

MANITOBA MUNICIPAL SPENDING WATCH

4th EDITION

TRENDS IN MUNICIPAL
OPERATING SPENDING

AUGUST 2018



CANADIAN FEDERATION
OF INDEPENDENT BUSINESS

In business for your business.

MANITOBA MUNICIPAL SPENDING WATCH

4th Edition: Trends in Municipal Operating Spending

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Executive Summary

Real operating spending¹ across Manitoba's 27² largest municipalities has declined against CFIB's sustainability benchmark for the first time since the *Manitoba Municipal Spending Watch (MMSW)* report began in 2014. Though this is certainly encouraging news for small business owners and taxpayers, municipalities must continue to reduce their real operating expenditures to become fiscally sustainable. Going forward, CFIB would like to see governments exercising greater restraint in operating spending as a part of a long-term trend.

Introduction

In Manitoba, municipalities play a critical role in our economy. Local governments provide important services that are fundamental to a strong small business sector. But not all services are essential, and governments are sometimes willing to spend taxpayers' dollars without assurances that they are getting good value for money. Small business owners are concerned that municipal governments are still not doing enough to rein in spending in order to reduce the tax burden.^{3a} Furthermore, a majority (67%) of Manitoba entrepreneurs believe local governments do not understand the realities of running a small business.^{3b}

CFIB's Sustainability Benchmark

A municipality is considered to be spending sustainably if the level of its real operating spending growth is at, or below, the level of population growth for any given year.

The *MMSW* 4th Edition report evaluates 27 of Manitoba's largest local governments with populations of greater than 5,000 residents.⁴ CFIB uses real (i.e. inflation-adjusted) operating spending to measure whether or not municipalities are spending sustainably.

Comparing the *MMSW* 3rd and 4th Editions

Due to slight methodology changes, it may be difficult to make direct comparisons between the *MMSW* 3rd and 4th Editions for the values related to total overspending. The methods for calculating the municipal rankings remain unchanged and the report does not make any comparisons between these editions where they cannot otherwise be made.

This report compares real operating spending in 2015 against 2008, CFIB's base year⁵, with spending allowances for population growth over that same period. This year, CFIB is encouraged by the reduction in real operating spending between 2014 and 2015 as Figure 1 shows. Hopefully, this overall decline is the beginning of a long-term trend where governments exercising restraint on spending becomes the norm.

¹ Operating spending refers to all expenses associated with the maintenance and administration of the day-to-day functions of the municipality including, but not limited to, employee salaries and benefits, utilities, interest on long-term debt, etc., while excluding capital expenditures and amortization.

² This year's edition includes the Rural Municipality of Brokenhead
^{3a,b} CFIB OMO Data, January to December 2017.

⁴ The 27 municipalities represent 77 percent of Manitoba's population.

⁵ Note: All numbers, charts, and graphs are in 2008 real (inflation-adjusted) dollars unless otherwise stated.

Overall Results

- Overall municipal real operating spending has declined 4% against CFIB's sustainability benchmark from the *MMSW* 3rd Edition report (real operating spending declined by 3%, while population grew by 1%).
- Municipal governments grew spending by \$1.17 billion more than the sustainable benchmark of inflation and population growth from 2008-2015 cumulatively, or \$1,174 in additional expenditure per person; all in 2015 dollars.
- Much of this spending growth is driven by labour costs, which account for 59% of total real municipal operating spending, and has grown by 2% from the *MMSW* 3rd Edition report.
- The City of Winnipeg's real operating spending fell by 5%, and its population grew by 1%, from the *MMSW* 3rd Edition report. However, historical overspending has cost each Winnipegger a cumulative \$1,321 (2015 dollars) over-and-above the sustainable benchmark.
- Manitoba's other Cities and Towns recorded a 1% increase in real operating spending, while their populations grew an additional 1%, from the *MMSW* 3rd Edition report. Over eight years, increasing operating spending has cumulatively cost each resident, on average, an extra \$746 (2015 dollars).
- Rural Municipalities have reduced their real operating spending by 3%, while their populations have grown by 1%, from the *MMSW* 3rd Edition report. The cumulative cost of increasing operating spending is an extra \$944 (2015 dollars) for each RM resident.

Municipality Specific Results

The Good

- The City of Morden ranked first in the Cities and Towns category for sustainable spending. The Cities of Portage la Prairie, Brandon, and Dauphin have all improved the sustainability of their operating expenditures; recording the largest improvements in their category from the *MMSW* 3rd Edition report.
- The Rural Municipality of Hanover has remained best in its category for sustainable spending, recording a 9% decrease in real operating spending per capita from 2008, and a two percentage point decrease from expenditure levels in the *MMSW* 3rd Edition report.

The Bad

- In the Cities and Towns category, the City of Steinbach had the highest spending growth of all for the year. Real operating spending per capita increased by 16% from the *MMSW* 3rd Edition report (see Page 6).
- The Rural Municipality of Macdonald was ranked the worst for sustainable spending, and fell five spots from the *MMSW* 3rd Edition report. Real operating spending per capita has increased by 65% over eight years, with 2015 spending levels at \$1,283 per resident (see Page 7).

The Operating Spending Benchmark: Inflation and Population Growth

Why compare inflation-adjusted operating spending increases to population growth?

Small business owners understand that municipal governments have a responsibility to provide services to their communities. They also understand that inflationary pressures and growing populations can raise the costs these services. CFIB members know the value of a dollar earned and look to government to spend taxpayer revenues responsibly. When CFIB asks its members what they think municipal governments should do to spend sustainably, their response is clear: hold real operating spending to population growth. This is why CFIB uses the sustainability benchmark, because small business owners say it is the right thing for governments to do.

But why operating spending, and not something else?

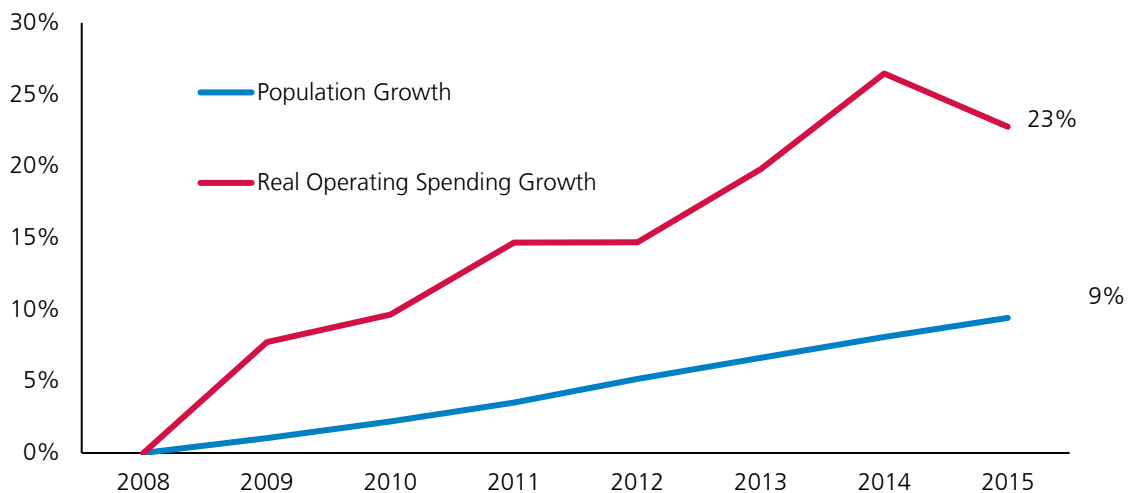
In basic economic theory, spending is classified as either consumption (spending for today) or investment (spending for tomorrow). Real operating spending is a maintenance expenditure; it is the cost of sustaining government today, and would therefore be considered consumption spending under this framework. Consumption spending, unlike investment does not yield a return; it does not pay for itself, so we must carefully consider which goods and services we wish to consume.

And just how do we adjust for inflation?

CFIB uses the Consumer Price Index (CPI), taken from Statistics Canada, as a price deflator, for all of our comparisons. The CPI is the economic standard for inflationary adjustments across industry and in government. To find out how we make specific use of the CPI in our calculations, please see our “Methodology” section in Appendix I.

Figure 1:

Real Operating Spending and Population Growth: 2008-2015



Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, MB Municipal Population Estimates 2008 – 2015
Statistics Canada, Consumer Price Index by Province, Manitoba, Statistics Canada.

Municipal Spending Trends 2008-2015

In Manitoba, municipal responsibilities differ by type of local government and population size. The report separates these municipalities into three groups: The City of Winnipeg, Cities and Towns (CTs), and Rural Municipalities (RMs) in order to provide comparable analysis.

What's so special about 2008?

In 2007, Manitoba municipalities underwent a series of amalgamations. These changes would make historical comparisons, from before 2008, too challenging to include in this report. Therefore 2008 was selected not only because it marks the beginning of a new era, but because it allows us to make meaningful comparisons with ease.

Operating Spending Growth

Taking a look real operating spending in 2015, Table 1 shows that the gap between sustainable spending and real operating spending has widened in all classes of municipality since 2008. This is true even with the adjustment for population growth and as column four of Table 1 indicates.

The good news is that RMs, as a group, and the City of Winnipeg, in particular, have all reduced real operating spending in 2015 from 2014. Unfortunately, despite having the lowest real operating spending generally, Manitoba's CTs have made no progress to shrink their sustainability gap and this is a missed opportunity for change.

From 2008 to 2015 RMs spent 19 per cent, Winnipeg spent 14 per cent, and CTs spent 9 per cent beyond CFIB's sustainability benchmark.

Table 1:

Growth of Municipal Operating Spending: 2008-2015

	2015 Real Operating Spending Above 2008 Levels	2015 Population Change From 2008	2015 Real Operating Spending with Population Adjustment
Winnipeg	23% (-5)	9% (+1)	14% (-6)
Cities and Towns	18% (+1)	9% (+1)	9% (±0)
Rural Municipalities	30% (-3)	11% (+1)	19% (-4)
Overall	23% (-3)	9% (+1)	14% (-4)
Percentage Point Change	■ Sustainable	■ Unsustainable	

Note: numbers in brackets represent percentage point changes from the previous *MMSW* 3rd Edition.

Source: CFIB analysis of 2008 – 2015 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2015 Statistics Canada, Consumer Price Index by Province, Manitoba, Statistics Canada. CFIB's *MMSW* 3rd Edition, November 2016.

CFIB ranks municipalities on their ability to keep operating spending at sustainable levels, accounting for growth in real operating spending per capita from 2008 and the overall level of

real per capita spending in 2008 dollars (for full methodological details see Appendix I). The City of Winnipeg is not included in CFIB’s municipal rankings as its unique responsibilities make direct comparisons between itself and other municipalities difficult.

Cities and Towns

Though the City of Morden was first on our Manitoba CTs⁶ rankings list, it was the Cities of Portage la Prairie, Brandon, and Dauphin that made the largest improvements towards sustainable spending.

Very little has changed at the bottom of the CTs ranking list from the *MMSW* 3rd Edition report. Steinbach ranks again near the bottom in 8th place despite having the second lowest level of real operating spending per capita on the list. The City of Steinbach has certainly grown since 2008, by the largest percentage change in population on the list, but so too has its real operating spending. The 16 percentage point increase from the *MMSW* 3rd Edition report is due in large part to an increase in contract services for construction work undertaken, in partnership with the Province, to improve a major highway. There was also the commitment of grant monies, on an ongoing basis, for the development of a community, primary health care centre.

Table 2:

Cities and Towns Rankings (Best to Worst)

City/Town	% Change in Real Operating Spending Per Capita From 2008 to 2015	2015 Real Operating Spending Per Capita in 2008 Dollars	Rank
Morden	5% (±0)	\$1,126 (-8)	1
Dauphin	2% (-1)	\$1,310 (-11)	2
Winkler	7% (±0)	\$1,082 (+1)	3
Selkirk	6% (±0)	\$1,342 (+2)	4
Portage la Prairie	5% (-6)	\$1,521 (-93)	5
Brandon	6% (-2)	\$1,563 (-25)	6
Thompson	13% (+5)	\$1,606 (+65)	7
Steinbach	34% (+16)	\$1,223 (+146)	8
The Pas	23% (+4)	\$2,032 (+53)	9
Flin Flon	15% (+1)	\$2,579 (+13)	10
Overall (CTs)	9% (+1)	\$1,487 (+5)	---
Percentage Point (or Dollar) Change ■ Sustainable ■ Unsustainable			

Note: numbers in brackets represent deviations percentage point or dollar (depending on column units) from the previous *MMSW* 3rd Edition.

Source: CFIB analysis of 2008 – 2015 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2015 Statistics Canada, Consumer Price Index by Province, Manitoba, Statistics Canada. CFIB’s *MMSW* 3rd Edition, November 2016.

⁶ Cities and Towns (CTs) refers to an area with at least 1,000 residents, and with a population density of more than 400 residents per square kilometer.

Rural Municipalities

The general improvement we have seen from Manitoba's RMs⁷ as a group (see Table 3) is the result of either moves to, or the achievement of, sustainability against CFIB's benchmark by a majority of these smaller communities in 2015. While many of the RMs on this list are headed in the right direction, there are a number of RMs that would benefit from better fiscal management.

Hanover is at the top of the RMs' list, for the second year in a row, and recorded a decrease of nine per cent in real operating spending per capita over the study period. This equates to real operating spending of \$441 per resident (see Table 3). It is important to recognize that Hanover has spent less money per resident in 2015 than in 2008 with a population that has grown 20 per cent over that same span.

Where Hanover has improved its fiscal situation from 2008, the RM of Macdonald is doing the opposite. Between 2014 and 2015, Macdonald fell five spots in the 4th Edition rankings to finish last amongst the RMs. Macdonald's real operating spending per capita in 2015 was 65 per cent higher than it was in 2008. Increases in contract services spending is behind much of the jump in real operating spending from the *MMSW* 3rd Edition report. Between 2014 and 2015, Macdonald's expenditures on contract services rose 70 per cent from \$2.3 million to \$4.07 million. CFIB reached out to Macdonald for an explanation as to why these expenditures had increased, but the RM has declined to provide comment on the issue.

It is encouraging that the RM of Portage la Prairie reduced their real operating spending per capita by 39 percentage points from the previous *MMSW* 3rd Edition report though this is likely due to the expiration of a provincial operating grant that was meant to tackle damage caused by flooding in 2011 and 2013. Either way, it is good to see those expenditures come down as the RM is already among the highest spenders per capita.

Heavy Rain

The RM of Stanley's real operating spending per capita declined significantly from the *MMSW* 3rd Edition report. This was in large part due to heavy rains in 2014 that increased expenditures in that year. Stanley's experience, much like the RM of Portage la Prairie, reminds us how simple acts of nature can cause large swings in expenditures and why it is important to consider long-term trends when evaluating municipal spending.

⁷ Rural Municipalities (RMs) refers to an area with at least 1,000 residents, and with a population density of less than 400 residents per square kilometer.

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Table 3:

RM Rankings (Best to Worst)

Rural Municipality	% Change in Real Operating Spending Per Capita from 2008 to 2015	2015 Real Operating Spending Per Capita in 2008 Dollars	Rank
Hanover	-9% (-2)	\$441 (-8)	1
East St. Paul	-9% (-2)	\$697 (-13)	2
La Broquerie	-2% (+5)	\$591 (+31)	3
Ste. Anne	14% (+1)	\$407 (+6)	4
Taché	11% (-7)	\$526 (-34)	5
Ritchot	-5% (+2)	\$855 (+25)	6
St. Andrews	8% (-3)	\$673 (-19)	7
Brokenhead	15% (--)	\$666 (--)	8
Springfield	11% (-13)	\$747 (-87)	9
Stanley	30% (-16)	\$705 (-82)	10
West St. Paul	32% (+1)	\$755 (+5)	11
Portage la Prairie	3% (-39)	\$1,280 (-459)	12
St. Clements	65% (-8)	\$820 (-39)	13
Rockwood	61% (+11)	\$936 (+66)	14
Gimli	36% (-3)	\$1,507 (-37)	15
Macdonald	65% (+32)	\$1,283 (+252)	16
Overall (RMs)	17% (-4)	\$765 (-30)	---
Percentage Point (or Dollar) Change	■ Sustainable	■ Unsustainable	

Note: numbers in brackets represent deviations percentage point or dollar (depending on column units) from the previous MMSW 3rd Edition.

Source: CFIB analysis of 2008 – 2015 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2015 Statistics Canada, Consumer Price Index by Province, Manitoba, Statistics Canada. CFIB's MMSW 3rd Edition, November 2016.

Spending by Municipal Category

Unsustainable spending is common to all sizes of local government. Therefore, CFIB evaluates real operating expenditures by both department and function. Spending by department refers to the specific area of government where the money was spent (e.g. Transportation Services). Expense by function refers to the specific activity where the expenditure was incurred (e.g. Personnel Services).

When considering operating spending by either department or function, two aspects must be taken into account: the size of the spending category, and the growth of spending within that category between 2008 and 2015.

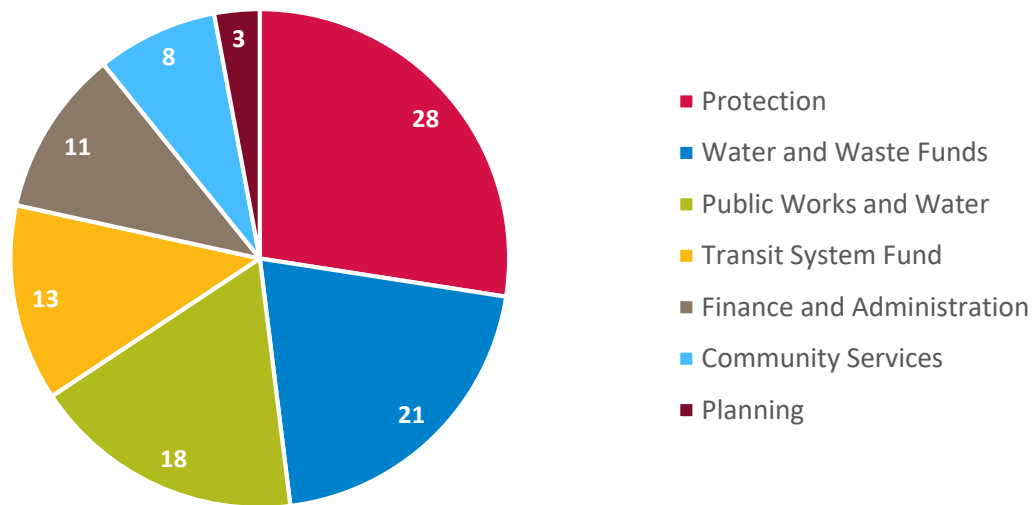
Winnipeg

Spending by Department

Examining spending by department at the City of Winnipeg reveals that Water and Waste Funds and Protection were the largest drivers of spending growth and both grew by 34 per cent from 2008 to 2015. These same departments now account for almost half (49%) of Winnipeg’s total operating spending (see Figures 2 and 3).

Figure 2:

Winnipeg Spending by Department, 8 Year Average (%)



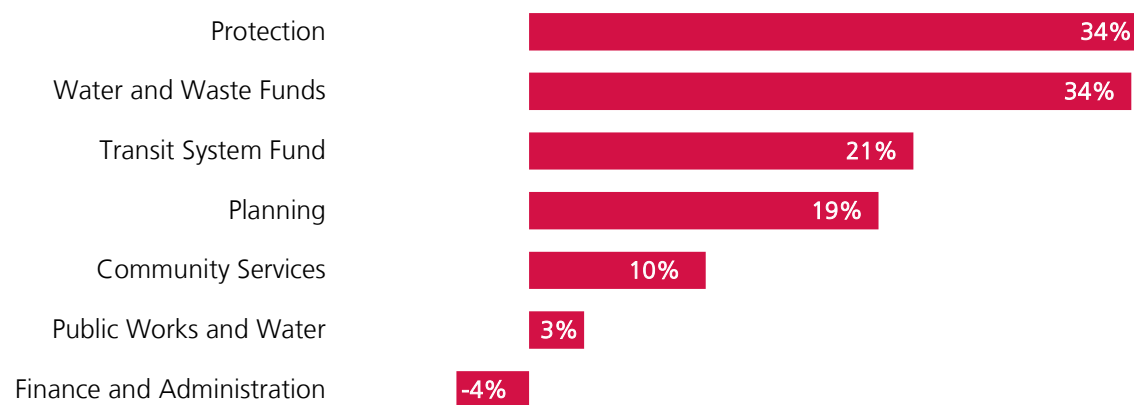
Source: Winnipeg Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index Winnipeg, Statistics Canada.
Note: May not add to 100 due to rounding.

Protection grew by 34 per cent between 2008 and 2015. This department accounts for the largest proportion (28 per cent) of Winnipeg’s operating spending, and includes the City’s firefighters, paramedics, and police officers.

In Winnipeg, all departments, with the exception of Public Works and Water, and Finance and Administration, have grown beyond the capital city’s sustainable benchmark of nine per cent (see Figure 3).

Figure 3:

Growth of Winnipeg Departmental Spending: 2008-2015



Source: Winnipeg Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index Winnipeg, Statistics Canada

Finance and Administration decreased spending by four per cent over the eight year study period. Unfortunately, the strong performance of one department had very little impact on the overall direction of Winnipeg’s spending patterns. However, this is an important example for others to follow, as it highlights the fact that more can be done to limit operating spending growth.

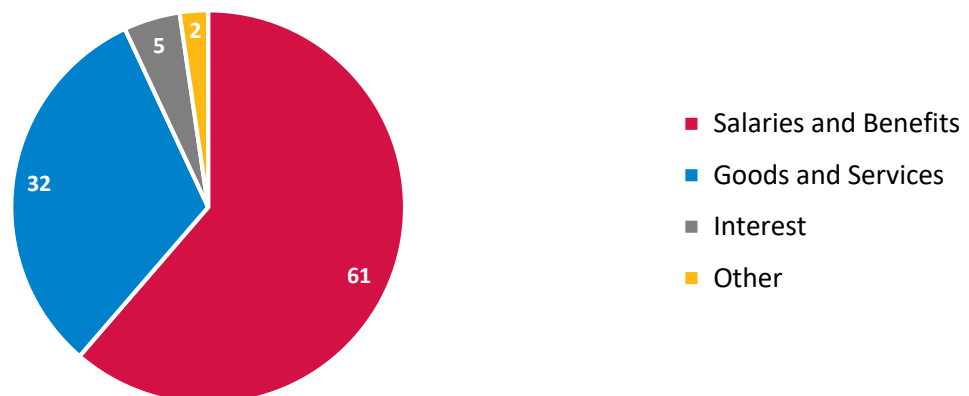
Spending by Function

CFIB’s evaluation found that Labour Costs, referred to as Salaries and Benefits in Winnipeg’s financial statements, made up the largest portion of operating spending, almost doubling the amount of the next largest function, Goods and Services.

Labour Costs⁸ made up 61 per cent of total operating spending for Winnipeg, while Goods and Services made up 32 per cent (see Figure 4).

Figure 4:

Winnipeg Spending by Function, 8 Year Average (%)



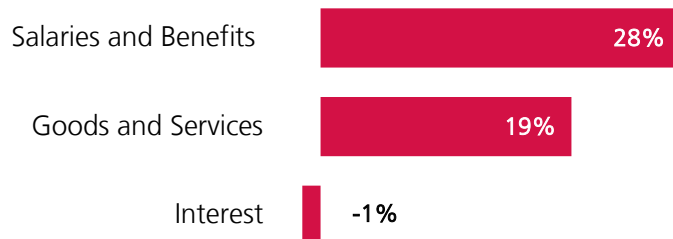
Source: Winnipeg Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index Winnipeg, Statistics Canada.

⁸Labour costs consist of salaries, wages, benefits and employer contributions to payroll taxes (CPP, EI etc.).

Labour Costs combined with Goods and Services make up 93 per cent of Winnipeg's operating expenditures. It is worrying that these expenditures have increased by 28 per cent and 19 per cent, respectively, and above sustainable levels from 2008 to 2015 (see Figure 5).

Figure 5:

Growth of Winnipeg Functional Spending: 2008-2015



Source: Winnipeg Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index Winnipeg, Statistics Canada.

Cities and Towns

Spending by Department

Protective Services make up the largest portion of operating spending by CTs and accounts for 26 per cent of operating spending. Both Water and Sewer Services as well as Recreation and Cultural Services each consumed 18 per cent of the total operating budget (see Figure 6).

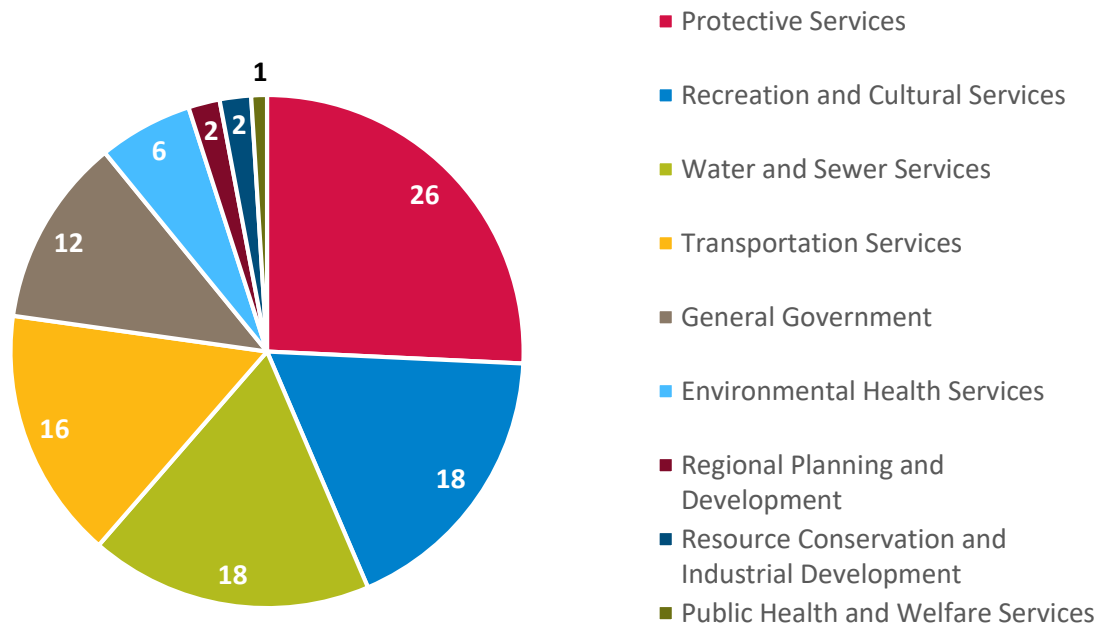
Real spending on Resource Conservation and Industrial Development has grown 29 per cent, or over three times the sustainable benchmark of 9 per cent in accordance with population growth (see Figure 7). Protective Services grew by 28 per cent from 2008 to 2015, also over three times the sustainable benchmark. Recreation and Cultural Services has also grown unsustainably, and is 24 per cent larger now than it was in 2008.

On a positive note, there were four departments whose levels of spending growth met the sustainability benchmark. Environmental Health Services, Transportation Services, Regional Planning and Development, and Public Health and Welfare Services have all maintained sustainable levels of spending growth at, or below, the level of population growth (9%).

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Figure 6:

Cities and Towns Spending by Department, 8 Year Average (%)

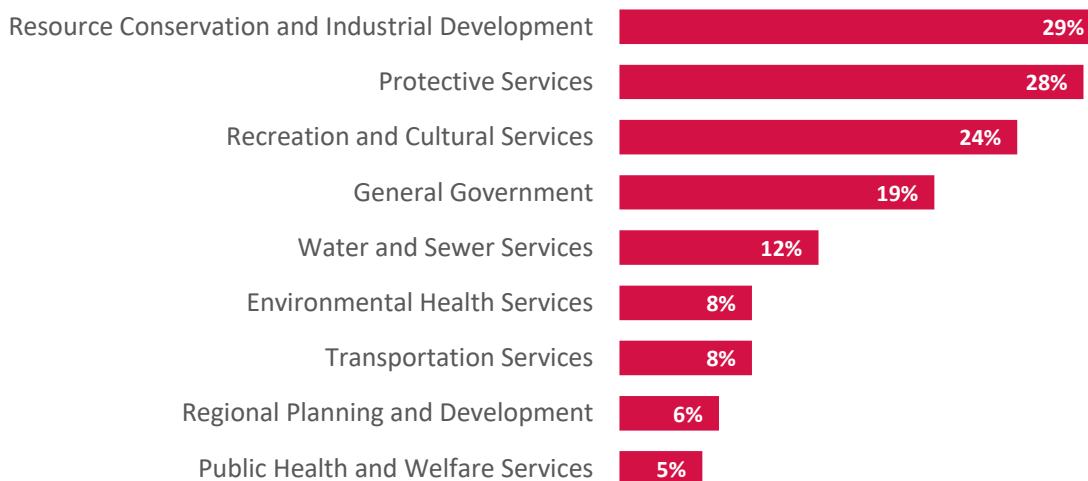


Note: May not add to 100 due to rounding.

Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

Figure 7:

Growth of Cities and Towns Departmental Spending: 2008-2015



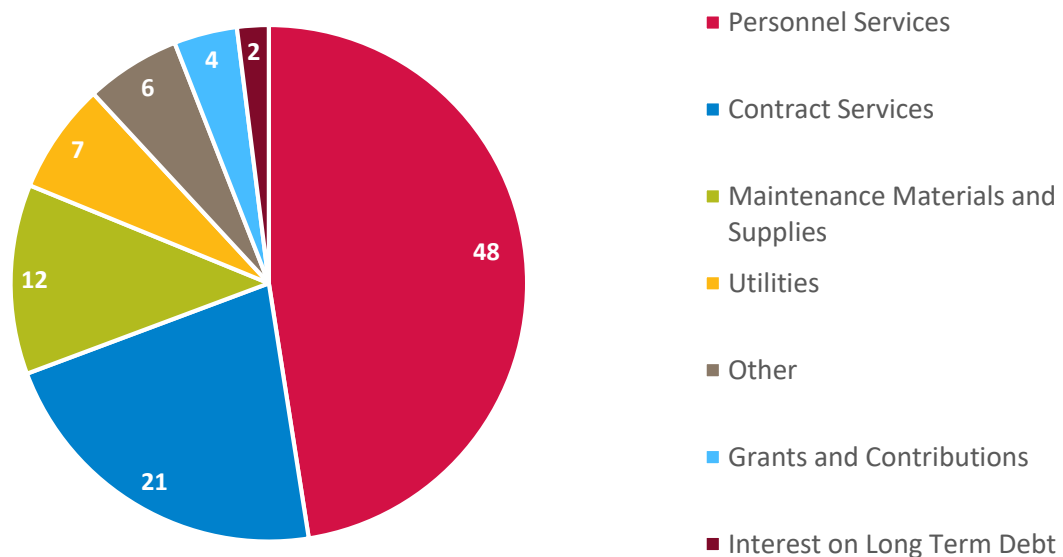
Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

Spending by Function

Labour Costs (or “Personnel Services”) make up the largest portion of operating spending amongst Manitoba’s CTs, as it is for the City of Winnipeg, and the RMs. Labour Costs account for 48 per cent of operating spending, more than double the next largest category, Contract Services, which totals 21 per cent (see Figure 8).

Figure 8:

Cities and Towns Spending by Function, 8 Year Average (%)



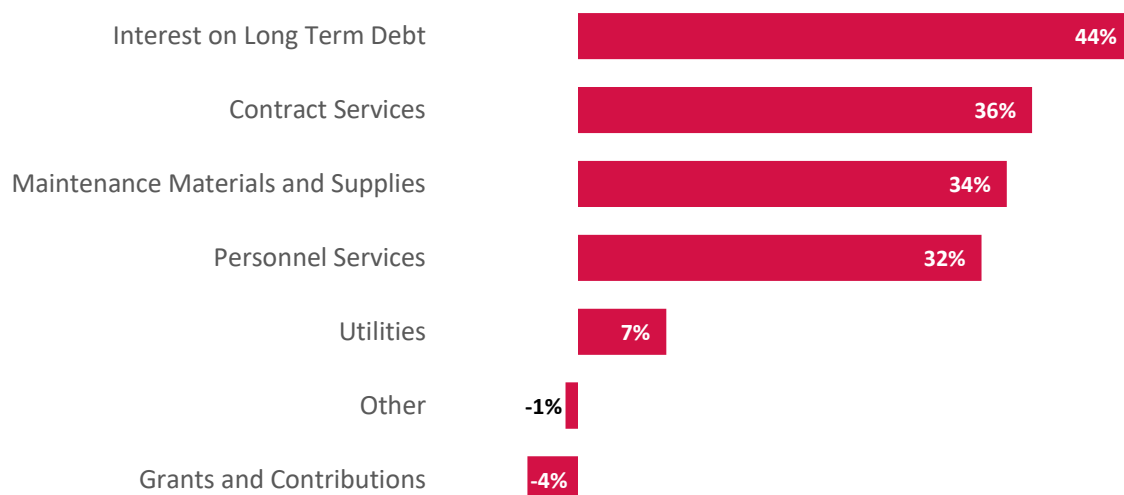
Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

Grants and Contributions grew by 60 per cent from 2008 to 2015, the largest growth of any spending category (see Figure 9). Contract Services experienced the next largest growth over the period to 30 per cent above its size in 2008. Finally, Personnel Services grew by 27 per cent between 2008 and 2015. Combined, Contract and Personnel Services make up 67 per cent of real operating expenditures for CTs.

On a positive note, functional spending on Maintenance Materials and Supplies has decreased 11 per cent from 2008. This is the kind of leadership in spending reduction that other municipal governments should emulate.

Figure 9:

Growth of Cities and Towns Functional Spending: 2008-2015



Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

Rural Municipalities

Spending by Department

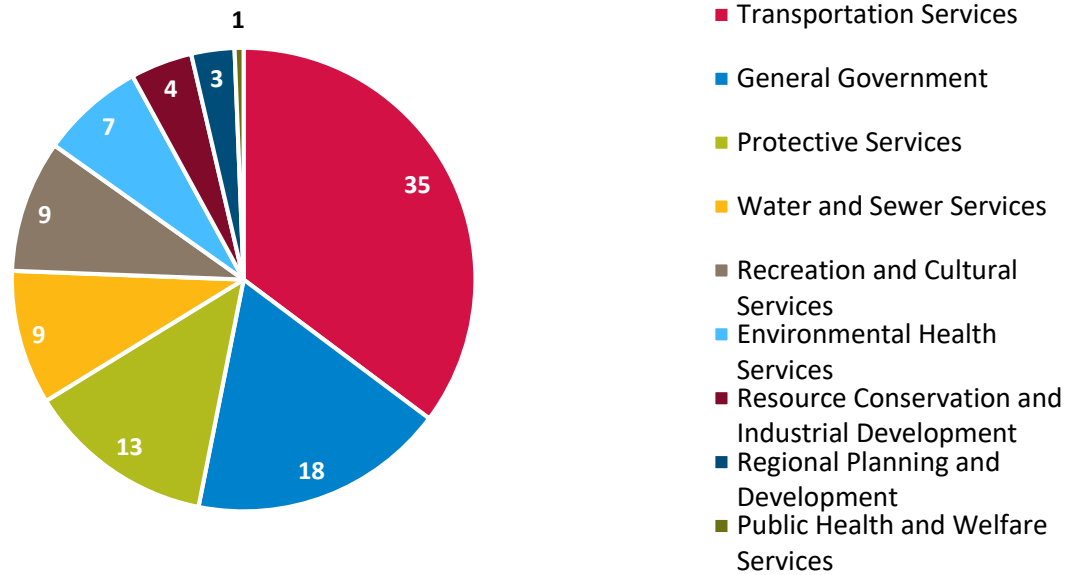
When looking at RM departmental spending, Transportation Services and General Government make up the majority of spending (see Figure 10). Transportation Services account for the largest portion of spending at 35 per cent. This is nearly double the spending on General Government, which accounts for 18 per cent of total departmental spending.

CFIB's review of RM departmental growth finds that all departments besides General Government have grown real operating spending beyond the sustainability benchmark. Water and Sewer Services has experienced the largest growth, increasing 82 per cent in its size from 2008 to 2015. Public Health and Welfare Services was the second largest by size, growing 70 per cent over that same period (see Figure 11).

Transportation Services, currently the largest department overall, grew by 18 per cent over the eight year study period. This marks the second lowest growth of all the departments but nearly two times that of the sustainable benchmark for population growth (see Figure 11). Clearly departmental over-expenditure represents a widespread problem and this is cause for concern.

Figure 10:

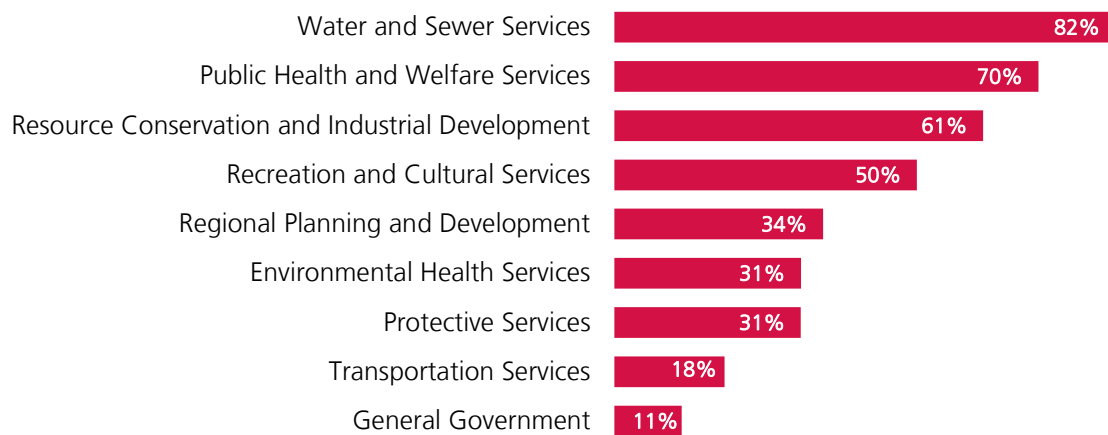
RM Spending by Department, 8 Year Average (%)



Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

Figure 11:

Growth of RM Departmental Spending: 2008-2015



Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

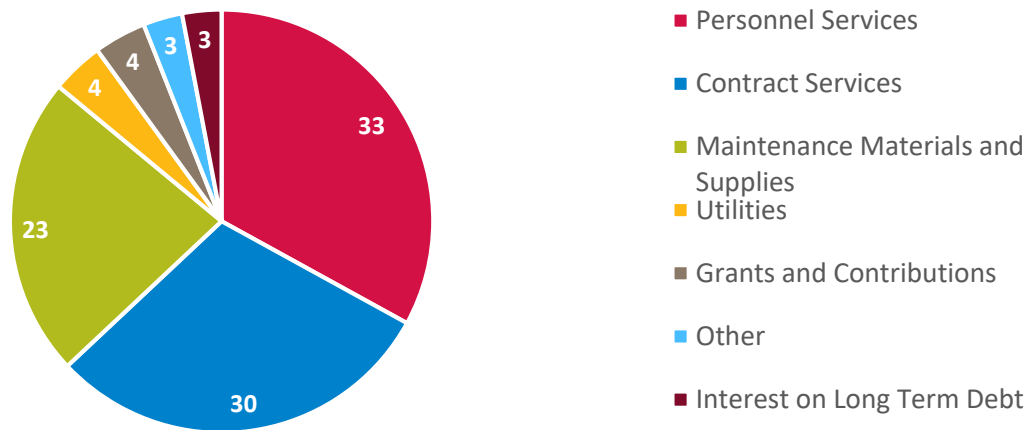
Spending by Function

Labour Costs (“Personnel Services”) and Contract Services account for the majority of functional spending in RMs. Labour Costs account for 33 per cent of total spending, while Contract Services consume 30 per cent of operating spending (see Figure 12).⁹

It should be noted that most RMs contract policing services with the Royal Canadian Mounted Police (RCMP), which is reported under Contract Services.

Figure 12:

RM Spending by Function, 8 Year Average (%)

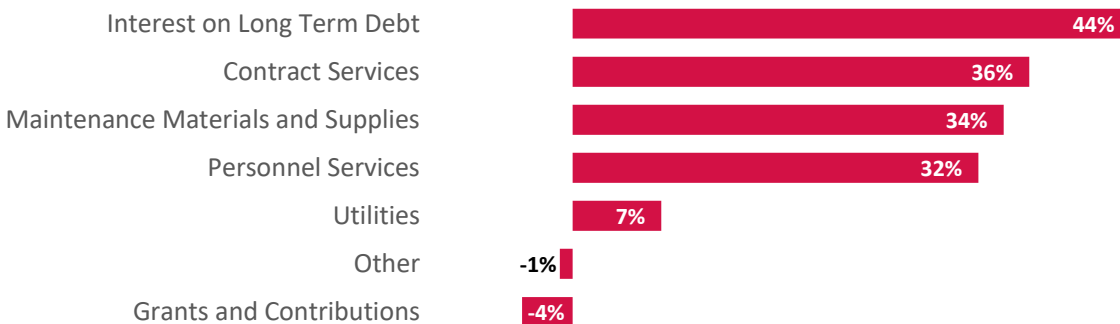


Note: May not add to 100 due to rounding.

Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

Figure 13:

Growth of RM Functional Spending: 2008-2015



Source: Municipal Audited Consolidated Financial Statements 2008 – 2015, Consumer Price Index by Province, Manitoba, Statistics Canada.

⁹ Contract Services include all expenses resulting from the purchasing of services from the private sector or other government bodies, such as

contracting out policing services to the Royal Canadian Mounted Police (RCMP).

Debt service expenditures have grown 44 per cent from 2008, the highest of all functions. This is an area of serious concern as the money does not go towards providing tangible services or benefits, and illustrates why municipalities must be fiscally responsible in the first place.

Labour Costs account for the largest portion of operating spending and have grown 32 per cent from 2008 to 2015, over three times the growth of population. This is another key area for local governments to focus on to control expenditure growth.

Labour Costs Drive Spending

When you consider that Labour Costs account for the majority of real operating spending within municipalities (59% in 2015), addressing these costs becomes a necessary part of achieving sustainable spending growth.¹⁰

All three classes of municipalities have increased labour spending by close to three times their sustainable benchmarks (see Table 4). In just eight years RMs increased labour spending by 32 per cent, CTs increased labour expenditures by 28 per cent, and The City of Winnipeg recorded 27 per cent growth in its Labour Costs.

Chronic municipal overspending on labour has cost taxpayers a cumulative \$623 million above the sustainability benchmark over the eight year study period.

Table 4:

Growth of Municipal Personnel Services: 2008-2015

	2015 Real Labour Costs Above 2008 Levels	2015 Population Change from 2008	2015 Real Labour Costs with Population Adjustment
Winnipeg	28% (+3)	9% (+1)	19% (+2)
Cities and Towns	27% (±0)	9% (+1)	18% (-1)
Rural Municipalities	32% (+3)	11% (+1)	21% (+2)
Overall	28% (+3)	9% (+1)	19% (+2)
Percentage Point Change	■ Sustainable	■ Unsustainable	

Note: numbers in brackets represent percentage point changes from the previous *MMSW* 3rd Edition.

Source: CFIB analysis of 2008 – 2015 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2015 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada. CFIB's *MMSW* 3rd Edition, November 2016.

¹⁰Municipal Annual Financial Reports 2008-2015.

Causes of Increasing Labour Costs

Generally, the two components of labour spending that municipal governments can address are the costs per worker and the number of workers employed. CFIB focuses on the cost per worker as data on the number of workers is not readily available for many Manitoba municipalities.

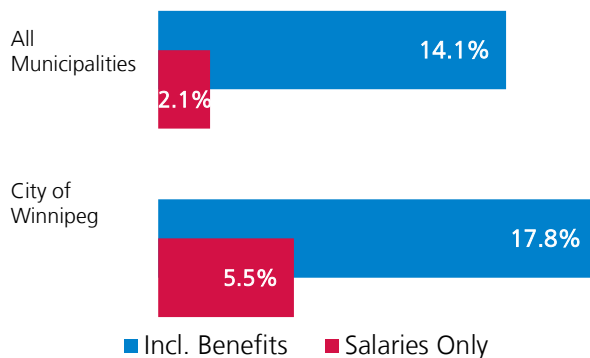
Cost Per Worker (Wages)

The growing Labour Costs we see throughout this report are being driven by a combination of generous public sector remuneration and entitlements such as defined benefit pension plans. Unpaid benefits, such as the length of the average work week, also contribute to the compensation gap. Full-time municipal public servants in Canada work an average of 34.5 hours per week while the private sector work week is 37.9 hours on average.¹¹ While this gap may seem small, it equates to over four work weeks every year!

CFIB's latest *Wage Watch Report* (2015) indicates a large difference exists between public and private sector wages for the same occupation. In Manitoba, municipal employees receive a wage advantage of just over two per cent compared to a private sector employee in the same occupation (see Figure 14).¹² This advantage increases to 14.1 per cent when all forms of compensation are included.

Figure 14:

Municipal Public Sector Wage and Benefit Advantages



In Winnipeg the compensation gap is larger yet, recording a five and a half per cent wage advantage for municipal public sector employees. When benefits are added in, this premium soars to 17.8 per cent. However, it is encouraging then that since 2015 the City of Winnipeg has been working to limit labour cost growth in subsequent rounds of contract negotiation on behalf of taxpayers.

Source: CFIB Wage Watch Report 2015.

The Cost of Unsustainable Spending

Overall, many of Manitoba's largest 27 municipalities have increased their operating spending beyond sustainable levels. Excessive operating spending has cost Manitobans a combined \$1.17 billion (2015 dollars) above what is considered sustainable. For overspending by individual municipality please see Appendix III.

¹¹ CFIB, Wage Watch Report 2015

¹² Figure 14: All Municipalities category includes Winnipeg

Obviously unsustainable municipal spending is a problem for all Manitobans. Higher operating expenditures lead to higher taxes and divert resources away from meaningful investments such as infrastructure projects. As governments increase taxes or cut capital budgets to cover spending growth elsewhere, Manitoba's small business climate will become less competitive, causing economic growth and job creation to slow. Worst of all, it will leave future generations paying the bill.

Conclusion

Despite improvements from the *MMSW* 3rd Edition report, it is evident that from 2008 to 2015, Manitoba's 27 largest municipalities have not provided residents with sustainable operating spending. In fact, only four municipalities achieved sustainable spending growth throughout the entire study period. However, some governments have made strong efforts to control their spending and are now beginning to curb spending growth.

Higher-than-needed municipal operating spending ultimately leads to a combination of higher taxation and lower infrastructure spending, both of which hinder economic development and job creation within the small business sector. If local governments do not rein in their operating spending, it will become a greater burden on taxpayers and limit the ability of small business in their communities to grow and prosper. The fact is municipal overspending remains a serious problem in Manitoba, and should be a top priority for candidates in the upcoming municipal elections on October 24th, 2018.

Recommendations

Based on these findings, CFIB presents the following recommendations for municipalities and the Manitoba government to achieve sustainable operating spending:

For municipal governments:

1. Limit annual operating spending growth to no more than the rate of inflation and population growth.
2. Conduct core service reviews to identify key services and ensure effective fiscal management.
3. Implement compensation systems that are sustainable and more closely align 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;
 - Introduce a plan to reduce the cost of compensation through pension reforms and to help mitigate risk exposure on behalf of the tax-paying public (e.g. enroll new hires in defined contribution or shared risk pension plans instead of defined benefit pension plans);
 - Eliminate the Bridge Benefit for early retirement in municipalities where this remains an issue;
 - Where applicable, replace costly and outdated banked sick day policies with affordable short-term disability plans.
4. Provide more transparent communication of financial information:
 - Every municipality should publish at least the five most recent Audited Financial Statements on their websites.
5. Help to establish both provincial and national committees that would provide municipalities with an opportunity to collect and share information in order to achieve more sustainable labour agreements.

For the Manitoba Government:

1. Improve the quality of municipal financial data to allow for better assessment and comparison of municipal spending:
 - Municipal financial data should be more accessible and include more detailed analysis, such as amortization of tangible capital assets;
 - Work with other provinces to collect and publish municipal financial information in a consistent manner that is fully comparable across the country.
2. 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 growth to no more than inflation and population growth, align public sector compensation with private sector norms, and address pension shortfalls and sustainability;
 - Reject calls from municipalities for new taxation powers.
3. Revise provincial labour laws:
 - Arbitration laws and practices should require that, in the event of failed negotiations, prevailing local private sector wage and benefit levels are the primary determinants of arbitrated wage awards rather than the current practice of benchmarking against other public sector organizations;
 - Move toward implementing no-strike legislation for a larger proportion of government workforces. Apart from imposing huge costs and being a major inconvenience to the public, public sector strikes are major bargaining levers and contribute greatly to higher wage levels.

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Town of The Pas, Consolidated Financial Statements, 2008-2015

Appendix I

Methodology

How do the Rankings Work?

The *Manitoba Municipal Spending Watch* report ranks municipalities with populations of over 5,000 (27 municipalities in total) by analyzing both current real operating spending and growth in operating spending in per capita terms over a study period that begins in 2008.

Municipalities with lower rankings are considered to have performed poorly in achieving a sustainable level of operating spending, whereas those municipalities with higher rankings have performed well to achieve a more sustainable level of operating spending. The data is obtained from each municipality's consolidated audited financial statements. The figures and tables in this document are CFIB's calculations based on the data provided.

Rankings for each of the RMs and CTs are calculated in the following manner:

$$E(1): \text{Operating Spending}_{it} = \text{Total Operating Expenditure}_{it} - \text{Total Amortization}_{it}$$

Operating Spending, E(1), is found using data collected from a municipality's consolidated audited financial statement excluding transfers to school divisions. The 2015 release has been used for this report. These financial statements are made publically available and can be found either online or by request.

$$E(2): \text{Real Operating Spending}_{it} = \frac{\text{Operating Spending}_{it}}{\text{Inflation Factor}}$$

Real Operating Spending, E(2), is used to make direct comparisons between expenditures in 2015 and 2008. It is found using an inflation factor derived from Statistics Canada's Consumer Price Index (CPI).¹³ CFIB uses a Winnipeg specific CPI to measure inflation for the city of Winnipeg, and a Manitoba for all other municipalities in this report. The inflation factor itself is just a ratio of CPI values where the CPI for 2008 is set equal to 100. This is done because the *MMSW's* base year, 2008, differs from Statistics Canada's of 2002.

$$E(3): \text{Real Operating Spending Per Capita}_{it} = \frac{\text{Real Operating Spending}_{it}}{\text{Population}_{it}} \equiv y_i$$

Real Operating Spending Per Capita, E(3), is calculated in part to give the reader a sense of how much overspending is likely to be costing the average resident. For simplicity, the report ignores both net contributors to and benefactors from municipal operating spending.

¹³ Statistics Canada, Table 18-10-0005-01

Municipal population levels are taken from data produced by Statistics Canada's Demography Division (Table 1, Annual population estimates by sex, July 1, 2001 to 2015, Census Subdivisions, Canada).

$$E(4): \text{Real Operating Spending Per Capita Growth} = \left\{ \left[\frac{E(3)_{it}}{E(3)_{ib}} \right] - 1 \right\} \times 100\% \equiv x_i$$

Growth, as in E(4), is defined throughout this *report* as: the proportional change in a variable, from the base year and is given as a per cent.

$$E(5): \text{Raw Score "A}_i" = \left[\frac{\max(x_i, x_j) - x_i}{\max(x_i, x_j) - \min(x_i, x_j)} \right] \times 100\%; \quad x_i \neq x_j$$

$$E(6): \text{Raw Score "B}_i" = \left[\frac{\max(y_i, y_j) - y_i}{\max(y_i, y_j) - \min(y_i, y_j)} \right] \times 100\%; \quad y_i \neq y_j$$

The tied-value restriction in E(5) and E(6) is provided to address the theoretical possibility of a tie and ensuring that all Raw Scores are first defined along \mathbb{R}^+ . The probability of a true tie resulting between municipalities is likely infinitesimally close to zero given their structural differences but as it remains non-zero a caveat is necessary nonetheless.

$$E(7): \text{Average Score "AvSc}_i" = \frac{A_i + B_i}{200}$$

A simple average of the Raw Scores 'A' and 'B' is taken to produce the final Average Score, E(7).

$$E(8): \rho(\text{AvSc}_i) \in D[1, 2, 3, \dots, n] = \begin{cases} 1, & \text{iff } \text{AvSc}_i \geq \text{AvSc}_j \forall j; i \neq j \\ n, & \text{iff } \text{AvSc}_i \leq \text{AvSc}_j \forall j; i \neq j \equiv \text{Rank}_i \\ \rho_i \in D(1, n), & \text{iff else } \forall j; i \neq j \end{cases}$$

The best average score is given a rank of '1', while the worst average score is given a rank of 'n' which represents both the total number of municipalities within set'D' *and* the discreet set' upper bound.

Where the equation has subscripts 'i' and 't', these represent the individual municipality and the study year respectively. The subscript 'b' is a special case of 't' and is defined as the 2008 base year. Subscript 'j' is a placeholder for all other municipalities that are not defined as individual municipality 'i'.

Appendix II

Table 6:

2008-2015 Overall Provincial Results

Municipality	Population Growth (%) From 2008	Real Operating Spending Growth (%) From 2008	Real Operating Spending Growth Per Capita (%) From 2008	2015 Real Operating Spending Per Capita, in 2008 Dollars (\$)
Brandon	12	19	6	1,563
Brokenhead	15	33	15	666
City of Portage la Prairie	0	5	5	1,521
Dauphin	-3	-1	2	1,310
East St. Paul	5	-4	-9	697
Flin Flon	-4	10	15	2,579
Gimli	0	36	36	1,507
Hanover	20	9	-9	441
La Broquerie	33	30	-2	591
Macdonald	15	91	65	1,283
Morden	17	23	5	1,126
Ritchot	15	9	-5	855
RM of Portage la Prairie	-3	-1	3	1,280
Rockwood	6	72	61	936
Selkirk	7	14	6	1,342
Springfield	9	21	11	747
St. Andrews	6	14	8	673
Ste. Anne	13	30	14	407
St. Clements	8	79	65	820
Stanley	22	59	30	705
Steinbach	24	65	34	1,223
Taché	17	30	11	526
The Pas	-2	20	23	2,032
Thompson	2	15	13	1,606
West St. Paul	10	46	32	755
Winkler	16	24	7	1,082
Winnipeg	9	23	13	1,576
Overall	9	23	13	1,449

Source: CFIB analysis of 2008 – 2015 Municipal Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2015 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

Appendix III

Table 7:

2008-2015 Total Excess Spending

Municipality	Cumulative Real Excess Spending in 2015 Dollars (\$)	Cumulative Real Excess Spending Per Capita in 2015 Dollars (\$)	Cumulative Cost of Excess Spending to a Family of Four in 2015 Dollars (\$)
Brandon	37,215,464	756	3,024
Brokenhead	5,827,888	1,163	4,652
City of Portage la Prairie	13,143,287	999	3,996
Dauphin	2,938,478	371	1,484
East St. Paul	-5,885,211	-619	-2,476
Flin Flon	-1,112,744	-206	-824
Gimli	15,239,720	2,597	10,388
Hanover	41,676	3	12
La Broquerie	-189,235	-32	-128
Macdonald	19,668,054	2,821	11,284
Morden	3,469,078	407	1,628
Ritchot	1,287,473	208	832
RM of Portage la Prairie	8,774,840	1,327	5,308
Rockwood	14,502,098	1,711	6,844
Selkirk	6,698,104	635	2,540
Springfield	18,280,597	1,213	4,852
St. Andrews	9,886,394	791	3,164
Ste. Anne	2,971,050	557	2,228
St. Clements	25,391,606	2,292	9,168
Stanley	8,905,699	983	3,932
Steinbach	16,745,103	1,088	4,352
Taché	4,996,387	431	1,724
The Pas	10,454,280	1,893	7,572
Thompson	19,435,313	1,387	5,548
West St. Paul	9,616,017	1,855	7,420
Winkler	6,879,359	591	2,364
Winnipeg	948,843,469	1,321	5,284
Overall	1,174,123,945	1,174	4,696

Source: CFIB analysis of 2008 – 2015 Municipal Consolidated Financial Statements. MB Municipal Population Estimates -2008 – 2015 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.