

Highlights of the *OECD Territorial Review of Canada*

On September 18, 2002 the Territorial Development Service of the Organization for Economic Co-operation and Development (OECD) issued a “Territorial Review of Canada”. This report is part of the OECD’s effort to strengthen Member countries’ ability to assess and improve their territorial policies and to better understand the distribution of competencies and resources among different levels of government.

Full copies of the report can be obtained from the OECD by following this Web link:
<http://www.oecd.org/EN/document/0,,EN-document-0-nodirectorate-no-12-34290-0,00.html>

Some of the report’s most significant findings and conclusions are listed below, followed by a more detailed selection of quotations in Appendix One.

Key Findings:

- Compared to other countries and especially other OECD countries, Canadian municipal governments have relatively weak powers and limited resources.
- The growing financial responsibilities of Canadian municipalities have not been accompanied by suitable legislative changes.
- Cutbacks in federal social and infrastructure investments over the past decade were accompanied by off-loading of responsibilities by the provinces to municipalities without, in many cases, providing them with the corresponding finances and capacity for revenue management and revenue generation. Accordingly, “the whole approach to urban areas and their role in economic growth needs rethinking”.
- Canadian municipalities operate in a tightly controlled fiscal framework deriving from provincial legislation. By international comparison, the intermediate level of government (i.e. Provincial) has more prerogatives and exerts more power over its municipalities than it does in any other federation.
- Southern Ontario is the only area in Canada without a formal national strategy for economic growth.
- Whereas Canadian cities have long boasted a better quality of life than American cities, it seems that the United States is currently more involved in solving its urban problems than is Canada.
- Relative to American cities, Canadian municipalities are at a comparative disadvantage with regards to infrastructure investment. This is problematic because infrastructure is essential to enhancing cities’ competitiveness and their export potential.

- Whereas municipal income taxes, visitor or commuter and sales taxes are quite frequent in the United States, and whereas some form of local income tax exists in approximately half of OECD Member countries, municipal governments in Canada cannot levy such taxes.
- Urban areas are the main drivers of economic growth and development in Canada.
- The Constitution does not prohibit the federal government from engaging in productive relations with municipalities, provided that it fully respects provincial jurisdiction.
- There is a lack of formal mechanisms bringing together all three orders of government – federal, provincial, and municipal – to focus their attention on the needs of urban centres.
- As was done for rural areas, an ‘urban lens’ would help to improve service delivery by federal departments.

Key Conclusions:

- Today, there is a new rationale for federal involvement in urban matters, in a way that does not reproduce centralized management, but rather suggest a possible paradigm shift in territorial policies.
- “The strong influence of cities on Canada’s national economy requires the participation of all levels of government in the urban agenda. [This] suggests a renewed role for the federal government in the area of urban policy. This would best be achieved through developing stronger relationships between the federal government and municipal government in major urban centres in order to jointly develop and implement policies and programs.”
- **Institutional mechanisms should be implemented to enable large urban centres to deal more directly with the federal government.** This means initiating negotiations and entering into direct funding arrangements with the federal government on matters of mutual interest, such as urban infrastructure, housing, construction, immigration and Aboriginal people.
- **Cities need alternative, sustainable sources of revenue and policy levers.** The federal government should work closely with provincial governments toward legislative change that would allow cities to raise revenue beyond the property tax. More generally, there is a need to debate the problem of urban public finance.
- With the shifting or ‘downloading’ of responsibilities to municipalities, reliance on the property tax has increased over the last decade. This high degree of reliance on the property tax lies at the origin of the increasing fiscal difficulties of cities. Accordingly, **“Canadian cities should be given some limited access to other types of taxes.”**
- The federal government should set national objectives and provide a national framework for urban competitiveness, but it is essential that the strategy development and implementation be led locally.

Appendix One: Selected Quotations from the *OECD Territorial Review of Canada*

- “Canadian cities have been affected by several troubling trends in the 1990s: the persistence of poverty in Canada even during the recent economic recovery, the increase in the number of very poor neighbourhoods in several large Canadian cities, the increase in homelessness in large Canadian cities.” (p.10)
- “In the meantime, cities are emerging as key players in the national economy: in Ontario, Quebec, BC and Manitoba, half or more of the provinces’ GDP is now generated by one single metropolitan area.” (p.10)
- “Cities must increasingly compete with one another, and with other cities around the world, to attract innovative investments and knowledge activities. Meanwhile, they need to modernise their transportation systems, neglected in the last decade, regenerate their brownfield sites, limit urban sprawl, and cope with rising social challenges due to higher population density, immigration and poverty concentration, as well as distressed areas.” (p.10)
- “Urban development has not been at the forefront of the federal policy agenda since the late 1970s. While municipal (and city) affairs come under provincial jurisdiction, the Constitution does not prohibit the federal government from handling any municipal matters, as long as it fully respects provincial jurisdiction. Today, there is a new rationale for federal involvement in urban matters, in a way that does not reproduce centralised management, but rather suggests a possible paradigm shift in territorial policies.” (p.12)
- “[In] certain policy fields, more formal institutional mechanisms concerning area-based partnerships between the three orders of government could be beneficial. In order to have appropriate conditions to function, these agreements need to be promoted via incentives. They would require a structured round of negotiations, with clear objectives and a precise calendar, and with monitoring and assessment components. Given that different actors are involved in designing the projects, they should be tailored to local needs. Finally, as it was done for rural areas, an ‘urban lens’ would help to improve service delivery by federal departments.” (p.12)
- “There is a need for more vertical collaboration and federal/provincial/local partnerships, in particular to support the development of large cities that already account for a dominant share of regional GDP and will be of overwhelming importance for future regional growth and employment.” (p.21)
- “Globalisation and its associated forms of economic change have tended to widen the gap between rich and poor in economic, social, and spatial terms by stimulating the growth of high-wage occupations at the expense of marginal low-skill jobs. This trend has been particularly acute in cities. Poverty increased everywhere throughout the 1990s but more so in metropolitan areas. In most provinces in 1995, CMAs registered the highest poverty rates (21.6%) followed by urban areas outside CMAs (17.2%) and rural areas (15.7%). Moreover,

in the 1990-1995 period, the poor population within metropolitan areas grew by 33.8%, far outstripping the overall population growth of 6.9%.” (pp.46-47)

- “Urban regions are emerging as key players in the national economy.” (p.48)
- “Whatever their economic specialisation, the largest metropolitan areas have experienced a rebirth sparked by the high-tech innovation spilling over from universities, hospitals and R&D facilities. This generates a larger and more specialised workforce, better markets for goods and services, and more efficient knowledge transfers. Major cities – especially the big three – are also the centres of the entertainment industry, higher education, museums, and ‘high culture’ journalism, and publishing. This cultural dimension has a direct impact on tourism and attracts educated workers to the area. Overall, these CMAs are the key loci of transnational flows and are often referred to as ‘global city-regions’ since their local economic activity and political issues are closely related to the world system.” (p.50)
- “Representing important economic platforms, global city-regions function as essential spatial nodes of the global economy. The pursuit of competitiveness in these regions has become a major local and national policy objective requiring innovative measures, and competitiveness and liveability are increasingly perceived as two sides of the same coin. Quality of life has been identified as a key indicator of competitiveness. Reconciling policies aimed at positioning metropolitan areas on the international chessboard while insuring social, spatial and environmental sustainability is a major challenge for cities.” (p.51)
- “The poor are also becoming more concentrated within urban neighbourhoods. Since 1980, there has been a sharp increase in the number of very poor neighbourhoods (with poverty rates more than double the national average). While [during] this period the population in high poverty [census] tracks has generally declined rather than increased, the number of high poverty census tracks has risen sharply from 334 to 567, with the highest numbers to be found in Montreal and Toronto.” (p.54)
- “Canadian outer suburbs are mainly composed of privately owned single-family detached homes, and they supply a limited volume of lower-priced housing for rent or for sale. The suburbs are also characterised by large homogeneous employment districts. Most of the new job growth is taking place in these employment districts, especially a disproportionately large share of the blue-collar jobs. However, often isolated from residential areas, the districts suffer from poor local transit connections to the regional commuter system and to rapid transit stations with the Metro, or inefficient connection to and from suburban residential districts. Therefore, there may be a growing spatial mismatch between housing and transportation options for less well-off city residents, on the one hand, and the distribution of employment opportunities, on the other.” (p.55)
- “The migration of ‘blue-collar’ jobs from the City to the outer suburbs which have relatively low levels of social, rental housing and public transit service has created a spatial mismatch between jobs and labour force. Inner city residents without a car cannot easily access jobs in urban peripheries.” (pp.55-56)

- “At the same time that cities are clearly emerging as Canada’s leading social and economic drivers of growth, municipalities are assuming greater financial responsibilities, and most are under financial pressure.” (p.57)
- “Reducing traffic congestion and preventing gridlock is seen as vital to enhancing the quality of life. Similarly, a broader range of housing stock options is needed in many municipalities, especially in the major city-regions, where a lack of affordable housing is endemic.” (p.57)
- “The growing financial responsibilities of municipalities have not been accompanied by suitable legislative changes: the Canadian Constitution still fails to recognise the municipality as a legal entity. Moreover, the devolution of former provincial service responsibilities and cutbacks in provincial and federal transfer payments and program spending has raised questions about the fiscal sustainability of municipalities. Cities consider themselves to be at a distinct fiscal disadvantage, since their major source of revenue is from property tax, and, to a lesser extent, user fees and development charges. Unlike federal and provincial governments that tax income and consumption, whose revenues tend to increase during periods of economic growth, cities tax land. Municipal property taxes account for about 6% of total taxes collected in Toronto whereas provincial and federal taxes account for 94%.” (p.57)
- “One of the consequences of federal and provincial fiscal constraints has been [a] reduction of public funding of transport infrastructure.” (p.60)
- “As southern Ontario becomes increasingly integrated in the global market as [a] result of national trade policy decision, the ability to achieve and sustain international competitiveness within city regions and industries, as elsewhere in other key centres across Canada, must be a recognised economic goal, along with more traditional regional development objectives.” (p.91)
- “Southern Ontario, which includes Toronto (the economic capital) and Ottawa (the national capital) [is] the only area in Canada without a formal national strategy for economic growth. Nevertheless, Industry Canada, through its Regional Office located in Toronto, operates programmes within Ontario as a whole, similarly to those administered by regional development agencies (RDAs) elsewhere in Canada.” (p.93)
- “The involvement of the federal government in funding municipal infrastructure is welcome at a time when metropolitan and rural areas are confronted with significant new challenges.” (p.108)
- “Cutbacks in federal social and infrastructure investments were accompanied by the decentralisation by the provinces of such responsibilities to the municipalities without always granting them the corresponding finances and capacities for revenue management and generation. The whole approach to urban areas and their role in economic growth needs rethinking.” (p.112)

- “Following Ottawa’s long withdraw; from urban affairs, it seems appropriate to ask whether there is a rationale for renewed federal involvement.” (p.112)
- “The endless outward expansion of suburbs means greater dependency on cars, longer commutes, traffic congestion, environmental degradation, and a lowered quality of life. This kind of boundless suburban development might not be sustainable. Land values in many low-density suburban communities are likely to decrease because of increased traffic and a deteriorating housing stock.” (p.113)
- “There is a need to slowdown sprawl and whereas Canadian cities have long boasted a better quality of life than American cities, it seems that the US is currently more involved in solving its urban problems than is Canada.” (p.113)
- “Canadian cites have limited financial capacity to embark on infrastructure spending. They have benefited from timely infrastructure investments in the past, but these investments were not renewed when appropriate during the 1990s. According to the Canadian Urban Transit Association (CUTA), overall government funding for transit in Canada has declined 18% over the last five years since 1996.” (p.114)
- “CUTA estimates that Canadian transit infrastructure needs at least CAD 9.2 billion of investment over the next five years, mostly in the form of buses, rail cars, stations and other facilities. This contrasts with the US situation where cites have benefited from substantial federal infrastructure spending, in particular through the federal program ‘Transportation Equity Act of the 21st Century’, which is designed to channel capital into infrastructure in large cities. According to a study of selected major urban centres in North America, under the US federal program a city-region the size of the GTA would qualify for about CAD 243.5 million in infrastructure funds annually (Policy Research Secretariat, 2001). Canadian cities are therefore at a comparative disadvantage, since infrastructure is critical to enhancing the competitiveness of cites and their export potential.” (p.114)
- “The complexity of the homelessness issue is too great for municipalities to manage alone. Many municipal government have encountered considerable financial problems, particularly as they have not received enough support from provincial authorities.” (p.121)
- “In 1998, the UNICEF and the United Nations voiced concern over the growth of the [homelessness] problem in the country. The UN expressed concern that various factors, including cuts in provincial and territorial assistance and the increasing shortage of appropriate, affordable housing were placing people at greater risk of poverty and homelessness, and urged Canada to implement a national strategy for addressing these two social problems.” (p.121)
- “An important aspect of the SCPI [*Supporting Communities Partnership Initiative*] is that it recognises that no one level of government or sector can address the issue of homelessness single-handedly. The initiative’s community-based approach allows a broad range of players – including the provinces, territories and municipalities – to come together to address local needs.” (p.124)

- “City and community partners are still advocating more aggressive federal and provincial action to meet the need for more affordable housing. Indeed, there has been a slight reduction in the supply of social housing over the last five years.” (p.134)
- “As municipalities are responsible to the provinces, which means that any contact from the federal government must be channelled through appropriate provincial departments, there is no formal mechanisms for involvement of municipalities in immigration planning. However, the federal-provincial agreements only address part of the immigration issue. The higher levels of government might be in charge of allowing immigrants into the country, but it is up to the municipalities to receive them and ensure their social and economic well-being.” (p.127)
- “Immigration is largely an urban phenomenon: according to the Census, 85% of all immigrants lived in Canada’s 25 CMA, with nearly three quarters settled in Toronto, Vancouver and Montreal. Local programs and services thus have a major role in the success of Canada’s national immigration policy...Cuts in federal transfer payments and provincial devolution to municipalities are forcing local governments to assume greater responsibility in social services, including immigration and refugee matters. In other words, the financial capacity of Canadian cities is under pressure to meet the increased demand for services. At the same time, any cutbacks in public services have a disproportionately adverse impact upon immigrants. In this regard, one of the major challenges for cities is a growing trend towards the development of segregated ghettos.” (pp.127-128)
- “Policies to attract foreign investment in metropolitan regions should not be seen as independent from policies for local development. Foreign investment attraction depends not just on the marketing of existing location assets but also on the building of these assets. For example, foreign investors report that factors such as the quality of the local skills base, communications infrastructure and technological facilities are all important to their productivity in an area and influence their willingness to locate or reinvest there. Sub-national authorities have a key role to play in developing these assets, especially within key cluster specialisations.” (p.129)
- “The federal government assists economic development in urban areas in a variety of ways but there is a lack of co-ordination between federal, provincial and municipal activities. There is a growing understanding that limited resources can be used more effectively through an integration of strategies, policies and programs.” (p.131)
- “[The] physical social, and economic development of cities is the result of initiatives pursued on municipal, sectoral federal and provincial levels. However, this disjointed approach generally leads to a failure to draw up an integrated urban policy, even if some municipalities, such as Toronto, have succeeded in adopting a multi-sectoral strategy.” (p.133)
- “The strong influence of cities on Canada’s national economy requires the participation of all levels of government in the urban agenda. [This] suggests a renewed role for the federal

government in the area of urban policy. This would best be achieved through developing stronger relationships between the federal government and municipal governments in major urban centres in order to jointly develop and implement policies and programs.” (p.133)

- “Today, a new context supports the rationale for greater federal involvement. Canadian municipalities are being affected by dynamic economic, social, demographic and environmental forces that have impacts beyond the scope of any one level of government. These forces include the continued integration of North American markets fostered by the North American Free Trade Agreement (NAFTA), decaying infrastructure, deteriorating city neighbourhoods and concerns about clean air and clean water.” (p.134)
- “Another reason for the federal government to support urban areas is that they are the main drivers of economic growth and development in Canada. A region’s economy is generally linked to the economic success or failure of one single urban area.” (p.134)
- “[The] Constitution does not prohibit the federal government from engaging in productive relations with the municipalities, while fully respecting provincial jurisdiction. In particular, the federal government should formally recognise the importance of large urban areas through the development of a national urban agenda.” (p.136)
- “Institutional mechanisms should be implemented to enable large urban centres to deal more directly with the federal government. This means initiating negotiations and entering into direct funding arrangements with the federal government on matters of mutual interest, such as urban infrastructure, housing, construction, [immigration] and Aboriginal people.” (p.136)
- “Responsibilities have been devolved to municipalities without granting them the corresponding finances and capacities for revenue management and generation, such as the ability to raise taxes at the local level and make expenditure decisions.” (p.136)
- “To meet all their challenges properly, [cities] need alternative, sustainable sources of revenue and policy levers to advance public/private financing initiatives. The federal government should work closely with provincial governments toward legislative change that would allow cities to raise revenue beyond the property tax. More generally, there is a need to debate the problem of urban public finance.” (p.137)
- “The federal government’s urban agenda should be flexible in order to meet the particular needs of each urban centre.” (p.137)
- “The federal government should set national objectives and provide a national framework for urban competitiveness, but it is essential that the strategy development and implementation be led locally. The federal government could play a significant role in ‘branding’ its major urban centres internationally.” (p.137)

- “There is a lack of formal mechanisms bringing together all three orders of government – federal, provincial, and municipal – to focus their attention on the needs of urban centres. In this regard, appropriate tools and incentives for negotiation between the different levels of government should be coupled with horizontal collaboration. It is important that central departments and agencies be informed and involved in tripartite discussions. The creation of a federal co-ordinating body could be useful for this purpose.” (p.137)
- “New fiscal decentralisation in Canada of [sic] the last decades appears to have left the provinces, but not municipalities, with adequate funding for their public services. This view is supported by the fact that provinces have been cutting tax rates in recent years, despite reductions in federal transfers, while many municipalities – particularly large urban centres – have been simultaneously raising property taxes and reducing service levels.” (p.177)
- “Canadian municipalities operate in a tightly controlled fiscal framework deriving from provincial legislation, which is consistent with their legal framework..” (p.191)
- “By international comparison, the intermediate [e.g. Provincial] level in Canada has more prerogatives and exerts more power over its municipalities than it does in any other federation.” (p.191)
- “In 1996, the property tax comprised half of all municipal revenue in Canada, but only 21% in the United States.” (p.193)
- “Property tax is broadly acknowledged as an appropriate way to fund municipal services that benefit all residents. However, it constitutes a rather poor tool to finance income redistribution programmes such as social housing...Moreover, the property tax rate is a very ‘visible’ parameter and it is thus difficult to increase when municipal governments need higher revenues.” (p.193)
- “Whereas municipal income taxes, visitor or commuter taxes and sales taxes are quite frequent in the US, and [whereas] some form of local income tax exists in approximately half of OECD Member countries, municipal governments in Canada cannot levy such taxes.” (p.193)
- “With the shifting or ‘downloading’ of responsibilities to municipalities, reliance on the property tax has increased over the last decade. This high degree of reliance on the property tax lies at the origin of the increasing fiscal difficulties of the cities. Canadian cities should thus be given some limited access to other types of taxes.” (p.194)
- “In contrast to both federal and provincial governments that have unrestricted access to borrowing for operating and capital expenditures, municipal governments can only borrow for capital projects and are further constrained by requirements prohibiting municipal deficits. Since municipal governments must pay debt through their operating budgets and ‘break even’ every year, they must be careful to ensure that capital borrowing does not interfere with their ability to deliver basic services and meet minimum debt repayments.” (p.194)

- “In sum, the survey on the responsibility, revenue and expenditure side shows that compared to other countries and especially other OECD countries, Canadian municipal governments have weak powers and low resources. In the last decade, the ongoing process of decentralisation, which is leading the federal government to download programmes and expenditures onto the provinces, has worsened the situation for the cities. The provinces, in turn, delegated responsibility to the municipalities, which resulted in the assignment of unfunded mandates. Municipalities ended up having increased responsibilities without their resources being proportionally extended.” (p.195)
- “This constellation of pressures – increased metropolitan fiscal fragmentation, off-loading of responsibilities from the provinces, and limited fiscal and governmental powers at the municipal level – have led to an increasing imbalance between local responsibilities and resources at a time of intense competition with city-regions in the United States and throughout the globe.” (p.197)