### Intergovernmental Relations in Canada: Lessons for the UK?

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The report is based on work on Canada over the last 12 months, which included a study visit to Canada in September 2002, when I interviewed officials of the Governments of Canada, Ontario and Quebec. It covers event up to July 2003. I am conscious that my choice of officials to interview means that this report is concerned far more with issues that concern central Canada than either the Atlantic or western Provinces. I hope to be able to rectify this in due course.

In his novel *The Life of Pi*, Yann Martell describes Canada as "a great country much too cold for good sense, inhabited by compassionate, intelligent people with bad hairdos" (Edinburgh: Canongate, 2003, p 6). I cannot agree about the hair but can about the compassion and intelligence; and would add that I encountered immense helpfulness and kindness too in all my dealings with Canadians, whether in academia, public service or on the train. My interviews with officials were conducted on the basis of anonymity, so I regret I cannot thank them by name. I am immensely grateful to them all and hope that this report represents fairly what they told me. On the organisational side, I would like to thank Bill Lawton of the Canadian High Commission in London, and Russ Mellett and Louis Guay

### Executive Summary

#### The working of the Canadian system

- Canada now has a highly developed system of intergovernmental relations (IGR).
   IGR is accorded considerable importance by Federal and Provincial governments alike.
- IGR in Canada is dominated by the executive in each order of government, and within each order by the centre of each government—the Prime Minister or Premier, and his or her specialist advisors in the public service.
- Although Canada is a highly decentralised federation by many measures, the Federal government remains the dominant force in IGR. This is partly because of the greater material and financial resources available to the Federal government and partly because of easily-overlooked constitutional provisions that in practice confer a significant advantage to the Federal government.
- A notable example of this is in the area of finance: not only does the Federal government have more funds available to it than most Provinces, but it also has a legal power to spend money on exclusively-Provincial areas of competence. As a result, although matters such as health or education appear to be purely for the Provinces, in practice the Federal government has a major role to play.
- Nonetheless, the possession of separate taxing powers and tax bases underpins Provincial autonomy to a considerable degree.
- Administrative arrangements for IGR within the Federal government reflect concerns over national unity, and the threat to this that Quebec has posed for more than two decades. However, those arrangements are unlikely to change significantly even though that threat has now receded.
- Intergovernmental negotiations are highly intricate matters, conducted at various levels and taking up a considerable amount of officials' and Ministers' time. The most important issues fall to be resolved at the level of First Ministers, but that setting is used less now than in the 1980s.

#### Lessons for the United Kingdom

- Canada may offer an insight into how the UK might work, after devolution has become fully bedded-in and if regional government in England increases the number of units and complexity of interests involved.
- Trust is a vital commodity in intergovernmental relations. It is also easily lost. All
  the governments involved need to bear in
  mind the need to act in a consistent and
  considered way, even when the demands
  are pressing. The onus is particularly on
  the UK Government, given the overwhelming dominance it still has in IGR in
  the UK.
- Trust requires respect for the boundaries of competence that do exist. The arrangements for Wales mean that devolution there has such an unclear boundary that this becomes very difficult.
- Financial autonomy also helps to maintain clear boundaries. While Canadian financial relations are highly complex, they ensure that Provinces are confident of their sources of funding, and not dependent on the Federal government.
- For the UK Government, Canadian experience suggests expertise in IGR needs to be concentrated in the heart of government, not fragmented across a number of offices concerned with particular territories.
- Detailed scrutiny of devolved legislation is unlikely to be a fruitful use of UK Government time or resources, as major issues will be identifiable without the routine lineby-line examination that presently happens.
- Canadian experience suggests that articulating territorial interests trough the legislative upper chamber could be a useful way of reducing intergovernmental friction. This should not be overlooked when House of Lords reform returns to the political agenda.

# I Introduction: The Canadian constitutional background

The purpose of this briefing is twofold. First, it seeks to explain how intergovernmental relations work in Canada at the present time. Second, it tries to see what lessons the United Kingdom, with its relatively new experience of devolution, might draw from Canadian practice.

As far as its first purpose is concerned, the goal is explain to outsiders how the Canadian system works in its own terms. Given the rather closed nature of the world of intergovernmental relations, that means explaining a good deal that seems basic or obvious to those who study or work in the field, but which is distinctive or surprising to one looking from the outside. In doing so, it draws on elements of politics, law and public administration in a way common in intergovernmental relations. It is helped by the fact that Canada has a large literature on feder-

Liberties added to it) by the Constitution Act 1982, this change was itself highly contentious. There were sustained objections by both Aboriginal peoples (whose challenge in Manuel v. Attorney-General went to the England and Wales Court of Appeal) and by Quebec, which refused to acknowledge the legitimacy of the change or to sign the new constitution, because of concerns that its rights were not adequately protected under the new amending arrangements.3 (These were not resolved even when the federal House of Commons undertook not to enact an amendment without Quebec's consent, in effect lending Quebec its own veto over change<sup>4</sup>). Quebec's objections to Canada's constitution derived from the development of Quebec nationalism during the 'Quiet Revolution' of the 1960s, as well as the immense growth in the number of English-speakers in Canada as a whole causing a sense of isolation on the part of Francophone Canadians concentrated in Quebec. The rejection of the 1982 Constitution by Quebec triggered a process through the 1980s of seeking to find a compromise between maintaining equality of the

the complex structure of the constitution means that the two orders of government frequently interact, and that such interaction is vital to most areas of government, especially if the Federal government wishes to see Canada-wide arrangements for social welfare (most of the policy areas involved are within Provincial not Federal competence). The fact that the issues of constitutional reform and Quebec's position within Canada have ended in stalemate means that intergovernmental relations have turned to more mundane matters, although these are probably of more direct concern to most Canadians. The Federal government has sought to use the opportunity to engage in 'non-constitutional reform' of Federal-Provincial relations. Much of the heat has gone out of the issue, and the politicians generally avoid constitutional questions as much as they can. (Nonetheless, the Alberta government has recently repeated its desire for reform of the Senate, which if pursued will open debate about other constitutional issues.8)

which they hold office. Thus Quebec, which under both Parti Québecois and Liberal (PLQ) governments has followed broadly social-democratic policies, has found Alberta's right-wing governments to be its most consistent ally, as both seek to defend Provincial powers from Federal predations. The Federal government finds its most supportive partners in the Atlantic Provinces (New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland), which may elect PC governments but which are also heavily reliant on federal funds.

The limited role of party is accentuated by the lack of engagement in intergovernmental relations on the part of the Federal Parliament or Provincial legislatures. The structure of intergovernmental relations and the issues that arise in them are of only very limited interest to elected back-bench politicians. There appears to be no regular or sustained scrutiny of them in any Ca-

Manitoba, Saskatchewan and now also British Columbia, but the latter has only recently slipped into entitlement and receives only a minimal amount.) Only Alberta and Ontario do not receive it; these are not only the most prosperous Provinces on a per capita GDP basis, but also together account for about half of Canada's population.

From a political point of view, the two forms of transfer raise quite different issues. For Ontario, for example, CHST is a relatively benign form of funding. Funds channelled through Equalisation will not reach the Province and effectively cost it

#### Box 1: Losing revenue but not alienating provinces

In January 2002 the Federal Department of Finance told Provincial governments of a problem it had identified in tax returns dealing with Capital Gains Tax. These contained a line for calculating gains that was coded to allocate funds to both Provincial and Federal governments. However, the corresponding line dealing with deductions was for the Federal tax only—so Provinces got the benefit of all the tax collected on gains without subtracting from that the deductions which should have been set against it. On enquiry it emerged that the problem went back to the establishment of CGT in 1972. Ironically, the problem only emerged when payments to the Provinces were delayed due to a change in computer system, and some Provinces questioned the amounts that were being transferred to them.

Four Provinces were overpaid as a direct result of the error. As a knock-on effect, seven (including these four) would have been paid extra amounts by way of Equalisation. The Federal government decided not to seek recovery of the Equalisation payments, and then calculated the benefit to those Provinces of that money—being \$62 per capita. (That benefit was wholly notional, since the amounts varied from Province to Province, and Equalisation is not calculated on a per capita basis in any case.) It then set that amount, multiplied by population, against the overpaid tax to the four Provinces directly overpaid. That eliminated any amount due from two of them, and left Saskatchewan and Ontario with appreciable repayments to make.

Resolving the problem involved negotiations at the whole range of levels, from First Ministers down to staff officials. The intellectual rationale for it remains dubious, involving allocating wholly notional benefits calculated on revenue no-one received, to avoid the Federal government being forced to recover money from the governments of poorer Provinces or being charged in public with acting capriciously. One Federal official involved described the process as "a painful experience—a hell of eight months sorting it out". A Provincial official suspected that the Federal government had known about it for some months before it was communicated to the Provinces. The Ontario Minister of Finance denounced the settlement publicly when it was announced, but then went silent on the point. She may have considered that that Province had in fact done quite well, as a sizable part of the overpayment had been forgiven by the Federal government—but still had to be seen to criticise the arrangement reached to resolve it.

Those Provinces that collect their own taxes do

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that is unusual. More often programmes have been funded by the Federal and Provincial governments on a shared-cost basis, and only for a limited time (although that has declined since the creation of Established Programmes Funding in 1977, for programmes now funded through CHST).

Shared-cost programmes spark much of the controversy. Funds may be made available to Provinces to pursue goals which are Federal policy but not a priority of some or all Provinces. When the programme is funded for only a limited period of time it puts the Provinces in a difficult position at the end. The Provinces have to decide whether to continue to fund a programme they would never have introduced in the first place, or to incur public displeasure by ending or scaling down a programme for which Federal support has ended.<sup>19</sup> By giving the Federal government such influence over Provincial decisions and being able to take the credit for introducing the programme while enabling it to avoid criticism for ending or reducing the programme, the spending power hands a powerful tool to the Federal government.

This is a tool which it is hard for Provinces to counter, even if they are affluent. Either they turn down money offered by the Federal government, which comes from taxpayers in the Province in the first place, or they lose their scope to direct policy in areas of Provincial jurisdiction as the Provincial government sees fit. Provincial responses vary, but most try to manoeuvre the Federal government to allow them to opt out of the Federal policy with full compensation if the Province provides a policy seeking to achieve similar objectives. This has been a long-standing position of Quebec, in particular, but rarely succeeds in practice. The Provinces are left having to agree to Federally-initiated programmes, knowing what will happen later on. The Social Union Framework Agreement was an attempt to deal with this issue, by regulating the Federal government's power to initiate or reduce social programmes (as discussed in Box 3, p. 16).

# 2.4 The impact of finance on intergovernmental relations

In many ways Canada is highly decentralised financially. The OECD thinks so, and so does the Federal government.<sup>20</sup> From a Provincial point of view it is not so clear. All Provinces are dependent to a considerable degree on the Federal government, even the well-off ones. The Federal government's control of money, and information about money, give it powerful ways to influence all Provinces. When the Provinces have a high degree of financial dependence on the Federal government that is increased considerably. Notwithstanding the formal constitutional equality of the Provinces, their different financial positions mean that in reality there is much inequality. As a consequence the Atlantic Provinces and Manitoba are viewed as 'friendly' by the Federal government, and as being nearly Federal dependencies by some other Provinces. Conversely, Alberta and Ontario's prosperity and consequent financial autonomy underpin their freedom of action. Finance therefore governs the structural aspects of intergovernmental relations

Finance also becomes the major source of tension and contention in intergovernmental relations. This contributes to the lack of public interest or engagement, as the issues involved are conceptually unclear to start with, and made more confusing by the many ways of looking at the data. For example, the Federal government claims to contribute about 40% of the cost of health care in Ontario. Ontario's public position is that the Federal government pays about 11%. While both can produce figures to support their position, there is no one—or even just five—answer to the question of how much the Federal government pays. This is made worse by the need for solutions to disputes (like the capital gains tax collection issue) to be presented in a way that everyone can claim to have won. The only way to do that is to structure the agreement in such a way no-one can really understand it. None of that contributes to better or more accountable governance.

### 3 Issues in intergovernmental relations

#### 3.1 Health

Health has become a key issue in Canada for a

states that in its view Quebec lacked the authority to enter into an agreement, with the result that the agreement has not been signed.

The lack of open confrontation over the Gerin-Lajoie doctrine appeared to increase with the Act respecting the Ministry of International Relations, passed by Quebec's National Assembly in June 2002. The Act provides for the Quebec government to assent to all treaties affecting such Provincial matters, and 0 09sw[(D0.t)]TJ3d, forcing a co 09s

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Box 3: The negotiation of the Social Union Framework Agreement

The initiative for an intergovernmental agreement in this area came from the (English-speaking)
Provinces, and they produced a common negotiating position at Saskatoon in August 1998. In
January 1999 a revised position was agreed at Victoria, with which Quebec agreed and to which
it committed itself. However, a number of these points were abandoned during the final discussions, and Quebec considered that the final agreement, signed in February 1999, was so flawed
(for example, in failing to establish binding limits on the Federal government's use of the spending power) that it could not sign it. As a consequence Quebec sees itself as abandoned if not
betrayed by the other Provinces, which—when it came to the crunch—preferred to cave in before
the Federal government rather than maintain solidarity and the common position that had been
agreed.\*\*

From the point of view of English-speaking Provinces, SUFA is a real advance. It creates a much
clearer process for dealing with Federal involvement in social policy matters—which may constitutionally be exclusively Provincial matters but which in practice need Federal funding if nothing
more. By putting an end to unilateral Federal initiatives, it removes a major source of tension in
Federal-Provincial relations. And SUFA also creates a way of manageing future disputes, which
has been lacking hitherto

For the Federal government, Quebec's self-exclusion from SUFA is a consequence of Quebec's
already-high level of social provision. As it stands the agreement enables the Federal government to improve social policy and policy-making without compromising its own freedom of
manoeuvre (for example, by keeping any disputes away from the courts).

the future. The cuts imposed by the Federal government as part of its 1995 budget (which significantly reduced Federal transfers to the Provinces to pay for health and social care, while leaving the Provinces with continuing responsibility for delivering these services) has caused long-standing resentment and meant that any Federally-funded scheme is treated with great scepticism. Even the attempt by a Province to follow a different ideological approach can fuel tensions. Federal officials regard Alberta and Ontario (notably under the former Conservative Premier. Mike Harris) as being almost as difficult to deal with as Quebec. For Ontario, an issue like criminal justice remains very difficult; the Province (which has responsibility for criminal procedure and policing) takes a much more hard-line approach to law and order issues than the Federal government, which has responsibility for the substantive criminal law. Each party therefore tries to implement policies reflecting its own view, but with disagreements so fundamental the result is often stalemate.

So far as Quebec is concerned, Parti Québecois governments and their officials have tended to

interpret every action of the Federal government, and often those of the English-speaking Provinces, as being directed first and foremost toward Quebec. Even if such actions are not seen as deliberately directed against Quebec, they are regarded as showing disregard for Quebec's concerns or insensitivity toward those concerns. The Millennium Scholarships are one example (see box on page 24). Another is the way the Social Union Framework Agreement (SUFA) was negotiated.

This has reinforced Quebec's determination (at least under PQ governments) to protect its rights and privileges under the 1867 Constitution, and means that Quebec's position in any Federal-Provincial discussion has been governed by Quebec's larger and long-standing constitutional concerns. It made Quebec sceptical about forming any alliance with other Provinces even for limited or tactical goals (although the new PLQ government has indicated this will be a key part of its approach), and has also made Quebec doubtful about the value of participation in Canada-wide schemes or activities. That in turn has often become a self-fulfilling prophecy, how-

ever. Quebec may have mistrusted the other Provinces but could be counted on to take a maximalist position as regards the Provinces' power. The English-speaking Provinces could use Quebec's intransigence to obtain a better deal from the Federal government, knowing that they lose little from breaking a position agreed with Quebec because Quebec never really trusted them in the first place.

With a new Quebec government committed to active engagement with other Provinces, this is likely to change. The question will be how sucessful that new approach is in practice.

officials keeping abreast of what will be in the Federal budget requires good contacts with the Federal Department of Finance, done largely informally and bilaterally.

At meetings between the Federal government and the Provinces, the Federal Minister and the Provincial Minister from the host Province act as co-chairs. However, they are not responsible for administrative arrangements for these meetings. With the exception of meetings of Finance Minis-

Bilateral agreements have a long pedigree and

the Federal Parliament's power to regulate trade and commerce, and enhance instead the scope of the Provinces' powers regarding 'property and civil rights'.

In the Federal government, matters are further complicated by the extent to which power is centralised in the hands of the Prime Minister and his (or her) office.<sup>40</sup> As a consequence the Prime Minister is able to take decisions (often farreaching ones) and then announce them 25

policy areas and those dealing with constitutional and institutional matters. SAIC conceives of its role much more broadly than its counterparts in other Provinces. Its mandate includes not only overseeing relations with the Federal government or other Provinces, but also approving all intergovernmental agreements and the systematic examination of Federal legislation to see whether and how that intrudes into Provincial competences. It also has offices in other important Canadian cities such as Toronto, to monitor local developments and maintain local contacts. No other Province appears to do that, and (unusually for a Canadian Province) the task

### 5 Lessons for the UK?

# 5.1 Generally: build trust, don't destroy it

Drawing lessons from Canada for the UK is not straightforward. There are many differences between the two systems, and these are not always the obvious ones. Canada is obviously a federal system, while the UK has only a limited measure of devolution which in its most advanced form (in Scotland and Northern Ireland) affects little more than 10% of the population. The asymmetry of the UK—the different arrangements for Wales and the lack of them for England — is a greater difference than the issue of federalism. Canada also has many more units to deal with than the UK—ten Provinces and three Territories—as well as a much larger landmass and smaller population.

But Canada took many years to reach the present state of affairs. During the early years after Confederation, intergovernmental relations were much guieter. The federation was much smaller as only four Provinces-Ontario, Quebec, Nova Scotia and New Brunswick—joined in 1867. Manitoba, British Columbia and Prince Edward Island joined within a few years, but the first two had insignificant populations until the twentieth century. Federal-Provincial relations were dominated by arguments about legislation, and the use of the powers of disallowance and (to a lesser degree) reservation. Finance figured large too-whether in arguments about the amounts of Federal grants to the Provinces, or about interest on debt assumed by the Federal government from the Provinces at Confederation, or about other forms of Federal support such as for infrastructure projects (notably railways). Contact was often informal, relied heavily on personal acquaintance itself frequently predating Confederation, and was greatly affected by whether the party in office was the same as (and therefore friendly to) the Federal government, or different to it and hostile.

The politics of intergovernmental relations was very different. The 'awkward partners' were Nova Scotia and Ontario. Nova Scotia had entered Confederation reluctantly in the first place and threatened to secede on several occasions, while Ontario (with a Liberal government facing the Conservative one in Ottawa) enjoyed its prosperity and regularly confronted the Federal government over Provincial powers. Quebec was an enthusiastic part of the new arrangements, and was concerned chiefly with getting extra money from the Federal government. As its large bloc of Conservative voters provided a key element in the Federal government's Parliamentary majority it was in a relatively strong position. Meanwhile, much of the territory of Canada fell under the direct control of the Federal government, including what is now the Provinces of Saskatchewan and Alberta, and also what is now northern Ontario and northern Quebec. 46

To a large extent, this is a familiar picture to any observer of intergovernmental relations in the UK now—especially in the asymmetry, the importance of the financial power of the Federal government as well as control over legislation, and the reliance on personal contacts to oil the wheels of the machine.<sup>47</sup> To that extent, Canada may offer a vision of how intergovernmental relations in the UK might develop, especially if the establishment of regional government in England increases the number of units and complexity of interests involved.

Apart from some institutional differences (such as the role of the office of Lieutenant-Governor) may of12 TDiScoon pe(2ow—-1102nalRenanc 51 T/

control of part of it to the devolved institutions. Second, devolution in the UK exists in the context of a rapidly-changing world in which globalisation and the international mobility of capital are key forces. Third, the European Union is a key force for all governments in the UK, and access to EU institutions and the controls exercised by EU law are vital issues for the devolved administrations and their legislatures and assemblies. Yet for Canada there was something similar in the nineteenth century—the role of the UK as colonial power, and the supreme position (until 1931 and the Statute of Westminster) of the Imperial Parliament. Confederation meant that the Provinces no longer had a direct right of access to the Crown or Imperial institutions but had to operate through the Federal government (a shock for the Maritime Provinces in particular, as they had been self-governing colonies prior to Confederation), but London still loomed large in the Canadian consciousness. It is little wonder that most Provinces quickly established representative offices in London even when they had none in Ottawa.

Offering Canada as a vision of the future is likely to horrify many in the UK, pleased as they are with the largely uncontentious and consensual intergovernmental relations that exist at present. The large amount of politicians' attention, the larger amount of officials' time and the formality of the Canadian arrangements can easily cause alarm. However, looked at in the light of how Federal-Provincial relations have developed one can perhaps draw a large lesson for the UK from Canada, and one that is more for the UK Government than the devolved institutions. That is the importance of trust. This is a notably scarce commodity in Canada. Each government is sure that the other governments are trying to exploit their own positions and powers, probably at its expense. Each has shown considerable resourcefulness in maximising the resources available to it, whether those be financial, access to the courts or the framing of legislation. Yet this resourcefulness and 'utilitymaximisation' serve to undermine even further the level of confidence any government has in the others, making the process self-perpetuating. In the UK context, the dominance that the UK Government enjoys under the devolution arrangements gives it a degree of control that the Canadian Federal government would envy. If it wishes to avoid the sorts of formalised and confrontational relations to be seen in Canada, it will have to exercise that power with great discretion. Repeated intrusions into or interferences with devolved matters—as exemplified by some of the provisions in the Anti-terrorism, Crime and Security Act 2001—are likely to lead to the levels of mistrust that will result in the UK resembling Canada sooner rather than later.

# 5.2 Make sure that there is consistent advice—and follow it

It is telling how much the centralisation of power within the Federal government has contributed to harming intergovernmental relations in Canada. The Prime Minister's concerns with ensuring Quebec remains part of Canada while maintaining his popularity in English-speaking Canada and (more recently) with safeguarding his own legacy have not been effectively restrained by advice about the implications of his actions for Federal-Provincial relations. That is not for want of skill or effort on the part of the Privy Council Office, but rather because PCO's intergovernmental affairs section has not been consulted or involved. The consequences of this have been serious: matters like the Millennium Scholarships have seriously undermined trust, and made it harder to reach agreement on other matters like health-care funding or implementation of the Kyoto accord. Avoiding this sort of episode means having in-house experts and always consulting them—not just doing so when it is convenient or expedient. The UK's practice in this area so far has been good—and is greatly helped by the emphasis placed in the Memorandum of Understanding on good communication and careful consultation. The time will come when the political stakes involved will be high, in a way that they have not been up to now. As the UK Government still places much greater emphasis on officials' advice to the Prime Minister than the Canadian does, the signs are good. But that will be the key test—and if making the procedures work is obscured by a pressing crisis, the consequences may be serious too.

A further point is that ensuring consistent advice is given across government (any government) involves a great many people. The Canadian practice of having intergovernmental affairs specialists at the heart of government, complemented by IGR specialists in line departments and line officials who deal with intergovernmental issues in the course of making or implementing policy, appears to create a great deal of duplication. To an extent that is true, but the amount of duplication is more ap-

collection arrangements that remain largely in	

Canada) the power of appointment is a matter

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