

MANAGING ACROSS LEVELS OF GOVERNMENT

CANADA

1. Institutions and authority

1.1 Structures

Description of levels

Canada is a federal state of ten provinces and two territories (the Yukon Territory and the Northwest Territories). The Northwest Territories will be divided to form two separate territories in 1999. The eastern territory will be called Nunavut and the western territory will continue to carry the name of Northwest Territories. The provinces and territories vary considerably in size and population, as Table 1 indicates.

Table 1. Area and population of provinces (1995)

	Area (thousands of km ²)	Population (thousands)	Population density (per km ²)
Newfoundland	372	574.2	1.5
Prince Edward Island	6	136.1	24.0
Nova Scotia	53	937.8	17.7
New Brunswick	72	760.1	10.6
Quebec	1 358	7 334.2	5.4
Ontario	917	11 100.3	12.1
Manitoba	548	1 137.5	2.1
Saskatchewan	570	1 015.6	1.8
Alberta	638	2 747.0	4.3
British Columbia	893	3 766.0	4.2
Yukon	532	30.1	0.06
North-West Territories	3 246	65.8	0.02
CANADA	9 203	29 606.1	3.2

Source: Demography Division, Statistics Canada.

The *Constitution Act, 1867* set up a system of government which establishes a separation of powers between two levels of government, the federal and the provincial. The two territories enjoy some of the powers of the provinces while being under the jurisdiction of the federal government.

Municipal institutions come under the jurisdiction of the provinces. Municipal governments are set up by the provincial legislatures, and have the powers that the legislatures assign to them. However, owing to the demographic, economic and political development of municipalities, the municipal political and administrative structures are now widely regarded as another level of government. Some of the larger municipalities have much larger populations than do the smaller provinces. The municipalities, even though do not have a defined constitutional status, pursue their interests with provincial governments and to a certain extent with the federal government, both individually and through the Federation of Canadian Municipalities.

Table 2. Number of municipalities by province and territory (1968, 1978, 1988, 1995)

Province or Territory	1968	1978	1988	1995
Newfoundland	159	307	313	290
Prince Edward Island	30	37	86	75
Nova Scotia	66	65	66	81
New Brunswick	114	112	114	112
Quebec	1 726	1 577	1 598	1 531
Ontario	964	837	839	816
Manitoba	214	202	201	202
Saskatchewan	803	791	835	849
Alberta	366	351	364	372
British Columbia	65	437	172	179
SUBTOTAL	4 507	4 716	4 588	4 507
Yukon	N/A	N/A	N/A	10
Northwest Territories	N/A	N/A	N/A	48
TOTAL	N/A	N/A	N/A	4 565

Sources: For 1968 and 1978, Harry M. Kitchen, *Local Government Finance in Canada*, (Toronto: Canadian Tax Foundation, 1984), Table 1.2, p. 11; for 1988, Statistics Canada, *Canada Year Book*, (Ottawa: Queen's Printer, 1989), Table 19.7, pp. 19-27 and 28; for 1995, Public Institutions Division, Statistics Canada.

This constitutional situation means that Canada has ten different municipal systems, although they have a number of points in common. The local administrative unit is the municipality which is incorporated as a city, town, village, township or other designation. The type of structure generally depends on the number of citizens in the unit. If one aggregates the local governments over the whole country, there are (1991) approximately 5 000 "unitary" municipalities in Canada. These are made up of nearly 120 cities, about 800 towns, over 1 000 villages, and almost 3 000 rural municipalities.

As the size of urban populations has grown, most of the major urban centres have a "two-tier" municipal structure, with an "upper-tier" regional government responsible for financing and implementing infrastructure projects for the territory of the upper-tier structure. Other areas are structured as county or regional districts. In some other cases, the local governments are placed under the supervision of a county or of a regional administration. Large sparsely populated areas, known as "quasi-municipalities", are

usually administered by provincial governments. Depending on the province, there are also a variety of special-purpose organisations or bodies at the local level, each with a specific-purpose responsibility. The most important of these special purpose bodies are school boards.

The Aboriginal Peoples of Canada have rights and freedoms that are included in the Constitution. The Constitution Act, 1982 recognises and affirms the existing “aboriginal and treaty rights” of the Aboriginal peoples. Aboriginal peoples have maintained that they have an inherent right of Aboriginal self-government, which should be recognised by all Canadians. The federal government is ready to enter into negotiations with Aboriginal people based on the premise that there is an inherent right, and has recently developed a policy to guide the implementation of Aboriginal self-government through agreements with provinces and Aboriginal groups.

Central government at sub-national levels

The lieutenant-governor of the province (see section on provincial powers below) is appointed by the federal cabinet, but this position is now almost entirely symbolic. The federal cabinet also appoints judges to all the courts from the county courts up, but the judges are independent of the federal cabinet once appointed.

Creation, elimination and restructuring

The *Constitution Act, 1867*, gave the federal Parliament power to create new provinces out of the territories, and also the power to change provincial boundaries with the consent of the provinces concerned. It is doubtful that the federal government would choose to exercise these powers in a unilateral fashion at the present time.

Municipal governments -- cities, towns, villages, counties, districts, metropolitan regions -- are set up by the provincial legislatures, and have such powers as the legislatures see fit to give them. Provincial governments have encouraged -- with varying degrees of success -- the amalgamation of municipalities in order to reduce their number and streamline their administration. Provincial government determination to reduce the numbers of municipalities has varied across time. At the present time this question is being pursued vigorously by a number of the provincial governments.

Control bodies

Most provincial governments have bodies that regulate various municipal aspects of provincial public policy (e.g. public health, building standards), control the fiscal decisions of municipalities and in some cases also control local planning decisions. In the case of some provinces, these powers are exercised directly by provincial ministers, in others by boards or commissions set up specifically to exercise these powers of control.

1.2 Powers

Nature of sub-national institutions

The separation of powers is mainly set out in the *Constitution Act, 1867*. Generally speaking, the federal government was given greater powers in the economic area (particularly as envisaged in 1867) and for matters involving interprovincial dimensions, while the provinces have greater responsibilities in social policy areas (education and health) and local matters.

In theory, each level of government is sovereign within its area of jurisdiction. The development of the federal system, however, has often transformed this concept of sovereignty into inter-dependence between the two levels. In the twentieth century, the federal government has used its spending power to act in social policy areas. Many of Canada's major policies since 1960 have been implemented in the context of joint federal/provincial activity.

The federal government has delegated some activities to the provinces. Parliament can delegate the administration of a federal act to provincial agencies. Administration and enforcement of the Criminal Code, a federal statute, for example, are delegated to the provinces. Parliament has also delegated responsibility for the regulation of interprovincial and international highway traffic to the provinces. Such devolution is known as “administrative delegation” and it is an important aspect of the flexibility of the Canadian federal system.

Provinces: Section 92 of the *Constitution Act, 1867* empowers the provinces to make laws concerning direct taxation within a province, the management and sale of public lands and timber and wood belonging to the province, municipal institutions, property and civil rights, and all matters of a merely local or private nature, including education, health, natural resources and social services.

Section 95 defines certain concurrent or joint powers: for example, agriculture, fisheries and immigration come under the jurisdiction of both levels of government. Such areas require extensive parliamentary or judicial review and federal/provincial negotiation to achieve consensus. In the event of a conflict, however, federal law prevails. In the Speech from the Throne in February 1996, the federal government indicated its willingness to pursue clarification of roles between the federal government and the provinces in areas including labour markets, manpower training, the environment, freshwater fisheries, forestry and mining. Concurrent powers also exist for old age pensions and other similar benefits, although in this case the provinces have the final say. The level of activity of the sub-national units in these areas of concurrent jurisdiction varies greatly. In the area of immigration, for example, Quebec is particularly active, in terms of the agreements between the federal government and Quebec in the area.

The Federal, the provincial and the territorial governments of Canada are all parliamentary governments, though no two are exactly alike. Only the federal Parliament is bicameral. In all the provinces and the Yukon territory, there are legislative bodies in which the majority party forms an executive, the Cabinet of elected members. (Candidates for the legislature of Northwest Territories have chosen not to align with political parties.) Only the Cabinet can introduce money legislation (private members bills can also be introduced but are rarely proceeded with) and is responsible to the assembly. Cabinet, and individual ministers, as the Executive arm of government, are, therefore, responsible for the public bureaucracy.

Each province has a comparable political structure. A lieutenant-governor, appointed by the Governor General-in-Council (in practice, the federal Cabinet), represents the Queen in the province and

acts on the advice and with the assistance of his executive council (provincial Cabinet), which is responsible for the legislature. The lieutenant-governor's powers, like the Governor General's, are now largely symbolic.

The legislatures of the provinces consist of a single house, as legislative assembly. This assembly is elected by universal suffrage for a statutory term of five years. Provincial elections are often held before the end of the period (generally after four years). All provinces have Cabinet forms of government. The size of Cabinet varies, consisting of about 30 members in the most populous provinces and a smaller number in the others.

Subject to the limitations imposed by the Constitution Act, 1982, the provinces can amend their own constitutions by an ordinary act of the legislature, restricted to changes in the internal machinery of the provincial government. They cannot, however, change the provisions relating to the office of the lieutenant-governor. Provincial legislatures are limited to those powers explicitly given to them by the written Constitution or as decided through judicial interpretation to be within their explicit designation of powers.

Local government: The governments of local authorities are not parliamentary governments, though in almost all instances those who govern are popularly elected. The council-manager form of government has been adopted generally by municipalities across Canada. A municipality establishes policy and administers responsibility through an elected council. Mayors, reeves, and councillors are elected on such basis as the provincial legislature prescribes. In most cases relatively small councils made up of elected officials exist. Elected councillors usually represent a sub-area of the municipality (although in some cases the elected representatives are elected on the base of the whole municipality) whereas mayors and reeves are typically elected from the whole municipality. The council sets strategic priorities and adopts a budget. Within the framework agreed by council, the executive function of local government is performed by a chief administrative officer, who manages specific programs and services, and in turn delegates operational implementation to specific department heads. Municipal governments are often complemented by a variety of local agencies, boards and commissions such as school boards, police commissions, conservation authorities, parks boards, health units, public utilities commissions and voluntary associations.

Municipal councils have the authority to authorise expenditures on municipal services and to raise money through taxes to finance these services. Municipalities have a wide range of regulatory powers to ensure public safety. Protective services include police, fire and ambulance services. Health services are directed to the prevention and control of communicable disease, the availability of potable water, the maintenance of sanitary standards in the handling of food and the management of waste. Municipalities may inspect construction sites to ensure the application of safety standards, conduct health inspections of locally licensed establishments (e.g. restaurants), and license everything from animals to street vendors. A variety of forms of executive structures exist and the degree of formalisation of these structures generally is directly related to the size of the municipality. In the larger municipalities, there is an evolution towards more formalised and more centralised executive structures.

Type and degree of autonomy

Provincial taxing powers are constitutionally more restricted than those of the federal government. In practice, however, as a consequence of judicial interpretation the taxing powers of the provinces have been considerably broadened, to the point that there are presently few tax bases that

provincial governments cannot exploit -- the exceptions are taxes on imports (customs duties) and taxes that would interfere with intra-Canada trade. Nor are there any real restrictions on the borrowing powers and decisions of the federal and provincial governments, except those imposed by the market.

The spending and revenue-raising powers of local governments are not only derived from the provincial governments, but they are, in addition, circumscribed by many rules and regulations which emanate from these same provincial governments. The major local source of revenue comes from property taxes, although revenue from sales and services is an increasingly important local source. Local governments also receive very considerable amounts in grants from the provincial governments. In most of the provinces, the vast majority of these grants are conditional grants, designated for particular areas of activity. The federal government has no role to play in this matter. In addition, the provincial governments regulate borrowing by local governments although the particulars vary from province to province.

Local governments prepare land-use plans which are heavily circumscribed by provincial guidelines and controls. In some cases the initial plans are formulated by the provincial governments with local governments being required to plan within the framework of the provincial plans, whereas in other cases the provincial control comes after the formulation of the local plans, in the form of provincial approval of the local plans.

1.3 Responsibilities

Distribution of responsibilities

Provinces: Section 92 of the *Constitution Act, 1867* assigns to the provinces such tasks as the administration of justice, municipal institutions, public lands, and the establishment and maintenance of hospitals. The provinces are also assigned exclusive authority over "Property and Civil Rights" and "generally all matters of a merely local or private nature in the province". In the twentieth century, the expansion of government activity in social areas has led to the considerable growth of the provincial governments. In budgetary terms the major areas of provincial expenditures are health and education.

Local government: There are close to 5 000 municipal governments which provide a range of services: Municipalities provide roads, sidewalks, street lights and bridges. They provide and regulate transportation systems, including urban transit, airports, harbours, taxi industries, and generally the movement of traffic and parking. Physical services include the provision of water and sewage treatment systems, garbage collection and waste disposal. Urban planning, the regulation of land use and economic development also fall within the municipal mandate. Schools are generally looked after by school boards or commissions elected under provincial education acts. Some services, such as in health, social services and education which were previously the responsibility of municipalities have been gradually transferred to provincial governments because of the costs involved. In some provinces, important residual responsibilities remain at the local level whereas in other provinces all responsibility has been transferred to the provincial level.

Mandatory, optional and shared responsibilities

Section 95 of the 1867 Constitution gives concurrent authority over agriculture and immigration to both federal and provincial levels of government. Since the 1960s the area of regional development has

been a major area of shared responsibility as has been job training. The question of the appropriate roles for the federal and provincial governments in these areas is a major subject of discussion at the present time.

2. Management functions

2.1 *Policy-making and co-ordination*

To understand inter-governmental relations in the Canadian governmental system, it is imperative to distinguish between the relations of federal and provincial governments and those of provincial and local governments. The two sets of relations are as different as they are for one very simple reason: the federal and provincial orders of government are entrenched in the Constitution as 'sovereign' or independent orders, while the Constitution makes the local governments 'creatures' of the provinces. However, the influence of federal-provincial relations plays itself out in provincial-municipal relations and makes somewhat more complex the relation of local governments to provincial governments.

Federal/provincial relations: The structure of federal/provincial relations in Canada reflects the fact that the country's governmental system is a **parliamentary** system in which the Cabinet plays a central role. Because of this, federal/provincial relations tend to be relations between federal and provincial Cabinet Ministers and their officials; and this has been at the origin of the expression 'Executive Federalism'. To understand the evolution of federal/provincial relations, it is useful to appreciate the dynamic between the individual or departmental responsibilities of Ministers and the collective responsibility of Cabinet. With the new federal government of 1993, there has been some shift away from the previous evolution toward "institutionalised cabinets which, in recognition of the greater complexity and interdependence of areas of government involvement became more "collegial" and where the role of central agencies, such as the Prime Minister's Office, the Privy Council Office, Finance and Treasury Board was very strong. The new federal government has returned to a system of a Cabinet organisation, which may be described as "departmentalised", in which ministers are assigned responsibility for a particular portfolio. The number of portfolios has been reduced and portfolios are administered with less formal co-ordination with others.

The Executive Federalism in the Canadian context has two organisational facets:

- "Functional federalism", in which ministers and officials, usually from corresponding federal and provincial departments, meet to share views on specific undertakings negotiate. These meetings are sometimes multilateral, involving the federal government and all the provinces, at other times they are multilateral-regional, bringing a number of provinces with the federal government, and at other times still, they are bilateral -- the federal government and one provincial government. There are more than 500 intergovernmental meetings a year involving federal provincial councils of ministers and committees of officials. Almost all of the meetings are "departmental", focusing on particular issues where co-ordination of policy positions or program delivery mechanisms is necessary. The meetings deal with diverse subjects ranging from law enforcement, through tourism, to budgetary policy.
- "Summit federalism". This refers to the meetings of First Ministers (the term used to refer to the Prime Minister of Canada and to the ten Provincial Premiers and two territorial leaders together). These summit meetings are always given a lot of publicity -- they are sometimes

televised -- and they have at times been successful forums for negotiations of difficult 'horizontal' problems, namely problems that extend to more than one department of government. There have been more than 60 First Ministers' Conferences since Confederation.

"Executive inter-provincialism" refers to meetings of all or some of the Provincial and Territorial First Ministers and their officials, but without the participation of the federal government. There is an annual meeting of the Provincial/Territorial First Ministers and this meeting has established sub-committees that deal with particular policy areas. In some cases, provincial ministers meet together before meeting in a federal-provincial format (as for instance with the Forum of Labour Market Ministers - the FLMM). In the case of education (a field of exclusive provincial jurisdiction), a Council of Ministers of Education has been formed including the Ministers of Education from all the provinces. The Council provides a mechanism for consultation in educational matters of mutual interest and concern to the provinces. It facilitates co-operation among the provinces and serves as a focal point for interprovincial co-operation on education-related matters involving the federal government. The Council is supported by a permanent secretariat. There is also a Canadian Council of Ministers of the Environment, in an area of joint jurisdiction, which brings together the federal and the provincial ministers and serves as a forum for co-ordination of policy decisions and activities. The provincial Ministers responsible for social policy have met and prepared a Ministerial Council on Social Policy Reform report which they put forward to the federal government for discussion.

The structure of federal regional development programming is based on a decentralisation of administration and authority from Ottawa to federal agencies, the Atlantic Canada Opportunities Agency (ACOA), the Federal Office for Regional Development - Quebec (FORD-Q), and Western Economic Diversification (WED), which have primary responsibility for regional development within their local areas. In January 1996, the government decided to consolidate responsibility for the three regional development agencies in the industry portfolio. The transfer of responsibility to the Minister of Industry was intended to improve service and support the government's agenda for jobs and growth. Regional development is seen as a shared responsibility with federal and provincial governments having complementary roles in addressing regional problems.

Federal agencies operate alongside (often in partnership with) provincial government organisations which also have economic development responsibilities and sometimes a separate hierarchy of offices at sub-regional level. In both Quebec and Atlantic Canada for example, provincial governments have their own structures of economic development organisations at regional and local levels.

An important area where management across the levels of government can be seen in action is that of standards-settings. National standards have been jointly set in the Canada Health Act and the National Building Code. In food inspection a major effort is being made, alongside the federal announcement to consolidate food inspection activities, to develop national codes, as well as to implement a co-operative national food inspection system.

Provincial/local relations: These relations reflect extensive involvement by provincial government in local affairs -- to the extent that local government autonomy has been eroded. Provincial governments intervene in local affairs through directives and mandates which may be issued with a minimum of consultation. The intervention takes many forms, from complete provincial control over certain functions, to the specification of standards for the local provision of many goods and services. Provincial-local relations involve both relations between provincial governments (usually through a Minister of Municipal Affairs) and organisations representing local governments and relations between

one individual local government and the provincial government. The strength of these organisations and their influence at the provincial level varies considerably across the provinces.

2.2 *Financial management*

Provincial and territorial governments are independent of the federal government with regard to their revenue and expenditure policies (i.e. there are no federal restrictions on provincial and territorial decisions in this domain). There are periodic meetings of the federal Minister of Finance and his provincial counterparts to exchange views on fiscal and economic policy and for negotiations regarding the large block transfer payments. Local governments are incorporated by each province to perform certain functions falling within provincial jurisdiction. Generally local government taxation revenues are limited to property taxes, but there is a growing trend at the present time to increase local government revenues from sales and services.

Sources of revenue

Provinces: As a general principle, the provincial and federal levels have equal powers in raising taxes (apart from customs taxes which remain with the federal level).

The federal government has since Confederation made transfer payments to provinces to allow them to carry out their responsibilities. Federal transfers to provinces and territories constitute an important source of their revenue and have expanded enormously over the last decades, amounting to some C\$ 38.8 billion in 1995-96. They can be categorised in several ways. Some have a specific constitutional basis, such as Equalisation -- the commitment to which was enshrined in the Constitution in 1982. Other transfers rely largely upon the federal spending power, such as the Canada Health and Social Transfer (CHST) (see below). Among the host of other transfer programmes are those which provide general support to territorial governments, and support joint initiatives with provinces in areas of concurrent jurisdiction such as agriculture.

Federal transfer programmes can also be classified according to whether the assistance is conditional or unconditional. Among the former are programmes where assistance is conditional upon provincial expenditures in a given sector or upon adherence to specific programme principles. A related distinction is between specific-purpose programmes (such as the Vocational Rehabilitation Of Disabled Persons program) and those (such as Equalisation) whose purpose is more general in nature. The impact of federal transfers varies considerably across the provinces, as can be seen in Table 3.

Table 3. Provincial revenues from federal transfers and own sources (%), 1984/1985, 1989/1990, 1994/1995

	Federal transfers						Other governmental & enterprise transfers			From own sources		
	General purpose		Specific purpose				1984/5 1989/90 1994/5			1984/5 1989/90 1994/5		
	1984/5	1989/90	1984/5	1989/90	1994/5	1984/5	1989/90	1994/5	1984/5	1989/90	1994/5	
Newfoundland	28.2	31.8	27.5	19.1	13.9	18.0	0.0	0.0	0.0	52.7	54.3	54.5
Prince Edward Island	30.8	29.9	25.1	17.0	14.7	15.7	0.0	0.0	0.0	52.2	55.5	59.1
Nova Scotia	22.7	22.6	22.9	19.0	15.7	17.6	0.0	0.1	0.0	58.2	61.6	59.5
New Brunswick	22.5	23.9	21.8	20.1	14.7	13.7	0.1	0.0	0.0	57.3	61.4	64.5
Quebec	12.2	10.2	8.7	13.1	9.0	10.0	0.4	0.5	0.5	74.2	80.4	80.7
Ontario	0.5	0.5	0.5	16.4	11.4	14.7	0.3	0.1	0.1	82.9	88.0	84.7
Manitoba	13.3	15.6	15.8	16.4	12.9	12.8	0.3	0.3	0.1	70.0	71.3	71.3
Saskatchewan	2.0	10.6	8.9	17.3	13.0	14.5	0.2	0.1	0.0	80.5	76.3	76.6
Alberta	2.9	1.1	1.1	8.6	13.1	11.3	0.1	0.0	0.0	88.5	85.7	87.6
British Columbia	0.7	0.2	0.0	16.6	13.1	11.1	0.0	0.0	0.0	82.7	86.7	88.9
North-West Territories	47.6	68.3	68.3	22.2	10.0	9.7	2.2	0.0	0.2	28.0	21.6	21.7
Yukon	41.3	60.5	59.3	30.5	11.9	16.0	0.0	0.1	0.0	28.1	27.5	24.6

Source: Public Institutions Division, Financial Management System, Statistics Canada.

Federal financial support is provided in two ways: through cash and tax transfers. The major transfer programme is the Canada Health and Social Transfer which replaced earlier programmes as of 1996-97. The CHST is a block fund provided for health, post-secondary education and social services and it is spent in accordance with provincial priorities. The CHST will total an estimated C\$ 26.9 billion in 1996-97 and C\$ 25.1 billion for 1997-98. The cash payment portion is equal to C\$ 15 billion in 1996-97 and C\$ 12.5 billion in 1997-98. The CHST allows provinces greater flexibility to design programmes, based on mutual consent in important areas. The CHST safeguards national standards or principles regarding health and social services. The CHST maintains the principles of the Canada Health Act and requires provinces to provide social assistance without imposing minimum residency requirements. The government will continue to work with the provinces to develop by mutual consent the values, principles and objectives that underlie the CHST.

The Equalisation Programme (around C\$ 8.8 billion in 1996-97 -- 24.4 per cent of total transfers) is the main mechanism for redistributing revenues. It provides transfers to the lower-income provinces to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Equalisation payments are calculated on the basis of a formula that compares the revenue-raising capacities of the provinces. Any province which has a per capita yield below the programme standard receives an Equalisation payment for the amount of the shortfall. The Equalisation Programme was renewed in 1994 for a five-year period.

The Canada Pension Plan (CPP): The CPP is administered jointly by the federal and provincial governments. The federal and provincial governments are required to review the CPP every five years. Public consultations are being held across Canada as part of the current review.

Local government: Municipalities have been historically limited to one source of revenue the taxation of real property. Other sources of revenue include grants from provinces and the federal government, and miscellaneous revenues from user fees, licenses, permits, fines, etc.. Although all forms of municipal revenue must have provincial/territorial authorisation, municipalities have discretion in terms of the level of taxation and to the quality of services provided. They also derive revenue from the taxation of businesses and amusements, and from licences, permits, rents, fines, etc. As this revenue proved insufficient, provincial governments have greatly increased their grants to local governments (municipalities and school boards) in the past forty years. In 1956 provincial transfers represented 19 per cent of local expenditures. This figure grew to 33.8 per cent in 1966 and to 42.6 per cent in 1976. The rate of increase has slowed considerably since this time and reductions to provincial transfers are being pursued at the present time in a number of provinces. As Table 4 indicates, the vast majority of provincial transfers take the form of conditional grants, although the extent to which this is true varies across the provinces. Local governments, operate with more autonomy in some provinces than others. Typically, provinces exercise more control over municipal operations where transfer, particularly conditional grants constitute a large part of municipal revenues. Unconditional grants provide for much greater autonomy. In those provinces where there is a greater reliance on own source revenues, municipalities tend to operate with significant independence. Table 5 gives the main sources of local government revenues (property and related taxes; sales and services; conditional and unconditional grants) by provinces/territories and shows some sometimes significant differences in trends over the three years for which data are supplied.

Expenditure responsibilities

As Table 6 indicates, both the federal government and provincial governments are responsible for transferring very large sums of money to other levels of government. Collection of revenue is far more centralised than is the delivery of services. This has created problems of political visibility for levels of government responsible for collecting taxes while other, more localised, levels of government are seen as providing services. Table 7, which gives local government expenditures by function and provinces/territories in 1985 and 1994, shows some significant differences across areas.

Table 4. Provincial Governments: General purpose and specific purpose grants to municipalities (1967, 1970, 1975, 1980, 1985, 1990, 1994)

Year ⁽¹⁾	General purpose grants	Specific purpose grants	Total grants	Total grants as a percent of	
	<i>C\$ million</i>	<i>C\$ million</i>	<i>C\$ million</i>	Provincial expenditure	Local revenue
				%	%
1967	259	1 980	2 239	23.8	40.3
1970	341	3 158	3 499	23.0	44.3
1975	893	6 256	7 149	20.8	48.1
1980	1 231	11 136	12 367	19.9	45.4
1985	1 854	17 136	18 990	17.6	46.3
1990	2 297	23 586	25 883	17.1	42.6
1994	2 034	28 607	30 641	17.5	43.5

1. Fiscal year nearest to December 31 of year named.

Source: Public Institutions Division, Financial Management System, Statistics Canada.

Table 5. Sources of local government revenues by provinces/territories (for fiscal years 1985, 1990, 1994⁽¹⁾)

[percentages]

	Property and related taxes				Sales and services				Unconditional grants				Conditional grants				Other				Total							
	1985	1990	1994	1994	1985	1990	1994	1994	1985	1990	1994	1994	1985	1990	1994	1994	1985	1990	1994	1994	1985	1990	1994	1994	1985	1990	1994	1994
NFLD	40.2	39.6	45.4	45.4	11.5	11.4	13.3	13.3	15.8	16.4	12.8	12.8	20.0	16.9	20.0	20.0	12.5	15.7	15.7	12.5	15.7	15.7	15.7	8.5	8.5	8.5	8.5	100.0
PEI	11.0	12.2	13.1	13.1	7.2	7.0	8.1	8.1	3.2	2.9	2.8	2.8	76.5	75.9	73.9	73.9	2.2	2.0	2.0	2.2	2.0	2.0	2.0	2.1	2.1	2.1	2.1	100.0
NS	23.2	26.5	27.4	27.4	7.9	8.3	8.9	8.9	2.5	2.2	2.1	2.1	58.2	55.0	54.7	54.7	8.1	7.9	7.9	8.1	7.9	7.9	7.9	6.9	6.9	6.9	6.9	100.0
NB	28.1	35.9	39.4	39.4	16.6	18.3	18.6	18.6	28.5	23.0	18.9	18.9	15.2	10.3	11.0	11.0	11.6	12.4	12.4	11.6	12.4	12.4	12.2	12.2	12.2	12.2	100.0	
QUE	33.0	35.7	39.4	39.4	8.1	10.1	10.0	10.0	0.2	0.5	0.7	0.7	51.1	45.9	43.1	43.1	7.7	7.8	7.8	7.7	7.8	7.8	6.9	6.9	6.9	6.9	100.0	
ONT	41.3	42.9	44.9	44.9	11.3	12.2	10.8	10.8	4.6	3.3	2.0	2.0	36.1	33.9	35.9	35.9	6.6	7.7	7.7	6.6	7.7	7.7	6.4	6.4	6.4	6.4	100.0	
MAN	32.1	33.7	35.2	35.2	9.0	9.1	9.8	9.8	3.1	3.4	2.9	2.9	44.6	44.1	42.8	42.8	11.2	9.7	9.7	11.2	9.7	9.7	9.2	9.2	9.2	9.2	100.0	
SASK	35.8	37.5	40.8	40.8	9.1	10.2	11.0	11.0	4.8	3.9	2.7	2.7	40.1	38.5	36.2	36.2	10.3	9.8	9.8	10.3	9.8	9.8	9.2	9.2	9.2	9.2	100.0	
ALTA	25.8	27.8	24.2	24.2	13.8	15.7	16.4	16.4	1.8	3.0	2.2	2.2	46.4	40.3	46.2	46.2	12.2	13.2	13.2	12.2	13.2	13.2	11.1	11.1	11.1	11.1	100.0	
BC	36.7	28.9	23.2	23.2	12.3	14.0	13.8	13.8	2.6	2.4	1.9	1.9	39.0	43.9	53.0	53.0	9.4	10.9	10.9	9.4	10.9	10.9	8.1	8.1	8.1	8.1	100.0	
YUK	29.2	23.2	26.0	26.0	16.5	12.9	13.6	13.6	11.0	8.7	4.5	4.5	28.8	35.0	40.8	40.8	14.6	20.1	20.1	14.6	20.1	20.1	15.1	15.1	15.1	15.1	100.0	
NWT	10.8	12.1	12.8	12.8	21.0	29.8	26.2	26.2	11.0	6.5	6.0	6.0	49.4	44.1	49.2	49.2	7.8	7.5	7.5	7.8	7.5	7.5	5.8	5.8	5.8	5.8	100.0	
CAN	35.3	36.9	37.9	37.9	10.8	12.1	11.6	11.6	3.1	2.8	2.0	2.0	42.4	39.3	41.0	41.0	8.4	8.9	8.9	8.4	8.9	8.9	7.5	7.5	7.5	7.5	100.0	

Notes: Fiscal year-end closest to 31 December.

Data as of release date 15 January 1996.

1. for 1994, figures are not actual but estimates.

Source: Financial Management System, Statistics Canada.

Table 6. Revenue and expenditure of all levels of government (1985, 1995)

	Federal	Provincial	Local	Hospitals	CPP and QPP (1)	TOTAL
<i>1985</i>	<i>millions of Canadian dollars</i>					
Revenue from own sources	83 237	77 297	19 724	881	9 892	191 031
Plus grants from:						
Federal government		21 240	506			21 746
Provincial governments			17 033	14 352		31 385
Local governments		89		20		109
Total revenue	83 237	98 626	37 263	15 253	9 892	244 271
Expenditure for own purposes	86 546	66 640	38 040	14 645	6 717	212 588
Plus grants to						
Provincial governments	21 240		89			21 329
Local governments	506	17 033				17 539
Hospitals		14 352	20			14 372
Total expenditure	108 292	98 025	38 149	14 645	6 717	265 828
Surplus or deficit (-)	-25 055	601	-886	608	3 175	-21 557
<i>1995</i>						
Revenue from own sources	148 312	133 001	37 044	1 557	19 830	339 744
Plus grants from:						
Federal government		30 735	1 390			32 125
Provincial governments			28 971	22 658		51 629
Local governments		96		20		116
Total revenue	148 312	118 554	65 194	24 188	20 948	371 637
Expenditure for own purposes	142 753	118 554	65 194	24 188	20 948	371 637
Plus grants to						
Provincial governments	30 735		96			30 831
Local governments	1 390	28 971				30 361
Hospitals		22 658	20			22 678
Total expenditure	174 878	170 183	65 130	24 188	20 948	445 507
Surplus or deficit (-)	-26 566	-6 351	2 095	47	1 118	-31 893

1. CPP = Canadian Pension Plan -- QPP = Quebec Pension Plan

Source: National Accounts and Environment Division, Statistics Canada.

Table 7. Local government expenditures by function and provinces/territories (1985, 1994 ⁽¹⁾)

(percentage)

	Nfld	PEI	NS	NB	Que.	Ont.	Man.	Sask.	Alta	BC	Yuk.	NWT	Can.
<i>1985</i>													
General services	11.6	2.9	3.7	6.4	7.4	4.2	5.6	4.5	4.1	4.3	15.2	17.6	5.1
Protection	7.2	4.2	7.4	20.7	7.9	8.6	7.9	6.4	5.8	10.8	9.2	4.0	8.1
Transportation	22.4	4.0	5.2	22.3	10.1	9.7	10.6	12.4	12.2	8.5	17.2	19.9	10.2
Health	0.0	0.0	7.9	0.8	0.1	5.5	7.4	13.9	16.7	2.1	0.2	0.7	5.8
Social services	0.0	0.0	12.3	0.0	0.3	7.4	2.8	0.9	0.9	0.2	0.0	1.8	3.6
Education	8.5	74.0	46.4	0.0	44.0	42.2	43.0	43.0	31.2	41.9	0.0	14.8	40.7
Environment	20.1	4.2	5.5	19.5	8.0	6.8	5.8	6.5	5.7	7.4	16.0	21.7	7.1
Rec. & culture	8.9	4.6	4.2	12.4	5.4	6.2	5.6	6.2	6.5	8.5	31.9	14.3	6.3
Debt charges	17.3	5.5	4.3	11.9	11.0	3.6	7.5	3.6	11.7	13.3	5.9	2.9	7.8
Other	4.0	0.5	3.1	6.0	5.8	6.0	3.8	2.8	5.3	3.0	4.4	2.2	5.2
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100
<i>1994</i>													
General services	13.8	2.9	3.3	7.9	6.7	4.5	5.3	5.8	4.5	4.6	19.0	14.4	5.1
Protection	7.7	5.1	6.2	23.0	8.7	7.5	8.2	6.7	6.5	9.9	7.2	3.8	8.0
Transportation	26.6	4.4	4.1	22.0	11.5	7.4	9.3	10.3	12.2	7.4	16.7	10.8	9.2
Health	0.0	0.0	8.6	1.1	0.0	4.7	7.7	15.1	15.1	2.6	0.3	0.3	5.0
Social services	0.0	0.0	19.8	0.0	0.4	15.4	5.6	0.3	1.0	0.1	0.0	2.7	7.7
Education	0.0	71.5	39.1	0.0	39.6	40.5	42.9	41.3	32.1	44.5	0.0	31.7	39.4
Environment	17.4	3.2	10.3	19.7	10.4	7.3	7.7	8.6	7.4	9.4	34.9	21.9	8.6
Rec. & culture	10.0	3.6	4.3	15.1	6.3	5.4	4.6	6.6	6.9	8.8	17.0	9.9	6.2
Debt charges	19.3	8.9	2.1	6.6	9.7	2.5	6.5	2.2	8.7	9.5	1.8	2.6	5.9
Other	5.1	0.3	2.4	4.5	6.6	4.9	2.3	3.1	5.6	3.3	3.2	2.0	4.9
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100

Notes: Fiscal year-end closest to 31 December.
Data as of release date -- 15 January 1996.

1. for 1994, figures are not actual but estimates.

Source: Financial Management System, Statistics Canada.

Balance between discretion and control

All provinces have the right to impose their own income tax. In general, they top-up federal taxes on a percentage basis. Provinces also have the right to raise taxes through social insurance charges, and through indirect taxation (sales taxes). Three of the provinces have their own collection system for corporate taxes. All other provinces raise corporate income taxes using the federal corporate income tax structure and administration. No legal limit is imposed on the provinces in raising taxes. To ensure that the combination of federal and provincial tax rates are kept within reasonable limits, thorough discussion is needed prior to agreement -- the final decision remaining entirely with each province. The Canadian tax

system has been described in the past as relatively co-ordinated at the level of income tax but unco-ordinated and overlapping in the area of indirect taxes, particularly sales taxes. The two orders of government have taken steps to improve their co-ordination of sales taxes. Three Atlantic provinces agreed in April 1996 to harmonize their provincial sales taxes with the federal government's sales tax, and Quebec's sales tax is already harmonized with the federal tax. A single collector for both provincial and federal sales taxes therefore exists in these four provinces. There is still room for further rationalisation between the two levels. In the March 1996 budget, the federal government proposed the creation of a Canada Revenue Commission as a vehicle to deliver federal and provincial programmes in the area, to be called the Canada Border and Revenue Service.

In general, with variation from province to province, provincial governments maintain some control over local borrowing, often through the mediation of appointed municipal boards, over all aspects of the property tax base, as well as over property tax rates. The provinces also oversee local governments' planning decisions and monitor local expenditures. In addition to the use of directives and mandates, their control is exercised through conditional grants.

2.3 *Performance management*

Mechanisms

In some cases, both federal grants to provinces and provincial grants to local governments are given conditional to certain performance standards. In the case of federal grants to provincial governments, since the 1960s grants are increasingly less tied to specific conditions. However, in some areas, such as health, there are some conditions relating to performance. In the case of provincial-local grants, there are very often highly detailed performance standards to be met by local governments in order to obtain the provincial grants.

Quality standards

All levels of government in Canada are increasingly concerned to evaluate performance in terms of output measurements and measurements of quality. Traditionally, intergovernmental controls, both federal-provincial and provincial-local, focused on whether the funds were being spent according to the regulatory framework rather than whether the desired outcomes were achieved. There is now considerable discussion in the provincial-local area as to how provincial controls could better focus on quality and performance mechanisms. The general trend in municipal financial management is a combination of ensuring money is spent legally and wisely. Value-for-money auditing has contributed significantly to a process under which priorities are predetermined and results are evaluated relative to these priorities. As the order of government "closest to the people" municipalities are directly accountable to the public for the programs and services they provide themselves or on behalf of other levels of government. Municipalities have argued that they lack the flexibility to adjust federal and provincial programs and services to meet local conditions and circumstances.

An important area where management across the levels of government can be seen in action is that of standards-setting. National standards have been jointly set in the Canada Health Act and the National Building Code. In food inspection a major effort is being made, alongside the federal announcement to consolidate food inspection activities, to develop and implement national codes.

2.4 Human resource management

Statutory distinctions and managerial autonomy: The guiding principle is that each province is sovereign in its own affairs, including managing its human resources. Each province, therefore, designs its own legal framework and organises its own civil service. A common feature to all provinces is that they all have a professional civil service.

Since the late 1960s provincial governments have extended bargaining rights to their public sector employees. The extent to which collective bargaining takes place at the provincial or local levels varies across provinces. Each provincial government sets its own pay rates.

As a rule each province has its own dismissal system. In some provinces, changes of government have seen changes of some senior officials. All municipal employees are employees of the municipal government concerned.

Mobility: There is some pension mobility but no job mobility between the different provincial and municipal civil services. There are some exchange programmes (between federal and provincial levels) but these are very limited in size.

Table 8. Government employment by level (1990, 1993)

(annual average)

	1990	1993
Federal government ⁽¹⁾	408 770	405 822
<i>of which:</i>		
administration	289 991	292 645
military ⁽²⁾	118 779	113 177
Provincial/territorial government	1 039 997	1 039 502
<i>of which:</i>		
administration ⁽³⁾	487 447	486 925
public hospitals ⁽⁴⁾	552 550	552 577
Local government	857 192	904 246
<i>of which:</i>		
administration	358 853	373 824
local school boards	498 340	530 423
TOTAL GOVERNMENT	2 305 959	2 349 571
<i>of which:</i>		
administration	1 136 290	1 153 394
public hospitals	552 550	552 577
local school boards	498 340	530 423
military	118 779	113 177

Note: Figures may not add to totals due to rounding.

1. Includes military, government-owned hospitals and education.
2. Includes regular and reserve forces.
3. Includes government-owned hospitals and community colleges.
4. Includes provincial, territorial, municipal and lay and religious hospitals.

Source: Public Institutions Division, Statistics Canada, 1996.

2.5 *Regulatory management and reform*

The courts have given wide interpretation to provincial powers, especially “property and civil rights” (which have been interpreted to include most labour law and social security) and somewhat narrower interpretations to federal powers (federal powers over “trade and commerce,” for example, have been reduced to inter-provincial and international trade and commerce). In addition, a wide variety of working relationships between federal and provincial powers have evolved, including delegation of programme administration from federal to provincial and vice versa. Such flexible relationships have, in many areas, transformed the notion of “sovereignty” into one of federal/provincial interdependence and collaboration.

As a result of these actions, the evolution of federal/provincial regulatory relations has been one of increasing decision-making in the provinces, and today, Canada is one of the most decentralised states in the OECD.

Regulation by the various levels of government in the Canadian federal system has given rise to three kinds of inter-governmental” regulatory challenges): inter-provincial trade barriers established by regulations, duplication between provincial and federal regulations, and rising aggregate regulatory costs.

Inter-provincial barriers to trade have for many years been recognised as a serious problem. Many non-tariff trade barriers have been erected. Restrictions against commerce and advertising across provincial borders and varying produce standards have splintered the Canadian market and kept businesses small, hindering investment and competitiveness. Professional accreditations are often not recognised across province lines, restricting labour mobility. The Canadian Manufacturers' Association has estimated that such barriers impose direct costs of about C\$ 6.5 billion annually, or 1 to 1.5 per cent of GDP. A number of steps, outlined below, are being taken to deal with this.

By 1991, the Free Trade Agreement with the United States, the example of the EU Single Market Programme, and proposals for a common-market clause in the Canadian constitution brought the issue into focus. In March 1993, governments began negotiations to reduce and eliminate barriers to trade within Canada. On 18 July 1994, First Ministers signed the policy text of the Agreement on Internal Trade. The date of entry into force was set as 1 July 1995 to give governments time to make appropriate legislative changes.

The Internal Trade Agreement establishes a broad framework of rules for internal trade, with specific chapters dealing with the particular circumstances in ten different economic sectors or areas to ensure the free flow of people, goods, services and capital across Canada. The Agreement includes commitments to reconcile standards-related regulations and, in particular, to place increased reliance on the National Standards System (NSS) which is overseen by the Standards Council of Canada. The Agreement also provides a framework for co-operation among governments in respect of other regulatory measures and regulatory regimes. These have been important first steps in dealing with internal market barriers and distortions, but it remains in the national interest to improve and expand the disciplines, to resolve outstanding issues, to strengthen dispute resolution mechanisms and to foster greater practical co-operation in and co-ordination of economic activities.

Duplication and undesirable interactions between federal and provincial regulation have for years been an irritant between governments and business. For example, the combined effect of regulations on working hours of truck drivers (provincial road safety regulations) and regulations limiting the time that animals could remain in trucks (federal animal health regulations) made it difficult to

transport some animals over long distances. To deal with these problems, governments are now actively harmonizing regulations in a broad range of sectors.

In 1992, the federal government launched departmental and parliamentary reviews of regulations. In these reviews, departments examined their existing regulations and re-justified their regulatory programs. Work was also done to determine the effect that federal regulations had on Canadian competitiveness and to identify ways of improving regulatory programs, processes, and intergovernmental collaboration.

The Federal Regulatory Policy (revised in 1995) requires, among other things, that regulatory authorities show that they have respected intergovernmental agreements and have taken full advantage of opportunities for co-ordination with other governments and agencies.

Most provinces are now also engaged in extensive regulatory reviews, ranging from the practical (reviewing internal regulatory processes to improve efficiency) to the strategic (examining the very essence and need for regulations).

The closer “regulatory” collaboration between governments in Canada aims at building a more rational, responsive and reliable regulatory system. This reflects the objectives of the OECD resolution passed in March 1995, that recommends, “Member countries take effective measures to ensure the quality and transparency of government regulations”. In most regulatory areas there is inter-governmental machinery in place to address regulatory issues. These can be as formal as the Canadian Council of Ministers of the Environment, established in 1989 with its own secretariat, to less formal but frequent meetings of ministers and officials (e.g. the Federal-Provincial Committee on Environmental and Occupational Health).

The direct cost of federal, provincial and municipal regulation is another concern. Although there is no reliable benchmark of the cumulative regulatory compliance and administrative costs to the economy, it has been estimated that federal regulation alone may entail costs of between C\$ 30 and C\$ 50 billion annually. Costs of provincial and municipal regulation are likely to be equally large. Despite the roughness of these estimates, and even if fully offset by benefits, the magnitude of these costs demonstrates the importance of ensuring regulatory program designs are as cost-effective as possible -- and that governments work together to reduce costs to the extent possible.

3. Trends in redistributing authority across levels of government

3.1 *Evolving tendencies*

The situation in Canada in this field is particularly complex and dynamic -- if only because of the great diversity and high degree of decentralisation to the ten provinces and significant variations across different sectoral areas.

From the late 1950s to the early 1970s, largely due to strong productivity growth, there was a significant increase in government programme expenditure and the introduction of major new programmes (federal or federal-provincial). The use of federal spending power to support provincial programmes of health, post-secondary education and welfare and generally to “equalise” provincial fiscal capacity; and revenue growth helped bring Canada into the era of the modern welfare state. 1974 marked the beginning of a period of deficit combined with inflation and recession. Indexation of personal income

tax and of a number of expenditure programmes (including federal finance for health) reduced revenue growth and increased spending. In the late 1970s some federal transfers were reformed, then growth was gradually capped in the 1980/90s.

The health sector provides a good example of how federal/provincial relations have evolved over recent decades -- especially in terms of the interaction between funding and delivery responsibilities. The provinces generally have "formal" responsibility for health care. In 1945, the Federal Government used its "spending power" and made grants available to provinces for particular health functions. This development cannot be disassociated from the 1941 federal-provincial Tax Rental Agreement (and ensuing agreements) whereby the provincial governments agreed to refrain from collecting personal and corporation income taxes until the end of the War and received in exchange a partial compensation ("rent").

From 1957 onwards the federal government increased its presence in the health sector through an increasing role in the financing of provincial government expenditures on health services, subject to concomitant criteria for funding. These helped shape the current public health system (by setting broad national principles for the health care system as conditions of eligibility for grants).

In 1977, federal funding of provincial health and post-secondary education expenditures was converted into "block" funding, instead of "cost-sharing" tied to specific expenditures. When it appeared that the national health principles were in danger of being undermined, the 1984 Canada Health Act restored the original principles as conditions for eligibility for federal funding (with provision for withholding funds in certain cases). This Act also opposed practices such as "extra billing" and user fees which some provinces might have used to deal with escalating medical expenditures -- although provinces remained free to introduce such measures (but at the risk of losing some federal funding). The responsibility of the provinces in respect of the delivery of health services and in respect of the operation of their own health insurance programmes was not altered by this new Act. As from April 1, 1996 federal health transfer payments are part of a general "block" transfer payment supporting provincial health, social, and post-secondary education expenditures (the Canada Health and Social Transfer -- CHST). The 1984 Act funding criteria will continue to be applied by the federal government.

The evolving tendencies have been towards reductions in transfers from federal to provincial governments and from provincial to local governments. At the same time there are also tendencies to decentralise responsibilities, from federal to provincial governments and from provincial to local. Transfers from federal to provincial governments are, however, stabilising. In the current five-year Equalisation arrangement, transfers are projected to grow from C\$ 8.5 billion to C\$ 9.6 billion from 1994-95 to 1998-99 CHST transfers decline in 1996-97 and 1997-98 to C\$ 26.9 billion and C\$ 25.1 billion respectively. Thereafter, under the new CHST arrangement covering the five-year period from fiscal year 1998-99 through to 2002-03, provinces will see federal financial support stabilising and then increasing to C\$ 27.4 billion by 2002-03.

Related to moves to decentralise responsibilities to local governments are moves, on the part of several provincial governments, to amalgamate or otherwise regionalise local governments. This involves the restructuring of school boards and of local governments. In the case of Toronto and Montreal, recent studies have suggested significant structural reorganisation at the level of the overall urbanised area.

3.2 *The current debate*

Recent developments

Most governments are undertaking fundamental reviews of their roles in various aspects of the economy and society and are examining alternatives such as the privatisation, commercialisation or elimination of certain functions. The current federal Government was elected on an understanding that it would emphasize non-constitutional solutions focusing primarily on social and economic policy reforms and the sorting out more generally of overlapping roles and responsibilities.

In the last two years, the Government has made significant changes in a number of areas. The Government is committed to working with the provinces and individual Canadians to ensure that the Canadian federation is modernised to meet the needs of the 21st century. The government considers that any such changes must respect Canada's diversity and be based on partnership and dialogue with the provinces. Accordingly, the federal government has proposed to the provinces a much strengthened process to work in partnership, focusing on such priorities as food inspection, environmental management, social housing, tourism and freshwater fish habitat. The Federal government has also made it clear that it will not use its spending power to create new shared-cost programs in areas of exclusive provincial jurisdiction without the consent of a majority of the provinces. Any new program will be designed so that non-participating provinces will be compensated provided they establish equivalent or comparable initiatives. The Federal government has announced its withdrawal from functions in such areas as labour market training, forestry, mining, and recreation, that are more appropriately the responsibility of others, including provincial governments, local authorities or the private sector.

An important issue is the public perception that there is a lot of wasteful overlap and duplication between federal and provincial governments. The federal government understands that it should continue to work with the provinces to address this issue appropriately and as required. Accordingly, First Ministers agreed in 1994 on the Efficiency of the Federation Initiative in which government identified areas for increased administrative efficiencies and negotiated toward agreed-upon objectives and timetable to address the issue of overlap and duplication.

A factor here is that the Constitution is silent on some important current issues or does not define clearly which level (Federal or Provincial) should intervene, where, and how. The area currently under most discussion is that of job training where the federal government has made an offer to terminate its activity in this area, while delegating much of the responsibility related to active labour market measures under agreed conditions tailored to the specific needs of each province. This policy area is currently under intense discussion, with provincial government reaction to the federal proposal varying greatly. A pattern of "jurisdictional specialisation" has, nevertheless, developed between tiers of government. Exogenous events may change this pattern and adjustments are made primarily through the political process: financing arrangements (fiscal federalism); inter-governmental agreements or understandings; and policy designs which take other government programmes into account. And occasionally, over time, also by formal constitutional amendments or judicial interpretation of constitutional documents. This has all had an impact on the practical balance of powers (and therefore on the degree of devolution). This balance varies, naturally, across different policy fields. Thus, the notion that the level of government which can give the best service should occupy a particular field, based on efficiency criteria for service delivery and in co-operation with other government's relevant programmes, has recently been discussed.

Budget deficits and the control of overall fiscal/expenditure pressures

Federal government reduction in the growth of transfers had the effect of squeezing the provinces; which often responded in turn, by putting fiscal pressure on local governments. The latter not only saw (and are seeing) a sharp increase in the costs of their own services but are also faced with new demands (environment, social initiatives) resulting either from provincial regulations or from growing demands for social services. Local governments are expected to deliver services mandated by other levels of government, to control their costs more stringently, and increasingly, to finance them as well.

Local governments are faced with serious problems of how to meet these additional demands -- including the issue of pay differentials between staff at the federal, provincial and local levels. Municipalities are demanding more autonomy and recognition, arguing that they are required by other orders of government to do more with less. They have limited capacity to fund programs on their own, because their capacity to raise revenue is basically limited to property taxes. There are public pressures to hold property taxes at current levels, or reduce them. The basic trade-off at the local level is tax reductions versus service improvements. Funding reductions are forcing some municipalities and school boards to amalgamate or look at alternative structures. Municipalities also fear that health system reforms of the type being discussed in the current Health Forum (although not all of the provinces currently participate in it) could place additional demands on local authorities.

Fragmentation of local service provision

A further development is the proliferation of special purpose bodies (Commissions, boards, agencies) which provide a wide range of government services, in particular at the community or "regional" (sub-provincial) level. A majority of these bodies are funded by mixes of revenue from the sale of their output, grants from provincial governments (which in turn, are supported by federal funding) and local property taxes. These bodies generally have a high level of autonomy (policy direction as well as spending); are chartered by provincial legislation; may be governed by individually elected boards; and determine their financial needs independently. At the local level, some of these bodies lay claim to substantial portions of local tax revenues (e.g. primary and secondary education). But because in many cases local councils cannot interfere with the policy decisions of separate bodies -- although provincial governments may do so, at community behest, they are denied an effective means of exercising proper budgetary control.

Another issue is the extent to which boards (e.g. those for local hospitals) are, or should, be made more accountable -- to the public; the provinces; and to local government.

3.3 *Driving forces*

The forces driving the current trends and current debates in the redistribution of activities across levels of government in Canada can be divided into economic forces, political forces and demographic forces.

Economic: (i) the current trends towards the globalisation of the economy are one of the forces behind the moves to redistribute activities and have drawn attention to the existence of internal barriers to

trade and efficiency within the Canadian union; *(ii)* recent unfavourable economic conditions have affected government budgets and accelerated debates about fiscal constraints.

Political: *(i)* fiscal pressures on governments have been major factors in moves towards decentralisation; *(ii)* the question of Quebec and its status vis-à-vis Canada is clearly one of the major driving forces in all discussions about the distribution of activities; *(iii)* the recognition of aboriginal rights also raises a number of questions that bear on the intergovernmental distribution of activities such as the working out of governmental autonomy for the aboriginal peoples, and the question of the provincial government role in health, education and social services to aboriginal peoples living off the reserves.

Demographic: *(i)* the continued move of the population into the urban, and particularly the metropolitan, areas affects current trends. This raises the question of how should the metropolitan areas be structured politically and what responsibilities can they most effectively carry out? *(ii)* the fact that recent immigration is so highly localised in the larger metropolitan areas may well have an increasing impact on the distribution of governmental activities. Given the extent to which recent immigration is focused on Toronto, Montreal and Vancouver, a question is: how does this affect the need for particular public services and how should these be financed and implemented?