The Canada Project Final Report  Volume III

Mission Possible
Successful Canadian Cities
Mission Possible: Successful Canadian Cities
by Natalie Brender, Marni Cappe and Anne Golden

This volume is one of a set of four volumes comprising the final report of The Canada Project, Mission Possible: Sustainable Prosperity for Canada:
- Volume I—Mission Possible: Stellar Canadian Performance in the Global Economy
- Volume II—Mission Possible: A Canadian Resources Strategy for the Boom and Beyond
- Volume III—Mission Possible: Successful Canadian Cities
- Volume IV—Mission Possible Executive Summary: Sustainable Prosperity for Canada (an executive summary of Volumes I, II and III).

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About The Canada Project
The Canada Project is a three-year program of research and dialogue designed to help leading decision-makers chart a policy course that will improve Canada’s standard of living and position within North America and the world. Spearheaded by The Conference Board of Canada and launched in January 2003, The Canada Project actively engaged private and public sector leaders in setting national policy direction. Forty-five companies and organizations invested in the project, providing invaluable financial, leadership and knowledge support.

As with all the research produced over the three-year term of The Canada Project, the final report, Mission Possible, is aimed at elevating the level of public debate about Canada’s standard of living and position within North America.

For more information about The Canada Project, please visit www.conferenceboard.ca/canadaproject.
CONTENTS

Preface ................................................................. i
Foreword by Janice Gross Stein .................................. iii

Chapter 1—Introduction ........................................... 1
Cities and the New Global Economy ............................ 1

Chapter 2—Facing the Future: Challenges Abound ...... 5
Challenge 1: Fiscal Squeeze ........................................ 7
Challenge 2: Growth Management ............................... 7
Challenge 3: The Infrastructure Gap ........................... 8
Challenge 4: Governance Weaknesses ........................ 9
Challenge 5: Deepening Social Divides ....................... 10
Challenge 6: Environmental Degradation .................... 11
Challenge 7: Competition from Cities in North America and Beyond .............................................. 11

Chapter 3—Major Cities as a National Priority .......... 13
An Urban Nation ......................................................... 13
Size Matters: The Distinctive Needs of Canada’s Big Cities .............................................................. 14
Understanding the Dynamic Potential of Canada’s Hub Cities ......................................................... 15
Policy Implications: Defining the Focus .................... 17
Getting a Coherent Government Commitment to the Cities Agenda ................................................. 19

Chapter 4—The Cornerstones of Competitive Cities .... 23
A Strong Knowledge Economy .................................. 23
Connective Physical Infrastructure Linking People, Goods and Ideas ................................................. 28
Environmentally Sound Growth .................................. 39
Socially Cohesive Communities .................................. 47

Chapter 5—Lessons from the United Kingdom ......... 53
Urbanization and Governance in the United Kingdom ................................................................. 53
Policies for British Cities ........................................ 55
Local Government Funding ....................................... 56
A Closer Look at British Cities ................................... 57
Lessons Learned ....................................................... 61

Chapter 6—Enabling Conditions ............................... 67
Effective Governance Capacity .................................. 67
Sufficient Fiscal Resources ......................................... 81
Strong Political Leadership ....................................... 95

Chapter 7—Conclusions and Recommendations .... 99
The Mission .............................................................. 99
Strong Leadership—The Transformative Ingredient ................................................................. 101
Summary of Recommendations for Successful Canadian Cities .................................................... 102

Appendix A—Bibliography ......................................... 104
Appendix B—Transportation Tables ............................ 114
Appendix C—Municipal Revenues and Expenditures: Accounting Base Classification and Data .......... 116
Appendix D—The Canada Project Research and Dialogue Activities ................................................ 120
Acknowledgements

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The Canada Project had its genesis in 2002 at The Conference Board of Canada’s annual Canadian Conference—a meeting of senior public and private sector leaders at which participants are invited to share their most pressing concerns about Canada’s present challenges and future prospects. Many of the leaders at this meeting raised the same underlying issue: that Canada was floundering in a state of public policy drift at a time that called out for national strategic action in the face of rising global competition. And thus, The Canada Project was born.

Now, almost four years later—thanks to the $2.4 million invested by business and government organizations, the $1.0 million contributed by the Social Sciences and Humanities Research Council of Canada and the effort and expertise invested by some of Canada’s top researchers and professionals—we present this four-volume compendium of the results of our work. The ambitious task of synthesizing all the research and analyses produced under the banner of The Canada Project required us to focus on what was both essential and new. Much of the original research has been released over the course of the project in 27 separate studies and reports. (See Appendix “The Canada Project Research and Dialogue Activities.”) Mission Possible: Sustainable Prosperity for Canada summarizes our findings in a comprehensive overview. It delivers an integrated set of 76 recommendations in support of seven closely linked strategies for moving forward. Many of these recommendations are consistent with emerging public policy thinking; others are more provocative.

I want to thank my exceptional team of colleagues who, led by Brenda Lafleur, Director of The Canada Project, contributed to this enterprise. All were diligent and thorough in analyzing and weighing policy choices and in selecting priorities for emphasis. Special thanks to my volume co-captains, Glen Hodgson and Gilles Rhéaume.

I also want to thank Janice Gross Stein for agreeing to write the Foreword. Her thoughtful thematic summary of our key messages will help readers absorb this research-laden body of work.

The timeliness of this publication—coinciding with new governments and new leadership in Ottawa and in many provinces and cities across the country—is fortuitous. It arrives at a moment when there appears to be an emerging consensus among Canadians on two themes: that Canada must strive for a global-best level of excellence in embracing the competitiveness challenge, and that it must adopt a sustainability perspective in so doing.

I hope that Mission Possible will be widely read by leaders at all levels and in all sectors. Above all, I hope it succeeds in driving policy debate in constructive directions and contributes to a national resolve to undertake the actions necessary to build a sustainable and prosperous future for Canada.

Anne Golden
President and Chief Executive Officer
January 2007
Canada’s future economic prosperity is at risk. This is a hard argument to make in a country that today enjoys low unemployment, a strong dollar, declining debt and a booming resource economy. Canadians are likely to be skeptical of an argument that points to serious challenges ahead and makes an urgent case for strategic investment today to assure sustainable prosperity tomorrow. Yet this is precisely the argument The Conference Board of Canada makes in this four-volume report. It does so in compelling language as it examines the challenges Canada faces in the global economy, in our resource sectors, and in our cities. In all three areas, our performance is slipping.

Canada lags behind most developed economies in productivity growth.

We are becoming less competitive. In just two years, we have slipped from 3rd to 12th place in comparative measurements of macroeconomic and microeconomic performance, according to the results of benchmarking by the Conference Board. Canada lags behind most developed economies in productivity growth. Our resource sectors require significant new strategic investment if they are to meet global competition, and our biggest cities are starved for investment in comparison with global cities elsewhere. In vital sectors of our economy, we are not keeping up with our competitors.
The future demands not only an improvement in productivity, but a productivity that is sustainable. Across the board, Canada must invest in development that meets the needs of the present without compromising the ability of future generations to meet their needs. A central theme running through every volume is the imperative to design sustainability into the economic architecture that we are building for the future. Across the country, Canadians understand that protecting the environment from further damage is not a problem for tomorrow, but a challenge for today. Our record, unfortunately, does not reflect this awareness. Here too, Canada is underperforming and underperforming badly. Without serious attention to economic and environmental sustainability, Canada puts its society and its quality of life at risk. This report speaks with a clear voice. Sustainability matters. It must become one of the yardsticks against which we measure productivity.

Sustainability matters. It must become one of the yardsticks against which we measure productivity.

Mission Possible, a large-scale and in-depth review of Canada’s economic performance and potential, issues a clarion call. It calls for strategic investment by governments, corporations and people. Canada must be “smart” in its choice of priorities, its policies and its investments if Canadians are to retain their quality of life. It is not the federal government alone that faces the challenge. It is all three levels of government—federal, provincial and municipal—and all sectors of society—public, private and voluntary—that have to work together to develop priorities, translate these priorities into strategies, and make the kinds of strategic investments that are required. We need to develop new habits of collaboration across the three levels of government and with society, and we need to do it quickly. The mission is possible only if the mission is national.

GLOBALIZATION AND SUSTAINABLE PROSPERITY IN CANADA

Globalization—the connections and processes that cross borders—is the hallmark of the 21st century. The global economy rewards knowledge, innovation, investment and trade. The signature of this phase of the global economy is the integrated global supply chains that distribute production around the globe in search of higher efficiency and lower costs for each component of the final product or service. Close to one-third of world trade today is intra-firm trade. In this globally integrated economy, Canadian companies must compete vigorously for international investment and trade if they are to prosper.

North American economic integration is slowing, and, in a much more anxious security environment, the United States is thickening its borders.

Because of our geography, our rich resource endowment and our heavy dependence on the U.S. market, many believe that Canada has very little direct exposure to globalization. We are insulated, Canadians believe, by the North American market. This report tells us otherwise. Growth in our exports to the United States has slowed in recent years, and the growth that has occurred was largely due to the energy and other resource sectors. The growth in exports that are unrelated to energy—in the automotive sector and in manufacturing—has been weak. North American economic integration is slowing, and, in a much more anxious security environment, the United States is thickening its borders. The North American Free Trade Agreement (NAFTA) has lost its dynamism, its momentum and, in part, its legitimacy, at least for the moment. The Canada–U.S. relationship will continue to deepen, but the glittering promise made by the architects of North American free trade has not been fully achieved. Canadian investors are looking increasingly to other dynamic markets, notably in Europe, Latin America and Asia.

Canadians know that we must pay attention to the United States—that we must manage our relationship carefully and well. The United States is simply too
important to our collective well-being for us to do otherwise. But the Conference Board tells an unexpected story. It tells us clearly that we need to wear bifocals: we need to look out to the world, without taking our eyes off the United States.

In this generation, Canadians are looking beyond North America to the world. Our competitors are global. So are our market opportunities.

Canada is experiencing globalization in all its critical sectors. Volume II of this report demonstrates over and over again that in the resource sectors—forestry, agriculture, mining and energy—our competitors are global. So are our market opportunities. China, India, Russia and Brazil, to mention only the obvious, are shaping our markets and competing with our firms. Our most competitive firms are tightly linked into global supply chains. Our cities benchmark themselves against global competitors. And we measure our productivity against the performance of others. In this generation, Canadians are looking beyond North America to the world.

THE BALKANIZATION OF OUR ECONOMIC SPACE

Every volume of this report emphasizes the adverse consequences to Canadians of chopping up our national economic space. The non-tariff barriers to interprovincial trade, mobility and investment are at times so severe that they inhibit the kinds of east–west connections that characterize our deep connections outside Canada. People cannot move easily to work, some industries cannot recruit easily, students face difficulties in transferring credits from one post-secondary institution to another, and supply chains across provincial borders can face obstacles that global supply chains have eliminated. In an age of global mobility, it simply makes no sense to add degrees of difficulty to the movement of people, goods and services from one province to another.

The costs and consequences of this balkanization of our national economic space are not always obvious. The Conference Board tells a striking story about our cities. Hub cities within provinces play an essential role in sparking economic growth in their own province. This pattern of convergence within provinces—not across provinces—is at least partly due to the chopping up of Canada through interprovincial barriers.

Canadians living in the early part of the 21st century, in an era where markets are global, where the Internet is ubiquitous, and where people move and travel at unprecedented rates, have nevertheless allowed a thicket of provincial barriers to stand largely untouched. In the 21st century, the irony should be obvious: we are dividing and separating ourselves even as we are connecting more deeply with others. Our national economy is being stifled by barriers that we ourselves have allowed to stand. As a result, we have a “chopped-up” economy, poorly suited to compete and prosper in a global economy. This is a problem that governments in Canada can and must fix.

STRATEGIES TO MOVE CANADA FORWARD

In a globally connected world, how can Canadians build sustainable prosperity? This report highlights seven important strategies:

• putting in place a comprehensive national strategy to increase our lagging productivity;
• creating an integrated national market;
• investing in and supporting a workforce that is equipped to meet the challenges of the global economy;
• adopting strategic investment and trade policies;
• sharpening our foreign policy priorities;
• investing in our resource industries so that they are competitive and sustainable; and
• investing strategically in our major cities so they can fulfill their potential as engines of sustainable national growth.

Common to all seven strategies are the imperative to increase productivity in sustainable ways, the necessity to develop knowledgeable and skilled workers and managers, the importance of redesigning our fiscal and regulatory architecture, and the urgency of special treatment for our major cities.
Canada must develop a comprehensive national strategy to increase our productivity in ways that are sustainable. The data in this report are alarming. Compared to the U.S. economy, only one-fifth of the Canadian economy is more productive, while the other four-fifths are less productive. How can Canadian productivity be improved? There is a great deal that we can do. We need to open industries to competitive pressures, we need to improve the level and quality of capital intensity, we need to encourage organizational and managerial innovation, and we need to reform our tax system to encourage lower-income Canadians to stay engaged in the labour market. We do not, by and large, need to work longer; we are a hard-working country. In a global knowledge economy, we need to work “smarter.”

To work smarter, Canadian governments and companies must invest in research and development and work together to create a climate that is even more supportive of risk-taking and innovation. We are better at innovation than we generally think. Canada ranked fourth globally on a measure of innovation in 2004 and, according to benchmarking by the Conference Board, slipped to fifth in 2005 behind only Finland, Sweden, the United States and Iceland. We do not, by and large, need to work longer; we are a hard-working country. In a global knowledge economy, we need to work “smarter.”

Canadians are good at diffusing innovation through our openness to foreign ideas, technological cooperation and partnering with foreign inventors on patents. We also have high penetration of broadband technology, an important platform for exchanging ideas. These are all important assets in the global market for ideas. But we lag behind the top global performers in business investment in research and development and in the commercialization of inventions and ideas. We are not leaders in scientific and engineering publications, and we invest significantly less than some of our competitors in our universities. We need research scientists in universities working with their counterparts in the corporate sector to bring innovative products to market and carve out a place for Canadians at the high end of the value chain. If we want to maintain our current standard of living, raising productivity through significant strategic investment in research and development and in post-secondary education is an imperative.

Improving the quality and access to training and education is a refrain that is replayed in the discussion of the Canadian economy, our resource industries and our cities.

Working smarter also means investing in the research and development of sustainable technologies that reduce damage to the environment and society. Volume II, on resources, speaks about the importance of sustainable extraction, management and renewal of our resource endowments. Whether it is forestry, agri-food, mining or energy, all require a full accounting that considers the consequences of resource extraction for the environment. Volume III, on cities, underlines the importance of sustainability in the rebuilding of our badly frayed urban infrastructures.

A SKILLED AND KNOWLEDGEABLE WORKFORCE

The Conference Board pays a great deal of attention in this report to the importance of a skilled and knowledgeable workforce. This kind of workforce is critical to increasing our productivity, to the development of sustainable technologies, and to the re-engineering of our resource industries. Without a high-quality workforce, none of these will happen. It is no surprise that improving the quality and access to training and education is a refrain that is replayed in the discussion of the Canadian economy, our resource industries and our cities. Every volume speaks to the importance of strategic investment in education, in lifelong learning, and in the development of the skills that Canadians will need as global value chains proliferate and deepen.
The Conference Board also worries about an aging demographic that threatens every sector of the Canadian economy and could compromise the quality of life of the next generation. Although immigration can help to address the looming shrinkage of the workforce, it alone cannot solve the shortfall caused by an aging population. But we can do much better at integrating immigrants and helping them to take full advantage of the skills they bring. This report speaks to the importance of immigrants in Canada: their contribution to our productivity, their global connections, and the contributions immigrants can make to the quality of Canadian life if their credentials, education and training are properly recognized.

Although immigration can help to address the looming shrinkage of the workforce, it alone cannot solve the shortfall caused by an aging population.

To compensate for an aging population, governments at all levels and businesses will have to create incentives so that educated and experienced people continue to work. Educational institutions will have to become more flexible so that lifelong learning becomes a shared experience across the generations. Governments will have to invest significant resources to provide the best available education to our young people. Although governments have increased funding for post-secondary education in the last several years, Canada’s universities are still significantly under-funded compared with those of our international competitors. The German government has just chosen three among its many universities to receive special funding so that they can become internationally competitive. In a globally competitive environment where post-secondary institutions educate young people, contribute to lifelong learning, spark research and development, jump-start innovation and build global connections, one size can no longer fit all. Here, as elsewhere, Canada will have to abandon a cherished myth of equal treatment for all its institutions. The importance of strategic investment in education, of differential treatment to build excellence, jumps out of every volume of this report.

REDESIGNING OUR FISCAL AND REGULATORY ARCHITECTURE

Canada is living with 19th-century architecture in the 21st century. Its fiscal arrangement grows out of a rural experience, and is not responsive to the massive shift of population to Canada’s major cities and to the settlement of immigrants in the largest cities. A rigid fiscal structure has produced ongoing arguments about redistribution and health spending while urban infrastructure decays, funding for education declines relative to other countries, and Canada invests less than it should to prepare itself for the coming century. Despite years of effort, governments have been unable to adapt fiscal structures or to innovate. They usually give up in frustration and make do. The fiscal framework has been the handmaiden of the balkanization of the Canadian economy. There is no doubt that institutional rigidities have been a significant drag on our capacity to innovate and to excel.

Governance is the default factor in Canada’s success in the next decade. Without good governance, nothing will go right.

Every volume of this report bemoans the regulatory mess in Canada. Overlapping and misaligned regulations at the federal and provincial levels impose serious costs, do not contribute as well as they might to public safety and environmental stewardship, hamper the mobility of people and capital, and stifle innovation and experimentation. The burden of costly and inefficient regulation will drag productivity down and discourage investment and immigration. In essential areas—capital markets and securities—we have failed, largely because of provincial rivalries, to build the kind of national regulators that global investors have come to expect and depend upon.

Governance is the default factor in Canada’s success in the next decade. Without good governance, nothing will go right. Good governance is about far more, however, than governments. It is the coming together of corporate leaders, voluntary organizations and governments
to work together on sustainable forests and environmentally responsible mining. It is coalitions of citizens, corporate leaders, university presidents, and city officials working together to improve the quality of life in our major cities. It is giving our major cities the requisite money and power to become powerful engines of the national economy. Everything that needs to happen in Canada will happen only when all three sectors of society actively work together to change public policy, innovate and create value.

We are living with architecture built for our earlier rural past—an architecture that fits badly with the new urban Canada.

INVESTING IN CANADA’S MAJOR CITIES

The Conference Board makes clear in this report that strategic investment in our major cities is urgent. Nowhere is the gap between Canada as a global society and our political, fiscal and regulatory architectures more apparent than in our largest cities. Canada, like other societies, has transformed itself from a rural to an overwhelmingly urban society, but we are living with architecture built for our earlier rural past—an architecture that fits badly with the new urban Canada. Urbanization is likely to accelerate. Immigrants who bring valuable skills with them and compensate—at least in part—for our aging population, generally settle in Montréal, Toronto and Vancouver. Yet these cities have little voice in settlement policy or immigration policy. Indeed, Canada’s cities are not officially recognized in federal–provincial discussions and are considered creatures of the provinces. This may have made sense a hundred years ago, but it makes absolutely no sense today. Not only do cities have no official representation, they have no access to taxes that grow as the economy grows. Less than 12 per cent of total government revenues goes to municipalities. Generally reliant on property taxes and user fees, Canadian cities cannot make the kinds of basic investments in urban infrastructure, transportation and waste management required to build sustainable ecologies for the future.

If Canada’s largest cities are to become world-class centres of design, architecture and culture, and attract young, talented, creative people, they will have to do more than invest in physical infrastructure. They will have to sustain vibrant cultures and become centres of excellence in education so that they can take advantage of the global networks that power great cities and drive Canada’s economy forward. Cities today are the principal sites of innovation and production of knowledge-intensive goods and services. They must have the resources—from their province and the federal government—to invest in people so that they are socially as well as environmentally and economically sustainable. The reality of Canada’s cities today is far from this picture of excellence. What can be done to help Canada’s cities?

Canada’s prosperity depends on the success of our major cities. Governments at all levels must flow resources to major cities, which have special potential and face distinctive challenges.

The Conference Board makes the argument clearly and unequivocally: Canada’s prosperity depends on the success of our major cities. Above all, Canadians must recognize that the major cities need and deserve special assistance, and that these investments will benefit everyone. As the German government did recently with its universities and as European countries are doing with their core cities, governments at all levels must flow resources to major cities, which have special potential and face distinctive challenges. If they do not, neither our cities nor our economy will be globally competitive. We are also unlikely to sustain the arts and culture that are so important to Canadian identity.

No longer, the Conference Board insists, can we continue to interpret equality as equal per capita. That is not a popular argument to make in this country, where “fair”
is intuitively understood as “the same for everyone.” If we continue to invoke old language and avoid differentiation, we will continue to starve our cities, and everyone will lose. This is a tough but compelling argument. It deserves very serious attention.

Nor can Canada allow itself to be hobbled by an outdated fiscal and political architecture. Governments at all levels, the private sector and the voluntary sector must pool resources to work together on the shared challenges of urban finance, urban infrastructure, urban ecology and urban governance.

Urban transportation is in especially urgent need of investment. People, goods and services must be connected in ways that are both efficient and sustainable. The gridlock we currently face is a drag on our productivity, a disincentive to come to our big cities, and deeply damaging to the environment. Without major investment in the transportation infrastructure of our biggest cities, Canada will meet none of its basic goals.

People, goods and services must be connected in ways that are both efficient and sustainable.

The Conference Board also underlines the importance of viewing cities as urban ecosystems and developing industrial processes to promote the reuse of industrial by-products and waste. Cities contribute significantly to air and water pollution, greenhouse gas emissions, and overflowing landfill sites. Eco-industrial systems transform open-loop systems—where resources become waste—to cyclical closed-loop systems—where waste products become inputs for new processes. Governments at all levels will have to work together to align incentives and regulation so that industry can experiment with innovative eco-industrial systems.

How can we be truly excellent? That is an important question for Canadians to ask.

STRATEGIC INVESTMENT

This report by the Conference Board speaks with a refreshing voice because, in the final analysis, it is about excellence. It does not ask: what does Canada have to do to maintain the status quo? It asks: what do Canadians have to do to excel? In a world where we are competing with the very best, where yardsticks are now globally made, how can Canadians do much better than we have done in the past? How can we be truly excellent? That is an important question for Canadians to ask.

To be excellent, we need to get the fundamentals right. We are richly endowed, with natural resources, with people, with cities that could be the very best even if they are not now, with a few world-class post-secondary educational institutions. Our challenge—and our responsibility—is to make the most of these endowments, to provide the highest-possible level of stewardship of our resources, our people and our institutions, to differentiate when we need to build excellence, and to measure our performance against the very best in the world. 🌟
HIGHLIGHTS

- In a knowledge-based global economy, cities and city-regions are increasingly recognized as drivers of national and international prosperity. Canada’s success depends on the success of our major cities.

- Cities are the platforms for the export of goods and services, and their impact and importance reach well beyond regional or even national spheres.

- Cities are prime locations for innovation and the production of knowledge-intensive goods and services.

- As the world’s population becomes more urbanized and as cities grow, the environmental footprint left by cities expands and intensifies, calling into question the long-term sustainability of urban patterns of production and consumption.

- Cities are where the most profound social challenges of our age are concentrated.

- While the challenges facing our major cities, and our nation, have been exacerbated by decades of inaction, solutions are at hand to lift our major cities’ fortunes and propel the country toward sustainable prosperity.

- This volume looks at the challenges facing our cities, and sets out the imperatives and priorities for giving Canada’s major cities the resources and tools they need to fulfill their potential.
CHAPTER 1

Introduction

CITIES AND THE NEW GLOBAL ECONOMY

Wherever and whenever societies have flourished and prospered, rather than stagnated and decayed, creative and workable cities have been at the core of the phenomenon.

—Jane Jacobs, Death and Life of Great American Cities, Foreword 1993

This volume is based on the simple premise that Canada’s cities matter—to our people, our economy, our prosperity and our future. While the challenges facing our major cities, and our nation, have been exacerbated by our own inaction, solutions are at hand to lift our major cities’ fortunes and propel the country toward sustainable prosperity. Canada’s success depends on the success of our major cities—places that nurture creative economies and healthy communities. This volume builds on Volume I, Mission Possible: Stellar Canadian Performance in the Global Economy and complements the non-urban resource management focus of Volume II, Mission Possible: A Canadian Resources Strategy for the Boom and Beyond with a look at what our major cities need to boost Canada’s competitiveness in the 21st century.

In the 21st century’s knowledge-based global economy, cities and city-regions are increasingly recognized worldwide as drivers of national and international prosperity. Whether the focus is on the exploding growth of cities in India, China and Brazil, on regenerating historic industrial regions in Europe, or on building multicultural cities and suburbs in Canada, the health of urban areas has jumped to the top of regional, national and global agendas. Our common perception of the city has changed accordingly: “The city is now seen as an agglomeration of opportunities and a promising milieu rather than a concentration of problems and a site of despair: a resource rather than a liability.”

Cities are at the leading edge of regional and international integration. Major city-regions, rather than nations, now compete against each other as centres of economic growth.

There are four primary reasons for the growing global focus on cities and city-regions. The first is that their impact and importance reach well beyond regional or even national spheres. As platforms for the export of goods and services in a global economy, cities are at the leading edge of regional and international integration. Major city-regions, rather than nations, now compete against each other as centres of economic growth.

1 Urban Age, “The Urban Age Project,” p. 3.
A second reason for cities’ prominence is that, in today’s market economies, “knowledge and learning have become predominant in the creation of economic value and the determination of competitive success.” Given the importance of face-to-face interaction in fostering knowledge, cities and city-regions are prime locations for innovation and the production of knowledge-intensive goods and services. Large city-regions have the added advantages of diversity and critical mass, allowing them to produce, attract and retain knowledge workers—the people whose ideas and imaginations fuel creative economies.

Cities and city-regions are prime locations for innovation and the production of knowledge-intensive goods and services.

Third, cities and city-regions are the sites of extensive environmental activity. As the world’s population becomes more urbanized and as cities grow, the environmental footprint left by cities expands and intensifies, calling into question the long-term sustainability of urban patterns of production and consumption. Social and economic decisions—such as how urban industrial activity is designed and carried out, what becomes of its waste products, how the goods produced are linked into regional and global supply chains, and how city residents live and travel—have significant impacts on the environment that sustains us.

Finally, cities are the sites of the most profound social challenges of our age. In Western countries, cities are where diversity in all its aspects is most manifest. Cities are also where the extremes of wealth and poverty coincide, as economic restructuring produces more sharply divided labour markets and the so-called Porsche-hamburger economy.

Cities are the sites of the most profound social challenges of our age. In Western countries, cities are where diversity in all its aspects is most manifest.

This volume begins, in Chapter 2, with a snapshot of the challenges facing Canada’s major cities today. Chapter 3 lays out the case for making the success of our major cities a national priority, presenting new research on the convergence of “hub cities” and surrounding regions, and analyzing policy implications of these findings. Chapter 4 describes the four essential cornerstones of a foundation on which Canadian cities can thrive: robust urban economies, connective physical infrastructure, healthy urban environments and inclusive communities. Chapter 5 looks at the lessons Canada can take from the United Kingdom’s approach to tackling the challenges and maximizing the potential of its major cities. Chapter 6 describes three enabling conditions necessary to propel Canada’s major cities to sustainable prosperity: good governance, adequate fiscal resources and bold political leadership. The volume concludes with a summary of policy recommendations.

2 Slack et al., Vibrant Cities, p. 4.

Canada's major cities are critical to our national prosperity, yet they face significant challenges that limit their potential.

Our major cities bear the costs of a growing urban population and expanding economy, but lack the fiscal capacity to meet their needs or to maximize their potential.

Booming populations and sprawling development create congestion, environmental and health challenges unique to cities.

The challenges of managing growth are exacerbated by the deteriorating state of Canada's urban infrastructure. Estimates of the national infrastructure gap ranged, in 2003, from $50 billion to $125 billion, with municipalities owning the largest stake in this gap.

Canada's present systems of municipal governance fail to provide cities with the organizational structures and decision-making capacity necessary for strategic planning and regional coordination.

The decisions that cities and provinces make about development patterns, transportation, utilities standards, building codes and industrial planning will have profound environmental impacts.

Canada's major city-regions are competing for investment and jobs against other major city-regions around the world. Unless governments and their civic partners support the kind of initiatives that are boosting the international rankings of competitor cities, prospects of improving the record of Canadian cities are not good.
Canada’s cities face certain threats that, if left untended, could choke off economic expansion and gains in living standards down the road.

—TD Economics, A Choice Between Investing in Canada’s Cities or Disinvesting in Canada’s Future, 2002

In Canada, as in countries around the world, policy experts and political leaders have commented widely—and often—on the challenges facing major cities. All agree that “our big cities are no longer just a place in which more and more of us live; they have become national assets and a key component of current and future comparative advantage.”1 Yet there has been little progress—for reasons that have much to do with Canada’s federal and provincial political structures—on the pressing national task of ensuring that the country’s major cities fulfill their potential. In the coming years, economic forces and the settlement patterns of immigrants will mean that an ever-larger proportion of Canadians will be urban dwellers. Whether this trend will translate into national prosperity, however, is uncertain.

Canada’s major cities (see box “Cities: Defining Our Focus”) generate a large portion of the nation’s wealth. In 2005, major cities accounted for 51 per cent of gross domestic product (GDP) and 51 per cent of employment. Between 1995 and 2005, 65 per cent of the 3.1 million net new jobs created in Canada were located in the major cities. Over the same period, the GDP of Canada’s major cities grew by 3.6 per cent annually while that of the rest of Canada grew by 2.9 per cent.2 Currently, 80 per cent of Canadians live in urban areas and two-thirds reside in the country’s 27 census metropolitan areas (CMAs).

Canada’s major cities generate a large portion of the nation’s wealth.

Canada’s big cities must provide the physical and social infrastructure required to sustain their economic competitiveness and offer the quality of life their citizens have come to expect. They also face other unique demands—stemming from their concentrations of poverty and special-needs populations, as well as from the substantial settlement costs for the immigrants who overwhelmingly flock to Canada’s largest cities. They are the places where Canada’s “major economic, social and environmental challenges most visibly intersect.”3

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1 Vander Ploeg, Rationale for Renewal, p. 5.
2 Population and employment statistics are provided by Statistics Canada; GDP numbers at the CMA level are computed by The Conference Board of Canada.
3 Bradford, Why Cities Matter, p. iv. Similar themes are addressed in Infrastructure Canada, Restless Communities.
Cities: Defining Our Focus

This volume focuses on Canada’s *major cities*—those that drive the nation’s economy. Any discussion about cities, however, can be fraught with confusion, as the words used to refer to cities and urban areas are as diverse in meaning and scope as cities themselves. To lend clarity to our discussion and recommendations, we use specific terms to refer to specific types of cities, regions and legislative entities in Canada.

**Cities:** Refer to census metropolitan areas (CMAs). A CMA is formed by one or more adjacent municipalities centred on a large urban area (or urban core) with a population of at least 100,000. To be included in the Statistics Canada definition of a CMA, the adjacent municipalities must have a high degree of integration with the central urban area, as measured by commuting flows derived from census place-of-work data.1 There are 27 CMAs in Canada: St. John’s, Halifax, Saint John, Saguenay, Trois-Rivières, Québec City, Montréal, Sherbrooke, Ottawa–Gatineau, Kingston, Toronto, Hamilton, Oshawa, Kitchener, Windsor, St. Catharines–Niagara, London, Sudbury, Thunder Bay, Winnipeg, Regina, Saskatoon, Calgary, Edmonton, Abbotsford, Vancouver and Victoria.

**Big cities:** Refer to CMAs with a population of 1 million or more people. The six big cities in Canada are Montréal, Ottawa–Gatineau, Toronto, Calgary, Edmonton and Vancouver.

**Hub cities:** Refer to CMAs that lead their respective province (or region) in economic wealth (as measured by real gross domestic product per capita). These cities are identified as economic drivers in their respective province in our report *Canada’s Hub Cities: A Driving Force of the National Economy.*2 There are nine hub cities in Canada: Halifax, Montréal, Toronto, Winnipeg, Regina, Saskatoon, Calgary, Edmonton and Vancouver.

**Major cities:** Refer to *big* cities and *hub* cities combined and are the focus of this volume. The 10 major cities in Canada are Montréal, Ottawa–Gatineau, Toronto, Winnipe, Regina, Saskatoon, Calgary, Edmonton and Vancouver.

There are 17 CMAs that are neither big nor hub cities. These cities include St. John’s, Saint John, Québec City, Saguenay, Trois-Rivières, Sherbrooke, Hamilton, Oshawa, Kitchener, Windsor, Kingston, St. Catharines–Niagara, London, Sudbury, Thunder Bay, Victoria and Abbotsford. While the Conference Board recognizes the importance of these large cities (as well as the importance of city alliances, including the Calgary–Edmonton and Halifax–Moncton corridors and the “innovation triangle,” which comprises London, Kitchener–Waterloo and Windsor), they are not among the nation’s top economic drivers and therefore fall outside this volume’s focus on maximizing the potential and success of Canada’s major cities.

While these definitions clarify the scope and focus of the discussions in this volume, it is also important—particularly when examining financing and governance—to recognize that the word “city” is often used to describe both a geographic area (a city-region) and a legislated entity (a municipality). In cases where the bulk of the population is contained within the boundaries of the city (e.g., Calgary, Halifax), this difference matters very little. However, in cases where the city is under-bounded (i.e., the administrative boundaries fail to encompass all of the city’s population, built-up area or economic activity), the distinction has important implications for decision-making about issues that span several local municipalities (e.g., land use, environmental quality, infrastructure, economic development). Throughout this volume, an attempt has been made to distinguish between references to cities as functional urban regions (city-regions) and references to cities as specific municipalities or legislative entities with defined decision-making powers and responsibilities.

**Municipality:** Refers to a city, town, township, county or regional municipality that has been incorporated by statute by the legislatures of the provinces and territories of Canada. A municipality may include the bulk of a city’s population (e.g., Calgary, Halifax), or may include only a portion of the city’s population (e.g., City of Toronto, City of Montréal).

**City-region:** While there is no single universally accepted definition of a city-region, the term is commonly used to describe a geographical area that encompasses an urban core and the surrounding inner and outer suburbs, outlying semi-rural areas and rural hinterlands.3 These areas have specific economic, social and physical ties that cross jurisdictional boundaries and often include adjacent municipalities. The three largest city-regions in Canada are Montréal, the Greater Toronto Area (which includes the City of Toronto and the surrounding regions, and approximates, but is not identical to, the CMA boundaries) and the Greater Vancouver Regional District.

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1 Statistics Canada, “2001 Census Dictionary.”
2 Lefebvre and Brender, *Canada’s Hub Cities.*
**CHALLENGE 1: FISCAL SQUEEZE**

The municipal governments of Canada’s major cities are caught in fiscal pincers: on the one hand, they bear the costs of services that have been off-loaded by federal and provincial governments over the past two decades (notably social services in Ontario); on the other hand, they are under-financed by available sources of revenue. The municipal governments receive just under 50 per cent of total government revenues, while the federal and provincial/territorial governments receive a combined 90 per cent. Moreover, the gap in revenues is growing: between 2000 and 2004, while federal and provincial/territorial revenues grew by 17.6 and 22.1 per cent respectively, revenues collected by municipal governments grew by only 14.2 per cent. Some municipalities have tried to close the fiscal gap by raising user fees and property taxes, but even these measures have been insufficient to meet their needs.

*Of total government revenues, the federal government receives 39 per cent; provincial and territorial governments receive just under 50 per cent; and less than 12 per cent goes to municipalities.*

Although the fiscal situation of Canada’s major cities is untenable, senior levels of government continue to reap the immediate rewards of maintaining the status quo. A recent Canada West Foundation report aptly captures the situation, noting that our major cities must bear the additional service and investment costs of a growing urban population and expanding economy, yet they cannot impose their own income or consumption taxes to capture the corresponding revenues. As a result, “federal and provincial governments get the upside of urban growth—the goldmine—while big cities get the downside—the shaft.”

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**CHALLENGE 2: GROWTH MANAGEMENT**

The population growth in Canada’s biggest cities is both a sign of economic strength and a source of strain. In addition to the challenges of social integration and the provision of municipal services, the physical impacts of growth bear on land use, transportation networks and municipal infrastructure. In Calgary (which welcomed almost 36,000 new residents in 2005–06), low-density, car-dependent development is producing severe traffic congestion, municipal infrastructure stress and rising housing costs.

*The population growth in Canada’s biggest cities is both a sign of economic strength and a source of strain.*

Booming populations and sprawling development throughout the Greater Golden Horseshoe—the third-fastest-growing urban region in North America—prompted the Ontario government to introduce comprehensive growth management legislation in 2005. The Places to Grow Act and the Greenbelt Act designate urban growth centres, identify protected greenbelt areas and articulate ambitious goals to address congestion, and environmental and public health concerns. However, the Ontario government has yet to determine an infrastructure investment strategy capable of implementing these goals.

Demographic growth in our big cities is expected to skyrocket, while growth in many of our other cities will actually decline, creating an even larger disparity between the scale and concentration of needs in big cities and those in other CMAs. Under current demographic conditions, over the next 20 years the population of Calgary is expected to grow from 1 million to 1.6 million; that of Toronto from 5 million to 7 million; that of Vancouver from 2 million to 2.5 million; and that of Montréal from 3.5 million to 4.1 million. If development patterns in our big cities continue as

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4 For a recent analysis of Canadian cities’ financial plight and recommendations to resolve it, see FCM, Our Cities, Our Future.
5 Statistics Canada, FMS, Tables 385-0004 and 385-0002.
6 The federal, provincial and territorial governments share the same base; the larger growth figure for the provinces and territories is skewed by Alberta’s oil royalties, and, to a smaller degree, federal health transfers.
7 Statistics Canada, FMS, Table 385-0004.
8 Vander Ploeg, Rationale for Renewal, p. 25.
9 The Greater Golden Horseshoe is defined in the Province of Ontario’s growth planning legislation as the region surrounding—but much larger than—the CMA of Toronto. It stretches from Peterborough in the east to Barrie in the north, to Kitchener-Waterloo in the west and St. Catharines in the south.
10 Matthews, Can Immigration Compensate?
anticipated, billions of dollars of new infrastructure will be required. In addition to these direct capital costs, there will also be substantial indirect costs—for maintenance and operations, and hidden costs—associated with traffic congestion and air pollution. These extra costs related to growth and sprawl strengthen the arguments for designing and using more compact and efficient development patterns, and for finding new ways to govern these city-regions.

**CHALLENGE 3: THE INFRASTRUCTURE GAP**

The challenges of managing growth are exacerbated by the fact that much of Canada’s existing urban infrastructure—such as transit systems, roads, and water and sewer systems—is at or approaching the end of its 40- to 50-year lifespan and must be replaced. While recent estimates of the national infrastructure gap (the difference between the amount currently dedicated to infrastructure maintenance and renewal and the amount that needs to be invested to attain an acceptable condition in infrastructure) are imprecise and in 2003 ranged from $50 billion to $125 billion, there is agreement that “the gap is massive . . . broadly based across sectors and levels of government, and likely to head even higher down the road.” Municipal governments own the largest stake in this gap, holding over 50 per cent of infrastructure assets, as compared with the 40 per cent held by provincial/territorial governments and the 10 per cent held by the federal government.

Despite increases in municipal government spending on infrastructure since 2001, there is still a pressing need to replace and modernize urban infrastructure. Until the mid-1970s, both the average age and the life expectancy of municipal governments’ capital stock followed similar downward trends. Around 1977, however, the average age and life expectancy of the capital stock began to diverge—with the age of the capital stock increasing (because of slower growth in capital spending). Insufficient investments between 1978 and 2000 resulted in the average age of municipal capital stock rising to 16.2 years, while the life expectancy dropped to 30 years, creating significant backlog in infrastructure renewal.

The pressures on municipal infrastructure continue to expand with new demands from various sources. The per capita infrastructure expense of servicing the low-density growth of suburban areas (the predominant form of urban growth) is higher than it would be with a more compact urban form of development. Low densities on the perimeters of our cities make public transit an uneconomical alternative (see Chapter 4) and further burden cities with costs related to road expansion. As well, the effects of climate change stress aging and overburdened municipal drainage, water filtration and road systems beyond the limits they were designed to handle. As one frustrated city councillor has noted, “[m]ost cities are now getting a 1-in-100 year storm in one form or another every two years.”

The challenges of managing growth are exacerbated by the fact that much of Canada’s existing urban infrastructure is at or approaching the end of its lifespan.

Public investment in urban infrastructure is vital—not just to provide citizens with services and to safeguard public health and safety, but also to create favourable conditions for economic productivity and competitiveness. The infrastructure of Canada’s major cities is not keeping pace with the needs of the manufacturing and service businesses, whose competitive advantage is tied to the existence of a modern, accessible and reliable network of roads, rail and air transportation. Money invested in infrastructure, for example, not only improves that infrastructure, but also reduces the unit costs of production, thereby improving productivity. This link is evidenced in Statistics Canada’s finding that a one-dollar increase in the net public capital stock generates approximately 17 cents in average private sector cost savings.

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13 Ibid., p. 3.
15 Doucet, “Rearranging the Deck Chairs.”
16 See, for example, Golden et al., *Greater Toronto*, p. 35.
17 Harchaoui et al., *Public Infrastructure*. 
In the transportation industry, each invested dollar is projected to generate over 40 cents in savings. With an estimated accrual of losses in the order of $2 billion annually from congestion and shipping delays in the Greater Toronto Area alone, the national economic impacts at stake are staggering.

Canada’s present systems of municipal governance fail to provide cities with the capacity to do strategic planning and regional coordination.

CHALLENGE 4: GOVERNANCE WEAKNESSES

That Canadian municipalities live in a condition of political tutelage with respect to the provinces is, by now, a familiar lament. It seems, however, that the cost of that tutelage—particularly for Canada’s major cities—has yet to be fully grasped by policy-makers and leaders. What urban affairs journalist John Lorinc calls “Canada’s constitutional shrug to cities” may have made sense when the country was mostly rural and its towns were simple to run, but today, the country is overwhelmingly urbanized and its major cities and city-regions pose formidable complex policy challenges. Thanks to the 1867 British North America Act, though, municipalities are still “creatures of the province,” lacking the authority to levy income or consumption taxes, or to make decisions on many of the matters that affect them the most. This situation amounts to a “culture of disenfranchisement . . . [that] puts Canada drastically out of step with a world in which global city-regions have emerged as the arbiters of economic and political power.”

Canada’s present systems of municipal governance also often fail to provide cities with the organizational structures and decision-making capacity necessary to properly execute strategic planning and regional coordination. To be sure, major cities around the world are struggling with how to adapt their governance systems to the new scale of city-regions and the realities of globalization. The solutions here are not obvious—and in fact may be as varied as the cities themselves. But it is clear to many observers that Canada’s major cities are in need of new ways of governing. Whether that means designing different structures for local governments or devising other ways of bringing together stakeholders to make change happen will depend on the goals, needs and decisions of the many players involved in making cities sustainable and prosperous.

Lastly, the inherited rural bias in both the federal and the provincial parliamentary electoral structures results in an under-representation of the people, the economic importance and the concerns of Canada’s major cities. Big cities have, on average, a member of parliament (MP) for every 107,518 people, while the rest of Canada has an MP for every 94,882 people. This electoral devaluation persists because of constitutional provisions and because the readjustment of electoral boundaries always lags a decade behind the realities of urbanization. Urban expert Joe Berridge has noted that the neglect of vital urban issues in federal parliamentary discussion is linked to this electoral under-representation of cities: in a typical session, House debates about agriculture, fishery and natural resource topics—which together constitute only 3 per cent of national economic activity—predominated over urban concerns. This imbalance cannot fully be accounted for by the constitutional division of responsibilities.

18 TD Bank Financial Group, Mind the Gap, p. 5.
19 Ibid.
20 Lorinc, The New City, p. 11.
21 Ibid., p. 12.
22 Calculated by the Conference Board using 2006 Elections Canada data.
**CHALLENGE 5: DEEPENING SOCIAL DIVIDES**

Although globalization has brought affluence and vigour to cities around the world, it has come with high costs. The new economy has set in motion a range of social problems afflicting Canada’s urban areas. The displacement of the poor from affordable housing as downtowns become gentrified—resulting in concentrations of poverty in inner suburbs and the concentration of jobs in wealthy inner cores and rich suburbs—has led to concentrations of urban poor with little attachment to the labour market.\(^{24}\)

Although globalization has brought affluence and vigour to cities around the world, it has also set in motion a range of social problems.

Furthermore, the prospects for immigrants to Canada have changed in the last 25 years. Since the 1950s, immigrants have accounted for a steadily growing share of Canada’s population, with growth focused primarily in big cities. In recent decades, however, immigrants have enjoyed less economic success than in previous generations. They are also taking longer to close the earnings gap between themselves and non-immigrant workers. For instance, full-time earnings among recent male immigrants fell by 13 per cent between 1980 and 2000, compared with an increase of 10 per cent during the same period for the earnings of Canadian-born men; the gap for women also exists, but is less pronounced.\(^{25}\)

Potential reasons for this phenomenon include the shift from mainly European to Asian and African sources of immigration—the latter two are more fraught with difficulties in validating foreign credentials and work experience—and a general worsening of outcomes for all new labour market entrants.\(^{26}\)

Consequently, poverty in Canada’s largest cities is heavily concentrated among the immigrant population.\(^{27}\)

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\(^{24}\) Lorinc, *The New City*.

\(^{25}\) Frenette and Morissette, “Will They Ever Converge?”

\(^{26}\) Picot and Sweetman, *The Deteriorating Economic Welfare of Immigrants*.

\(^{27}\) Ibid.

Poverty and unemployment also disproportionately affect urban Aboriginal people. More than half of Canada’s Aboriginal people live in cities, compared with only 6.7 per cent in 1951,\(^{28}\) and half of these (close to 245,000) live in 10 of the nation’s largest cities (Winnipeg, Edmonton, Vancouver, Calgary, Toronto, Saskatoon, Regina, Ottawa–Gatineau, Montréal and Victoria), most of which are located in Western Canada.\(^{29}\)

From 1981 to 2001, higher unemployment rates among urban Aboriginal people (as compared with the rates for non-Aboriginal people) persisted largely unchanged.\(^{30}\)

As of 2000, the low-income rate of urban Aboriginal people was 42 per cent, compared with almost 17 per cent among other Canadians.\(^{31}\)

The move into cities has challenged Aboriginal notions of individual identity and community, and has raised fundamental questions about self-governance and responsibility for urban Aboriginal policy.

As of 2000, the low-income rate of urban Aboriginal people was 42 per cent, compared with almost 17 per cent among other Canadians.

As these economic, population and immigration trends continue, there is a danger that Canada’s cities will grow in ways that are inimical both to the country’s values and to the formation of the highly skilled workforce essential to economic prosperity. In the words of urban researcher Neil Bradford, without major changes, Canada faces a dark future “where economic restructuring concentrates its burdens in specific neighbourhoods—with more poor people becoming more isolated from the mainstream; [and] where international migrants find themselves blocked from full participation and experience cultural marginalization.”\(^{32}\)

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\(^{28}\) Cited in Newhouse and Peters, *Not Strangers in These Parts*, p. 4.

\(^{29}\) Statistics Canada, *Aboriginal Peoples of Canada*.

\(^{30}\) The exceptions are Winnipeg, Edmonton and Sudbury, where the gap closed. See Siggner and Costa, *Aboriginal Conditions*, p. 20.


\(^{32}\) Bradford, *Place-Based Public Policy*, p. 1.
**CHALLENGE 6: ENVIRONMENTAL DEGRADATION**

As Canada’s population and economic activity continue to concentrate in cities, threats to sustainability intensify. Urban centres generate higher volumes of consumption and waste than smaller rural communities and have a greater impact on the environment (regarding local air and water quality, for example). High concentrations of housing, transportation, industry and business also produce different pollution and environmental challenges than those produced from single-point sources, such as natural resource extraction operations in remote areas.

Urban centres generate higher volumes of consumption and waste than smaller rural communities and have a greater impact on the environment.

The decisions that cities and provinces make in the coming years—about development patterns and charges, transportation, utilities standards, building codes, infrastructure and industrial planning, among other things—will have profound environmental impacts affecting their residents’ health and quality of life. Indirectly, these decisions will be a major determinant of cities’ competitiveness in attracting investment and talented workers. Whether municipal governments will have the policy expertise, the financial resources and the political will to get these decisions right—often in the face of short-term expediency—is unclear.

**CHALLENGE 7: COMPETITION FROM CITIES IN NORTH AMERICA AND BEYOND**

With the disappearance of pre-North American Free Trade Agreement (NAFTA) protectionism and the impact of globalization, Canada’s major city-regions are no longer competing merely against each other for economic success. Rather, they are in a race for investment and jobs with other major city-regions around the world. City-regions such as Vancouver, Calgary, Toronto and Montréal are integrated into North American and global trade networks, and their success or failure is linked to the behaviour and resources of their direct competitors in the United States and Europe.  

And these competitors have been galvanizing their resources and intent, at national and municipal levels, to ensure that their own urban regions have what it takes to thrive. From Tokyo and Barcelona to Glasgow and New York City, there is a heated race to develop industry clusters; to form networks among researchers, business and policy-makers; to revitalize historic downtowns, waterfronts and decaying neighbourhoods; to diversify the industrial base; to educate highly skilled workers; to develop affordable housing in urban cores in order to attract middle-class workers; and to build integrated mass transit systems.

Canada’s major city-regions are in a race with other major city-regions around the world for investment and jobs.

A 1999 international comparison found that Canada had only one city—Toronto—in the 10-member “beta” group of world cities (no Canadian cities received the “alpha” rank). In a 2004 update of that survey, Toronto was the only Canadian city among the 12 members of the top-ranked “well-rounded global cities” category. Unless all levels of government (and their potential civic partners) muster the willpower and coordination required to undertake the kinds of initiatives that are boosting the international rankings of competitor cities, prospects of improving the record of Canadian cities are not good. At the very least, Canadian public policy should focus on ensuring that Toronto has the resources to maintain its singular status among global cities.

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34 Beaverstock et al., “A Roster of World Cities.” This paper offers an inventory of world cities based upon their level of advanced producer services in the areas of accountancy, advertising, banking/finance and law; the roster ranks 55 world cities at three levels: 10 Alpha world cities, 10 Beta world cities and 35 Gamma world cities.

35 Taylor, “Leading World Cities,” Table 11.
HIGHLIGHTS

- Tackling the challenges facing Canada’s cities calls for a new national strategy to allocate transfers and investment strategically.

- Four sea changes in attitude are required to overcome the barriers blocking our major cities’—and our nation’s—success.

- Citizens and leaders must realize that Canada has changed from a predominantly rural to an urban nation. Eighty per cent of Canadians live in urban areas; major cities account for 51 per cent of both gross domestic product and employment.

- We must recognize the distinctive needs and potential of Canada’s major cities. Chronically short of resources and poorly equipped with governance powers, our major cities are struggling to fulfill their potential as engines of national prosperity.

- Helping our major cities succeed is a “win-win” proposition for all Canadians. New research by The Conference Board of Canada shows that economic growth in each of the nine Canadian hub cities generates an even faster rate of economic growth in other communities in their province or region. Increasing resources allocated to major cities would have a substantial impact on accelerating national economic growth.

- Canada’s sustainable prosperity depends on national investment and involvement in our major cities. A new approach to investment in cities is needed, one guided by meeting distinctive needs and maximizing potential to contribute to national prosperity.
Major Cities as a National Priority

Tackling the challenges facing Canada’s cities is an enormous task. It calls for a new national strategy to prioritize investments in cities that is based on leveraging unique economic potential and contribution, as well as on meeting significant needs. It will involve a comprehensive set of plans and actions and a firm commitment from all levels of government and all sectors of society. While the remainder of this volume deals with the challenges and policy options for what The Conference Board of Canada defines as Canada’s major cities, this chapter lays the groundwork for the fundamental shift in understanding and attitude needed to create a receptive audience for the recommendations that follow.

Four sea changes in attitude are required to overcome the barriers blocking our major cities’—and our nation’s—potential for success. Citizens and leaders at all levels of government and civic enterprise must:

- realize that Canada has changed from a predominantly rural to an urban nation;
- recognize the distinctive needs and potential of Canada’s major cities;
- understand that helping our major cities succeed is a “win-win” proposition for all Canadians; and
- accept that Canada’s sustainable prosperity depends on national investment and involvement in our major cities.

AN URBAN NATION

Canada’s self-image is still shaped more by its expansive wilderness geography than its vibrant urban landscape. Author George Elliot Clarke described this contrast between image and reality in his 2006 LaFontaine-Baldwin Symposium speech:

Our national self-image has been so indelibly constructed by the iconic Group of Seven painters and Emily Carr, not to mention by the designers of our coins, paper money, and postage stamps, we imagine ourselves as a wilderness people, not a heavily urbanized one. (I do think it’s wonderful, immediate satire that the Queen is backed up, on our coins, by a maple leaf, a sailing ship, and animals: the surrealism of removing the Queen from Windsor Castle and plunking her down in the wilderness renders the Royal Canadian Mint a version of the Royal Canadian Air Farce.) . . . Nevertheless, we must never forget that the vast majority of us live in cities—despite what our national self-image suggests.¹

When the precedent-setting 1849 Baldwin Act—which defined the role, function and structure of local government—was enacted, local governments were preoccupied with the issues of the day, “notably drunkenness and profanity, the running of cattle or poultry in public places, itinerant salesmen, the repair of roads, and the

¹ Clarke, “Imagining the City of Justice.”
prevention or abatement of charivaries, noises and nuisances.² At that time, Canada was indeed a rural-dwelling nation, with less than 15 per cent of the population living in urban areas.

Canada’s status as a predominantly urban nation is indisputable. However, our rural underpinnings are still evident in our vision of ourselves, in our self-limiting aspirations as a globally competitive nation and in our reluctance to address the plight—and the potential—of our major cities.

In today’s globally competitive world, our major cities’ distinctive needs require national attention—and action—so they can realize their potential as drivers of sustainable prosperity.

Canada’s electoral system has evolved in response to the country’s geography to enable representation from every corner. As a result, some electoral districts are huge and sparsely populated: Nunavut, at 2.1 million square kilometres, contains 26,745 people, while the average big city riding includes 107,518 people.³ Perhaps this would matter less if strong urban voices in Parliament promoted discussion about the future of our cities and their place in the growing debate about our national goals. In today’s globally competitive and connected world, our major cities’ distinctive needs require national attention—and action—so they can realize their potential as drivers of sustainable prosperity.

SIZE MATTERS: THE DISTINCTIVE NEEDS OF CANADA’S BIG CITIES

The distinctive needs of Canada’s six big cities are being ignored. Chronically short of resources and poorly equipped with governance powers, our big cities are struggling to fulfill their potential as engines of national prosperity. Citizens and leaders alike must recognize that big cities are intrinsically different from smaller cities and towns in both their higher economic potential and their greater needs.

Canada’s big cities, similar to their counterparts around the globe, attract diverse populations—some seek opportunities; others seek specialized services available only in dense conurbations. The wonderfully complex and polyglot societies that characterize our big cities demand a wide range of services, which are often costly to provide. Big cities are magnets for the majority of immigrants to Canada, as well as for low-income individuals who seek employment and specialized services. The resulting concentration of individuals with special needs (e.g., social housing, public health, immigrant settlement) generates higher per capita costs than those in smaller municipalities.⁴ Big cities also face higher per capita costs for police and fire services—to serve dense and diverse populations⁵—and for labour and rents—to provide municipal services and to house operations.⁶ For certain types of services, it may be the case that diseconomies of scale exist, causing the per capita cost of servicing to jump as urban populations cross specific thresholds of size and density.⁷

Citizens and leaders alike must recognize that big cities are intrinsically different from smaller cities and towns in both their higher economic potential and their greater needs.

Beyond service costs, big cities face higher infrastructure costs for expensive mass transit systems and amenities to service sprawling new suburbs. To be attractive to highly mobile talent in an era of global competition for labour, big cities must also invest in quality-of-life amenities, including parks, recreational facilities and the cultural facilities that only big cities can sustain.⁸

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² FCM, Early Warning, p.1. Charivari, according to the Shorter Oxford English Dictionary, means: “a serenade of rough music, made with kettles, pans, tea trays, etc., used in France, in derision of incongruous marriages (1735).”
³ Calculated by the Conference Board using 2006 Elections Canada data.
⁴ Bird and Slack, “Metropolitan Governance and Finance,” p. 15.
⁵ Slack et al., Vibrant Cities, p. 17.
⁷ For a discussion of the conflicting evidence about diseconomies and economies of scale in service provision for big cities, see Bird and Slack, “Metropolitan Governance and Finance,” pp. 16–17. They note that operating expenditures in London (U.K.) are roughly 30 per cent higher than the average spending for all local U.K. governments.
⁸ Bird and Slack, “Metropolitan Governance and Finance,” p. 15.
Big cities need more resources, more autonomy and more influence on senior government decision-making to deal with a broad spectrum of policies and programs stemming from myriad issues: vast numbers of new immigrants; mobile youth and Aboriginal populations; rapid increases in population, businesses and cars; and international security threats, to name just a few. “Big cities face most, if not all, of these challenges in an order of magnitude much greater than other municipalities do.”

Tackling these challenges—which are becoming more complex and wide-ranging each year—cannot be done effectively unless big cities have the governance capacity to set long-term agendas and to influence decisions taken by the other levels of government on matters that affect them directly. Yet, as Canadian economist Tom Courchene has noted, “Canadian cities currently have little in the way of political, economic or fiscal manoeuvrability.”

In reviewing what sets Canada’s big cities apart, it is important to bear in mind the extraordinary scale of our three big city-regions: Toronto, Montréal and Vancouver. Their size and influence vault them into a special category of economic importance with distinctive investment needs for settling the tremendous numbers of immigrants they attract, for building the integrated mass transit systems their sprawling populations require and for providing the world-class arts facilities suitable to their status as global cities.

In comparing the populations of rural regions, smaller communities and major city-regions, the population in major city-regions is younger and more diverse. It comprises a much higher proportion of immigrants, more single-parent families and more housing renters, and is characterized by more poverty as well as affluence.

In short, as recent demographic research has shown, “city-regions really are socially and economically unique.”

Canada’s global competitors are already taking this point to heart. From a 2004 study finding that the larger European cities are generally the most economically competitive, the U.K. government drew itself a clear policy implication: “All cities matter. But the larger [cities] have the potential to contribute significantly and as a consequence are an appropriate target for a sustained government strategy.” Elsewhere in Europe, countries are investing strategically in cities to boost national economic performance. The lessons surely hold for Canada as well.

**UNDERSTANDING THE DYNAMIC POTENTIAL OF CANADA’S HUB CITIES**

In Canada, the call for concentrating strategic investment in big cities was championed in 2001 by writer/activist Jane Jacobs and five big-city mayors. Together, they launched the “C5 agenda,” which contended that Canada’s economic growth would be best served through public investment in the country’s biggest cities. This argument was revisited in a recent research paper that asserted that Canada’s economic success is bound up in the performance of six broadly defined city-regions: Toronto, Vancouver, Montréal, Ottawa–Gatineau, Calgary and Edmonton.

Although these cities are undoubtedly among Canada’s most economically robust, their status alone does not establish that their performance is driving economic success in the country as a whole. Citizens of Saskatchewan or the Atlantic provinces might reasonably ask how they would benefit directly from a focus on big cities outside their province or region. Similarly, small towns in Ontario, British Columbia or Quebec might well wonder whether their economic growth would be better promoted by a direct injection of funds rather than a purported “ripple-out effect” from the growth of Toronto, Vancouver or Montréal.

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9 Roberts and Gibbins, *Apples and Oranges*, p. 5.
10 Courchene, *A State of Minds*, p. 34.
12 ODPM, *Competitive European Cities*, p. 68.
13 Slack et al., *Large Cities Under Stress.*
For that reason, the Conference Board set out to investigate the relationship between the successes of big and small communities across the country. The research study addressed three questions:

- Is there evidence that the growth of Canada’s hub cities has positive effects on the economic performance of smaller communities?
- How widely do these effects ripple out from hub cities to smaller communities?
- If federal and provincial governments allot strategic funding for cities with the aim of producing a truly pan-Canadian boost in economic growth across big and small communities alike, which cities should be targeted for strategic infusions of funds?

The very significant finding of this research was that when hub cities grow and prosper, their success boosts the economic performance of smaller communities in their region. This discovery was achieved by looking at convergence in the economic growth of hub Canadian cities and their provincial or regional hinterlands.

**THE CONVERGENCE PHENOMENON IN CANADA**

In economic terms, convergence is a phenomenon observed in the relative economic development of two or more economies. To say that there is convergence between the growth of a richer economy and that of a poorer one is to say that as each grows, the “catching up” of the poorer economy narrows the disparity over time. There has been extensive research into convergence between countries because of the light it sheds on trends in global economic development: models of international convergence suggest that the economic growth of rich countries helps, rather than thwarts, that of poorer ones.

In Canada, decades of research prior to 1990 found persistent disparities in the economic growth of various regions. Since the early 1990s, though, studies have noticed convergence among provinces across diverse measures of economic growth. However, previous research does not demonstrate whether convergence among Canada’s provinces is driven by the overall economic performance of these provinces or mainly by their major cities, where so much of the provincial economic activity is generated. If it is actually major city-regions that are converging, this finding would suggest that the best policy course might be to devote a greater share of national resources to the economic powerhouses and to let their success leverage the catch-up of the others. Conversely, if Canada’s major cities are not converging with each other, a more diffuse resource allocation would be optimal.

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When hub cities grow and prosper, their success boosts the economic performance of smaller communities in their region.

**CONVERGENCE OF URBAN AND REGIONAL ECONOMIES**

The Conference Board of Canada’s research into this question began by identifying those Canadian census metropolitan areas (CMAs) that are national and provincial leaders in terms of their growth in real gross domestic product (GDP) per capita. Each CMA was examined to determine the extent—if any—of convergence between these lead cities and other communities, both nationally and intra-provincially. Economic data were reviewed from 1987 to 2004.

At the intra-provincial level, the cities of Montréal, Toronto, Winnipeg and Vancouver clearly emerge as the economic leaders in their respective provinces. Elsewhere, Calgary, Edmonton, Regina and Saskatoon were determined to be leaders in Alberta and Saskatchewan; these CMAs provided the basis for testing for convergence with other communities within their own provinces. In the Atlantic Provinces, Halifax is the only CMA commanding a substantial enough share of provincial GDP to serve as a convergence yardstick; accordingly, it was decided to test for convergence between Halifax and communities in the entire Atlantic region. These criteria produced the nine hub cities that were studied for convergence.

An examination of pan-Canadian economic performance shows that convergence is not occurring between Calgary and the rest of the country. Specifically, when looking at the nine hub cities that were identified for convergence, there is no evidence of convergence between these cities and their respective hinterlands.

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14 Lefebvre and Brender, *Canada’s Hub Cities.*

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15 The criterion of real GDP per capita was chosen as a measure of economic prosperity because it is widely regarded as the broadest measure of overall economic wealth in a given jurisdiction.
(the national leader in GDP per capita) and the eight other hub cities; in fact, that gap is growing, not shrinking. Although smaller Canadian communities are converging relatively quickly toward the country’s 27 CMAs as a whole, the gap between Calgary and all other Canadian municipalities is closing slowly, at best.16

Matters are very different, however, at the provincial (or in the case of the Atlantic Provinces, regional) level. Evidence of convergence exists between the real GDP per capita of Halifax and that of other communities in the Atlantic Provinces. Similarly, in each of the other Canadian provinces, convergence is occurring between real GDP per capita growth in the hub city CMAs and the smaller cities and communities in their respective provinces.

16. While explanations are conjectural, this finding likely reflects the influence of interprovincial trade barriers, commodity price cycles and, above all, limited labour mobility among Canadian provinces.

Helping Canada’s major cities reach their potential is a win-win proposition for all citizens. A wider endorsement of this view will open the way for a more strategic approach to investment in Canada’s major cities.

These findings clearly demonstrate that:

- economic growth in each of the nine Canadian hub cities generates an even faster rate of economic growth in other communities within their province or region;
- intra-provincial convergence is a much stronger force than national convergence; and
- there is a lower limit for the number of cities in which new strategic funding should be focused (determined by the number of hub cities).

Given the policy objective of producing country-wide economic growth, it makes more sense to invest strategically in all of Canada’s major cities rather than only in the five or six largest CMAs.17

17. Of course, certain kinds of resources should be concentrated in the very biggest cities, since only they have populations large enough to warrant high-cost investments such as integrated mass transit systems or major cultural institutions. In general, however, a strategic city investment focus needs to be broadened.

POLLICY IMPLICATIONS: DEFINING THE FOCUS

In highlighting the distinctive needs of Canada’s big cities and the unique economic contribution of Canada’s hub cities identified through our convergence research, this volume makes a strong case for prioritizing this combined group of cities—which we identify as major cities (Halifax, Montréal, Ottawa–Gatineau, Toronto, Winnipeg, Regina, Saskatoon, Calgary, Edmonton and Vancouver)—for national strategic investment and focus. Smaller cities and towns, and indeed the country as a whole, will thrive fully when their growth is fuelled by that of the country’s major cities. Helping Canada’s major cities reach their potential is therefore a win-win proposition for all citizens. A wider endorsement of this view by citizens and leaders alike will open the way for a more strategic approach to investment in Canada’s major cities.

In exploring the policy implications of this argument, it must be conceded that not every smaller community in Canada will benefit from targeted investments in our major cities.18 As smaller and more remote communities continue to experience a decrease in population, some of them will see their economic strength dwindle while others will retain their economic viability and quality of life. As a few experts have pointed out, there is a great need for policy research on the matter of helping such communities downsize with dignity.19

Another important caveat is that although convergence research strongly supports strategic funding for major cities, it is also consistent with strategies that would allocate resources to smaller cities and towns to help them realize their economic potential—for instance, fast-growing cities such as Abbotsford in British Columbia, or Kitchener–Waterloo and Oshawa in Ontario. Natural resource towns, such as Fort McMurray, Alberta, also need support, since many are under immense pressure to build adequate infrastructure to support their booming industries. Other resource towns, such as Stephenville in Newfoundland and Labrador, must renew their economy.

18. It is worth noting that some of the communities that converge do so because their population is declining, not because of rapid rate increases in GDP.

19. See Slack et al., Large Cities Under Stress; Bourne and Simmons, “New Fault Lines.”
in the face of mill closures. That said, crafting a sound policy approach to strategic investments in Canada’s major cities is paramount.

**A NEW STRATEGIC INVESTMENT APPROACH FOR MAJOR CITIES: OPENING THE DISCUSSION**

The particularly Canadian approach to funding—based on a one-size-fits-all principle of equality that ignores special needs or potential contribution to national well-being—is stifling our major cities. (See box “Federal Transfers and Cities.”) Citizens and leaders alike must recognize that these cities are intrinsically different from smaller cities and towns in both their higher economic potential and their greater spending requirements. Canadians must recognize that it is to the collective long-term benefit of all citizens to support government funding policies that will give major cities the resources they require to succeed.

The adoption by federal and provincial governments of a more effective funding strategy for major cities will result in better use of public money. Such a new approach must concentrate as much on maximizing the benefits of every invested dollar as on addressing urgent needs. It must be based on criteria that consider economic, social, environmental and public health benefits, as well as spending needs.

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**Federal Transfers and Cities**

The federal government plays a valuable role in providing cities with assistance in the form of grants and other transfer payments, usually funnelled through the provinces. Many of these programs are targeted to high-priority urban issues (such as affordable housing through the Affordable Housing Trust, and public transit through the Public Transit Capital Trust and the gas tax revenue transfer). Generally, these funds are allocated to provinces on a per capita basis; the provinces then distribute these funds to municipalities—also using a per capita formula. While a per capita formula may appear equitable (the assumption being that large cities with large populations will get a larger portion of the funds, which will allow them to meet their greater needs), it ignores the distinctive and more intense needs of major cities, and hence is merely proportional rather than equitable.

In certain cases, the federal government has made exceptions to the per capita distribution rules to recognize special needs—usually to address rural, remote or low-population circumstances. Federal investments in infrastructure, for example, stipulate “… the need for less-populated jurisdictions to have sufficient funds for significant infrastructure investments.” Other programs—such as the federal gas tax transfer and the Public Transit Capital Trust—include minimum funding levels for small provinces and territories and (or) small cities. While recognizing these special needs is laudable, the special needs of major cities continue to be ignored or exacerbated by both the per capita distribution rule and the exceptions to the rule.

Other national programs designed to support all Canadians also have the end effect of discriminating against major cities and their residents. The employment insurance (EI) program, for example, allocates enriched benefits to seasonal workers (mainly found in rural communities) and ignores the many disadvantaged unemployed workers in major urban centres. As a result, only 22 per cent of unemployed persons in Toronto receive regular EI benefits. In sharp contrast, more than 75 per cent of unemployed people in Prince Edward Island and Newfoundland and Labrador receive regular EI benefits.

These examples underline the fact that many of the current federal fiscal transfer programs have built-in biases (either inadvertent or deliberate) against major Canadian cities and their residents. The federal government should re-examine all of the programs that transfer funds to cities—directly and indirectly—to ensure that these programs meet the priority strategic requirements of major cities.

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1 While the majority of provinces use a per capita distribution formula for allocating federal transfers, in some instances provinces have put aside a portion of the funds to be allocated on the basis of specific needs. In Ontario, for example, the 5 cents per litre announced in the 2005 federal budget was to be distributed to municipalities on a per capita basis, while the additional 1 cent per litre agreed upon as part of the federal budget negotiations was to be delivered on the basis of transit ridership. See Ontario Good Roads Association, “Road and Bridge Projects and Gas Tax Funding.”

2 Infrastructure Canada, Government on Track.

Source: The Conference Board of Canada.

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20 The issue of strategic investment in resource towns is considered in Volume II, Mission Possible: A Canadian Resources Strategy for the Boom and Beyond.
To kick-start the public discussion, the Conference Board proposes that strategic investment in major cities be based on a new approach incorporating these basic elements:

- needs assessments based on future needs, existing unmet needs and the backlog of unfunded or under-funded infrastructure;
- needs and benefits assessments covering broad city-regions and outlying areas;
- assessments that include evaluations of the economic, social and environmental consequences of failure to make investments;
- funding levels that take into account economies or diseconomies of scale;
- priority consideration of urgent public health and safety needs; and
- demonstration of a city’s capacity to use funds effectively.

**WHAT SHOULD NEW FUNDING FOR MAJOR CITIES BE SPENT ON?**

New funding for the major cities should seek to leverage a wide range of urban assets to boost economic growth. Recent research indicates that cities’ economic performance depends not just on business activity per se, but also on the quality-of-life assets that attract mobile workers and affect corporate decisions on business location and expansion.21 Cities’ success and prosperity also depend on the availability of affordable housing and the existence of infrastructure adequate to support modern communications, transportation and utilities. The backlog in maintenance of existing infrastructure, as well as the need for new infrastructure to accommodate growth, currently imposes a huge burden on Canada’s major cities, where infrastructure needs are the most extensive and costly.

A prerequisite to meeting infrastructure needs is a clearer estimate of the cost of dealing with the infrastructure gap. Over the past few years, numerous studies and reports have attempted to gauge the size of the gap in Canada; results ranged from $50 billion to $125 billion, depending on the years, measures, trade-offs, sectors and technological and regulatory changes considered in the calculations.22 This $75-billion span is too imprecise to offer direction for targeting infrastructure investment or for balancing infrastructure investment needs with other funding priorities. Rather, a quantifiable assessment could be achieved through a micro-level national survey detailing immediate, mid-term and long-range high priority infrastructure investment needs by type.

**GETTING A COHERENT GOVERNMENT COMMITMENT TO THE CITIES AGENDA**

Some positive steps have been taken recently, such as the federal government’s decision to give municipalities a share of the gasoline tax for new infrastructure investment and the 2006 budget commitments to infrastructure, immigrant settlement and support, affordable housing and transportation. The Government of Ontario’s passage in 2006 of the new *City of Toronto Act* was a milestone for municipal governance.

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21 This thesis has been most prominently advanced in Florida, *The Rise of the Creative Class*. For its application to the Canadian context see, for example, FCM, *Quality of Life*.

With the economic and population growth in cities feeding federal tax coffers and saddling municipalities with the larger share of the costs, Ottawa has little incentive to adopt new arrangements.

But this sort of fiscal arrangement is immensely shortsighted. As author Neil Bradford warns,

At present, the problems of ageing infrastructure, insufficient affordable housing, spatially-concentrated poverty, traffic congestion and lowered air quality are piling up at the doorstep of the municipal governments. However, the implications reach well beyond the boundaries of the locality and the powers of municipal authorities. Lost human capital, increased social tensions, and foregone economic opportunity will take their toll on the overall quality of life of the provinces and all of Canada.

To be sure, Canadian governments are not alone in their failure to adopt a coherent urban policy amid the realities of globalization and market restructuring. Even the United Kingdom, which in some respects is far ahead of Canada on the urban agenda, is playing catch-up to other European governments farther advanced on this front. A report coming out of the U.K.’s Office of the Deputy Prime Minister makes the point that not all parts of the British government have absorbed the importance of an urban agenda, noting that “the economic conditions and contribution of cities need to be nearer the top of the collective governmental agenda.”

Canadian governments need to move beyond the rigidly formalistic view that constitutional writ prevents Ottawa from playing any role in advancing the urban agenda.

This argument advances purity of logic at the expense of realism—and does so in two key respects. First, it is obvious that reopening the Constitution would cause untold agonies of time and effort. As for the worthy aim of adjusting electoral ridings to ensure representation by population, that is unlikely to be realized any time soon. For the foreseeable future, Canada’s cities are stuck with being under the constitutional thumb of provincial governments.

Second, the strict constitutionalist argument assumes that federal involvement in cities would upset a status quo of clearly demarcated spheres of action. The fact of the matter, however, is quite different: Ottawa is already involved on myriad policy fronts. As Judith Maxwell (past president of the Canadian Policy Research Networks) has pointed out:

... despite the constitutional division of powers, there is no question that the federal government is one of the key actors in Canada’s cities by virtue of the fact that so many people live in cities and so much economic activity takes place there. The government is an actor as an employer, as a regulator, as a source of transfer payments to individuals, and as a taxing authority which sets many of the incentives with respect to social and economic behaviour.

**WHY CANADA’S MAJOR CITIES ARE OTTAWA’S BUSINESS**

Many thoughtful observers do believe in the paramount importance of strictly observing the letter of the *British North America Act*. One of the most articulate is columnist Jeffrey Simpson, who argues the following: “There are responsibilities Canada’s Constitution gives to Ottawa, and others to the provinces. By statute and
Given that both the expectations of our cities and the problems they face are of national scope, Canadians would be best served by changing practice to meet present needs rather than adhering to a purist interpretation of constitutional writ. Many of the challenges facing cities already intersect with areas of federal responsibility, so the change must come from Ottawa acting more deliberately to advance the health of Canada’s cities. If the federal government were simply to be more effective in carrying out the functions for which it has responsibility—from immigrant settlement and urban Aboriginal programs to infrastructure—our major cities would be vastly better off.

A larger point of principle remains to be made: It would be paradoxical to expect Ottawa to restrict itself to indirect ways of helping cities out of deference to constitutional roles prescribed in 1867, an era when conditions were entirely different. All intelligent human arrangements must evolve in response to changing conditions. No observer of Canadian and global trends would today design a constitution that forbade federal involvement in the engines of national prosperity. It is, after all, a two-way street: flourishing cities help Ottawa achieve its overall economic and social objectives for the country.
HIGHLIGHTS

- Four cornerstones create a strong foundation for cities’ success:
  - a strong knowledge economy
  - connective physical infrastructure
  - environmentally sound growth
  - social cohesion

- Successful cities depend on connective physical infrastructure to link people, ideas and goods. The decaying state of our infrastructure and the perilous environmental impact of our major patterns and modes of transportation threaten our future success. Immediate action is required to address infrastructure challenges.

- Cities are most successful when citizens of all backgrounds, abilities and orientations participate in economic, political, social and cultural institutions. Strengthening the social fabric that holds our cities—and our nation—together is an essential component of economic prosperity.

- If Canada’s major cities are to succeed as the linchpins of the country’s economic and social prosperity, they must be able to attract the business, investment and talented workforce characteristic of today’s knowledge economy. We must address the productivity gap, improve the domestic operation environment for business, rethink the workforce and enhance “quality of place.”

- Successful cities depend on connective physical infrastructure to link people, ideas and goods. The decaying state of our infrastructure and the perilous environmental impact of our major patterns and modes of transportation threaten our future success. Immediate action is required to address infrastructure challenges.

- Canadian cities face serious environmental challenges that threaten their sustainability. Adopting and supporting an eco-industrial framework would encourage new ways of doing business that contribute to making our cities healthier and more livable.
The Cornerstones of Competitive Cities

Big cities are complex, messy and wonderfully diverse places, but the basic requirements for successful, competitive cities are fairly simple and universal. Four cornerstones create a strong foundation for success:
1. A strong knowledge economy
2. Connective physical infrastructure linking people, goods and ideas
3. Environmentally sound growth
4. Socially cohesive communities

A STRONG KNOWLEDGE ECONOMY

If Canada’s major cities are to succeed as the linchpins of the country’s economic and social prosperity, they must be able to attract the business, investment and talented workforce characteristic of today’s knowledge economy. Volume I of The Canada Project’s compendium report, Mission Possible: Stellar Canadian Performance in the Global Economy, analyzes many key components of this plan for sustainable prosperity.

The overarching diagnosis of Canada’s economic situation presented in Volume I is this: In a global economy oriented toward investment, trade, services, knowledge and innovation, we are hamstringing our national economy with internal barriers. Unless Canada is strategic in its choice of priorities, policies and investments, the prognosis is poor. Our share of inward foreign direct investment (FDI) is falling behind that of competitor countries at a time when FDI is growing rapidly around the world, outpacing growth in production and international trade. We are not doing enough to develop deeper and more efficient trade integration with the United States, our largest trading partner; nor are we taking full advantage of the enormous potential of other key emerging markets such as China and India. Despite the high services profile of Canada’s economy, our services exports lag well behind those of the global competition. We do well internationally on some measures of higher education, innovation diffusion and high-tech connectivity—but our presence in the global knowledge economy is hampered by relatively weak performance in business investment in research and development (R&D), as well as in commercialization.

ADDRESS THE PRODUCTIVITY GAP

Canada’s productivity lags behind that of the U.S., as well as many other industrial and emerging market countries. Sector-by-sector research shows that Canada has a series of productivity gaps vis-à-vis the U.S., with a few industry sectors on the positive, but most on the negative, side of the ledger.

1 While Canada traditionally excels in indicators that measure secondary and post-secondary completion, we lag in lifelong learning. A deep culture of lifelong learning has yet to permeate our society, as it does in top-performing countries such as Finland, Denmark and Sweden. In addition, when the post-secondary completion rate is broken down into college diplomas and university degrees, we find that Canada’s high completion rate comprises a lower share of university degrees compared with the university degree completion rate shares for countries such as the U.S., Norway, Netherlands and Denmark. Canada may also not be producing graduates with the right mix of skills—Canada lags many countries on the share of university graduates in science and engineering.
Of particular concern for the urban economic agenda is the fact that the lagging productivity sectors are those that are largely urban-based and include the majority of the service sectors. The industries where Canada is more productive—relative to the U.S.—tend to be resource-dependent (e.g., mining, primary metals, non-metallic industries). These industries account for only 12.7 per cent of employment in Canada’s major cities and 16.1 per cent of employment outside major cities.

Pivotal directions for improving productivity performance in lagging Canadian sectors include opening industries to competitive pressures, improving the level and quality of capital intensity and supporting organizational and managerial innovation. Above all, it will be vital for federal and provincial governments to adopt a national plan that takes into account the multi-faceted determinants of productivity at many different levels:

- the decisions made by individual firms;
- the business and policy environment within which firms operate;
- the quality of the economy’s infrastructure and labour force;
- the economy’s capacity for innovation; and
- national responses to the North American and global economic environment.

**IMPROVE THE DOMESTIC OPERATING ENVIRONMENT FOR BUSINESS**

Looking to the national operating environment, a strong urban economy calls for tackling the intricate web of regulatory and other barriers that hamper productivity by raising costs and sheltering Canadian industry from domestic and international competition. These barriers affect not just foreign trade but also the movement of goods and services, labour mobility and the free flow of capital across provincial and territorial borders. Much progress still needs to be made in reducing the compliance costs of regulation, in tackling large regulatory policy issues and in aligning the Canadian and U.S. regulatory frameworks more closely.

Another imperative for enhancing the national operating environment is improving our innovation system, particularly in converting knowledge into commercial advantage. Investment in better transportation and border infrastructure would enable trucks, trains, planes and ships to get Canadian goods to market as efficiently as possible. Top-notch security is required to guard this infrastructure against the threat of terrorism.

**RETHINK THE WORKFORCE**

As described in Volume I, a looming demographic crunch threatens to generate labour shortages in Canada and in other industrialized countries. Because economically vibrant cities need a strong and dependable source of human capital, Canada must ensure that it is tracking toward a strong workforce—one with the right quantity, and the right kind, of workers. To do so will require a multi-pronged approach concerning immigration. In the face of growing global competition for talented immigrants, Canada must improve immigrant selection and processing; implement more comprehensive credentials recognition; enhance intergovernmental and public–private sector coordination to more closely match immigrant selection with the labour market; facilitate settlement and integration; and ease labour market entry.

To meet all of Canada’s urban labour needs in the coming years, older workers will have to stay in the labour force longer. Employers must attract older workers and encourage a more gradual transition to retirement. Governments should end mandatory retirement, create positive incentives to stay in the labour force and promote later retirement through reform of publicly funded...
pensions. These tactics will be successful only if there is a shift in mindset on the parts of employers and employees, as the Western world over the past few decades has become enamoured with the idea of early retirement.

Cities that offer a high quality of life attract and retain firms and workers in the knowledge-intensive and creative fields.

Finally, nurturing a strong urban economy will require an emphasis on education and skills. With spending on public education at risk of being crowded out by other priorities, particularly health care, governments must give more weight to education funding. Our schools must focus on producing more students with engineering and science skills and more working adults with university degrees. Our universities need to focus more on developing innovation skills and on giving students broader international experience and language skills. Part of the workforce solution also involves addressing the trade skills gap, improving Aboriginal and immigrant-sensitive education, and investing in lifelong learning and basic adult literacy and numeracy skills.

ENHANCE “QUALITY OF PLACE”

For over a decade, urban experts have been looking at quality of place as a key factor in determining a city’s success in the knowledge economy. Contrary to a widely held view that today’s modern economy can thrive in “virtual space,” planners and academics have confirmed that place matters. Cities that offer a high quality of life attract and retain firms and workers in the knowledge-intensive and creative fields. (See box “Higher Education and Cities.”)

This insight has been advanced most notably by Richard Florida, who contends that cities’ economic success now depends on their capacity to attract the so-called creative class. His book The Rise of the Creative Class presents research showing that professionals, artists and high-tech workers choose to live in cities offering labour markets rich in job opportunities and in high-quality urban amenities—such as recreation and culture.

The hallmark of a successful city, according to Florida, is a diverse and tolerant population. Using his “3 T” index (assessing technology, talent and tolerance), Florida ranked North American cities on their quality of life and the success of their knowledge economies and came to the

Higher Education and Cities

As the knowledge economy continues to reshape patterns of economic production, growing attention is being given to the idea that universities, with their advanced research capacities, have a key economic role to play in cities’ success. Of course, universities have always had what the Brookings Institution calls “inherent” economic roles in the community: as major employers, educators of human capital and consumers of local goods and services. In recent decades, however, they have also taken on new “emerging and proactive” roles as partners in technology transfer and commercialization and as nurturers of small business development and community revitalization.¹

Volume I, Mission Possible: Stellar Canadian Performance in the Global Economy, describes universities’ centrally important role as providers of talented human capital for Canada’s knowledge economy. Volume II, Mission Possible: A Canadian Resources Strategy for the Boom and Beyond, examines the need for university-trained workers in natural resource management. Beyond these dimensions, however, urban universities also attract the agglomerations of talent, companies and investment needed to make our cities thrive. They act as magnets for faculty, administrators and their families, as well as for many students who put down roots in university cities. High-tech firms and investment are drawn, in turn, by the concentration of skilled talent available.

These phenomena make universities central to the productivity of urban economies and the development of clusters (dense agglomerations of companies and associated institutions in a common economic field). As the Institute for Competitiveness and Productivity observes,

. . . much of the economic benefit of urban areas stems from the physical proximity of the various players in an industry cluster. When highly skilled people, competitive firms, and related research institutions are all located near each other, the number of social and economic interactions increases. This constant opportunity for interaction spurs innovation and the further development of economic clusters.²

(contin’d on next page)

¹ The Brookings Institution, Higher Education in Pennsylvania.

² Institute for Competitiveness and Prosperity, Measuring Ontario’s Prosperity, p. 23.
Higher Education and Cities (cont’d)

Once established, successful clusters lure top talent, firms and new investment. The influence of research universities can be seen behind the development of industry clusters in the high-tech regions of Waterloo and Ottawa. In the United States, one study of the impact of the Massachusetts Institute of Technology (MIT) on the regional economy found that 42 per cent of software, biotech and electronics companies founded by MIT graduates are located in the state.3

In Canada, university spinoff companies generated an estimated 20,000 jobs and $2.5 billion in annual sales in 2002.4

City advocates in Canada are realizing the potential gains of promoting industry development around one or more universities in their midst. The Toronto City Summit Alliance launched the Toronto Region Research Alliance (TRRA) in 2003 to consolidate the region’s prominence as a high-tech centre by fostering collaboration among universities and business, colleges, hospitals and governments. The TRRA acts as a facilitator and catalyst to attract research talent and investments that no single institution or partner could manage on its own; to build a critical mass of talent and infrastructure enabling intensive research specialization; and to create regional consensus on strategic research and development priorities.5

As well as generating spinoff companies, universities contribute to private sector success by collaborating with and providing research to many private sector firms. In the last decade, universities conducted over $5-billion worth of research for the private sector’s innovation process and, as of 2004, performed 38 per cent of all research in Canada. Private sector investments in university research doubled over the last seven years, making Canadian universities the Group of Seven (G7) leaders in attracting private sector research and development (R&D) investment.6 Private sector firms reap significant benefits in collaborating with university researchers, including improved visibility and reputation, access to specialized scientific expertise, cost-effective labour using graduate students, and the financial “sweetener” of matching funds that federal and provincial governments award to support such partnerships.7

Collaboration between research and industry is vital to the Canadian economy’s capacity to produce innovation, which the Conference Board defines as a process through which economic or social value is extracted from knowledge—through the creation, diffusion and transformation of ideas—to produce new or significantly improved products or processes. A key contributor to high economic productivity, innovation involves knowledge creation, transformation, diffusion and application. Each of these steps benefits from close collaboration among partners with scientific expertise, funding and business know-how. It is unsurprising, therefore, that when firms collaborate with partners such as universities, they do better at innovating and profiting from innovation.8

The urban location of universities is central to their role in collaboration and innovation, since effective collaboration between partners often relies on their physical proximity. While universities’ R&D collaborations with industry should not supplant their primary role as educators of talented human capital, and producers of engaged, informed citizens, they will represent an increasingly significant element of their contribution to the competitiveness of Canada’s cities.

Universities also contribute to the competitiveness and sustainability of cities through their community development and advocacy work. In the U.S. (where many urban universities are located in decaying neighbourhoods), universities are increasingly engaged in urban revitalization as part of their mandate and in their own self-interest. In Canada, the relatively healthier state of our cities means that university outreach programs to support community housing, health care, education and business development are less common than in the U.S., but they are not entirely absent. Toronto’s Ryerson University is planning to help redevelop the Yonge Street commercial strip near its downtown campus; and since 1999, the University of Winnipeg has participated in a community–university research alliance aimed at promoting the social, cultural and economic development of Winnipeg’s inner-city communities.

City building also occurs when universities partner with other institutions to promote local improvements through public policy advocacy—as in York University’s current advocacy for a subway link to join the York Region with the rest of Toronto.10 Finally, on-campus cultural events, sports facilities and public lectures also add to the quality of life for all urban residents.

Without a doubt, universities should be collaborative partners with citizens, business leaders and governments in spurring all facets of city development.

Source: The Conference Board of Canada.

4 AUCC, Momentum, p. 45.
5 Toronto City Summit Alliance, Enough Talk, p. 12.
8 CBoC, Collaborating for Innovation, Chapter 4.
9 In “The Role of the University: Leveraging Talent, Not Technology,” Florida argues that overemphasizing universities as sources of technology risks undermining their role as producers of knowledge and talent. For diverse perspectives on this tension in universities’ roles, see Jones et al., Creating Knowledge, Strengthening Nations.
10 See Levy, “The University as City Builder”; The Winnipeg Inner-City Research Alliance, “Overview”; and YLife, “Presidents Talk About The University and the City.”
conclusion that a high quality of life begets a successful knowledge economy. His “quality of place” rankings show Canada’s cities rivalling leading U.S. cities on indicators that measure quality of place.\(^3\) He lauds the high concentrations of creative class talent in Toronto, Montréal, Vancouver, Ottawa, Calgary and Québec City; and the diversity and gay-friendliness (proxies for tolerance) in Toronto, Vancouver, Montréal, Ottawa and Québec City.

Levels of productivity, the domestic operating environment and workforce skills are not keeping pace with the quality-of-place assets that Canada’s cities boast.

Other research has shown that quality of life and creativeness are attributes that attract talented workers to cities.\(^4\) These “soft” measures—often used to monitor quality of life and indirectly linked to economic productivity—are difficult to quantify in terms of their contribution to economic success. Investing in these attributes will not reduce taxes but will require a commitment to improving the quality of the environment and services. Without question, making this strategy politically palatable would require deliberate fostering of the public’s understanding of the benefits at stake. In the words of a recent report by the Federation of Canadian Municipalities (FCM), while it “is difficult to measure the importance of urban quality of life to the competitiveness of a region or the nation, . . . it is not difficult to conclude that quality of life matters a great deal.”\(^5\)

That said, setting policy priorities for an urban economic agenda is imperative. In this light, it is relevant to note Richard Florida’s proviso that individual cities should not simplistically court mobile talent by creating flashy urban amenities; rather, they should make strategic investments where they are weakest on the 3 T measures.\(^6\) This observation is particularly relevant to Canada, where levels of productivity, the domestic operating environment and workforce skills are not keeping pace with the quality-of-place assets that our cities boast.

In a 2006 paper, Canadian urban experts Enid Slack and Larry Bourne observed that Canadian cities consistently perform well in international surveys of quality of life, but their performance lags on economic measures such as urban gross domestic product (GDP) per capita, the presence of global service firms and innovation.\(^7\) In these spheres, Canadian cities face “a significant sustainability challenge” that threatens to undermine the financial resources that sustain urban quality of life.\(^8\) This challenge may be a warning that quality of place and life, while necessary, are not sufficient conditions for building successful knowledge economies.

RECOMMENDATIONS FOR A STRONG KNOWLEDGE ECONOMY

The Conference Board of Canada recommends that:

1. The federal government, in consultation with the provinces, major cities and other stakeholders, prepare a national productivity plan to address the gap in productivity in those industries and sectors that are largely urban-based, taking into account the need to:
   - improve the domestic operating environment by re-examining regulations and other trade barriers, and by investing in better transportation and border infrastructure; and
   - improve immigrant selection and recognition of credentials to ensure an adequate workforce.

2. All levels of government collaborate with academic institutions and industry to investigate the policy, research and education strategies required to drive high-value job creation.

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\(^3\) Florida, *The Flight of the Creative Class*, pp. 173–175. This research updates findings first presented in Gertler et al., *Competing on Creativity*.

\(^4\) See, e.g., Glaeser, “The New Economics” and Glaeser et al., “Consumer City.”


\(^7\) Canadian cities’ cost advantage for business is decaying as our dollar rises against the U.S. currency.

\(^8\) Slack et al., *Large Cities Under Stress*, p. 45.
3. All levels of government work with businesses, educational institutions and cultural organizations to identify and enhance quality-of-life factors that make Canada’s major cities attractive for business and knowledge workers.

CONNECTIVE PHYSICAL INFRASTRUCTURE LINKING PEOPLE, GOODS AND IDEAS

Successful cities depend on connective infrastructure to link people, goods and ideas. (See box “Infrastructure for Sharing Knowledge.”) When it comes to advancing the economic competitiveness and social and environmental sustainability of our cities, the highest connective infrastructure priority is undoubtedly urban transportation.

No modern city can thrive without an efficient urban transportation system that moves people and goods safely, with minimal environmental consequences. Yet the challenges of urban transportation—which include congestion, greenhouse gas emissions, auto dependency and aging infrastructure—continue to plague cities and large city-regions in Canada and around the world. A decade ago, the National Round Table on the Environment and the Economy (NRTEE) warned, “If existing trends are allowed to continue, Canada’s transportation networks will become more polluting, increasingly congested and, with urban sprawl, more costly to maintain. The economy, the environment and the quality of Canadians’ lives will suffer as a result.”

URBANIZATION, LAND USE AND AUTOMOBILE DEPENDENCE

In 2001, the federal government took steps toward developing a national transportation strategy. Transport Canada’s Creating a Transportation Blueprint for the Next Decade and Beyond: Defining the Challenges identified urbanization as one of the major challenges, noting that Canada has become one of the most urbanized countries in the world. Indeed, 80 per cent of Canadians live in urban centres, yet road networks are failing to keep up with growing volumes of cars and trucks, and public transit systems are struggling to attract riders.

When it comes to advancing the economic, social and environmental sustainability of our cities, the highest connective infrastructure priority is urban transportation.

In many regions of the world, economic change and immigration flows continue to bring new residents to urban areas. Many countries are also seeing their urban populations spread beyond central areas to surrounding suburbs and towns. In Canada, while the majority of population and employment growth, in absolute terms, still occurs inside the existing urbanized areas, the fastest growth is occurring outside the urban cores of census metropolitan areas (CMAs). The resulting low residential densities and sprawl have major implications for urban transportation, the environment, the economy and health. Sprawl increases the distances people travel, boosting demand for road infrastructure. Low-density land use undermines the feasibility of cost-effective municipal services and public transportation, and limits the potential for alternatives such as walking and cycling.

Further exacerbating the urban transportation problems is the phenomenon of “employment sprawl.” Not only are people choosing to live in suburbs, but they are also working there. Traditional commuting patterns were based on people travelling to work downtown, making it relatively simple to plan for transit services. Today, however, central business districts in Canada account for

11. Transportation Association of Canada, Urban Transportation Indicators V /, p. 14. The existing urbanized area contains the majority of the CMA or urban region’s population.
12. Commission for Integrated Transport, World Cities Report, pp. 3–10. The World Cities Research project examined trends in population, land use, automobile dependence and related factors affecting urban transport, along with strategies being employed in managing transport demand, for the following selected cities: London, Paris, New York, Tokyo (“world cities”); Barcelona, Madrid, Moscow, Singapore (other large cities with populations over 3 million); Dublin, Lyon, Nottingham, Perth, Rome and Zurich (medium-sized cities with populations ranging from 700,000 to 2.8 million).
only 20 per cent of total urban region employment—a percentage that is decreasing as jobs decentralize throughout urban regions.\textsuperscript{13}

While the need for greater integration of land use and transportation planning is widely recognized, achieving this goal has proven difficult for cities worldwide. In Canada, most big cities aim to support public transit by linking land use and transportation planning with higher density residential and commercial development. Nevertheless, policy initiatives aimed specifically at more sustainable land use have had a disappointing track record.\textsuperscript{14}

\textbf{While the need for greater integration of land use and transportation planning is widely recognized, achieving this goal has proven difficult for cities worldwide.}

Elsewhere around the world, cities with the greatest success in transit usage are those with high densities in the central area or with denser mixed-use growth in suburban centres.\textsuperscript{15} No large cities have taken full advantage of the potential of land use policies to contain low-density sprawl, to reduce the need to travel through mixed-use development, or to increase public transit usage by means of transit-oriented development. However, significant progress has been made in Barcelona, Singapore and Tokyo, where new transit lines are generally keeping pace with development and where reliance on public subsidies is at its lowest.\textsuperscript{16}

In Canada, the pursuit of integrated land use and transportation planning is perhaps nowhere more important than in Ontario’s Greater Golden Horseshoe, one of the country’s largest and fastest-growing regions. Efforts in the 1970s to alter land use policies to contain low-density sprawl in this region were unsuccessful. In 2005, the provincial government examined the implications of forecast population growth and proposed a strategic

\begin{center}
\textbf{Infrastructure for Sharing Knowledge}
\end{center}

Information and communications technologies (ICTs) play an essential and increasingly important role in supporting economic development, the delivery of public services and social inclusion.\textsuperscript{1} Canada—and Canadian cities in particular—has long been recognized as a leader in adopting advanced communications technologies. The Canadian Radio-television and Telecommunications Commission reports that broadband access services are now available to approximately 90 per cent of Canadian households—98 per cent of urban households and 69 per cent of rural households.\textsuperscript{2} Research conducted by the Organisation for Economic Co-operation and Development (OECD) in 2004 indicates that Canada is second in the world in broadband access per 100 inhabitants.\textsuperscript{3}

Access to ICT infrastructure is important for a number of reasons. It:
- enables a host of new business opportunities based on electronic commerce;
- transforms the operation of global supply chains;
- improves access to education at all levels;
- provides new opportunities for training and lifelong learning; and
- opens up access to new cultural experiences.

ICT infrastructure plays a key role in the knowledge-sharing process. Specifically, it enables cities to draw on knowledge from other parts of the world (“global pipelines”) and from individuals and organizations in the region (“local buzz”). Global pipelines keep the region relevant, competitive and aware of new opportunities—and threats. Local buzz helps knit communities together and maintain strong linkages between local companies and organizations.\textsuperscript{4}

Cities around the world are undertaking initiatives to ensure easy access to ICT infrastructure. Toronto Hydro Telecom, for example, recently announced that it will blanket downtown Toronto with wireless Internet access and thereby “join the ranks of other major international cities such as San Francisco, Philadelphia and London, England.”\textsuperscript{5}

To date, Canada’s cities have enjoyed access to the world’s most advanced communications infrastructure—and there is little to suggest this will change in the near future. The ongoing challenge will be ensuring that Canada’s rural and remote communities have affordable access to the same infrastructure.

\textsuperscript{1} Telecommunications Policy Review Panel, \textit{TPRP Final Report 2006}, Annex A.
\textsuperscript{2} CRTC, \textit{Status of Competition}, p. 91.
\textsuperscript{3} OECD, \textit{Communications Outlook 2005}, p. 129.
\textsuperscript{4} Storper and Venables, “Buzz,” p. 4.
\textsuperscript{5} Toronto Hydro, \textit{Wi Fi Coverage}.

Source: The Conference Board of Canada.

\textsuperscript{13} Transportation Association of Canada, \textit{Urban Transportation Indicators} VI, p. 16.
\textsuperscript{14} Ibid., p. 28.
\textsuperscript{15} Commission for Integrated Transport, \textit{World Cities Report}, p. 16.
\textsuperscript{16} Ibid., pp 1–2.
growth management plan to promote growth patterns that would create high-density communities, curb low-density sprawl, decrease reliance on cars and thereby reduce traffic gridlock, making the transportation of goods and people more efficient.  

**Urban infrastructure in Canada today is suffering the consequences of a long period of public disinvestment.**

As commuters travel from one municipality to another, the issue of jurisdictional boundaries further complicates the management of urban transportation systems, pointing to the need for regional transportation systems. In Canada, British Columbia is the acknowledged leader on this front, having created the Greater Vancouver Transportation Authority (GVTA) in 1998. The GVTA, also known as TransLink, is based on an integrated approach to managing and operating the regional transportation system; it oversees transit, roads, transportation demand management and air quality. A recent Conference Board of Canada report found that, in most respects, TransLink represents a model for the type of regional governance agency well-suited to this country’s situation, and that it could be adopted more widely to address Canadian urban transportation needs and issues.  

**Transportation Infrastructure**

Urban infrastructure in Canada today is suffering the consequences of a long period of public disinvestment. Between 1955 and 1977, new investment in infrastructure kept pace with Canada’s growing population and increasing urbanization, growing by 4.8 per cent annually. Between 1978 and 2000, however, new investment saw a drastic slump, growing, on average, by a miniscule 0.1 per cent per year.  

As a result, Canada’s urban areas now face massive public infrastructure investment needs for maintenance, renewal and expansion to accommodate growth. In 2003, estimates of the Canadian infrastructure gap ranged from a low of $50 billion to a high of $125 billion. More specific estimates for urban transit show a need for approximately $22 billion between 2004 and 2013, according to the 2005 report of the Urban Transportation Task Force of the Council of Deputy Ministers Responsible for Transportation and Highway Safety. This amount covers investments in maintenance, renewal and system expansion for conventional transit infrastructure, vehicles and technology; but it does not include costs for establishing new transit systems or for specialized transit. Investment needs for roads and bridges—whether municipally or provincially owned—are estimated to total more than $66 billion over the same period. Stakeholders and governments agree that Canada’s urban infrastructure needs far exceed the capacity of the country’s traditional revenue sources. To address the infrastructure gap, we require new sources of funding and alternative methods of financing.  

Fare box revenues meet 60 percent of the total operating costs of Canadian transit operations; government subsidies make up the difference. Canada’s urban transit systems must rely heavily on revenue from fares, as government subsidies are proportionately lower than in Europe and the United States. Distinctly Canadian is the near absence of federal subsidies for public transit. In general, it is left to municipal (and provincial) governments to cover transit costs in excess of operating revenues—principally from property taxes. Provincial governments, such as Ontario’s, often provided significant transit subsidies (rising as high as 75 per cent in the early 1990s); however, the subsidies in Ontario disappeared altogether in 1997. Today, provincial governments provide a range of direct and indirect supports for public transit, most significantly in British Columbia, Alberta, Quebec and Manitoba. Calgary and Edmonton receive provincial grants based on the amount of motor fuel taxes.

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17 See Ontario’s Places to Grow Act and Greenbelt Act.
18 CBoC, Canada’s Transportation Infrastructure.
19 FCM, Federal Funding Support for Infrastructure, p. 6.
20 Mirza and Haider, The State of Infrastructure; The Canadian Society for Civil Engineering, Critical Condition.
21 The Urban Transportation Task Force, Urban Transportation in Canada, pp. 9–13.
collected in each city; in Montréal and Vancouver, transit agencies have some access to dedicated revenue sources and the authority to levy charges on motorists.

In many countries, road pricing is becoming increasingly accepted as both necessary and useful.

Both provincial and municipal governments are responsible for almost all of Canada’s roads. However, over the past 40 years, the bulk of the responsibility has shifted to municipalities. For the most part, governments treat roads as public goods to be financed out of property and general tax revenues, with most road-user taxes and other charges being added to governments’ consolidated accounts. Although road-user taxes and fees are generally not earmarked for roads or transport, there are some notable exceptions. At the federal level, the government has always collected much more from road users than it has spent on roads—a matter of some controversy. In recent years, the government has collected approximately $4 billion annually in road fuel taxes, but spent only 10 per cent of this on roads. In 2004, the federal government began preparing agreements with each province and territory for sharing federal fuel tax revenues; however, there is no requirement for these funds to be used to support alternative or sustainable transportation infrastructure.

Road pricing or “tolling” is one way to help fund infrastructure, control congestion, reduce environmental damage and facilitate public–private partnerships. In many countries, road pricing is becoming increasingly accepted as both necessary and useful. In Canada, however, user fees, or tolls, are an under-exploited source of road financing. In 2001, the Canada Transportation Act Review Panel described road policy in Canada as nothing less than “dysfunctional” and in need of “radical reform,” with the issue of how to pay for roads seen as the core of the problem. The Panel advocated paying for roads through efficient user charges to cover infrastructure and externality costs, and recommended establishing autonomous user-funded transportation agencies based on the World Bank/New Zealand model. (The 1992 Royal Commission on National Passenger Transportation also recommended the New Zealand model for Canada.)

Recently, the federal government signalled its interest in exploring new arrangements for roads and transit—including road pricing—with the provinces and territories. It has also launched, with the support of the provinces and territories, a multi-year study to determine the full financial and social costs associated with infrastructure, vehicles and the movement of people and goods.

The provinces and territories have estimated that the federal government will have $32.9 billion of unallocated fuel tax revenue available over the next 10 years and propose that this be committed to a new Strategic Transportation Infrastructure Fund. In the 2006 budget, the federal government pledged $16.5 billion to support provincial, territorial and municipal infrastructure over the next four years. However, Canada’s infrastructure deficit is so large that government funding by itself will

24 Gaudreault and Lemire, The Age of Public Infrastructure, pp. 7–8.
25 These include four toll facilities: the Coquihalla highway in British Columbia; Highway 407 in Ontario; the Confederation Bridge between New Brunswick and P.E.I.; and the Cobequid Pass section of Highway 104 in Nova Scotia. There is also some limited use made of road funds with dedicated revenue sources in British Columbia and Saskatchewan. In Alberta, some funds are allocated for transportation projects in Edmonton and Calgary based on gasoline sales in these cities, with the cities responsible for determining priorities relative to roads and transit.
not take care of the problem. Road pricing and public–private partnerships are alternative sources of revenue that could contribute to reducing the infrastructure deficit. 32

Canada’s three largest cities have inter-regional commuter rail services that have been successful in increasing ridership.

PUBLIC TRANSIT

In recent decades, broad transportation policy in Canada has shifted toward deregulation, privatization, commercialization and subsidy reduction. But urban transit is still delivered mostly by municipal agencies and funded mainly through direct subsidies. In contrast to other transport modes, most public transit has experienced deteriorating trends in per capita ridership, productivity and unit operating costs. 33 Transit service, as reflected in vehicle kilometres, grew nearly two and a half times between the early 1960s and the late 1980s, and then levelled out in the 1990s. 34 Transit subsidies increased in real terms from less than $100 million annually in the early 1970s to more than $1.5 billion by the end of the 1980s (in constant 1998 dollars); they continued to increase through most of the 1990s, reaching $2.4 billion in 1998 before declining slightly to $2.2 billion in 1999. 35

Canada’s three largest cities—Toronto, Montréal and Vancouver—have inter-regional commuter rail services that have been successful in increasing ridership, primarily by appealing to car commuters. 36 Over the past decade alone, the number of commuter rail passengers in Ontario, Quebec and British Columbia has more than doubled, reaching an estimated 54.9 million in 2004. 37 However, the growth in passengers and service has also raised concerns about the broader environmental impacts and the contribution to urban sprawl (because of a failure to coordinate land use and transportation planning). 38

Additionally, as cities develop and grow into knowledge-based economies, linking people to other national and international centres of knowledge is becoming increasingly crucial. Airports have become an integral aspect of urban development and must be included in development plans for transportation infrastructure and fully integrated into regional systems. One shining example is the Canada Line in Vancouver; once it is built and operational, it will provide a direct rapid-transit connection from the city centre to the airport—the only one of its kind in the country. 39 Airports also need continuous improvements and expansions to keep up with the growth in passenger travel. Inter-city transportation must also become more rapid and efficient—particularly in the heavily populated areas such as the Québec City–Windsor, Montréal–Boston–New York, Vancouver–Seattle–San Francisco and Toronto–Chicago corridors—to help reduce automobile dependence and the environmental impacts of fossil fuel consumption. (See box “The Case for High-Speed Rail in Canada’s Key Inter-City Corridors.”)

As cities develop and grow into knowledge-based economies, links to other national and international centres of knowledge are crucial.

Improving public transportation and making it an attractive alternative must have a central place in any strategy aiming to make urban transportation more

32 See box “Public–Private Partnerships” in Chapter 6 of this volume for a discussion of the potential use of public–private partnerships in Canada.
34 Ibid., p. 218. Service as measured by revenue vehicle hours was also roughly constant in the 1990s, as shown in McCormick Rankin Corporation, Urban Transit in Canada, p. 28.
36 Soberman, Public Transportation in Canadian Municipalities, p. 36.
38 Aubin, “Are Commuter Trains the Way to Go?” highlights this issue in relation to the latest plans for expanding commuter rail services in the Montréal region.
39 The Canada Line will be an automated 19-kilometre rail-based rapid transit service connecting Vancouver with central Richmond and the Vancouver International Airport—linking growing residential, business, health care, educational and other centres in the region—and adding transit capacity equivalent to 10 major road lanes.
The Case for High-Speed Rail in Canada’s Key Inter-City Corridors

The vast majority of inter-city travel in Canada is conducted in private cars; air travel accounts for over half of the remaining inter-city trips. In recent decades, road and air travel—the two modes with the worst congestion and pollution problems—have received the most public attention and funding.

A Better Balance
According to Transport 2000, all modes of transportation must be supported to create a balanced, efficient national transportation network. Unfortunately, inter-city rail travel in Canada has been under-funded and underdeveloped, even though it can potentially draw people away from their cars in large numbers. People are interested in more convenient transportation alternatives and are willing to take trains—if they are faster and more reliable than cars.

High-speed service between major centres must be an integral part of an improved national passenger rail system. A high-speed rail service would provide a number of environmental, economic and quality-of-life benefits. It would help:

- reduce highway use, accidents and environmentally harmful short-haul air traffic and airport congestion;
- ease existing and future air and roadway congestion within high-traffic corridors;
- reduce overall emissions per passenger mile;
- improve transportation choices and increase mobility; and
- encourage growth and investment in key economic corridors.

Viability
Any high-speed rail service must be able to demonstrate commercial viability. This measure is determined by population densities, passenger travel patterns and competitive comparisons with alternative forms of transportation—such as air or motor vehicle travel—based on travel times and costs.

Interest in developing high-speed rail links for two major Canadian inter-city transportation corridors—Calgary–Edmonton and Québec City–Windsor—date back to the late 1970s. A number of reviews were conducted, but either the projects were considered premature (due to high costs and low demand) or there was insufficient political interest.

Over the last five years, several developments have renewed interest in re-examining the feasibility of high-speed rail links in these corridors:

- The urban regions in the Calgary–Edmonton and Québec City–Windsor corridors are experiencing strong economic and population growth (real and projected), with a significant increase in the volume of passengers traveling between cities within each region for both business and personal reasons.
- Automobile usage continues to grow more rapidly than the capacity of the existing highway network. Road traffic congestion has become a major problem in both these corridors.
- Environmental issues have moved into the mainstream, informing political, economic and social decision-making at all levels. Concerns about global warming, greenhouse gas emissions and land use have raised public awareness about the environmental, economic and social long-term impacts of emissions arising from automobile use and air travel.
- Recent advances in rail infrastructure and other technologies could potentially reduce the capital and operating costs.

. . . In the West
According to a pre-feasibility study conducted by The Van Horne Institute in 2004, a Calgary–Edmonton high-speed rail service would be economically and technologically viable; would generate sufficient demand; and would provide quantifiable socio-economic benefits—such as reduced travel time, traffic accidents and carbon emissions—that would range from $3.7 billion to $6.1 billion over 30 years. The study looked at a few possible options:

- Upgrading the existing CPR line to permit mixed freight and high-speed passenger rail service would cut travel time for the 310-km route to two hours 10 minutes, with a capital price tag of approximately $1.7 billion.
- Constructing a largely new dedicated high-speed rail service with either JetTrain technology or electrified “train à grande vitesse” (TGV)-type trains would cut travel time to a maximum of one hour 30 minutes and would cost between $2.6 billion and $3.4 billion.

. . . In the East
VIA Rail Canada examined the feasibility of a similar high-speed rail service (VIAFast) for the Québec City–Windsor corridor and arrived at a capital cost estimate of $3 billion. It proposed upgrading the existing rail line and having a high-speed passenger service share the infrastructure with freight transportation.

Using the costs per kilometre provided by the Van Horne Institute study as a rough guide, preliminary estimates would suggest that the capital cost for a Montréal–Toronto high-speed rail service could be as low as $3 billion for an upgraded rail corridor shared with freight, or $5 billion–$6 billion for a dedicated high-speed passenger rail corridor. Given the projected growth in population and economic activity within the corridor, as well as the tendency for high-speed rail to generate an increase in passenger trips over and above that associated with population growth, a high-speed rail service for the Montréal–Toronto corridor could also be commercially feasible.

(cont’d on next page)

1 Railway-technology.com, “Quebec–Windsor Corridor, Canada.”
Haider and Badami, Transparency and Public Participation.
The Case for High-Speed Rail in Canada’s Key Inter-City Corridors (cont’d)

Government Support Based on Full-Cost Analysis

Few high-speed rail projects are commercially viable without at least limited state support for the infrastructure investment or for the ongoing operation of the rail services.² This is the case even in Japan and Europe, where population densities are typically higher than in Canada.

² New high-speed rail projects seldom generate returns that are sufficient to cover all the project outlays—including capital and operating costs—over the life of the rail service. The fact that some high-speed rail services are profitable at certain points in time is usually attributable, at least in part, to their reliance on depreciated infrastructure assets.

Sources: The Conference Board of Canada; Transport 2000; The Van Horne Institute.

Public transit solutions that focus exclusively on large, capital-intensive projects often lead decision-makers to overlook non-capital-intensive initiatives.

In Canada, urban transit investment has often focused on rehabilitation, driven by the need to prolong the life of existing infrastructure. Most operators have also invested incrementally in specific infrastructure, information technology and transit priority measures at key locations to enhance transit’s attractiveness for targeted customers or to improve system performance in well-defined areas. Essentially, limited funds have placed severe constraints on investments in urban transit. Many transit operators have made do with refurbishing old equipment; others have had to defer infrastructure maintenance altogether. This has led to congestion, unreliable service and sometimes even unsafe conditions. Most operators have barely addressed the critical need for investment in new technology—such as advanced fare-collection systems, automatic vehicle location and control systems and customer information systems.⁴¹

Public transit solutions that focus exclusively on large, capital-intensive projects often lead decision-makers to overlook non-capital-intensive initiatives. Indeed, a bias in favour of capital-intensive solutions is encouraged by the availability of cost-based matching funds from governments, which create incentives for inefficient mega-projects. Some of the big, expensive projects in the U.S. (and perhaps in Canada as well) have been of questionable value in achieving the goals of deterring car use and increasing transit ridership. As one expert notes, “Such projects have much higher political profile, appear to be more indicative of accomplishment than operational improvements, and are hotly pursued by the commercial interests of suppliers, contractors and consultants, as well as the aspirations of established bureaucracies.”³³

⁴⁰ Soberman has developed a schematic that places transit improvements and priority, along with land use planning, road improvements and parking policies, into a broad context of the “building blocks” of effective urban transportation. Each measure is identified as being capital intensive, requiring modest investment or requiring only a policy initiative. Soberman, “Characteristics of Effective Urban Transportation.”

⁴¹ Soberman, Public Transportation in Canadian Municipalities, pp. 33–34.


⁴³ Soberman, Public Transportation in Canadian Municipalities, p. 6.
Transit ridership is induced mainly by service, frequency and convenience—all of which can often be improved cost-effectively through operational measures (e.g., higher priority for transit vehicles on roads, or collector vehicles to convey passengers from low-density areas to mass transit access points). For these reasons, operational improvements should be pursued wherever feasible. Municipalities (and potential funding partners at other levels of government) should assess whether proposed large investments in public transit can increase ridership, enhance access to poorly served populated areas, be coherent with land use planning, and control costs.44

**ENERGY USE AND POLLUTION**

Urban transportation has significant environmental impacts—largely related to fuel consumption. Nearly all fuel comes from non-renewable resources using production processes that release high levels of greenhouse gas (GHG) emissions and other pollutants. According to the recently released 2006 edition of Statistics Canada’s *Human Activity and the Environment*, in 2004 transportation activities generated more than one-quarter of Canada’s GHG emissions and accounted for 28 per cent of their growth from 1990 to 2004.45 The growing use of heavy-duty trucks to move goods and the shift toward greater personal use of light trucks (such as vans and sport-utility vehicles) have put upward pressure on GHG emissions and limited the decline of smog-forming pollutants. Between 1990 and 2004, road vehicles contributed to 86 per cent of the growth in emissions from transportation. In 2004, transportation also consumed nearly one-third of all energy used in Canada. If the trend continues over the next 25 years, a 40 per cent growth in fossil fuel consumption will be needed to support current patterns of transportation.48

Vehicle fuel efficiency is a key determinant of energy use in transportation. While automotive technology and fuel have become cleaner, these advances are being largely negated by Canadians’ choices about where and how to travel.50 Since the mid-1980s, there has been a slight increase in the average fuel intensity of vehicles sold, mostly because of the growing popularity of SUVs, minivans and pickup trucks.51 Since the late-1980s, there has also been a sharp increase in both the weight and power of new passenger cars and light-duty trucks.52

Experts generally agree that a sustainable transportation strategy must include tactics to mitigate the environmental effects of fuel consumption. The Centre for Sustainable Transportation recommends a set of strategies that focus on the short term—by improving the energy efficiency of trucking by increasing load factors; the medium term—by reducing passenger vehicle fuel intensity through incentives to purchase lighter, less powerful vehicles; and the

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44 Soberman, “Characteristics of Effective Transportation.”
46 NRTEE, *Sustainable Transportation*, p. 4.
47 Transportation Association of Canada, *Urban Transportation Indicators V I*, p. 44.
longer term—by promoting greater use of tethered vehicles (electrically powered trains, streetcars and electrified buses where energy is fed via wire or rail) in public transport.53

CONGESTION

Congestion is a major problem in many urban areas. It increases energy use, air pollution, GHG emissions and accident risk, not to mention the time people spend in cars instead of in leisure or productive activities. It harms the competitiveness of urban centres and the national economy by delaying the movement of goods and people and by increasing transportation costs. Measuring congestion costs is complicated, but by any estimate they are substantial.54 A recent calculation conservatively set the aggregate annual costs for Canada’s nine largest urban areas at $2.3 billion to $3.7 billion (in 2002 dollar values). Factors considered include the values of lost time to automobile users (90 per cent of the costs), fuel consumed (7 per cent of the costs) and greenhouse gas emissions (3 per cent of the costs) under congested conditions.55

A recent calculation conservatively set the aggregate annual cost of congestion for Canada’s nine largest urban areas at $2.3 billion to $3.7 billion.

Improving the viability of public transportation is not enough—on its own—to guarantee the changes in travel behaviour that are essential to achieving sustainable urban transportation. Incentives to leave the car at home need to be combined with disincentives to use the car. (See box “Congestion Charges U.K.-Style: Would They Work in Canadian Cities?”) Efforts to discourage car use are, however, problematic. The most effective approaches—including regulatory measures such as parking restrictions and pricing measures such as road tolls—are also the most difficult to sell and implement.

An analysis of common traffic options shows that various measures are not mutually exclusive and may be combined to increase effectiveness or offset deficiencies.56 (See Table 5, Appendix B.) As an example, Singapore offers a comprehensive approach, including car ownership controls, permits allowing some vehicles to be used just on the weekend, parking controls and road pricing.57

ENHANCING URBAN FREIGHT TRANSPORTATION

In a world economy dominated by global supply chains and international trade, urban goods transport has burgeoned, as have the associated congestion, energy consumption and safety problems. Urban freight transportation includes traffic related to wholesale and retail trade, construction and demolition, and materials for reuse and recycling, and to transportation of raw and semi-finished materials, and through-shipments. Although freight transportation activity is highly concentrated in urban areas, the related environmental and policy challenges have received less attention than those associated with public transit.

Urban freight transport relies heavily, though not exclusively, on trucks—which haul approximately 2 billion tonnes of freight, per year, in and through urban areas (or between 45 and 73 tonnes of freight per person, per year).58 Although urban areas have undoubtedly become the main destinations and points of origin and transfer for most freight shipments, national data on intra-urban shipments are practically non-existent.59

A report produced by the Organisation for Economic Co-operation and Development (OECD) in 2003 emphasized the importance of finding sustainable solutions to the growing problems associated with urban goods movement.60 Efficient organization of urban freight transportation has become crucial for both successful business management and sustainable development.

53 Ibid. The first part of this report reviews the evidence concerning world crude oil and North American natural gas production trends and when these might peak.
55 Transport Canada, The Cost of Urban Congestion. Because of insufficient data, other factors such as freight movements and air pollutant emissions were not included, and the cost estimates reported are therefore low.
56 Ibid.
57 Ibid., pp. 7–8.
58 Transport Canada, Truck Activity in Canada, p. 9.
59 Transportation Association of Canada, Urban Transportation Indicators V I, pp. 23–24; The Centre for Sustainable Transportation, Sustainable Transportation Monitor, pp. 3–4.
60 OECD, Delivering the Goods, pp. 7–15. The focus of the report is on delivery of retail goods, albeit within the wider context of all goods traffic occurring in the urban environment.
As businesses aim to improve the flow of their supply chains and optimize their logistics, urban goods transport has become increasingly integrated with long-haul transportation and global supply chains. Efforts are underway in some countries to find more sustainable solutions using inter-modal transport, but requirements for just-in-time deliveries make this challenging. The report concludes that local governments alone cannot create a sustainable urban goods transportation system; rather, national and state or provincial governments must also contribute.

In Canada, the rapid rise of trade with China and resultant freight congestion throughout B.C.’s Lower Mainland prompted the federal government to unveil a new Pacific Gateway Strategy in 2005. The draft Pacific Gateway Act was tabled to address challenges arising from the projected Canada–Asia trade growth. Although the defeat of the Liberal government in November 2005 halted its enactment, the initiative has the support of the Conservative government.

Local governments alone cannot create a sustainable urban goods transportation system; national and provincial governments must also contribute.

Initiatives are also underway in several other regions to promote multi-stakeholder gateway and corridor concepts. Given Canada’s dependence on trade, the efficient functioning of Canada’s trade gateways and corridors is essential to national prosperity. The federal government intends that the Pacific Gateway Strategy will establish the principles for a future national policy framework on strategic gateways and trade corridors and related measures.

Congestion Charges U.K.-Style: Would They Work in Canadian Cities?

Congestion is plaguing Canada’s largest cities, threatening their economic efficiency and competitiveness. Canadian commuters spend an average of 63 minutes per day getting to and from their places of work, up 17 per cent from 13 years ago—the equivalent of one extra workweek per year. Daily commute times in Toronto now average one hour and 20 minutes; in Calgary the average daily commute time is more than one hour, and in Montréal it is 76 minutes. Public frustrations have reached a tipping point, pushing politicians and urban transit planners to consider congestion charging—charging drivers to bring vehicles into a designated urban area—as an answer to congestion problems in Canada’s urban areas. Many point to London, England, as proof that this strategy can both decrease congestion and augment funds for public transit.

Introduced early in 2003, congestion charging in London required private vehicles entering the central core of London on weekdays to pay £5 (CDN$12.50). The success of this bold experiment led to a recent increase in the fee to £8 (CDN$17.70) and a proposal to extend the congestion charge zone. Traffic reductions achieved within the first six months of the charge’s inception have been maintained; congestion overall is down by 30 per cent, while traffic volumes are down by 18 per cent. Better yet, most commuters who have stopped driving downtown have shifted to public transit. An estimated £90 million (CDN$199 million) net profit in 2004–05 has been reinvested in improving bus services.

However, congestion charging is just one tool—not a cure; and it may not always be the right tool. A bold decision in one city may prove reckless in another. Just how effective and appropriate congestion charging will be depends on five factors:

- Commuting patterns that bring high volumes of people into a dense urban core.
- Public transit infrastructure that can accommodate a large shift from cars to other modes of transport.
- Commuter behaviour that supports a shift in modal choice.
- Business support based on evidence that congestion charging would have a positive or negligible impact on commerce.
- Public attitudes that tolerate congestion charging.

Would congestion charges work in Vancouver, Calgary, Toronto, Ottawa or Montréal? A just released study has proposed congestion pricing (in conjunction with radical changes in land use and urban form and substantial new investments in transit infrastructure) as part of the solution to transportation gridlock in the Greater Toronto Area. It would be premature to choose this tool now—for any city—without first assessing the factors (listed above) that determine its usefulness.

62 See The Conservative Party, “Harper Pledges Support for Pacific Gateway.” The British Columbia government has also launched its own $12.1-billion Asia Pacific Gateway Initiative; see Asia Pacific Foundation of Canada, “A Brief History of Canada’s Pacific Gateway.”
63 These include the Inter-Regional Goods Transportation Committee in Montréal, the Halifax Gateway Council, the Southern Ontario Gateway Council together with infrastructure initiatives in the Windsor area, and the Manitoba Corridor Strategy.

IMPLEMENTATION CHALLENGES

Great strides have been made globally in determining the strategies and measures needed to improve urban transportation systems, yet meaningful change is slow to occur. Implementation barriers block progress. A study commissioned by the European Conference of Ministers of Transport has identified a number of obstacles and offered ways to improve the implementation of sustainable policies. Highly relevant to Canada, these barriers include:

- the lack of a national policy framework for sustainable urban travel;
- poor policy integration and coordination;
- inefficient or counterproductive institutional roles and procedures;
- public, lobby and press resistance to policies;
- unsupportive legal or regulatory frameworks;
- weaknesses in the pricing/fiscal framework;
- misguided financing and investment flows;
- poor data quality and quantity; and
- wavering political commitment.

The study also makes several recommendations directed at national governments (summarized in Table 6, Appendix B). In Canada’s case, it is clear that most of these could be applied equally well at the provincial and territorial levels.

RECOMMENDATIONS FOR IMPROVING URBAN TRANSPORTATION

The Conference Board of Canada recommends that:

4. Provincial and municipal governments pursue integrated land use and transportation planning at the local and regional levels, aiming to accommodate growth through intensification rather than low-density sprawl.

5. Provincial and municipal governments develop suitable governance arrangements for urban transportation in areas of multiple jurisdictions.

6. All levels of government incorporate the improvement of the accessibility and efficiency of airports, rail and other methods of inter-city transport into infrastructure development plans.

7. Provincial and municipal governments use a “carrot and stick” approach to promote a shift from cars to more sustainable modes of transportation:
   - A sufficiently dense and extensive public transit network is a necessary prerequisite.
   - Disincentives to automobile use—including regulatory and road pricing measures—will complete the policy framework.

8. Provincial and municipal governments make greater use of alternative sources and methods of funding urban transportation.

9. Provincial and municipal governments and their agencies consider low-cost operational and service improvements to increase transit ridership and efficiency.

10. Business and all levels of government work together to provide incentives for consumers to buy lighter, more fuel-efficient vehicles.

11. Provincial and municipal governments consider pilot programs and other incentives to promote higher load factors (i.e., operating trucks at full load capacity) for private and commercial urban trucking.

12. The federal and provincial governments undertake full feasibility studies for high-speed rail transit in both the Windsor–Québec City and Calgary–Edmonton corridors; and quantify the socio-economic benefits and costs for each project to determine the requisite level of government support.

13. The federal and provincial governments work together to prepare a national urban transportation strategy and consider the recommendations arising from the European Conference of Ministers of Transport.

64 European Conference of Ministers of Transport, Implementing Sustainable Urban Travel Policies.
ENVIRONMENTALLY SOUND GROWTH

More than half of the world’s 6.3 billion people live in urban environments, creating dense concentrations of people and economic activity, and major sources of environmental stress. While taking up only 2 per cent of the world’s land, cities account for roughly 78 per cent of the carbon emissions from human activities, 76 per cent of industrial wood use and 60 per cent of the water tapped for human use. Cities are also major contributors to air and water pollution, as well as over-flowing landfill sites.

Similar to their counterparts in most developed countries, Canadian cities face serious environmental challenges that threaten their sustainability. These challenges are, in many ways, the result of an inability to recognize the impact of human activities and pursuits on the environment. Concerns about over-consumption of resources, inadequate strategies for waste management, declining air quality, pressures on water supplies and health problems continue to escalate. While the national population growth rate is decreasing, Canadian cities continue to expand—both in their size and in their impact on the environment.

CITIES AS SOURCES OF ENVIRONMENTAL STRESS

Within cities, resource use and pollution come from three main sources: households and individuals, commercial and non-commercial organizations, and industrial companies. Potential solutions to problems of resource consumption and pollution are already part of ongoing dialogues on climate change and environmental health. Previous sections of this chapter describe ways to reduce environmental stress caused by urban sprawl and motor vehicle use, but the industrial sector—a significant stressor—has yet to be discussed.

The most intensive interactions between industry and society happen in cities, as enormous quantities of resources are used to supply the industries that meet the demands of an ever-increasing urban population. The industrial metabolism within cities is essentially linear: resources are extracted from the environment and, following their transformation and use, are returned to the environment in the form of air emissions, liquid effluents, and solid and hazardous waste. Municipalities generally do not quantify or manage the cumulative impacts of these activities in any systemic manner because cities are not normally viewed as systems in which every planning decision, every development and every activity has an impact on other parts of the system. However, one of the most basic laws of ecology is that *everything* is connected; viewing cities as urban ecosystems would encourage municipalities and industries to recognize and manage the flow of resources and wastes within their boundaries. The emerging field of industrial ecology provides a specific framework for understanding, tracking and managing the energy, resources and wastes linked to industrial activities.

While taking up only 2 per cent of the world’s land, cities account for roughly 78 per cent of the carbon emissions from human activities.

WHAT IS INDUSTRIAL ECOLOGY?

The science of ecology examines the relationships among organisms and species, and between organisms and the physical, chemical and biological environments that sustain them. A fundamental ecological concept is the ecosystem. In natural ecosystems, organisms fill niches and form mutually beneficial relationships with other organisms, facilitating material and energy cycling. The principle of ecosystems may be applied to cities to create an urban ecology framework within which the city is viewed as a system or web of relationships. Industrial ecology takes these concepts and applies them to industry processes. It examines the economic and

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65 World Watch Institute, *Winning or Losing the Environmental Battle.*

66 For instance, the environmental organization Zero Footprint advocates a conversion to ground-source heating and cooling of buildings, which would have a profound impact on pollution, energy conservation and greenhouse gas emissions. Ground-source (geothermal) systems use the moderating temperature of the earth to help condition the air in a structure. Their adoption could be encouraged through government regulations requiring special permission to install anything other than ground-source heating and cooling systems for new homes, shopping centres, schools and businesses. Combined with a massive nationwide retrofitting of existing buildings (where possible), this strategy would be relatively cheap and deliver fast short-term savings; would generate new jobs and industries; and would result in a far more sustainable energy infrastructure for Canada.
ecological relationships among industries, and between industries and the environments that sustain them. It focuses on identifying and quantifying flows of materials and energy; ensuring that these flows are used efficiently and effectively; and meeting human needs without overwhelming the assimilative capacity of the planet.

**Industrial ecology is essentially about connectedness and interdependence. It aims to create a system where one company’s waste becomes another company’s raw material.**

The field of industrial ecology is essentially about connectedness and interdependence. It aims to transform industrial processes from the dominant open-loop systems (where resources and capital investments become waste) to a cyclical, interdependent and closed-loop system (where waste products become inputs for new processes). In the most basic terms, this means creating a system where one company’s waste becomes another company’s raw material.67 (See Exhibit 1.)

**APPLYING INDUSTRIAL ECOLOGY CONCEPTS IN CITIES: ECO-INDUSTRIAL NETWORKS, CLUSTERS AND PARKS**

Industries with an interest in minimizing waste and reducing energy demands are forming partnerships to create eco-industrial networks, clusters or parks. These arrangements are all based on the principles of industrial ecology, with the aim of creating sustainable and efficient industrial systems. Networks, clusters and parks provide opportunities to create interdependent systems that make more efficient and effective use of resources, waste products and infrastructure.68

**Eco-Industrial Networks**

Eco-industrial networking has been defined as the process of creating “local and regional business relationships between the private sector, government and educational institutions that facilitate use of new and existing energy, material, water, human resources, and infrastructure to improve production efficiency, investment, and competitiveness in addition to community and ecosystem health.”69 An eco-industrial network might emphasize one or more activities—such as environmental procurement, logistics or material exchange.

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**Exhibit 1**

Types of Ecosystems

<table>
<thead>
<tr>
<th>TYPE I ECOSYSTEM</th>
<th>TYPE II ECOSYSTEM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlimited resources</td>
<td>Unlimited resources</td>
</tr>
<tr>
<td>Energy and limited resources</td>
<td>Limited waste</td>
</tr>
<tr>
<td>Urban or Industrial Ecosystems</td>
<td>Ecosystem component</td>
</tr>
<tr>
<td>Unlimited waste</td>
<td>Ecosystem component</td>
</tr>
</tbody>
</table>

Source: The Conference Board of Canada.

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67 Lifset and Graedel, “Industrial Ecology: Goals and Definitions.”
68 Côté and Wallner, “From Clusters and Networks”; Côté and Crawford, “A Case Study in Eco-Industrial Development.”
69 Canadian Eco-Industrial Network. “Highlighting Progress and Opportunity.”
By working together strategically, partners in an eco-industrial network create greater economic and environmental benefits than they would by operating alone. This type of networking is a valuable business strategy that helps:
- reduce risk;
- build economies of scale;
- overcome government-mandated barriers;
- facilitate expansion of small firms; and
- create benefits associated with participation in value chains.\(^70\)

The network of industries in Kalundborg, Denmark, may be a model to emulate.\(^71\) There, the excess steam and heated cooling water from an electricity generating station are used by several industries, including an oil refinery, a pharmaceutical plant and a fish farm. The hot water also heats homes, institutions and commercial establishments in the town. (See box “District Heating and Cooling” for an examination of the use of existing heating and cooling resources in Canada.) The sulphur removed from the refinery’s emissions is sold to a sulphuric acid manufacturer. The sulphur dioxide is scrubbed from the generating station’s emissions and transformed into gypsum, which, in turn, is sold to a local plasterboard manufacturer. Local farmers collect the sludge from the pharmaceutical enzyme manufacturer and apply it as a soil enrichment to their lands.

Canada also has a number of eco-industrial networking projects underway:
- In Maplewood, British Columbia, the Maplewood Eco-Industrial Partnership Project was established to make more efficient use of the resources in the community, with emphasis on the industrial area.\(^72\)
- The Greater Vancouver Regional District is using eco-industrial networking as a strategy to help it attain its long-term sustainability objectives and to reduce the environmental footprint of its businesses.\(^73\)

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**District Heating and Cooling**

Enormous amounts of fuel and electricity are used to heat and cool buildings. Exploiting available heating and cooling resources can reduce demands for new generation plants. In district heating systems, the heated cooling water from generating stations is used to heat buildings. The water is then either returned to the environment at near ambient temperature, or cycled through a closed-loop system and reused. Natural cooling techniques use cold-water sources in the environment to cool buildings.

In Canada, the heated cooling water from most thermal electric generating stations is discharged directly into lakes, rivers and oceans. As many of these stations are located in or adjacent to cities, district heating systems offer an effective way to use previously wasted heat to warm buildings. While few large district heating systems have been installed in Canada, they have become increasingly common in northern Europe and Scandinavia.

Large amounts of electricity are also used to cool buildings through central systems or individual air conditioners. These take heat from the internal air of buildings and exhaust it to the outside, where it is added to the heat released from pavement, buildings and emissions from transportation to create a “heat island” effect. This in turn heats up the buildings, which then need additional cooling. A vicious cycle is established that is the cause of much wasted energy expenditure.

Both Toronto and Halifax have used natural cooling techniques. In Toronto, where the heat island effect is pronounced, several buildings have been connected to a cooling system that uses cold water from the deep waters of Lake Ontario. In Halifax, several buildings are cooled using water from the bottom of Halifax Harbour.


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70 Contractor and Lorange, “Why Should Firms Cooperate?”
71 Côté et al., Designing and Operating Industrial Parks.
72 GVRD, “Maplewood Community Eco-Industrial Partnership Project.”
73 LeBreton et al., “Small-Scale Eco-Industrial Networking.”
74 Eco Industrial Solutions, Ltd. and Mark Jeffery Consultants, Guide to Eco-Industrial Networking, p. 4.
is simply an expansion of the industrial clusters concept to take into account environmental quality and resource conservation. Clustering often results in more efficient land use with the co-location of related businesses.

One type of eco-industrial cluster involves clustering suppliers and customers to reduce the transport distance and traffic congestion through urban corridors that link suppliers to customers. Reducing traffic congestion brings the added benefit of improved air quality. DaimlerChrysler AG, for example, reduced total trip lengths by 6 million kilometres annually through the establishment of an industrial cluster in Rastatt, Germany. Companies in this cluster took advantage of the short distances between suppliers and customers and reduced their packaging requirements for transport. As a result, the amount of waste was also reduced.

A second type of clustering involves the grouping of buildings and functions centred on one key industry. In Burnaby, British Columbia, for example, the Burnaby Incinerator converts 250,000 tonnes of garbage into 8 million tonnes of steam, which is sold to a nearby paper recycling facility to replace the use of natural gas. The revenue from the steam offsets some of the incinerator’s operating costs. Equally effective is a large-scale eco-industrial cluster that has been established in the Industrial Heartland area northeast of Edmonton, Canada’s largest processing centre for petroleum, petrochemical and chemical industries. In 1999, the four regional municipalities comprising the Alberta Industrial Heartland created a partnership to ensure that future growth in the region occurred in a coordinated and responsible manner. The partnership promotes and supports eco-industrial clustering with a focus on the use of by-products among energy and chemical industries.

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**Eco-Industrial Parks**

An eco-industrial park is “a community of businesses that cooperate with each other and with the local community to efficiently share resources (information, materials, water, energy, infrastructure and natural habitat) leading to economic gains, improvements in environmental quality, and equitable enhancement of human resources for the business and local community.” (See box “Mining the City” for a look at mining resources from industrial waste.)

In China, an eco-industrial park in the Guangxi Zhuang Autonomous Region has established an industrial network based on sugar production. Originally started by a city-owned company—the largest sugar refinery in China—the network includes an alcohol plant, a pulp and paper mill, a calcium carbonate plant, a cement plant and a power plant. The result is an industrial cycle in which resources are extracted, processed and manufactured, and the wastes are returned to the land as a soil enrichment to sustain the production of cane sugar and maintain the cycle. Several other cities in China are also pursuing opportunities to create eco-industrial parks and clusters as the country investigates the application of this type of circular economy to increase the efficient use of resources and reduce environmental impacts.

Several eco-industrial park development projects are underway in Canada:

- At the Ross Industrial Park in Regina, Saskatchewan, efforts are underway to understand the flows and stocks of materials and foster networking among companies.
- In Saint John, New Brunswick, J.D. Irving Ltd. has announced a green industrial park that will be built on a brownfield site—the former Saint John Shipyard. Similar to the Kalundborg industrial symbiosis model, it involves a co-generation facility and a wallboard plant linked to a paper mill.

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75 Staber, “The Structure of Networks”; Porter The Competitive Advantage of Nations. Porter’s definition is: a geographic concentration of competing and cooperating companies, suppliers, service providers and associated institutions.

76 BBC, “Committee Points Finger.”

77 Fichtner et al., “On Industrial Symbiosis Networks.”

78 Eco Industrial Solutions, Ltd. and Mark Jeffery Consultants, Guide to Eco-Industrial Networking, p. 4.

79 Alberta’s Industrial Heartland, “An Eco-Industrial Network.”

80 The eco-industrial parks concept was first explored by Côté et al. at Dalhousie University, Cohen-Rosenthal at Cornell University and Lowe et al. with Indigo Development. See: Côté et al., “Designing and Operating Industrial Parks as Ecosystems”; Cohen-Rosenthal, Eco-Industrial Strategies; Lowe et al., Discovering Industrial Ecology.


82 Zhu and Côté, “Integrating Green Supply Chain Management.”

83 Lowe et al., Discovering Industrial Ecology.
• In Halifax, Nova Scotia, Burnside Industrial Park is one of Canada’s largest and most successful eco-industrial parks, involving more than 1,300 small and medium-sized businesses. It is home to a variety of eco-business programs and enterprises, including specific targets for solid waste diversion, water conservation, energy efficiency and liquid waste reduction; by-product exchanges, especially in the area of packaging materials; reuse, recycling and re-manufacturing businesses using products from other businesses within the park; and an eco-business program that includes a code of environmental excellence.\(^8^4\)

BREAKING DOWN THE BARRIERS TO THE APPLICATION OF INDUSTRIAL ECOLOGY

There is still much work to be done before the principles of industrial ecology are widely used in designing, planning and operating urban businesses, industries and clusters. Whereas the leadership of one industry might provide the spark needed to create an eco-industrial park in a single location, transformation on a broader scale would need deeper support from both businesses and governments.

Governments can provide incentives, regulations, management mechanisms and information that support the application of industrial ecology.

Leading industrial ecologists have identified five types of barriers to the application of industrial ecology: technical, information, economic, regulatory and motivational;\(^8^5\) a sixth type of barrier is institutional. Governments have an important role to play in breaking down these barriers and in generally promoting urban environmental sustainability. In 2003, the National Round Table on the Environment and the Economy observed that the quality of the urban environment can be “greatly improved through federal fiscal policies,”\(^8^6\) and called for the federal government to demonstrate leadership, improve collaboration and encourage stakeholders to make more efficient use of energy and land. Governments can provide incentives, regulations, management mechanisms and information that support the application of industrial ecology.\(^8^7\)

**Mining the City**

One of the more interesting concepts arising from an ecological approach to combining natural and industrial systems is the idea of mining resources from urban waste. *Urban forests* are the wood, cardboard and paper waste products created within a city, which can be used as a source of fibre for recycled paper and cardboard manufacture. *Urban mines* are the scrap metals in urban buildings and products, which can be used as a source of recycled steel, aluminum and other metals.

Japan’s Sumitomo Corporation, for example, recycles cellphones for its precious metals—such as gold and palladium. The company reports that 280 grams of gold can be recovered from a tonne of cellphones. According to the Tanaka Kikinzoku Group, which also posts urban mine research information on its website, one tonne of mined gold ore contains a mere 6 grams of gold. This means that cellphones contain more gold per weight than ore taken from the world’s highest-grade gold mine! The proportion of precious metals in the cars and televisions around us is higher than that. In this light, scrapped metal and electronic goods can be seen as “urban gold mines.” The Tanaka Kikinzoku Group points out that “modern day amenities—automobiles, high-rise buildings, airplanes, home appliances, office equipment—can therefore be considered mineral resources.” Although aluminum and steel have been recovered and recycled for many years, the recycling of other metals by Canadian mining companies such as Noranda Falconbridge and Teck Cominco is a fairly new enterprise.

**Technical Barriers**

Finding ways to reuse by-products and wastes and to make more efficient use of inputs will require technological and management solutions. Although many by-products can be used, innovative solutions to dealing with some wastes may not be widely available. This is an area ripe for additional research and development by both governments and universities.

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\(^8^4\) Canadian Eco-Industrial Network, “Case Study: Burnside Eco-Industrial Park.”

\(^8^5\) Brand and Brujin, “Shared Responsibility.”

\(^8^6\) NRTEE, *Environmental Quality*, p. xiv.

\(^8^7\) Brand and Brujin, “Shared Responsibility.”
If industrial ecology is to take hold, changes are also needed in industrial park design and management and leasing policies to facilitate material recycling and business co-location and collaboration. Designing or retrofitting industrial parks to promote material and waste recycling and the efficient use of resources would support industries in their move toward a more sustainable and creative use of resources. Changes in management and leasing policies would be required to accommodate co-use of facilities—such as loading bays, parking lots and waste recycling equipment—by multiple firms. Management approaches would also have to focus on seeking out or accommodating firms that would be in a position to exchange wastes or transform them into by-products.

Governments will need to review existing regulations through the lens of industrial ecology and make changes that support the application of this concept.

Information Barriers
The application of eco-industrial principles relies on information and knowledge sharing as industries become collaborators and partners—while continuing to operate as independent businesses. However, the competitive nature of industry makes it difficult to establish information-sharing processes and raises challenges around issues of confidentiality. Municipal governments, by themselves or with the help of non-governmental organizations (NGOs), could enable information sharing related to opportunities for the exchange and transformation of wastes into by-products. (See box “Supporting Eco-Industrial Networks.”)

Economic Barriers
Competition among businesses and the desire to maximize return on investment represent significant barriers to the application of industrial ecology. Industry often perceives waste reduction and environmental quality improvement as costs. To overcome this perception, firms must gain a better understanding of their net benefits in participating in industrial ecology initiatives. Governments should consider using economic instruments, such as higher wastewater disposal fees, solid waste tipping fees and other taxes, to discourage firms from dumping wastes and to encourage them to seek ways to reduce, reuse and recycle. The private and public sectors should encourage the establishment of reuse, rental and repair businesses as well as innovations in business processes to reduce waste and energy use.

Regulatory Barriers
Government regulations developed to induce good corporate behaviour have often produced resistance and challenge from the regulated community. Small and medium-sized enterprises are particularly aggrieved when new regulations require costly compliance. Regulated definitions of waste—in particular, hazardous waste—can discourage companies that have opportunities to use by-products, by limiting choices and suppressing innovative solutions. Governments will need to review existing

Supporting Eco-Industrial Networks
Eco-efficiency is an important element of business retention and growth. However, many businesses and municipalities need information, support, guidance and ideas to help them achieve better environmental and economic performance through resource conservation, recycling, reuse and generally good environmental practices.

Dalhousie University’s Eco-Efficiency Centre is a not-for-profit, arm’s-length agency that provides support, information and consultation on improving the efficiencies of companies and encouraging an eco-systemic perspective. The United Nations Environment Programme identified the Centre as a model of a small organization that can assist businesses in improving both their environmental and their financial performance by adopting eco-efficient practices related to their energy, water and material use. Operating at a local level in Halifax, Nova Scotia, the Centre plays a number of different roles and offers a variety of services. It:

- facilitates networking among businesses to allow them to take advantage of opportunities in purchasing, training, logistics and material exchange;
- advises businesses about improving energy efficiency and reducing solid waste management costs;
- conducts preliminary environmental reviews of company facilities to identify source control and energy and water conservation opportunities;
- produces and distributes information to small and medium-sized companies; and
- provides advice designed to foster individual and collective action by companies through networking.

Sources: Greater Halifax Partnership; Eco-Efficiency Centre, Dalhousie University.
regulations through the lens of industrial ecology and make changes where necessary to support, instead of stifle, the application of this concept.

Municipal governments often compete for industrial development and are therefore reluctant to set standards that industry might resist.88 Pursuing a sustainable community agenda will require municipalities to have high standards for environmental quality. But they will also need to work with the federal, provincial and territorial governments to provide information, proper urban planning, and infrastructure consistent with industrial ecology so that businesses can meet these high environmental standards while also being competitive.

Motivating business and communities to do things differently and engaging consumers to change their actions requires leadership and commitment.

Motivational Barriers
Perhaps the most difficult set of barriers to overcome involves changing attitudes. Motivating business and communities to do things differently and engaging consumers to change their actions requires leadership and commitment. Canada’s resource wealth and consumer orientation support the view of nature as a source of endless material and an inexhaustible sink for our wastes. Industrial ecology demands a new way of looking at our actions, one where the flow of inputs and outputs is tracked and managed for the benefit of businesses, society and the environment. Governments could play an important role by providing information to businesses on the economic benefits of reducing, reusing and recycling wastes. Governments could also provide technical support to small and medium-sized firms to help them achieve their eco-industrial goals.

Institutional Barriers
Municipal governments, planners and engineers—similar to many organizations and people—are resistant to change. In the case of industrial ecology, change is even more challenging to sell and to implement because its concepts are not widely known or practised. Urban industrial ecologists have an important role to play in facilitating change by taking responsibility for sharing their knowledge about the inter-connectedness of urban systems and by developing alternative systems for delivering and recycling resources. They should be working closely with municipal governments, urban planners and engineers to support development and management strategies that are based on an understanding of cities as systems. Urban planners also have a role, as they will be critical “in the implementation of industrial ecology to successfully reconcile the often-competing goals of economic development, environmental quality and social equity.”89

Municipal governments, however, must take the primary role in brokering change by ensuring that local planning decisions and goals take into account the long-term impacts on the sustainability of cities. They will need to create policies for integrating urban infrastructure, urban planning and regional economic development that are consistent with the principles of industrial ecology.

Canadian cities will need to embrace sustainability strategies and work with other government, business and industrial partners to put industrial ecological principles into practice.

PROSPECTS FOR THE FUTURE
Public attention to environmental issues is growing, prompting governments to consider ways to promote and manage sustainable growth in urban areas. Many Canadian cities are adopting policies and practices to respond more effectively to environmental challenges. Several have set goals for becoming eco-communities or sustainable communities. These include North Vancouver and Whistler in British Columbia; Canmore, Alberta; Regina, Saskatchewan; Hamilton, Ontario; and Halifax, Nova Scotia. As part of a plan to secure a healthy future for our country, more Canadian cities will need to embrace sustainability strategies and work with other government, business and industrial partners to put industrial ecological principles into practice.

The commitment shown by the FCM to sustainability and urban ecology is a promising development. It has established a Centre for Sustainable Community Development, a Sustainable Communities Knowledge Network and the Green Municipal Fund. The Fund has supported eco-industrial park planning studies that encourage symbiosis and other strategies. The Centre has published *Solid Waste as a Resource: Guide for Sustainable Communities*, and its website includes an overview that states the following: “A sustainable community is a smart community. It achieves economic, environmental and social health by making the most efficient use of resources, generating the least amount of waste, and living within the carrying capacity of its natural resources—land, water and air.” Municipalities should regard the sustainable communities movement, smart growth and industrial ecology as complementary strategies, and look to Sweden if in doubt about what is possible, even in a northern climate.

**An eco-municipality strives to develop an ecologically, economically and socially healthy community for the long term using a systems approach.**

**Sweden as a Source of Ideas**

Sweden has been a source of ecologically sustainable development concepts and practices since the first world conference on the human environment in Stockholm in 1972. To its credit, the country has been on the leading edge of the environmental wave. For example, following the United Nations Conference on Environment and Development in Rio de Janeiro in 1992, many municipalities adopted Local Agenda 21 strategies. Since then, more than 70 Swedish municipalities have been transforming themselves into “eco-municipalities” using the Natural Step framework—a science- and systems-based approach to organizational planning for sustainability that focuses on restoring and replenishing the earth’s resources, rather than on depleting or destroying them.

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**Eco-municipalities in Sweden have developed “green” landscapes, buildings and infrastructure that support dynamic economies and communities.**

An eco-municipality strives to develop an ecologically, economically and socially healthy community for the long term using a systems approach. It focuses on creating an integrated framework—linking municipal, business, institutional, industrial and household practices—for development.

Eco-municipalities in Sweden have developed “green” landscapes, buildings and infrastructure that support dynamic economies and communities. In Overtornea—the first of Sweden’s eco-municipalities—200 new eco-businesses have been established and the town’s operations have become 100 per cent fossil fuel free. In Umea, businesses are integrated in ways that reduce rainwater discharge, freshwater use, energy consumption and space.

In Malmo’s Western Harbour development—one of the more recently developed eco-municipalities in Sweden—all local energy is 100 per cent renewable. Western Harbour’s energy systems (photovoltaic, solar thermal, biogas, ground source heat pumps) are tied into the city’s electric and thermal distribution grids, which are managed by the local utility company. District heating is drawn from the sea and rock strata using a large heat pump, and these energy systems are coordinated with the district’s waste systems to recover heat from household waste in order to generate biogas. The biogas is fed into Malmo’s biogas network, which fuels household cooking, public transport and waste-removal vehicles.

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90. *FCM, Solid Waste as a Resource.*

91. Ibid.

92. Agenda 21 is a comprehensive plan of action to be taken globally, nationally and locally by organizations of the United Nations System, governments, and major groups in every area in which humans impact on the environment. It was adopted by more than 178 governments at the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, Brazil, June 3–14, 1992.

93. Founded in Sweden in 1989 by Dr. Karl-Henrik Robert, the Natural Step is an international non-profit organization that offers a framework to help organizations, individuals and communities to take steps toward sustainability. For more information about the Natural Step, see www.naturalstep.ca/about.html.

As one of the world’s most socially and environmentally progressive countries, Sweden’s history and governance structures have made it easier to bring the vision of ecologically sustainable development into the mainstream. The government owns much of the land, and most residential and commercial development occurs through large tenant-owned co-ops. In Canada, accomplishing a similar vision for cities would require significant collaboration between and among governments, government departments, land developers and owners, residential and business tenants, building professionals, scientists and researchers, and community organizations.

MEETING THE CHALLENGE

There is still much work to do to make our cities sustainable. Municipalities must act on the principles of sustainability built into their planning documents. Decisions must take into account the linkages between urban functions and activities, and natural ecological cycles. However, the most radical task may be convincing individuals, communities and industries that wastes are resources that have the potential to be managed and husbanded for the future benefit of industrial systems and communities.

With judicious policy, regulatory, fiscal and economic interventions by government, industrial ecology can offer useful strategies to encourage new ways of doing business that contribute to making our cities healthier, smarter and more livable—now and in the future. Evidence of the rewards and the potential contribution to sustainability is sure to lead industry and urban governments to take up the challenge.

RECOMMENDATIONS FOR ENVIRONMENTALLY SOUND GROWTH

The Conference Board of Canada recommends that:

14. All levels of government work with research institutions to undertake extensive research on ways of dealing with wastes, including converting wastes to inputs for productive processes.

15. Municipal governments and NGOs work with industry to facilitate industry information sharing on eco-industrial networks, clusters and parks.

16. All levels of government and NGOs raise awareness of the economic benefits of industrial ecology to encourage greater industry and municipal participation.

17. The federal and provincial governments review and change regulations to support industrial ecology by permitting the development and use of by-products created from wastes.

18. All levels of government use fiscal tools, such as charging higher wastewater disposal fees and solid waste tipping fees, to support environmentally sound practices.

19. Municipal governments either provide the appropriate infrastructure and design for industrial parks or retrofit them to facilitate the co-sharing of areas and the exchanges and transformation of wastes into by-products.

20. Businesses consider changes in management and leasing policies to accommodate co-use of facilities.

SOCIALLY COHESIVE COMMUNITIES

Cities are most successful when citizens of all backgrounds, abilities and orientations are included in economic, political, social and cultural institutions. As governments and the private sector work to advance an economic prosperity agenda for cities, they cannot afford to underestimate the importance of a strong social fabric. Given that economic empowerment is such an important foundation for the other aspects of cohesion, of particular concern are the standard of living and the opportunities available to lower-income and vulnerable members of society.

Acknowledging the importance of “social cohesion” to the success and sustainability of cities is consistent with a basic Canadian commitment to social justice—affording all citizens the opportunity to lead productive and meaningful lives. A socially cohesive city is one where a high percentage of citizens participate in, contribute to and benefit from societal institutions, such as the labour force, civic organizations and community associations.
**SOCIAL COHESION AND ECONOMIC PROSPERITY**

In recent decades, measures of social cohesion have been used to assess societies’ performance across a spectrum of quality-of-life indicators. Often the “social goods” included in measures of social cohesion—such as income equality, trust levels or low crime rates—are valued as means of achieving other desirable goals (such as economic prosperity) and not just as ends in themselves.

Many experts assert that there is a strong link between the economic success and the social cohesiveness of cities—a mutually reinforcing relationship in which neither goal can advance without the other. It is also sometimes held that these pillars of city success are interdependent. In this scenario, policies advancing these two distinct goals are complementary rather than contradictory; actions taken on the social or economic front will produce complementary effects on the other side of the ledger. While this view has not gone unchallenged (see box “Questioning the Link Between Social Cohesion and Economic Prosperity”), there are compelling intuitive reasons to consider social cohesion as a vital factor in our cities’ economic futures.

Although urban economies can prosper alongside pockets of urban poverty, it is clear that when poor and marginalized persons are able to join the workforce, the economy gains new strength and social spending costs are reduced. Given the demographic and labour force challenges facing Canada in the decades ahead, this country cannot afford to waste any of its human capital. There is an economic imperative to tend to the social dimensions of health, housing, immigrant settlement and education, which make for a well-educated and highly engaged workforce.

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**Questioning the Link Between Social Cohesion and Economic Prosperity**

Recent research in Britain has challenged assumptions about the relationship between social cohesion and economic prosperity in cities. This “new conventional wisdom” may be convenient for generating agreement among city-development advocates with a wide spectrum of socio-economic priorities, but, the researchers argue, the central premises are empirically dubious. ¹ In particular, they point out that although the effect of economic conditions on social welfare is relatively well understood, it is much less evident that cities’ rates of income inequality, trust or crime also affect their economic prosperity.

Looking chiefly at British cities, the researchers found few empirical supports for the thesis that various criteria of social cohesion have causal impacts on economic success. Cities such as London, they noted, are economically dynamic despite growing income inequalities, substantial poverty rates and crime rates. (Although parallel detailed research has not been done for Canadian cities, it is obvious that concentrations of poverty, marginalized groups and areas of high crime characterize the economically vigorous cities of Toronto, Montréal and Vancouver.) What is clear, however, is that the new knowledge economy, together with the loss of well-paying industrial jobs, is producing growing income disparities in cities around the world even as their economies boom.

As the British researchers observe, there are surely “tipping points” at which massive social divisions, income inequalities and crime will threaten the economic and political stability of any society. However, no one knows what the threshold is, or how close cities are to it.

The British researchers conclude that there is no simple way of identifying “the array of social structures, characteristics and processes likely to affect competitive performance, governmental capacity and quality of life in particular cities.” The danger in making broad assertions about the interdependence of social and economic success, they warn, is that “it can lead to both oversimplified and over-optimistic assumptions as to how ‘joined-up’ action can pay-off, often by-passing those social factors which (still) make progress particularly difficult.”²

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¹ Buck et al., *Changing Cities*.  
² Turok, “Social Cohesion.”

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Sources: The Conference Board of Canada; Buck et al., *Changing Cities*. 

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1  Buck et al., Changing Cities; Turok, “Social Cohesion.”  
2  Buck et al., Changing Cities, p. 93.
Recent research on the rising number of high-poverty neighbourhoods, the concentration of poverty within them\(^95\) and the growing income polarization across neighbourhoods in major Canadian cities has made us more aware of geographical patterns of exclusion. The research findings add a sense of urgency to the importance of addressing social inclusion and cohesion. In the words of a recent report by the U.K. government, “promoting the economic inclusion of people in deprived neighbourhoods is key to increasing employment and economic growth, and in promoting social cohesion and in ensuring all can benefit from increasing national prosperity.”\(^96\)

A GLOBAL COMPARISON AND A WARNING

Social cohesion contributes to the social sustainability of cities. A socially sustainable city is able to meet its residents’ basic needs (such as housing and sufficient income) both now and in the future. It must have the ability to “maintain and build on its own resources and have the resiliency to prevent and/or address problems in the future.”\(^97\)

Canadian cities lag well behind the pack on economic measures such as innovation, wages and income.\(^98\)

More serious, however, is the fact that Canadian cities lag well behind the pack on economic measures such as innovation, wages and income. As the authors of this research conclude, “the economic experience of Canadian cities presents . . . perhaps the greatest of all the sustainability challenges. . . . [Weak economic competitiveness] means that advantages in other dimensions of sustainability will come under threat if there are no longer sufficient financial resources to achieve them.”\(^100\)

HOW CITY COMPETITIVENESS POLICIES COMPLEMENT SOCIAL INCLUSIVENESS

Many of the topics already identified as critical components of economic competitiveness in this volume and in Volume I, Mission Possible: Stellar Canadian Performance in the Global Economy can equally be viewed as dimensions of social cohesion. A quick survey of these topics serves to make these linkages clear.

An integrated mass transit system is important as job locations shift from the downtown core.

Transportation

Efficient urban transportation networks are critical for business investment and growth, environmental sustainability and quality of life. Additionally, however, the construction of integrated mass transit systems across urban regions enables low-income workers who cannot afford car ownership to commute to jobs in a reasonable length of time. This is particularly important as job locations shift from the downtown core (which is comparatively well served by existing mass transit systems) to dispersed suburban centres scattered throughout urban regions (which are extremely difficult or too distant to access by public transit, especially for workers commuting from one suburban region to another).

Housing

The links between housing and economic prosperity are clearly established. As stated in a TD Economics report, “an inadequate supply of housing can be a major impediment to business investment and growth, and can

95 United Way of Greater Toronto and the Canadian Council on Social Development, Poverty by Postal Code.
96 HM Treasury, Devolving Decision Making, p. 21.
97 Director of Social Planning, “Definition of Social Sustainability,” p. 3.
98 Slack et al., Large Cities Under Stress.
99 Ibid., pp. 46–54.
100 Ibid., p. 45.
influence immigrants’ choices of where to settle.”

In the U.S., many policy experts are alarmed at the potential damage that skyrocketing housing costs, and the consequent flight of the middle class, are inflicting on the long-term vitality of cities such as New York and San Francisco. Further research is needed to examine the specific connections between affordable housing and economic competitiveness in Canadian cities.

**It is imperative that provincial and federal governments increase their investments in affordable housing in Canada’s major cities.**

Housing is also, of course, a major parameter of social cohesion, since those who have the most difficulty finding affordable housing tend also to be those at risk of poverty and other forms of social marginalization. Affordability challenges in Canada’s cities are most acute for recent immigrants, Aboriginal people, single adults and lone parent families. In its 2004 study of 20 large municipalities, the FCM found that the double challenges of a widening income gap and high housing costs have the most serious impacts in cities with large concentrations of immigrants (such as Toronto and Vancouver) and Aboriginals (such as Winnipeg, Saskatoon and Regina). For example, close to one in four new immigrants and urban Aboriginals were spending more than half their income on rent in 2001, compared with fewer than one in six in the general tenant population of these 20 cities.

The construction of affordable rental housing has been in decline across Canada since the mid-1980s, due in part to decreases in federal and provincial government spending on housing. As a result, renter households have felt the burden of rental supply shortages and rising rents. Between 1991 and 2001, the proportion of urban renter households spending 30 per cent or more of their income on shelter grew from 35 to 41 per cent; and the proportion spending 50 per cent or more rose from 16 to 20 per cent. It is imperative that provincial and federal governments increase their investments in affordable housing in Canada’s major cities.

**Education and Training**

Canada must invest more in education and training. The point has been driven home—in Volume I, as a critical part of Canada’s economic competitiveness agenda, and in this chapter, as one of the keys to strengthening the knowledge economy in cities. Investment would be well placed in developing a high-quality elementary educational system, as good public schools are an important factor in attracting knowledge workers to Canada’s cities.

Similarly, education and training are vital aspects of social sustainability. Lack of access to adequate education and training is one of the factors that traps vulnerable populations in poverty and low-income jobs. Given that the country’s highest fertility rates are among single Aboriginal women and recent immigrants—and that these are also two of the poorest groups in Canada—every level of the Canadian education system must consider how to meet the distinct needs of these growing populations. Both the economic competitiveness and social justice imperatives demand that education and training become a high-priority issue for the decades ahead.

**Immigration**

How Canada selects, processes and recognizes the credentials of immigrants is fundamental to aligning our country’s human resources with future labour force needs. Getting these policies right, together with settlement and integration policies, is also a component of social cohesion, since they have an impact on immigrants’ participation in mainstream Canadian social, economic and political institutions.

The challenges facing immigrants include affordable housing, distinctive health problems, non-recognition of credentials and language training. For refugees, these problems are frequently made more severe by a lack of financial resources and absence of community

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101 TD Economics, Affordable Housing in Canada, p. i.
102 Scott, “Cities Shed Middle Class.”
103 FCM, Incomes, Shelter and Necessities.
104 And where the vacancy rate is rising, it tends to be at the higher 60 per cent of the rent spectrum, leaving the bottom 40 per cent just as (or less) affordable for low-income renters. TD Economics, Affordable Housing in Canada, pp. 13–14.
105 FCM, Incomes, Shelter and Necessities, p. 16.
networks. Settlement challenges are also exacerbated by the fact that affordable housing for immigrants in some large Canadian cities is found in suburbs poorly served by public transit, while programs for skills upgrading and language training are still largely located downtown, making access difficult for suburban residents. Problems are particularly acute in Toronto, Vancouver and Montréal, where 75 per cent of Canada’s new immigrants make their home. Governments at all levels must work together with private and not-for-profit organizations to help immigrants take their rightful places in our communities, to establish businesses and to make the transition to work.

A MISSING LINK: ENDING THE WELFARE TRAP FOR WORKING-AGE ADULTS

A crucial element in improving the social cohesiveness of Canadian cities is ensuring that working-age adults have salaries adequate to live on—or, if they are not employed, that they can maintain a decent standard of living and take advantage of incentives to move into the workforce. Many layers of government are involved in administering Canada’s current system of income security. Its complexity often creates disincentives to work. Public sector cutbacks to the breadth of the social safety net, the erosion of minimum wages, the growth of non-standard work and the lack of enforcement of employment standards laws have resulted in a large number of Canadian workers living in low-income situations.

The Task Force on Modernizing Income Security for Working-Age Adults (MISWAA) has highlighted these conditions in its recent report *Time for a Fair Deal*. As the report notes, temporarily unemployed working-age adults face problems including spotty employment insurance (EI) coverage across the provinces; punitive requirements for welfare eligibility that liquidate assets important to cushion setbacks during re-entry to work; and “welfare traps” that provide economic disincentives for those on welfare to return to work. Examples of the last category include loss of health-care benefits, government clawbacks of employment income, and new employment expenses for transportation, clothing and child care that often greatly outweigh the wage money gained. The move from social assistance to employment often means a jump in a recipient’s marginal effective tax rate to well over 50 per cent, or in some cases even as high as 100 per cent.

As discussed in Volume I, Mission Possible: Stellar Canadian Performance in the Global Economy, reformed income policies tipping the incentives in favour of workforce entry are urgently called for—along with coordinated efforts meeting the needs of low-income adults in areas such as affordable housing, child care, health care, transportation and skills training. An income supplementation program, delivered through the tax system, would enhance incentives to work and boost the available workforce. These reforms, combined with policies that prevent the inflation-driven erosion of minimum wages and better enforcement of employment standards, would provide an effective lift to earnings of low-income workers.

RECOMMENDATIONS FOR SOCIAL COHESION

The Conference Board of Canada recommends that:

21. Provincial and federal governments increase their investments in affordable housing in Canada’s major cities.

22. The federal and provincial governments implement the recommendations of the Task Force to Modernize Income Security for Working-Age Adults (MISWAA) to improve incentives for working-age adults to enter the workforce.

108 MISWAA, *Time For a Fair Deal*. This group, formed in the fall of 2004, comprises mostly Toronto-area representatives from business, government, academia, policy institutes (including The Conference Board of Canada), non-profit organizations and community groups. Although its analyses and recommendations are from an Ontario-centred point of view, it is explicitly intended to be useful for other provinces as well.
109 Ibid., p. 24. See also, Volume I, Mission Possible: Stellar Canadian Performance in the Global Economy, for a more in-depth discussion of the welfare trap.
HIGHLIGHTS

• Britain is in the vanguard of countries worldwide with a coherent and comprehensive urban strategy. Britain has produced significant improvements in cities (such as Leeds, Manchester and Glasgow) once dismissed as relics of the Industrial Age. The U.K. experience offers lessons for Canada.

• Urban governance in U.K. cities increasingly relies on partnerships between elected officials and representatives of all sectors of society. Partnerships among elected officials from different local authorities and from within central government are also on the rise as local governments attempt to meet the challenges of regional development.

• Just as the U.K. has acknowledged London’s pre-eminence, the federal and provincial governments need to acknowledge Toronto, Vancouver and Montréal as Canada’s pre-eminent cities.

• A national policy focus on major cities is needed to:
  – develop an urban agenda for sustainable cities within a prosperous Canada and allocate investments accordingly;
  – ensure better collaboration within and among all governments; and
  – generate better data on city performance to inform urban public policy.
Canadian urban experts with extensive experience in both Canada and the United Kingdom find much to emulate in Britain’s approaches to city building and regeneration. The level and quality of urban regeneration now underway in the U.K.’s core cities, and the optimism and confidence that accompany this regeneration, attest to the validity of emergent theories on competitive city-regions. A closer examination of governance issues in Manchester, Leeds, Glasgow and London reveals a striking similarity in visions and challenges, despite these cities’ different needs and diverse populations. Moreover, these cities are addressing fundamental themes relevant to our own country’s city-regions: money—to fund the necessary infrastructure; power—to enable these city-regions to compete with their European counterparts; tension—between the cities and other local councils within the city-region; and inclusion—of disadvantaged neighbourhoods in development plans for future prosperity.

This chapter examines how some major cities in the U.K. have recently been tackling their own governance challenges and pulls out lessons relevant to building a Canadian agenda for cities. One reason for the U.K. focus is that Britain is in the vanguard of countries worldwide with a coherent and comprehensive urban strategy from the highest levels of its national government on down. Second, Britain has produced significant improvements in cities (such as Leeds, Manchester and Glasgow) once dismissed as relics of the Industrial Age. And third, many city governments in the U.K. use creative partnerships with civic and business leaders to achieve economic and social success. We believe that Canadian policy-makers should be taking a serious look at how city governments, the national government and civic leaders in the U.K. work together to help British cities reach their potential.

Urbanization and Governance in the United Kingdom

The U.K. is a highly urbanized nation, with 60 million people living in a country roughly one-quarter the size of British Columbia. Sixty U.K. cities have populations of more than 125,000. The Greater London area has a population of 7.4 million people and has no peer in the country or, for that matter, in Europe. Eight other English cities—Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield—serve as regional centres and have come to be known as “core cities.” In Scotland, Edinburgh and Glasgow are the two largest and most dynamic urban centres.

To a large degree, cities in Britain were shaped by the Industrial Revolution. This observation is particularly true in the north, where cities such as Manchester, Newcastle, Leeds and Glasgow grew by leaps and bounds in the first half of the 20th century on the strength of robust trade in textiles, shipbuilding and steel. Then, in

1 “Metropolitan” London is variously described as comprising anywhere from 12.5 to 18 million people.
the latter part of the 20th century, economic transformation created a spiral of decay and decline—people moved out and cities deteriorated. Of all the northern cities, Leeds survived with the fewest bruises, largely due to its relatively diverse economic base. In the south, London continued to grow.

Twenty-first-century cities in Britain’s north continue to face the challenge of stagnant—or worse, negative—population growth. However, significant investments by the British government and the European Union (EU) are beginning to pay off. Recent statistics show an upturn in population growth, and the economic figures are encouraging. (See Table 1.)

All English cities operate within a highly centralized government system, where 96 per cent of taxes collected go to Her Majesty’s Treasury. All cities in the U.K.—whether in Scotland, England, Wales or Northern Ireland—are governed by municipal governments with very limited powers. Local councils comprise politicians elected on party platforms, affiliated with the major national parties. Apart from Greater London, the population at large does not directly elect mayors; rather, fellow councillors who belong to the majority party elect heads of council.

By the late 1980s, local governments in the U.K. had been decimated by the Thatcher government. They are only now slowly climbing back to achieve some respect and recognition. (See box “What Did the Thatcher Government Do?”) But in comparison with Canadian cities, U.K. cities are still ruled paternalistically: their performance is measured annually by the national Audit Commission and the results are published in newspapers throughout the country. Local authorities that perform well are eligible for additional “freedoms and flexibilities”; those that “fail” are subject to review or direct intervention by the national government. Performance targets are set for most local services, such as crime prevention, housing, environmental services and public health. As with all measurement systems, scores are linked to the values embedded in the indicators, which in this case are set by the national government. Most municipalities can cite instances where national targets conflict with local priorities. The local health objectives set by Leeds, for example, focus on prevention, whereas national objectives focus on numbers cured.
POLICIES FOR BRITISH CITIES

It is not surprising that in a highly centralized country such as the U.K., a policy for cities has existed in some form since the late 1960s—much longer than in most other countries. Policies implemented during the Thatcher years had a crushing effect on local governance, consistent with the government’s overall philosophy of reducing the role of the public sector. This era saw new policies promoting urban regeneration and encouraging private sector delivery of urban services.

In the post-Thatcher era, the national government has introduced no fewer than 17 major initiatives in urban policy, not including transport programs. They are designed to:

- improve governance (through greater collaboration among departments and between levels of government, better service delivery and increased citizen participation);
- foster social cohesion;
- promote sustainability and reduce sprawl;
- support cities as economic drivers;

| Table 1 |
| Changing Fortunes for Northern U.K. Cities |
| Manchester | Leeds | London |
| City population, 2004 | 437,000 | 719,600 | 7,429,200 |
| City population, 2001 | 418,600 | 715,600 | 7,322,400 |
| City population change 2001–04 | +4.3% | +0.5% | +1.5% |
| City population change 1991–2001 | ~3.3% | +1.3% | +7.2% |
| Metropolitan area population,* 2001 | 2,500,000 | 2,700,000 | 7,429,200 |
| City's share of metro population | 17.0% | 26.5% | 100.0% |
| Number of local authorities in metro area | 10 | 11 | 33 |
| Employment, 2001 | 300,000 | 380,000 | 4,520,000 |
| Employment growth 1995–2001 | 12.5% | 6.5% | 16.8% |

*“Manchester” refers to Greater Manchester (A Strategy for Greater Manchester); “Leeds” refers to the Leeds City Region (Leeds Economy Handbook). Data for London are for the Greater London Authority; however, “metropolitan” London is variously described as comprising anywhere from 12.5 to 18 million people.

Sources: National Statistics (U.K.); Office of the Deputy Prime Minister, Competitive European Cities: Where Do the Core Cities Stand?

What Did the Thatcher Government Do?

“A substantial tier of local democracy, with locally elected councils, was in place through the mid-1970s. Then soaring inflation hit, coupled with a leftward lurch of some high-profile city councils. It was also an era associated with the worst excesses of urban renewal and high rise housing. Financial crises hit in the mid-70s prompting the government to begin an era of savage cuts in local spending. The 1980s were a decade of ceaseless war between the centre and local government—a war which the centre always won. At the end of Margaret Thatcher’s term local spending as a percentage of public spending was smaller than it was at the start. In 1989, she decided to abolish local rates (property taxes) and introduced the West’s only poll tax. What was left of devolved fiscal discretion in Britain fell with her.

“By the time of the poll tax’s replacement by a banded property tax in 1993, the proportion of local spending covered by local revenue had shrunk from 55 per cent in the mid-80s to 20 per cent, of which only a tiny fraction was within the discretion of local councils.

“Local government in Britain over this period was treated as if it were part of a colonial empire. Ministers knew they could not administer it directly and so appointed people to run it on whom they could rely, leading to the rise of the “quangocracy” or new magistracy. At the same time, metropolitan county councils were abolished and replaced by numerous smaller city and suburban authorities—except for London. No local government was set up to replace the County Council, making Britain’s capital the only metropolis anywhere with no elected city-wide government. Its rulers were ministers, non-profit organisations, joint boards and the London Residuary Body. Cities and towns elsewhere were hardly better treated. Capped and cramped, civic government was stripped of pride and purpose.”

Source: Simon Jenkins, Big Bang Localism, pp. 38–39.

2 ODPM, State of the English Cities.
• create affordable housing in rapidly growing markets; and
• regenerate neighbourhoods.

These policies provide guidelines for investment, enabling the government to direct funds strategically. Private–public partnerships continue to be supported as a way to leverage governments’ fiscal resources.

National British policies have contributed to an upswing in urban livability, and reductions in the gap between the richest and poorest urban neighbourhoods.

A landmark report released in March 2006, *State of the English Cities*, provides an exhaustive analysis of 56 English cities and their drive toward sustainability. It assesses the degree to which government economic, social and environmental policies help or hinder cities. The report concludes that, overall, national policies have contributed to an upswing in urban livability, an increase in private sector investment, improvements in ethnic integration, and reductions in the gap between the richest and poorest urban neighbourhoods. A related finding highlights strong local leadership as a pivotal factor in the success of many of the towns and cities.

Remarkable in its breadth and depth, the report provides a framework for stepping up government efforts to support cities. Among the many policy options, the following resonate for Canada:

• Invest more energy and resources in city-regions.
• Target particular policies to particular places, with an initial focus on the Big Nine (London plus the eight core cities).
• Provide incentives to city-regions and enable them to have greater influence over national resources spent in those regions.
• Give cities greater financial powers.
• Increase the national government’s capacity to deliver the urban agenda and ensure all departments recognize the potential contribution of cities to national ambitions.

**LOCAL GOVERNMENT FUNDING**

Local governments in the U.K. rely heavily on the central government for revenue. (See box “Be Careful What You Wish For.”) Only 25 per cent of local government revenues are raised locally; the remaining 75 per cent come from the central government. The only tax available to local authorities is the council tax, introduced in 1993 to replace the community charge (the poll tax). The council tax rate—like its North American counterpart, the property tax—is set by local governments. However, unlike property taxes, council taxes apply to residential properties only. Since 1990, business rates on commercial properties, although collected by local authorities, have been paid into a central pool and redistributed by the central government to local authorities on a per capita basis. Annual increases in the business rate are limited by statute to the inflation rate.

Local governments have restricted capacity to borrow money for major capital projects. The central government, mindful of its deficit, is increasingly reluctant to borrow funds for local infrastructure projects, and local authorities are turning to the private sector to help fund a variety of projects ranging from buses to street lighting. Despite their apparent unpopularity, such private finance initiatives have become widespread throughout the U.K. By 1999, four years after this mechanism was made available

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**Be Careful What You Wish For**

Many Canadian urban experts have applauded the strong financial support that the central government and the European Union have given to local governments in the United Kingdom. At least 15 programs support urban regeneration in Britain (compared with three in Canada). This support has come at a price, however. Few democracies are as centralized as in the U.K., and local authorities have very few levers to pull to control their spending plans. For every 1 per cent increase in spending, local authorities must increase the council tax by approximately 4 per cent.

Sources: Berridge, Why Cities Matter; ODPM, *Balance of Funding Review*.

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to local governments, 103 schemes had been approved nationwide.\footnote{Atkinson and Wilks-Hieeg, \textit{Local Government}, p. 131.} Most city officials appear skeptical about the cost-effectiveness of such agreements, accepting them only grudgingly as an instrument of last resort.

\textbf{A review of local government funding in the U.K. stressed the need for change, highlighting the benefits of a lessening dependence on central government and a greater mix of local fiscal tools.}

Concern over the lack of fiscal autonomy prompted the central government to undertake a review of local government funding—the Balance of Funding Review—which recently expanded to cover the broader roles of local government. Preliminary research for the review has stressed the need for change, highlighting the benefits of a lessening dependence on central government and a greater mix of local fiscal tools. Furthermore, re-localizing business rates would give councils greater incentive to promote economic development and improve links with business.

\textbf{A CLOSER LOOK AT BRITISH CITIES}

Against the backdrop of limited revenue-raising capacity and lessening dependence on central government, it is somewhat surprising to find visionary civic leaders with the drive to propel their cities forward, making them globally competitive in the new world economy. Yet creative partnerships linking businesses, social activists, politicians and bureaucrats are flourishing in many British cities. It has been suggested that these alliances have been born out of necessity—with a diminished local authority, other structures are needed to get things done.

\textbf{LONDON: FIRST AMONG EQUALS}

Where Toronto may be viewed as a dominant city in Canada, London is the predominant city in the U.K. Greater London, with a population of 7.5 million, accounts for 15 per cent of the total population of England and is nearly double the combined populations of the eight regional cities (Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield). London contributes substantially to the U.K. economy, with some economists estimating that its net contribution to the central government is as high as £20 billion (CDN $43.3 billion).\footnote{Prime Minister’s Strategy Unit, \textit{London Project Report}, p. 11.} For better or worse, London is under constant pressure to live up to its reputation as one of only three “world” cities (along with Tokyo and New York).

\begin{quote}
London contributes substantially to the U.K. economy, with some economists estimating that its net contribution to the central government is as high as £20 billion (CDN $43.3 billion).
\end{quote}

In 1999, the central government created the Greater London Authority (GLA), establishing a two-tier metropolitan system created from 32 boroughs and the City of London. Overall, the GLA (the upper tier) has responsibilities for strategic region-wide issues, such as transport, planning, police and economic development. Meanwhile, the boroughs and the city provide local services, such as planning, garbage collection, libraries and local road maintenance. Disputes between the GLA and the boroughs are not uncommon. As a result, a partnership model has emerged to encourage better coordination on development affecting central London. The Central London Partnership (CLP) includes the eight innermost boroughs of London. A non-statutory body, the CLP draws its membership from business, government and non-government sectors. Its aim is to make London a better place to live, work, invest and visit. Projects range from neighbourhood-specific initiatives to strategic planning and visioning. In practice, the CLP spends much of its time mediating disputes on boundary issues and nurturing new partnerships among the disparate interest groups.

Recognizing the unique needs and contributions of London, the central government created the position of Mayor for the GLA, making it the only local authority in Britain with a directly elected mayor. In unveiling the new structure, the government promised “a directly elected executive Mayor with the power to make a real differ-
ence to London on issues that matter to Londoners.”
The announcement carried with it the promise of a strong mayor, evoking images of American civic leaders such as Rudolph Giuliani and Richard M. Daley. The first elected Mayor of London came to power in 2000 and secured a second four-year term in May 2004.

Recognizing the unique needs and contributions of London, the central government created the position of Mayor for the GLA, making it the only local authority in Britain with a directly elected mayor.

The Mayor of London determines policy, sets the GLA budget and makes appointments to four powerful boards charged with overseeing transport, economic development, and police and fire services. The Assembly of 25 elected councillors has the authority to scrutinize the activities of the Mayor but, aside from approving the Mayor’s budget, has few real powers to govern. Even then, the Assembly needs a two-thirds majority of councillors to overturn the Mayor’s proposed budget (of approximately £9 billion).

The Mayor of London is often viewed as a strong position within a weak system of government. The Mayor has few real resources at his or her disposal and relies heavily on the central government. Nevertheless, the incumbent Mayor, Ken Livingstone, combines clarity of vision with a flair for the bold stroke. Notably, he introduced the unpopular congestion charge in central London in an effort to reduce traffic, to improve the city environment and to create a revenue source to fund transport improvements.

In response to the Mayor’s request for more powers, a review of GLA governance—the Commission on London Governance—is underway. In releasing proposals for change in November 2005, the central government acknowledged the importance of good governance for London, while reaffirming that city’s unique place in the constellation of cities in the U.K.:

It is crucial we have in place the right governance arrangements to meet the capital’s strategic challenges over the longer term. Additional powers and responsibilities for the GLA in key strategic services would help meet those challenges and underpin the Mayor’s strategic leadership of London.

While most experts agree that increased authorities will be granted, no radical changes are expected. The review may, for example, result in a realignment of responsibilities between the boroughs and the GLA in areas such as waste management and planning. Similarly, the national government may agree to devolve more power from the centre to the GLA in matters such as the development of strategic housing policies. However, the review does not deal with the key issue of local government funding and taxing powers. This is the subject of the Lyons Inquiry, a nationwide review due to be completed in 2007.

The English Core Cities Group works in partnership with the central government and other stakeholders to promote and strengthen their city-regions as drivers of regional and national economic growth.

REGIONAL CITIES
In 1995, the city councils of eight major English regional cities began working together to create a vision for the distinctive role of big cities in national and regional life in the new century. These cities—Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield—subsequently agreed to formalize their association as the English Core Cities Group. Ranging in size from 400,000 to nearly 1 million people, these core cities combined are home to 4 million Britons.

Motivated by the need to compete internationally, the English Core Cities Group works in partnership with the central government and other stakeholders to promote and strengthen their city-regions as drivers of regional and national economic growth. Working

6 Sweeting et al., “Leadership.”

groups have been set up to share information and to oversee research on a number of issues, including cultural policies, transportation and economic growth. A landmark report, *Competitive European Cities: Where Do the Core Cities Stand?*, benchmarked the core cities’ competitiveness against their European counterparts.

**Like other northern cities in the U.K., Manchester has had to reinvent itself after the collapse of traditional manufacturing industries.**

Two of the core cities—Manchester and Leeds—attract particular attention because of their history of good governance. Both of these northern cities demonstrate a common interest in transforming themselves into regional centres with thriving 21st-century, knowledge-based economies. Each city relies heavily on partnerships to create a community vision and to drive forward flagship projects and programs.

Manchester, with a population of 437,000, is one of the most successful core cities, although not the largest. After a period of decline in the 1990s, Manchester’s population has started to climb back up. Even during that decade, Manchester saw a fourfold increase in the number of city-centre residents, facilitated by warehouse conversions and new-build programs. Like other northern cities in the U.K., Manchester has had to reinvent itself after the collapse of traditional manufacturing industries. A 1998 study highlighted Manchester’s importance as a regional centre for knowledge-intensive industries: 31 per cent of employment in the Greater Manchester Area was in these industries, compared with 21 per cent in the rest of the northwest and 26 per cent in the country overall.

Manchester is consistently heralded for outstanding leadership, both in its political and its executive branches. National and local decision-makers stress the ability of Manchester’s leaders to collaborate, build trust, demonstrate confidence and manage partnerships. The current head of council has been a local leader for more than 20 years and has brought stability and vision to governance processes. Similarly, the City of Manchester has been lucky enough to have a talented city administrator with focus and drive, an individual who calls himself a “municipal entrepreneur.”

In Manchester, the head of council and the chief executive leverage urban regeneration funds from the U.K. and structural funds from the EU to create partnerships on a project-by-project basis. (See box “Regeneration in Manchester.”) Elected councillors and other civic leaders share governance of each project, generally by establishing urban regeneration companies. It has been argued that stable leadership in Manchester enabled the city to exercise a long-term view—to generate and pursue “the big idea.”

**The City of Manchester has been lucky enough to have a talented city administrator with focus and drive, an individual who calls himself a “municipal entrepreneur.”**

On the other hand, the City of Manchester accounts for less than 20 per cent of the metropolitan area population. It is typically identified in the U.K. as a city that is grossly under-bounded. Inter-municipal cooperation on strategic regional issues, such as economic development and transportation, is carried out through the Greater Manchester Forum. Although formally structured, the Forum has no mandated authority and operates through voluntary cooperation. Meetings among city leaders are infrequent but cordial.

A more successful region-wide venture is the Manchester Knowledge Capital project, involving all 10 local authorities in the Greater Manchester Area, the regional health authority, four universities, key public agencies and local businesses. Its goal is to promote sustainable growth with a focus on the knowledge economy. Related initiatives concentrate on tackling deprivation in inner-city neighbourhoods through support for local enterprise and on working with large businesses to promote green energy sources.

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8 ODPM, *Competitive European Cities*.

9 Manchester City Council and the Knowledge Capital Partnership, *Manchester: Knowledge Capital*. 
Leeds, with more than 719,600 residents, is the second-largest city in the U.K. and is the regional city for five counties in West Yorkshire. Like Manchester, it has undergone a radical transformation from heavy industrialization to a more modern knowledge-based economy. Unlike Manchester, however, Leeds has always benefited from a relatively diverse economy, which safeguarded it from a precipitous decline after the collapse of traditional manufacturing industries. Recently, the strongest growth has taken place in the financial and business services sector, which in 2005 accounted for nearly 25 per cent of all employment. The city is expected to generate 45 per cent of the region’s employment growth during the next decade.10

Leeds offers a particularly good example of a regionally important city in which governance is shared by leaders in government, business, non-governmental organizations (NGOs) and the community. In contrast to Manchester’s many joint venture companies, Leeds has set up one key organization—the Leeds Initiative—to oversee partnership

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initiatives. (See box “Leeds Partnerships in Action.”)
The Leeds Initiative is a 15-year-old coalition that has
grown incrementally from an economic development
group to a broad partnership that now includes social,
environmental and health initiatives. Charged with a wide
range of projects—from urban regeneration to local crime
fighting—the Leeds Initiative embraces seven strategy
groups and connects to 15 regional partners. It is led by
City Council and governed by a board with more than
30 members drawn from the broad community of busi-
ness people, academics, social and health professionals,
and citizens. It serves as a good example of a pragmatic
partnership formed to get things done.

LESSONS LEARNED

In Britain, economic and political centralization is a
well-accepted fact of life, and it is prevalent to a degree
unrecognizable in Canada. Paternalistic attitudes toward
local government in the U.K. are slowly giving way to
demands for more autonomy and more powers, as shown
by the central government’s willingness to review local
government funding and the powers of the GLA. In
Canada, such paternalistic attitudes are melting away
more convincingly, with provincial governments—led
by British Columbia and Ontario—passing legislation
to allow greater local autonomy.

However, evidence from the U.K. about the impact of
strong local leadership, creative partnerships and emerging
national policies offers important lessons for Canada.
Specifically, five themes merit attention:
• Partnerships are a blessing and a curse.
• London is unique.
• A focus on second-tier (hub) cities is warranted.
• Leadership matters.
• National policies can make a difference.

PARTNERSHIPS

Civic leaders in Britain, like their Canadian counterparts,
are stepping up their campaigns for greater local auton-
omy. However, decades of diminished authority have
led municipal leaders to develop compensatory processes
to carry out local programs. Notably, urban governance
in cities across the U.K. is marked by an increasing

reliance on partnerships between elected officials and
representatives of all sectors of society. Partnerships
among elected officials from different local authorities
and from within central government are also on the rise
as local governments attempt to meet the challenges of
regional development. In some instances, urban partner-
ships lead to project-specific companies with the author-
ity to carry out regeneration schemes and the flexibility
to execute projects more quickly than governments can.

Leeds Partnerships in Action

The Leeds Initiative was established in 1990 and has
grown to become the city’s engine for strategic plan-
ning and coordinated action. It developed the city’s
second strategic planning document, Vision for Leeds:
2004–2020, which lays out goals and directions in eight
areas of public life: culture, enterprise and the economy,
environment, harmonious communities, health and well-
being, learning, transport and thriving places. Stressing
the need for continued partnerships, the Leeds Initiative
works with other regional agencies and private busi-
nesses to ensure success.

One such regional partner is Renaissance Leeds
Partnership, an unincorporated body whose members
come from City Council, English Partnerships, Yorkshire
Forward and the Leeds Initiative. The Renaissance Leeds
Partnership is concerned with the physical regeneration
of Leeds and plays an important role in capacity building,
delivery (specifically, removing obstacles to delivery) and
prioritization of projects.

The formal aim of this partnership is to make sure that the
city has the infrastructure and urban design framework in
place to sustain projected levels of economic development
and growth. It has a vital role to play in achieving the goals
of the Vision for Leeds. The partnership works to ensure
a coordinated approach to public sector investment in the
city’s infrastructure. A yearly business plan sets the agenda,
laying out priority projects such as: facilitating regeneration
in east and south Leeds; lobbying government to fund the
Supertram project; linking Health Trust goals for hospitals
with broader regeneration activities; advising neighbour-
hood renewal boards on land assembly options and infra-
structure requirements; and facilitating waterfront renewal.

Sources: Renaissance Leeds Partnership, Renaissance Leeds
Business Plan; Renaissance Leeds Partnership, Vision for Leeds:
A striking feature of many urban partnerships is their inclusiveness, marked by the diversity of their boards and the breadth of their outreach. The involvement of citizens and businesses in project development or community visioning is time-consuming. Elected officials and city managers invest tremendous energy in developing and nurturing partnerships that may not show any return on investment for years to come. However, when these partnerships are managed successfully, they lead to widespread support and community “ownership.”

Such partnerships have spawned a network of quasi-governmental bodies that support—and, in some cases, drive—the business of city building. Byzantine organizational relationships can often develop, with a concomitant shift of power from elected officials to special-purpose organizations. Many urban experts question the growing dependence on these quasi-governmental bodies, raising alarms about accountability. Estimates indicate that the non-elected local government “sector” comprises some 4,800 bodies with a budget of £37 billion (CDN$80.1 billion). This is equivalent to almost two-thirds of the money allocated by the central government to local governments.11

Private finance initiatives are a special type of partnership often used as a mechanism of last resort. In the absence of capital funding for hard and soft infrastructure, local authorities have turned to the private sector for money. Typically, a private company builds and maintains the project—such as a subway or street lighting—and charges the local authority on the basis of an agreed-upon interest rate. Concerns regarding this type of arrangement have arisen over issues of accountability, safety and performance.

The lesson for Canada is: Governments need to tread carefully when establishing contractual partnerships with businesses and non-governmental organizations. Partnerships are most likely to succeed only after significant planning has ensured a mutual understanding of the objectives and the outcomes. In the U.K., partnerships in local governance have been successful but time-consuming; partnerships in finance initiatives have ranged from satisfactory to disastrous.

There is widespread acknowledgement that London is “first among equals” in the constellation of British cities, given its huge contribution to the national economy.

LONDON IS UNIQUE
In Britain, London is predominant. Eight core cities are regionally significant, along with two regionally important Scottish cities, Edinburgh and Glasgow. Competition for business, for talent and for status exists among British cities as part of an unspoken drive to become the country’s number-two powerhouse. There is widespread acknowledgement that London is “first among equals” in the constellation of British cities, given its huge contribution to the national economy. Of total employment in the U.K., 15 per cent is attributed to London, and the city’s employment rate is expected to grow twice as fast as that for the U.K. in the next three years. While acknowledging London’s pre-eminence, other civic leaders are nonetheless envious of its capacity to pull in new business and new talent. Concern is mounting that government funding for local infrastructure—always scarce—will be diverted to areas supporting the London Olympics.

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Nonetheless, the national government continues to understand that the needs of its largest city demand tailormade solutions. The one-size-fits-all approach to policy-making and program funding was discarded with the establishment of the GLA in 1999. No other city has an elected mayor or a head of council with the powers accorded to the Mayor of London. The current review of London’s powers reinforces the city’s distinct status in Britain.

The lesson for Canada is: The federal and provincial governments need to acknowledge Toronto, Vancouver and Montréal as Canada’s pre-eminent cities. In their unique role as Canada’s powerhouses and emblems of multiculturalism, they are not simply three census metropolitan areas among many, and their importance should not be downplayed. They deserve recognition and special attention. The federal government should explore ways to remove some of the impediments to achieving a competitive edge for these gateway cities. That could mean, for example, targeted investments for infrastructure or special tri-level agreements.

Toronto, Vancouver and Montréal have a unique role as Canada’s powerhouses and emblems of multiculturalism. They deserve recognition and special attention.

A FOCUS ON SECOND-TIER CITIES IS WARRANTED

In the U.K., the flip side of the “London is unique” factor is that second-tier cities are important to their regions and can prosper with the right mix of economic and social policy incentives. Years of strong regeneration policies supported by significant central government funds have kick-started economies in cities such as Leeds, Glasgow and Manchester. More recently, the national government has supported regional cities in a focused way through the Core Cities initiative. Significantly, government support—whether economically or socially motivated—relies on local knowledge and leadership to ensure appropriate solutions. Core cities are recognized as vital to their regions and respected for their unique contributions.

The lesson for Canada is: Focusing on the right mix of policies to strengthen what the British call “second tier” cities is essential for regional economies. Federal and provincial governments must ensure appropriate policies and funds are directed toward second-tier (or hub) cities with a regional reach, such as Calgary, Edmonton, Winnipeg, Regina, Saskatoon and Halifax. The era of one-size-fits-all programs must end. This lesson is supported by the Conference Board’s new research, which concludes that concentrating investment strategically in hub cities would strengthen other communities within their respective regions and provinces, and benefit Canada as a whole.13 Chapter 3 elaborates on the topic of convergence of urban and provincial economies.

Focusing on the right mix of policies to strengthen what the British call “second tier” cities is essential for regional economies. The era of one-size-fits-all programs must end.

STRONG LOCAL LEADERSHIP IS CRUCIAL

Whether leadership emerges first from within the business or community sector, political leadership from the head of council is crucial to ensuring that visions translate to reality. Stability in leadership is also paramount. In both Leeds and Manchester, for example, emphasis was placed on the continuity of political leadership, whether embodied in the same person (as in Manchester) or in serial leaders with similar visions (as in Leeds). Manchester stands out, however, in its ability to forge an urban renaissance and engage a broad group of citizens.

12 A hub city is a province or region’s economically leading census metropolitan area.

13 Lefebvre and Brender, Canada’s Hub Cities.
The following list of fundamental leadership attributes, although drawn from a series of comments on Manchester’s shining success,\(^{14}\) has universal appeal:

- willingness to take brave long-term decisions;
- willingness to enter into partnerships;
- ambition;
- desire to do quality work;
- understanding of the components of place that attract innovative investors;
- ability to be flexible with developers;
- proven track record of delivering results; and
- adequate administrative capacity.

Furthermore, it would appear that strong leadership can emerge within a weak local government structure, as in London, and within a weak local mayoral system, as in Manchester. Bold leadership—characterized by tough decision-making and a willingness to try radical solutions—is often cited as the driver for success. In London, Mayor Ken Livingstone has pursued his vision for a sustainable, prosperous and inclusive city through actions that are sometimes unpopular. Responding to the national government’s review of powers for the GLA, Mayor Livingstone is seeking to increase his powers vis-à-vis his assembly and the lower authorities.

The lesson for Canada is: Good local leadership can emerge from within a variety of governance systems. In some ways, this is the toughest lesson to learn, as it contradicts the popular notion that a strong mayoral system determines a city’s success.

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**NATIONAL POLICIES CAN MAKE A DIFFERENCE**

Recent research in the U.K. has shown how national policies can make a difference in cities. During the past seven years, the British government has unleashed a stream of initiatives to facilitate urban sustainability, affordable housing, social cohesion and better governance. While much remains to be done, most cities in the U.K. have improved their economic performance dramatically during the past decade. Moreover, the central government is increasingly engaged in fostering the competitiveness of city-regions within its broader vision of environmental and social sustainability.

**The Government of Canada is already involved in cities through myriad programs. But it falls short in two ways: setting priorities and creating links between disparate initiatives.**

A highly centralized national government need not be the precondition for involvement in cities. Governments—whether centralized as in the U.K. or federated as in Canada—will continue to rely on cities and city-regions to drive the economy and generate innovation. In the U.K., sustained high-level political backing has propelled the urban agenda forward. The Government of Canada is already involved in cities through myriad programs, including some related to immigrant settlement, skills development, homelessness, infrastructure and security. But it falls short in two ways: setting priorities and creating links between disparate initiatives. Better collaboration among government departments would improve the situation, as would a mechanism for better collaboration with local governments.

To be effective in cities, national policies must reflect the particular opportunities of particular places. The U.K. has long acknowledged the uniqueness of London,
but more recently it has identified eight core cities with the potential to ignite larger regions. Success in Leeds and Manchester means more jobs and more wealth for a wide area of northern England.

A national policy focus on major cities is needed to develop an urban agenda for sustainable cities within a prosperous Canada and allocate investments accordingly.

The British government’s commitment to monitoring cities’ success offers another example of an important national initiative. Independently produced by urban experts across England, State of the English Cities is a valuable compendium of data and analysis for policy-makers at all levels of government. Quantitative analysis coming from 64 indicators of social, economic and environmental health provides the basis for qualitative analysis of the effect of national policies in England’s largest cities.

The lesson for Canada is: A national policy focus on major cities is needed to:
- develop an urban agenda for sustainable cities within a prosperous Canada and allocate investments accordingly;
- ensure better collaboration within and among all governments; and
- generate better data on city performance to inform urban public policy. 🌿
HIGHLIGHTS

• Three enabling conditions create the environment required to achieve the changes that will propel Canada’s major cities to sustainable prosperity:
  - effective governance capacity;
  - sufficient fiscal resources; and
  - strong political leadership.

• Effective governance capacity is an imperative. While there appears to be no ideal Canadian model for metropolitan governance, the governance principles of coordination, efficiency, accountability and responsiveness must be applied. The complex issues facing Canada’s major cities demand multi-jurisdictional responses. Major cities must be included directly in policy-making on matters that affect them. Multi-stakeholder engagement is necessary to create support for change.

• Major cities must also have sufficient fiscal resources to address their needs and maximize their potential. Current fiscal arrangements hamstring cities’ capacity to act. In the face of rapid growth, increasing responsibilities and a growing fiscal imbalance, municipalities need access to growth taxes and must make better use of available resources.

• Leadership is the transformative ingredient. Everyone must expect more of our municipal governments and their leaders.
CHAPTER 6

Enabling Conditions

A solid foundation for successful cities must start with the four cornerstones laid out in Chapter 4. But how do we build on these pillars to ensure that Canada’s major cities achieve their potential to be great places to live and do business? The following section identifies three enabling conditions that, together, create the environment needed to propel Canada’s major cities to sustainable prosperity:

- effective governance capacity;
- sufficient fiscal resources; and
- strong political leadership.

**EFFECTIVE GOVERNANCE CAPACITY**

Urban governance is about more than government. It is about the how, why and who of decision-making, including the formal and informal roles of local authorities, stakeholders and citizens. What is it that enables an urban government to manage complex tasks, set priorities and make decisions? How, in a complex environment, with diverse actors, can a sense of direction be established?

In simple terms, the United Nations Educational, Scientific and Cultural Organization (UNESCO) defines urban governance as the processes that steer and take into account the various links among stakeholders, local authorities and citizens.¹ This involves bottom-up and top-down strategies to favour active participation of communities concerned, negotiation among actors, transparent decision-making mechanisms, and innovation in strategies of urban management policies.² Other experts specify accountability as a key attribute of good urban governance and, further, identify the importance of government’s responsiveness to and accommodation of citizen participation. As one British researcher puts it: “To get to grips with governance, we need to look not just at the town hall, but also at how public, private and third-sector actors shape local economies and societies.”³

**WHY GOVERNANCE MATTERS**

In countries around the world, political and economic leaders are heralding the importance of cities and city-regions. High-performing cities are recognized as underpinning high-performing countries. Much has been written recently linking the economic productivity of cities to strong national economies. Emerging research also shows that local governance matters.

The quality and powers of local government can make a big difference in how cities perform. Local governments are the key players with the capacity to deal with other levels of government and to leverage a wide network of business and community leaders. These governing bodies need adequate resources to steer urban policy and deliver effective local services. A global study undertaken by the World Bank found that autonomy and ability to deliver services and key infrastructure are critically important.

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¹ Kaufmann et al., *Governance and the City*, p. 7.
² Ibid., p. 7.
Further evidence suggests that local governments require more freedom to deliver economic growth. In a study commissioned by the British government, researchers concluded that greater city-level autonomy, coupled with control over revenue-raising and expenditure, are linked to stronger performance.\textsuperscript{5}

The Organisation for Economic Co-operation and Development (OECD) has studied urban governance with a particular interest in understanding metropolitan regions. In \textit{Cities for Citizens}, the OECD observes the following:

Although globalisation and technological change have the potential to accelerate material well-being, they can also exacerbate socio-economic disparities between regions and increase the risk of social exclusion within them. This poses a major threat to social cohesion in metropolitan regions. . . . Ability to meet this (and related) challenges will depend upon substantially enhancing the governance capacity of metropolitan authorities.\textsuperscript{6}

As cities strive to improve their economic competitiveness, citizens are increasingly involved in shaping local decisions that affect their quality of life. Local governments must be not only creative, but responsive as well.

**BETTER GOVERNANCE**

Better urban governance is a necessary condition for more productive and prosperous cities. In a recent study, TD Economics observed that one of the major differentiating factors between the Calgary and Edmonton economic regions is the system of governance. Calgary has adopted the one-tier model; the City of Edmonton is made up of 22 municipalities. The authors conclude, “While it is difficult to argue that the fragmented governance structure in the Edmonton Region and the resulting difficulties in seeing eye to eye on regional issues in the past has been the number one factor behind the economic underperformance of Edmonton vis-à-vis Calgary during recent decades, it has likely been a negative influence.”\textsuperscript{7} The difficulty of coordinating local and regional—and even provincial and federal—activities and policies is one of the most critical challenges facing all our major cities.

The case for good urban governance is strengthened by research in the United Kingdom, which highlighted the City of Manchester’s strong capacity to lead and manage change as a key factor in its successful regeneration. (See box “Two Cheers for Effective Governance.”) The study compared Liverpool and Manchester, two post-industrial cities only 30 miles apart in England’s northern heartland. The researchers concluded that urban governance makes a difference in relatively indirect but cumulatively significant ways.

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\textbf{Given the diversity found among cities in Canada, it is no wonder that experts are unable to define a single ideal model for urban governance.}

Improving governance is not just about reforming institutions; it is also about changing the culture of governance. Inclusive and participatory forms of governance are proving to be more successful than top-down systems. The actors in today’s urban governance processes include a diverse population of residents, business people, associations and all levels of government.

Given the diversity found among cities in Canada, it is no wonder that experts are unable to define a single ideal model for urban governance. A cookie-cutter approach is just as inappropriate for municipal governance as it is for most place-based public policy. In a recent review of the various models of governance structure found in metropolitan areas around the world, Richard Bird and Enid Slack conclude: “Neither theory nor practice tells us clearly which model of governance is best for large metropolitan areas.”\textsuperscript{8} With four

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\textsuperscript{4} Ibid., p. 7. Marshall finds that governance is significantly associated with performance, both for local and global cities. Well-governed cities, whether local or global, perform better than poorly governed ones across all quality and access-to-service variables.

\textsuperscript{5} ODPM, \textit{Competitive European Cities}.

\textsuperscript{6} OECD, \textit{Cities for Citizens}, pp. 11–12.

\textsuperscript{7} TD Economics, \textit{The Calgary-Edmonton Corridor}, p. 36.

\textsuperscript{8} Bird and Slack, “An Approach to Metropolitan Governance,” p. 11; Bird and Slack also note that other reviews of the issue of the best model for large metropolitan areas have concluded that no model fits all cases or stands out clearly above the rest.
basic models of metropolitan governance to choose from—one-tier, two-tier, voluntary cooperation and special purpose districts—the best choice is most often determined by the unique history, character, needs and potential of an individual city.

That said, there is agreement among experts that city-regions require governance structures big enough to address region-wide problems (from fiscal disparities to spillovers in service provision), to coordinate transportation, to deal with environmental issues and to promote economic competitiveness and social inclusion. They must be small enough, or have enough structural capacity, to permit participation and responsiveness. Whatever governance model is chosen, certain governance principles apply:

1. **Coordination**: the structure should be big enough to encompass the interests of the city-region, to facilitate coordination of key services and to allow costs and benefits to be shared fairly across the city-region.

2. **Efficiency**: the structure should allow services to be delivered cost-effectively, delivering maximum value with available resources.

3. **Accountability**: the structure should be understandable and transparent enough to promote public access and participation, to facilitate multi-stakeholder involvement and to ensure accountability.

** responsiveness**: the structure should be responsive to the needs and preferences of local communities. This principle becomes increasingly important as cities grow bigger and more complex.

**Scale Matters**

Governance systems in major cities are required to achieve many, often competing, objectives. The provision of basic services—clean water, public transportation, garbage removal—is only the starting point for local responsibilities. Add affordable housing, economic development and community health, to name but a few, and the complexity of local decision-making becomes obvious. Neil Bradford calls these new urban policy issues “wicked problems.” They are resistant to simple solutions, and their resolution requires the combined actions of multiple actors. Moreover, they are problems that spill over into neighbouring jurisdictions. Administrative city boundaries do little to contain problems related to urban sprawl, and they are similarly ill-suited to define economic development programs.

**City-regions require governance structures big enough to address region-wide problems, to coordinate transportation, to deal with environmental issues and to promote economic competitiveness and social inclusion.**

One of the U.K.’s leading urban thinkers has commented that the systems of urban government delivering public services and economic and quality-of-life objectives are only accidentally designed for the maximization of any particular policy objective. The scale of urban governments can make a difference in the effectiveness and efficiency of service delivery. Generally, the appropriate scale depends on the type of service provided. For example, transportation planning is most effectively carried out at a region-wide scale, whereas neighbourhood parks and playgrounds are best managed at a more local level. Services that have an income-redistributive component, such as social housing, are more equitably supported at a region-wide scale, where revenues are drawn from a wider property tax base. But it is equally

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9 Bradford, *Place-Based Public Policy*, p. 4.

10 Travers, “Governance for Metropolitan Sustainability.”
important to bear in mind that there is more to good urban governance than economic efficiency; democratic accountability must also figure prominently.

Well-designed two-tier metropolitan systems can capture the benefits of both “local” and “regional” models. Popular in Ontario in the 1980s and early 1990s, metropolitan systems that were centred on the largest cities fell victim to the politics of amalgamation. Toronto, frequently cited in the past as the jewel in the crown of metropolitan federations worldwide, was created in 1998 through the amalgamation of six municipalities. More than eight years later, Toronto continues to struggle with the after-effects of amalgamation, ranging from service delivery issues to staffing problems. Vancouver and Montréal are governed along the lines of a two-tier system, but in very different ways.11

URBAN GOVERNANCE IN CANADA
Urban governance in Canada relies on a complex web of horizontal and vertical interactions. (See Table 2 for an overview of the municipal governance structures of Canada’s 10 major cities.) Governments interact with the business sector, the voluntary sector and citizens on issues that touch people in their lives now and in the future. As with most things Canadian, a strong intergovernmental dimension colours the decision-making process. Provincial governments provide municipalities with legal and revenue-raising authorities, thereby enabling (and at the same time, limiting) their capacity for real action. The role of the federal government and the nature of the relationship between the federal government and city governments are also very important. Federal government policies and actions in areas such as immigrant settlement, environmental stewardship and infrastructure affect local decision-making and shape Canada’s urban future.

Inter-municipal relationships, both formal and informal, are sometimes described as the horizontal dimension of the intergovernmental dynamic. Canadian city governments do not operate in local isolation; rather, they exist as part of major urban agglomerations. Canada’s three largest cities are perfect examples. The City of Montréal’s future is highly entangled with that of Laval and the south shore community. The suburban parts of the Greater Toronto Area (GTA) and the City of Toronto, which together form the GTA, have a symbiotic relationship.12 Similarly, the City of Vancouver and other municipalities in the B.C. Lower Mainland share broad regional concerns. Vancouver is the only urban region with institutional recognition of regional interdependencies, embodied in the Greater Vancouver Regional District (GVRD).

Jurisdiction
Traditionally, provincial governments have taken a cautious approach to delegating authority to municipalities. Municipal acts and other statutes prescribe powers of local government that, for the most part, apply to all municipalities regardless of size. Historically, growth and structural reform in Canadian cities did not alter this arrangement, except for the cities of Vancouver, Saint John and Winnipeg, where charters confer additional powers and duties not given to other municipal governments.

Changes in the mid-1990s heralded a progressive shift toward greater municipal autonomy. In 1994, the Alberta government passed a new Municipal Government Act, which departed from the traditional approach of prescribing powers for municipal government to granting it the authority to take appropriate action in broadly defined areas of jurisdiction. Other provincial governments followed Alberta’s lead, namely British Columbia, Saskatchewan and Manitoba (with a new Winnipeg Charter Act). Ontario recently passed new legislation (December 2006) broadening, to some extent, the powers of all municipalities, but the changes do not go as far as previous legislation granting Toronto new taxation and negotiation powers.

11 The Greater Vancouver Regional District (GVRD) is a consensual arrangement that has drawn wide praise for being workable. The Communauté métropolitaine de Montréal (CCM) is a two-tier system that does not include all the municipalities in the region, as some have chosen to de-amalgamate.

12 Some would use the Toronto–Hamilton–Oshawa CMA combination as an approximation of the city-region, because most of the spillover effects from the growth of the Toronto CMAs are felt in this area.
However, observers suggest that these changes in approach have not resulted in significant flexing of jurisdictional muscle by the city governments affected.\(^{13}\) This may be because of continuing provincial restrictions or conditions on the use of broadly classified authorities.

In Toronto, growing recognition of the need for a stronger and more responsible city prompted city officials to work closely with business, labour, academic and community leaders to lobby for an overhaul of the legislative and fiscal frameworks within which Toronto and other cities were operating. The Ontario government established a joint task force to review the city’s existing legislation and to recommend changes, which led to the enactment of *The Stronger City of Toronto for a Stronger Ontario Act* on June 12, 2006. The Act represents a bold departure from traditional approaches to assigning authority to municipalities (usually limited to 10 narrowly defined spheres of jurisdiction). It grants Toronto broad and permissive governmental powers that give the City more autonomy, authority and accountability. The Act also expands the City’s menu of financial management tools and revenue sources—enabling the City to levy new taxes (e.g., on alcohol, entertainment and tobacco).

Most noteworthy is the new dimension of jurisdictional authority assigned to Toronto. The Act recognizes the City’s role in policy development,\(^{14}\) and—for the first time in Canada—enables a city to enter into agreements directly with other governments (including the Government of...

\(^{13}\) Garcea and Lesage Jr., *Municipal Reform in Canada*, p. 120.

\(^{14}\) Acknowledging the municipal role in policy development first occurred in Ontario in the *Municipal Act*, 2001. This was in line with similar changes to municipal legislative authority across the country begun in 1994 with Alberta’s *Municipal Government Act*, 1994.
It is hoped that this will move Toronto into a seat at the multi-jurisdictional policy table, setting the precedent for a city government to contribute directly to policy decisions that take into account “on the ground” municipal experience.15

City-Regions and Jurisdictional Reach

Generally, two sets of issues are affected by the jurisdictional reach of municipal governments in Canada. The first set is place-centred and is linked to the activities, issues and projects that are confined within specific geographic boundaries. (These include issues related to the settlement, integration and development of human capital.) The second set comprises issues that spill over the borders of individual municipalities, including for example, environmental concerns related to air and water quality; land use planning and transportation in growing metropolitan areas; and economic development.

The reality is that municipal governments often have little control over either place-centred or cross-jurisdictional issues.

Obviously, there is no absolute distinction between more narrowly place-centred issues and those that cross jurisdictional boundaries within an urban region. In a metropolis such as greater Vancouver, for example, immigrant settlement and cultural harmony are everyone’s business; nonetheless, from a policy and programming perspective, these issues must be tackled in specific locations such as Surrey, Richmond or Vancouver proper. In theory, one might expect a greater degree of jurisdictional control over place-centred issues and a lesser degree of control over issues that cross jurisdictional boundaries. The reality, however, is that municipal governments often have little purchase over either set of issues. Their power and reach are limited.

Traditionally, different provinces have dealt with city–regional governance in different ways: through formal regional governments (popular once in Ontario but rapidly disappearing); informal regional structures such as those in British Columbia; and through amalgamations or annexations to create one supra-bounded urban municipality (Ontario and Quebec).

In British Columbia, the GVRD was established in 1965 to address regional issues such as air quality, land use and transportation planning. The City of Vancouver—the largest single municipality in the GVRD—has collaborative and persuasive powers only with respect to other parts of B.C.’s Lower Mainland. Vancouver is a major participant in the GVRD, although its influence is hampered by the fact that it contains only about one-quarter of the total GVRD population. The rapid and significant growth of adjacent municipalities—Surrey, Richmond and Delta for example—contributes to a realpolitik of negotiation and brokerage within the GVRD.

Annexation and municipal amalgamations have created the “new” cities of Calgary, Halifax, Toronto, Ottawa and Montréal. In theory, these amalgamations should have produced cities with administrative boundaries approximating their economic and functional boundaries to facilitate comprehensive and integrated land use and infrastructure planning. The reality, however, is different.

Even in cohesive cities such as Calgary, which comprises nearly 90 per cent of the census metropolitan area (CMA), the need for inter-municipal cooperation is growing. Environmental issues spilling over municipal boundaries have prompted Calgary to join forces with municipalities beyond its borders. Stretching even further, the ballooning growth of the Calgary–Edmonton corridor has led this area to be considered as a single city-region. Joint marketing efforts between the Calgary Regional Partnerships and the Edmonton Economic Development Corporation represent a groundbreaking understanding of the interdependence of the two city-regions.

The amalgamated City of Toronto accounts for just under half of the CMA and has no regional coordination body. Inter-municipal relationships are best characterized as outright rivalry—made particularly acute since the province dismantled the short-lived Greater Toronto Services Board (GTSB) in 2002. The GTSB was responsible for coordinating transportation, infrastructure and social planning across the Greater Toronto Area, but it
soon caved under the weight of rivalries between the City of Toronto and a number of suburban mayors. A remnant of a regional identity may perhaps be found in the provincial requirement of regional support for social assistance and housing. The regional municipalities surrounding Toronto pay into a pool to contribute to these social programs, which benefit residents throughout the GTA. The argument for pooling is a principled one, rooted in the region-wide demand for the services provided in Toronto and the income-redistributive aspects associated with social housing and other social services. At least one informed observer has suggested that relations between Toronto and adjacent municipalities are worsening since the “pool” was imposed and have been exacerbated further by the City’s withdrawal from the Association of Municipalities of Ontario in pursuit of its own intergovernmental agenda and legislation.\(^16\)

Neither the amalgamation nor the regional government models are working well to develop a coherent, forward-looking approach to the future of our city-regions.

The City of Montréal now functions within a hybrid system, incorporating some of the characteristics of a large amalgamated city as well as those of a regional coordinating body. In 2000—the same year that the province legislated the Montréal amalgamation—it also established the Communauté métropolitaine de Montréal (CMM) as an upper-tier municipal authority with responsibility for broad regional issues, including planning, finance and coordination. The CMM’s territory corresponds closely to that of the CMA; its chair is the Mayor of Montréal and it has a 28-member Council drawn from more than 60 municipalities.

The City of Montréal, however, comprises only 42 per cent of the CMA population. It operates under a unified administrative structure, decentralized into 27 borough councils (nine established within the territory of the old city, 18 covering the surrounding suburban areas) with control over local zoning decisions and an extensive list of local services, including waste collection, culture, social and community development, housing, fire prevention and financial management. A paradoxical effect of amalgamation within the old city, according to urban expert Andrew Sancton, is the remarkable degree of political decentralization. “It looks now as though Montreal will actually experience a form of demerger, continued territorial decentralization, or both. Any such course of action will be unprecedented in the history of the municipal government of the world’s major cities.”\(^17\)

Regional political linkages are weak or non-existent in many major Canadian cities.

It is remarkable that, at the moment, neither the amalgamation model nor the regional government model is working well in terms of developing a coherent, forward-looking approach to the future of our city-regions. Amalgamations in Halifax and Ottawa have focused almost exclusively on the goal of realizing cost savings and on dealing with the fallout from dashed expectations in this regard. Toronto, of course, serves as another prominent example of a recently amalgamated municipality weakened because it is still under-bounded in relation to the GTA. In Toronto, the situation is particularly acute because of the absence of a formal mechanism for coordinated land use and transportation planning, despite the evident interdependence among municipalities in the GTA.\(^18\) Regional political linkages are weak or non-existent in other important cases as well—notably Calgary, Edmonton and Winnipeg. In Vancouver, the well-established GVRD has some notable accomplishments in land use and transportation planning, but concern for its future success is mounting. The extent to which it can successfully address issues more directly related to economic and social development is unknown.

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16 Although pooling is common in British Columbia, Alberta and elsewhere, the politics of GTA pooling exacerbated by amalgamation woes might have doomed its acceptance from the start. The argument for pooling in the GTA originated with the 1996 Report of the GTA Task Force, which recommended that non-residential education taxes be pooled to create a more equitable distribution of taxes among businesses in the region.


18 The March 2006 Ontario budget seems to recognize, at least in part, the seriousness of this situation in the area of transit and transport, with the announced creation of an agency to coordinate these functions within the GTA.
Government to Government

The history of Canadian governance is fraught with issues of jurisdictional entanglement, both federal–provincial and provincial–municipal. In the mid-1990s, several provincial governments launched extensive reviews to try to disentangle the complex web of services and programs shared by municipalities and the province, with little success. Ontario’s “Who does what?” exercise examined questions of who pays? who delivers? and who plans? At its conclusion, city governments in Ontario were left with an expanded array of social service responsibilities, including social housing and a higher percentage of family benefits costs. In Nova Scotia, the “service exchange” initiative led to a redistribution of responsibilities, under which the province assumed all responsibility for social services, while municipal governments took on more responsibility for transportation services.

Recent federal interest in cities is a welcome development and underscores the fact that entanglement with other levels of government may be messy, but is needed.

The complex issues facing Canada’s major cities demand multi-jurisdictional responses. The traditional vision of “layer-cake federalism”—with each level of government having clear and separate responsibilities—is an anachronism. Deliberate and constructive entanglement is a more realistic and potentially more fruitful approach, bringing together all relevant partners (governments as well as non-government organizations).

Recent federal interest in cities is a welcome development and underscores the fact that disengagement with other governments is, in fact, not desirable. Federal initiatives such as Green Funds, the National Homelessness Initiative, or the more recent sharing of gas tax revenues are examples of critical “entanglements”; they may be messy, but they are needed.

The vertical dimension of intergovernmental relations for Canadian municipal governments has some well-established institutional and political underpinnings. First, until relatively recently, municipalities have relied on working collectively to gain attention and encourage action at the provincial and federal levels. The main vehicles for collective action have been provincial associations of municipalities and the Federation of Canadian Municipalities (FCM), both of which represent municipalities of all sizes at the provincial and federal levels respectively. Second, most provinces have jealously guarded their constitutional responsibility for municipal institutions and have, with varying degrees of insistence, prohibited direct federal–municipal relations. This insistence has not always sat well with either cities or the federal government.

The last two features of the municipal–provincial–federal dynamic have a more directly political flavour. Cities occupy a particular place in the politics of each Canadian province. They have tended either to represent the political power base of the provincial government or to be outliers. The extent to which they form the base of support for a provincial government seems to have a direct influence on provincial attentiveness and responsiveness. Observers in Saskatchewan, for example, note that both Regina and Saskatoon constitute the electoral base of the current provincial government. Hence, they suggest, the government is loath to ignore the needs and interests of the local population and, by extension, their city government. Similarly, federal politicians have often taken the lead in helping to reshape cities in their home provinces—former Cabinet Minister Lloyd Axworthy, for instance, was instrumental in the first core area redevelopment agreements for the City of Winnipeg.

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Increasingly, city leaders understand the need to build strong and direct relationships with federal and provincial counterparts. A number of Canadian cities—Calgary, Edmonton, Montréal and Toronto—now have senior staff dedicated to the intergovernmental relationship. Intergovernmental experts in the City of Toronto’s City Manager’s Office were instrumental in developing and negotiating the current legislation augmenting the
City’s powers and granting the City authority to enter into agreements with the federal government. Major cities have grown less reliant on collective action or umbrella groups, such as the FCM, to engage with federal and provincial governments.

Formal engagements among municipalities, provinces and the federal government typically occur through place- or sector-based trilateral agreements. Beginning with the successive Winnipeg Core Area Agreements in the 1970s, the City of Winnipeg, the Government of Manitoba and the Government of Canada collaborated on initiatives to revitalize Winnipeg’s downtown. More recently, the 2000 Vancouver Agreement set out a tri-level effort to improve Vancouver’s Downtown Eastside through coordinated social and economic interventions. (This agreement received a United Nations Award of Excellence in Public Administration in 2005.) Such practical and innovative responses are important experiments in intergovernmental cooperation aimed at dealing with real issues within our major cities.

### Formal engagements among municipalities, provinces and the federal government typically occur through place- or sector-based trilateral agreements.

Sector-based agreements are also in ascendancy. In 2005, the federal government signed agreements with most provinces to enable the transfer of federal gas tax revenue to municipal governments for transportation infrastructure. In turn, provinces entered into agreements with provincial municipal associations or, in the case of Toronto, directly with the City. The bilateral Supporting Communities Partnership Initiative homelessness program also merits mention—both for its targeting of big cities and its community-based governance model.19 This program expires on March 31, 2007. In December 2006, the federal government announced an investment of $270 million in a Homelessness Partnering Strategy, aimed at combatting homelessness in communities across Canada. This program will take effect on April 1, 2007.

The larger question—as to how federal–provincial relations will affect the trilateral relationship—is still unanswered. Will many provinces continue to stand on constitutional ground and insist that they mediate federal–city relations? It is difficult to anticipate otherwise. Nonetheless, the increasing acceptance of federal–provincial–municipal agreements is a positive sign that all governments are willing to tackle the challenges facing Canadian cities.

#### Big cities will be following with interest the federal government’s steps to address the fiscal imbalance.

Decades of provincial–federal debate on the fiscal imbalance continue to preoccupy relations between these two levels of government. The federal government has stated its intent to address the fiscal imbalance, with a view to improving the provincial revenue picture. In light of widespread municipal revenue shortages, the big cities will be following this process with interest. Toronto, for example, will seek adjustments in social assistance and social housing funding, consistent with any improvements in Ontario’s fiscal capacity.

### Good Governance Means Knowing Your ABCs

Agencies, boards and commissions (ABCs) are set up to deliver particular local services, such as education, social housing, police and transit. In some cases, ABCs are provincially mandated (library boards, school boards, police boards). In others, local governments have created special purpose agencies to deal with a particular issue or service and to involve local citizens and corporate stakeholders. Sometimes, a municipal government opts for an ABC to carry out a local service for budgetary reasons. In all cases, municipal governments face a strategic challenge in ensuring that these autonomous or quasi-autonomous bodies are publicly accountable.

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19 The Supporting Communities Partnership Initiative was launched in 1999 in an attempt to create a more integrated and inclusive approach to homelessness in Canada. Along with providing financial support to communities, the initiative encourages them to work together with provincial, territorial and municipal governments and the private and voluntary sectors to strengthen existing capacity and develop new responses to homelessness. Golden et al., Report of the Mayor’s Homelessness Task Force.
Provincial governments have sometimes mandated ABCs to strengthen a particular function; they have created others to prevent interference by municipal politicians. Police boards are the most notable example of the latter. Over the years, local governments have struggled to get adequate political representation on police boards (whose budgets come out of the municipal tax base) on the grounds that leaving governance of police boards predominantly in the hands of unelected individuals undermines public accountability.

The existence of local ABCs provides both challenges and opportunities for building the capacity within city governments to manage strategically. In some cities, the challenge is formidable. Calgary, for instance, has 88 ABCs. Councils and senior staff try to oversee the ABC initiatives whose mandates touch on city programs. On the flip side, ABCs might offer services or specialized expertise (e.g., administrative) that might not otherwise be available. They can also provide an innovative platform for city governments to engage the community.

The existence of local ABCs provides both challenges and opportunities for building the capacity within city governments to manage strategically.

Local Governance: The Big Tent

Over the past 25 years, urban governance has undergone a radical transformation as municipal governments shifted from a “government knows best” approach to an inclusive, multi-sectoral system. Municipalities are the key players but they are increasingly welcoming opportunities to share policy-making and service delivery with business, voluntary organizations and civil society. In general, governments of Canada’s major cities are intensely engaged in urban governance, in its broadest sense. Despite differences across cities, the trend is clear.

Relationships with the business community have always been crucial for municipal governments. Whereas in the past, municipalities were more likely to react to business interests, recently they have begun to recruit business leaders as partners in prominent city projects. With the growth of the knowledge economy and its highly mobile labour force, city governments and corporate leaders face new challenges in attracting and retaining new businesses and skilled workers. Economic development partnerships have sprung up in all of Canada’s major cities to create and implement strategies to enhance local competitiveness. The more recent structures for business–municipal links, such as the Greater Halifax Partnership or The Ottawa Partnership, include major economic actors, municipal governments and often representatives of other levels of government.20

Governments of Canada’s major cities appear to be more willing to engage the business and voluntary sectors in policy-making and service delivery.

Perhaps the most inspiring example of these new partnerships is the Toronto City Summit Alliance (TCSA), which was created following a 2002 summit of Toronto business and community leaders convened to consider the city’s future. The context for the summit, and for the subsequent Alliance, was the growing sense among leaders representing all sectors in Toronto that “a once great city was on the verge of decline.”21 A coalition of more than 40 civic leaders from the private, labour and public sectors in the Toronto region produced a comprehensive Action Plan for the city the following year. Today, some 2,000 people in the Toronto region are involved with five TCSA-initiated projects: a multi-stakeholder council on immigrant integration (TRIEC);22 a plan to reform income security for the working poor (the Task Force on Modernizing Income

20 In Calgary, imagineCALGARY is a city-led, community-owned initiative to create a long-range vision for a sustainable Calgary and to set 30-year targets and strategies toward achieving the vision. The initiative involves the public, key community members, the mayor and city council. See www.imaginecalgary.ca/public/project/index.php.

21 TCSA, Enough Talk, p. 164.

22 The Toronto City Summit Alliance, along with the Maytree Foundation, established the Toronto Regional Immigrant Employment Council (TRIEC) to provide employment opportunities for new immigrants—many with professional backgrounds but unfamiliar credentials. TRIEC has inspired similar partnerships in Ottawa (a coalition of high-tech business representatives, local community agencies, the United Way, and the City) and in Halifax.
Support for Working Age Adults, or MISWAA); the Toronto Region Research Alliance; the Strong Neighbourhoods Task Force, which aims to develop a strategic plan for neighbourhood renewal; and most recently, LUMINATO, an annual festival celebrating creativity, which will premiere in June 2007. Each of these projects engages senior business leaders and has its own set of initiatives. As well, TCSA has contributed to significant changes on the governance front, notably the adoption of the new City of Toronto Act and the creation of the Greater Toronto Transportation Authority in 2006.

Until now, local governments have worked with the private sector in planning and in championing municipal priorities, but have relied very little on the private sector for alternative financing of major projects, such as infrastructure. Most public–private partnerships in Canada occur outside the municipal sector, with a few notable exceptions, such as the South East Edmonton Road. (See box “Public–Private Partnerships.”)

Similarly, community groups and their representatives work alongside governments and business to solve neighbourhood problems, fostering the development of a broad coalition of interests. Winnipeg was the initiator of this kind of structure with the Core Area Initiative,23 and more recently, Vancouver established the intergovernmental and inter-sectoral team to rebuild the social and economic fabric of the Downtown Eastside. In Regina, the Inner City Community Partnership is founded on similar principles.24

Public–Private Partnerships

Many recognize that Canada’s infrastructure deficit cannot be reduced through government financing alone. Public–private partnerships (PPPs)—a means of developing and managing infrastructure with the help of private sector expertise and capital and public–private risk sharing—have been used in many countries but rarely in Canada. Through PPPs, Canadian governments can and should make greater use of the private sector in addressing the country’s infrastructure needs.

The prospects for wider exploitation of PPPs in Canada remain uncertain. In 2003, the Government of British Columbia backed down from its plan to privatize the Coquihalla highway; and a PPP contract to build part of a ring road in Edmonton does not allow tolls or advertising to generate revenue. However, many provinces, including British Columbia, are planning to take advantage of the potential of PPPs.1 In May 2005, the Government of Ontario announced the formation of its Ontario Infrastructure Projects Corporation to focus on Alternative Financing and Procurement (AFP) projects as part of its infrastructure renewal strategy.2

However, there are a number of challenges and considerations in implementing PPPs. From a public sector perspective, these include measures to help limit private sector risks to acceptable levels; project design and regulations to avoid exploitation of potential monopoly power; and possible concerns with foreign investment.3 In Europe and Australia, where there have been many successful PPPs, the legal and regulatory framework for PPPs is well developed. Even in the United States, where PPPs have a relatively low profile, more than 21 states have PPP laws.4

In Canada, specific problems include the lack of public understanding of the costs and benefits of PPPs;5 the relatively small scale of Canadian construction companies—which hampers their capacity to take on huge projects; the high cost of tendering bids; and the particular difficulty of getting private sector interest in public transit projects because of the political sensitivity of fare charges. As well, Canadian banks have not yet found a workable approach to long-term financing for PPP projects—even though European banks have established some successful precedents. A critical step toward encouraging more PPPs in Canada will be to enable banking system reforms that make it easier to manage long-term fixed interest rate financial agreements.

1 Taylor, “The New Big Deals Beckon.”
2 Ministry of Public Infrastructure Renewal, “Province Seeks to Rebuild Aging Infrastructure Sooner.”
3 Lindsey, “Recent Developments in Road Pricing,” pp. 49–50.
4 Ibid., p. 49.
5 Drummond, “Public-Private Partnerships.”

Source: The Conference Board of Canada.

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23 The Core Area Initiative is a tripartite government initiative to combat the decline of Winnipeg’s inner city.

24 Winnipeg’s Aboriginal Employment Partnership (between the City of Winnipeg, Manitoba Métis Federation and the Assembly of Manitoba Chiefs) is a good example of community partnerships based on specific needs. It creates strategies for training, recruiting and retaining Aboriginal employees for the City.
The rapidly increasing ethno-cultural diversity of Canada’s major cities is another impetus for governance change. Municipal governments are seeking new partnerships to deal with issues on anti-racism, employment opportunities and foreign credential recognition, housing, planning and homelessness. The intensity and effectiveness of these relationships depends on the size and organizational capacity of the diversity groups, the political vision of the local mayor and council, as well as the provincial role and municipal administrative capacity.

The evolution of civil society in Canada is influencing the way in which city governments engage with their citizens. Local decision-making must take into account the increasing complexity of the organizational landscape where different forms of diversity intersect. For example, municipal governments deal with groups that may bring together elderly Somali women or young Vietnamese men. Some municipalities have been particularly inventive in structuring and supporting these partnerships and, in turn, these relationships are altering the ways in which services are planned, delivered and evaluated.

Other coalitions of voluntary sector organizations are created at city (or regional) levels. These exist (or are in the process of being created) in six cities; the Calgary Chamber of Voluntary Organizations; the Edmonton Chamber of Voluntary Organizations; the Centre for Collaboration (in Regina); the Voluntary and Non-Profit Sector Organization of Manitoba Inc. (covering Manitoba but with much of its work centered on Winnipeg); the Ottawa Chamber of Voluntary Organizations; and an emerging organization in Halifax. The development of these networks and their cross-Canada linkages make them particularly interesting partners for municipal governments.

Relating to the Electorate
City governments can relate to the electorate through a number of different channels. In Canada, the most innovative examples include formal relationships between city governments and neighbourhood associations, and creative policies to encourage citizen participation. As well, grants to community groups are used to support citizen initiatives, and are typically funded in accordance with local government priorities. In other parts of the world, political parties are citizens’ first point of contact with local government. In Canada, this arrangement exists only in Montréal and Vancouver, with the civic parties being distinct from provincial and federal organizations.

The evolution of civil society in Canada is influencing the way in which city governments engage with their citizens.

Increasingly, as community groups acquire more expertise and more resources, the boundaries between local government structures and community structures are blurring. Regina, Saskatoon, Edmonton, Calgary and Winnipeg have a history of providing resources to community groups, often resulting in the groups hiring permanent staff. These groups then monitor planning decisions and comment on city plans and projects. Toronto, Halifax and Winnipeg have community councils to scrutinize planning decisions and to make minor decisions. In Ottawa, the city funds 14 community resource and health centres, but leaves decision-making in the hands of the community boards.

Institutional arrangements with neighbourhoods take different forms in major cities across Canada. Increasingly, as community groups acquire more expertise and more resources, the boundaries between local government structures and community structures are blurring. Regina, Saskatoon, Edmonton, Calgary and Winnipeg have a history of providing resources to community groups, often resulting in the groups hiring permanent staff. These groups then monitor planning decisions and comment on city plans and projects. Toronto, Halifax and Winnipeg have community councils to scrutinize planning decisions and to make minor decisions. In Ottawa, the city funds 14 community resource and health centres, but leaves decision-making in the hands of the community boards.

These various bodies—if properly organized, well resourced and well structured—have the potential to enhance local accountability and strengthen local governance by ensuring that:
- more citizens participate in decisions affecting their daily lives in their neighbourhoods;
- neighbourhood and community-based organizations have the capacity to do their job; and
- the burden of detailed decision-making of the municipal government is reduced, leaving more time for councillors to deal with major questions.
Groups such as these involve systems of considerable complexity, where issues of support, capacity building, policy innovation and funding are intertwined.

In all cases, municipal governments have been seeking innovative methods to engage the community in ways that give voice to those who are not always heard. Some cities have formally adopted policies on participation (e.g., Vancouver, Calgary and Toronto), while others have developed ad hoc processes to encourage participation with respect to particular cases and issues. Montréal’s borough system incorporates a distinctively structured and thorough approach to citizen participation.

Municipal governments have been seeking innovative methods to engage the community.

Although formal public meetings continue to be used as a vehicle for input, they are generally recognized as being more conducive to criticism than to policy formulation. All of the major cities support ongoing citizen advisory committees, which provide a forum for proactive policy development. They can be instrumental in building positive working relations among citizens, staff and elected representatives.

Cities are experimenting with a wide array of initiatives to allow for broader and more meaningful participation, such as:
- annual citizen satisfaction surveys
- citizen juries
- committees to examine budgets
- televised meetings
- joint task forces
- interactive web-based communications

Inside Local Government: Politicians, Officials, Decisions

Municipal government in Canada is typically characterized as a “weak mayor” system, where decisions are shared among the mayor, councillors and senior officials (who, in turn, are appointed by the city council or by a committee of the council). The importance of mayors to the success of cities was repeatedly emphasized through a series of interviews undertaken with local leaders in 10 large cities. Community leaders provided eloquent evidence that mayors can play a critical role in shaping agendas and directing development, even through informal or relatively weak bases of power. They cited strong leadership skills as the most important asset of an influential mayor, regardless of the mayor’s power base. Local leaders described these skills as a combination of vision, intergovernmental negotiating skills, ability to work with city managers, capacity to articulate issues to the media and ability to forge partnerships with all sectors of society. Without these qualities, city leadership tends to flounder and council decision-making tends to lose focus.

Political decision-making is carried out, in the main, by city councils. The size of the council can affect the capacity and effectiveness of decision-making. Small councils may find it easier to reach consensus under the leadership of a skillful mayor, but they may lack the authority to be truly representative. Vancouver’s council consists of only 11 members elected at large; while these members were endorsed by the citizens in a referendum, it is reasonable to question the ability of such a small council to represent all the concerns of a growing urban community.

Mayors can play a critical role in shaping agendas and directing development, even through informal or relatively weak bases of power.

On the other hand, councils that are too large can suffer under their own weight, becoming too unwieldy and too fractious to be effective. However, in cities where the mayor has more formal powers, either vested in the position itself or in an executive committee, a large-council system may function quite well. Both Toronto and Montréal have large councils (at 45 and 64 members, respectively), but Montréal’s mayor has greater autonomous powers, 25 Interviews were conducted by the Conference Board in January–February 2006 with representatives from Vancouver, Calgary, Edmonton, Regina, Saskatoon, Winnipeg, Ottawa, Montréal, Québec City, and Halifax.
including the power to appoint executive committees. Cities are experimenting with other new initiatives to strengthen political decision-making processes. For instance, Toronto and Edmonton have established programs to boost individual councillors’ responsibilities in a way that incorporates some of the benefits of a cabinet system (even in the absence of municipal political parties).

The scale and complexity of the civil service in our major cities have led to new organizational structures designed to improve coordination.

A complex and large administrative structure, typically led by a city manager or chief administrative officer, supports the political decision-making machinery. In all of Canada’s major cities, civic employees number in the thousands, planning and delivering a wide array of services from animal control and recreation to wastewater management. The professional side of the municipal civil service includes accountants, engineers, firefighters, nurses, planners, recreation specialists and social workers, just to name a few.

The scale and complexity of the civil service in our major cities have led to a new organizational structure designed to foster coordination below the level of city manager. In Ottawa and Toronto, deputy city managers have been put in place to oversee major areas of administrative responsibility. In other cities, the favoured approach has been to cluster related functions in a relatively small number of administrative departments. Organizational “clusters” tend to be related functionally rather than geographically. A collaborative approach to civic administration based on neighbourhoods is relatively rare. Only Toronto (with defined service areas), Vancouver (with area-based community service teams) and Montréal (with borough councils) have formal area-based structures.

The structure of city administrations matters; it can support or thwart the vision of the best mayor and council.

Constructive Entanglement
Canada’s city governments are mired in an intricate web of responsibilities demanding multi-jurisdictional responses and civic partnerships. Solving the current and future challenges of our major cities (such as diversity, youth employment, environmental sustainability, inner-city poverty and homelessness) will require constructive entanglement and engagement. Although these challenges exceed the jurisdictional reach of municipal structures, city governments have sometimes demonstrated adaptability and creativity in making improvements within their own traditional areas of jurisdiction rather than looking outward for collaboration. For example, policies and programming in parks and recreation are being modified in order to respond to an increasingly diverse population; and fire prevention and police services are developing innovative approaches to respond to distinct community needs. Traditional public administration goals of efficiency and effectiveness are at the root of these innovations, as much as the desire to “do good work.”

There are significant structural limitations that prevent city governments from responding to challenges in more holistic ways. A strong functional culture persists in Canadian city governments, driving city managers to staff local government with service specialists—engineers, planners, social workers, accountants and so on. While these professionals support the strong service role that municipalities play, the relative scarcity (within city governments) of personnel with broad training in public administration may hinder efforts to break down traditional service and administration silos. This personnel void leaves municipalities with little capacity to develop comprehensive policies linking the diverse sectors of city government.

Recent history in Canadian cities has shown a lack of sufficient local political will to cooperate and to coordinate strategic planning.

Some of the highly entangled networks within city governments are well developed and others are gaining in sophistication and effectiveness. However, one crucial dimension of these complex relationships is stunted: the development of strong structures and processes among local governments to plan the future of city-regions. Recent history in Canadian cities has shown a lack of sufficient local political will to cooperate and to coordinate strategic planning. In the absence of local will and leadership, provincial action may be necessary—although the evidence emerging from recent forced amalgamations suggests that a cautious and more collaborative approach is warranted.

RECOMMENDATIONS FOR GOVERNANCE
The Conference Board of Canada recommends that:

24. Government, business, academic and community leaders in Canada’s major cities pursue multi-sector partnerships to find solutions to challenges in their cities and create an agenda for action that supports sustainable prosperity.

25. The federal and provincial governments include major cities directly in policy-making on transportation, energy, immigrant settlement, research and innovation, housing, public security and other matters that affect them.

26. The federal government support the establishment of a national database on cities, building on the expertise available at Statistics Canada.

27. Federal and provincial governments focus policies and programs strategically, recognizing the unique needs and contributions of Canada’s major cities.

SUFFICIENT FISCAL RESOURCES
Consistent with the legal framework that positions Canadian municipalities as “creatures of the province,” the fiscal framework within which municipal governments operate is tightly controlled. The authority to spend and the ability to raise revenue derive from provincial legislation and regulations. Although variations exist among provinces, municipal governments across Canada are limited in the ways they can raise and spend money, and sometimes even in their ability to manage effectively the capital resources they do have.

MUNICIPAL EXPENDITURES
Where do municipalities spend money? A review of the municipal expenditures of Canada’s 10 major cities shows that nearly 40 per cent of all expenditures are allocated to the protection of persons and properties, and to transportation.27 (See Chart 1.) Environmental services, which comprise sewer, solid waste and water

27 The Conference Board of Canada looked at the 2004 financial statements of Toronto, Vancouver, Montréal, Ottawa, Calgary, Edmonton, Winnipeg, Halifax, Saskatoon and Regina. A single accounting base was created to allow for comparisons. Appendix C includes additional details.
management, account for 13 per cent of expenditures. Together, these functions consume more than half of all municipal government expenditures.

In keeping with provincial variations in municipal responsibilities (see box “Municipal Responsibilities by Province”), expenditures vary widely among the municipalities surveyed, with Toronto (the highest) spending more than twice the per capita amount as Winnipeg (the lowest). Ottawa is the second-highest per capita spender. Chart 2 makes obvious the main reason for this variation: municipalities in Ontario hold more responsibility for social services than municipalities in any other province or territory. In fact, their share of these expenditures rose from 14.6 per cent in 1988 to just below 25 per cent in 2001. Indeed, in most other provinces, municipal governments are not responsible for social services. Toronto and Ottawa’s expenditures in this area dwarf those of any other city. At $738 per capita, Toronto spends eight times more than Calgary and 16 times more than Vancouver on health and family and social services.

**REVENUE SOURCES**

Municipal revenues come predominantly from taxes and user fees, with additional monies from grants and transfer payments (including payment in lieu of taxes), investments and miscellaneous fees (from licences, amusement taxes, permits and fines). (See Table 3.) With few exceptions, provinces have limited municipalities’ taxing powers to property taxes, which account for the single largest source of municipal revenue. In 2004, property taxes accounted for 53 per cent of all municipal revenues, up from 48 per cent in 1993. During the same period, contributions from provincial and federal governments fell, accounting for only 16 per cent of municipal revenue in 2004, compared with 25 per cent in 1993. Consequently, local governments have become increasingly reliant on own-source revenue. Along with property taxes, user fees account for a growing share of municipal revenue (23.5 per cent in 2004 compared with 18 per cent in 1993).

There are important differences among municipalities in the per capita amount of revenue generated from property taxes, government transfers and other own-source revenue. Chart 3 presents the per capita distribution of own-source revenue for Canada’s major cities. The municipalities of Montréal, Halifax, Toronto and Ottawa rely more on property taxes than on other own-source revenues (such as user fees). In Calgary, Edmonton, Saskatoon and Regina, this situation is reversed.
Saskatoon—which sees 68 percent of its revenues coming from other own sources and only 27 percent from property taxes—finances much of its services through user charges that come from specialized utility service departments. It operates five utilities: water, sewage, electrical, transit and storm water management. Each of these utilities is funded mainly through user charges, which in turn support operational and capital costs. The only utility department that receives a subsidy from the city is the transit department.

### Municipal Responsibilities by Province

Municipal responsibilities differ from province to province. The table below shows the relative importance of municipal expenditures by functional area for each province, demonstrating the following:

- Social services are a provincial responsibility in every province *except* Ontario where they account for 25 per cent of municipal spending. Nova Scotia removed social service funding from the local tax base in 2002.
- Nova Scotia is the only province where municipalities are partially responsible for funding of public education. Elsewhere, school boards and/or provinces are responsible for this expenditure.
- Health expenditures are the responsibility of the provinces except for relatively small expenditures made by municipalities for preventative health–care programs, such as anti-smoking campaigns.

- Expenditures on transportation, police and fire protection, and environmental services (water, sewage, waste disposal) account for more than 50 per cent of all municipal expenditures in every province *except* Ontario (where the large amount of social service spending produces a correspondingly lower proportion of spending in other areas).
- Expenditures on recreation and cultural services account for between 9 per cent and 22 per cent of the municipal total in all provinces.
- Debt charges (permitted on capital projects only) show considerable variation across provinces, from a high of 11 per cent in Newfoundland and Labrador to just over 2 per cent in Ontario and 1.7 per cent in Saskatchewan.

### Per Capita Level and Distribution of Municipal Government Expenditures by Province, 2001

(-per cent)

<table>
<thead>
<tr>
<th>Municipal services</th>
<th>NL</th>
<th>PE</th>
<th>NS</th>
<th>NB</th>
<th>QC</th>
<th>ON</th>
<th>MB</th>
<th>SK</th>
<th>AB</th>
<th>BC</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>General administration</td>
<td>16.2</td>
<td>12.9</td>
<td>10.4</td>
<td>11.1</td>
<td>12.2</td>
<td>8.9</td>
<td>13.7</td>
<td>12.4</td>
<td>12.2</td>
<td>10.0</td>
<td>11.0</td>
</tr>
<tr>
<td>Protection</td>
<td>4.7</td>
<td>23.2</td>
<td>20.1</td>
<td>21.0</td>
<td>16.7</td>
<td>13.4</td>
<td>19.7</td>
<td>17.6</td>
<td>14.3</td>
<td>18.8</td>
<td>15.9</td>
</tr>
<tr>
<td>Transportation</td>
<td>28.6</td>
<td>21.5</td>
<td>16.9</td>
<td>20.2</td>
<td>27.2</td>
<td>18.2</td>
<td>23.4</td>
<td>31.8</td>
<td>28.3</td>
<td>16.5</td>
<td>19.8</td>
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<tr>
<td>Health</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.2</td>
<td>3.5</td>
<td>2.2</td>
<td>0.6</td>
<td>1.6</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Social services</td>
<td>0.2</td>
<td>0.0</td>
<td>4.5</td>
<td>0.0</td>
<td>1.4</td>
<td>24.7</td>
<td>0.3</td>
<td>0.5</td>
<td>1.6</td>
<td>0.2</td>
<td>12.6</td>
</tr>
<tr>
<td>Education</td>
<td>0.1</td>
<td>0.0</td>
<td>14.2</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Resource conservation</td>
<td>0.7</td>
<td>1.7</td>
<td>0.8</td>
<td>2.4</td>
<td>2.8</td>
<td>1.6</td>
<td>2.4</td>
<td>3.6</td>
<td>3.4</td>
<td>1.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Environment</td>
<td>22.1</td>
<td>12.7</td>
<td>16.8</td>
<td>25.4</td>
<td>12.0</td>
<td>13.3</td>
<td>17.4</td>
<td>15.4</td>
<td>13.9</td>
<td>20.4</td>
<td>14.0</td>
</tr>
<tr>
<td>Recreation/culture</td>
<td>14.5</td>
<td>21.9</td>
<td>10.7</td>
<td>12.7</td>
<td>12.4</td>
<td>8.7</td>
<td>9.4</td>
<td>14.2</td>
<td>13.8</td>
<td>19.6</td>
<td>11.1</td>
</tr>
<tr>
<td>Housing</td>
<td>0.6</td>
<td>0.0</td>
<td>0.2</td>
<td>0.3</td>
<td>2.9</td>
<td>5.0</td>
<td>0.4</td>
<td>0.4</td>
<td>0.7</td>
<td>0.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Regional planning</td>
<td>1.2</td>
<td>2.3</td>
<td>1.5</td>
<td>2.0</td>
<td>2.5</td>
<td>0.1</td>
<td>2.3</td>
<td>1.7</td>
<td>3.0</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Debt charges</td>
<td>11.4</td>
<td>3.7</td>
<td>3.7</td>
<td>4.2</td>
<td>9.4</td>
<td>2.3</td>
<td>8.5</td>
<td>1.7</td>
<td>7.1</td>
<td>6.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.2</td>
<td>0.0</td>
<td>0.2</td>
<td>0.4</td>
<td>0.1</td>
<td>0.0</td>
<td>2.2</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Regina is also notable in seeing a high percentage (49 per cent) of its total revenues coming from own-source revenue other than property tax. Similar to Saskatoon, it uses a utility billing system that makes for a financially self-sufficient water, sewer and storm drainage utility. The city uses a metered revenue system to bill for the actual cubic metres of water used or sewage produced by each residence or business.

**Taxes**

As the linchpin of municipal finance in Canada, the property tax is an important but inflexible source of revenue for municipal governments. Economists generally agree that the property tax is an appropriate way to fund municipal services that benefit all, but is a poor tool to finance income redistribution programs, such as social housing. The notion of inflexibility stems from the fact that the property tax is highly visible and thus difficult to increase when municipal governments require more revenue. Compared with other jurisdictions, Canadian municipal governments have few options when it comes to local taxation. However, individual municipalities do levy other taxes:

- Hotel and motel occupancy taxes are levied in Vancouver and Victoria. Proceeds from the 4 per cent tax on the room are reinvested in tourism. The City of Winnipeg has an agreement in principle to levy a hotel tax, but does not impose one.
- Business occupancy taxes are mandatory in Winnipeg but optional elsewhere. Alberta municipalities may set business revitalization zone taxes.
- Parking taxes are collected by the Greater Vancouver Transportation Authority (though the tax rate is set by the province).

Municipal income taxes, visitor or commuter taxes and sales taxes are popular in the United States and in Europe. In Scandinavia, local income taxes are the main revenue source for local governments. In Sweden, income taxes are the only source of local taxation and account for nearly two-thirds of total revenue. In the U.S., approximately 3,800 local governments levy local income taxes. Income tax revenues account for more than 20 per cent of local tax revenue in Ohio and Pennsylvania and close to 30 per cent in Maryland. Municipal governments in Canada cannot levy such taxes. However, they did have the right to levy an income tax until 1941, and were collecting income tax long before the federal government began doing so in 1917.

Sales taxes are collected by local governments in 31 U.S. states and the District of Columbia. Some of these states impose a relatively low rate of 0.25 per cent in a number of transit districts to subsidize public transportation.

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29 In keeping with the benefits model of local government finance, taxes should reflect the benefits received from the service(s). Where services are income redistributional in nature or the intended beneficiaries could be excluded from the service if unable to pay, property taxes are a crude and inefficient instrument. (Kitchen and Slack, “Special Study.”)

30 ODPM, *Balance of Funding*. 

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### Chart 2

Per Capita Expenditures, Canada's 10 Major Cities, * 2004 (dollars)

<table>
<thead>
<tr>
<th>City</th>
<th>Total</th>
<th>Health and Social and Family Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toronto</td>
<td>3,123</td>
<td>738</td>
</tr>
<tr>
<td>Ottawa</td>
<td>2,462</td>
<td>577</td>
</tr>
<tr>
<td>Montréal</td>
<td>2,043</td>
<td>65</td>
</tr>
<tr>
<td>Calgary</td>
<td>2,034</td>
<td>92</td>
</tr>
<tr>
<td>Edmonton</td>
<td>1,941</td>
<td>52</td>
</tr>
<tr>
<td>Vancouver GVRD</td>
<td>1,884</td>
<td>65</td>
</tr>
<tr>
<td>Saskatoon</td>
<td>1,856</td>
<td>24</td>
</tr>
<tr>
<td>Halifax</td>
<td>1,749</td>
<td>92</td>
</tr>
<tr>
<td>Regina</td>
<td>1,500</td>
<td>14</td>
</tr>
<tr>
<td>Winnipeg</td>
<td>1,437</td>
<td>30</td>
</tr>
</tbody>
</table>

*Halifax, Montréal, Ottawa, Toronto, Winnipeg, Regina, Saskatoon, Calgary, Edmonton and Vancouver GVRD.

Source: The Conference Board of Canada compilation from municipal annual consolidated financial statements (2004).
## Table 3
Municipal Government Revenues, 1993–2004

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>1993 Revenue ($ millions)</th>
<th>Share of 1993 total (%)</th>
<th>2004 Revenue ($ millions)</th>
<th>Share of 2004 total (%)</th>
<th>Average annual increase 1993–2004 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own Source</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and related taxes*</td>
<td>18,501</td>
<td>48.8</td>
<td>28,399</td>
<td>53.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Consumption taxes</td>
<td>47</td>
<td>0.1</td>
<td>96</td>
<td>0.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Other taxes</td>
<td>342</td>
<td>0.9</td>
<td>674</td>
<td>1.3</td>
<td>6.4</td>
</tr>
<tr>
<td>User fees</td>
<td>7,005</td>
<td>18.5</td>
<td>12,491</td>
<td>23.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Investment income</td>
<td>1,942</td>
<td>5.1</td>
<td>2,394</td>
<td>4.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Other own-source revenues</td>
<td>408</td>
<td>1.0</td>
<td>776</td>
<td>1.5</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Government Transfers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General purpose transfers</td>
<td>1,505</td>
<td>4.0</td>
<td>1,576</td>
<td>3.0</td>
<td>0.4</td>
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<tr>
<td>Specific purpose transfers</td>
<td>8,128</td>
<td>21.4</td>
<td>6,900</td>
<td>12.9</td>
<td>−1.5</td>
</tr>
<tr>
<td>Federal government specific purpose transfers</td>
<td>215</td>
<td>0.6</td>
<td>672</td>
<td>1.3</td>
<td>10.9</td>
</tr>
<tr>
<td>Provenal and territorial government specific purpose transfers</td>
<td>7,914</td>
<td>20.1</td>
<td>6,228</td>
<td>11.7</td>
<td>−2.2</td>
</tr>
<tr>
<td><strong>TOTAL (Own Source plus Government Transfers)</strong></td>
<td>37,911</td>
<td>100.0</td>
<td>55,472</td>
<td>100.0</td>
<td>3.2</td>
</tr>
</tbody>
</table>

*Related taxes include land transfer tax, grants in lieu, lot levies, special assessments and business taxes.

Sources: The Conference Board of Canada; Statistics Canada.

## Chart 3
Per Capita Sources of Revenue, Canada’s 10 Major Cities,* 2004
(dollars)

- **Property and related taxes** (including payment in lieu of taxes)
- **Other revenue from own sources** (including user charges)
- **Transfers from other governments** (provincial, federal)

*Halifax, Montréal, Ottawa, Toronto, Winnipeg, Regina, Saskatoon, Calgary, Edmonton and Vancouver GVRD.

In other states, the rates may be as high as 5 per cent with revenues not earmarked for specific expenditures. In some states (for example, Virginia and California), all cities levy a local sales tax.\(^{31}\)

**User Fees**

User fees are imposed for a variety of municipal services, such as water, public transit, parking, parks and recreation programs, and waste disposal. User fees not only provide a revenue source but may also serve to discourage wasteful behaviour. In theory, user fees have the potential to offer the same efficiency advantages as private sector prices. In reality, however, most public services are under-priced; the most notable example is water. In considering and setting user fees, municipal governments must ensure that low-income residents have equal access to services such as transit or recreational programming.

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31 Kitchen and Slack, “Special Study.”

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**Government Transfers and Revenue Sharing**

In 1993, federal and provincial transfer payments to local governments accounted for 25 per cent of municipal revenues; by 2004, transfers accounted for just 16 per cent. The sharpest decline occurred between 1995 and 2000, but payments have since levelled off. In all regions, provincial contributions provide the bulk of grants and transfers, while the federal government provides considerably less (principally through payment in lieu of property taxes).

However, in 2004, the Government of Canada stemmed years of declining federal transfers with two initiatives under the New Deal for Cities and Communities. The Government committed to rebating the goods and services tax (GST) to municipal governments—which will amount to a revenue gain of $7 billion over 10 years. More significantly, the 2005 federal budget included the long-awaited proposal for sharing fuel tax revenue, with $5 billion to benefit municipalities over a five-year period. Individual agreements with each province and territory establish the allocation formula (predominantly based on a per capita amount) for distributing these funds to communities. In June 2005, the Minister of State for Infrastructure and Communities announced an additional $800 million over two years specifically for public transit. All of those commitments were superseded by the 2006 federal budget, which pledged a total of $16.5 billion for provincial, territorial and municipal infrastructure over the next four years. (See box “Federal Funds Supporting Cities and Towns.”)

The City of Toronto is unique in having struck a bilateral agreement concerning public transit ridership. Beginning in 2006, $212 million will be available to the city over two years.\(^{32}\) The two-year federal funding provides an immediate, welcome injection of much-needed capital but falls short of rendering a long-term solution.

In keeping with the federal government’s renewed interest in municipalities, many provincial governments have followed suit with their own enhanced initiatives. For instance:

- Manitoba announced a contribution of $1.4 million for public transit upon signing the agreement with the federal government to allocate fuel tax revenue.
- Alberta is giving approximately 2.5 hectares of provincially owned land to complement federal funds enabling Edmonton to expand its Light Rail Transit system.

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32 The $212 million is composed of: $98 million from the Federal Public Transit Funds transfer; $49 million from the Federal Gas Tax Agreement; and $64 million from the Canada Strategic Infrastructure Fund as part of a federal–provincial–city $1.05 billion five-year capital funding agreement specifically for the TTC infrastructure.
• Ontario is committed to sharing $680 million of provincial fuel tax revenue with municipalities over three years.
• Quebec recently signed a new six-year fiscal agreement with its municipalities. The agreement transfers new funds, exempts municipalities from the provincial sales tax and offers stable, predictable long-term funding. Municipalities praised the provincial government’s collaborative approach, but have concerns that the total new funds do not match provincially-mandated service requirements.

Nevertheless, provincial governments have moved away from the days when they supported a wide range of local government programs and infrastructure, which is causing municipalities concern over the deep cuts in total transfers. The Union of British Columbia Municipalities, for example, documented a reduction in general fund transfer payments from $209 million in 1996 to $90 million in 1999—with most of these funds being paid to the smallest municipalities.  

Other Revenues
Other sources of revenue available to municipal governments in Canada include: licensing and permit fees, fines and penalties, investment income, development charges and special capital levies (e.g., local improvements). Taken together, these revenue sources account for a small share of total municipal revenue and, as described previously, may be subject to limitations prescribed in provincial legislation. The possible exception is revenue from development charges (accounted for under property and related taxes in Table 3), generated from developers contributing to growth-related capital costs for infrastructure. Only municipalities experiencing rapid growth could expect to garner significant revenue from this type of charge.

Debt Financing
Provincial legislation prohibits municipalities from incurring deficits in their operating budgets and allows borrowing for capital projects only. Even for capital projects, municipal governments face provincial constraints on the amount of money they can borrow. Since municipal

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33 G.L. Williams and Associates, “An Update of Intergovernmental Transfers.”

Federal Funds Supporting Cities and Towns

Existing Funds
Funding Generally Allocated on a Population Basis
• Municipal Rural Infrastructure Fund: $1 billion for smaller scale municipal infrastructure projects that improve quality of life, sustainable development and economic opportunities. Every jurisdiction receives a minimum of $15 million, and the rest is allocated on a per capita basis.
• Infrastructure Canada Program: $2.05 billion for urban and rural projects that improve quality of life. Funds are allocated to regions based on their share of Canada’s population and their share of Canada’s unemployed.
• Strategic Highways Infrastructure Program: $600 million for strategic investments in highway infrastructure across Canada supporting trade, tourism and investment. Every jurisdiction receives a minimum of $4 million, and the rest is allocated on a per capita basis.
• Gas Tax Funding: $5 billion over the next five years for infrastructure allocated to provinces on a per capita basis.

Funding Generally Allocated on a Case-by-Case Basis
• Canada Strategic Infrastructure Fund: $4 billion for projects of major federal and regional significance, vital to sustaining growth.
• Border Infrastructure Fund: $600 million for the busiest Canada–U.S. crossings and highway approaches.
• Green Municipal Fund: $550 million for environmental infrastructure.
• National Homelessness Initiative: $405 million for projects to reduce homelessness.

New Funding from the 2006 Federal Budget
Funding Generally Allocated on a Population Basis
• Municipal Rural Infrastructure Fund: $1.5 billion over the next four years. The current funding allocation is under review; previous funding was allocated on a per capita basis.
• Public Transit Capital Trust: $900 million over the next three years; allocation to provinces on an equal per capita basis.

Funding Generally Allocated on a Case-by-Case Basis
• Canada Strategic Infrastructure Fund: $1.2 billion over the next four years. The current funding allocation is under review; previous funding was allocated on a case-by-case basis.
• Highways and Border Infrastructure Fund: $1.7 billion over the next four years.
• Canada’s Strategic Gateway Initiative: $239 million over the next four years.

Source: The Conference Board of Canada.
governments must pay debt through their operating budgets and break even every year, they must be careful to ensure that capital borrowing does not hinder their ability to deliver basic services and meet minimum debt repayments. Municipal governments, like other borrowers, must take into account the effect of their debt load on the city’s bond rating.

The fiscal rewards to growth accrue at the federal and provincial levels, but the burdens weigh on the shoulders of municipalities.

FISCAL IMBALANCE
The bottom line is that while growth brings many benefits, the fiscal rewards accrue at the federal and provincial levels, but the burdens weigh on the shoulders of municipalities. With limited revenue options and increasing expenditures, local governments are facing a fiscal crisis. Watching federal and provincial government revenues grow more quickly than their own, mayors and councillors are asking why no one is paying attention to the municipal fiscal imbalance. Perhaps, as Enid Slack has pointed out, it is difficult to prove that municipalities are facing “vertical” fiscal imbalance—a condition in which “the fiscal capacity of a government is insufficient to meet its spending responsibilities while the fiscal capacity of another order of government is greater than is needed to sustain its spending obligations, while both orders of government provide public services to the same taxpayer.” Given that provincial legislation forbids municipal borrowing for operating expenses and limits borrowing for capital investment, municipal expenditures are not, in fact, exceeding revenues. But as Slack warns:

If municipal governments in Canada appear fiscally healthy because they have under-invested in services and infrastructure essential to their economic health (transportation, roads, sewers, recreational facilities, for example), the seeds of a serious future crisis may already be sown in terms of the overall health of our municipalities. This prospect does not bode well for the future well-being of our municipalities—or, by extension, for the country as a whole.

Municipal Expenses Are Growing
Across Canada, municipal governments face rising expenditures stemming from increased responsibilities, changing public expectations and general economic conditions. During the past 15 years, federal and provincial governments have off-loaded programs and services to municipalities. For example, the federal government has passed on part of the maintenance of municipal airports, local ports and harbours, and immigrant settlement. Meanwhile, some provinces have shifted additional responsibilities to municipalities in the areas of transit, child care, social housing, social assistance, ferries, some airports and property tax assessment. In Ontario, the government has passed on the burden of maintaining certain provincial highways. In other instances, provincial governments have introduced new regulations requiring costly municipal compliance. Over the past eight years the Government of Quebec has introduced new service norms and standards (e.g., for fire and police protection, public security, water quality and waste treatment) which municipalities must meet, at considerable expense. In most cases, the federal and provincial governments handed down these responsibilities and obligations with no additional funding.

Across Canada, municipal governments face rising expenditures stemming from increased responsibilities, changing public expectations and general economic conditions.

Changing public expectations and economic imperatives are also imposing new spending burdens on municipalities. Cities must respond to increasing demands for high-quality services, public amenities and efficient infrastructure in order to compete globally for knowledge workers. Citizens expect to have access to a range of

36 There is great variability in the amount and type of responsibilities off-loaded by the provinces. Very little off-loading has occurred in Alberta over the past 15 years, especially in comparison with Ontario—where municipalities have gained responsibility for a number of social programs traditionally funded directly by the province.
community assets including libraries, community centres, cultural centres and sports facilities. Municipalities today must therefore take on far more than their traditional responsibilities of garbage collection, snow removal, policing, fire protection and road maintenance. They also need to deliver programs to make diversity work throughout the community; manage high-cost security concerns to prevent terrorism; and handle a growing array of environmental problems related to energy use, waste management and urban transportation.

The rising cost of urban transportation is a particular burden to fast-growing municipalities. (See Chapter 4.) The higher costs of urban sprawl have been well documented, and show that low-density development drives up spending on new infrastructure and services. Above all, more people in cities means more demands placed on existing city infrastructure. Much of Canada’s existing urban transit systems, roads, highways, bridges and waterworks are now between 30 and 50 years old, and their useful life has come or is coming to an end. This, combined with deferred maintenance and renewal spending over the past two decades, has resulted in a huge infrastructure spending shortfall, which places a major demand on current and future municipal expenditures.

Responsibility for the lagging growth in municipal revenues lies largely with declining transfers received by municipalities, as described earlier on page 86. Over the past 11 years, transfers to municipalities have decreased every single year, with an average annual decline of nearly 1.2 per cent. (See Table 3.) In contrast, municipalities’ own-source revenues increased an average of 4.3 per cent annually during the same period, in line with the revenue growth experienced by other levels of government. This upturn was largely the result of growth in the property tax assessment base, fuelled by the strong housing market that began in the late 1990s.

From 1996 to 2001, provincial/territorial and federal government revenues increased, on average, by 25 per cent, while municipal revenues increased by only 14 per cent.

However, the current situation—in which residential property tax revenue has been supporting the modest annual growth in municipal revenues—is unlikely to continue. Residential tax revenues will be hard hit by the aging of the Canadian population. New young households (comprising 25 to 44 year olds) will form a declining share of Canada’s population, contributing to a drop in housing starts over the next 20 years. The market for single-family houses will also weaken as people age and downsize their homes, thus limiting growth in housing prices. These expected developments do not bode well for municipalities’ future revenue growth from their residential tax base.

Commercial property tax revenue should continue to grow in line with economic activity, offsetting somewhat the slower growth in residential property tax revenues. However, given that property tax revenues from residential sources are now double those from commercial sources, the growth of municipalities’ overall property tax revenues will significantly slow down.

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37 Infrastructure gap estimates ranged from $50 billion to $125 billion in 2002 and 2003, and have only continued to grow since then. See, for example, Mirza and Haider, The State of Infrastructure, and The Canadian Society for Civil Engineering, Critical Condition.

38 For instance, the Alberta Municipal Infrastructure Program (AMIP), launched in 2005, offers $3 billion for infrastructure development and maintenance in municipalities across Alberta; yet the Mayor of Calgary was recently quoted as saying that Calgary alone needs $5.5 billion to replace and repair old infrastructure and meet new demands over the next 10 years. (Chase, “Cities Struggling.”)

39 FCM, Our Cities, Our Future, p. 25.
Could municipalities be making better use of the fiscal tools available to them to increase their revenues? While this question is examined in more detail later in this chapter, the short answer is yes—but such measures would still be insufficient to cover municipalities’ rising expenditure demands.\(^\text{40}\)

**The Impact of Low Revenue Growth**

The low revenue growth that cities have experienced over the past 11 years has hit their purchasing power hard. It has affected both the level of services that cities can offer and their capacity to maintain and renew public infrastructure. Table 4 makes this abundantly clear. It presents data on both operating expenditures (which determine the level of services a city can provide) and investment (which is the amount used for public infrastructure). The average growth in total local government expenditures from 1993 to 2004 was 3.2 per cent per year. The table also shows that spending in most areas has risen very modestly indeed, and has declined in the area of debt charges (comprised almost entirely of interest payments) as a result of a declining debt level and lower interest rates.

**Municipalities could make better use of the fiscal tools available to them—but such measures would still be insufficient to resolve revenue shortfalls.**

While municipal spending did see an increase of 6 per cent per year between 2002 and 2004, there are three important points to keep in mind. First, this increase in expenditures was largely fuelled by the boom in the housing market and the relatively healthy gain in property tax revenues that began in the late 1990s.\(^\text{41}\)

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**Table 4**

Municipal Government Expenditures, 2004

<table>
<thead>
<tr>
<th>Category</th>
<th>$ millions</th>
<th>Share of total (%)</th>
<th>Average annual increase, 1993–2004 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General government services</td>
<td>4,889</td>
<td>8.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Protection of persons/property</td>
<td>9,269</td>
<td>16.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Transportation</td>
<td>10,796</td>
<td>19.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Health</td>
<td>1,379</td>
<td>2.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Social services</td>
<td>5,655</td>
<td>10.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Education</td>
<td>206</td>
<td>0.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Resource conservation and industrial development</td>
<td>1,044</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Environment</td>
<td>10,051</td>
<td>18.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Recreation and culture</td>
<td>6,825</td>
<td>12.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Housing</td>
<td>2,072</td>
<td>3.7</td>
<td>10.9</td>
</tr>
<tr>
<td>Regional planning and development</td>
<td>1,025</td>
<td>1.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Debt charges</td>
<td>2,203</td>
<td>4.0</td>
<td>–3.8</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>56</td>
<td>0.1</td>
<td>–11.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>55,472</strong></td>
<td><strong>100.0</strong></td>
<td><strong>3.2</strong></td>
</tr>
</tbody>
</table>

[0.3 in constant dollars per capita]

Sources: The Conference Board of Canada; Statistics Canada.

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\(^{40}\) For similar conclusions, see Slack, *Fiscal Imbalance*, p. 8, and Courchene, “Citistates.”

\(^{41}\) Also note that, as the housing market rises, it takes some time for improvements to existing property and new housing to be reflected in updated assessments and then translated into higher property taxes.
Second, this increase in spending was not matched by the increase in revenues from property taxes, which rose only 5.4 per cent per year over the same period. Third, this boom will not last forever. Housing starts are forecast to drop over the next 20 years; the market for single-family homes will weaken as people age and choose to downsize; and property tax revenues are expected to decelerate. These factors cast a shadow on the residential tax base, raising concerns about the sources of future municipal revenue and the potential for growth.

Prior to the housing boom, per capita spending by Canada’s local governments was following a downward trend: in 1992, local governments were spending $1,355 on every resident, while in 2002 that amount declined to $1,317 (in 1992 dollars). This drop was highly detrimental to local governments, since it coincided with their inheritance of a larger mandate from both the federal and provincial governments. (The recent rise in spending allowed the real per capita figure to overtake the 1992 figure for the first time in 2004, when it reached $1,395.)

Beyond a Reasonable Doubt: Municipalities Face Fiscal Imbalance

Work conducted by the Conference Board has shown that the fiscal health of Canada’s cities will only worsen under current conditions. Sticking to the status quo over the next 20 years means that:

- the property tax will continue to be the dominant form of revenue; and
- capital spending will be confined to what is possible within existing debt levels (a highly realistic assumption given cities’ extreme reluctance to increase their debt levels).

Based on the assumption that property taxes will grow by an annual average of 2 per cent over the next 20 years, municipalities’ reliance on such revenue will greatly limit their capacity for growth. On the expenses side, the assumption is that operating expenditures (excluding interest payments) will grow by an annual average of 2.9 per cent (the rate of increase needed to maintain a constant level of real per capita operating expenditures over the 20-year period).

These assumptions lead the Conference Board to predict that, under status quo fiscal arrangements, cities will lack adequate resources to address the infrastructure gap.

These assumptions led the Conference Board to predict that, under status quo fiscal arrangements, cities will lack adequate resources to address the infrastructure gap. Growth in capital spending would be limited to an average annual increase of 3 per cent in current dollars, which is markedly less than the 4.5 per cent annual increase required to both maintain and expand the capital stock in line with population growth. The forecast level of capital spending under the status quo would have been even weaker without the optimistic assumption that transfers to municipalities would increase by 2.9 per cent per year, a rate equivalent to that of inflation and population growth combined.

Aging infrastructure, new spending demands and the prospect of declining municipal property tax revenues raise serious concerns about the municipal fiscal imbalance.

Even without an agreed-upon standard of services that municipalities ought to provide, it is clear that this track record of modest spending will place limits on municipalities’ ability to meet the growing need for investment in new services and infrastructure. Taken together, the burden of overdue capital renewal, new demands in areas such as security, public health and environmental protection, and the prospect of declining municipal property tax revenues raise serious concerns about the municipal fiscal imbalance.

43 Ibid., p. 148; figures updated by the Conference Board October 2006, based on Statistics Canada revisions to local government expenditures.

44 Ibid., pp. 150–151.
However, government transfers actually decreased by an average of 1.2 per cent per year from 1993 to 2004. If forecasters had instead included that rate of continued decline in municipal income from transfers in their calculations, the forecast would have limited growth in capital spending to 2.4 per cent. Under either scenario (projected growth in capital spending based on a growth in transfers to municipalities of 2.9 per cent, or based on a decrease of 1.2 per cent), the infrastructure gap will in fact continue to grow.

Too much is at risk to allow municipal fiscal imbalance to continue unaddressed.

As noted, other analysts have also sounded a warning bell. Most recently, the Big City Mayors’ Caucus of the FCM delivered a report on the fiscal plight of Canada’s big cities that directs three major recommendations to all orders of government nationwide:

- cities must have access to long-term, predictable sources of revenue that grow with the economy;
- governments must cooperate “to ensure that roles and responsibilities are linked with appropriate resources”; and
- a national transit program must be established to address the municipal infrastructure gap.  

An additional recommendation calls for municipalities to gather comprehensive and reliable data to demonstrate clearly the extent of current under-investment in services and infrastructure. Such data are currently not available.

Canadians—leaders, the public and the media—must become more aware of the fiscal imbalance at the municipal level. As wrangling over the much-debated “horizontal” fiscal imbalance among provinces continues to grab national headlines, the fiscal plight of Canada’s major cities remains largely off the public radar. Too much is at risk—for city residents and for the economic health of the country as a whole—to allow this brewing crisis to continue unaddressed.

MORE MONEY AND SMARTER MONEY

In the face of rapid growth, increasing responsibilities and a growing fiscal imbalance, municipalities need access to more revenue. Equally important is the need for access to revenues that meet the tests of accountability, fairness and transparency. There are four options for bringing in additional revenues:

- local governments can make better use of existing tools;
- provincial governments can authorize new sources of revenue;
- federal and provincial governments can take back unfunded mandates; and (or)
- federal and provincial governments can increase transfer payments.

Making Better Use of Existing Tools

Do municipal governments in Canada have room to raise more money from property taxes and user fees? While experts generally agree that user fees could and should be increased to reflect the true cost of service provision, most acknowledge that there are narrower limits to potential increases in property taxes.

Property taxes are linked to a revenue source that is not very buoyant—real estate values respond more slowly to annual changes in economic activity.

Aside from the political nervousness about raising this highly visible tax, economic considerations support a reduced rather than an enhanced dependency on property taxes. Such a tax can be regressive—that is, “unfair”—because it often bears a weak relationship to an individual’s ability to pay. Furthermore, property taxes are linked to a revenue source that is not very buoyant—real estate values respond more slowly to annual changes in economic activity, and in turn, property value increases do not automatically generate more property tax income.

A further distortion in current property tax regimes derives from the tendency for local governments in Canada to impose higher tax rates on commercial

45 FCM, Our Cities, Our Future.
and industrial properties than on residential properties. The over-taxation of non-residential properties can impede competitiveness and dampen economic activity, particularly for multinational companies. In a 1997 report, the Department of Finance concluded: “When a profit-insensitive tax leads to over-taxation of businesses, it has the potential for lowering economic activity, reducing output, generating fewer jobs and leading to a less competitive business environment.”

User fees, on the other hand, are commonly set at levels below the marginal cost of delivering the service. Under-priced water, for example, has led to Canadians consuming more than twice the amount of water per capita as the French, at one-fourth the price. Many municipal services that could be financed through user fees currently bear no charges at all. For example, Canadian cities have made little effort to impose user fees on roads, notwithstanding the fact that urban traffic congestion ranks high among citizen concerns. Elsewhere (such as Singapore and London), tolls and congestion charges have been used to great effect, bringing in revenue while alleviating traffic problems. (See discussion of road pricing in Chapter 4.)

**Municipalities could also make better use of their resources by exploring the potential of contracting out services.**

Appropriately set, user fees offer the benefits of transparency (you get what you pay for) and accountability (the fee-setter is the fee-collector). However, municipal governments need to ensure that lower-income residents have the same access as higher-income residents to fee-for-service public facilities.

Municipalities could also make better use of their resources by exploring the potential of contracting out services that others might be able to do better and more efficiently while meeting municipally set standards. As an example of a variation on this theme, the U.K. has recently made a policy shift allowing cities to bid on each other’s services, creating a free-market entrepreneurialism in municipal government. There is strong reason to think that competition in service delivery can produce better results.

A problem in implementing this strategy, however, stems from the dearth of reliable information about existing municipal service costs in Canadian cities, which prevents accurate benchmarking across cities and comparison of the status quo with alternative options. Rigorous research into existing municipal service delivery across Canada is needed to establish how various demographic and service-standard factors drive costs and spending. Only then can municipalities base their decision-making about the potentials and pitfalls of competitive service delivery models on evidence more robust than mere anecdote.

There is a dearth of reliable information about existing municipal service costs in Canadian cities, which prevents accurate benchmarking across cities and comparison of the status quo with alternative options.

**New Revenue Sources**

Canadian experts generally agree that cities must find new sources of taxation. Expanding the local government tool kit would enable municipalities to break their dependence on property taxes and provide the opportunity for local solutions. Demographic, economic and political conditions vary across the country and fluctuate over time. A broader mix of taxes would give municipalities more flexibility to respond to local conditions and a greater capacity to achieve different public policy objectives.

For example, unlike property taxes, sales taxes and payroll taxes can capture the service benefits that non-resident commuters receive when traveling from their home municipality.

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48 Environment Canada, “Freshwater Website.”
49 Berridge, “The Creative City.”
50 One notable exception comes from the C.D. Howe Institute, which recently argued that municipal governments outside Alberta and Ontario have adequate fiscal tools, which should be more fully exploited. They concede that additional taxing powers are needed for Alberta and Ontario municipalities. (This is an important concession considering that nearly half of Canada’s 27 CMAs and 45 per cent of Canada’s population are in Ontario or Alberta municipalities: Mintz and Roberts, “Running on Empty.”)
to their place of work. Recent evidence from the U.S. suggests that the cost of inner-city services used by people who live in the suburbs but commute to work in the city centre exceeds what they pay for those services.\textsuperscript{51}

Sales and income taxes are also more buoyant than property taxes, allowing municipal governments to share in the benefits of economic prosperity. Conversely, property taxes provide a more stable revenue source during periods of economic decline. Overreliance on any single revenue source is akin to putting all of your eggs in one basket—not recommended.

In Canada, only Vancouver, Montréal and cities in Manitoba have the authority to impose hotel and motel occupancy taxes.

Hotel occupancy taxes also capture the transient city “user” but apply to non-resident visitors only. As such, they are politically attractive—tourists don’t vote. These taxes are popular in the U.S. In Canada, only Vancouver, Montréal and cities in Manitoba have the authority to impose hotel and motel occupancy taxes. In 2001, Vancouver raised $8.2 million; Montréal raised $8.3 million (and $8.4 million in 2002).\textsuperscript{52} Hotel occupancy taxes are justified on the grounds that they compensate local governments for expanded tourist-related services, such as additional police and fire protection, and expanded public transit capacity. In Montréal, revenues from the hotel and motel occupancy tax go to the tourist association.

Upload Unfunded Mandates

Both federal and provincial governments have off-loaded additional responsibilities on municipalities. The smorgasbord of transferred programs and services includes infrastructure (airports and harbours), social services (including housing) and immigrant settlement. What the provincial and federal governments have largely failed to pass on, however, are the funds or taxing powers that would cover these additional responsibilities. To top it off, they have reduced transfer payments to municipalities over the past 10 years in an effort to improve their own fiscal situation.

A straightforward, although politically contentious, solution would be to have the provinces and the federal government take back responsibilities for those areas left unfunded. Some have argued that local governments should not, in fact, be responsible for income redistribution programs such as social housing and social assistance. Others contend that cities in Ontario have demonstrated that they are capable of planning and delivering these services that were off-loaded by the provincial government over the last decade, and may indeed be better positioned to respond to local needs. According to this latter view, more funding is needed, not fewer responsibilities. One way or another, the balance must be fixed.

More Province, More Canada

In the mid- to late 1990s, municipal advocates argued strenuously for more provincial and federal funds to solve the local government revenue problem. Consecutive waves of government off-loading resulted in city budget documents with columns full of unfunded mandates. Advocates placed a strong emphasis on the need for increased provincial and federal funding for infrastructure in cities across Canada. In Ontario, additional pressure was put on the provincial government to fund social housing, an unfunded responsibility that was shifted to local governments in 2000. Provincial and federal governments responded with new and enriched infrastructure programs (grants), as well as proposals for revenue sharing (such as the fuel tax and the GST rebate).

Both federal and provincial governments have off-loaded additional responsibilities on municipalities—without the funds or taxing powers to compensate.

The case for more provincial and federal funding for municipalities was well put. Grants are a useful tool in addressing the infrastructure gap and are easily justifiable where local infrastructure improvements help
meet provincial and federal objectives (for economic, environmental and social sustainability). However, as a response to municipalities’ needs for a reliable revenue stream, grants are an unsatisfactory solution:

- They are unpredictable. Shifting priorities of federal and provincial politicians mean that grants can be here today and gone tomorrow. Even multi-year funding programs fall victim to politics.
- They can diminish local autonomy. For the most part, provincial and federal grants are conditional, requiring local governments to meet certain guidelines and typically to provide matching funds. While this is a legitimate approach to ensure that provincial and federal priorities are met, the effect is likely to encourage municipalities to set their priorities accordingly (i.e., money tends to be directed to those services for which grants are available).
- They obscure lines of accountability. Federal and provincial governments raise the money for the grants, while local governments make the decisions on how to disburse the funds. The connection between those who benefit from the spending and those who bear the cost is weak.

Grants are a useful tool in addressing the infrastructure gap, but as a response to municipalities’ needs for a reliable revenue stream, they are an unsatisfactory solution.

RECOMMENDATIONS FOR FISCAL RESOURCES
The Conference Board of Canada recommends that:
28. The federal and provincial governments work toward ending the municipal fiscal imbalance for major cities, potentially through such means as granting access to a growth tax, increasing transfers and reassuming responsibility for previously off-loaded services.
29. Provincial governments permit a wider variety of tax instruments and user fees for municipal governments.
30. The federal and provincial governments design new approaches to municipal funding to permit the strategic allocation of funds in line with the distinct needs and potential of major cities.
31. Municipal governments undertake systematic cross-city research into current municipal service delivery costs and spending, with the aim of setting benchmarks and assessing the cost-savings potentials and pitfalls of competitive service delivery models.
32. Municipal governments use the fiscal tools available to them more effectively, including property taxes, user fees and debt loads for capital projects.

STRONG POLITICAL LEADERSHIP
Saddled with financial burdens, limited by provincial constraints and ignored by the federal government, city governments in Canada face an image problem. Municipal governments are typically viewed by their citizens as deliverers of services—as technical administrators rather than political visionaries. While effective local service delivery is an important and valued function of municipal government, the primacy of such a role reinforces a narrow approach to governing and does little to create opportunities for innovative solutions.

This somewhat prosaic view of municipal governments is not new. Many believe it stems from the urban reform movements of the early 20th century, which saw the rise of city planning and the desire to eliminate political partisanship and political corruption. During this period, the focus was on using administrative criteria to generate the “one best way” to carry out municipal programs—service delivery “by numbers.” This early context marked municipal politics and administration and structured citizen understanding. With the growth of provincial governments during the latter part of the 20th century, municipal governments saw their influence wane and their parochial image persist. For the most part, municipal governments accepted their role
as junior partners in government, welcoming the strong provincial role, since more provincially held responsibilities meant less pressure for local tax increases.

The property tax, on which local governments are increasingly dependent, is both insufficient to meet expenditure needs and, for many, regressive. As well, because it is so visible (in contrast to the income tax) it is the tax that everyone loves to hate. Hence these realities have narrowed the vision of leaders as to what is possible to accomplish.

In a recent study, the Conference Board scanned media coverage of municipal elections in order to assess citizen interest in local government and the media’s role in shaping issues. The results attest to a persisting view of municipal governments as technical administrators and service deliverers. Newspaper coverage clearly reflected this deeply held view of municipal government while at the same time reinforcing it. Most citizens see municipal government services and programs as being about day-to-day activities and operations, rather than as part of an overall agenda for a sustainable urban future. Recent public opinion polls indicate that while Canadians are positive about their local governments, they show little support for giving them more responsibilities (perhaps reflecting a fear of tax increases).

This parochial image of municipal government, reinforced by media coverage, is one of the barriers to developing the kind of dynamic, innovative city-regions that Canada needs. The continual pressure from voters to keep taxes down and to limit the municipal mandate constrains innovation, be it economic, social, cultural, political or environmental. The evolution of federalism has, of course, further contributed to this image problem through the constitutional alignment of federal and provincial responsibilities. Municipal governments, as “creatures of the province,” tend to be regarded as junior partners in government. Furthermore, the federal government’s reliance on equalization and redistribution mechanisms to boost rural and northern regions comes at the expense of urban areas.

Overcoming these barriers requires strong leadership from key local, regional and national players. Canada needs mayors with vision and determination to take decisive action; business, academic and community leaders willing to commit their energy to shaping the urban policy agenda; and public officials—elected and appointed—with the requisite courage and imagination to reshape the structures and relationships that govern our cities—and our nation’s—success.

**STRONG LEADERS**

Evidence from home and abroad indicates that strong local leadership is crucial to a city’s success. While the initial impetus and drive may come from leaders within the business or community sectors, political leadership from the head of council is critical for transforming visions into reality. A city mayor needs to set out the roles of government, business and community in achieving the goal and to map out markers of success. Research from the U.K. identifies the following as key capabilities of a strong municipal leader:

- a willingness to take brave long-term decisions;
- a willingness to enter into partnerships;
- a desire for excellence;
- an understanding of the components of place that attract innovation and investment;
- the ability to deliver; and
- an understanding of the importance of ensuring adequate administrative capacity.

A successful leader understands the need for engagement and the reality of entanglement. Where disentanglement was once viewed as an objective for good governance, today’s complex environment demands a web of actors to solve the “wicked” problems of our big cities. The mayor is pivotal in asserting the city’s needs and interests in the intergovernmental arena and in building relations with all sectors of the local community. Knowing with whom, how and when to forge partnerships to solve complex city issues is the mark of a good leader.

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53 The media study involved analyses of the content of municipal election reporting in the largest local newspapers from two weeks before to one week after the most recent municipal elections.

54 Ipsos Reid, How Do Canadians Feel?.

The mayor’s leadership also extends to developing relationships with other municipalities within the city-region to deal with strategic and immediate issues. This conclusion is particularly significant given the fact that a “weak mayor system” predominates in Canada’s major cities. Hence, personal leadership abilities are paramount, both in exercising political leadership and in generating the administrative support required for policy development and implementation.

Clearly, the mayor has a key role in ensuring that council works effectively and focuses on city priorities. Even the most politically skilled mayor will face heightened challenges when dealing with a large council. An executive committee of council and (or) vesting some executive authority in the role of the mayor may well be requirements for achieving a strategic focus in these cases. This issue has been recognized and addressed in both Montréal and Toronto.

THE SELF-CONFIDENT CITY

It is sometimes viewed as a paradox that increased globalization has brought about the rise of cities and city-regions. Yet cities are the hubs of wealth and knowledge creation and the platforms for national success. It is in the interest of all Canadians that Canada’s cities achieve their potential. Canada’s cities need to step up from being “good enough” to being the most desirable places in which to live and to do business. We need self-confident cities that have the courage to innovate without imitating what others have done.

A good place to start is to recognize that governance matters. Cities, like businesses, will flourish under confident and visionary leadership. Good local leaders must set long-term goals for their community and engage with business and civil society to achieve them. Knowing when and how to engage other governments (whether federal, provincial or neighbouring municipal governments) is another hallmark of good leadership.

Equipping local leaders with appropriate fiscal and governance tools is critical to ensuring success. Mayors and councillors must have sufficient autonomy to make decisions about how to fund new infrastructure, social housing or immigrant services. As city halls are the arenas for the most visible and participatory forms of democracy, decision-making is highly transparent. It is only appropriate that local governments be trusted with a wide range of funding options and be empowered with full accountability for their decisions.

Fulfilling the potential of our cities requires leaders who know how to leverage urban assets and fix urban problems.

A self-confident city requires leaders who recognize what is unique about their city. For example, history and geography combined to create the beautiful, multicultural city of Vancouver and the cosmopolitan, financial powerhouse of Toronto. Striking contrasts can be found between each of Canada’s major cities, whose future success will depend on leveraging their particular assets. One can look back to Toronto in the 1950s when city leaders chose to expand the streetcar and subway system rather than imitate the U.S. model of expanding roads and highways. In the 1970s, Mayor David Crombie campaigned and won by appealing to Torontonians’ sense of the importance of neighbourhoods to their city. His leadership launched a new era for the city marked by limits on high-rise densities, a focus on neighbourhood preservation, new mixed-income neighbourhood development and mixed-use downtown development. Vancouver in the 1970s and 1980s flourished under the imaginative leadership of mayors Arthur Phillips and Mike Harcourt, who turned their vision of the False Creek mudflats into a vital neighbourhood.

Fulfilling the potential of our cities requires leaders who know how to leverage urban assets and fix urban problems. While cities can learn much from each other, solutions must be adapted to suit local needs. Self-confident cities will emerge from self-confident leaders who view themselves as equal, not junior, partners with other government leaders. 🌱
HIGHLIGHTS

• Canada’s prosperity depends on the success of our cities—particularly our major cities, whose economic growth, according to recent Conference Board research, generates even faster rates of growth in their respective regions.

• However, the resources at major cities’ disposal do not match their importance as engines of national prosperity or their challenges. Municipal fiscal and governance constraints limit their ability to deal with infrastructure, growth management, environmental and social challenges.

• Canada must strengthen the four cornerstones of cities’ success—a strong knowledge economy; connective physical infrastructure linking people, goods and ideas; environmentally sound growth; and socially cohesive communities.

• Federal and provincial governments must end their largely per capita approach to funding and allocate investments based on distinctive needs and potential.

• Three enabling conditions create the environment needed to propel Canada’s major cities to sustainable prosperity: effective governance capacity, adequate fiscal resources and strong political leadership.
Canada’s major cities rival the country’s natural wealth as one of the pillars of sustainable prosperity. Oil and gas in the west and diamonds in the north may be our most tradable natural resources, but cities in the south can be the most enduring gems in Canada’s treasure chest. Worldwide, cities and city-regions are at the core of national prosperity agendas, attracting public and private investment to make them more livable, more competitive and more sustainable. Why is Canada not keeping up?

This volume focuses on the role of Canada’s major cities in vaulting the nation forward. We have argued that the success of our major cities should be a national priority and have included new Conference Board research that strengthens existing arguments about the national importance of big cities, highlights the role of hub cities and points to the need for discerning approaches to investment. The case presented here shatters the myth that the Canadian way—“equal treatment for all”—is the best way.

This volume has addressed the challenges facing Canada’s cities and city-regions and has offered recommendations to reinforce the four cornerstones of their success: a robust knowledge economy, an up-to-date connective infrastructure, healthy environments and socially inclusive communities. It has also defined the enabling conditions of good governance, sufficient fiscal resources, enlightened attitudes and bold leadership that together can create the environment needed to propel Canada’s major cities to sustainable prosperity.

THE MISSION

Following this section, a summary comprising 32 recommendations concludes the report. The recommendations give form to the three imperatives that are central to achieving successful Canadian cities:

- Make major cities a national priority.
- Strengthen the cornerstones of competitive cities.
- Give major cities the power and resources they need for success.

If we get these right, Canada will be well on its way to achieving sustainable prosperity.

MAKE MAJOR CITIES A NATIONAL PRIORITY

In response to the growing awareness that successful cities are drivers of national prosperity in today’s knowledge-based economy, federal and provincial governments have recently offered initiatives to boost municipal revenues and governance powers. Although welcome, these initiatives lack a coherent or strategic focus. Funding programs are stuck in the “equal treatment for all” approach and ignore the particular needs of Canada’s major cities. The critical elements that link initiatives to successful outcomes for cities are missing: a guiding long-term agenda for sustainable cities and a strategy to coordinate policies between and within governments.

Recent developments in the United Kingdom have shown that national policies can make a difference. Over the past seven years, the British government has unleashed
a stream of urban initiatives tied to national goals for economic and social sustainability. Its example shows that Canada cannot afford to continue dealing the “Constitution” card, arguing that the provinces have all the responsibility for cities. Governments—whether centralized, like the U.K’s, or federated, like Canada’s—will continue to rely on cities and city-regions to fuel the economy and generate innovation.

A national policy focus on cities is needed to:
• develop a plan for sustainable cities within a prosperous Canada and allocate investments accordingly;
• promote complementary policies among all governments with respect to Canada’s cities; and
• generate better data on city performance to inform urban public policy.

Chronically short of resources and new revenue sources, Canadian cities cannot provide the services, infrastructure and community assets that they need to thrive.

Urban and rural Canadians alike should appreciate the connection between the success of major cities and the economic health of smaller communities. All citizens should be worried that Canada’s major cities are struggling to stay competitive. Endowed with growing and diverse populations, and chronically short of resources and new revenue sources, cities cannot provide the services, infrastructure and community assets that they need to thrive. These shortfalls hinder our capacity to secure a more prosperous future for all Canadians.

Within the constellation of Canada’s major cities, Toronto, Vancouver and Montréal stand out for their sizable contributions to the national economy and equally sizable investment needs. Sprawling growth requires funding for region-wide integrated mass transit systems. Immigrant settlement places unique demands on these cities to supplement funding for settlement services, language training and skills development. Cultural and educational investments are needed to help these urban regions compete as “global cities.” All of these special features call for corresponding levels of special investment.

All cities and communities stand to benefit from a new urban agenda—a national commitment to building strong, prosperous and healthy cities.

The Conference Board’s convergence research supports the case for a strategic investment of funds to maximize the economic growth of major cities whose success creates spinoffs for surrounding regions. At the same time, it does not preclude other cities and communities from receiving funding that would help realize their potential. All cities and communities stand to benefit from a new urban agenda—a national commitment to building strong, prosperous and healthy cities.

STRENGTHEN THE CORNERSTONES OF COMPETITIVE CITIES

This volume has described the four cornerstones of successful cities: a strong knowledge economy, up-to-date connective infrastructure, environmentally sound growth and socially cohesive communities. Globally competitive cities focus on reinforcing each of these cornerstones; Canada’s cities must do the same.

This volume offers recommendations that will allow Canada’s major cities to achieve national and global success. These recommendations span a wide range of instruments and approaches: government investments; policy, regulatory and taxation adjustments; new business practices; funding options; governance arrangements; and even behavioural changes. Many of these measures call for coordinated efforts among multiple actors across governments, the private sector and civil society. A comprehensive approach to getting the “basics” right is crucial to making it possible for our cities to fulfill their potential.
**GIVE MAJOR CITIES THE POWER AND RESOURCES THEY NEED FOR SUCCESS**

With all the attention paid to the federal–provincial fiscal imbalance, city mayors are asking why no one has noticed the municipal fiscal imbalance. Local governments are facing fiscal crises stemming from rising expenditures and limited revenue options. In addition to rising costs associated with urban growth, cities are coping with new funding responsibilities related to programs and services off-loaded from federal and provincial governments. At the same time, revenue growth has lagged far behind that of provincial and federal governments. Conference Board research has shown that the fiscal health of Canada’s cities will only worsen under the status quo arrangement, in which property taxes are the dominant revenue source.

Greater political autonomy—coupled with more control over revenue-raising and expenditures—will give Canada’s cities the tools they need to succeed.

The recommendations here for enhancing the revenue capacity of cities are directed toward all levels of Canadian government. Municipal governments can, and should, do more with the tools they have—but it is imperative that provincial governments make more revenue options available to cities.

Better urban governance is an equally necessary condition for building more vibrant and prosperous cities. The immense social, physical and economic diversity that defines our nation is also reflected in the unique character and history of each of our major cities. Acknowledging the diversity of our cities means accepting that there is no single best model for urban governance. However, greater political autonomy—coupled with more control over revenue-raising and expenditures—will give Canada’s cities the tools they need to succeed.

**STRONG LEADERSHIP—THE TRANSFORMATIVE INGREDIENT**

Evidence from home and abroad shows that strong local leadership is critical to cities’ success. The complex issues facing today’s city leaders—particularly leaders of major cities—are sometimes international in scope (global trade, foreign immigration); sometimes national (public security); often regional (transportation); and always local (parks, housing, garbage). Managing these issues effectively requires “constructive entanglement” with myriad actors. City leaders must embrace partnerships with local community and business groups to accommodate the vested interests of diverse parties. As the reach of cities extends beyond municipal boundaries, they must also forge new partnerships with other cities.

Strong leadership may initially emerge from within the business or community sectors, but without strong political leadership, action is unlikely. Cities need political leaders with the fortitude and vision to support policies that may be unpopular in the short term, but that promote the long-term health of the city-region. They need leaders who are decisive, who are capable of taking firm action and who have the negotiating and communication skills to get the relevant players and the public on side. However, the political leadership needed to build self-confident cities is unlikely to flourish under the legislative restraints and fiscal constraints that characterize municipal governance today.

Cities need political leaders with the fortitude and vision to support policies that may be unpopular in the short term, but that promote the long-term health of the city-region.

Canadians have compelling economic, social and environmental reasons to create a national urban agenda that will propel our cities—and our nation—to sustainable prosperity. It’s time for leaders in all sectors, and at all levels, to embrace this mission.
SUMMARY OF RECOMMENDATIONS FOR SUCCESSFUL-canadian-cities

STRENGTHEN THE CORNERSTONES OF COMPETITIVE CITIES

Recommendations for a Strong Knowledge Economy

1. The federal government, in consultation with the provinces, major cities and other stakeholders, prepare a national productivity plan to address the gap in productivity in those industries and sectors that are largely urban-based, taking into account the need to:
   – improve the domestic operating environment by re-examining regulations and other trade barriers, and by investing in better transportation and border infrastructure; and
   – improve immigrant selection and recognition of credentials to ensure an adequate workforce.

2. All levels of government collaborate with academic institutions and industry to investigate the policy, research and education strategies required to drive high-value job creation.

3. All levels of government work with businesses, educational institutions and cultural organizations to identify and enhance quality-of-life factors that make Canada’s major cities attractive for business and knowledge workers.

Recommendations for Improving Urban Transportation

4. Provincial and municipal governments pursue integrated land use and transportation planning at the local and regional levels, aiming to accommodate growth through intensification rather than low-density sprawl.

5. Provincial and municipal governments develop suitable governance arrangements for urban transportation in areas of multiple jurisdictions.

6. All levels of government incorporate the improvement of the accessibility and efficiency of airports, rail and other methods of inter-city transport into infrastructure development plans.

7. Provincial and municipal governments use a “carrot and stick” approach to promote a shift from cars to more sustainable modes of transportation:
   – A sufficiently dense and extensive public transit network is a necessary prerequisite.
   – Disincentives to automobile use—including regulatory and road pricing measures—will complete the policy framework.

8. Provincial and municipal governments make greater use of alternative sources and methods of funding urban transportation.

9. Provincial and municipal governments and their agencies consider low-cost operational and service improvements to increase transit ridership and efficiency.

10. Business and all levels of government work together to provide incentives for consumers to buy lighter, more fuel-efficient vehicles.

11. Provincial and municipal governments consider pilot programs and other incentives to promote higher load factors (i.e., operating trucks at full load capacity) for private and commercial urban trucking.

12. The federal and provincial governments undertake full feasibility studies for high-speed rail transit in both the Windsor–Québec City and Calgary–Edmonton corridors; and quantify the socio-economic benefits and costs for each project to determine the requisite level of government support.

13. The federal and provincial governments work together to prepare a national urban transportation strategy and consider the recommendations arising from the European Conference of Ministers of Transport.

Recommendations for Environmentally Sound Growth

14. All levels of government work with research institutions to undertake extensive research on ways of dealing with wastes, including ways to convert wastes into inputs for productive processes.
15. Municipal governments and NGOs work with industry to facilitate industry information sharing on eco-industrial networks, clusters and parks.

16. All levels of government and NGOs raise awareness of the economic benefits of industrial ecology to encourage greater industry and municipal participation.

17. Federal and provincial governments review and change regulations to support industrial ecology by permitting the development and use of by-products created from wastes.

18. All levels of government use fiscal tools, such as charging higher wastewater disposal fees and solid waste tipping fees, to support environmentally sound practices.

19. Municipal governments either provide the appropriate infrastructure and design for industrial parks or retrofit them to facilitate the co-sharing of areas and the exchanges and transformation of wastes into by-products.

20. Businesses consider changes in management and leasing policies to accommodate co-use of facilities.

Recommendations for Social Cohesion

21. Provincial and federal governments increase their investments in affordable housing in Canada’s major cities.

22. The federal and provincial governments implement the recommendations of the Task Force to Modernize Income Security for Working-Age Adults (MISWAA) to improve incentives for working-age adults to enter the workforce.

Recommendations for Governance

23. Provincial governments and major cities work together to find governance solutions to city-regional issues, such as regional transportation and land use planning; environmental protection and conservation; sewer, water and waste management; economic development and investment; and social sustainability.

24. Government, business, academic and community leaders in Canada’s major cities pursue multi-sector partnerships to find solutions to challenges in their cities and create an agenda for action that supports sustainable prosperity.

25. The federal and provincial governments include major cities directly in policy-making on transportation, energy, immigrant settlement, research and innovation, housing, public security and other matters that affect them.

26. The federal government support the establishment of a national database on cities, building on the expertise available at Statistics Canada.

27. Federal and provincial governments focus policies and programs strategically, recognizing the unique needs and contributions of Canada’s major cities.

Recommendations for Fiscal Resources

28. The federal and provincial governments work toward ending the municipal fiscal imbalance for major cities, potentially through such means as granting access to a growth tax, increasing transfers and reassuming responsibility for previously off-loaded services.

29. Provincial governments permit a wider variety of tax instruments and user fees for municipal governments.

30. The federal and provincial governments design new approaches to municipal funding to permit the strategic allocation of funds in line with the distinct needs and potential of major cities.

31. Municipal governments undertake systematic cross-city research into current municipal service delivery costs and spending, with the aim of setting benchmarks and assessing the cost-savings potentials and pitfalls of competitive service delivery models.

32. Municipal governments use the fiscal tools available to them more effectively, including property taxes, user fees and debt loads for capital projects.

GOVERNMENT, BUSINESS, ACADEMIC AND COMMUNITY LEADERS IN CANADA’S MAJOR CITIES MUST WORK TOGETHER TO FIND SOLUTIONS TO CHALLENGES IN THEIR CITIES AND CREATE AN AGENDA FOR ACTION THAT SUPPORTS SUSTAINABLE PROSPERITY.
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### Table 5
Contribution of Traffic Restraint Measures to Key Objectives

<table>
<thead>
<tr>
<th>Measure</th>
<th>Congestion relief</th>
<th>Environment, safety, sustainability</th>
<th>Revenue generation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership Restraint</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory</td>
<td>0</td>
<td>++</td>
<td>X</td>
</tr>
<tr>
<td>Fiscal</td>
<td>0</td>
<td>++</td>
<td>+++</td>
</tr>
<tr>
<td><strong>Parking Restraint</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory</td>
<td>X</td>
<td>+?</td>
<td>X</td>
</tr>
<tr>
<td>Physical</td>
<td>X</td>
<td>+?</td>
<td>0</td>
</tr>
<tr>
<td>Fiscal</td>
<td>++</td>
<td>++</td>
<td>++</td>
</tr>
<tr>
<td><strong>Moving Vehicle Restraint</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory</td>
<td>+++</td>
<td>+++</td>
<td>++</td>
</tr>
<tr>
<td>Physical</td>
<td>X</td>
<td>+?</td>
<td>0</td>
</tr>
<tr>
<td>Fiscal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel taxes</td>
<td>0</td>
<td>+++</td>
<td>+++</td>
</tr>
<tr>
<td>Road pricing</td>
<td>+++</td>
<td>+++</td>
<td>+++</td>
</tr>
</tbody>
</table>

**Key:**
+ Positive impact
X Negative impact
0 No impact
? Uncertain impact

*Assuming comprehensive control
Source: May, “Making the Links”, Table 1, p. 7.
Table 6
Recommendations for National Governments on Improving Implementation of Sustainable Urban Travel Policies

| Improve institutional coordination and cooperation. | • Develop a national policy framework for sustainable urban travel.  
• Coordinate national policy approaches on urban land use, travel health and the environment.  
• Decentralize responsibilities when possible; centralize when necessary.  
• Provide a consistent integrated framework for national government financing and investment.  
• Consider all modes of travel—in particular environmentally sustainable modes—as well as land use priorities, when allocating national government funds to the local level. |
| --- | --- |
| Encourage effective public participation, partnerships and communication. | • Involve the media, advocacy groups and individual clients of the transport system.  
• Seek partnerships with the different stakeholders in the transportation system.  
• Inform and communicate with transport system clients (particularly important for demand management policies). |
| Provide a supportive legal and regulatory framework. | • Ensure that rules and regulations clearly specify the relative roles of public and private sectors.  
• Ensure that transport demand management tools and measures to promote non-motorized modes are supported.  
• Fully integrate air quality, greenhouse gas, noise and other environmental targets, and adopt and rigorously monitor technical standards for vehicles and fuels. |
| Ensure a comprehensive and consistent pricing and fiscal structure and rationalize financing and investment streams. | • Channel revenues from pricing initiatives so that benefits are felt by those bearing the costs.  
• Allocate funding in a balanced way among different modes.  
• Weigh national investment and financing in capital cities against needs in secondary and tertiary cities. |
| Improve data collection, monitoring and research. | • Improve data collection.  
• Carry out consistent monitoring.  
• Organize and finance research, development and testing of potential solutions. |

### Municipal Revenues and Expenditures: Accounting Base Classification and Data

#### Table 7
Simulated Municipal Consolidated Financial Statement Accounting Base

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property and related taxes</strong>&lt;br&gt;(including payment in lieu of taxes)*</td>
<td><strong>General government services</strong>&lt;br&gt;Executive, legislature and general administration expenditures that cannot be allocated to specific functions and other general government services (e.g., insurance, court litigations).</td>
</tr>
<tr>
<td><strong>Other revenue from own sources</strong>&lt;br&gt;(including user charges)</td>
<td><strong>Protection of persons and property</strong>&lt;br&gt;(police, fire, 911)&lt;br&gt;Services provided to ensure the security of persons and property.</td>
</tr>
<tr>
<td><strong>Transfers from other governments</strong>&lt;br&gt;(provincial, federal)</td>
<td><strong>Transportation</strong>&lt;br&gt;Construction, operation and maintenance of transportation facilities and services. Includes air, road, public transit, rail and navigation systems.</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>Health</strong>&lt;br&gt;Expenditure made to ensure that necessary health services are available to all citizens. Medical and preventive care, public health campaigns, ambulance services, etc.</td>
</tr>
</tbody>
</table>

(Cont'd on next page)
### Table 7 (cont’d)
Simulated Municipal Consolidated Financial Statement Accounting Base

<table>
<thead>
<tr>
<th>Expenditures (cont’d)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social and family services</td>
<td>Actions taken by a municipality to prevent situations where the well-being of individuals or families is threatened by circumstances beyond their control. Services to the disadvantaged.</td>
</tr>
<tr>
<td>Environment</td>
<td>Water purification and supply, sewage collection and disposal, garbage and waste collection, pollution control and other environmental services.</td>
</tr>
<tr>
<td>Environment (including sewer, solid waste, water, air quality)</td>
<td></td>
</tr>
<tr>
<td>Recreation and culture</td>
<td>Government participation in the field of leisure either through developing, improving or operating leisure facilities or through assistance payments to individuals and private organizations engaged in promoting leisure activities. Parks and playgrounds included.</td>
</tr>
<tr>
<td>Recreation and culture (including parks and public libraries)</td>
<td></td>
</tr>
<tr>
<td>Social housing</td>
<td>Municipal outlays on social housing with the exception of rent supplement (social services). Operations or financial assistance to build, renovate or improve the stock of social housing.</td>
</tr>
<tr>
<td>Planning and development</td>
<td>Expenditures related to community and regional development affairs and services. Planning and zoning, assessment procedures, community and regional development.</td>
</tr>
<tr>
<td>Planning and development</td>
<td></td>
</tr>
<tr>
<td>Other expenditures</td>
<td>This category provides for expenditures that cannot be “clearly” allocated to any of the other functions. It also includes capital and financial expenditures (debt, interest).</td>
</tr>
<tr>
<td>Other expenditures</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total expenditures</th>
<th>Total expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus or deficit</td>
<td>Total revenues minus total expenditures</td>
</tr>
</tbody>
</table>

Source: Adapted by The Conference Board of Canada from Statistics Canada's Financial Management Systems (FMS) definitions (Catalogue no. 68F0023) to reflect the specificity of the municipal sector.
### Table 8
Consolidated Revenues and Expenditures, Canada’s 10 Major Municipalities, 2004
($ 000s)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Total 10 municipalities</th>
<th>Toronto</th>
<th>Vancouver GVRD*</th>
<th>Montréal</th>
<th>Calgary</th>
<th>Ottawa</th>
<th>Edmonton</th>
<th>Winnipeg</th>
<th>Halifax</th>
<th>Saskatoon</th>
<th>Regina</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and related taxes (including payment in lieu of taxes)</td>
<td>11,661,942</td>
<td>3,096,416</td>
<td>2,099,599</td>
<td>2,822,420</td>
<td>887,449</td>
<td>1,059,355</td>
<td>533,897</td>
<td>491,698</td>
<td>447,901</td>
<td>106,808</td>
<td>116,399</td>
</tr>
<tr>
<td>Other revenue from own sources (including user charges)</td>
<td>8,491,623</td>
<td>2,681,889</td>
<td>1,950,060</td>
<td>618,379</td>
<td>395,674</td>
<td>630,412</td>
<td>815,265</td>
<td>383,352</td>
<td>81,626</td>
<td>265,950</td>
<td>129,016</td>
</tr>
<tr>
<td>Transfers from other governments (provincial, federal)</td>
<td>3,124,810</td>
<td>1,600,688</td>
<td>1,070,861</td>
<td>175,321</td>
<td>363,975</td>
<td>149,833</td>
<td>94,100</td>
<td>8,209</td>
<td>18,889</td>
<td>18,538</td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>23,278,375</strong></td>
<td><strong>7,378,993</strong></td>
<td><strong>4,285,220</strong></td>
<td><strong>3,900,495</strong></td>
<td><strong>1,998,444</strong></td>
<td><strong>2,053,742</strong></td>
<td><strong>1,498,995</strong></td>
<td><strong>969,150</strong></td>
<td><strong>537,736</strong></td>
<td><strong>391,647</strong></td>
<td><strong>263,953</strong></td>
</tr>
</tbody>
</table>

| Expenditures | | | | | | | | | | | |
| Protection of persons and property (police, fire) | 4,285,410 | 1,287,582 | 769,548 | 733,414 | 344,061 | 290,080 | 310,548 | 298,484 | 99,646 | 79,037 | 73,010 |
| Transportation | 4,371,753 | 1,888,948 | 324,859 | 595,269 | 505,089 | 506,550 | 392,158 | 36,505 | 62,085 | 60,290 |
| Health | 665,739 | 310,547 | 93,116 | 122,747 | 38,730 | 100,599 | — | — | — | — |
| Social and family services | 1,981,592 | 1,520,593 | 1,685 | — | 47,247 | 391,743 | 15,290 | — | — | 5,034 |
| Environment (including sewer, solid waste, water, air quality) | 2,884,593 | 757,179 | 675,147 | 304,249 | 310,556 | 188,471 | 231,713 | 217,171 | 103,205 | 44,022 | 52,880 |
| Recreation and culture (including parks and public libraries) | 2,322,265 | 632,941 | 601,448 | 465,331 | 174,504 | 178,151 | 129,438 | — | 31,184 | 59,358 | 49,910 |
| Social housing | 953,455 | 722,452 | 22,556 | — | 60,272 | 144,218 | 3,957 | — | — | — |
| Planning and development | 467,383 | 57,591 | 90,585 | 155,984 | — | 43,892 | 44,724 | 53,514 | — | 16,917 | 4,176 |
| Other expenditures | 2,866,768 | 392 | 848,497 | 966,786 | 287,321 | 62,400 | 93,735 | 303,944 | 205,246 | 94,512 | 3,935 |
| **Total expenditures** | **23,155,191** | **7,751,928** | **4,012,453** | **3,834,085** | **1,805,925** | **2,102,223** | **1,412,867** | **929,571** | **537,023** | **384,125** | **284,991** |

| Surplus or deficit | 123,184 | -372,935 | 272,767 | 66,410 | 92,519 | -48,481 | 86,128 | 39,579 | 713 | 7,522 | -21,038 |

*Consolidated financial data—GVRD and all individual municipalities.
### Table 9
Per Capita Revenues and Expenditures, Canada’s 10 Major Cities
($ per capita)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Total 10 municipalities</th>
<th>Toronto</th>
<th>Vancouver GVRD*</th>
<th>Montréal</th>
<th>Calgary</th>
<th>Ottawa</th>
<th>Edmonton</th>
<th>Winnipeg</th>
<th>Halifax</th>
<th>Saskatoon</th>
<th>Regina</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and related taxes (including payment in lieu of taxes)</td>
<td>1,128</td>
<td>1,248</td>
<td>986</td>
<td>1,504</td>
<td>950</td>
<td>1,240</td>
<td>755</td>
<td>760</td>
<td>1,459</td>
<td>516</td>
<td>613</td>
</tr>
<tr>
<td>Other revenue from own sources (including user charges)</td>
<td>822</td>
<td>1,081</td>
<td>916</td>
<td>329</td>
<td>1,002</td>
<td>738</td>
<td>1,153</td>
<td>593</td>
<td>266</td>
<td>1,285</td>
<td>679</td>
</tr>
<tr>
<td>Transfers from other governments (provincial, federal)</td>
<td>302</td>
<td>645</td>
<td>111</td>
<td>245</td>
<td>188</td>
<td>426</td>
<td>212</td>
<td>145</td>
<td>27</td>
<td>91</td>
<td>98</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>2,252</strong></td>
<td><strong>2,973</strong></td>
<td><strong>2,012</strong></td>
<td><strong>2,078</strong></td>
<td><strong>2,140</strong></td>
<td><strong>2,405</strong></td>
<td><strong>2,120</strong></td>
<td><strong>1,498</strong></td>
<td><strong>1,752</strong></td>
<td><strong>1,892</strong></td>
<td><strong>1,389</strong></td>
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<table>
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<tr>
<th>Expenditures</th>
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<tr>
<td>General government services</td>
<td>228</td>
<td>231</td>
<td>275</td>
<td>261</td>
<td>148</td>
<td>230</td>
<td>271</td>
<td>87</td>
<td>199</td>
<td>112</td>
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<tr>
<td>Protection of persons and property (police, fire)</td>
<td>415</td>
<td>519</td>
<td>361</td>
<td>391</td>
<td>368</td>
<td>340</td>
<td>439</td>
<td>461</td>
<td>325</td>
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<td>Transportation</td>
<td>423</td>
<td>761</td>
<td>153</td>
<td>317</td>
<td>541</td>
<td>593</td>
<td>555</td>
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<td>119</td>
<td>300</td>
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<td>Health</td>
<td>64</td>
<td>125</td>
<td>44</td>
<td>65</td>
<td>41</td>
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<tr>
<td>Social and family services</td>
<td>192</td>
<td>613</td>
<td>1</td>
<td>—</td>
<td>51</td>
<td>459</td>
<td>22</td>
<td>—</td>
<td>—</td>
<td>24</td>
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<tr>
<td>Environment (including sewer, solid waste, water, air quality)</td>
<td>279</td>
<td>305</td>
<td>317</td>
<td>162</td>
<td>333</td>
<td>221</td>
<td>328</td>
<td>336</td>
<td>336</td>
<td>213</td>
<td>278</td>
</tr>
<tr>
<td>Recreation and culture (including parks and public libraries)</td>
<td>225</td>
<td>255</td>
<td>282</td>
<td>248</td>
<td>187</td>
<td>209</td>
<td>183</td>
<td>—</td>
<td>102</td>
<td>287</td>
<td>263</td>
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<tr>
<td>Social housing</td>
<td>92</td>
<td>291</td>
<td>11</td>
<td>—</td>
<td>65</td>
<td>169</td>
<td>6</td>
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<tr>
<td>Planning and development</td>
<td>45</td>
<td>23</td>
<td>43</td>
<td>83</td>
<td>—</td>
<td>51</td>
<td>63</td>
<td>83</td>
<td>—</td>
<td>82</td>
<td>22</td>
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<tr>
<td>Other expenditures</td>
<td>277</td>
<td>0</td>
<td>398</td>
<td>515</td>
<td>308</td>
<td>73</td>
<td>133</td>
<td>470</td>
<td>669</td>
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<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>2,240</strong></td>
<td><strong>3,123</strong></td>
<td><strong>1,884</strong></td>
<td><strong>2,043</strong></td>
<td><strong>2,041</strong></td>
<td><strong>2,462</strong></td>
<td><strong>1,998</strong></td>
<td><strong>1,437</strong></td>
<td><strong>1,749</strong></td>
<td><strong>1,856</strong></td>
<td><strong>1,500</strong></td>
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</tbody>
</table>

*Consolidated financial data—GVRD and all individual municipalities.
Source: The Conference Board of Canada compilation from municipal annual consolidated financial statements (2004).
APPENDIX D

The Canada Project Research and Dialogue Activities

RESEARCH ACTIVITIES

• Building Successful Cities: Lessons from the United Kingdom
• Canada’s Hub Cities: A Driving Force of the National Economy
• Clusters of Opportunity, Clusters of Risk
• Course Correction: Advice on Canada’s Future Foreign Policy
• Death by a Thousand Paper Cuts: The Effect of Barriers to Competition on Canadian Productivity
• In Search of a New Equilibrium in the Canada–U.S. Relationship
• Lost Over the Atlantic? The Canada–EU Trade and Investment Relationship
• Open for Business? Canada’s Foreign Direct Investment Challenge
• Opportunity Begins at Home: Enhancing Canadian Commercial Services Exports
• Performance and Potential 2003–04: Defining the Canadian Advantage
  – Chapter 3—Understanding the Impact of Population Ageing: How It Will Affect the Supply of Labour and Health Care Costs
  – Chapter 4—Revitalizing Canadian Foreign Policy: Carving Out a New Role
  – Chapter 5—Assessing Canada’s Fiscal Capacity to 2015: Tough Choices Remain
• Performance and Potential 2004–05: How Can Canada Prosper in Tomorrow’s World?
  – Chapter 2—The Canada–U.S. Productivity Gap: Deepening Our Understanding
  – Chapter 3—Canadian Trade: Scenarios and Policy Options in an Insecure World
  – Chapter 4—Foreign Direct Investment: Ins, Outs and Implications for Canada
  – Chapter 5—Immigration: A New Deal for Newcomers
  – Chapter 6—Canada’s Cities: In Need of a New Fiscal Framework
  – Chapter 2—Making Connections: The New World of Integrative Trade and Canada
  – Chapter 3—Pursuing Sustainability: Global Commodity Trends and Canada
  – Chapter 4—Rethinking the Workforce: Aging Populations and Canada
  – Chapter 5—Facing the Risks: Global Security Trends and Canada
• Sustainability: A Winning Merger of Growth and the Environment

APPENDIX D

Sustainability: A Winning Merger of Growth and the Environment
DIALOGUE ACTIVITIES

- Bi-National Leaders Roundtable: The Future of Canada–U.S. Relations
- Canadian Commercial Service Exports Forum
- Capturing the Vision Advisory Panel
- Commodities Research Advisory Panel
- Consultative Forum on Canada’s Role in the World
- Countries Research Advisory Panel
- Human Resources Management in Multinational Companies: An International Conference on Global Value Chains, Employment Practices and Public Policy
- Panel on Barriers to Competition
- Urban Research Advisory Panel
- Workshop on Enlargement of the European Union

RESEARCH AND DIALOGUE ACTIVITIES
FUNDDED BY THE SOCIAL SCIENCES
AND HUMANITIES RESEARCH COUNCIL
OF CANADA

- Employment Practices in Canadian Multinational Enterprises
- The Exchange Rate and Wages: How They Affect Capital Investment
- The Link Between Economic Growth, Openness to Trade and Quality of Life
- The NAFTA Effect: Multinational Enterprises in Canada
- Workshop on International Aviation Policy for Canada

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