



THE COUNCIL
OF THE FEDERATION

MEDIA BACKGROUNDER

Council of the Federation Advisory Panel on Fiscal Imbalance

1. Why is the Council of the Federation setting up this panel?

In Canada, each order of government has specific constitutional responsibilities. Provinces and territories are responsible for programs and services that are vital to the well-being and prosperity of all Canadians, including health, education and social services.

In recent years, significant financial pressures on provinces and territories have made it more and more challenging for them to deliver these programs and services. At the same time, the federal government has been consistently recording surpluses. Canada needs to have a **balance** between the expenditure responsibilities of governments and the ability to fund the services resulting from these responsibilities.

The Council of the Federation is establishing the Advisory Panel on Fiscal Imbalance to provide an **independent** review of this situation and make recommendations to address any fiscal imbalance in the federation over the long term.

2. What is “fiscal imbalance”?

The term “fiscal imbalance” has two aspects:

- **Vertical fiscal imbalance** refers to a **gap** between revenue sources and spending responsibilities between orders of government. It means that one order of government collects more tax dollars than it needs to support its responsibilities, crowding out the ability of the other order of government to raise the revenue it needs to fund its responsibilities.
- **Horizontal fiscal imbalance** refers to the **differences** in the ability of provinces/territories to raise revenues to meet the needs of their citizens. It means there is some disparity in the ability of individual provinces and territories to deliver comparable, high quality services.

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3. Why is “fiscal balance” important?

Fiscal balance helps guarantee that provinces and territories have the revenues they require to provide important programs and services. Achieving fiscal balance is also essential to ensure that all Canadians receive comparable, high quality services.

4. How does fiscal imbalance impact Canadians?

Fiscal imbalance makes it increasingly difficult for provinces and territories to maintain and improve crucial services such as health care, education, and other social programs, while continuing to fund other priorities including environmental protection and enhancing job training, transportation, agriculture and infrastructure to strengthen Canada's competitiveness.

Fiscal balance helps ensure that each taxpayer dollar is spent in the most effective way and helps keep our tax rates competitive. Competitive taxes directly benefit Canadians and support Canada's economic growth.

5. Who is on the panel?

The panel is made up of the following well respected and knowledgeable Canadians:

- Robert Gagné, Co-Chair
- Janice Gross Stein, Co-Chair
- Peter Meekison
- Lowell Murray
- John Todd.

6. What will the panel do?

The panel will:

- look at all the underlying causes of fiscal imbalance
- review a full range of mechanisms to address fiscal imbalance
- make recommendations on ways to restore fiscal balance.

7. How will the panel do its work?

As part of its independent review of fiscal imbalance, the panel will:

- directly consult all provincial and territorial governments
- seek the views of the federal government
- undertake research and hold roundtable forums with experts.

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8. When will the panel complete its report?

The panel has been asked to submit a report to the Council of the Federation in the fall of 2005.

9. At the end of the day, what difference will this panel make?

By recommending ways to correct the fiscal imbalance, the panel will be addressing one of the most important issues facing the federation today. The panel will provide Premiers with a clearer understanding of the nature and scope of the fiscal imbalance in Canada. In addition, the panel's recommendations will assist Premiers in finding ways to resolve this issue. Getting the balance right, will improve the way Canada works for all Canadians.

To learn more, visit www.councilofthefederation.ca.

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May 27, 2005