

# CANADA

FEDERAL COUNTRY

## NORTH AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **CANADIAN DOLLAR (CAD)**

#### POPULATION AND GEOGRAPHY

AREA: **9 093 507** km<sup>2</sup>

POPULATION: **35.544** million inhabitants (2014), an increase of 1.1% per year (2010-14)

DENSITY: **4** inhabitants/km<sup>2</sup>

URBAN POPULATION: **81.6%** of national population

CAPITAL CITY: **Ottawa** (3.7% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **1 601.8** billion (current PPP international dollars) i.e. 45 066 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **57 168** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.913** (very high), rank 9

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>3 805</b> MUNICIPALITIES* AVERAGE MUNICIPAL SIZE: <b>8 205</b> INHABITANTS	-	<b>13</b> 10 PROVINCES AND 3 TERRITORIES	<b>3 818</b>

\* Indian reserves, Indian settlements and unorganised territories (1 233 entities in 2015) as well as special purpose entities are excluded from the count reported in the table.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Constitution (1867) and Charter of Rights and Freedoms (1982) define a federal system of shared powers in which the federal government and the provinces have equal status. The subnational system is two-tiered and made up of 10 provinces and 3 territories at the upper level and 3 805 municipalities at the lower level. Municipalities are not formally recognised in the federal constitution, but they are mentioned as "coming under the exclusive jurisdiction of the provinces". Therefore, there are a variety of municipal structures which differ from one province to another (municipal intermunicipal authorities, metropolitan and regional municipalities, towns, townships, cities, etc.). Over the last 20 years, several provinces have carried out municipal merger policies. The local government sector also includes elected independent special purpose entities such as school boards.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Provinces and territories have own and shared responsibilities with the federal government. Own responsibilities include education, health care (including hospitals), highways, prisons, natural resources, municipal affairs. Shared responsibilities include pensions, energy, water, agriculture and immigration. Municipal tasks are set by provinces and vary considerably. In addition, provinces can delegate some of their responsibilities to municipalities. Municipal functions typically include transport (roads and transit); protection (police and fire); water and sewerage, waste, recreation and culture, land use planning, social housing. Education, social and health services are not included in municipal responsibilities, except when they are shared with the province (e.g. social assistance in Ontario). Primary and secondary education lies with independently elected local authorities (schools boards) who are directly answerable to provinces and territories.

### SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP		% GENERAL GOVERNMENT (same expenditure category)		% SUBNATIONAL GOVERNMENT	
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<b>TOTAL EXPENDITURE (2013)</b>	<b>31.1%</b>	<b>8.4%</b>	<b>76.5%</b>	<b>20.6%</b>	<b>100%</b>	<b>100%</b>
<b>CURRENT EXPENDITURE</b>	27.5%	7.0%	-	-	88.4%	83.4%
<b>STAFF EXPENDITURE</b>	10.1%	4.2%	83.2%	35.0%	32.4%	50.7%
<b>INVESTMENT</b>	3.4%	1.4%	88.4%	35.2%	11.0%	16.3%

The SNG share in GDP and public spending is by far the highest of the OECD, well above the OECD average (16.6% of GDP and 40.0% of public spending in 2013). A vast majority is made by the provinces (78%). SNGs are also key employers (SNG share in public staff spending is 20 percentage points above the OECD average of 63.2%), but lower at the local level compared to OECD unitary countries. SNGs are also key investors, with a share in public investment which is the highest of OECD countries (30 percentage points higher than the OECD average). Canada also ranks first in the OECD regarding SNG investment-to-GDP (3.4% vs. 1.9% in the OECD)

## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Health is by far the highest spending area for SNGs, representing one-third of their expenditure. It is followed by education (in the hands of schools boards), general public services and social protection. SNGs are responsible for the large majority of total public spending in the areas of economic affairs, environmental protection, health and education. Provincial spending is significant on health, social services, and education. Primary areas of municipal spending are transport, environment and the protection of persons and property.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

Revenue Type	% GDP	% GDP	% General Government	% General Government	% Subnational Government	% Subnational Government
TOTAL REVENUE (2013)	28.3%	7.9%	74.4%	20.9%	100%	100%
TAX REVENUE	14.3%	2.9%	54.9%	11.1%	50.5%	36.2%
GRANTS AND SUBSIDIES	8.5%	3.8%	-	-	30.2%	48.0%
OTHER REVENUES	5.5%	1.3%	-	-	19.3%	15.8%

Fiscal provisions are not very detailed in the Constitution, which does not prescribe intergovernmental transfers or tax sharing. However, equalisation between provinces principle has been enshrined in the constitution since 1982. Local government financing is at discretion of the provinces and territories. Taxation is the primary source of revenue for SNG. In 2013, SNGs received more than half of public tax revenue, the highest share in the OECD.

**TAX REVENUE.** Tax revenue comes from shared taxation (between provinces and federal government) and own-source taxation (in particular at the municipal level). Provinces represent almost 80% of all SNG tax revenue. Provinces have wide-ranging tax autonomy. Their tax revenues include PIT and CIT, sales tax and payroll tax (all shared taxes), tax on gaming profits, property tax, etc. Tax harmonisation agreements have been established for shared taxes in order to set a common framework between participating provinces. They adhere to the federal tax base but maintain discretion over tax rates. Income tax represented 50% of provincial tax revenue in 2013 and sales tax 21%. The primary source of municipal tax revenue is property tax (85% of local tax revenue). Tax bases are harmonised within all provinces, and municipalities have discretion over the tax rates. Receipts of the provincial and municipal property taxes represented 3.1% of GDP in 2014, ranking second in the OECD after France.

**GRANTS AND SUBSIDIES.** Federal transfers to provinces and territories aim at ensuring funding for providing health, welfare and education services. They include a vertical equalisation function through unconditional equalisation transfers (determined by assessing each province's revenue-raising capacity) and social transfers. The latter are based on equal per capita transfers and include the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). In addition, there exist many other small transfers to provinces for specific purposes. Territories also receive specific unconditional transfers which take also expenditure needs into account, in recognition of the higher cost of providing programs and services in the north. Municipalities receive federal and provincial transfers, which account for almost half of their revenue. Federal transfers are earmarked. Provinces can define their own municipal equalisation schemes.

**OTHER REVENUES.** Other revenues comprise user charges and fees (10.4% of SNG revenue), property income (dividends, rents, assets sales i.e. 6.6% of SNG revenues) and social contributions. Property income includes proceeds from natural resources exploited on provincial territory (royalties), which can be significant for some provinces. Provinces receive direct payment from mining companies, such as in Australia or Argentina. Charges for services (e.g. water, waste water and sewer fees) are a significant source of revenue for municipalities.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

Outstanding Debt (2013)	% GDP	% GDP	% General Government	% General Government
OUTSTANDING DEBT (2013)	61.0%	9.1%	57.4%	8.6%

The federal government introduced balanced-budget legislation for the first time in 2014. Seven provinces had implemented balanced budget legislation by the end of 2014. While some provinces have introduced restrictions over the use of deficit financing, these limits remain self-imposed. Provinces are free to borrow and lend for any kind of expenditure. Fiscal rules for municipalities are set by the provinces. In general, provincial legislation imposes balanced budgets and limits for municipal borrowing. A common rule is to restrict borrowing to the financing of capital expenditure (golden rule). SNG debt ratios are by far the highest in the OECD, well above the OECD averages (of 23.7% of GDP and 20.2% of public debt) and 85% of SNG outstanding debt is provincial debt. Indebtedness at the local level remains moderate by international standards. SNG debt is made up of financial debt (64%), pension liabilities (7%) and other accounts payable (29%). Financial debt is mainly through bonds (93% of financial debt).

A joint- study of:



**Sources:** OECD National Accounts Statistics • Statistics Canada (COFOG) • OECD (2015 and 2016), Subnational Governments in OECD Countries : Key data - OECD (2014c) • OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet • Glezi P. (2014), Federalism in Canada and Germany: Overview and Comparison • Nicol S. (2014), "Fiscal Devolution: Some Comparative Examples", SPICE paper • Young R. (2013), Multilevel Governance and Public Policy in Canadian Municipalities: Reflections on Research Results" • Blöchliger, H. and C. Vammalle (2012), Reforming Fiscal Federalism and Local Government: Beyond the Zero-Sum Game • Enid Slack (2009), Provincial-Local Fiscal Transfers in Canada: Provincial Control Trumps Local Accountability.