapid trains, buses, etc.).

Strategic planning also helps vertical co-ordination, but there is room for improvement

When it comes to land-use planning, municipal “official community plans” must be compatible with those of the next higher level of government (for example Metro Vancouver), which must also take the provincial plans into account. When a municipality wants to change the designation of a piece of land in the region of Vancouver, it needs the approval of the 21 other municipalities. Metro Vancouver’s priority is to protect agricultural and industrial land and to contain pressures for urban sprawl. It is not very engaged in regional development issues; its planning is mainly confined to land use. Municipalities, by contrast, tend to favour housing, which generates more local (property) taxes. Officials at Metro Vancouver do not co-operate much with provincial or federal government on regional development issues. For example, they do not support the Asia-Pacific Gateway, as they consider it to be a national priority, and do not see how it could benefit their municipalities.
4.3. Financing public investment and involving private actors

The private sector is a key partner in most large investment projects in British Columbia, as seen in the Asia-Pacific Gateway Initiative (Box 2), the financing of Canada Line (Box 5) and the development of Vancouver International Airport (Box 8).

To increase efficiency, British Columbia created a non-profit private company, Partnerships British Columbia, to concentrate the planning and design of most investment projects in British Columbia (Box 9). By concentrating these activities in a single institution, the province is able to have highly qualified and experienced staff whose skills can be used by all levels of governments. Hence, this system helps to resolve the potential lack of public administrative capacity at sub-national level. Partnerships BC also handles all PPPs in the province and plays a large role in public procurement.

Partnerships BC provides integrated service from the planning of a project to enforcing all the contractual clauses, and plays an important role in public consultations. As the company has a broad picture of the actions implemented by all of the municipalities in the region, it has a role in avoiding the duplication of projects. Since it is responsible for negotiating contracts with private partners on behalf of municipalities, it is in a better position to enforce them; this explains why Partnerships BC accompanies more and more its clients during the implementation of the contract. Partnerships BC used to be funded by the provincial government, but it is now autonomous, relying upon service fees. It is particularly cautious about avoiding conflicts of interest. Each person in the evaluation team has to go through a “relationship review” to make sure they do not have stakes in the project.

---

**Box 9. Partnerships British Columbia**

Partnerships BC serves British Columbians through the planning, delivery and oversight of major infrastructure projects. As a company registered under the Business Corporations Act, Partnerships BC is wholly owned by the province of British Columbia and reports to its shareholder, the Minister of Finance.

Partnerships BC’s mission is to structure and implement partnership solutions which serve the public interest. Partnerships BC is committed to transparent operations and achieving wide recognition for its innovation, leadership and expertise in public procurement.

Partnerships BC’s core business is to:

- provide specialised services to government and its agencies, ranging from advice to project leadership/management, with respect to identifying opportunities for maximising the value of public capital assets and developing PPPs;
- foster a business and policy environment for successful PPPs and related activities by offering a centralised source of knowledge, expertise and practical experience in these areas; and
- manage an efficient and leading-edge organisation that meets or exceeds performance expectations.

The company’s clients are public sector agencies, including ministries and Crown corporations. To serve these clients effectively, Partnerships BC is also working to build strong relationships with private sector partners such as businesses, investors and the financial services sector.

The company’s organisation, staffing and governance reflect and support this meshing of public and private sector interests. Partnerships BC has offices based in both Vancouver and Victoria to effectively meet the needs of partners in both areas.

*Source: Partnerships British Columbia’s website: [www.partnershipsbc.ca](http://www.partnershipsbc.ca).*
5. Lessons learnt and good practices

Canada has developed a complex system to achieve multi-dimensional co-ordination (both vertical and horizontal). This system has five key characteristics:

- It relies on both formal institutions and intensive interaction between the players (informal initiatives), which feed one another: the formal institutions foster a more general exchange of information and experience that creates and reinforces trust and mutual understanding.

- It has developed guidelines that are sufficiently general to allow flexible interpretation, so that implementation can be adapted to local needs.

- Vertical co-ordination between levels of government and horizontal co-ordination between government units and policies are often integrated in the same institutions.

- The province has created a number of institutions to help municipalities by enhancing their capacities and ensuring that potential economies of scale are realised.

- Federal institutions in the province have a dual role: they represent the interests of the federal government to provincial and local authorities, but they are also committed to the development of the province; and they use their voice in Ottawa to bring provincial information and priorities to the attention of the federal authorities.

There is still room for improvement for horizontal co-ordination between municipalities on strategic regional development planning. Discussions about regional development planning at the metropolitan/regional level are only at their beginning and could be further developed (the Vancouver Olympic Games in 2010 provided the occasion for a first multi-municipal approach).

There seems to be a mismatch between municipalities’ large public investment responsibilities and a limited ability to raise their own revenues. In addition, their strong reliance on property taxes generates incentives which may not be compatible with long-term development (as they will favour housing to industrial or commercial development).
NOTES

1. Please note that the term “region” in Canada does not have the same meaning as in the other case studies. What we refer to as “regions” in the case studies (i.e. the level of government immediately below the central/federal level) are called “provinces” in Canada. The term “regions” in Canada designates either geographical areas composed of several provinces (which have neither political powers nor administrative responsibilities), or, within provinces (at least in British Columbia), it also refers to a level of government between the province and the municipality, which gathers several municipalities.

2. Municipal infrastructure deficit refers to the following: i) the unfunded investments required to maintain and upgrade existing, municipally owned infrastructure assets; and ii) the funding needed over and above current and projected levels to bring existing facilities to a minimum acceptable level for operation over their service life, through maintenance, rehabilitation, repairs and replacements (Federation of Canadian Municipalities, 2007).

3. For a detailed description of the OECD multi-level governance framework and the co-ordination gaps which arise from decentralisation, see Charbit (2011).

REFERENCES

ACOA (2011),

Charbit (2011),


Moody’s Investors Service (2012), British Columbia, Province of, Credit analysis, 12 April.


Standard & Poor’s (2012), Province of British Columbia, Global Credit Portal, Ratings Direct, 5 April.


WD (2011),