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Approaching an Inflection Point in Ontario's Provincial-Municipal Relations

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The Institute on Municipal Finance and Governance (IMFG) is an academic research hub and non-partisan think tank based in the Munk School of Global Affairs at the University of Toronto.

IMFG focuses on the fiscal health and governance challenges facing large cities and city-regions. Its objective is to spark and inform public debate, and to engage the academic and policy communities around important issues of municipal finance and governance.

The Institute conducts original research on issues facing cities in Canada and around the world; promotes high-level discussion among Canada's government, academic, corporate, and community leaders through conferences and roundtables; and supports graduate and post-graduate students to build Canada's cadre of municipal finance and governance experts. It is the only institute in Canada that focuses solely on municipal finance issues in large cities and city-regions.

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Executive Summary

In Ontario, the history of provincial-municipal relations has progressed from the Baldwin Act of 1849 and the Great Depression years, to the postwar boom and the tumultuous amalgamations and Local Services Realignment of the 1990s. At different points in Ontario's history, the pressures of managing growth, economic restructuring, social and demographic change, environmental sustainability, or shifting public expectations of government have led to reforms in provincial-municipal arrangements. And as pressures on provincial-municipal arrangements build, periods of fiscal constraint – like the one that the Government of Ontario is currently facing – have been a catalyst for change.

Three major trends are pushing us towards another such inflection point:

- The first is a growing recognition of the role cities and metropolitan regions play as centres of growth and national prosperity, along with the need to reform intergovernmental arrangements, devolve responsibilities, and differentiate the treatment of large urban areas from that of small, rural municipalities.
- The second is increasing complexity in Ontario's provincial-municipal relations, with a tangled web of actors, responsibilities, service standards, and funding arrangements that create difficulties of coordination and governance for both orders of government.
- The third is the emergence of threats to the fiscal health of Ontario municipalities, which have widely varying financial capacities, infrastructure deficits, workforce compensation pressures, and limits on the flexibility and diversity of local revenue sources.

This issue of *IMFG Perspectives*, based upon a full-length report in the *IMFG Papers* series, proposes that – as in the past – provincial-municipal arrangements need to adapt to changing circumstances. This adaptation will require a shift in how the two orders of government understand their roles and the nature of their relationships. With little fiscal room to manoeuvre, the Province needs to embrace the role of “enabler” – setting the policy objectives and providing oversight and supports, but enabling municipal partners to identify local solutions by providing tools and flexibility. At the same time, local governments will have to recognize their role increasingly as fully accountable “partners.” Rather than petitioning Queen's Park for funding and provincial fixes for local issues, municipalities should focus on engaging the Province and working cooperatively to address shared challenges.

As the Smith Committee on Taxation stated in 1967, “Healthy intergovernmental relations in a federal system can be achieved only through continuous and unremitting effort, on the part of all, to adjust to changing circumstances.” This is as true today as it was nearly 50 years ago.



Times change. Rideau Street at Sussex in Ottawa, 1938 and 2013. Source: *Ottawa passé et présent* - pastottawa.com

Approaching an Inflection Point in Ontario's Provincial-Municipal Relations

1. Introduction

Federal-provincial issues such as sovereignty, equalization payments, energy policy, and health care dominate discussions of intergovernmental relations in Canada. But what about public services that are “closer to home” for most Canadians, such as transit, police, and garbage disposal? Despite their lower profile, provincial-municipal relations are no less important. They have effects on economic activity, environmental sustainability, and the safety and vitality of communities. They are complex, politicized, and contentious. Jurisdictional responsibilities and financial authorities are similarly tangled and contested.

Municipal systems in Canada may receive less attention because of their own success. Despite recent scandals and isolated examples of wrongdoing, municipal affairs in Canada are generally well managed. Local finances are mostly healthy, local services are usually reliable, and urban and suburban growth is largely orderly. Canadian cities have not experienced the “hollowing-out” or dramatic disparities

in urban life and public school systems that have occurred in major U.S. cities. This success, the argument goes, can be attributed in significant measure to the effectiveness of provincial-municipal arrangements.

But this view is oversimplified, given the variety in size and functions among municipal governments. Municipalities differ in their fiscal base and governance arrangements, local circumstances, geography, and economic conditions. Moreover, as municipalities are the constitutional “creatures of the provinces,” each provincial government has its own legislative framework and division of responsibilities with its municipalities. The relationship between these two orders of government is critical: local governments exist under provincial law, they are subject to provincial policies and financial arrangements, and they interact intimately with provinces in the delivery of many services.

This *IMFG Perspectives* paper, a summary of a full-length report in the *IMFG Papers* series, argues that the relationship between the Government of Ontario and the province's municipalities is approaching an inflection point. To understand the continuing evolution and future direction of the provincial-municipal relationship, it is necessary to understand its historical roots and recurrent patterns. As philosopher George Santayana observed: “Those who do not remember the past are condemned to repeat it.” Provincial-municipal relations have evolved in response to trends in economic and political affairs, society and culture, and urban growth and development. Today, the pressures on these arrangements, catalyzed by the fiscal challenges the Government of Ontario is facing, have created an opportunity to rethink the relationship and find new ways for

the two orders of government to work together – and in their respective realms.

The historical evolution of the relationship

Provincial-municipal relations in Ontario are rooted in two 19th-century statutes: the *Municipal Corporations Act* (known as the Baldwin Act) of 1849 and the *British North America Act* of 1867 (BNA Act). The first set out the terms for democratic local government in Ontario – a revolutionary development in the British Empire at the time – and the second established the distribution of federal and provincial responsibilities, placing municipal functions under the jurisdiction of the provinces. The legal authority of the Province, as well as a political culture that emphasizes the subordinate role of the municipal government, remain central to the relationship to this day.

Far from being frozen, however, the relationship has evolved over the past 150 years. As Ontario industrialized and its urban centres grew, municipalities took on responsibilities beyond the basic functions of maintaining roads, sewers, and streetlights. The dramatic growth of the postwar period and the expansion in the role of government more generally prompted increasing demand for local services and amenities and required the Province to devote greater attention to municipal affairs.¹

Today, most Canadians live in urban regions. These regions are increasingly recognized as the sources of economic growth and competitiveness, the centres of higher education and innovation, the landing spots for immigrants, and the places that offer the potential for rising prosperity and quality of life. The complexity of urban spaces and the linkage between local functions and national and provincial priorities have driven municipalities to assume new roles in a range of substantive policy and program areas – economic development and infrastructure, delivery of complex human services, and public health, to name a few. Yet the cliché persists that local governments should focus on garbage collection and pothole repair. And intergovernmental arrangements, while they have evolved in some respects to recognize the size and breadth of municipal operations, continue to be firmly controlled by the Province, with many limits on the legal, operational, and financial flexibility of municipalities.

Provincial-municipal relations approaching an inflection point

At different points in Ontario's history, the pressures of managing growth, economic restructuring, social and demographic change, environmental sustainability, or shifting

public expectations of government have grown until they reached an inflection point, at which they required reforms in provincial-municipal arrangements. In particular, when pressures on provincial-municipal arrangements build, periods of fiscal constraint can be a catalyst for change. We believe three major trends are pushing us towards another such inflection point:²

- The first is a growing recognition of the role cities and metropolitan regions play as centres of growth and national prosperity, along with the need to reform intergovernmental arrangements, devolve responsibilities, and differentiate the treatment of large urban areas from those of small, rural municipalities.
- The second is increasing complexity in Ontario's provincial-municipal relations, with a tangled web of actors, responsibilities, service standards, and funding arrangements that create difficulties of coordination and governance for both orders of government.
- The third is the emergence of threats to the fiscal health of Ontario municipalities, which have widely varying financial capacities, infrastructure deficits, workforce

compensation pressures, and limits on the flexibility and diversity of local revenue sources.

We will briefly explore each of these trends

and reflect on how the Government of Ontario's current fiscal situation might spur change in provincial-municipal relationship.

2. Cities as drivers of growth and innovation

The rapid pace of urbanization and shifting conceptions of the role of cities and metropolitan regions are having a profound impact on economies and governance arrangements around the world. Given the growing consensus that the success of city-regions and their agglomeration economies drive national economic competitiveness and prosperity, intergovernmental arrangements are being reformed to decentralize responsibilities and differentiate between the needs and treatment of large, complex city-regions and small, rural municipalities. In Ontario, there are important implications for regional governance and the treatment of cities.

City-regions as economic engine

A recent report by the Brookings Institution notes that the economy is no longer organized "at the super-regional or national levels, but rather in the cities and metropolitan areas that make distinctive contributions to global growth and

prosperity.”³ In developed countries, major urban regions generally have higher GDP per capita and productivity levels than the national average, resulting from agglomeration economies: the concentration of the critical factors of production, such as human and physical capital, business services, infrastructure, research and development, and innovation. These regions also benefit from the advantages of both specialization and diversity in labour markets and industry clusters.⁴ The implications for policymakers are clear. The conditions must be in place to enable metropolitan areas to succeed at the global scale.

The growing global trend towards decentralization

Around the world, there has been a “silent revolution” of decentralization since the 1980s, inspired by a desire to move decision-making closer to people and improve the fairness, accountability, and responsiveness of governance.⁵ This shift has been born of both principle and pragmatism. The case for decentralization is premised on the proposition that local governments can better respond to local needs and encourage openness to innovative solutions. At the same time, national and sub-national governments (that is, state or provincial governments) have pragmatically sought to devolve complex and resource-intensive functions.

Recent examples include reforms to local government tax systems in France, Ireland, and the Slovak Republic to increase local fiscal responsibility and the predictability of municipal revenues, among other goals.⁶ The U.K. government is negotiating “city deals” with large metropolitan areas such as Manchester and Liverpool, customized to reflect local needs and conditions, that devolve authority, provide economic development tools, and improve regional coordination.

Regional governance and local coordination

The Government of Ontario has taken some steps to adopt these types of regional strategies, through the creation of Metrolinx as transportation agency for the Greater Toronto and Hamilton Area (GTHA), regional growth plans, and economic development funds. But the misalignment of municipal boundaries with regional or metropolitan economic areas, service delivery responsibilities, or funding arrangements continues to be a challenge. Many of the most pressing areas of shared provincial-municipal responsibility cross local boundaries, particularly transportation, land use planning, and economic development.

Recent experiences with transit planning in the GTHA highlight the tension between Crown agencies and regional planning on the one hand and the interests of a fragmented group of municipalities on the other. Large, urbanized “separated” cities such as London and Guelph, which sit within and are growing into surrounding rural counties, face similar regional planning and service coordination challenges. In Northern Ontario, the absence of a county system makes the policy-making environment for human services and economic development cumbersome and often ineffective.

Cities and small or rural communities are not alike

It has been politically difficult in Canada to provide cities and city-regions with additional resources, in spite of the argument that the broader scope of responsibilities and urban servicing needs creates an additional administrative and financial burden.⁷ The tendency to treat all municipalities alike – large and small, urban and rural – ignores the reality that some Ontario cities manage administrations that

are larger than some provincial governments and have in place robust financial controls and accountability regimes, as well as the policy-making expertise to develop programs in complex areas.

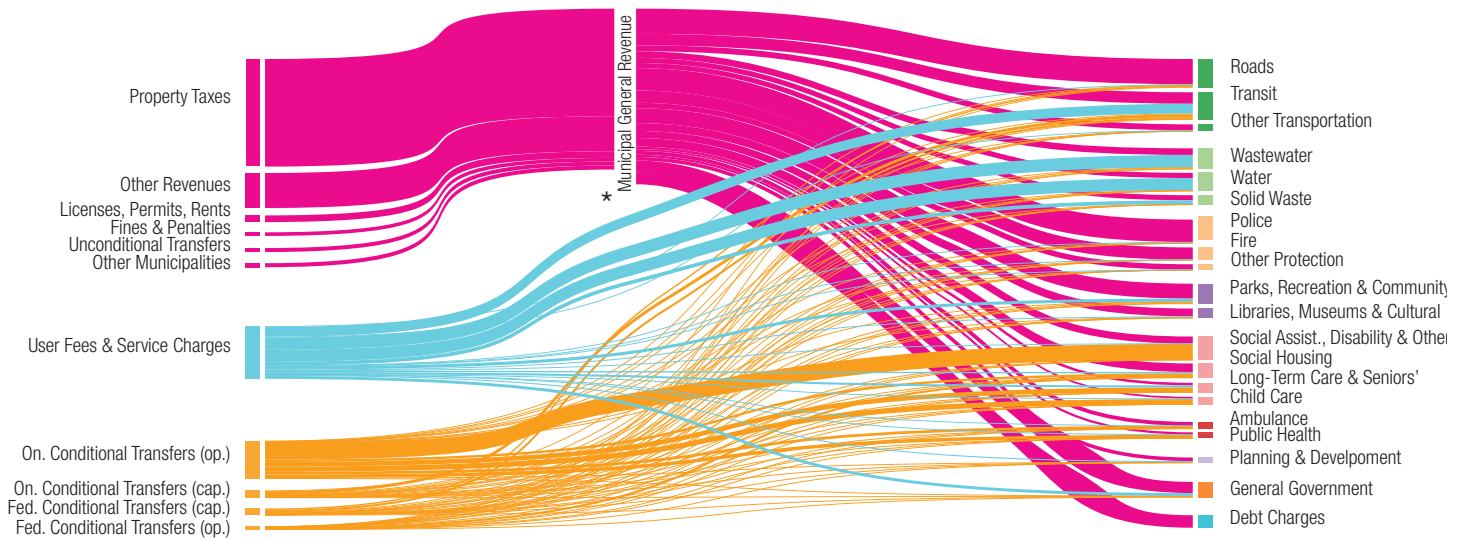
**The implications for policymakers are clear.
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scale.**

The *City of Toronto Act* represented a step to recognize this distinction. But large cities such as Ottawa, London, Mississauga, and Hamilton continue to operate largely within the one-size-fits-all *Municipal Act* and all-encompassing provincial policies, although they have far more in common with Toronto than with the hundreds of small municipalities in Ontario. As Richard Tindal and Susan Nobes Tindal have noted, asymmetrical federal-provincial arrangements reflect the unique sizes, needs, and capacities of provinces. Why not do the same for municipalities?⁸

3. The provincial-municipal relationship: A tangled web

The Province has a role in virtually every area of municipal responsibility. This includes setting out legal authorities through legislation, establishing policy direction and regulatory frameworks, setting local mandates and service standards, providing funding through transfers or other cost-sharing arrangements, and the interactions in delivering services that are a shared responsibility. There are, for instance, more than 70 pieces of provincial legislation that have implications for the municipal sector.

Figure 1: Ontario Municipal Financial Flows, 2011



* The flow of 'revenues in' and 'expenses out' does not align exactly as the visual does not account for inputs such as capital financing through borrowing and the use of reserves.
 Source: Ministry of Municipal Affairs and Housing, Financial Information Returns. 2011 Provincial Summaries, Schedules 10, 12, 40, 51 and 74.

The relationship is further complicated by federal jurisdiction in many areas, as well as by the involvement of third parties that play key roles, including school boards, hospitals, electricity distribution agencies, private or non-profit service delivery agents, and an array of municipal-sector associations. The tangled web of municipal finances in Figure 1 is an illustration of the complexity of provincial-municipal arrangements.

Realigning and integrating services

There are many policy areas where tangled responsibilities and a lack integration of provincial and municipal services are creating higher costs, duplication of efforts, and greater difficulties for citizens in accessing services. The most pressing examples are in human services. The provincial Social Assistance Review Commission's report, released in 2012, proposed a transformation of human services in Ontario that focused on realigning and integrating social assistance, disability support and employment programs.⁹

Peel Region, which is in the process of integrating administration of social assistance, housing, and child care, is a compelling example of what is possible. More important than administrative efficiencies and cost savings, the reforms offer the opportunity to refocus program spending to tackle complex social policy challenges and better serve vulnerable people.¹⁰ Greater coordination in provincial and municipal engagement with the federal government – for instance, around the employment the insurance program, which

needs to be integrated with localized human services – could produce better outcomes

Compliance burdens and unfunded mandates

Ontario municipalities appear to be not only responsible for funding a broader suite of services than local governments in other provinces, but also subject to more specific service mandates.¹¹ Provincially-imposed standards affect many local services, from social assistance, child care, long-term care, and housing, to water, solid waste disposal, building inspections, and fire protection.

While many standards are necessary (for instance, to ensure public health and safety), they can impose constraints on local governments in how they provide and fund services, in their scope to innovate or reform delivery methods, or by creating unfunded mandates. As expressed by the City of Ottawa: “While the Province establishes the service standards and policies for [many] programs, municipalities have limited discretion over the level of service provided, or the level of funding necessary to deliver these programs.”¹²

Municipalities are also subject to a wide range of provincial reporting requirements, which can impose a significant administrative burden. Anecdotally, one local official has estimated that his municipality is responsible for in excess of 250 separate reports annually.

Troublesome transfer arrangements

While transfer payments from other governments are an important element in municipal finances, they can have a

corrosive impact on fiscal management and accountability. Public economists suggest that a closer connection between government expenditure and revenue decisions and between those who benefit from services and those who pay for them should result in more efficient government and greater accountability.¹³

In practice, the negative side-effects of transfer arrangements can include unpredictability when donor governments arbitrarily change policies, reduced incentives for municipalities to properly price local services, and blurred political accountability about who is responsible for what.¹⁴ Transfer arrangements for infrastructure investment in particular have been characterized by *ad hoc*, short-term, application-based funding programs often lacking clear criteria, which limit local flexibility, discourage long-term fiscal planning, and undermine the objective of improving municipal asset management.

Innovation in policies and service models

The many constraints on local flexibility can act as barriers to the modernization of municipal programs and tailoring to local needs. Less prescriptive and more outcome-oriented provincial policies – coupled with appropriate oversight, accountability, and support mechanisms – could create the conditions for more local innovation. There are good recent examples. A change to provincial regulations has allowed municipalities to use Local Improvement Charges, a funding mechanism for residents to make home energy retrofits. The Province’s Long-Term Affordable Housing Strategy, introduced in 2011, aimed to increase the flexibility for municipal service managers and other local social housing operators.

An increased openness to local alternative service delivery and new funding models also offer opportunities for cost-effectiveness, as well as more citizen-responsive service delivery, and changes to organizational structures and management practices that encourage better performance.¹⁵ Governments in Europe and the United States, for instance, have been experimenting with pay-for-performance models and incentive payments, including social impact bonds.

Maturing local governance and public administration

The growth in the size of municipalities and the scope of their responsibilities requires that municipal governance mature in lockstep. Achieving that goal should begin with a re-

commitment to a local public service whose values emphasize impartiality, ethical behaviour, and professionalism. These attributes are particularly important because the openness of the municipal system – the city hall “fishbowl” – can make intergovernmental planning or negotiations more difficult, and heighten the politicization of issues.

The municipal sector should continue to be subject to provincial oversight, reporting requirements and laws concerning everything from financial management to conflict of interest and local elections. But further provincial intervention in local governance and accountability should be limited. As democratically accountable governments in their own right, municipalities should be responsible for putting in place and enforcing provisions to ensure that local administration function efficiently and transparently, and that elected officials and civil servants are held to high standards of ethical and professional conduct.

The growth in the size of municipalities and the scope of their responsibilities requires that municipal governance mature in lock-step.

4. Municipal fiscal health: Trouble on the horizon?

In the simplest sense, fiscal health is a reflection of a municipality’s capacity to meet its expenditure needs with its revenue sources today and

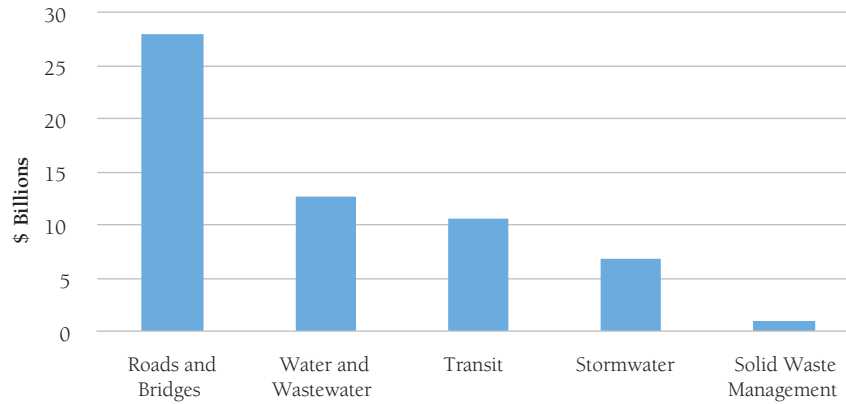
in the future. On the surface, municipalities might appear to be on firm fiscal footing, with balanced operating budgets, relatively modest levels of borrowing and debt loads, and strong credit ratings. But there is great variation in the size, scope, and fiscal capacities of municipalities. Other threats to longer-term fiscal sustainability include infrastructure deficits, compensation pressures, and a lack of flexibility and diversity in local revenue sources.

Different fiscal conditions in different places

A recent study about the fiscal health of the 30 largest municipalities in Ontario found that while they have generally managed their finances conservatively, some cities are doing better than others.¹⁶ With rising population, economic output, and property assessment values, the fast-growing GTA municipalities of Oakville, Vaughan, and Mississauga ranked highest. Older industrial cities (such as Niagara Falls and Windsor) and northern municipalities (Thunder Bay and Sault Ste. Marie) have a weaker capacity to raise taxes, greater dependence on provincial transfers, higher debt levels, more constraints in financing infrastructure, and higher demand for social services.

Other studies suggest that the variances are even more profound between large urban areas and small, rural and

Figure 2: Ontario Municipal Infrastructure Investment Gap



Source: Provincial-Municipal Fiscal and Service Delivery Review, 2008. Calculated using average annual estimates from 2006 to 2045.

northern municipalities. David Siegel has described this as the challenge of the “Two Ontarios.”¹⁷ Northern municipalities in particular fare poorly based on a range of indicators.¹⁸ A study of (mostly small) Eastern Ontario municipalities yielded similar findings, and concluded that sustaining local services will become increasingly difficult in the years ahead.¹⁹

The municipal infrastructure deficit

About 40 percent of Ontario’s public infrastructure is owned by municipalities, including roads and bridges, water and wastewater facilities, transit systems, social housing, and government buildings.²⁰ In 2008, the municipal infrastructure deficit was estimated at \$60 billion (see Figure 2). These estimates do not include costs for social housing units, valued at an additional \$40 billion, or municipal libraries and tourism-related cultural assets, or parks and recreation facilities.²¹ Needs also vary significantly across the province.

The Drummond Commission identified local infrastructure asset management as *the* major fiscal risk to the Province posed by the municipal sector. While annual capital expenditures by Ontario municipalities actually doubled during the past decade, owing in large part to a rising share of provincial and federal grants, sustaining these investment levels will be difficult without new revenue sources. Australian and U.K. models of public asset “recycling,” whereby the sale or monetization of government assets funds new or refurbished public assets and infrastructure, present another option.²²

Compensation pressures

Municipal salaries, wages, and employee benefits represented 43 percent of municipal operating spending in 2011 – up from 37 percent in 2001.²³ Most municipal workers are

unionized, and the highly fragmented environment for local collective bargaining creates difficulties in containing costs, as generous agreements in certain localities may act as precedents for others. For essential services such as police, fire, and ambulance, where staff are not allowed to strike, municipal leaders complain that they have little control over costs as independent arbitrators replicate agreements in different jurisdictions without considering differences in fiscal or economic conditions.

Over the past decade, firefighter and municipal police base wages have in fact grown at an average of 3.3 percent per year, compared with 2.7 and 2.2 percent respectively for other unionized municipal and private sector workers.²⁴ Post-employment pension and benefit liabilities are another pressure, representing nearly 10 percent of the total long-term debt and liabilities of Ontario municipalities in 2012.²⁵

The lack of flexibility and diversity in local revenues

Municipal governments continue to depend on one major tax to raise operating revenues: the property tax. There has also been a growing reliance on revenues from property development in parts of the province through development charges, which have been gradually increasing as a share of the cost of new housing.²⁶ The reliance on a small number of discretionary funding sources limits municipal financial flexibility and highlights the need to consider ways to diversify local revenues. Moreover, other taxes are better linked to growth in the local economy and could accommodate the reality that many local services are used by commuters and residents of neighbouring municipalities.²⁷

In general, new taxing powers make more sense for cities that have a larger tax base, deliver a broader range

of services, and have greater administrative capacity. Local responsibility for levying taxes and setting rates would be essential in ensuring political accountability. Enhanced value from government business enterprises such as electricity distribution utilities and parking authorities offer other opportunities to diversify and enhance local revenues, as do improved user-charging practices for goods or services that provide a direct benefit to individual users, such as water use or building permits.

5. Provincial fiscal constraint as a catalyst for change?

In the past, when pressures on provincial-municipal relations have increased, fiscal challenges have been a major catalyst – if not *the* catalyst – for change. This could be case in the years ahead. In the wake of the financial crisis of 2008, Ontario’s fiscal situation deteriorated significantly. The Province remains committed to balancing the budget by 2017–18, but projects a deficit of \$11.7 billion for 2013–14. The fiscal plan holds average annual expense growth to just 1.5 percent – with the health, education, postsecondary, and social service sectors to grow at over 2 percent annually, and other expenditure areas to *decline* by more than 4 percent annually over the next three years.²⁸ To put the scale of the challenge in perspective, the Drummond Commission noted in its 2012 report that achieving Ontario’s fiscal targets without major tax increases will require program spending to be cut “more deeply on a real per capita basis, and over a much longer period of time, than the Harris government did in the 1990s.”²⁹

Funding to municipalities is projected to grow at more than 5 percent annually until 2018, largely as a result of the social-services “upload.” One of the Drummond Commission’s many recommendations was to reduce or slow this support for the municipal sector. To date, the Province has committed to continuing with its upload schedule, though the 2012 budget announced the phased reduction of unconditional transfers to municipalities and a freeze in provincial business education tax reductions that create tax room for local governments.³⁰ In the years ahead, there is a risk of delays or reductions in existing commitments, realignments of responsibilities and costs, or of underinvestment in critical local infrastructure priorities such as transportation systems and social housing stock. In short, the Province’s fiscal circumstances leave Ontario

municipalities vulnerable to changes in financial and other arrangements.

6. Towards a New Paradigm in Provincial-Municipal Relations

Faced with economic, fiscal, and demographic challenges, all governments in Ontario will be strained in the coming years to transform the way in which policies are developed and public services are delivered and funded. The good news is that periods of fiscal constraint and economic transition tend to produce innovation and public tolerance for change that can be difficult to marshal in better times. Around the globe, as governments find themselves limited in their ability to improve public services with spending and tax expenditures alone, they are turning to other tools at their disposal – policy and regulation, service restructuring and devolution, governance reform, “leveraging” public assets – in search of creative solutions.

In Ontario, change will have to begin with the way the provincial and municipal governments understand their roles and the nature of their relationship. With little fiscal room to manoeuvre, the Province needs to embrace the role of “enabler.” As municipal reformers Osborne and Gaebler proposed two decades ago, the maxim should be to “spec’ the destination, not the route”: that is,

Where the tendency has been to petition Queen’s Park for funding and provincial fixes for local issues, the focus should be on engaging the Province and working cooperatively to address shared challenges.

set the policy objectives, targets, and desired outcomes, and support municipal partners by providing them with tools and flexibility to identify local solutions.³¹ This shift will require working with municipal partners to create the right legal, regulatory, fiscal, and political conditions for increased local self-reliance, while ensuring adequate oversight and providing assistance in places where unique needs or capacity shortfalls require it.

At the same time, local governments will have to recognize their role increasingly as “partners.” Municipalities must become more accountable for the challenges they face – whether in modernizing services, adapting to changing demographic and economic circumstances, or ensuring fiscal sustainability. Where the tendency has been to petition Queen’s Park for funding and provincial fixes for local issues, the focus should be on engaging the Province and working cooperatively to address shared challenges. In a report released before the financial crisis, the Toronto Mayor’s Fiscal Review Panel presciently made this case:

We also recognize that even though the Province has been much more generous recently, the relationship with the Province has still not been thoroughly worked out. There is still much more work to do and the likelihood of the Province being able to “fix” all these matters through “cutting new cheques” is highly unlikely now or at any point. This is especially true if the economy weakens.³²

The Past Holds Lessons for the Future

Provincial-municipal relations in Ontario have evolved over the past two centuries, shaped by the legacy of seminal trends and events such as the Depression-era municipal financial crisis, the postwar period of urbanization and the economic boom that followed, and the turmoil of the 1990s. The last decade, while calmer, has seen a continued deepening of the relationship through further changes to responsibilities, legislative reforms, and major provincial re-investments.

As the size and scope of municipal responsibilities has grown over time, so have the breadth and interconnectedness of the policy, financial, and service delivery interface with the Province, and the differences between large and small municipalities. For both orders of government, the question is not *whether* the pressures on intergovernmental arrangements will necessitate further reforms, but *when?* And how to avoid the ill-considered responses that inevitably result in times of crisis? As the Smith Committee on Taxation stated in 1967, “Healthy intergovernmental relations in a federal system can be achieved only through continuous and unremitting effort, on the part of all, to adjust to changing circumstances.”³³ This is as true today as it was nearly 50 years ago.

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