Research

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Canada’s Municipal Spending Watch 2015

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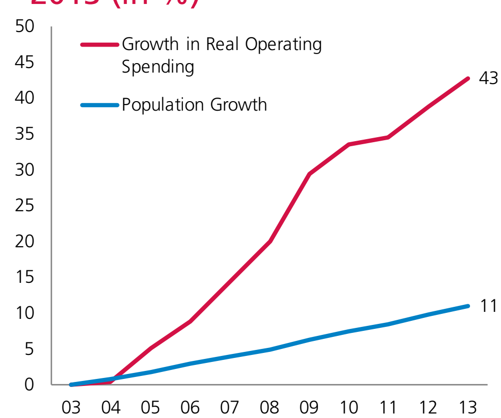
Increases in operating spending in the entire municipal sector in Canada from 2003 to 2013 have far outpaced the reasonable benchmark of inflation and population growth. Each Canadian household would have saved $5,200 during the past decade if municipal operating spending had not been in excess of this benchmark. In addition, this report also provides an in-depth examination of select major municipalities (i.e., Victoria, Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Ottawa, Montreal, Quebec City, Moncton, Halifax, Charlottetown and St. John’s) and shows that excessive spending is a widespread trend. A main driver of excessive spending is the high and rising cost of municipal employee wages and benefits. Without increases in taxes and/or fees, this spending trend is unsustainable.

From 2003 to 2013, the entire municipal sector in Canada increased inflation-adjusted[1] (i.e., real) operating spending by 43 per cent (see Figure 1). This is separate from money spent on capital projects for infrastructure investments. During the same period, population only grew by 11 per cent.

Clearly, this spending trend is unsustainable without significant increases in taxes and/or fees, something most taxpayers have little appetite for. This is particularly true of Canada’s small business owners, as they already pay a disproportionate share of property taxes.[2] Tax hikes to fund excessive municipal spending place an undue burden on Canadian small businesses—the supporters of our local economies.

Figure 1

Cumulative Growth in Population and Real Operating Spending in Canada's Municipalities[3], 2003-2013 (in %)



Sources: CFIB analysis of Statistics Canada, CANSIM Tables 380-0080 (expenditure), 326-0021 (CPI for Canada) and 051-0001 (population).

The Benchmark: Inflation and Population Growth

Municipal governments often justify their calls for more revenues by saying they are needed to improve the infrastructure that would help empower the local economy.[4] This report excludes money spent on infrastructure (capital) projects, looking solely at municipal operating spending. Why compare inflation-adjusted operating spending increases to population growth? It makes sense that municipal operating spending would increase to accommodate growth in population to provide the same services to more citizens. In addition, it is reasonable that operating spending should be adjusted for inflation to account for any increase in prices. Small business owners support spending increases to match inflation and population growth, but not beyond.[5]

The local Consumer Price Index (CPI) is used in this report to measure inflation. Some municipalities establish their own Municipal Price Index (MPI) and advocate for its use instead. However, from the perspective of Canadian taxpayers, the CPI is more relevant, as it reflects the price increases they face. Moreover, the MPI arbitrarily puts a heavy weight on components that municipalities can control or negotiate, such as wages and salaries of their employees.

Some suggest economic (GDP) growth as a benchmark for municipal operating spending growth. However, GDP growth largely captures productivity gains, which occur mostly in the private sector. Additionally, city administration does not need to expand at the same pace as economic growth; due to economies of scale, local governments are able to increase service delivery in a cost-efficient way. Therefore, there is no need for local governments to expand at the same pace as the economy.

Municipalities have claimed that they are underfunded and need more revenues, asking senior levels of government for more transfers and new taxing authority. Specifically, municipalities say that they only receive eight cents out of every tax dollar.[6] However, when transfers and user fees are included as a source of revenue, local governments actually receive 15 cents out of every tax dollar, and their inflation-adjusted revenues have increased over the years, according to CFIB's analysis.[7] Even though they do not have a revenue problem, municipalities continue to focus on seeking more revenues.

Municipalities continue to focus attention on the lack in revenues

This box provides a sampling of what municipalities are claiming.

"Revenue generation is not presently keeping up with services expenditures and there is a critical need to find additional revenue channels." Federation of Canadian Municipalities (FCM), June 5, 2015[8]

"We're starving here, and any improvement to the system that leads to those predictable, stable cash flows is a good thing." Naheed Nenshi, Mayor of Calgary, February 1, 2015[9]

"Cities are not funded adequately. They go cap in hand to their provincial masters and plead for money every year. It's not sustainable." Brian Bowman, Mayor of Winnipeg, February 1, 2015[9]

"We need a predictable revenue stream that doesn't require a cap in hand approach [...]. We get the smallest portion of the revenue stream but we are facing the largest portion of the services that have to be delivered and maintained." Fred Eisenberger, Mayor of Hamilton, February 5, 2015[10]

Small business owners across Canada think that municipalities have a spending problem. Fifty-five per cent of Canadian small business owners state that their local government does not do a good job on controlling spending; in many major municipalities, the results are even more telling (see Appendix B). The following section provides an in-depth analysis of the operating spending trends in Victoria, Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Ottawa, Montreal, Quebec City, Moncton, Halifax, Charlottetown and St. John's. This is an update of CFIB's *Canada's Municipal Spending Watch* report released in 2014, which sounded the alarm on the spending problem that plagues the Canadian municipal sector. With the updated time period from 2003 to 2013, this report continues to warn against this widespread spending trend.

Operating Spending Trends in Canada's Major Municipalities

Overall, governments of most major cities across Canada have not held their inflation-adjusted operating spending to the reasonable benchmark of population growth (see Figure 2).

Notably, from 2003 to 2013, the municipal government of Victoria increased its operating spending by 36 per cent even after adjusting for inflation. In contrast, its population grew at a much slower pace of six per cent during the same period. That is a stark difference: operating expenditures grew six times faster than population in Victoria over ten years. In Vancouver, the growth of real operating spending outpaced the growth of population by a ratio of about 4.5 between 2003 and 2013. The data for Montreal reveal a similar gap, however during a shorter period (2007-2013).

In St. John's during the past decade, real operating spending increased by 38 per cent, which was more than four times faster compared to its population growth of nine per cent. Adjusting for inflation, operating spending grew three times faster than population in Winnipeg and Quebec City during the period 2008-2013 and 2007-2013, respectively.

In Calgary and Edmonton, real spending growth also outpaced population growth by a factor of more than three between 2003 and 2013. Relative to other cities, population growth in Calgary and Edmonton was very strong—25 per cent and 23 per cent, respectively. Nevertheless, real operating spending grew by a staggering 80 per cent in Calgary and 74 per cent in Edmonton. While the unfortunate 2013 flood in Calgary is no doubt a contributing factor to the drastic jump in operating spending in the most recent year, it is still evident that Calgary has not controlled its spending throughout the past decade.

Regina, Halifax, Charlottetown and Moncton also have a spending problem, however a less pronounced one compared to some other municipalities. From 2003 to 2013, these local governments all increased their real operating spending by about twice as much as their population growth rates.

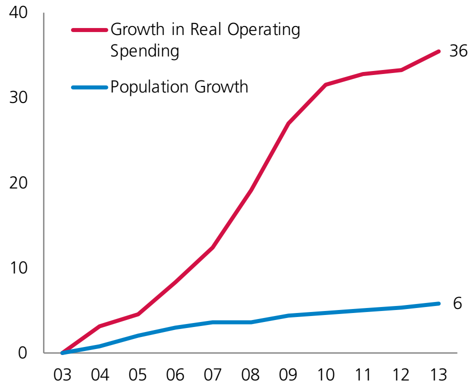
In Ottawa, inflation-adjusted operating spending increases were not too far beyond the reasonable benchmark of population growth. Between 2003 and 2013, the City increased its real operating spending by 16 per cent, while its population grew by 13 per cent. While this is encouraging, the Ottawa municipal government can still do more to limit the growth of its real operating spending, especially since spending has increased more rapidly again in the most recent years.

During the first half of the period, increases in the money spent on municipal operations in Toronto have clearly been excessive. However, there have been signs that the City is starting to exercise spending control lately. For example, the City successfully negotiated relatively modest pay hikes with the local employee union.[11] Additionally, some services have been contracted out to the private sector to enhance efficiency.[12] In recent years, real operating spending actually decreased, being one percentage point lower than population growth in 2013. That said, it is still early to judge whether the Toronto City government will continue to hold operating spending to the sustainable benchmark.

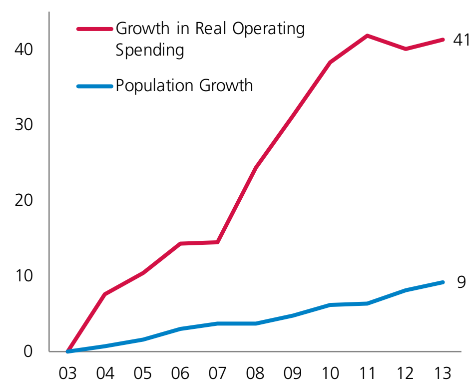
Figure 2

Cumulative Growth in Population and Real Operating Spending, Select Municipalities (in %)

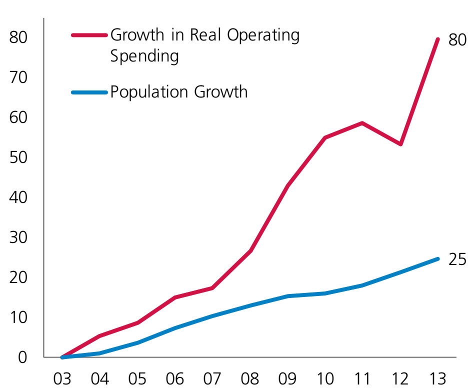
Victoria[13], 2003-2013



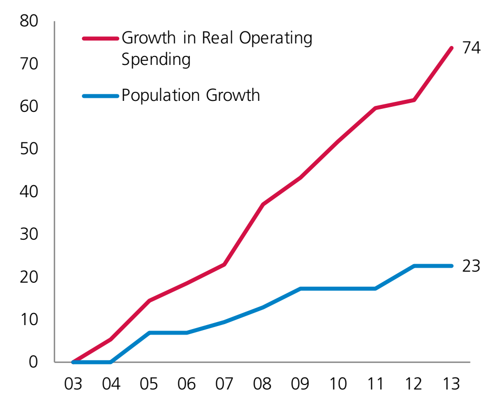
Vancouver[13], 2003-2013



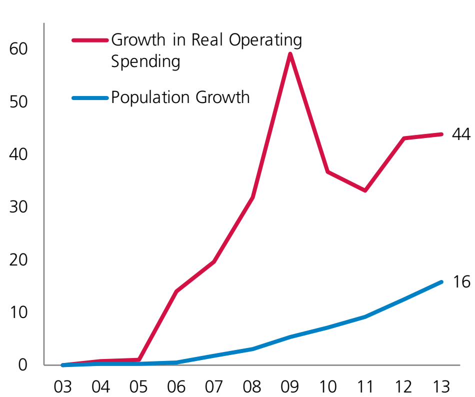
Calgary[14], 2003-2013



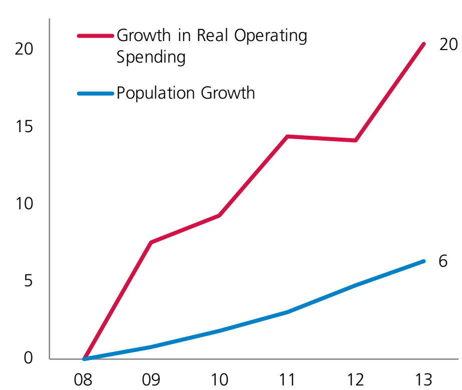
Edmonton[14], 2003-2013



Regina[14], 2003-2013



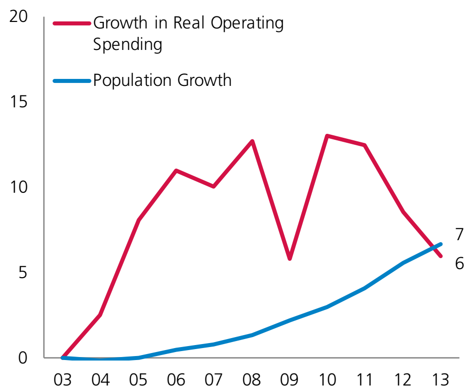
Winnipeg[15], 2008-2013



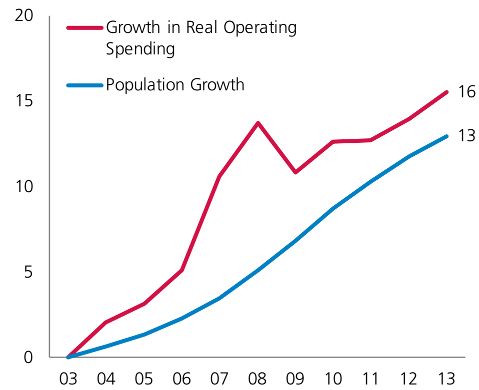
Sources: CFIB analysis of BC Ministry of Community, Sport & Cultural Development, Division of Local Government Statistics, *Sch402*; Alberta Municipal Affairs, *Schedules D* and *Population of Alberta*; City of Regina, *Annual Reports*; City of Winnipeg, *Consolidated Financial Statements*; Statistics Canada, CANSIM Table 326-0021 (CPI for Vancouver, Victoria, Calgary, Edmonton, Regina, Winnipeg) and Demography Division, custom tabulation (population for Regina and Winnipeg); BC Stats (population for Vancouver and Victoria).

Figure 2 (continued)

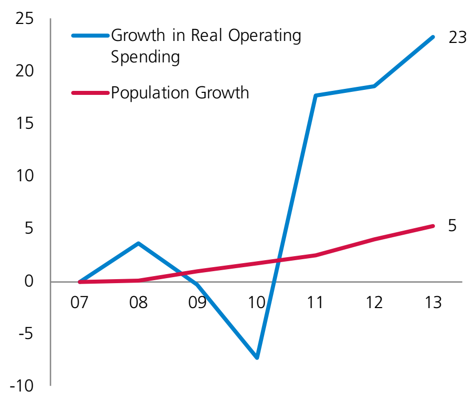
Toronto[14], 2003-2013



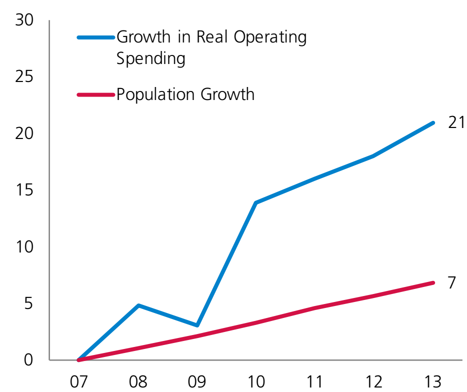
Ottawa[14], 2003-2013



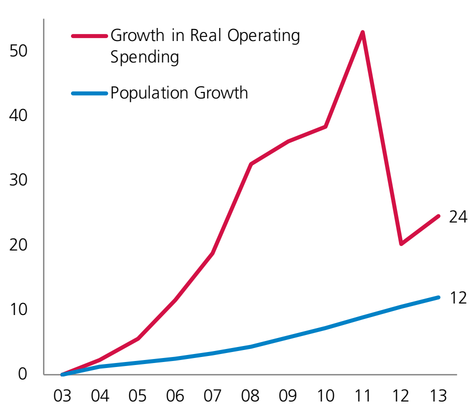
Montreal[14, 16, 17], 2007-2013



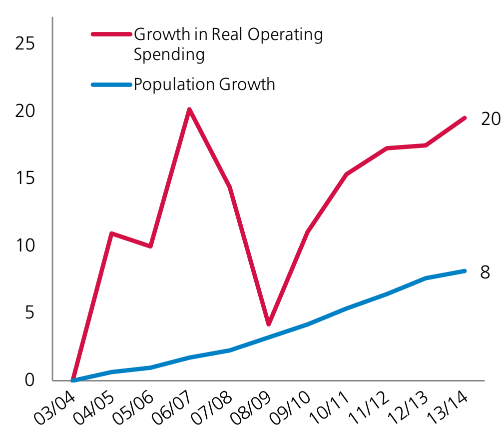
Quebec City[14, 17], 2007-2013



Moncton[18], 2003-2013



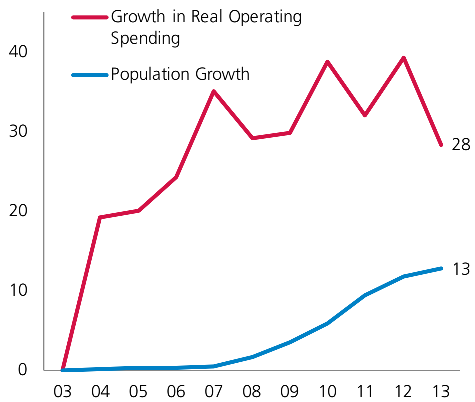
Halifax[19], 2003-2014



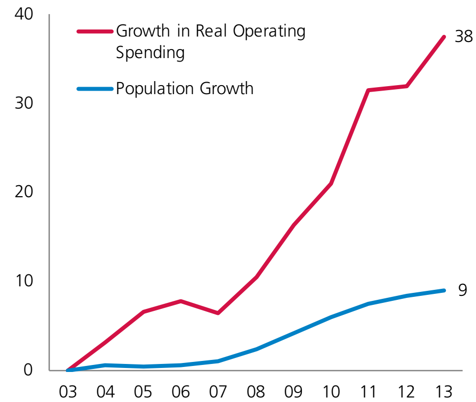
Sources: CFIB analysis of Ontario Ministry of Municipal Affairs and Housing, *Financial Information Return;* City of Montreal, *Annual Financial Reports*; Quebec City, *Rapports financiers*; City of Moncton, *(Consolidated) Financial Statements;* Government of Nova Scotia, Department of Municipal Affairs, *Annual Report of Municipal Statistics;* Statistics Canada, CANSIM Table 326-0021 (CPI for Toronto, Ottawa-Gatineau, Montreal, Quebec City, New Brunswick, Halifax) and Demography Division, custom tabulation (population for Toronto, Ottawa, Moncton and Halifax); Institut de la statistique du Québec (population for Montreal and Quebec City).

Figure 2 (continued)

Charlottetown[20], 2003-2013



St. John's[21], 2003-2013



Sources: CFIB analysis of City of Charlottetown, *Consolidated Financial Statements*; City of St. John's, *Consolidated Financial Statements*; Statistics Canada, CANSIM Table 326-0021 (CPI for Charlottetown and Summerside, St. John's) and Demography Division, custom tabulation (population).

Identifying challenging financial situations: Nova Scotia implemented the Financial Condition Index (FCI) to track municipal financial health

Three years ago, the Province of Nova Scotia, the Union of Nova Scotia Municipalities and the Association of Municipal Administrators jointly developed the Financial Condition Index[22] (FCI), providing a snapshot of how each municipality in Nova Scotia is doing financially. Combining a range of information from annual financial statements and reports, the FCI shows municipalities' revenue sources, how municipalities spend their money, and how they manage their finances. Using an intuitive colour coding scheme (green, yellow, red), the FCI illustrates a municipality's annual performance on 15 indicators. By including past results, the FCI can quickly point to areas of financial health that are of concern or require further investigation. Although not a replacement for a professional financial audit, the FCI is a good tool to help municipal councils identify and address challenging financial situations. In addition, it gives the public an easy way to view municipalities' financial performance.

Cutting Excessive Spending Means Great Potential Savings

Overall in Canada, municipal operating spending in excess of the reasonable benchmark adds up to more than $68 billion from 2003 to 2013 (see Table 1). If operating spending increases in the municipal sector had been held to the benchmark every year and the savings been passed on to citizens, every Canadian household[23] could have saved almost $5,200 during the past decade.

Table 1

Excess Operating Spending and Potential Household Savings, Select Municipalities

	Time period	*Total excess spending [1] (in million $)*	*Total savings per household [2] (in $)*
Municipal sector, Canada	**2003-2013**	**68,469**	**5,183**
Victoria	2003-2013	201	4,683
Vancouver	2003-2013	1,670	6,369
Calgary	2003-2013	3,602	8,565
Edmonton	2003-2013	2,840	8,854
Regina	2003-2013	554	7,072
Winnipeg	2008-2013	472	1,752
Toronto	2003-2013	5,339	5,305
Ottawa	2003-2013	807	2,396
Montreal	2007-2013	1,764	2,308
Quebec City	2007-2013	509	2,065
Moncton	2003-2013	155	5,194
Halifax	2003/04-2013/14	465	2,869
Charlottetown	2003-2013	80	5,581
St. John's	2003-2013	209	4,692

Sources: see Figures 1 and 2; Statistics Canada, 2001 Community Profiles, 2006 Community Profiles, 2011 Census Profiles (number of households, by municipality).

[1] Total excess spending is the sum of the annual differences between actual operating spending and operating spending if held to inflation and population growth.

[2] The number of households for inter-Census years (2003-2005 and 2007-2010) was estimated using the annual growth rate of the number of households between Census years. The number of households for 2012 and 2013 was estimated using the annual growth rate between Census years 2001 and 2011.

Notes: Operating spending is not directly comparable across municipalities due to different time periods and differences in what is included in the spending data (i.e., basis of consolidation; see Appendix A).

It is important to note that operating spending is not directly comparable across municipalities. In some cases, the time period analyzed differs. Moreover, the basis of consolidation (i.e., what is included in operating expenditures) is not consistent across all municipalities (see Appendix A). For example, data for Vancouver include six agencies, boards and commissions beyond the City's core administration, none of them related to transit. In contrast, data for Toronto cover a myriad of agencies, boards and commissions, including the Toronto Transit Commission (TTC), as well as arenas, community centres and business improvement areas in addition to the City's core operations.

While cross-province comparison may not be possible, comparisons within a province can be meaningful, as long as spending data are available from a provincial data source and cover the same time period (see Table A.1 in Appendix A for notes regarding data). In Alberta, the total savings that every household in Calgary and Edmonton could have accumulated from 2003 to 2013 are over $8,500. On the other hand, in Ontario, there is a large difference: spending in line with inflation and population growth could have saved every household in Toronto $5,300—more than twice as much as Ottawa's potential household savings of $2,400. Overall, if municipal governments had exercised spending control, very sizeable savings could have been passed on to Canadian taxpayers during the last decade.

Are Canadian Taxpayers Getting Their Money's Worth?

Real spending increases beyond population growth may be justified if municipalities are providing additional services and/or better value-for-money for existing services. However, many taxpayers do not feel that public services offer good value for their tax dollars, or that value-for-money has increased accordingly, as CFIB's surveys show (see Appendix C).

CFIB's members were regularly asked to rate their local government's value-for-money of public services as "poor", "adequate", or "good". Overall, there are overwhelmingly more "poor" than "good" ratings (see Figure C.1 in Appendix C). Nationally, 43 per cent of Canadian small business owners gave their local government a "poor" rating in 2006, and this increased to 49 per cent in 2013. To provide some specific examples, 60 per cent of Vancouver small business owners rated their municipality with "poor" in 2013, up from 45 per cent in 2006. In St. John's, 58 per cent of small business owners gave a "poor" rating in 2006; seven years later, almost three-quarters of them did so. While there was improvement from 2006 to 2013 in some municipalities (i.e., Ottawa, Montreal, Quebec City and Halifax), the general tendency is that perceived value-for-money is poor and it is getting worse.

Small business owners are not alone in their dissatisfaction with local government; the general public does not think they are getting their tax money's worth either. A public opinion poll commissioned by CFIB revealed that two-thirds of Canadians disagree that they receive good value-for-money for the amount of taxes and fees they pay to government (see Figure C.2 in Appendix C). While this is for all levels of government, it certainly applies to municipal governments.

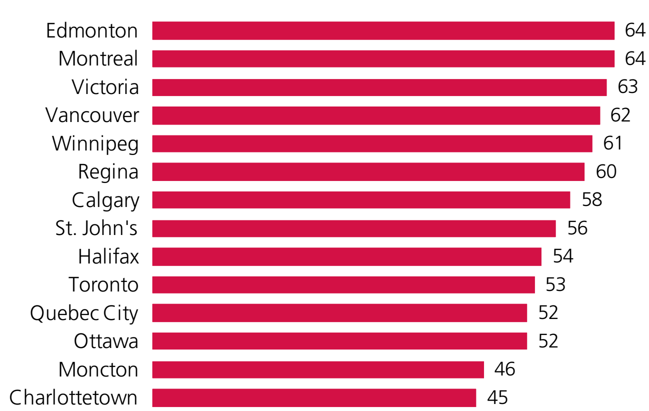
In general, small business owners and individual taxpayers do not receive good value for the tax dollars they pay to local governments. They do not think municipalities allocate their tax dollars wisely. This inevitably begs the question: why has municipal operating spending increased so drastically over the years?

The Elephant in the Room: Municipal Employee Compensation

In 2013, the share of operating spending going to salaries, wages and benefits ranged from 45 per cent in Charlottetown to 64 per cent in Edmonton and Montreal (see Figure 3). Most of the municipalities included in this report allocated more than half of their operating spending to employee compensation, with six allocating 60 per cent or more—Regina, Winnipeg, Vancouver, Victoria, Montreal and Edmonton.

Figure 3

Wages, Salaries and Benefits as a Share of Operating Spending, 2013, Select Municipalities (in %)



Sources: see Figures 1 and 2. For Vancouver, Victoria and Halifax, wages, salaries and benefits are from the cities' *Consolidated Financial Statements* or *Annual Reports*, while operating spending is from provincial data sources.

Over the years, spending on employee salaries, wages and benefits has increased tremendously in some municipalities. For example in Edmonton and Calgary, spending on employee compensation increased by 74 per cent and 47 per cent, respectively, from 2003 to 2013, even after adjusting for inflation (see Table 2). In Victoria and Vancouver, spending on employee salaries, wages and benefits grew by 23 per cent and 15 per cent, respectively, during the past decade.

Table 2

Growth in Real Spending on Employee Salaries, Wages and Benefits and Growth in Population, Select Municipalities (in %)

Municipality	*Time period*	*Increase in real spending on employee salaries, wages and benefits*	*Population Growth*
Victoria	2006-2013*	23	3
Vancouver	2003-2013	15	9
Calgary	2003-2013	47	25
Edmonton	2003-2013	74	23
Regina	2003-2013	36	16
Winnipeg	2008-2013	19	6
Toronto	2003-2013	35	7
Ottawa	2003-2013	43	13
Montreal	2007-2013	34	5
Quebec City	2007-2013	15	7
Moncton	2011-2013*	8	3
Halifax	2003/04-2013/14	38	8
Charlottetown	2003-2013	48	13
St. John's	2012-2013*	2	1

Sources: see Figures 1, 2 and 3.
* Time period reflects availability of data on employee salaries, wages and benefits and differs from the period used to analyze operating spending.

Some municipalities are starting to address the costs of employee compensation

In early March 2015, the Mayor of Montreal announced plans to reduce the overall remuneration to Montreal city employees by 10.5 per cent.[24] The reductions are to be achieved by cutting benefits, having employees work more hours, contracting out certain forms of work and paying less for sick days. This is in addition to the implementation of a five-year labour force plan. Introduced in 2014, the labour force plan aims to lower wage costs by reducing the City's workforce by 2,200 over five years. The plan is estimated to save the City of Montreal $240 million by 2020.[25]

Other municipalities have renewed their collective agreements with their local employee unions in recent years. The resulting pay raises varied greatly. For example, in Edmonton, outdoor municipal workers entered into a contract with the City to receive relatively large pay increases of 8.5 per cent over three years, with increases of 2.5 per cent in 2011 and three per cent in both 2012 and 2013.[26]

In June 2012, the municipal government of Halifax agreed to give its indoor workers six per cent salary and wage increases over three years.[27] This means all indoor municipal employees received a two per cent pay raise every year from 2012 to 2014. Some lower level municipal employees saw additional increases in their hourly rates as well.

The City of Toronto successfully negotiated relatively modest pay hikes for its outdoor workers in February 2012, agreeing to increase their wages and salaries by 4.5 per cent until 2015.[28] To be more specific, there was no raise in 2012.[29] The base salaries of these workers were increased by 0.5 per cent in 2013, and the remaining increase of four per cent was spread out between 2014 and 2015.

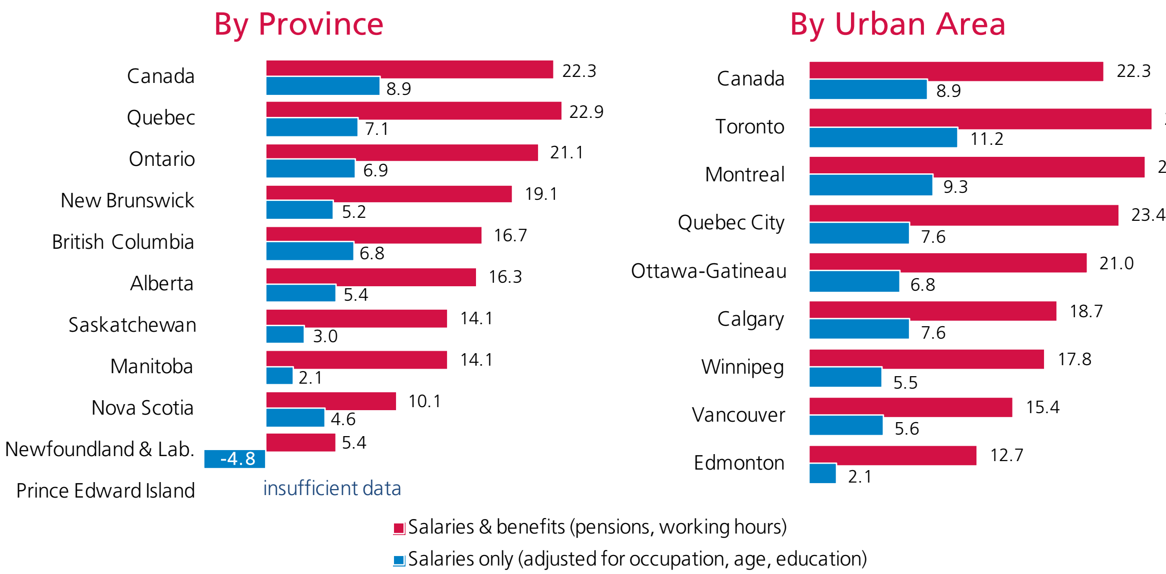
Two factors are behind the drastic increases in inflation-adjusted municipal spending on employee compensation. Municipal workers have been compensated well above private sector norms. Secondly, the municipal sector has been expanding the size of its workforce more rapidly than the private sector. Fast employment growth at generous compensation levels greatly contributes to the unsustainable municipal operating spending trend.

Municipal Compensation Advantages

Looking at wages and salaries alone, local government employees across Canada receive nine per cent more than their private sector counterparts for doing the same job, and the advantage jumps to 22 per cent when benefits (i.e. working hours, employer's contributions to employer-sponsored pension plans[30]) are included in the comparison (see Figure 4). Provincially, the salaries and benefits advantage is particularly high in Quebec and Ontario (23 per cent and 21 per cent, respectively).

Figure 4

Municipal Government Salaries and Benefits Advantage, 2010 (% above Private Sector for Comparable Occupations)



Sources: CFIB, *Wage Watch*, 2015 (data from Statistics Canada, 2011 National Household Survey).
Note: Urban areas do not necessarily reflect city borders (e.g., Toronto includes areas outside of the City of Toronto in the Greater Toronto Area). Therefore, salaries or salaries & benefits advantages may not apply to individual city administrations but rather, are illustrative for the broader area.

Among major urban areas (which may include areas outside of the municipalities), the municipal compensation advantage is highest in the Toronto and Montreal areas, where municipal employees receive 25 per cent more in wages and benefits compared to those doing the same job in the private sector. While lower relative to other urban areas, city workers' compensation advantage of 13 per cent in Edmonton is still significant.

Quebec spearheaded municipal pension reform

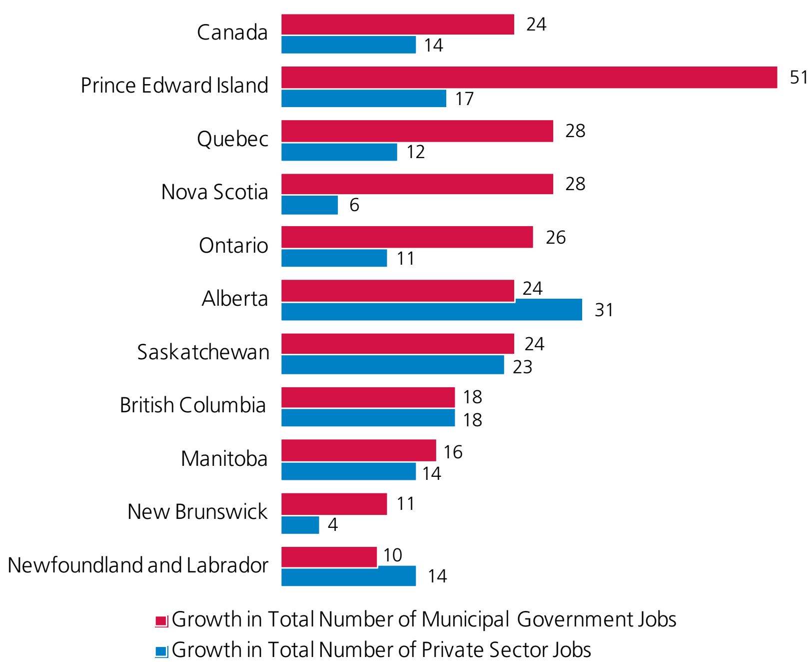
In December 2014, the Quebec (provincial) government passed into law *Bill 3: An Act to foster the financial health and sustainability of municipal defined benefit pension plans*,[31] requiring municipalities to restructure the pension plans they offer their employees. Municipal employers and employees now split contributions equally in most cases. Employees who contributed 35 per cent or less to their pension plans prior to the change are allowed to increase their portion incrementally so that it reaches 50 per cent by 2020. A stabilization fund aimed at protecting the pension plans from any future risks was also established in each municipality. The total contribution to retirement savings from both employers and employees cannot exceed 18 per cent of the overall payroll (20 per cent for police officers and firefighters). Under certain conditions, municipalities are allowed to freeze cost-of-living increases in pension payouts to their retired and active employees.

Rapid Expansion of the Municipal Workforce

Staffing levels in the municipal sector have been increasing faster than in the private sector, amplifying the growth in local government spending on employee compensation. Nationally, the number of jobs in all Canadian municipalities increased by almost one quarter from 2003 to 2013, while those in the private sector increased by only 14 per cent (see Figure 5). Employment growth rates of the municipal sector outpaced those of the private sector in Prince Edward Island, Quebec, Nova Scotia, Ontario, Saskatchewan, Manitoba, and New Brunswick. In British Columbia, job growth in both sectors was the same during the past decade. Only in Alberta and Newfoundland and Labrador did job growth in the private sector outpace that in the municipal sector.

Figure 5

Cumulative Growth in Total Number of Municipal Government Jobs and Private Sector Jobs, 2003-2013, By Province (in %)



Source: CFIB analysis of Statistics Canada, CANSIM Table 383-0031 (labour statistics).

Toward a Sustainable Operating Spending Trend

Coupled with rapid workforce expansion, unsustainable spending on municipal wages, salaries and benefits is a major driver behind the excessive operating spending trend across Canadian cities. If municipal expenditures on personnel had been in line with private sector norms, a significant portion of operating spending would have been freed up. In 2012, the municipal sector in Canada spent $32.4 billion[32] on employee salaries, wages and benefits. This includes overspending by $3.7 billion[33] in excess of the salaries and benefits that would be aligned with private sector norms.

Compensating public sector employees above private sector norms is costly, taking money out of Canadian taxpayers' pockets and taking funding away from other priorities such as investments in infrastructure. Eliminating the municipal compensation advantage is an important step toward better fiscal management by municipal governments. This would result in lower taxes and fees, allowing small business owners to invest more money back into their business, which would in turn help them grow and continue to support their communities and local economies.

Conclusion and Recommendations: The Time to Focus on Spending Control is Now

The analysis in this report shows that inflation-adjusted operating spending in Canadian municipalities has increased dramatically, far outpacing the reasonable benchmark of population growth. Clearly, municipalities need to focus on controlling their operating spending.

There are some early signs that a few municipalities are starting to address the issue of excessive spending. For example, Toronto negotiated relatively modest pay increases with the local employee union and contracted out certain public services to improve cost-efficiency. Furthermore, operating spending of the City of Ottawa has not been too far beyond the benchmark of inflation and population growth. Nevertheless, it is still too early to declare that this is the new trend. Most municipalities still continue their unsustainable spending patterns. Additionally, it is worrisome that instead of exercising spending control, local governments and groups such as the FCM still focus on increasing municipal revenues.

How can municipalities better control operating spending? Part of the answer lies in controlling municipal sector wages and benefits, which represent the bulk of municipal operating expenditures and are currently far more generous than in the private sector. This needs to be an important consideration and is starting to be in some places. For example, to contain pension liabilities, the Quebec government passed into law reforms to municipal pension plans in December 2014, and the Mayor of Montreal plans to reduce personnel costs. These are steps in the right direction.

Strong political leadership is required to successfully rein in the unsustainable spending trends of Canadian municipalities. Municipal leaders need to seriously assess their operating spending trends and make decisions over future spending with a long-term view. At the same time, provincial governments and the federal government also have a role to play and should not give in to municipalities' demands for more funding without improved transparency and accountability at the local level. Taxpayers have a right to expect responsible policy-making and planning for the future from all levels of government.

Instead of asking for more money from senior levels of government or for additional taxing authority, municipalities should explore the tools and options that they have at their disposal to rein in operating spending. Specifically, CFIB makes the following recommendations to municipal, provincial and federal governments.

Recommendations

For municipal governments

1. **Limit increases in operating spending to no more than inflation and population growth:**
   - Operating spending increases to accommodate growth in population and prices are reasonable; increases beyond this are unsustainable in the long-run and only add to the burden on taxpayers.
2. **Implement compensation systems that are sustainable and better compare with those of private sector workers:**
   - Limit compensation increases, particularly where there are any significant gaps, until public and private sector compensation levels are aligned.
   - Hire new employees at compensation levels that are in line with private sector norms for similar occupations.
   - Introduce a plan to reduce the cost of compensation through pension reforms (e.g., enroll new hires in defined contribution or shared risk pension plans instead of defined benefit pension plans; eliminate early retirement provisions) and consider reducing the size of the civil service (primarily through attrition).
3. **Review current programs and services and consider contracting out to the private sector:**
   - Identify programs and services that can be provided more cost-efficiently through a competitive process involving private sector service providers.

For provincial governments

1. **Freeze funding to municipalities for operating spending at current levels until municipal governments better manage their spending:**
   - Additional general-purpose (i.e. unconditional) transfers to municipalities above current levels should not be granted until municipalities limit operating spending to no more than inflation and population growth, align public sector compensation with private sector norms, and address pension shortfalls and sustainability.
2. **Implement tools to track and report on municipalities' financial performance to improve their financial health and accountability:**
   - Work with municipalities to jointly design a set of indicators to assess municipalities' revenue sources, how municipalities spend their money, and how they manage their finances. A tool should track these indicators regularly (e.g. annually) to identify areas for further investigation and be made publicly available. The Financial Condition Index in Nova Scotia is as an example of such a tool
   - Create an independent office that regularly audits municipalities' public expenditures to increase accountability and value for money in municipal operations. An example of this is the Auditor General for Local Government in British Columbia.
3. **Improve the quality of municipal financial data to allow for better assessment and comparison of municipal spending:**
   - Collect and publish municipal financial information in a consistent manner over time and provide provincial templates that municipalities should use for financial reporting (i.e., budgets, financial statements and/or municipal financial information returns). Ideally, municipal financial data should also be fully comparable across the country.
   - Municipal financial data should be openly accessible in one place, i.e. on the website of the ministry responsible for municipal affairs.

For the federal government

1. **Freeze funding to municipalities for operating spending at current levels until municipal governments better manage their operating spending:**

    - Additional general-purpose (i.e. unconditional) transfers to municipalities above current levels should not be granted until municipalities limit operating spending to no more than inflation and population growth, align public sector compensation with private sector norms, and address pension shortfalls and sustainability.

Appendix A: Notes Regarding Municipal Spending Data

In most provinces, municipal financial data are collected and published by the provincial government ministry that is responsible for municipal affairs. This report primarily uses data provided by provincial governments to keep the analysis as consistent as possible. However, comparability issues can still exist:

Use of provincial templates: Many provincial governments provide templates to municipalities for financial reporting. However, not all municipalities use these templates thus affecting comparability.

Basis of consolidation: The basis of consolidation refers to what agencies, boards and commissions in addition to the municipalities' core administration are included in municipal reporting. Differences in this scope can undermine comparability as data for one municipality may include operating spending of multiple agencies, boards and commissions, whereas data for another municipality may only cover operating spending limited to its core administration. Often, the larger a municipality, the more agencies, boards and commissions are included in consolidated spending figures. For example in Toronto, consolidated spending data covers various Business Improvement Areas, arenas, community centres, agencies and corporations such as the Toronto Transit Commission (TTC) and the Toronto Public Library Board. Leaving out such agencies, boards and commissions would omit important areas of spending and underestimate the amount of money spent by municipalities.[34] Therefore, this report primarily uses consolidated figures. Exceptions to using consolidated data are as follows:

- **Halifax:** Starting in fiscal year 2008-2009, the format of the Nova Scotia government's *Annual Report of Municipal Statistics* changed so that both consolidated and non-consolidated information are reported. Non-consolidated data for Halifax' operations only are used as of 2008-2009 to keep the data comparable over time.
- **Moncton:** Prior to 2011, financial statements for the City of Moncton only include the City administration. As of 2011, financial data are consolidated with those of Moncton Industrial Development Limited (MID) and the Water and Light Department (i.e. the utility operations). To keep data comparable over time, spending for MID and the utility were removed to analyze the City's core administration only.

In addition, data from provincial government sources are not fully comparable across provinces as the data available and the reporting formats differ. For select municipalities, municipal consolidated financial statements were used in place of provincially collected data:

- **Regina:** the Saskatchewan government publishes municipal financial data in its *Municipal Financial Information Return System* on its website. However, data available for Regina through this system are only for 2002 to 2007. According to the Saskatchewan Ministry of Municipal Relations, the system was not designed to deal with the change in accounting related to capital assets (see below), and therefore, does not contain more recent data. As a result, the City of Regina's *Consolidated Financial Statements* were used instead. The City was cooperative in providing these for earlier years to CFIB upon request.
- **Montreal and Quebec City:** the Quebec government publishes municipal financial data in its *Rapport financier des organismes municipaux*. While the amounts for total municipal spending are available on a consolidated basis, the amounts for amortization of tangible capital assets are not. Therefore, the cities' consolidated financial statements were used instead.
- **Winnipeg:** the Manitoba government publishes annual *Municipal Statistics* in PDF-form on its website. However, it does not include amortization of capital assets other than for sewer and water in these reports, making it difficult to separate capital spending from operating spending (see below). This information was not made available upon CFIB's request. As a result, the City of Winnipeg's *Consolidated Financial Statements* were used instead.

- **Moncton:** In 2012, municipalities in New Brunswick adopted Public Sector Accounting Board (PSAB) standards. Based on contact with a government official, municipal financial data compiled by the Government of New Brunswick would only be consistent up to 2011 as not enough detail would be available to remove consolidated agencies, boards and commissions and analyze a municipality's core administration only. Therefore, the City of Moncton's financial statements were used instead.
- **St. John's:** The Government of Newfoundland and Labrador does not publish municipal financial data. While data was made available to CFIB upon request in the past, the data were budget figures and not actual financial results since the adoption of PSAB standards. Therefore, consolidated financial statements were used for St. John's instead.
- **Charlottetown:** The P.E.I. government publishes a *Municipal Statistical Review* in PDF-form on its website, going back to 2006/2007. P.E.I. Municipal Affairs and Provincial Planning provided custom data for a longer period to CFIB in Excel upon request. However, based on contact with a government official, there were concerns regarding the reliability and volatility of the data. The City of Charlottetown's *Consolidated Financial Statements* were used as a result.

Separating Operating Spending From Capital Spending

In most municipalities and provincial government sources of municipal financial data, capital spending was reported separately from operating spending prior to 2009. Also, capital spending was accounted for when it was purchased, leading to often large fluctuations in spending from year to year. As a result, it makes sense to separate capital spending from operating spending.

There was a change in accounting principles related to capital assets whereby capital assets started to be amortized over their useful lives. This change is based on the adoption of Section 3150—Tangible Capital Assets of the PSAB handbook and was effective as of 2009 in most cases. As a result, capital spending is no longer reported in the year in which it is purchased; instead, the amortization of capital assets is reported for a given year and is included in total spending reported by municipalities. This accounting change may explain some volatility in spending trends in the year in which the change occurred.

For consistency over time and across municipalities, capital spending and/or amortization of tangible capital assets are excluded in this study in order to analyze operating spending trends.

Table A.1

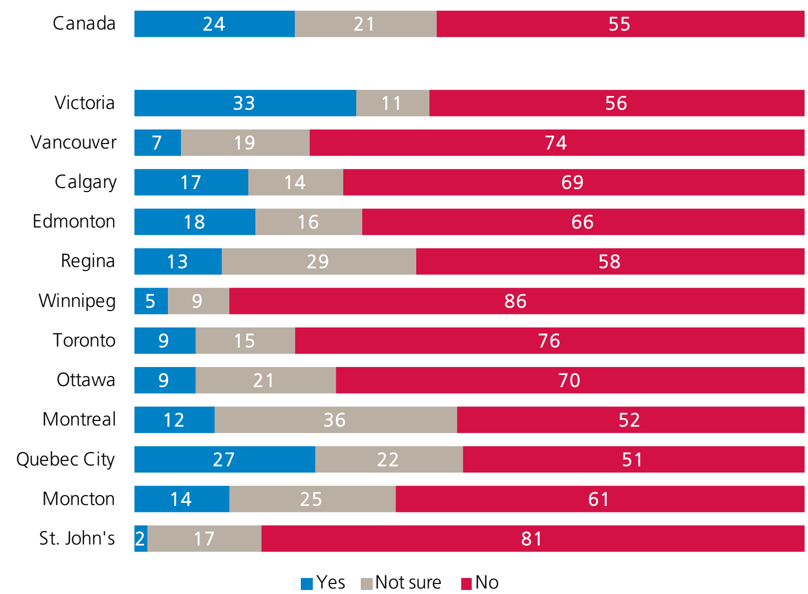
Background Information for Municipalities: Coverage and Notes Regarding Data

Municipality	*Coverage*	*Time period covered*	*Source for spending data*	*Consolidated or non-consolidated operating spending*
Victoria	City of Victoria (excl. other municipalities in Greater Victoria)	2003-2013	**Provincial data:** BC Ministry of Community, Sport & Cultural Development, Division of Local Government Statistics, *Sch402*	Consolidated
Vancouver	City of Vancouver (excl. other municipalities in the Greater Vancouver Regional District (GVRD))	2003-2013		
Calgary	City of Calgary (excl. other municipalities in the Calgary Region)	2003-2013	**Provincial data:** Alberta Municipal Affairs, *Schedules C and D*	Consolidated
Edmonton	City of Edmonton (excl. other municipalities in the Edmonton Capital Region (ECR))	2003-2013		
Regina	City of Regina	2003-2013	City's *Annual Reports* (incl. Consolidated Financial Statements)	Consolidated
Winnipeg	City of Winnipeg	2008-2013	City's *Consolidated Financial Statements*	Consolidated
Toronto	City of Toronto (excl. other municipalities in Greater Toronto Area (GTA))	2003-2013	**Provincial data:** Ontario Ministry of Municipal Affairs and Housing, *Financial Information Return*	Consolidated
Ottawa	City of Ottawa (excl. Gatineau, QC)	2003-2013		
Montreal	City of Montreal (excl. other municipalities on the Island of Montreal that demerged in 2006)	2007-2013	City's *Annual Reports* (incl. Consolidated Financial Statements)	Consolidated
Quebec City	Quebec City (excl. municipalities that demerged in 2006)	2007-2013	City's *Annual Reports* (incl. Consolidated Financial Statements)	Consolidated
Moncton	City of Moncton	2003-2013	City's *(Consolidated) Financial Statements*	Non-consolidated
Halifax	Halifax Regional Municipality	2003/04-2013/14	**Provincial data:** Government of Nova Scotia, Department of Municipal Affairs, *Annual Report of Municipal Statistics*	Non-consolidated
Charlottetown	City of Charlottetown	2003-2013	City's *Consolidated Financial Statements*	Consolidated
St. John's	City of St. John's	2003-2013	City's *Consolidated Financial Statements*	Consolidated

Appendix B: Views on How Well Local Governments Control Spending

Figure B.1

Small Business Owners: "Does your local government do a good job on controlled spending?" (% response)

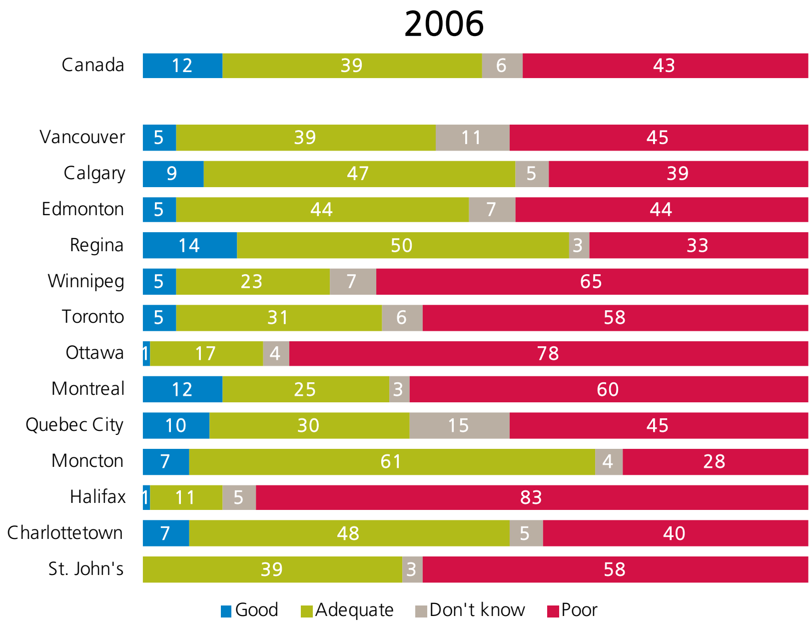


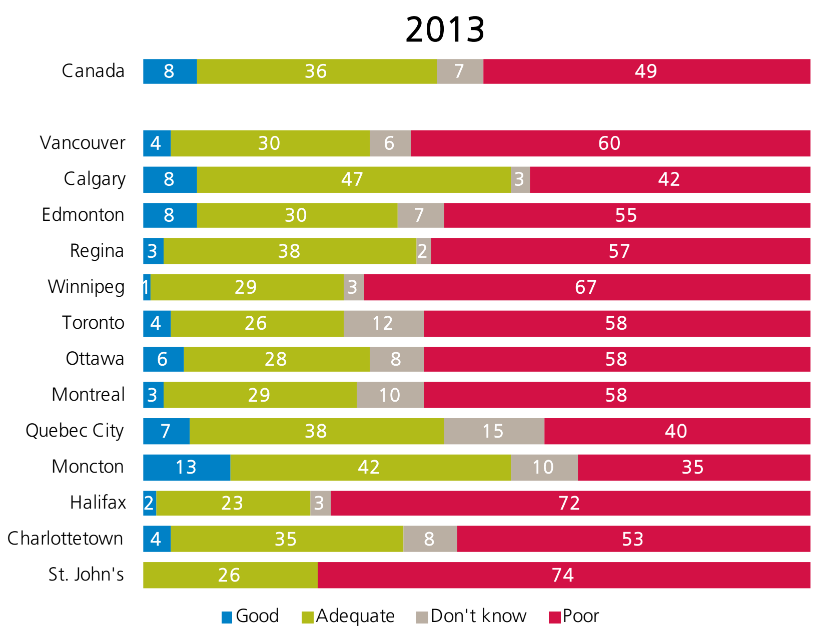
Sources: CFIB, *Our Members' Opinion Survey No. 75*, July-December 2014, n= 18,565 for Canada.
Note: Halifax and Charlottetown are excluded due to small sample sizes.

Appendix C: Views on Value-for-money for Government Services

Figure C.1

How business owners rate the local government where their business is situated on value-for-money for public services (% response)

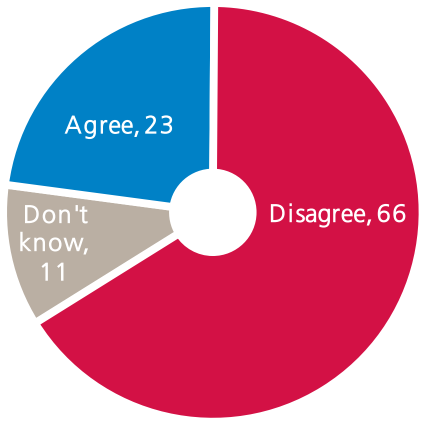




Sources: CFIB, *Our Members' Opinion Survey No. 73*, July-December 2013, n=19,153 for Canada; CFIB, *Our Members' Opinion Survey No. 58*, January-June 2006, n= 22,027 for Canada.
Note: Victoria is excluded due to small sample size.

Figure C.2

Individuals: "I receive good value-for-money for the amount of taxes and fees I pay to government" (% response)



Source: National public opinion poll conducted by Vision Critical for CFIB (November 28 – November 29, 2013, n=1,511.

[1] Spending is adjusted for inflation to remove the effect of rising prices over time.

[2] See for example:

Mallett, Ted, Simon Gaudreault and Andreea Bourgeois. (2014). *Entrepreneurial Communities: Canada's top places to start and grow businesses in 2014.* Toronto: Canadian Federation of Independent Business. [Pdf] Accessed on July 2, 2015: http://cfib.ca/a6656e

Truscott, Richard and Simon Gaudreault. (2014). *B.C. Municipal Property Tax Gaps 2003-13: A 10-Year Perspective.* Vancouver: Canadian Federation of Independent Business. [Pdf] Accessed on July 2, 2015: http://cfib.ca/a6669e

Ruddy, Amber. (2014). *Small business deserves property tax fairness. A ten-year perspective of property tax gaps in Alberta.* Calgary: Canadian Federation of Independent Business. [Pdf] Accessed on July 2, 2015: http://cfib.ca/a6855e

Muller, Eric and Nina Gormanns. (2014). *Wanted: Property Tax Fairness in Saskatchewan: Ranking 2013 property tax gaps from a small business perspective.* Regina: Canadian Federation of Independent Business. [Pdf] Accessed on July 2, 2015: http://cfib.ca/a6788e

Lee, Jovonne. (2014). *Ontario Property Tax System Stacked Against Small Business: How Ontario and Its Municipalities Tax Business Properties*. Toronto: Canadian Federation of Independent Business. [Pdf] Accessed on July 2, 2015: http://cfib.ca/a6621e

Racicot, Julien and Simon Gaudreault. (2013). *PME et bungalow : deux poids, deux mesures dans la taxation municipale. Comparaison des taxes résidentielles et non résidentielles dans les 100 plus grandes municipalités du Québec*. Montreal: Canadian Federation of Independent Business. [Pdf] Accessed on July 10, 2015: http://fcei.ca/a5479f

Chisholm, Mary. (2012). *Municipal Taxation and Spending: A Small Business Perspective. Atlantic Canadian job creators pay more than their fair share.* Halifax: Canadian Federation of Independent Business. [Pdf] Accessed on July 11, 2015: http://cfib.ca/a4408e

[3] School boards are excluded.

[4] Federation of Canadian Municipalities (FCM). (2015). *Strengthening Canada Through Our Hometowns—FCM Budget 2015 Submission*. Ottawa: FCM. [Pdf] Accessed on June 17, 2015: http://www.fcm.ca/Documents/tools/FCM/Strengthening_Canada_through_our_Hometowns_EN.pdf

[5] When asked "What Do You Consider an Appropriate Increase in Municipal Spending?" the vast majority (87 per cent) of small business owners said it should not outpace the growth of price levels and population combined. More specifically, 64 per cent opted for "an increase equal to inflation and population growth". Nine per cent think it should be "an increase below inflation and population growth", while 14 per cent do not find any increase appropriate. Source: CFIB, *Focus on British Columbia Survey*, November 2007.

[6] Federation of Canadian Municipalities (FCM). (2013). *Canadians Most Satisfied with Municipal Order of Government*. Ottawa: FCM. News Release. [Web] Accessed on July 10, 2015: http://www.fcm.ca/home/media/news-releases/2013/canadians-most-satisfied-with-municipal-order-of-government.htm

[7] Wong, Queenie. (2014). *Municipalities Are Richer Than They Think—Municipal Share of Taxes, Fees, and Transfers.* Toronto: Canadian Federation of Independent Business. [Pdf] Accessed on July 10, 2015: http://cfib.ca/a5966e

[8] Federation of Canadian Municipalities (FCM). (2015). *Finding New Monies through Corporate Sponsorship and Reviewing Canadian Municipal Corporate Sponsorship Success Stories*. Edmonton: Industry Session Take-away Notes, FCM 2015 Annual Conference and Trade Show. [Pdf] Accessed on June 26, 2015: http://www.fcm.ca/Documents/presentations/2015/AC2015/Finding_New_Monies_Take_Away_Summary_EN.pdf

[9] The Globe and Mail. (2015). Canada's big city mayors ready to push urban agenda. *The Globe and Mail*, published February 1, 2015. [Web] Accessed on June 26, 2015: http://www.theglobeandmail.com/news/national/big-city-mayors-ready-to-push-urban-agenda/article22740407/

[10] CP24. (2015). Five issues that are bound to come up at the Big Cities Summit. *CP 24,* published February 5, 2015. [Web] Accessed on June 26, 2015: http://www.cp24.com/news/five-issues-that-are-bound-to-come-up-at-the-big-cities-summit-1.2221721

[11] National Post. (2012). Toronto city workers ratify deal despite protest. *National Post*, published February 13, 2012. [Web] Accessed on June 26, 2015: http://news.nationalpost.com/toronto/toronto-city-workers-ratify-deal-despite-protest

[12] Since 2011, the Toronto government has contracted out garbage collection for households in the City's West end, allowing a private company to take care of curb side pickup for half of the City. According to the City's auditor

general, savings accumulated over the duration of the contract are expected to be over $78 million. Currently, the Toronto government is considering fully privatizing garbage collection for the rest of the City. Source: Toronto Sun. (2015). Debate over Toronto's privatized garbage collection delayed. *Toronto Sun*, published June 12, 2015. [Web] Accessed on July 10, 2015: http://www.torontosun.com/2015/06/12/debate-over-torontos-privatized-garbage-collection-delayed

[13] Due to changes in accounting, capital assets are amortized as of 2008. Pre-2008, operating spending excludes capital expenditures; as of 2008, it excludes amortization of tangible capital assets.

[14] Due to changes in accounting, capital assets are amortized as of 2009. Pre-2009, operating spending excludes capital expenditures; as of 2009, it excludes amortization of tangible capital assets.

[15] Operating spending excludes amortization of tangible capital assets. The time period covered is 2008-2013 to be consistent with CFIB's *Manitoba Municipal Spending Watch* report, 2nd edition, forthcoming.

[16] Operating spending in the City of Montreal includes an adjustment for pension liabilities.

[17] The time period of analysis is 2007-2013 to exclude municipalities that demerged in 2006.

[18] Operating spending is for the administration of the City of Moncton only. As of 2011, the City's financial statements are consolidated and include financial data of Moncton Industrial Development Limited (MID) and the Water and Light Department (i.e. the utility operations), which have been removed from operating spending.

In 2008, the Codiac Transit Commission was dissolved and accounts were combined with those of the City of Moncton.

Due to changes in accounting, capital assets are amortized as of 2011. Pre-2011, operating spending excludes capital expenditures; as of 2011, it excludes amortization of tangible capital assets.

[19] The fiscal year is April 1 to March 31 for all municipalities in Nova Scotia, whereas the fiscal year is the calendar year for municipalities in all other provinces.

As of fiscal year 2008/09, the reporting structure of the *Annual Report of Municipal Statistics* changed and non-consolidated numbers are used.

Operating spending excludes contributions to the Regional School Board prior to fiscal year 2008/09. Due to the change in the reporting structure of the *Annual Report of Municipal Statistics*, contributions to the school board are no longer treated as expenses as of 2008/09 but deducted from tax revenue.

Due to changes in accounting, capital assets are amortized as of fiscal year 2009/10. Prior to 2009/10, operating spending excludes capital expenditures; from 2009/10 to 2011/12, it excludes amortization of tangible capital assets. As of 2012/13, amortization of tangible capital assets is no longer reported as an operating expense.

[20] Due to changes in accounting, capital assets are amortized as of 2009. Pre-2009, operating spending excludes capital expenditures; as of 2009, it excludes amortization of tangible capital assets.

As of 2004, operating spending also excludes actuarial pension adjustments. Actuarial pension adjustments are no longer excluded as of 2009, as they are no longer reported in total expenditures.

[21] Due to changes in accounting in the City of St. John's as of 2007, capital assets are amortized and principal payments on long-term debt are no longer reported. Pre-2007, operating spending excludes capital expenditures and contributions to the capital fund for capital expenditures as well as principal payments on long-term debt; as of 2007, it excludes amortization of tangible capital assets.

[22] Government of Nova Scotia. (2014). Financial Condition Index. *Halifax: Municipal Affairs.* [Web] Accessed June 26, 2015: http://novascotia.ca/dma/finance/indicator/fci.asp

[23] Households include both family and non-family households as per Statistics Canada's definition (see http://www12.statcan.gc.ca/census-recensement/2011/ref/dict/households-menage007-eng.cfm).

[24] Montreal Gazette. (2015). Montreal's plan to cut employee remuneration by 10.5 per cent angers unions. *Montreal Gazette*, published March 18, 2015. [Web] Accessed on June 26, 2015: http://montrealgazette.com/news/local-news/montreals-plan-to-cut-employee-remuneration-by-10-5-angers-unions

[25] City of Montreal. (2014). *Montreal, a city that respects the ability of citizens to pay.* News release, published November 26, 2014. Montreal: Ville de Montréal. [Web] Accessed on June 26, 2015: http://ville.montreal.qc.ca/portal/page?_pageid=5977,43117560&_dad=portal&_schema=PORTAL&id=24015

[26] CUPE 30 and City of Edmonton. (2011). *Collective Agreement between the City of Edmonton and Canadian Union of Public Employees Local 30.* Contract. Edmonton: CUPE Alberta. [Pdf] Accessed on July 14, 2015: http://alberta.cupe.ca/files/2014/09/L30edmonton.pdf

[27] The Chronicle Herald. (2012). Halifax region's municipal workers secure raises in new deal. *The Chronicle Herald*, published June 27, 2012. [Web] Accessed on July 13, 2015: http://thechronicleherald.ca/metro/111521-halifax-regions-municipal-workers-secure-raises-in-new-deal

[28] Toronto Star. (2012). Toronto Mayor Rob Ford wins labour peace mainly because he compromised. *Toronto Star*, published April 7, 2012. [Web] Accessed on July 13, 2015: http://www.thestar.com/opinion/editorials/2012/04/07/toronto_mayor_rob_ford_wins_labour_peace_mainly_because_he_compromised.html

[29] Toronto Sun. (2012). Toronto workers approve 4-year deal. *Toronto Sun*, published February 13, 2012. [Web] Accessed on July 13, 2015: http://www.torontosun.com/2012/02/13/cupe-local-416-votes-on-contract-with-the-city

[30] In the public sector, 86 per cent of employees were covered by a registered pension plan in 2012. In contrast, only 24 per cent of private sector employees were covered in 2012. Source: Office of the Chief Actuary, Office of the Superintendent of Financial Institutions Canada. (2014). *Registered Pension Plan (RPP) and Retirement Savings Coverage (Canada).* Ottawa: Office of the Superintendent of Financial Institutions Canada. [Web] Accessed on July 10, 2015: http://www.osfi-bsif.gc.ca/eng/oca-bac/fs-fr/pages/fs_rpp_2014.aspx

[31] Quebec National Assembly. (2014). *Bill 3 – An Act to foster the financial health and sustainability of municipal defined benefit plans.* First session, forty-first legislatures. [Web] Accessed on June 26, 2015: http://www.assnat.qc.ca/en/travaux-parlementaires/projets-loi/projet-loi-3-41-1.html

[32] CFIB's analysis of Statistics Canada, CANSIM Table 383-0037 (government financial statistics). 2012 is the latest year for which the data are available.

[33] This is based on the methodologies used in CFIB's latest *Wage Watch* report. Source: Mallett, Ted. (2015). *Wage Watch: A Comparison of Public-sector and Private-sector Salaries and Benefits.* Toronto: Canadian Federation of Independent Business. [Pdf] Accessed on July 27, 2015: http://cfib.ca/a6069e

[34] Dachis, Benjamin and William B.P. Robson. (2014). *Baffling Budgets: Canada's Cities Need Better Financial Reporting. Commentary NO. 397.* Toronto: C.D. Howe Institute. [Pdf] Accessed on July 13, 2015: http://www.cdhowe.org/pdf/Commentary_397.pdf