



DISCUSSION PAPER
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The relationship of local governments with senior levels of government in Canada and the main services that local governments deliver.

In Canada, local governments historically generally have had the responsibility to provide service to properties, while provincial governments have provided policy direction and funding to municipalities while themselves providing broad based infrastructure and services to people. The Federal Government has provided funding and policy frameworks for programs and infrastructure of national importance.

Over the years, the lines have been blurred between the various levels of government, in terms of service provision, as the Federal Government and Provincial Governments have undertaken various forms of downloading of service and infrastructure delivery and that has been problematic. Over the last few decades both senior levels of government have managed their accumulated debts and annual deficits through this downloading approach (double-devolution as it has been referred to by some.) These added responsibilities have not come with a commensurate ability to raise revenues at the local level.

The main services that local governments provide in Canada today are:

- road maintenance,
- transit services,
- fire,
- policing,
- infrastructure construction and maintenance (roads, sidewalks),
- recreation
- water and sewer services, and
- solid waste management.

It should be noted however, that there are differences in each province as it is not uniform across the country. In some provinces, local governments may be involved in a variety of social services, including health care, child care, income support, housing and education.

The Federal Government in Canada provides funding for healthcare but they do not actually provide the services. This service is primarily provided by the Province's.

In Canada, local governments are not recognized as a legal level of government – in fact they are not recognized in the Constitution as such. Municipalities are said to be “creatures of the provinces” being created through specific legislation that lays out the roles and responsibilities and authorities of municipalities. The quality of this enabling legislation varies across Canada and, in many cases, is seen as being very

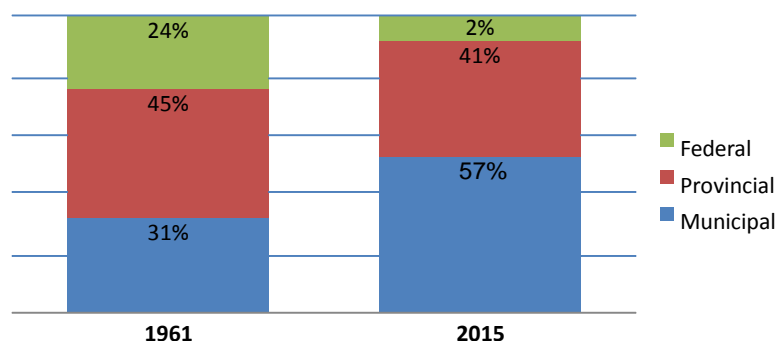
paternalistic. Some movement forward has occurred where enabling legislation has been less restrictive and provides “natural person powers” to municipalities as in Alberta as one example. Further still, specific legislation exists for some cities such as the Cities of Toronto and Winnipeg and in other jurisdictions greater powers and independence has been achieved through Charters (B.C.) Municipalities are starting to be granted the authority to act whenever they want to act as long as they aren’t in conflict with government legislation.

This relationship to the Provinces has created a dynamic in Canada whereby local governments rely, if ever, get to provide input into federal programs that may directly impact municipalities. There is no formal mechanism to account for a direct relationship and this is never more evident than with federal infrastructure funding programs that require one-third funding from each level of government. Although local governments are expected to be a full funding partner in infrastructure programs, they are typically excluded from deciding how the programs work or what funding priorities will be. It is for this reason that local government needs organizations such as the Canadian Association of Municipal Administrators (CAMA) and the Federation of Canadian Municipalities (FCM). From an advocacy standpoint, local government ought to be recognized as a legitimate order of government and as a true partner that not only provides funding, but has real input into national infrastructure programs. The new federal government (elected in October 2015) seems to be more open for dialogue with municipalities. Time will tell if this new approach will continue in the future.

The following graph illustrates part of the reason why infrastructure funding programs are so vital to local governments in Canada and how the allocations have changed over the last fifty years. Municipalities own 57% of core public infrastructure, provinces 41% and the Federal Government only 2%.



Municipalities are Asset Intensive



Source: FCM
 “Building Prosperity from the Ground Up: Restoring Municipal Financial Balance”



Municipalities own and are responsible for maintaining the bulk of infrastructure in Canada. At the same time they also only receive approximately 8% of every tax dollar that all governments collect. Most municipalities in Canada receive the bulk of their revenues (+/- 80%) from a combination of property taxes and user fees. These two sources cannot generate enough revenue to deal with the large infrastructure deficits that exist at the municipal level in Canada and keep up with service level requirements for the other programs and services they are responsible for providing. Most local government Chief Administrative Officer's would say that today's municipalities need access to other revenue sources to adequately deal with today's infrastructure deficits. On top of that, Canada, like the rest of the world is experiencing a migration of people to the cities, which has increased the demand on the cities' infrastructure, whether it be transportation systems, water & sewer infrastructure, or a variety of other hard assets found in all cities. Demands for new services and increased capacity draws on existing services magnifies the problems dramatically.

How are local governments in Canada funded (revenue sources) in comparison to senior levels of government?

As already noted, local governments in Canada rely primarily on property taxes and user fees for ongoing revenues needed to fund services and infrastructure work. While there are a few exceptions, this is the case with most Canadian municipalities and in most jurisdictions, municipalities cannot access new sources of revenue without authorization from their Province. Existing revenues, in most cases, are insufficient to sustain a municipality over time as in most jurisdictions, infrastructure repairs and maintenance, increasing urbanization of the population and growing expectations for services, are creating unsustainable economic conditions for municipalities. Cities cannot generate sufficient revenues from property taxes alone to sustain themselves.

In contrast, federal and provincial governments have access to a wide range of taxing schemes. These include income taxes, sales taxes, corporate/business taxes, gas taxes, tobacco and alcohol taxes, excise taxes among others and all grow significantly with the economy. By contrast, municipal property taxes are not elastic and do not grow with the economy. In addition, in some jurisdictions, provinces also receive a portion of the property taxes collected and also collect various user fees (i.e. birth certificates, marriage licenses, driver's licenses, hunting and fishing licenses, etc).

What key pressures (top 3) have local governments been experiencing over the last five years and why?

As indicated in the previous section Infrastructure, its financing, its development, on-going operations and maintenance and replacement are a huge on-going pressure for Canadian municipalities. In addition, the following areas are also some of our top pressures:

1. “Downloading” of responsibilities from the provinces (either removing revenues or reducing grants from municipalities by changing funding formulas or shifting of service provision responsibility).

This can take many forms; it can be a direct download such as requiring municipalities to take ownership of what were traditional provincial assets (like roads or buildings) to more subtle downloads by legislation (Right to information mandated for municipalities, standards for wastewater effluent, policing standards, and so forth).

2. Sprawl development outside of municipal boundaries, resulting in urban taxpayers paying the entire costs of services provided to the entire region. This typically happens in the absence of a regional plan.

Most municipalities in Canada suffer from some version of this issue. It is most apparent with recreation services, where a municipality may provide all the facilities (paid for by the taxpayers in the central municipality) and people in areas beyond that particular municipality get to use the facilities without additional cost.

Another example is the extensive transportation network that must be provided by larger cities to accommodate daily commuters from outside the municipalities.

3. Cost of Public Safety. In lieu of the right to strike, public safety employees have a right to arbitration which results in higher inflation and wage increases.

The cost of Police and Fire are two of the biggest drivers of budget woes for Canadian municipalities. Arbitrated settlements are typically significantly beyond the increases seen for union settlements in non-public safety areas, and it is those high wage increases that are creating budget concerns for municipal administrators.

What are the key pressures that local governments are likely to experience in the next five to ten years?

- Adaptation to Climate Change.
Municipalities lead the efforts on climate change mitigation and are now tasked with adapting to more extreme weather, which will mean significant changes in infrastructure and emergency planning.
- Further downloading.
The various levels of government are facing enormous financial challenges to fund the services their constituents expect, while not creating new revenue streams. This typically results in the “senior” level of government downloading to the “junior” level of government.
- Changing demographics
As Canada’s population ages, the health care system across this country will continue to be challenged. At the local government level, an aging population should mean changes to transportation systems, housing, recreation, and development. Recently, immigration which includes welcoming new refugees in Canadian communities has been an important topic. As with other sectors, municipalities need to recruit and retain the best and brightest of our younger generation to continue offering high level services.
- Changing infrastructure systems to meet the change in demographics and technology.
As noted above, changes in infrastructure will be required to accommodate an aging population. In a similar way, as technology and social media continues to progress and evolve, new ways to engage the public will be required and this will be a significant challenge for many municipalities.
- Building a different type of city.
Canadian cities have been built around the automobile and this is evident in the physical layout of today’s cities. Will the cities of tomorrow be as automobile-centric as today’s cities? How will municipal leaders begin to transform their municipalities for the future, while continuing to respond to the current demands? Taking in consideration our winter climate, how can we build better infrastructure for all seasons?
- Transit
Transit will continue to be a vital piece of transportation infrastructure and municipalities can expect increased pressure for more routes and more convenience. This will be exacerbated by further urbanization and insufficient financial resources to fund improvements and expansions.

What have, and will, local governments, in Canada, do to address these key pressures?

- Important to have Strategic Plans that guide the staff.
Key documents to guide municipalities will be long term financial plans, infrastructure deficit plans (asset management), up to date municipal plans that clearly articulate the impacts of changing demographics, and climate change impacts on individual communities.
- Engagement with the community to establish priorities and communicate priorities.
In the age of constantly changing technology and general apathy amongst the population, efforts at community engagement will continue to be a challenge. Municipalities will be looking to uncover best practices that help administrators/Mayors & Councillors understand what their communities want and need in terms of priorities.
- Focus on efficiency in a time of diminishing resources.
Pressures will be on local governments to be as efficient as possible with the resources provided. Tools like Lean 6 Sigma and Asset Management will be keys to eliminating waste from municipal organizations.
- Focus on resiliency and sustainability.
Local governments will have to focus on core service delivery and core infrastructure. They will have to fight against downloading in any form and make sure any investment is sustainable over the long run. Of particular importance will be the need for good urban plans that encourage density. It will also be in the best interest of local governments in Canada to lobby for more resources from the other levels of government since the majority of the population resides in urban centers and the majority of public infrastructure is at the municipal level.
- Partnerships: Partnering with a variety of partners and stakeholders will be critical for Canadian municipalities to continue addressing these key pressures. Non-governmental organizations, universities, community volunteer organizations, business organizations and other municipalities are only some examples of key partners to help address these key pressures faced.
- Thinking Outside the Box: Canadian municipalities need to be open to think outside the box to find a variety of unconventional solutions to address challenges and continue challenging the status quo.