

Canada, Country Discussion Paper, Revitalizing Urban Areas

OECD Group on Urban Affairs Ministerial Meeting, Paris (France)  
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Briefing Paper

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Preface

The relationship between government and city in the Canadian federal state is of necessity quite complex. The basic constitutional position, reaffirmed by the Constitution Act, 1982, is that the Provinces have jurisdiction over local government. Under the umbrella of provincial Municipal Acts, cities have been able to create multi-functional administrations in keeping with the demands of a modern, technological society. The same constitutional framework, however, makes the governance of cities an inter-governmental endeavour. Even the sophistication of a Toronto (City and Metro) is conditioned by a financial base heavily dependent on the relatively inflexible instrument of real property taxation, and the by the "rules of the game" set by Queen's Park. A case in point is the City's "Economic Development Strategy", which will not be able to pursue its full agenda, until provincial enabling legislation allows the participation of the City in joint ventures with private investors. In addition to such legislative sanctions, provincial governments have set up mechanisms, customarily in the form of quasi-judicial boards, for the administrative supervision of generic processes like capital expenditures for public works, and urban planning and zoning.

Viewed synoptically, the present set of governmental roles and responsibilities in urban development have been shaped by the reverberations of a few major "events" having national repercussions, like the Great Depression of the '30's, the Second World War, and the prolonged urban expansion of the post-war period. These have left several legacies. There has emerged a substantial federal and provincial responsibility for the

Canadian social security system, concerned with health, housing, welfare, unemployment, child care and pensions. Programs in these areas contribute to the quality of life in cities and free municipalities of the burden of "relief" which at times has assumed crisis proportions. There has also been a consistent but varying pattern across the country of provincial assistance, through conditional grants and loans, for major infrastructure, particularly for urban transportation (roads and transit) and municipal utilities. The flexibility of the Canadian system is indicated by the considerable assistance provided during the urban boom by the federal government through the facilities of the National Housing Act for the funding of major municipal treatment facilities. These tendencies may be viewed skeptically, as they are by some authorities: "the conditional grant became the crucial instrument of central control in provincial-municipal and federal-provincial relations"; or they may be seen more benignly as the legitimate and far-sighted assumption of responsibility by upper tier governments.

In addition to this web of inter-governmental activity and assistance, there are of course the direct impacts of federal and provincial regimes on cities. The federal government, for example, is the largest landlord in the major cities of Canada; and through its role in transportation: railways, water and airports and in telecommunications, is necessarily mindful of the awesome responsibility of controlling such strategic city-forming functions. And there is no greater demonstration than Vancouver of the impact of a Province, through mega facilities and events, such as B.C. Place and Expo 86, on the life of a metropolis.

What is demonstrated by Canadian experience is that each period of development creates a distinctive style of governance. City governments are emerging from a period in which a traditional focus on services to property was transformed into a widely recognized expertise in the planning and management of urban development. The pattern of inter-governmental roles and relationships that will prevail in the late eighties is just now

coming into focus. A symptom of the evolving style is the form of the series of "social housing agreements" currently fostered through the Canada Mortgage and Housing Corporation. Some of the noteworthy features illustrated by the Ottawa-Quebec Agreement (announced May 13, 1986) are the "expanded role for the provinces in program delivery"; and a new package of programs, which includes two critical features: (i) the opportunity for non-profit housing development for low-income households, initiated and managed by municipalities; and (ii) the principle of "core need income thresholds", setting a limit of 30% of income for rent, with the expected result that thresholds will vary in accordance with the significant differences across Canada in urban and regional rental markets. Attaining the spirit of the policy - targetting to the most needy without creating urban ghettos, will call for considerable ingenuity and cooperation at the community and municipal level. Thus, a national program in social housing devised in response to an acknowledged systemic problem and need, depends on cooperation and interaction up and down the Canadian jurisdictional staircase.

While the style of the inter-governmental process associated with urban development will change from period to period, its continuation in some form, as an aspect of the Canadian system of government, is a certainty. This arises out of the "principle of sharing", now written into the new constitution. Both federal and provincial governments are committed to:

- . promoting equal opportunities for the well-being of all Canadians
- . furthering economic development to reduce disparities in opportunities
- . providing essential public services of reasonable quality to all Canadians

In this way <sup>t</sup>is appears that the historic tendency to mobilize the resources of the government system towards a desired level and quality of development: be it in terms of the economy, services and infrastructure or environment, will be indefinitely sustained.

## Urban Economic Development

### OECD Context

Higher priority is being assigned by OECD countries to urban economic development, although integration of urban and sectoral policies is rare. Governments have moved to address economic dislocations, labour market imbalances, and physical deterioration of urban areas by pursuing a mixture of goals involving the development of underutilized potential and opportunities for local growth; creation of employment in areas with high structural labour surpluses; increased participation for disadvantaged and minority groups; and improvement of physical environments conducive to business.

The shift to urban policies <sup>is not</sup> clear-cut. Governments pursue both sectoral and spatial objectives within policy frameworks which attempt to balance national fiscal, monetary, and trade policies with the structural adjustment needs of urban areas. Thus, urban economic issues are mainly treated within the context of other policies.

Macroeconomic policies assume a neutral stance toward urban development, with intervention in local markets limited to essential projects and social welfare programs. However, governments have lately recognized that cities have not responded equally to recovery, and so sectoral and spatial policies have been increasingly targeted on distressed areas.

Sectoral policies involving specific firms, labour and housing markets typically receive the largest share of resources. These policies are often used to moderate the pace or cushion impacts of change on declining industries and their employees. Sectoral policy also features incentives to firms identified as enhancing urban adjustment prospects by virtue of their high growth potential (e.g. services, small business, technology-based enterprises).

Regional policies have been used by most countries to

balance uneven growth and encourage development in areas with high unemployment. This approach may work at cross purposes with urban economic development since large cities are often excluded. Modifications are increasingly proposed to include major centres and remove investment barriers to urban industries.

As governments discover that relocation objectives successfully used during the '60s and '70s may now inhibit national efficiency and output, they have begun to shift regional strategies towards bolstering local strengths. While convergence with urban concerns is intended, regional policies remain geared to the control and redistributive <sup>on the</sup> growth and are not designed to modernize economies. Thus, impediments such as mismatched labour markets, decaying infrastructure and neighbourhoods often remain.

In contrast with the foregoing approaches are a number of policies tailored to local needs. Explicit urban economic development policies are the most extensive of these, although few governments utilize them. Their emphasis is on stimulating investment and creating employment where public intervention is required. Explicit frameworks contain measures to provide land, site improvements and infrastructure; direct incentives and subsidies to target firms; technical assistance, and employment schemes with wage subsidies; and training programs.

More limited responses include national urban policies focused on renewal and provision of infrastructure, housing and services, as well as local capacity-building policies which transfer responsibilities while expanding financial and legal powers of local governments.

Implementation of these policies occurs through devolution of authority from senior to local governments; consensus-building among governments, clients and private interests; and modification of financial arrangements to permit greater flexibility and continuity in funding projects.

In sum, while lack of co-ordination, clashes in program objectives, limitations and exclusion of urban priorities persist, urban governments and local interests are increasingly

initiating, planning, and delivering development programs. National governments are generally encouraging this trend.

### Canadian Context

The Canadian context for urban economic development is marked by distinctive economic and policy trends. Uneven regional performance, deepened by depressed commodity markets, fiscal stringency and structural change have prompted a limited reassessment of spatial policy with varying local implications.

Historically, senior governments have maintained primary responsibility and fiscal powers to oversee development of urban centres. These powers encompass jurisdiction over labour, regional development, sectoral policy, and regulation of capital markets. Provincial governments retain close formal supervision over local activity, including major planning decisions, capital expenditures, and debt financing.

Despite these powers, federal policy has generally moved away from intervention in regional affairs. The mandate of the Federal Department of Regional Economic Expansion (DREE), to co-ordinate strategies for economically distressed areas, was combined in 1982 with the sectoral development programs belonging to the Department of Industry, Trade and Commerce (ITC) to form the Department of Regional Industrial Expansion (DRIE). Regional policy coordination and advocacy roles were moved to regionally placed, central agency functions, giving prominence to sectoral initiatives.

At the same time, federal macroeconomic policy has emphasized restraint. As a result of tight monetary controls, high exchange rates have dampened export demand for resource products on which many regional economies are based. Thus, unemployment rates have remained high in Western and Atlantic provinces, and in the hinterlands of Central Canada. Regional differences in per capita income, employment growth and population growth also reflect a pattern of uneven performance and stresses, with low



or negative growth since 1981 in the West particularly.

The combined effect of these trends in regional terms has been a lack of federal spatial programming while regions and cities are experiencing major adjustment problems. Provincial/territorial responses to these circumstances have included devolution of authority to municipalities (e.g. Quebec, Yukon), selective urban programming (e.g. Ontario), and facilitation of sectoral programs (e.g. British Columbia). In all cases, both an increase and qualitative change in urban economic development priorities have resulted.

#### Senior Government Policies

1. WHAT POLICY MEASURES ARE MINISTERS TAKING TO INCREASE THE COMPATIBILITY BETWEEN SECTORAL POLICIES AND URBAN ECONOMIC DEVELOPMENT POLICIES?

There is little explicit urban focus in federal or provincial/territorial development policies. That is, policy frameworks mostly reflect a combination of sectoral and regional orientations, or rely on the delivery of limited urban programs. However, there are examples of co-ordination between sectoral and urban economic policies, often arising in response to local concerns.

The most comprehensive is the Winnipeg Core Area Initiative (WCAI), a program jointly delivered by the City of Winnipeg and the Governments of Manitoba and Canada. The WCAI functions as an exception on the national scene because governments act as equal partners in establishing priorities, carrying out plans and evaluations. The program merges a wide range of socio-economic objectives including development of employment skills, upgrading of cultural facilities, physical renewal, and attracting priority investments.

Another departure from the norm is the Yukon 2000 Comprehensive Economic Development Policy. Yukon 2000 is a planning

process initiated by the Territorial Government in which community economic development assumes a central place. Following the initial planning phase, programs are envisioned to integrate local, regional and sectoral objectives based on needs for economic diversification and balanced distribution of benefits.

Beyond these exceptional cases, many development programs are operated within sectoral/regional frameworks which may be brought directly to bear on urban issues. While programs are not designed for urban adjustment, local and senior governments may adapt vehicles for industrial development, labour readjustment, community stabilization, infrastructure and municipal support to local needs. Co-operation with the Federal and Ontario governments has been an important factor in adapting programs for the Regional Municipality of Sudbury. Sudbury formed a regional development corporation to divert program information between the community and senior levels of government. Senior government co-ordination has assumed a secondary role, finding formal expression in 1982 with the designation of Ontario's Ministry of Northern Affairs to work with local officials in identification of growth prospects and complementary programs.

The City of Vancouver, through its Economic Development Office, offers another example of how sectoral and urban policies have been harmonized. Again, local initiative was pivotal in enlisting senior government participation through the City's Economic Advisory Committee. The Committee keeps watch on emerging legislation so that a local response can be made before policy is fully developed. The Federal Department of Finance's policy to establish International Banking Centres in Vancouver and Montreal had its roots in local lobbying efforts.

Although community development strategies (e.g. Saint John, New Brunswick) have previously anticipated provincial policy, arrangements like those in Sudbury and Vancouver are recent phenomena. Prior to examples such as these, the locus of co-ordination in sectoral/regional frameworks was shared between federal and provincial governments under the aegis of DREE and

subsequently DRIE. The situation in Newfoundland illustrates the characteristic traits of policy geared to regional economic sectors - in this case, energy, facilitated by the Atlantic Accord on Offshore Development. Under the terms of the Accord, provisions were made for job creation and training, and building of urban infrastructure. While St. John's will benefit from these measures, governments are only tangentially concerned with the City's economic development.

Under a third type of co-ordination framework are a number of limited urban policies. These measures focus on specific problems, opportunities, or issues, and are designed as short- or medium-term interventions. They are urban insofar as problems are seen to affect communities, and because programs are launched from urban centres. For example, Canada Employment and Immigration's Community Futures Program is designed to improve labour markets in smaller centres impacted by chronic unemployment and major layoffs. The Program seeks provincial input to identify and adapt complementary programs, and places the onus on communities to develop plans. Ontario's Ministry of Treasury and Economics uses Community Economic Transformation Agreements (CETA) to help cities with adjustment problems by funding projects identified by the Province, local and federal governments, and the private sector. Of a more anticipatory nature are urban economic summits, organized by Quebec's Ministry of Municipal Affairs. These meetings include local governments, academics, community groups and business interests to discuss solutions and develop informal working networks. The Province augments this information transfer role by issuing reports which interpret the impacts of its policies on specific regions.

An important feature of many community-based programs - urban, sectoral/regional, or of more limited scope - is leveraging of private capital and government grants. For instance, the WCAI has attracted over C\$200 million in additional funds from a program investment of C\$96 million. Seed money was used to draw funds from line departments whose programs share objectives with WCAI components. Funds were accessed from the Canada Employment

and Immigration Commission to complement programs addressing chronic unemployment and special needs groups. Investment in facilities and services brought in matched funds from Canada Mortgage and Housing Corporation, Manitoba Housing, Winnipeg Housing and Rehabilitation Corporation, housing co-operatives, local development groups, non-profit organizations and private developers.

From the foregoing patterns of sectoral-urban co-ordination it appears that measures are most often taken in response to economic dislocations, and where pressure from communities has focused attention on urban issues.

## 2. WHAT PRIORITIES HAVE MINISTERS SET FOR POLICIES TO STRENGTHEN URBAN ECONOMIES?

Priorities set by senior governments to strengthen urban economies generally are of two types: (1) those which reflect regional perspectives and regionally-oriented sectoral policies, and (2) those articulated by urban interests and re-interpreted by Ministers. The first set of priorities are usually contained within industrial assistance programs which are either separate from or indirectly linked to urban development policies. Still, such priorities may have significant impact by addressing industries, amenities, services, and client groups concentrated in urban areas.

Major themes in regional policies (or regionally-impacting sectoral policies) involve fostering self-reliance of regions (DRIE), decentralization and balanced growth (Alberta), diversification, 'building on strengths' (Saskatchewan), national equity (Federal transfers to individuals and regions for health, education, and unemployment benefits), local/regional investment, and promoting high-growth sectors such as advanced technology and knowledge-based services (Manitoba, B.C., Quebec, Ontario, Federal Ministry of State for Science and Technology, and others).

These goals find expression in programs directed to small

business development, including local 'incubator' programs; incentives, managerial assistance and infrastructure provision for manufacturing and processing; and training, promotion and funding for tourism, export development and labour market improvement. 'Community development' emerges within this context as a means of transferring information, hosting promotional events, and enlisting local support for senior-level programs.

Priorities articulated by local governments, the second type, emphasize integration of social and economic objectives. Primary themes span local equity, including 'quality of life' and access to economic opportunity. Locally-oriented priorities also address acute adjustment problems related to decline of local industry or changes in urban function. Basic priorities include replacement and renovation of infrastructure to attract investment and safeguard living and working environments.

Local equity goals are expressed through planning initiatives such as Yukon 2000, as well as local capacity-building policies involving rationalization of services, and broadening of municipal powers. The Province of Quebec has devolved fiscal authority over local expenditures through the Fiscal Municipal Act (1979), enabling urban areas to control funding decisions. Similar moves from conditional to block funding in the Yukon are also intended to augment local autonomy. Equity safeguards are retained by provinces by using tax incentives and penalties to encourage renovation of heritage buildings, access to green space, and to extend amenities and services required by certain retail businesses. Powers granted to municipalities to waive provincial standards and to amend land-use regulations are also foreseen to attract investment for revitalization.

Adjustment priorities are realized by setting up short-term funding and co-ordination programs like CETA, and by helping to create local development corporations and zones. In Manitoba, the North Portage Development Corporation was assisted through the WCAI, and several downtown redevelopments have been enabled through agreements with DREE or DRIE, and the relevant provincial authorities. In Alberta, Business Revitalization Zones

were created by amendments to the Municipal Act which empower local interests in Edmonton, Calgary, Lethbridge and Red Deer to use supplementary business taxes for commercial redevelopment.

Provinces and municipalities are united in their call for greater investment in urban facilities. The federal, and most provincial governments have policies governing the placement and renovation of public buildings, industrial parks, sewer and water systems in cities. Funding strictures have heightened awareness of these needs, as noted in the following sections of this briefing.

### Main Thrust

An overview of current policy, programs and activities at all levels suggests that urban-related economic initiatives are an important new feature in the repertoire of economic development policy-making. In view of the marked incidence of economic instability and stress on urban areas, it is wise to attend to urban impacts of economic development, and to take measures to strengthen urban economies.

In view of this reasoning, there are two directions suggested for policy. First, the range of programs with significant application to urban development indicates potential for further adaptation to local conditions. Ministers can assist this process by linking programs to local initiatives. The success of certain municipalities in adapting programs with provincial and federal co-operation suggest this is a viable approach.

Second, provincial mechanisms to encourage autonomy and the capacity to act would benefit municipalities. While urban governments have demonstrated flexibility in formulating economic development plans, provincial powers to grant incentives, establish employment programs, supervise capital investments and regulate fiscal relationships with the private sector are not invariably attuned to local economic development initiatives.

Since impacts of major economic change are most evident at

the local level, communities have responded with a high degree of consensus and innovation. Ministers are encouraged to facilitate the ingenuity and entrepreneurial skills of local interests, while retaining appropriate guidelines for equity and efficiency.

#### Summary Statement

Like other OECD countries, Canada's urban economic development policies tend toward sectoral and regional objectives. However, examples of integration of sectoral and urban priorities, comprehensive planning, and locally-inspired co-ordination among all levels of government bode well for future progress in urban adjustment.

Governments have also demonstrated sensitivity to acute urban problems, with attempts to improve labour markets, and cushion impacts of economic dislocation. Co-operation among governments and other parties has enhanced the prospects for success of these programs - particularly in leveraging programs and investments.

Ministers' priorities also reflect a will to strengthen urban economies: both through sectoral programs which impact urban areas, and through policies tailored to local needs. Goals to foster self-reliance, decentralization and local autonomy, urban strengths, equity and quality of life demonstrate Ministers' commitment to long-term urban development.

While impediments remain in the form of provincial restrictions and a lack of urban policies at senior government levels, the demonstrable initiative of concerned local communities suggests that it may be timely for the Federal Government to initiate a consultation process, involving representatives of the three government levels, private and non-profit sectors, to discuss ways and means of advancing local priorities.

## Urban Service Delivery

### OECD Context

In the context of growing spatial differences in income and employment, governments have found that centralized administration of services may limit response to changing needs. Thus, governments are examining new institutional arrangements, including decentralization of responsibility, competing and complementary services from the private, voluntary, and non-profit sectors. These trends have been identified as a move towards "diversification".

New arrangements must recognize socio-economic trends which often create or imply conflicts among citizens. In the experience of Ministers, trends such as aging of populations, increased female workforce participation, changing work and leisure patterns, stagnation of older cities, and growth of smaller centres profile two major directions for service provision. The first need, to improve urban environments (to service changing needs and complement local economic adjustment), must be considered with the second need, to balance resources between growing and declining cities.

These needs in turn pose a basic challenge to governments: to find additional funds while designing standards to protect essential services and redistribute benefits.

Governments have been aided in their attempts to meet this challenge by improved data management and control technologies which enable the transfer of delivery and supervision of some services to neighbourhoods.

Administrative trends include greater technical and financial support to municipalities, and reduced control by senior governments over budgets and operations. National involvement is increasingly limited to setting policy priorities supporting health, environmental safety, education, equity and distribution objectives. At the same time, local governments are



encouraged to incur greater responsibility through some senior government transfer of revenue-raising authority, and a shift from conditional to block funding.

Exceptions to decentralization are, (1) services for which economies of scale justify large-scale delivery, and (2) services requiring investments in technical, human, and financial resources beyond the scope of local authorities. These services include regional transit, water treatment, sewage, waste disposal and security services. In contrast, social services including child care, special programs, recreation, libraries, parks, and policing may be delivered on a smaller scale.

Finally, the thrust of service provision is framed by socio-cultural changes concerning economic behaviour, and the role of the state. Pressures linked to reduced economic growth and the objective to limit public expenditure have influenced governments to withdraw from direct involvement in all services, and find innovative means for setting and monitoring standards. In effect, governments are redefining the nature of certain services by arguing that these be considered private rather than public goods.

Citizens have already responded to economic trends through greater participation in 'informal' socio-economic activities involving self-help, co-operative organization, and home-centred work. Governments see convergence between increased informal activity and opportunity for tapping personal and community effort in shaping the delivery of services.

### Canadian Context

The Canadian context with respect to urban services departs from the experience of many OECD countries in several respects. Variations in local responsibility and the regional character of stresses on government budgets are significant. In some regions, primary responsibility for services rests with provincial governments, while in others, services are jointly delivered by

provincial and local authorities. In addition to the stresses noted for OECD nations, socio-economic trends in Canada have been subject to abrupt discontinuities. In general, the locus of growth in employment, income, migration and population has shifted back and forth across Canada during the past 15 years.

Perhaps due to these distinctions, Canadian governments have not experimented as fully as others with service delivery and financing. There are signs that this situation is changing.

The pattern was set by increases in the cost of 'soft' services comprising the focus of this review (e.g. health, social services, recreation, planning services) which account for nearly 50 percent of the rise in per capita expenditures at the local/provincial level during the 1968-78 period. At the same time, the relative importance of property taxes - the single most important local revenue source - declined while the contribution of provincial grants remained constant. The shortfall has been met with personal income tax and natural resource revenues; sources which are currently under some pressure.

Constraints in traditional funding, combined with changing social needs especially evident in urban areas, pose an immediate challenge for Canadian governments as elsewhere in the OECD.

### Senior Government Policies

#### 3. WHAT CRITERIA ARE MINISTERS APPLYING TO DECIDE WHETHER TO ENCOURAGE THE DIVERSIFICATION OF URBAN SERVICE PROVISION?

There are two primary trends in criteria applied by Ministers to decide whether to encourage diversification.

The first of these is efficiency. Contracting out of services, which is widely considered to be more productive than public sector delivery, is often used to provide street construction, and maintenance, snow removal, and waste disposal. Municipalities are increasingly contracting out health and welfare, street cleaning, park maintenance, and public protection,

as well as other services. Provincial governments are promoting this trend by advising changes in the terms of transfer agreements, from conditional to block funding. Unconditional grants are already applied in part for general support, regional assistance, resource equalization, education, local health care (hospitals), policing and planning services. Many governments are also studying, and some are designing streamlined transfer and privatization measures based partly on municipalities' efficiency needs.

Another issue is the complexity of provincial-municipal transfer systems. The absence of systematic review and the great number of local governments, agencies, boards, and commissions - each of which receives grants on their own - have led to grant structures which are difficult to evaluate and control. These systems do not foster efficiency for either level of government, and tend to aggravate relations between authorities.

The second major criterion closely allied to the first, is local autonomy. The measures previously discussed as means for promoting efficiency also apply here, although autonomy is more often cited as the motivating principle. Autonomy suggests a concern for equity and local decision-making. As in the foregoing case, both levels of government may gain from change.

With few exceptions, current systems allow provinces to determine both the size of grants and the services to be funded. Unlike the federal-provincial transfer system, these arrangements are not subject to programming and review. Local governments thus find it very difficult to forecast or budget for future expenditures and revenues, and may not change their priorities without gaining approval of provincial authorities. Moreover, provincial policy is often influenced by wider political considerations which may not apply to local jurisdictions.

By removing uncertainties in the amounts and timing of funding, and by placing greater fiscal responsibility on municipal councils, provinces also increase control over their own budgets. At this stage, clear policy guidelines for devolution of fiscal and legal powers to municipalities are generally lacking.

4. WHAT MEANS HAVE MINISTERS FOUND TO MAINTAIN THE REQUIRED DEGREE OF CONTROL OVER THE STANDARDS OF SERVICE PROVISION IN CITIES?

Intergovernmental transfer systems have not yet changed sufficiently to require Ministers to find new means of control over standards of service provision in cities.

The current situation, in which the federal and provincial governments share tax revenues, and the provinces cover a significant part of most operating costs of local services, has allowed provincial authorities to dictate terms of service provision. While the federal government's role has been to provide capital grants for service facilities, it has exercised some control over access to health care by withholding contributions from provinces which retain 'opting out' clauses for physicians. The federal government also delivers unemployment programs although it has decentralized the administration of benefits through regional offices.

These existing arrangements suggest that diversification efforts have so far been selective and limited in scope. As a result, Ministers have not had difficulty retaining control over service provisions.

Provinces have modified transfer arrangements to simplify procedures without relinquishing key controls. While many municipalities exercise autonomy in the design and delivery of services and increasingly assign their own service priorities, provinces retain authority to set funding levels and reclaim decisions taken by local and regional authorities. The Alberta Planning Board shares accountability with Regional Planning Commissions in performing quasi - judicial, administrative, and funding roles with respect to lower level decisions. The Yukon Government provides another example in not placing conditions on certain service expenditures, but retains influence over municipal decisions by enforcing standards through its labour relations board, protective services branch and others.

Periodic reviews of provincial-municipal fiscal relations

have also noted that provincial control over funding levels tends to maintain existing service arrangements by discouraging development of new services - especially in cases where municipal access to local revenues is constrained. Older services retain constituencies to which local governments are accountable. Clients for new services (typically disadvantaged groups) may be less organized than established groups. In such cases, current services usually prevail. Ministers may not wish to stifle diversification, but control over funding levels does confer the power to determine overall levels of service.

Other moves to consolidate granting systems clearly reserve Ministers' power over matters of 'provincial interest'. Measures by the Quebec Government to devolve certain fiscal powers did not include exemptions to minimum standards in areas such as public security, planning, environmental protection and cultural affairs. In the domain of municipal affairs generally, the Government has proposed that municipalities assume powers to waive minor standards when these impede revitalization objectives. These provisions essentially allow local authorities to 'fine tune' decisions within the framework of provincial policy.

Another means being used to consolidate services, but which runs counter to the trend to local autonomy is the augmenting of standards in policy areas considered vital to provincial and national interests. Environmental controls are perhaps the best example, since pollution originating in urban centres increasingly affects citizens of distant jurisdictions. For instance, the Governments of Canada and Ontario have recently imposed stricter standards for industrial and automobile emissions to reduce acidic depositions.

Communication with electorates, and among governments is an often overlooked means of influencing standards, although control is shared with affected parties. Environmental impact assessments are required in Ontario, Newfoundland, New Brunswick, Alberta and recommended for major federal projects. These studies often provide for social impact assessments which seek public consultation on a wide range of matters. These

assessments, together with public meetings, task forces and committees not only constitute forums for discussion, but help establish bases for evaluating implications of change in communities. Governments have extended their use to examine a wide range of services where increased public participation is sought.

A more focused means of collaboration occurs through intergovernmental consultations. The provision of technical advice and managerial services by senior governments is used to ensure adequate interpretation of standards, or to adapt provisions to local circumstances. The policy committee which oversees implementation of the Winnipeg Core Area Initiative reviews project proposals for compliance with program objectives, many of which have a strong social service component. The committee, which includes representatives of senior and local governments, also works with community groups, co-operatives, and various government departments to adapt proposals.

### Main Thrust

Criteria of efficiency and autonomy, matched by use of existing means to control standards provision are the dominant trends in urban service delivery. Extensive development of these criteria and measures appears to be imminent, and could be far-reaching. The process of devolving authority to match local responsibilities is well underway.

Although some innovation exists, current financial and legal systems have not changed significantly. Indeed, the most noteworthy developments are the expansion of federal and provincial powers to protect vital interests.

Aspects rarely considered within the realm of urban services issues are the convergence of individual rights and economic development issues on the questions of service delivery and control. Deinstitutionalization and its effects are growing more evident in cities, profiling rights for personal liberty,

education, health care, and economic self-sufficiency against concerns for community safety and development. Similarly, service sector growth is a major component of urban economic development. There are few mechanisms for rationalizing the development of new services and forms of delivery (e.g. privatization) with the capacities of current delivery systems.

In view of emerging social developments and the limited diversification of urban service provision fostered by senior governments, Ministers should carefully monitor the performance of emerging efforts, both in Canada and in other OECD countries, with a view to formulating appropriate policy approaches and criteria.

#### Summary Statement

Ministers primarily use efficiency and local autonomy criteria as a basis for encouraging diversification of urban service provision. Contracting out and privatization of services are seen to convey productivity benefits at no sacrifice of quality. Governments have moved gradually by simplifying transfer systems and by converting from conditional grants and cost-sharing arrangements towards selective unconditional grants.

While these measures allow autonomous design and delivery of services, effective control by provincial governments is retained by setting funding levels, maintaining and sometimes broadening standards, and by enacting provisions for municipalities to waive standards in selective cases. Public and inter-governmental consultation measures are also effectively used.

The scope of imminent social change, and the importance of services to community life suggest far-reaching implications for funding and delivery of services, and their ability to meet evolving needs. Ministers are advised to monitor new developments to address emerging gaps, inequities, and conflicts.

issues on the national agenda. Public opinion has also grown more sophisticated. Respondents are less likely to perceive environmental protection as a constraint on economic development than previously, and are more aware that industrial and energy efficiencies offer benefits of reduced pollution and increased productivity.

While federal and provincial environmental policies have evolved in response to public concerns and threats posed by pollutants, policy-making is mainly applied to resource issues and sectors. Urban environments are secondary focii, at best, although the health of their inhabitants is a paramount issue.

The lack of an explicit urban focus stems from the division of powers between senior authorities. Federal interests include broad aspects of water policy, trade in resources, external relations and matters of national interest; while provincial governments retain jurisdiction over production and conservation of resources, local works, property and civil rights, health, safety and environmental standards.

This division has left little room for municipal authority. Thus, cities' primary role has been to maintain sewage treatment, water, and waste disposal services. Local planning decisions influence development of urban environments, but these are also subject to provincial approval.

Constitutional provisions remain, but municipal governments have begun to assume a more active role in protection of their environments. Lobbying for abatement of industrial effluents and emissions, epidemiological research, and public information programs are some of the measures taken to increase their influence. Given the pervasive and continuing effects of pollution on urban areas, attention should continue to focus and draw responses from civic interests, with major impact on senior levels of policy.



## Urban Environmental Improvement

### OECD Context

Concern for environmental quality of urban areas has risen as a priority for OECD societies. As more is learned about the nature and scope of pollution and its connection to human health, pressure for resolution of environmental problems has grown.

Perceptions regarding risks and benefits have become more acute. Practical concerns for the quality of urban habitats have followed awareness of threats posed by toxic effluents to drinking water quality, and by long range transport of air pollutants. Exposure to these and other risks are generally highest in urban areas. Increased leisure time, the aging of populations, and the importance of communication activities also contribute to higher awareness.

Policy makers are learning that the costs of prevention may be substantially cheaper than curative measures. Moreover, environmental improvement activities are known to augment employment, attract residents and investment, as well as stimulate civic confidence.

Priorities for improving urban environments include requirements for upgrading infrastructure, environmental services, pollution controls, research and life support standards. Special attention to integrated programs is also needed to resolve the mix of problems converging on urban environments.

### Canadian Context

Problems and opportunities posed by urban environmental issues in OECD countries are of high concern to Canadians. Knowledge of the cumulative effects, wide range and scope of pollutants has probably reinforced the importance of these

Senior Government Policies

5. IN THE EXPERIENCE OF MINISTERS, WHICH TYPES OF ENVIRONMENTAL IMPROVEMENT CONTRIBUTE MOST EFFECTIVELY TO ASSISTING THE PROCESS OF URBAN REVITALIZATION?

There is a strong consensus that environmental improvements assist the process of urban revitalization, but there is scant evaluation of impacts on economic development, social cohesion, human health, and other relevant factors. In the absence of evaluations, it is difficult to know which improvements are most effective.

Sewage, water and waste disposal systems coupled with minimum environmental standards are the basic requirements for acceptable living conditions. Ministers have recognized this premise in making funding available for new amenities to service industry and growing population, as well as to upgrade and repair existing systems. Standards have improved in terms of scope and effectiveness. Ministers have also found land use policies to be useful tools in containing urban expansion, preserving green space and regulating urban activities.

Provincial, and to a lesser extent, federal investment in sewage and water systems has turned from construction of basic systems toward upgrading and rehabilitation in most cities, although recent systems have been built to service Halifax-Dartmouth, Montreal, Calgary, Edmonton and Dawson.

Upgrading takes several forms. Ontario has taken measures to protect municipalities' estimated C\$30 billion investment in sewage and water systems by announcing plans to improve reporting on conditions, standardize rehabilitation, and to assess options for multi-phase financing. Alberta has re-evaluated regional sewer systems encompassing Calgary and Edmonton, and contributed some C\$150 million towards upgrading. Saskatchewan has a number of programs to improve effluent treatment, augment capital works, and provide technical assistance to municipalities. The government has also responded to special cases, by

installing a new treatment system to improve the taste of Regina's drinking water.

Both the federal and provincial governments have upgraded effluent and emission standards in response to widespread concern about acid rain, lead content in gasoline, and drinking water quality. The federal government's recent auto vehicle emission standards are an example with great potential impact on urban air quality and health of residents. The measures will reduce emissions by 45 percent over the next 15 years.

The Ontario and federal governments have also enacted legislation to reduce emissions contributing to acidic depositions, which are heavily concentrated in cities throughout the Great Lakes - St. Lawrence region. Recent proposals and programs to control toxic chemicals, pesticides, and assorted industrial effluents reflect governments' recognition that both the sources and impacts of pollutants are focused in urban areas.

Land use policies have made tangible contributions to urban environments in many areas. Newfoundland has used its guidelines to check urban encroachment on scarce agricultural land and to preserve local food sources enjoyed by urban residents. Restrictions on 'ribbon development' in St. John's fringe areas have been instrumental in redirecting development to the City's downtown core. Benefits included retention of private investment, and efficient utilization of existing infrastructure. Controls have also been used under the Province's Environmental Act to maintain recreation areas.

A number of governments have directed land-use policies toward enhancing historic structures and complementary physical environments. Quebec places a high priority on preservation of heritage buildings and cultural amenities as focii for creating attractive and dynamic core areas. The Province's Heritage Protection Act is used with provisions under municipal legislation to bend taxation, and zoning bylaws towards these objectives.

Physical renewal has long comprised a central goal of major urban redevelopment schemes. Land use policies have facilitated

these projects with provincial-municipal co-operation. Charlottetown, Halifax-Dartmouth, Saint John, and Winnipeg are some examples of centres which have benefitted. In Saint John, for example, renewal prompted a major social development program for core groups, and has extended their access to recreation and employment.

6. WHAT MEANS ARE MINISTERS TAKING TO PROMOTE INTEGRATION OF RELEVANT POLICIES SO AS TO ENHANCE ENVIRONMENTAL QUALITY IN URBAN AREAS?

Means taken to integrate policies which enhance urban environments, are generally sectoral in nature. In other words, programs and co-operative mechanisms are targeted on infrastructure, a particular pollutant, industry or resource receptor. There are few examples of trans-sectoral and cross-media integration. Integration is more likely to be vertical rather than horizontal, with co-ordination among government levels due to overlapping jurisdiction. Municipal governments are junior partners in these arrangements, when included.

Typically, management of resources rests with the provinces. Specialized provincial agencies are set up to deal with water, air, and soil pollution and resource management, and to co-ordinate other interests. Federal authority comes into play when pollution transcends provincial boundaries. The urban role has focused on delivery of sewage and water services, health care and conservation of local resources.

Co-ordination has evolved since the early 1970s with the inclusion of specialized agencies into provincial environment ministries. Since then, regulatory penalties and incentives have been applied more vigourously and variously to polluters and municipalities. This trend continues, with growing provincial involvement in land use planning, water management, waste treatment, monitoring and research. Urban areas are directly affected by these measures, although municipal authorities are still precluded from making major policy contributions.

Saskatchewan's rationalization of water systems is an example of how provincial policy may even eclipse municipalities' former role as a service provider. The Saskatchewan Water Corporation combines all aspects of water management throughout the province, including functions of policy, consultation, planning, and implementation at the local level.

Ontario's approach has also limited local authority. In the domain of waste management, the province created a crown corporation to replace a myriad of older regulations governing the treatment and disposal of hazardous wastes. Under the emerging system, most wastes will not be treated on company premises and private facilities, or be stored in municipal landfills. Ontario has also proposed a series of related land use policies covering foodlands preservation, mineral extraction, flood plain and wetlands management and land use compatibility. The latter proposal particularly reflects the province's thrust, by rationalizing earlier guidelines to separate sensitive land uses from major emissions sources.

Federal policies have retained a stronger sectoral bias than provincial initiatives. To date, integrative approaches are best expressed through bilateral agreements and scientific research. The Great Lakes Water Quality Agreement signed in 1972 and renegotiated in 1978 bound Canadian and U.S. governments and authorities within these jurisdictions to a control program covering toxic chemicals, phosphorous loadings and radioactivity from industrial and municipal sources. Despite differences in interpretation of objectives, the Agreement has improved water quality within this heavily urbanized basin.

Scientific research provides a basis for negotiating control programs, and in this sense performs a vital integrative role. Research programs also provide a framework for socioeconomic policy, and through extensive monitoring of conditions, offer Ministers an early warning system for identifying problems. A State of the Environment Report for Canada assembles data on resource receptors as a basis for assessing emerging changes.

From the above policy trends, it is evident that progress towards integration is occurring. However, the lack of an urban focus leaves cities with little leverage in asserting their environmental interests. A recent proposal by Ontario's Ministry of Environment to include municipalities in assigning of pollution control priorities through its Municipal Industrial Strategy for Abatement (MISA) program is an exception which awaits implementation. The growth of a 'Healthy Cities' Movement among urban activists and health officials is one response to these circumstances. The Movement's goals are reflected in the City of Toronto's proposal to create an environmental protection office and in plans to establish a national Healthy Cities program.

#### Main Thrust

From the viewpoint of urban environmental quality, there is a high stake in the effectiveness of general environmental policies. The exclusion of urban authorities from the national debate, except so far as cities are prepared to take activist measures, provides few means of influencing these policies. Due to the widespread impact of contaminants beyond municipalities' control, it is essential that local governments contribute to environmental decision making on a wider scale.

Senior governments have shown ability to co-ordinate responses to problems conceived as regional or sectoral issues. The increased interaction of pollutants, resource issues and land uses, and the consequences of these interactions for human health and economic development suggests that Ministers should use their capacities to foster better understanding and improvement of human habitats. Cities, as both major sources and receptors of environmental pollution, have greater potential as arenas of environmental programs. The environmental consciousness which is characteristic of people in OECD countries serves to make the quality of environment a highly positive factor in

strategies of urban revitalization. The Ministers by virtue of their roles in urban affairs, are peculiarly well placed to invoke the environmental factor in urban development. Accordingly, it is advised that the Ministers should use their good offices, and leverage through programs, to promote the process of urban environmental improvement.

### Summary Statement

Lack of evaluation qualifies Ministers' experience concerning the effectiveness of urban environmental improvements. However, sewage and water systems, waste treatment, land use policies, and application of pollution control standards have assisted revitalization efforts and tangibly improved urban habitats.

Means taken to co-ordinate policies which affect the quality of urban areas tend to be vertical and sectoral rather than integrative. Provincial governments continue to rationalize existing arrangements, leaving little scope for full municipal participation.

The federal government oversees broad questions of national interest, and has demonstrated capacity to co-ordinate regional, bilateral and scientific programs. This capacity is needed to address the impact of contaminants, policies, and socio-economic activities as these affect human habitats.

Since these forces converge on urban areas, trans-sectoral and trans-media perspectives are encouraged. Governments should take initiative in consultation with municipalities as observers, to jointly establish means for monitoring, evaluating and proposing solutions to integrated issues.

## Infrastructure Provision

### OECD Context

The provision of infrastructure is necessary for economic development and to facilitate urban environmental quality. In most countries, however, there are major deficiencies in terms of both the quality and quantity of infrastructure. In growing cities, new facilities must be provided while maintaining existing public investments. In declining centres, extensive renewal of facilities is often required.

As a result of reduced economic growth in many countries, new means of financing infrastructure are being sought. Current practices include private and public sector financing, with increasing dependence on user fees and charges in both areas. Other cost recovery schemes include special assessments for 'betterment' in value of properties due to new infrastructure; levies on employers who benefit from new transit facilities; and 'land adjustment' contributions to rationalize commercial and industrial developments.

The transition to new financial regimes may pose problems in raising funds, recouping investments, and in controlling the full costs of development. Equity must also be considered, so that access for certain users is not constrained or unfairly enhanced by new measures. For these reasons, governments are attending to improved accounting procedures which enable detailed control of service inputs, outputs, and costs, thereby increasing sensitivity to demand for technical services.

### Canadian Context

Canada shares many of the problems noted for OECD countries, although conditions are somewhat better than those in the U.S., they are not as good as in Europe. Essential hard services such as roads, sewers, water supply networks, institutional



buildings and transit systems are in worse condition than social services and facilities. In particular, water mains, sewers, and roads are nearing the end of lifespan.

Financial shortfalls are the result of similar forces and constraints as in other countries. Pressure on budgets during recession, inadequate tax revenues, high interest rates and reduced federal and provincial funds define the current situation. Within this context, user fees are estimated to provide for 80 percent of water and sewage costs, while general revenues provide 70 percent of road costs. Dependence on debt financing varies widely, from 3 to 18 percent of revenues, according to a recent survey of Canadian municipalities.

Current financing schemes which employ pay-as-you-go financing (which places infrastructure in competition with operating needs) is inefficient, and transfers the tax burden onto current users rather than distributing costs to include future taxpayers.

#### Senior Government Policies

#### 7. WHAT DO MINISTERS SEE AS THE PRIORITIES FOR URBAN INFRASTRUCTURE INVESTMENT?

Priorities cited for infrastructure investment focus on rehabilitation and upgrading of sewer and water systems, improvement of road networks, and a renewal of infrastructure to facilitate economic development.

In line with the aging of sewers and the tightening of pollution control standards, most provinces have assigned special priority to sewage and water treatment facilities. Alberta, Saskatchewan, Newfoundland and Nova Scotia have recently funded renewal projects, while Ontario and Quebec anticipate major expenditures.

Roadworks in particular, but transportation generally, also top Ministers' lists for priority investment. Newfoundland

needs arterial roads to facilitate expected offshore development, while provinces with older cities require renewal of existing roads and related infrastructure. Alberta and British Columbia have identified urban and regional transit needs, including likely investment in Light Rapid Transit (LRT).

Infrastructure to encourage or complement foreseen economic activity covers a wide range of needs. Having recently established basic services, the Yukon is seeking funds for 'beautification' projects, including pavement, lighting and landscaping. Alberta has recently announced the Alberta Municipal Partnership in Local Employment (AMPLE) to stimulate local employment through construction of 'complementary infrastructure'. There are also indications that telecommunications may receive added attention as a focus for economic diversification.

In a number of other provinces, infrastructure priorities are targeted on urban development projects. Manitoba recognizes the importance of community facilities, institutional buildings, industrial projects, and street improvements as major components of the Winnipeg Core Area Initiative. Nova Scotia supports upgrading of port facilities and commercial street improvements in Halifax-Dartmouth through the Waterfront Development Corporation. Improvements such as these have previously been used in Charlottetown, Saint John and in other centres.

The federal government in Canada plays a more selective role in assisting infrastructure needs. Lately, DRIE and other departments have moved away from major urban infrastructure commitments, although the Department of Public Works still assists specific projects and oversees construction of federal government buildings in accord with local requirements.

#### 8. WHAT INNOVATIVE MECHANISMS ARE MINISTERS FINDING SUCCESSFUL IN ATTRACTING ADDITIONAL FUNDING FOR PRIORITY INFRASTRUCTURE PROVISION AND MANAGEMENT?

The search for new means of funding infrastructure have not proceeded as far in Canada as in other OECD countries. Current

innovations involve the extension of fiscal powers for municipalities, provision of special funds for priority investment, user incentives and fees.

User fees are widely employed for sewage and water systems, although there is scope for extending them. Newfoundland is considering new fees for industrial uses of fresh water; industries and utilities currently enjoy preferential access to water sources, fostering an inequitable distribution of costs for water services. Quebec has shifted authority on the question of fees to municipalities, but maintains technical assistance to local governments for implementation of new schemes. The Yukon uses a combination of incentives and fees to encourage increased use of basic services, and raise subscription levels. A closely related strategy to increasing user fees is to organize 'Revenue Centres' for directing the management and distribution of services. Regional Service Commissions are a means of meeting combined needs and rationalizing costs of basic water services for adjacent municipalities in Alberta. The system assesses members for fees, controls service and recovers costs at point of sale.

Provision of fiscal powers focuses on the enablement of municipal authority to tax residents and other users. Examples are local improvement taxes in the Yukon, and special taxes for direct beneficiaries of urban improvements in Quebec. An envisioned measure involves the power to issue tax credits to private investors for new construction and infrastructure improvements. Newfoundland pursues a more basic policy by relaxing provincial supervision of municipal budgets. New revenue sources have been found by allowing local authorities to set rates and expand the property base in their communities.

The use of special funds for priority investment complements general policies favouring local autonomy, as noted in the section on urban services. For instance, Alberta's AMPLE program releases funds from refinanced municipal debentures for unconditional grants to local governments. Suggested guidelines for the use of these funds is to make needed investment in

infrastructure: especially where new employment results. The measure appears to shift responsibility for maintenance and construction to local governments without allowing them to set overall funding levels.

Many of the foregoing mechanisms are recent additions to governments' financial repertoire. Options such as new debt instruments and offering equity to private investors in capital projects have been considered but not used, although funding and management of telecommunications networks is a largely private matter in Canada. Growing need for infrastructure replacement would suggest a larger role for governments in devising future strategies.

#### Main Thrust

Formulation of a strategy for infrastructure renewal is important to the development of urban areas, but presently a neglected area of policy. The implications of continued inattention are not confined to increased expenditures for future investment. Environmental and health hazards, and constraints on industrial development are well known scenarios. Less acknowledged are influences on the spatial development of cities by telecommunications networks, including both local (LAN's) and wide (WAN's) area networks.

Federal leadership is needed to provide guidance in formulating public policies for developing new systems, and replacing older ones. At the same time, fiscal restraint suggests a need to review the emerging range of funding mechanisms and their relevance to Canadian conditions. The recentness of existing fiscal approaches indicates that impacts have yet to be fully appreciated, particularly in Canada (e.g. unconditional grants, special beneficiary taxes). To complement a review and evaluation of financing measures, the federal government may also assess the role of infrastructure in attracting investment, creating employment, and contributing to economic development

strategies.

With regard to emerging areas of urban infrastructure, such as computer-communication networks in urban regions, the federal government would find advantage in consulting relevant studies (e.g. Technological Change and Human Settlements, University of Waterloo) as a basis of intergovernmental discussion, and formulation of policy options.

#### Summary Statement

Ministers' priorities for infrastructure investment include sewer and water systems, roadworks and transportation, and facilities for economic development. Sewage and water systems are the most frequently cited of these priorities.

The federal government's role in provision of funding and contributions to policy have receded from past levels, and, are currently confined to regional industrial policy, funding of selected capital works, and related aspects of telecommunications.

Funding strategies are not as advanced in Canada as in other OECD countries. User fees which are the traditional way of financing water systems, are being extended to other basic services. The 'revenue centre' concept is taking root, as evidenced by Regional Service Commissions. Extension of fiscal powers, and assignment of special funds supported by refinancing of debentures are further mechanisms.

The importance of infrastructure to Canada's urban environments and economies suggests a need for a national appraisal of needs and impacts. The implications of infrastructure investment for the spatial form and social relations of cities, and for drawing complementary investment and employment benefits are especially noteworthy.

In response to these issues, the federal government should initiate an enquiry on the emerging stock of funding and cost recovery schemes, and their relevance to urban Canada.

### Conclusion

Several themes emerge from the foregoing review. The overriding issue is the increasing demand by municipalities for greater recognition and autonomy in formulating economic and environmental policy, and ensuring adequate provision of services and infrastructure.

Senior governments are responding to demand for increased scope in economic matters, and control over delivery of services, but are less responsive to environmental and infrastructure needs from an urban viewpoint. These distinctions are clarified by the contrasting ways in which governments co-ordinate policy perspectives. Urban economic policies are emerging through local initiative with co-operation from senior governments, while environmental policies reflect a bias toward vertical integration, within federal or provincial frameworks.

Canada's position with respect to OECD countries varies from significant innovation in urban economic development and concerted action on environmental matters, to more gradual experimentation in delivery of services and provision of infrastructure. These differences probably reflect national priorities in that economic change and environmental quality are major national issues as well as urban ones.

Of special importance to policy makers at all levels is the limited scope of current policy frameworks. Major economic roles of urban services, infrastructure and environment are not evaluated, and little is known about the reciprocal impacts of social activities on all policy areas. Potential gaps in service delivery, inattention to emerging interests, and group conflicts over socio-economic priorities are some of the by-products of societal change. Governments are advised to monitor change more closely, and to address means of reforming policies in consultation with relevant parties.

The review of conditions, trends and policies in the four policy areas indicates a considerable range of federal and

provincial programs and initiatives. A new and promising factor is the emergence of a certain dynamic in Canadian cities, particularly in the areas of economic development and infrastructure. These potentials could easily be lost within the inertias of the Canadian federal state. This might be avoided by the formulation of a consensual approach to urban revitalization - a strategy perhaps, on the part of the provincial and federal governments.