

# Fiscal Federalism and Public Service Provision in Canada

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## Introduction

This paper provides a general overview of the allocation of revenues and expenditures across levels of governments in Canada and discusses how public services in specific areas are financed and delivered. In doing so, the paper draws attention to a number of important characteristics of the Canadian federation and of its evolution in the post-war period as well as in recent years. In particular, the discussion highlights the relatively high and increasing degree of decentralization of the Canadian federation, reflected through the rising importance of provincial revenues and expenditures in the last five decades and the recent devolution of some provincial responsibilities to local governments, among other things. The discussion also illustrates the significant overlap of taxation powers and expenditure responsibilities across the three levels of government.

The paper is divided into five sections. The first section briefly describes the constitutional allocation of responsibilities of each level of government. The second section looks at some of the trends in the revenues and expenditures by levels of government, as well as intergovernmental transfers in the post-war period. In the third section, the sources of revenues are examined. The fourth section describes the allocation of expenditures in each area and discusses how some of the main public services are financed and delivered. The last section further examines the role of municipal governments by briefly discussing the budgetary process at the municipal level and by providing a succinct overview of the recent devolution of provincial responsibilities to municipalities in Ontario.

## I. Constitutional Provisions

Canada is composed of ten provinces and three territories and is governed by three orders of government: the federal, provincial and local governments. The division of powers between the federal and provincial governments was initially specified in the Constitution

Act of 1867, which was amended a few times, most notably in 1982. Territorial governments have no constitutional standing. Their expenditure responsibilities and ability to raise revenues are delegated to them by the federal government, which generally plays a more important role in the provision of services in the territories than in the provinces.

The powers of the federal government are set out in article 91 of the constitution. They include, in particular: the public debt and property, the regulation of trade and commerce, defense, military and naval services, criminal law, unemployment insurance, money and banking, patents and copyrights, postal services, census and statistics, and the raising of money by any mode or system of taxation.

Article 92 lists the areas of provincial jurisdiction, which includes: property and civil rights, hospitals, management and sale of public lands, the administration of justice, municipal institutions, all matters of a local nature, and direct taxation within the province. Article 92A provides provinces with the exclusive jurisdiction over non-renewable natural resources, forestry and electrical energy. Article 93 establishes provincial jurisdiction over education, while articles 94A and 95 provide joint federal-provincial jurisdictions in the areas of public pensions, agriculture and immigration.

The constitution does not provide any power to local governments, which are under the full responsibility of provincial governments. Hence, some expenditure responsibilities and taxation powers are delegated to local governments at the discretion of provinces. Therefore, local governments are highly dependent of provincial governments, from which they receive their mandate and an important part of their revenues, as we will see later. Recently however, legislation has been passed in a number of provinces, including Alberta, Ontario and British Columbia, intended to provide more flexibility and autonomy to municipal governments, although it is not clear that these objectives were attained (McAllister, 2004). Local governments can include municipal governments, school boards, and various sorts of agencies. Together, they are generally responsible for a range of functions including protection services, transportation systems, education, health and welfare in some provinces, water and sewers, garbage collection, etc. However, the extent of expenditure delegation to local governments and the structure of local governments vary significantly across provinces.

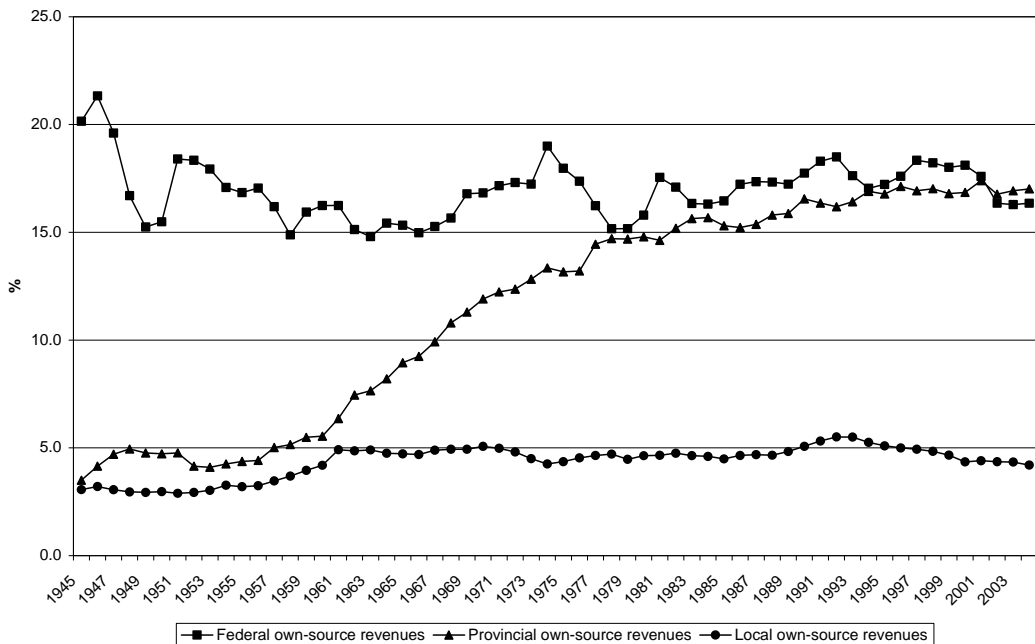
Despite the constitutional allocation of responsibilities, the federal government may spend in areas of exclusive provincial jurisdiction by making use of its so-called spending power. Although the spending power is not explicitly specified by the constitution, several articles of the constitution have been invoked to justify it, and in practice, the importance of the federal spending power is far from negligible as several of the federal government's expenditures and

conditional transfers to provinces are effectively legitimized by the spending power.<sup>1</sup>

## II. An overview of revenues, expenditures and transfers by levels of government

There has been an important long-run trend towards the decentralization of both revenues-raising and program spending in Canada, especially across the federal and provincial levels. Figure 1 shows the evolution of own-source revenues (revenues excluding transfers from other levels of government) as a share of GDP by level of government between 1945 and 2004. The data corresponding to all figures presented below are contained in the Appendix. While federal own-source revenues have fluctuated between 15 percent and 20 percent of GDP throughout the period, provincial government own-source revenues increased steadily from approximately 5 percent of GDP after WWII to 17 percent of GDP in 2004, just above federal own-source revenues. In contrast, local government own-source revenues have remained remarkably stable over the period at approximately 5 percent of GDP.

Figure 1: Own-Source Revenues as a Share of GDP by Level of Government, 1945-2004, (%)

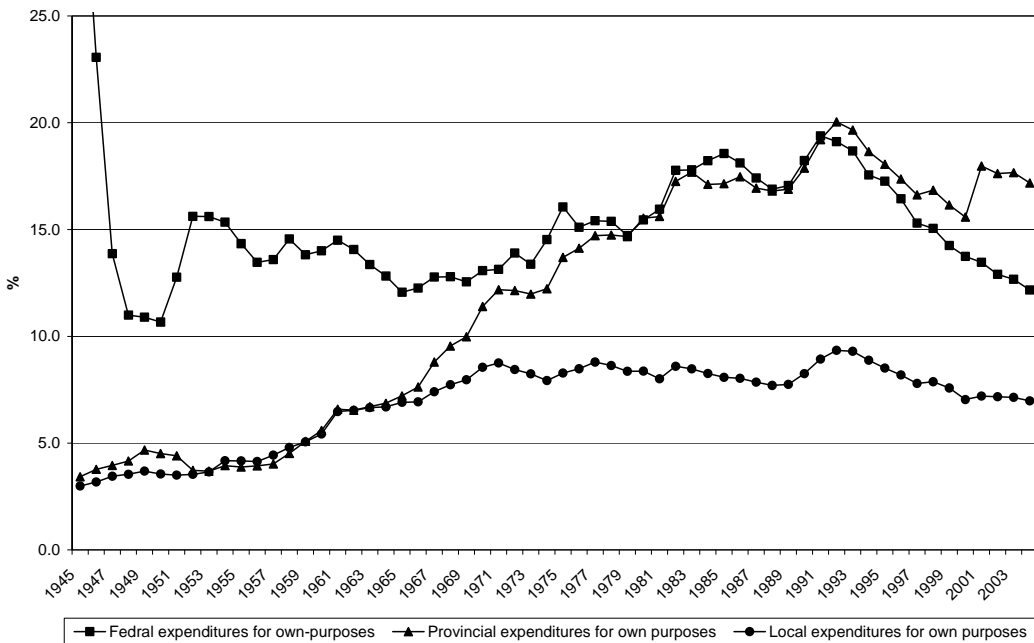


Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 380-0022, 384-0001, 384-0004, 384-0011, 384-0014, 384-0023

<sup>1</sup> For a more detailed discussion of the federal spending power, see Boadway and Hobson (1993) and Boadway and Watts (2004).

A similar pattern also characterizes the expenditures of each level of government for their own purposes (total expenditures excluding transfers to other levels of government) as a share of GDP, represented for the same period in Figure 2. At the federal level, expenditures dropped immediately after the second war and then fluctuated between approximately 11 percent and 16 percent of GDP up to the mid-1960s. From that point on, federal expenditures were on an upward trend until they peaked at 19 percent in 1990, and then decreased rapidly and steadily for thirteen consecutive years. They stood at just above 12 percent of GDP in 2004. Both provincial and local expenditures as a share of GDP have been on an upward trend between 1945 and the early 1990s, although the rate of growth has been substantially higher at the provincial level after the late 1960s. By the early 1990s, provincial expenditures surpassed federal expenditures, although they have also been on a downward trend in the 1990s. Given the substantial growth of provincial expenditures, especially in the area of health care, the gap between provincial and federal expenditures is expected to become larger.

**Figure 2: Expenditures for Own-Purposes as a Share of GDP by Level of Government, 1945-2004, (%)**



Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 380-0022, 384-0001, 384-0004, 384-0011, 384-0014, 384-0023

Intergovernmental transfers are fairly substantial in Canada, both between the federal and provincial governments and between the provincial and local governments. There are two main

categories of federal transfers to provinces: equalization grants and transfers for the financing of provincial expenditures in the areas of health care, post-secondary education and social assistance. The principle of equalization is specified in the Constitution and requires that the federal government transfers funds to provinces to insure that all provincial governments have the capacity to offer comparable levels of services to their citizens at comparable levels of taxation. Equalization transfers are provided to all provinces with a below-average fiscal capacity, which currently includes all provinces except Ontario and Alberta. Broadly speaking, the equalization payment to a particular recipient province is determined by a formula, which intends to cover, for each eligible tax base, the difference between the revenues that would be raised by that province if it were to set the average tax rate on that base and the average revenues raised on that tax base across five *representative provinces*.<sup>2</sup> The second main category of transfers are those that are specifically intended for the financing of health care, post-secondary education, social assistance and social services, and are now provided to provinces on a per capita basis. These transfers are divided in two blocks: the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).<sup>3</sup>

Provincial governments also transfer substantial amounts to local governments. In fact, these transfers are almost as large as federal transfers to provinces. However, only about 20 percent of provincial transfers to local governments are general purpose transfers, in contrast to over 30 percent for federal transfers to provinces (Treff and Perry, 2005). Most provincial transfers are conditional on municipality expenditures on social services, on the construction and maintenance of the road systems, public transportation, water treatment and supply and public housing. Some of the provincial transfers to local governments have an equalization component, although the precise form of these transfers varies across provinces (Boadway and Hobson, 1993; Kitchen, 2002). As federal equalization transfers to provinces, they are intended to compensate, to some extent, municipalities that have below average tax capacity. In some provinces, expenditure needs are also taken into account (Kitchen, 2002; Slack and Bird, 2006), and grants may be differentiated for rural and urban municipalities (Slack and Bird, 2006).

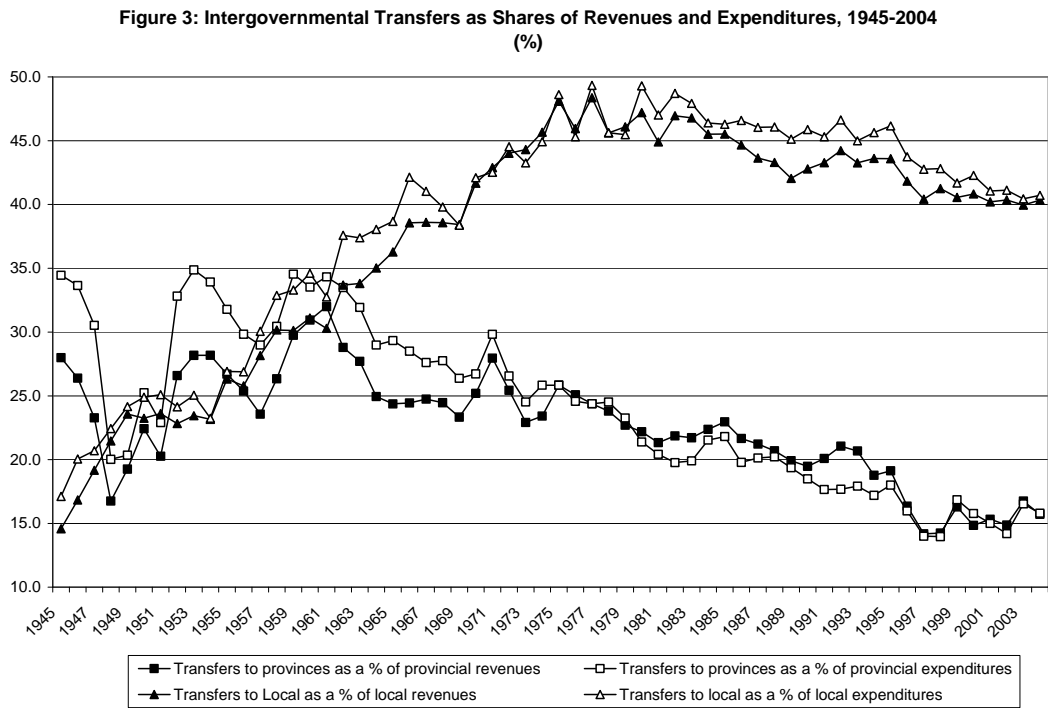
Figure 3 presents transfers to provincial governments and to local governments as shares of their revenues and expenditures between 1945 and 2004. Transfers to local governments as shares of their revenues and expenditures increased steadily between 1945 and the end of the 1970s, from around 16–17 percent to over 45 percent. There has been a slow and gradual decline starting in the 1980s towards a level of about 40 percent in 2004. The evolution has been quite different at the provincial level. Transfers to provinces as shares of revenues and expenditures increased

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<sup>2</sup> The five representative provinces are Québec, Ontario, Manitoba, Saskatchewan and British Columbia.

<sup>3</sup> These recently replaced the Canada Health and Social Transfer (CHST), which had been in place since 1996, and itself replaced the transfers under the Established Programs Financing and Canada Assistance Plan.

fairly rapidly between the late-1940s and the early-1960s, peaking at almost 35 percent of expenditures in 1959, but then declined almost continuously until 2004, when transfers represented only about 16 percent of revenues and expenditures. Hence, local governments rely much more heavily on transfers than provincial governments, whose revenues are now highly independent of transfers.



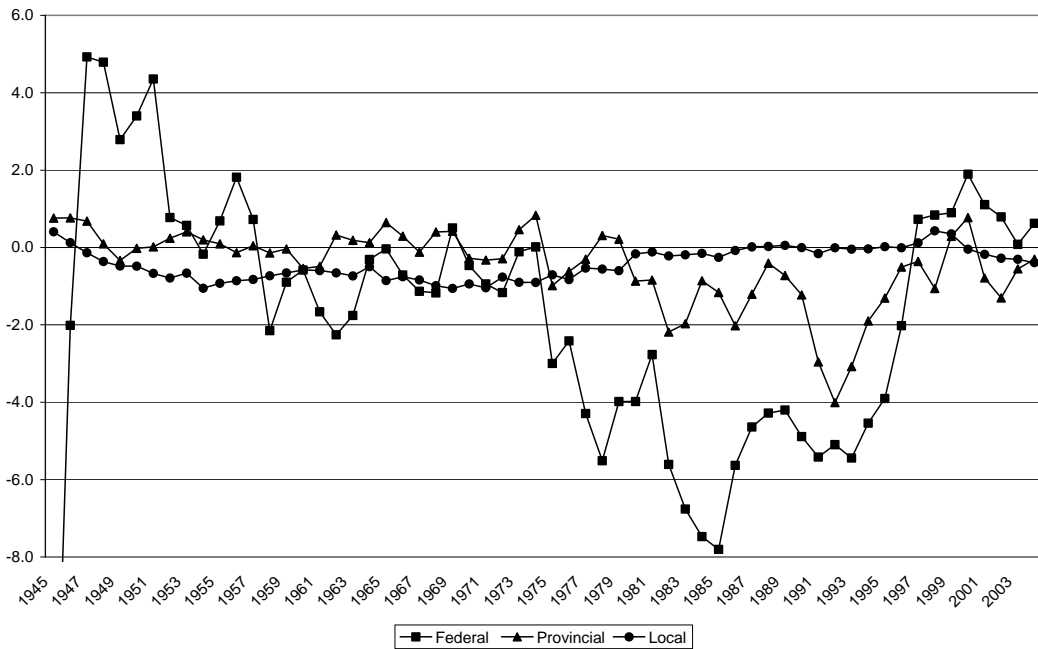
Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 380-0022, 384-0001, 384-0004, 384-0011, 384-0014, 384-0023

Budgetary surpluses of each level of government are represented in Figure 4 for the period 1945–2004. At the end of WWII in 1945, the federal deficit was equal to 15 percent of GDP, but was rapidly eliminated with the decrease of military expenditures. Important surpluses were then accumulated for the next ten years or so. The budgetary balance of the federal government then fluctuated in a fairly narrow band around zero until the mid-1970s, when a long period of large deficit started. The federal deficit reached almost 8 percent of GDP in 1985. The federal budgetary balance improved progressively after that, became positive in 1996 and remained positive until 2004, although under 2 percent of GDP.

At the provincial level, the budgetary balance was more stable and fluctuated around zero until the early-1980s. Similarly to the federal government, provincial governments then fell into

deficits for much of the 1980s and 1990s, although the consolidated deficits of provincial governments were much smaller than federal deficits. They peaked at 4 percent of GDP in 1992. Although the situation improved progressively after 1992, the budget balance of provincial governments has remained negative in all years since then, except for 1999 and 2000, and has been significantly below the federal budget balance in all years between 1997 and 2004.

**Figure 4: Budgetary Surplus as a Share of GDP by Level of Government, 1945-2004, (%)**



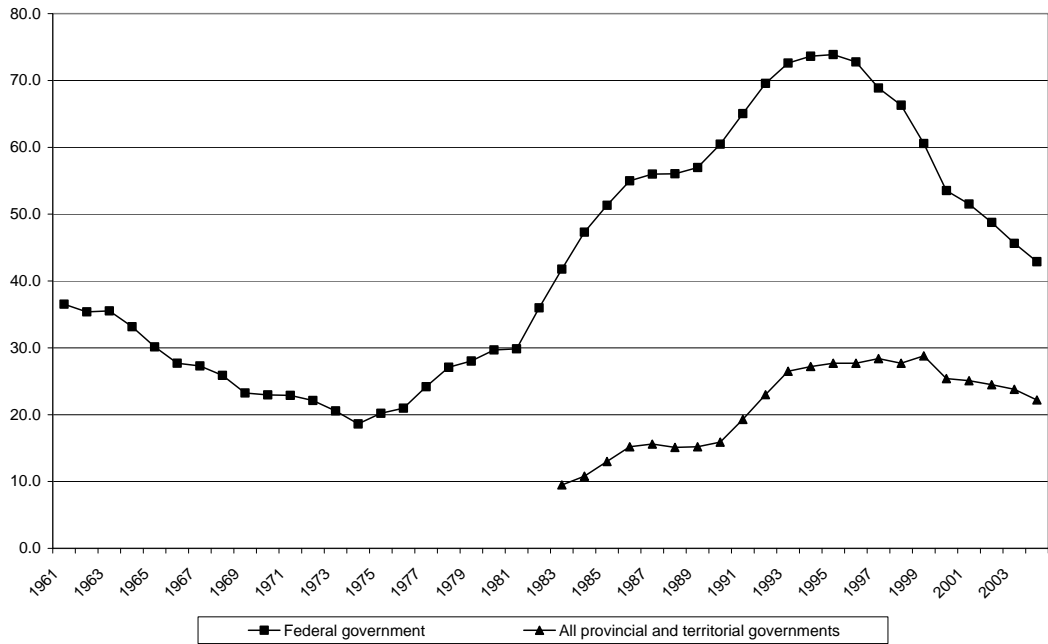
Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 384-0001 and 384-0014. Due to a break in the series following the introduction of full accrual accounting, data for the federal government starting in 1983-84 are not directly comparable with earlier years

The budget balance of local governments is highly stable through time and close to zero, reflecting the fact that, in all provinces, provincial governments impose important restrictions on the local government budgetary process (Kitchen, 2002; Emery, 2003; Bird and Tassonyi, 2002), including constraints on the ability of local governments to run deficits and incur debt (Kitchen 2002; Slack and Bird, 2006). Usually, local governments can only borrow to finance capital investments. More discussion of the restrictions imposed on the local budgetary process is provided in Section 5.1 below.

The net debt as a share of GDP for the federal government and provincial governments combined is depicted in Figure 5 for the period after 1961 and 1983, respectively. Of course, the long period

of deficits in the 1980s and 1990s lead to a rapid growth of the debt-to-GDP ratio, which peaked for the federal government at 74 percent in 1995 and at 29 percent in 1999 for provincial governments. However, the rapid growth of GDP since the second half of the 1990s and the improved budget balances lead to a rapid reduction in debt-to-GDP ratio, which fell to 43 percent and 22 percent in 2004 at the federal and provincial levels, respectively.

**Figure 5: Net Debt as a Share of GDP by Level of Government, 1961-2004, (%)**

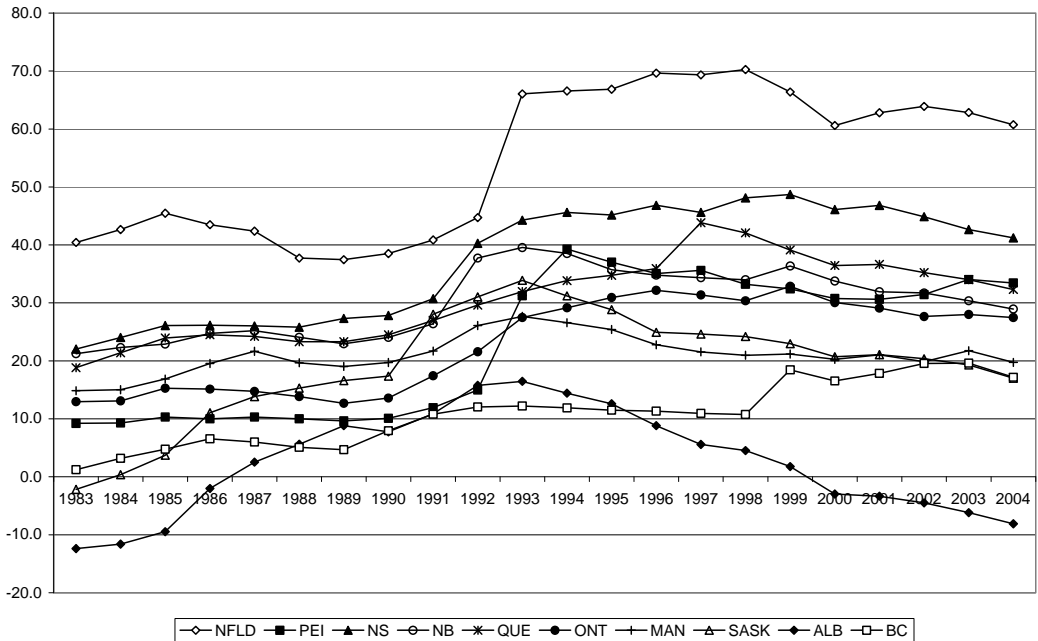


Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 384-0001 and 384-0014.

Finally, Figure 6 depicts provincial net debts as a share of GDP by province for the period 1983-2004. There are wide variations across provinces with Alberta having a negative debt of -8 percent of GDP in 2004 compared a debt-to-GDP ratio of over 60 percent in Newfoundland. Ontario and Quebec were in the middle of the pack in 2004 with debt-to-GDP ratios of 27.5 percent and 32 percent, respectively.



Figure 6: Net Provincial Debt as a Share of GDP, 1983-2004, (%)



Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 384-0001 and 384-0014. Due to a break in the series following accounting changes, data after the following years are not directly comparable with earlier years: Newfoundland (1993-94), Québec (1997-98), Ontario (1999-2000) and BC (2000-01).

### III. Sources of revenues by levels of government

The relative importance of each source of revenues varies considerably across levels of governments. The shares of revenues by sources are presented in Table 1 for the federal, provincial and local governments as well as school boards. Several points are noteworthy. First, the income tax field is occupied only by the federal and provincial governments, and represents over 60 percent of federal revenues and around 30 percent of provincial revenues. Second, consumption taxes are also used almost exclusively by the federal and provincial governments and correspond to around 20 percent of revenues at both levels. Third, property taxes are the main component of own-source revenues of local governments and school boards. They account for about two-thirds of local own-source revenues and over 80 percent of school boards own-source revenues. It is important to note, however, that own-source revenues represent only about 60 percent of local total revenues and less than 30 percent of school boards revenues. Finally, contributions to social security plans account for about 10 percent of federal revenues, while the sales of goods and services generates 15 percent of local revenues.

TABLE 1: Sources of Revenues by Level of Government (%)

	Federal		Provincial		Local		School Boards	
	2001	2005	2001	2005	2001	2004	2001	2004
<b>Own source revenue</b>	99.7	99.7	85.2	81.4	60.5	60.4	28.0	27.8
Income taxes	62.0	61.2	31.4	29.4				
Consumption taxes	19.7	21.7	22.3	23.1	0.1	0.1		
Property and related taxes			4.0	3.9	40.2	40.4	23.0	22.8
Other taxes	0.3	0.3	6.4	6.6	0.7	0.7		
Health and drug insurance premiums			1.0	1.3				
Contributions to social security plans	11.4	9.7	2.8	3.1				
Sales of goods and services	2.3	3.1	4.3	2.6	15.5	15.5	4.7	4.7
Investment income	3.6	3.0	12.8	11.2	3.1	2.7	0.2	0.2
Other revenue from own sources	0.4	0.5	0.2	0.2	0.9	0.9	0.1	0.1
<b>Total transfers</b>	0.3	0.3	14.8	18.6	39.5	39.6	72.0	72.2
General purpose transfers	0.3	0.3	12.2	10.6	1.6	1.7		
Specific purpose transfers	0.0	0.0	2.7	8.0	37.9	37.9		

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 385-0001, 385-0002, 385-0003, 385-0009.

At both the provincial and local levels, there is considerable variation in the sources of government revenues across provinces. Tables 2 and 3 present the shares of revenues from each source across provinces, for provincial and local governments, respectively. At the provincial level, the following points are of interest. First, the proportion of own-source revenues differs significantly across provincial governments. It ranges from 57 percent in Newfoundland to 89 percent in Alberta, the richest province. Second, Ontario and Québec rely much more heavily on income taxation than the other provinces, while the relative importance of consumption taxes is more uniform across provinces, if we exclude Alberta where the proportion of revenues from consumption taxes is much less important.

TABLE 2: Sources of Provincial Government Revenues by Province, 2005, (%)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC
<b>Own source revenue</b>	57.3	61.1	67.2	63.2	83.4	84.7	69.3	78.3	89.3	83.3
Income taxes	18.4	18.1	25.7	18.9	33.0	36.4	24.2	18.9	23.7	21.3
Consumption taxes	23.2	25.3	25.5	20.9	22.2	28.7	21.9	22.1	10.7	24.5
Property and related taxes	0.2	5.1	1.2	6.2	3.1	3.2	3.9	4.1	4.2	7.6
Other taxes	4.7	2.6	2.4	2.1	10.4	7.8	5.3	6.1	3.6	2.1
Health/drug insurance premiums			0.2		1.2				3.1	4.7
Social security contributions	3.5	2.3	2.5	2.1	3.3	3.5	1.6	1.9	3.1	3.4
Sales of goods and services	3.1	4.7	4.5	2.6	3.1	2.3	1.9	4.3	1.6	2.5
Investment income	4.2	3.1	5.3	10.2	6.7	2.7	10.4	20.6	39.2	16.9
Other revenue from own sources	0.2	0.1	0.1	0.2	0.3	0.2	0.2	0.3	0.1	0.3
<b>General purpose transfers</b>	32.3	35.7	24.2	32.8	11.2	5.6	20.9	10.1	4.3	8.3
<b>Specific purpose transfers</b>	10.4	3.2	8.6	4.0	5.4	9.7	9.8	11.5	6.4	8.4

**Source:** Author's calculations using data from Statistics Canada, CANSIM, table 385-0002. Provinces are ordered from East to West and are: Newfoundland (NFLD), Prince Edward Island (PEI), Nova Scotia (NS), New-Brunswick (NB), Quebec (QUE), Ontario (ONT), Manitoba (MAN), Saskatchewan (SASK), Alberta (ALB) and British Columbia (BC).

There is even more variation in the sources of revenues at the local level. In particular, the share of own-source revenues in total revenues varies from about 25 percent and 30 percent in Prince-Edward Island and Newfoundland to 71 percent and 86 percent in Saskatchewan and New-Brunswick. Correspondingly, there are large variations in the relative importance of transfers to local governments. The share of transfers in local government revenues ranges from 4.5 percent in New-Brunswick to 68 and 74 percent in Newfoundland and Prince-Edward Island. The share of property taxes in total revenues differs greatly across provinces, although as a share of own-source revenues, the variations would not be as important.

TABLE 3: Sources of Local Government Revenues by Province, 2004, (%)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC
<b>Own source revenue</b>	29.6	24.9	55.1	86.2	58.0	64.5	56.7	71.0	54.8	56.2
Consumption taxes	0.0		0.1				0.7	2.4		0.1
Property and related taxes	20.8	18.2	42.7	58.0	41.8	45.7	38.2	51.8	27.4	29.7
Other taxes	0.4	0.1	0.3	0.6	0.2	0.8	0.5	0.3	1.1	1.6
Sales of goods and services	7.5	6.0	10.3	26.3	13.9	15.3	12.9	12.6	19.7	18.1
Investment income	0.6	0.2	1.3	0.8	1.0	2.0	3.6	3.3	5.6	6.3
Other revenue from own sources	0.3	0.5	0.4	0.4	1.2	0.9	0.7	0.5	1.1	0.4
<b>General purpose transfers</b>	2.1	0.8	1.8	9.3	1.6	1.7	6.5	2.4	0.3	0.6
<b>Specific purpose transfers</b>	68.3	74.2	43.1	4.5	40.4	33.7	36.8	26.6	44.9	43.2

Source: Author's calculations using data from Statistics Canada, CANSIM, table 385-0003. Local government revenues in this table include school boards revenues.

## IV. Expenditures: Allocation and Delivery

### IV.1. An Overview of Expenditure Allocation by Functions and Levels of Government

Most expenditure functions tend to be concentrated at one level of government, although the three levels are active to some extent in almost all areas. The allocation of expenditures across functions is presented in Table 4 for each level of government in 2001 and 2005 (2004 for local governments). The area of social services is by far the largest expenditure area for the federal government. It represents 36 percent of federal expenditures, and includes, among other things, the unemployment insurance program and public pension plans. Protection, health, transfers and debt charges each represented approximately 10 percent of federal expenditures in 2005. Notice that the share of interest payments on the debt has decreased substantially between 2001 and 2005, from 17 to about 11 percent of total expenditures.

At the provincial level, health, education and social services together represented almost 70 percent of expenditures in 2005, with health alone being one third of total expenditures and

rising over time. Although not as much as at the federal level, debt charges of provincial governments have also decreased significantly, from about 14 to 11 percent of expenditures.

The local level of government includes school boards, and as a result, over 40 percent of local expenditures are in the area of education. Transportation and communication, protection services, and environment each account for about 10 percent of expenditures. Other areas of significant spending include recreation and culture (7 percent), social services (6 percent) and housing (2 percent). Interest payments on public debt accounted for only 3 percent of local government expenditures in 2004, reflecting the relatively low levels of indebtedness of local governments.

TABLE 4: Allocation of Expenditures by Level of Government

	Federal		Provincial		Local	
	2001	2005	2001	2005	2001	2004
General government services	4.7	3.6	1.7	1.9	5.3	5.1
Protection of persons and property	10.0	11.4	3.9	4.0	9.4	9.7
Transportation and communication	1.1	1.1	4.1	4.2	11.1	11.3
Health	1.9	10.7	30.5	33.6	1.4	1.4
Social services	36.2	36.4	16.6	15.9	6.3	5.9
Education	2.7	2.4	19.7	19.9	42.3	41.2
Resource conservation and industrial development	3.6	3.8	4.3	4.6	1.2	1.1
Environment	0.8	0.9	0.7	0.8	8.8	10.6
Recreation and culture	1.8	2.0	1.1	1.1	7.1	7.2
Labour, employment and immigration	1.3	1.3	0.4	0.4		
Housing	1.0	1.0	1.3	0.8	2.1	2.2
Foreign affairs and international assistance	2.4	2.4				
Regional planning and development	0.2	0.3	0.5	0.5	1.0	1.1
Research establishments	1.0	1.3	0.2	0.3		
General purpose transfers	13.8	10.5	0.7	0.7		
Debt charges	17.3	10.8	13.8	10.7	3.7	3.1
Other expenditures	0.1	0.0	0.7	0.5	0.1	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 385-0001, 385-0002, 385-0003, 385-0009.

The allocation of provincial government expenditures by function in 2005 is presented in Table 5 for each province. The share of expenditures devoted to health care is highest in Ontario and

British Columbia, at over 37 percent, and lowest in Québec (28 percent). Interestingly, the relative importance of education expenditures in provincial budget is highest in Alberta (24.5 percent) and Newfoundland (23 percent). Interest payments on the debt are highest in Nova Scotia and New-Brunswick, where they actually represent a larger share of provincial budgets than social services.

TABLE 5: Allocation of Provincial Government Expenditures by Province, 2005, (%)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC
General government services	2.0	5.1	0.9	1.7	2.2	1.5	1.9	1.7	1.5	1.8
Protection of persons and property	4.6	3.2	4.0	3.5	3.6	4.4	4.1	5.0	3.0	4.6
Transportation and communication	7.1	7.8	3.6	6.2	3.9	3.8	3.4	4.2	5.4	4.1
Health	30.2	29.7	35.2	31.3	28.2	37.4	33.0	32.4	33.6	37.6
Social services	12.6	10.0	12.0	11.4	17.6	16.7	15.5	13.5	16.0	13.7
Education	23.2	19.2	19.4	20.1	19.3	18.7	17.4	15.8	24.5	22.0
Resource conservation and industrial development	3.3	9.4	3.5	3.8	4.9	2.8	3.9	10.3	8.2	5.0
Environment	1.6	3.2	0.6	0.9	0.8	0.6	0.6	1.4	0.8	0.7
Recreation and culture	1.5	1.4	1.0	0.9	1.5	0.7	1.2	1.5	1.4	1.0
Labour, employment and immigration	0.2	0.4	0.2	0.7	1.0	0.1	0.3	0.2	0.4	0.2
Housing	1.0	0.5	1.5	1.1	0.6	0.8	0.9	1.7	0.5	0.5
Regional planning and development	0.5	0.5	0.6	0.6	0.7	0.4	1.4	0.5	0.2	0.4
Research establishments			0.0		0.7	0.1	0.0	0.1	0.4	0.0
General purpose transfers	0.9	0.4	0.8	1.7	1.3	0.1	2.8	1.1	0.3	0.3
Debt charges	11.3	9.5	16.9	16.1	13.8	10.7	13.7	10.5	2.7	8.2
Other expenditures						1.2			1.2	

Source: Author's calculations using data from Statistics Canada, CANSIM, table 385-0002.

Table 6 presents the shares of local government expenditures in each area by province in 2004.

There are large variations across provinces in a number of areas, most notably in protection, transportation and communication, and education. Note that there are no school boards in New-Brunswick, so that all education expenditures are directly financed by the provincial government.

TABLE 6: Allocation of Local Government Expenditures by Province, 2004, (%)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC
General government services	6.7	4.2	8.1	7.9	7.5	3.1	8.0	6.4	6.1	5.6
Protection of persons and property	2.2	6.4	10.7	20.7	9.3	10.0	8.5	8.2	9.0	11.0
Transportation and communication	8.8	5.9	8.2	23.6	12.2	10.3	12.3	15.9	14.0	9.5
Health	0.0	0.1	0.1	0.2	0.1	2.7	1.2	0.2	1.0	0.5
Social services	0.1	0.0	2.0		0.4	12.6	0.2	0.2	1.0	0.1
Education	x	72.9	45.4	0.0	43.8	37.8	49.7	51.1	44.7	41.4
Resource conservation and industrial development	0.3	0.4	0.6	2.0	1.4	1.0	1.2	1.2	1.6	0.7
Environment	9.4	4.5	17.0	27.4	9.1	10.4	8.3	8.4	8.0	15.3
Recreation and culture	4.9	4.6	5.5	11.6	7.4	6.0	5.4	6.7	8.5	10.7
Housing	0.2	0.0	0.0	0.3	1.7	3.6	0.2	0.0	0.8	0.4
Regional planning and development	0.4	0.6	0.8	2.4	1.5	0.7	0.7	0.8	1.6	1.4
Debt charges	3.3	0.4	1.6	3.8	5.8	1.8	4.1	0.7	3.7	3.2
Other expenditures	x		0.1	0.1		0.0	0.1	0.0	0.0	0.3

Source: Author's calculations using data from Statistics Canada, CANSIM, table 385-0003, x: suppressed to meet the confidentiality requirements of the Statistics Act. Local government expenditures in this table include school boards expenditures.

#### IV.2. Public Service Delivery in Specific Expenditure Areas

A brief overview of how some of the main expenditure functions are allocated across levels of government and how services under these functions are generally financed and delivered is



provided below.

### *Health Care*

Health care services are largely provided by provincial governments, although part of the funding comes from the federal government. The first column in Table 7 gives the share of federal funding in total provincial health care expenditures for the period 1977–1996, taking federal funding for health care to be the transfers under the Established Programs Financing (EPF) arrangements that were intended for hospital insurance, medical insurance and extended health care. Although the federal transfer under EPF was a block grant for health care, post-secondary education and social assistance, notional shares for each expenditure areas were calculated based on the relative shares of transfers under the pre-EPF arrangements (prior to 1977). As the Table indicates, the contribution of the federal government decreased substantially over the period from about 26 percent in 1977 to 12 percent in 1996. The relative contribution of the federal government after 1996 is somewhat more difficult to establish precisely given that the notional shares calculations were dropped with the introduction of the Canada Health and Social Transfer (CHST) in 1997. In order to estimate the federal share of funding during the period of CHST transfers, Lazar, St-Hilaire and Tremblay (2004) used three values for the share of transfers intended for health care, based on 1) the notional share under EPF arrangements (43%), 2) the notional share under EPF arrangements augmented by additional federal transfers that were specifically provided for health care (50%), 3) the actual share of provincial health care expenditures in total provincial program expenditures (68%). The resulting shares of the federal contribution for health care expenditures are shown in the last three columns for the period 1997–2003. Hence, estimates range between about 10 and 16 percent, in any case substantially lower than in 1977. Partly for the purpose of making the federal contribution more transparent, the CHST was dividing in 2004 into the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

TABLE 7: Federal Transfers to Provinces Intended for Health Care as a Share of Provincial Government Expenditures on Health Care (%)

		% of CHST transfers attributed to health care			
		43%	50%	68%	
1977	26.5				
1978	26.5				
1979	29.2				
1980	25.4				
1981	22.8	1997	11.0	12.8	17.4
1982	18.2	1998	8.1	9.4	12.8
1983	19.7	1999	7.9	9.2	12.5
1984	23.4	2000	9.2	10.7	14.6
1985	24.7	2001	9.2	10.6	14.5
1986	21.3	2002	9.4	11.0	14.9
1987	19.8	2003	9.9	11.5	15.7
1988	19.4				
1989	16.7				
1990	14.6				
1991	12.9				
1992	15.2				
1993	17.8				
1994	15.0				
1995	15.6				
1996	12.2				

**Source:** Author's calculation using data from Canadian Institute for Health Information (CIHI) and CANSIM, table 385-0002. Federal transfers intended for health care are the sum of federal transfers for hospital insurance, medical insurance, extended health care for the period 1977-1996 and the health portion of CHST for the period 1997-2003.

Federal transfers to provinces for the financing of health care are subject to five general criteria specified in the Canada Health Act which has been established in 1984. The main objective of the Act is to insure that provincial health care systems meet certain national standards and that all Canadians have access to necessary health care services independently of their incomes. The five criteria are the following:

*Comprehensive scope:* All medical services that are deemed necessary must be covered by provincial health plans

*Universal coverage:* The same conditions of coverage must be provided to all residents of a province. A maximum waiting period of three months may be imposed on new residents.

*Public Administration:* Provincial health plans must be publicly administered and operated.

*Portability:* Coverage must be provided to individuals that are away from the province on a temporary basis or that have moved to another province and are not yet covered by the health plan of that province.

*Accessibility:* The accessibility of individuals to health care services cannot be limited by various barriers, including financial constraints.

To enforce these criteria, there may be deductions from federal transfers to provinces that do not comply. In practice, deductions are small. Nonetheless, federal influence on the design of provincial health care systems is not negligible as these deductions can potentially be important. For example, one dollar is deducted from federal transfers for every dollar of user fees or extra billing imposed on patients.

Provincial government expenditures on health care are largely financed out of general tax revenues. Some provinces raise revenues from health and drug insurance premiums, but the contribution of these revenues to health financing is quite small. In 2004, total health and drug insurance premiums were equal to 4.1 percent of provincial government expenditures on health care <sup>4</sup>.

Most hospitals are owned by provincial governments, although there are some private hospitals. For example, in Ontario, there are currently eight private hospitals out of a total of over 200 hospitals. Moreover, there has been some recent interest in some provinces to build and manage new hospitals through public-private partnerships. Most individuals working in hospitals, including nurses, are public employees. The majority of doctors, however, are self-employed and bill the government for the services they provide.

Services covered by the Canada Health Act and provided by the provinces include all physician and hospital services that are medically required. Outpatient services and drugs are included when provided in a hospital. As for other health care services, long-term care and home care services are of provincial responsibility, although they are not covered by the Canada Health Act and the level of public provision of these services varies substantially across provinces. However, the federal government announced, in 2004, a ten-year plan for additional transfers to provinces, as part of the Canada Health Transfer, partly intended to finance the expansion of provincial long-term care services (Treff and Perry, 2005).

For the provision of long-term care, there are typically publicly supported facilities where

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<sup>4</sup> Author's calculations using data from CANSIM Table 385-0002.

services are highly subsidized, but where capacity is usually insufficient to meet demand. The extra demand is fulfilled by private facilities where services are not subsidized. Several provinces, including Ontario, are currently expanding substantially public home care and long-term care services provided outside hospitals. In Ontario, there are two types of public support of long-term care for seniors. Provincial subsidies are available for housing accommodations where minimal to moderate levels of personal care are provided. Long-term care homes are also available for seniors that require 24-hour nursing care. These homes are either owned privately or by municipalities, although in both cases, residents pay for the cost of accommodation while the provincial Ministry of Health and Long-Term Care finances the costs of nursing and personal care services. Community Care Access Centres, which are provincially-funded local agencies, provide information about the services available and help individuals in accessing long-term care services, among other things. Long term care for individuals requiring mental health services is also provided by the provincial government through psychiatric hospitals, psychiatric units in general hospitals and homes for special care.

Several provinces are also increasing the importance of community health centres as providers of services. These health centres, or primary care networks, are usually coordinated through regional health authorities. Ontario is currently in the process of establishing 150 new family health networks where family doctors are grouped in order to provide a more extensive set of health services (Treff and Perry, 2005). These agencies report to the Ministry of Health and Long-Term Care.

Finally, provinces also provide various community health services, such as pre-natal and post-natal services, health promotional activities, nutritional education, etc. These services are usually provided through schools or other local agencies.

Most health care services to aboriginal people living on reserves or in the Territories are financed by the federal government through the Ministry of Health and the Ministry of Indian Affairs and Northern Development. However, the delivery of services in the three territories has progressively been transferred to territorial governments. Public health programs of various natures are also provided by the federal government on Native reserves.

The federal Ministry of Health is also responsible for public health and safety programs, including food inspection, and the regulation and certification of drugs. The federal government also created in 2000 the Canadian Institutes of Health Research which are networks of researchers conducting research on various dimensions of health and health services.

### Education

Education is of provincial jurisdiction and is provided in all provinces but New-Brunswick through local school boards. School boards are essentially local governments that are responsible for the management of schools at both the elementary and secondary levels. They are independent of municipal governments and are accountable to their electorate. In some provinces, but not all, school boards have the authority to levy property taxes. However, as discussed previously, most of their funding comes from the provincial government. As indicated in Table 1, on average across provinces, transfers from provincial governments accounted for 72 percent of school board revenues in 2004. This figure, however, masks large inter provincial variations. Table 8 shows the sources of school boards revenues for each province. Three points are worth noting. First, the relative importance of own-source revenues and transfers is highly unequal across provinces. Own-source revenues represent less than 1 percent in Newfoundland, compared to over 40 percent in Ontario and almost 55 percent in Saskatchewan. Second, virtually all transfers to school boards come from provincial governments, except in Nova Scotia where a property tax, the rate of which is chosen by the provincial government, is levied by municipalities who transfer the revenues to school boards (Treff and Perry, 2005). Third, own-source revenues are generally raised through property taxes.

TABLE 8: Sources of School Board Revenues by Province, 2004, (%)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC
Own source revenue	0.9	0.5	3.0		23.9	41.2	36.7	54.7	9.4	4.9
Property and related taxes					13.2	38.8	33.6	51.0	4.1	
Sales of goods and services	0.8	0.4	2.7		10.7	2.2	2.9	2.7	4.5	4.1
Investment income			0.1			0.1	0.2	0.9	0.7	0.6
Other revenue	0.1		0.1			0.1			0.1	0.2
Transfers	99.1	99.5	97.0		76.1	58.8	63.3	45.3	90.6	95.1
Federal government	0.7				0.1	0.3	0.2			0.3
Provincial governments	98.4	99.5	79.0		75.9	58.5	63.1	45.3	90.5	94.8
Municipal governments			18.0		0.1				0.1	

Source: Author's calculations using data from Statistics Canada, CANSIM, table 385-0003. There are no school boards in New-Brunswick. Schools are administered directly by the provincial government.

Although the level of autonomy of school boards varies to some extent across provinces, there is generally a fairly high degree of provincial control over school boards. For example, provincial governments typically set the curriculum, regulate teacher qualifications, approve textbooks and authorize capital investments (Treff and Perry, 2005). There is not, however, any form of federal

control over school boards, national standards for education, or significant coordination between provinces.

The autonomy of school boards has been further reduced, to some extent, in most provinces in recent years (Woolstencroft, 1997; McAllister, 2004). For example, although part of school board funding comes from local property taxes, there has been a general tendency to further centralize school funding at the provincial level (Boadway and Hobson, 1993; McAllister, 2004). In addition, in order to restrain education expenditures, several provinces, including Ontario, Quebec and British Columbia have merged local school boards and dramatically increased the number of schools under their control.

In addition to providing transfers to provinces intended for the financing of education through the Canada Social Transfer, the federal government is also involved in the area of education through student assistance programs, which include various loans and grants programs. The federal government is also responsible for the education of Natives on reserves.

#### *Income security programs*

The main income security programs are the unemployment insurance program, the Canada Pension Plan, the old age security program, child benefit programs and social assistance programs.

*Unemployment insurance:* The unemployment insurance program is under federal responsibility and is administered by Human Resources and Skills Development Canada (HRSDC), although insurance premiums are collected by the Canada Revenue Agency. Benefits paid under the program include regular benefits paid to individuals who lost their jobs, fishing benefits to self-employed individuals in the fishing industry who are not working during the off-season, compassionate care benefits to individuals who are forced to leave their job temporarily to provide care to a sick family member, and maternity, parental and sickness benefits.

Although HRSDC administers the program, individuals can receive information about the program or apply for benefits at one of Service Canada offices located throughout the country. Service Canada is a federal agency that delivers a range of federal services at the local level, including financial benefit to individuals under the unemployment insurance program, the Canada Pension Plan, old age security and the child benefits programs, as well as labour market services to individuals and businesses (e.g. career planning, placement services, job search services, labour market information for employers, etc.), among other things. There are currently 320 Service Canada offices dispersed in the ten provinces. Service Canada will, over time, integrate an even wider range of federal services and expand its network of local offices.

*Canada Pension Plan (CPP):* The CPP is a federal public pension plan administered by Social Development Canada that provides retirement benefits, disability benefits and survivor benefits to individuals that contributed throughout their life or their surviving spouse. The level of individual benefits is a function of the total contributions of individuals during their active period in the labour market. The plan is entirely financed from the contributions of employees, employers and self-employed and from the funds' investment income. The program is available to all Canadians, although Quebec has its own program that replaces the CPP. Prior to 1998, the CPP was a pay-as-you-go system. However, in order to make the plan sustainable in light of the demographic changes facing Canada, it has since moved towards a partly funded system and the contribution rate was progressively increased from 6 percent to 9.9 percent of pensionable earnings between 1997 and 2003. The CPP will be approximately 20 percent funded by 2017<sup>5</sup>. The fund is managed by a crown corporation, the CPP Investment Board.

*Old age security:* Old age security is also a federal pension program administered by Social Development Canada. However, in contrast to the CPP, the benefits are funded out of general government revenues. There are several types of benefits, including regular pension benefits available for all Canadians over the age of 65, the Guaranteed Income Supplement provided to individuals who receive regular old age security benefits and who have little other income, and the Allowance provided to individuals between the ages of 60 and 64 who are in difficult circumstances, because of the death of their spouse, for instance.

*Child benefits programs:* The federal government provides benefits to low- and middle-income families who have children under the age of 18 through the Canada Child Tax Benefit program. The program is administered by the Canada Revenue Agency. The payments under several related provincial child benefit programs are combined with the Canada Child Tax Benefit payment but are funded by provincial governments. In addition, low-income families may receive the National Child Benefit Supplement which is also funded by the federal government.

*Social assistance:* Social assistance is under provincial responsibility, although part of the funding comes from the federal government as part of the Canada Social Transfer. This transfer payment is essentially unconditional and does not require any level of uniformity in the design of provincial social assistance programs, which do vary substantially across provinces. In most provinces, some responsibilities are shifted to local governments, although the largest share of funding is provided by the provincial governments. In Ontario for example, municipalities finance around 20 percent of social assistance programs (Treff and Perry, 2005). Although the

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<sup>5</sup> CPP Investment Board: <http://www.cppib.ca/why/cpp/index.html>.

eligibility requirements and the amounts of income assistance vary across provinces, they are both determined by needs tests that take into account income, fixed and liquid assets, medical condition, household composition, specific individual needs, etc. In recent years, several provinces have introduced various features in their social assistance programs in order to increase the incentives of recipients to find work, including time limits that restrict the number of months of eligibility within a certain number of years, and transitional benefits or work premiums for recipients that find a job (Treff and Perry, 2005).

The Ontario social assistance program has two main components intended, respectively, for individuals with disabilities and individuals that are able to work. The amounts of income assistance are substantially higher for disable individuals, as in most provinces. Welfare recipients that are able to work are required to search for a job, engage in a training program or participate in community services. Programs to help welfare recipients find and keep jobs are also available for both able and disable individuals. Social assistance programs are administered by the regional offices of the provincial Ministry of Community and Social Services or by municipal agencies.

#### *Protection Services*

The three levels of government are heavily involved in protection services. Policing services are provided by a federal police force, provincial police forces in Quebec and Ontario, municipal police forces, as well as some First Nations police bodies operating on Natives reserves. The relatively large cities usually have their own police service, responsible for law enforcement within the city limits. In smaller municipalities, policing services are provided by either the provincial police (in Quebec and Ontario) or by the federal police, although some, or all, of the cost is usually supported by the municipal government.

Correctional facilities are administered and operated by both the federal and provincial governments. The federal government is responsible for inmates that received sentences of at least two years, while the others are under provincial responsibility.

Of course, the federal government has responsibility over national defence and security, border protection and control, intelligence services, as well as search and rescue services, although the costs of these are shared with provincial and local governments.

#### *Transportation*

The construction and maintenance of the road system is a provincial jurisdiction, although the federal government is responsible for roads in national parks. In practice, provinces usually delegate to local governments the responsibility for constructing and maintaining roads within



municipalities as well as for the administration and management of local transit systems, while highways outside municipalities are kept under provincial government responsibility (Treff and Perry, 2005). Provincial governments are also responsible for issuing driver permits and vehicle licenses. A substantial share of local governments' spending on the construction and maintenance of the road system is financed from provincial grants. Some federal grants are also provided to provincial and local governments for major investments in the road system, usually on a matching basis. The federal government is responsible for major airports, for the regulation of air transportation and has jurisdiction over water and rail transportation.

#### *Public Housing*

Total expenditures on public housing were generally shared about equally between the federal, provincial and local governments until the end of the 1990s. However, federal support in this area has decreased somewhat during the 1990s (Treff and Perry, 2001) and a substantial share of provincial expenditures was recently shifted to municipal governments, as will be seen below. The federal contribution is usually provided through matching grants or on a shared-cost basis with provincial governments. Social housing programs include government-owned housing units provided to low-income families at below-market prices, non-profit housing programs, rent subsidies and public financing assistance such as mortgage insurance provided by a federal Crown corporation, the Canada Mortgage and Housing Corporation.

Provincial and municipal governments are also involved, to various degrees across provinces, in providing shelters for homeless people. In Ontario, the provincial government, through the Ministry of Community and Social Services, provides most of the public funding for emergency hostels, which are managed by the municipalities. It also finances various municipal initiatives to prevent homelessness. The regional offices of the provincial Ministry of Community and Social Services are responsible for contracting the services with municipalities or directly with private non-profit agencies.

#### *Environment*

Local governments supported around 70% of total environment expenditures in 2004-2005 (Treff and Perry, 2005). Most of local government spending in this area is for water purification and supply, sewage collection and disposal, and garbage and waste collection and disposal. However, these functions are often regulated and subsidized by provincial governments. Federal responsibilities in the environment area include the protection of water and air quality, pollution control, meteorological services and international agreements.

## V. Local Governments: The Budgetary Process and the Recent Devolution of Responsibilities from Provinces to Municipalities

### V.1. *The Municipal Budgetary Process*

Municipalities are typically headed by a municipal council composed of elected representatives. The municipal council holds a range of responsibilities including voting laws and municipal regulations, approving budgets and tax policy, and administering the programs and policies of the municipality (Tindal and Tindal, 2004). Hence, municipal councils benefit from a fair amount of autonomy with respect to provincial governments, although their actions and policies, and in particular their budgets and taxation policies, are subject to some constraints imposed by provinces.

In particular, as briefly mentioned above, municipalities are not usually allowed to run deficits to finance current expenditures. Given their projected expenditures and the transfers anticipated from the provincial governments, they must insure that their revenues will be sufficient to balance their budget of the coming year. Hence, expenditure variations must be matched on a yearly basis by variations in property taxes or user fees, which represent almost all of municipal own-source revenues (See Tables 1 and 3 above. Note that user fees account for most revenues from the sales of goods and services reported in these Tables).

In practice, municipalities essentially set their property tax rates every year to raise the required amount of revenues, given the variations in real property evaluations. These evaluations, usually meant to reflect market values, are typically reviewed every few years – the length of reassessment cycles vary across provinces, ranging between 1 and 10 years (Kitchen, 2002). In several provinces, evaluations are conducted by a province-wide assessment corporation, although some larger cities conduct their own property evaluations.

The tax rates on real property are often higher for non-residential properties, even though farms and forest lands, among others, are usually taxed at a favorable rate (Boadway and Kitchen, 1999; Kitchen, 2002). The special treatment of some types of property is sometimes imposed by provincial governments. In some cases, provincial restrictions actually exempt altogether certain types of property from taxation. Examples include universities, churches, public hospitals and charitable organizations (Kitchen, 2004).

Expenditure variations from year to year can also be financed by adjusting user fees, which represent a substantial share of municipal own-source revenues – about 25 percent on average across provinces in 2004 (see Table 1 above) – and can be adjusted fairly rapidly. User fees are

essentially charges imposed on the use of public services, such as water supply, sewage collection and disposal, electricity, public transportation, public housing, parking, recreational facilities, community centers, etc.

Although municipalities are required to balance their operating budget, they may borrow to finance capital investments, sometimes subject to provincial authorization. Provinces impose guidelines on the size of debt, but in most municipalities debt levels are not close to those specified by these guidelines (Kitchen, 2003). In most provinces, municipal borrowing can be done through a provincial authority that essentially borrows the funds on behalf of municipal governments. This borrowing procedure is mandatory in some provinces for relatively small municipalities.

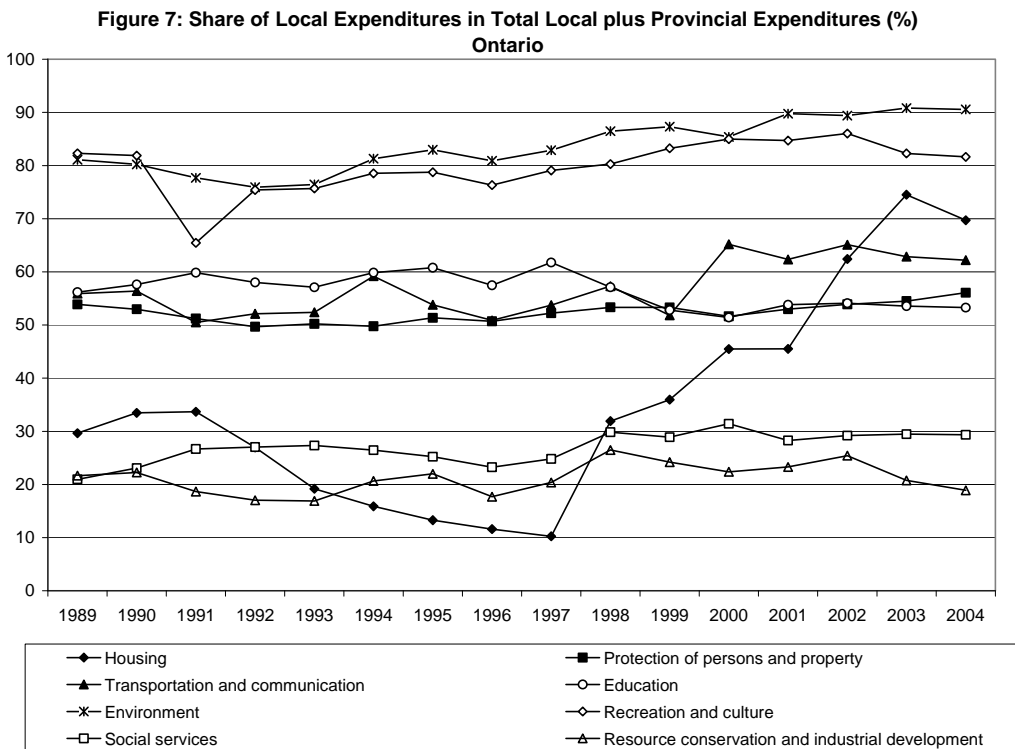
Most municipalities, or at least the relatively larger ones, have capital budgets, which are multi-year plans for the financing of capital investments (Kitchen, 2002). In addition to using current operating revenues, reserve funds, grants from the federal and provincial governments or borrowing, capital investments are often financed through special charges specifically associated with particular projects, such as local improvement charges and development charges (Kitchen, 2002). Local improvement charges are additional taxes imposed on the property owners that will directly benefit from particular investments, such as street paving or the construction of sidewalks in a new neighborhood. Local development charges are usually spread over several years. Development charges are taxes imposed on developers, usually as a fixed amount per lot, to finance the cost of developing services such as water supply.

## *V.2. The Recent Devolution of Responsibilities to Municipal Governments: The Case of Ontario*

A transfer of responsibilities between the provincial and local governments was undertaken in Ontario in the second half of the 1990s (Kitchen, 2002). An important component of the reform concerned the funding of education (Graham and Phillips, 1998). Before the reform, school boards raised approximately half of their revenues from local property taxes. School boards were free to set the rate of taxation and the taxes were collected by the municipality on their behalf. The other half of their funding came as grants from the provincial government. Following the reform, the reliance of school boards on property tax revenues was reduced and replaced by higher provincial transfers. Some of the objectives of this change were to increase provincial control of the schooling system, increase equity across school boards in levels of funding and constrain total education expenditures (Siegel, 2005). In order to finance these increased provincial transfers to school boards, transfers to municipalities were reduced and additional expenditure responsibilities were shifted to municipal governments, who were allowed to

occupy the additional property tax room that was created by lower school boards taxes.

The most important transfers of responsibilities were the following.<sup>6</sup> First, a large share of provincial housing units and of responsibility for social housing was turned over to municipalities. While the federal government remains involved in this area to some extent, municipalities are now largely responsible for funding and administering the provincial part of social housing. Figure 7 below depicts the share of local government expenditures in particular areas as a percentage of total provincial and local governments spending. As the Figure illustrate, the share of municipal government expenditures on social housing as a percentage of total provincial and local spending in this area decreased from around 30 percent at the beginning of the 1990s to just over 10 percent in 1997, but then increased rapidly to reach 70 percent in 2004.



Source: Author’s calculations using data from Statistics Canada, CANSIM, tables 385-0002 and 385-0003.

Second, there were also important transfers of responsibility in the area of transportation. The maintenance costs for many roads were shifted from the province to municipalities and provincial grants for road construction and municipal transit were largely eliminated. By 2004,

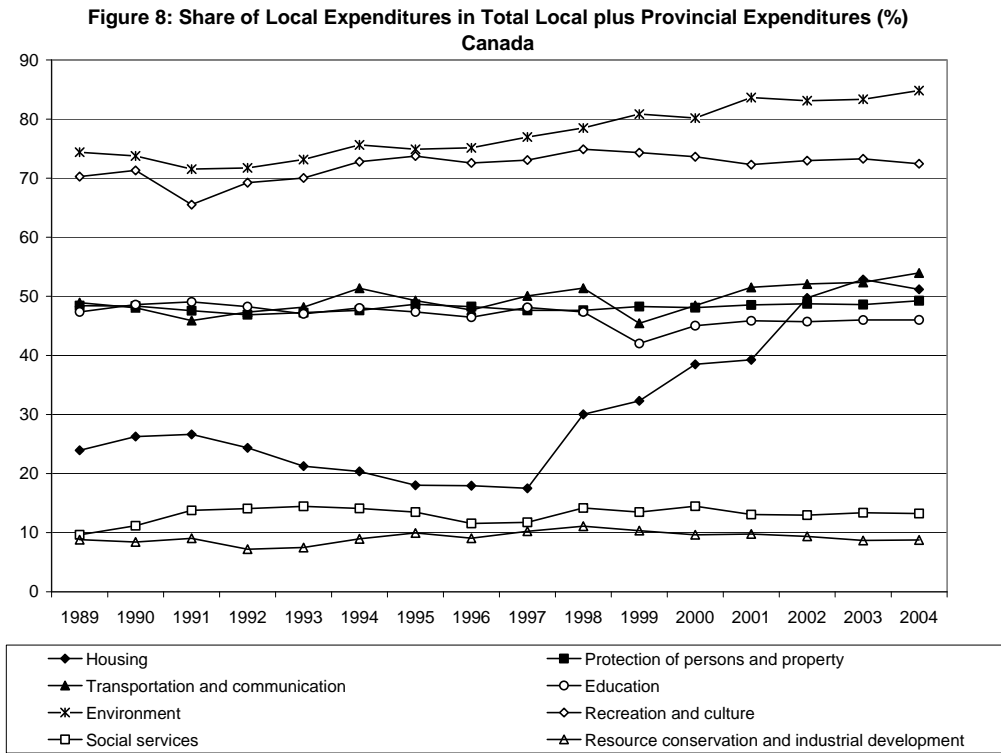
<sup>6</sup> See Kitchen (2002) and Siegel (2005) for more details.

the share of local expenditures in total provincial and local spending in the area of transportation and communication was around 62 percent, compared to 56 percent in 1989 and 51 percent in 1996.

Third, while policing services in relatively small municipalities were previously provided by the Ontario provincial police force and funded by the province, all municipal governments are now responsible for the financing of police services, although smaller municipalities still contract the services from the provincial police. The share of local spending on the protection of persons and property reached 56 percent in 2004, somewhat above its average level during the 1990s.

Fourth, municipalities are now providing water and sewer services, which were previously provided by the province but funded by municipalities. The share of local expenditure in the area of environment, which includes water and sewer services, has increased above 90 percent in 2003 and 2004, compared to around 80 percent at the beginning of the 1990s. Finally, while the provincial government used to provide ambulance services, municipalities are now responsible for these, although the province still contributes about half of the funding.

It is important to note that the trend towards greater decentralization of responsibilities at the municipal level has been significantly more pronounced in Ontario in the past decade than in the rest of Canada. For the purpose of comparison, Figure 8 depicts the share of local expenditures in specific areas as a percentage of total provincial and local expenditures for all Canadian provinces combined. Although there is some evidence of expenditure decentralization in certain areas, in particular housing, transportation and communication, and environment, the trend does not appear to be as important as in Ontario.



Source: Author’s calculations using data from Statistics Canada, CANSIM, tables 385-0002 and 385-0003.

The Ontario reform was intended to be financially neutral at both levels of government (Tindal and Tindal, 2004). Unconditional provincial grants to municipalities are provided to insure that this is the case, although it is difficult to assess whether this neutrality objective has been met, and such grants will likely be eliminated eventually (Siegel, 2005).

As a simple way to assess the overall effects of the reform on the level of decentralization of revenues and expenditures, Table 9 presents the shares of local revenues and local expenditures in total provincial and local revenues and expenditures between 1981 and 2004. In Ontario, the share of local revenues in total provincial and local revenues was around 37 percent in 2004, only slightly higher than in 1981. The share of local government own-source revenues has increased somewhat during the 1980s, but has been quite stable since 1990. Finally, the share of local governments expenditures increased significantly around 1989-1990, but has remained fairly constant after. For Canada as a whole, the data actually indicates a certain centralization of both revenues and expenditures between local and provincial governments over the same period. Hence, there is not much evidence of an important decentralization of overall revenues and expenditures across the provincial and local governments in Ontario, and certainly not in

Canada as a whole. However, the effect of the devolution of certain responsibilities to local governments on the overall shares of local and provincial expenditures has been compensated by rapid spending increases in certain areas of provincial jurisdiction, in particular health care. Moreover, the transfer of provincial responsibilities may have constrained local expenditures in certain areas given the additional fiscal pressures on local governments created by these changes.

Table 9: Shares of Local Revenues and Local Expenditures in Total Provincial and Local Revenues and Expenditures, 1981–2004 (%)

	Ontario			Canada		
	Share of Local Revenues	Share of Local Own-Source Revenues	Share of Local Expenditures	Share of Local Revenues	Share of Local Own-Source Revenues	Share of Local Expenditures
1981	35.4	26.5	32.9	31.2	24.1	29.3
1982	36.2	26.9	32.7	31.5	23.8	28.7
1983	35.3	26.2	31.7	30.4	22.9	28.1
1984	34.0	25.5	31.9	29.5	22.7	28.3
1985	33.7	25.5	31.3	29.3	22.7	27.9
1986	33.2	24.8	31.3	30.2	23.4	27.5
1987	32.8	24.6	30.2	29.9	23.4	27.7
1988	32.3	23.8	30.0	29.2	22.8	27.5
1989	36.3	29.4	35.7	29.6	23.3	27.6
1990	36.2	29.0	37.0	30.1	23.5	27.7
1991	37.5	29.4	37.0	31.4	24.5	27.8
1992	40.2	31.9	35.5	32.5	25.4	27.7
1993	39.8	32.8	34.6	31.9	25.1	28.1
1994	39.6	32.3	35.1	30.9	23.7	28.2
1995	39.3	31.8	34.9	30.3	23.3	27.9
1996	36.0	30.3	33.0	29.5	22.6	28.1
1997	36.4	30.3	34.4	29.6	22.6	28.1
1998	38.3	29.2	35.8	29.3	22.1	28.1
1999	37.3	29.2	34.9	28.1	21.7	28.3
2000	34.8	27.2	35.3	27.1	20.5	27.6
2001	34.9	27.6	34.5	26.4	20.2	25.6
2002	36.3	29.0	36.1	27.1	20.6	25.8
2003	36.7	29.6	35.8	26.2	20.4	25.7
2004	36.6	30.2	35.6	25.9	19.8	25.8

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 385-0002 and 385-0003.

In parallel to the reorganization of services, there was also a series of municipal mergers that cut the number of municipalities by about half, from around 800 to 400 (Treff and Perry, 2005). The mergers were largely initiated, if not imposed, by the provincial government, with the objectives of achieving greater efficiency in the delivery of services, and reducing expenditures and taxes (Sancton, 2000a; Siegel, 2005), although many observers raised concerns about whether these municipal mergers would actually generate efficiency gains (Sancton, 1996; 2000b). Early assessments of the mergers generally provide mixed evidence as to whether they were successful at increasing efficiency in the provision of services (Kushner and Siegel, 2003a; 2003b).



## APPENDIX: Data corresponding to Figures 1 to 8

TABLE A.1: Own-Source Revenues and Expenditures for Own Purposes, 1945–2004, (% of GDP)

	Own source revenues			Expenditures for own purposes		
	Federal	Provincial	Local	Federal	Provincial	Local
1945	20.2	3.5	3.1	34.2	3.4	3.0
1946	21.3	4.2	3.2	23.1	3.8	3.2
1947	19.6	4.7	3.1	13.9	4.0	3.5
1948	16.7	4.9	3.0	11.0	4.2	3.5
1949	15.2	4.8	2.9	10.9	4.7	3.7
1950	15.5	4.7	3.0	10.7	4.5	3.6
1951	18.4	4.8	2.9	12.8	4.4	3.5
1952	18.3	4.1	2.9	15.6	3.7	3.5
1953	17.9	4.1	3.0	15.6	3.7	3.6
1954	17.1	4.3	3.3	15.3	3.9	4.2
1955	16.8	4.4	3.2	14.3	3.9	4.2
1956	17.1	4.4	3.2	13.5	3.9	4.1
1957	16.2	5.0	3.5	13.6	4.0	4.4
1958	14.9	5.2	3.7	14.6	4.5	4.8
1959	15.9	5.5	4.0	13.8	5.1	5.1
1960	16.2	5.5	4.2	14.0	5.6	5.4
1961	16.2	6.4	4.9	14.5	6.6	6.5
1962	15.1	7.5	4.9	14.1	6.5	6.5
1963	14.8	7.6	4.9	13.4	6.7	6.7
1964	15.4	8.2	4.8	12.8	6.9	6.7
1965	15.3	9.0	4.7	12.1	7.2	6.9
1966	15.0	9.2	4.7	12.3	7.6	6.9
1967	15.3	9.9	4.9	12.8	8.8	7.4
1968	15.7	10.8	4.9	12.8	9.5	7.7
1969	16.8	11.3	4.9	12.5	10.0	8.0
1970	16.8	11.9	5.1	13.1	11.4	8.5
1971	17.2	12.2	5.0	13.1	12.2	8.8
1972	17.3	12.4	4.8	13.9	12.1	8.4
1973	17.2	12.8	4.5	13.4	12.0	8.2
1974	19.0	13.3	4.3	14.5	12.2	7.9
1975	18.0	13.2	4.4	16.1	13.7	8.3
1976	17.4	13.2	4.5	15.1	14.1	8.5
1977	16.2	14.4	4.6	15.4	14.7	8.8
1978	15.2	14.7	4.7	15.4	14.7	8.6
1979	15.2	14.7	4.5	14.7	14.7	8.4
1980	15.8	14.8	4.6	15.4	15.5	8.4
1981	17.5	14.6	4.7	16.0	15.6	8.0
1982	17.1	15.2	4.8	17.8	17.3	8.6
1983	16.3	15.6	4.6	17.8	17.7	8.5
1984	16.3	15.7	4.6	18.2	17.1	8.3
1985	16.5	15.3	4.5	18.6	17.1	8.1
1986	17.2	15.2	4.6	18.1	17.5	8.0
1987	17.3	15.4	4.7	17.4	16.9	7.9
1988	17.3	15.8	4.7	16.9	16.8	7.7
1989	17.2	15.9	4.8	17.1	16.9	7.7
1990	17.7	16.5	5.1	18.2	17.9	8.3
1991	18.3	16.4	5.3	19.4	19.2	8.9
1992	18.5	16.2	5.5	19.1	20.0	9.3
1993	17.6	16.4	5.5	18.7	19.7	9.3
1994	17.0	16.9	5.2	17.6	18.6	8.9
1995	17.2	16.8	5.1	17.3	18.1	8.5
1996	17.6	17.1	5.0	16.4	17.4	8.2
1997	18.3	16.9	4.9	15.3	16.6	7.8
1998	18.2	17.0	4.8	15.1	16.8	7.9
1999	18.0	16.8	4.7	14.2	16.2	7.6
2000	18.1	16.9	4.3	13.7	15.6	7.0
2001	17.6	17.4	4.4	13.5	18.0	7.2
2002	16.4	16.8	4.4	12.9	17.6	7.2
2003	16.3	16.9	4.3	12.7	17.7	7.1
2004	16.3	17.0	4.2	12.2	17.2	7.0

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 380-0022, 384-0001, 384-0004, 384-0011, 384-0014, 384-0023

TABLE A.2: Intergovernmental Transfers as Shares of Revenues and Expenditures, 1945–2004,  
(%)

	Transfers to provinces as a share of provincial revenues	Transfers to provinces as a share of provincial expenditures	Transfers to local governments as a share of local revenues	Transfers to local governments as a share of local expenditures
1945	28.0	34.5	14.6	17.1
1946	26.4	33.6	16.8	20.1
1947	23.3	30.5	19.2	20.7
1948	16.8	20.0	21.5	22.4
1949	19.3	20.4	23.6	24.2
1950	22.4	25.2	23.2	24.9
1951	20.3	22.9	23.6	25.1
1952	26.6	32.8	22.8	24.1
1953	28.2	34.9	23.4	25.1
1954	28.2	33.9	23.2	23.2
1955	26.7	31.8	26.3	26.9
1956	25.4	29.8	25.8	26.9
1957	23.6	29.0	28.2	30.1
1958	26.3	30.4	30.2	32.9
1959	29.7	34.5	30.1	33.3
1960	30.9	33.5	31.1	34.6
1961	32.0	34.3	30.3	32.8
1962	28.8	33.5	33.7	37.6
1963	27.7	31.9	33.8	37.4
1964	24.9	29.0	35.0	38.1
1965	24.4	29.3	36.3	38.7
1966	24.4	28.5	38.6	42.1
1967	24.7	27.6	38.6	41.0
1968	24.5	27.7	38.6	39.8
1969	23.3	26.4	38.4	38.4
1970	25.2	26.7	41.7	42.1
1971	28.0	29.8	42.9	42.5
1972	25.4	26.6	44.0	44.5
1973	22.9	24.5	44.3	43.3
1974	23.4	25.8	45.7	44.9
1975	25.8	25.8	48.1	48.6
1976	25.1	24.6	45.9	45.3
1977	24.4	24.4	48.4	49.3
1978	23.8	24.5	45.6	45.6
1979	22.7	23.3	46.1	45.5
1980	22.2	21.4	47.2	49.3
1981	21.3	20.4	44.9	47.0
1982	21.9	19.8	47.0	48.7
1983	21.7	19.9	46.8	47.9
1984	22.4	21.5	45.5	46.4
1985	23.0	21.8	45.5	46.3
1986	21.7	19.8	44.7	46.6
1987	21.2	20.1	43.6	46.0
1988	20.7	20.2	43.3	46.1
1989	19.9	19.4	42.0	45.1
1990	19.5	18.5	42.8	45.9
1991	20.1	17.7	43.3	45.3
1992	21.1	17.7	44.2	46.6
1993	20.7	17.9	43.3	45.0
1994	18.8	17.2	43.6	45.6
1995	19.1	18.0	43.6	46.2
1996	16.4	16.0	41.8	43.7
1997	14.2	14.0	40.4	42.8
1998	14.2	14.0	41.2	42.8
1999	16.3	16.9	40.6	41.7
2000	14.8	15.8	40.8	42.3
2001	15.3	15.0	40.2	41.1
2002	14.9	14.2	40.4	41.1
2003	16.8	16.5	40.0	40.4
2004	15.7	15.8	40.3	40.7

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 380-0022, 384-0001, 384-0004, 384-0011, 384-0014, 384-0023

TABLE A.3: Budgetary Surplus as a Share of GDP by Level of Government, 1945–2004, (%)

	Federal	Provincial	Local		Federal	Provincial	Local
1945	-15.2	0.8	0.4	1975	-3.0	-1.0	-0.7
1946	-2.0	0.8	0.1	1976	-2.4	-0.6	-0.8
1947	4.9	0.7	-0.1	1977	-4.3	-0.3	-0.5
1948	4.8	0.1	-0.4	1978	-5.5	0.3	-0.6
1949	2.8	-0.3	-0.5	1979	-4.0	0.2	-0.6
1950	3.4	0.0	-0.5	1980	-4.0	-0.9	-0.2
1951	4.4	0.0	-0.7	1981	-2.8	-0.8	-0.1
1952	0.8	0.2	-0.8	1982	-5.6	-2.2	-0.2
1953	0.6	0.4	-0.7	1983	-6.8	-2.0	-0.2
1954	-0.2	0.2	-1.1	1984	-7.5	-0.9	-0.2
1955	0.7	0.1	-0.9	1985	-7.8	-1.2	-0.3
1956	1.8	-0.1	-0.9	1986	-5.6	-2.0	-0.1
1957	0.7	0.0	-0.8	1987	-4.6	-1.2	0.0
1958	-2.1	-0.1	-0.7	1988	-4.3	-0.4	0.0
1959	-0.9	0.0	-0.7	1989	-4.2	-0.7	0.1
1960	-0.6	-0.5	-0.6	1990	-4.9	-1.2	0.0
1961	-1.7	-0.5	-0.6	1991	-5.4	-3.0	-0.2
1962	-2.3	0.3	-0.7	1992	-5.1	-4.0	0.0
1963	-1.8	0.2	-0.7	1993	-5.4	-3.1	0.0
1964	-0.3	0.1	-0.5	1994	-4.5	-1.9	0.0
1965	0.0	0.6	-0.9	1995	-3.9	-1.3	0.0
1966	-0.7	0.3	-0.8	1996	-2.0	-0.5	0.0
1967	-1.1	-0.1	-0.8	1997	0.7	-0.4	0.1
1968	-1.2	0.4	-1.0	1998	0.8	-1.1	0.4
1969	0.5	0.4	-1.1	1999	0.9	0.3	0.4
1970	-0.5	-0.3	-0.9	2000	1.9	0.8	0.0
1971	-0.9	-0.3	-1.0	2001	1.1	-0.8	-0.2
1972	-1.2	-0.3	-0.8	2002	0.8	-1.3	-0.3
1973	-0.1	0.5	-0.9	2003	0.1	-0.6	-0.3
1974	0.0	0.8	-0.9	2004	0.6	-0.3	-0.4

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 384-0001 and 384-0014. Due to a break in the series following the introduction of full accrual accounting, data for the federal government starting in 1983–84 are not directly comparable with earlier years

TABLE A.4: Net Debt as a Share of GDP by Level of Government, 1961–2004, (%)

	Federal government		Federal government	Provincial – territorial governments
1961	36.5	1983	41.8	9.5
1962	35.4	1984	47.3	10.8
1963	35.5	1985	51.3	13.0
1964	33.2	1986	55.0	15.2
1965	30.1	1987	56.0	15.6
1966	27.7	1988	56.0	15.1
1967	27.3	1989	57.0	15.2
1968	25.9	1990	60.5	15.9
1969	23.2	1991	65.0	19.3
1970	23.0	1992	69.6	23.0
1971	22.9	1993	72.6	26.5
1972	22.1	1994	73.6	27.2
1973	20.6	1995	73.9	27.7
1974	18.6	1996	72.8	27.7
1975	20.2	1997	68.9	28.4
1976	21.0	1998	66.3	27.7
1977	24.2	1999	60.6	28.8
1978	27.1	2000	53.5	25.4
1979	28.0	2001	51.5	25.1
1980	29.7	2002	48.8	24.5
1981	29.9	2003	45.6	23.8
1982	36.0	2004	42.9	22.2

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 384-0001 and 384-0014.

TABLE A.5: Net Provincial Debt as a Share of GDP by Province, 1983–2004, (%)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC
1983	40.4	9.2	22.0	21.2	18.8	13.0	14.9	-2.2	-12.4	1.2
1984	42.6	9.3	24.0	22.3	21.4	13.1	15.0	0.4	-11.6	3.2
1985	45.5	10.3	26.1	22.9	24.0	15.3	16.9	3.7	-9.5	4.8
1986	43.5	10.0	26.1	24.7	24.5	15.1	19.6	11.1	-2.0	6.6
1987	42.4	10.3	26.0	25.2	24.2	14.7	21.7	13.8	2.5	6.0
1988	37.7	10.0	25.8	24.1	23.3	13.8	19.7	15.3	5.6	5.1
1989	37.5	9.7	27.3	23.0	23.3	12.7	19.0	16.6	8.8	4.7
1990	38.5	10.1	27.8	24.0	24.5	13.6	19.7	17.4	7.8	8.0
1991	40.9	11.9	30.7	26.4	27.0	17.4	21.7	28.0	10.9	10.8
1992	44.7	15.0	40.3	37.7	29.6	21.6	26.1	31.0	15.8	12.1
1993	66.0	31.2	44.3	39.5	32.0	27.5	27.7	33.9	16.5	12.2
1994	66.6	39.3	45.6	38.5	33.8	29.2	26.6	31.2	14.4	11.9
1995	66.9	37.0	45.2	35.7	34.8	30.9	25.4	28.8	12.6	11.5
1996	69.6	35.1	46.8	34.8	35.9	32.2	22.8	24.9	8.8	11.3
1997	69.3	35.6	45.6	34.4	43.8	31.4	21.6	24.6	5.6	10.9
1998	70.2	33.2	48.1	34.0	42.1	30.4	21.0	24.2	4.5	10.8
1999	66.4	32.4	48.7	36.4	39.1	32.9	21.2	23.0	1.8	18.5
2000	60.6	30.8	46.1	33.8	36.5	30.1	20.3	20.7	-3.0	16.5
2001	62.8	30.6	46.8	31.9	36.6	29.1	21.0	21.1	-3.3	17.9
2002	63.9	31.4	44.9	31.7	35.2	27.7	19.9	20.4	-4.5	19.6
2003	62.8	34.0	42.7	30.4	34.0	28.0	21.7	19.3	-6.2	19.6
2004	60.7	33.4	41.2	28.9	32.3	27.5	19.7	17.0	-8.1	17.2

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 380-0007, 384-0001 and 384-0014. Due to a break in the series following accounting changes, data after the following years are not directly comparable with earlier years: Newfoundland (1993–94), Québec (1997–98), Ontario (1999–2000) and BC (2000–01).

TABLE A.6: Share of Local Expenditures in Total Local plus Provincial Expenditures (%) -  
Canada

	Housing	Protection of persons and property	Transport and communication	Education	Environment	Recreation and culture	Social services	Resource conservation and industrial dev.
1989	23.94	48.42	48.93	47.36	74.40	70.27	9.64	8.81
1990	26.28	48.37	48.06	48.60	73.75	71.31	11.17	8.43
1991	26.64	47.57	45.91	49.07	71.54	65.53	13.77	9.04
1992	24.37	46.88	47.33	48.26	71.74	69.24	14.07	7.22
1993	21.26	47.24	48.16	47.05	73.17	70.02	14.46	7.48
1994	20.37	47.63	51.37	48.02	75.63	72.79	14.11	8.95
1995	18.02	48.64	49.27	47.36	74.89	73.74	13.48	9.95
1996	17.95	48.26	47.67	46.46	75.12	72.58	11.57	9.06
1997	17.51	47.64	50.07	48.13	76.97	73.07	11.76	10.24
1998	30.03	47.64	51.40	47.34	78.48	74.89	14.18	11.10
1999	32.30	48.28	45.45	42.01	80.85	74.33	13.48	10.34
2000	38.49	48.09	48.45	45.04	80.16	73.62	14.48	9.64
2001	39.27	48.55	51.53	45.85	83.64	72.29	13.06	9.78
2002	49.74	48.74	52.09	45.72	83.12	72.98	12.97	9.36
2003	52.85	48.61	52.36	45.99	83.35	73.28	13.38	8.69
2004	51.19	49.26	53.96	46.01	84.83	72.44	13.25	8.77

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 385-0002 and 385-0003.

TABLE A.7: Share of Local Expenditures in Total Local plus Provincial Expenditures (%) -  
Ontario

	Housing	Protection of persons and property	Transport and communication	Education	Environment	Recreation and culture	Social services	Resource conservation and industrial dev.
1989	29.65	53.87	55.92	56.19	81.11	82.30	20.98	21.66
1990	33.47	52.96	56.39	57.63	80.22	81.89	23.08	22.26
1991	33.69	51.23	50.49	59.86	77.70	65.45	26.68	18.66
1992	26.98	49.68	52.12	58.02	75.92	75.40	27.05	17.04
1993	19.19	50.23	52.41	57.10	76.44	75.69	27.33	16.90
1994	15.89	49.77	59.19	59.87	81.29	78.53	26.46	20.66
1995	13.29	51.35	53.82	60.80	82.96	78.75	25.21	22.00
1996	11.60	50.70	50.87	57.48	80.90	76.32	23.26	17.71
1997	10.27	52.25	53.75	61.76	82.89	79.07	24.82	20.39
1998	31.92	53.33	57.30	57.13	86.48	80.28	29.84	26.49
1999	35.95	53.31	51.83	52.83	87.30	83.24	28.90	24.21
2000	45.49	51.64	65.20	51.43	85.40	84.98	31.43	22.38
2001	45.50	52.99	62.33	53.82	89.75	84.70	28.28	23.29
2002	62.41	53.90	65.11	54.12	89.40	86.02	29.20	25.42
2003	74.51	54.50	62.87	53.56	90.80	82.29	29.47	20.77
2004	69.72	56.06	62.20	53.27	90.55	81.63	29.35	18.89

Source: Author's calculations using data from Statistics Canada, CANSIM, tables 385-0002 and 385-0003.

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