

Provincial-Municipal Community Funding Arrangement (Unconditional Grant)

To operate, communities receive funding, or revenue, from:

- local property taxes;
- the Provincial Unconditional Grant
- the sale of services;
- the collection of fees and fines; and
- other governmental capital and operating grants

This fact sheet focuses on the unconditional grant, a key aspect of municipal funding. Under a new local governance system, Government will develop a renewed funding arrangement, with input from stakeholders. This arrangement will be in place for January 2013.

The Unconditional Grant – Then and now:

The funding arrangement, known as the unconditional grant, was first developed more than 40 years ago. Under this arrangement, funding was and continues to be provided to municipalities to help offset the costs of delivering services to citizens.

Historically, unconditional grant funding has been provided for two purposes:

- To provide core funding in recognition of the fact that the ability to raise revenues is less than expenditure needs. In other words, the costs of services outweigh the incoming revenue. (This is called fiscal gap); and
- To address the fact that the ability to raise revenues is greater in some municipalities than in others (this is referred to as equalization).

As part of the original funding formula (1967), municipalities were divided into groups based on population and tax base, and a flat rate grant was applied to a percentage of municipal expenditure (45% for cities and towns, and 40% for villages). This was the core funding component of the funding arrangement. A separate grant was then applied based on the balance of expenditures, to equalize funding among municipalities, according to their ability to raise revenues.

While the intent of the unconditional grant remains the same, the amount given to each municipality has become increasingly inequitable in terms of distribution. Since the mid 1990's a combination of the suspension of a formula-based distribution and freezes, increases, and reductions in the amount available for distribution, has resulted in an arrangement which is no longer directly linked to municipal needs or the ability to raise revenue.

Local Service Districts (LSDs) and Rural Communities:

A portion of unconditional grant money has, from the outset of this funding arrangement, been allocated each year to support service expenditures in local service districts. As Rural Communities have formed, beginning in 2005, proportional amounts of grant funding have been transferred from LSDs and/or municipal grant pools to the newly incorporated Rural Communities.

As with other elements of the local governance system, there have been a number of reviews of the unconditional grant. Government recognizes that communities require an arrangement which will provide stability in financial planning and supports the most effective use of the grant dollars available.

For more information, visit: www.gnb.ca/localgovernment