

Manitoba Municipal Spending Watch

3rd Edition: Trends in Municipal Operating Spending

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From 2008 to 2014, total operating spending¹ in Manitoba's 26 largest municipalities exceeded CFIB's sustainable spending growth benchmark of inflation and population growth. Exceeding the benchmark cost residents \$848 million, or \$875 per resident, over seven years. This is the equivalent of \$3,500 for a family of four.

Introduction

In Manitoba, municipalities play an integral role in the economy. Local governments provide services such as infrastructure and emergency services that are essential for a vibrant and growing small business sector.

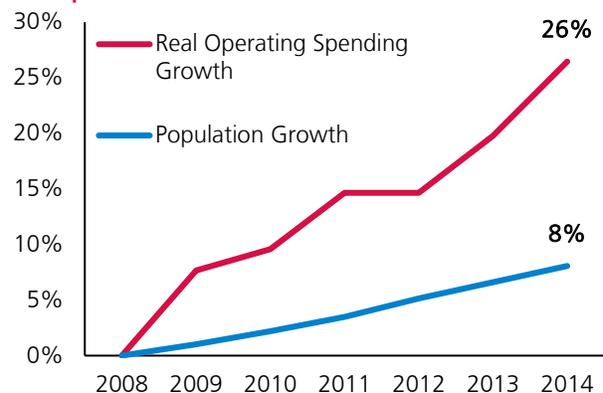
Unfortunately, Manitoba entrepreneurs increasingly believe that local governments do not understand the realities of running a small business. Specifically, the majority of small business owners (61%) are concerned that local governments are not doing a good job of controlling their spending.²

Entrepreneurs believe that annual operating spending growth should be limited to no more than the rate of inflation and population growth. The third edition of the *Manitoba Municipal Spending Watch* evaluates 26 Manitoba local governments - those with populations greater than 5,000 residents - against this benchmark.³

Overall, municipalities are failing to meet this goal. Between 2008 and 2014, inflation-adjusted (i.e. real) operating spending increased 26 per cent, over three times faster than the rate of population growth (8%) (see Figure 1)⁴.

Figure 1:

Real Operating Spending and Population Growth: 2008-2014



Source: Municipal Audited Consolidated Financial Statements 2008 – 2014, MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

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 CFIB OMO Data, January to June 2016.

³ The 26 municipalities represent 77 per cent of Manitoba's population.

⁴ Note: All numbers, charts, and graphs are in 2008 inflation-adjusted (real) dollars unless otherwise stated.

Overall Results

- ▶ Manitoba's 26 largest municipalities spent over \$9.3 billion in real operating spending from 2008-2014.
- ▶ Overall municipal real operating spending increased by 26 per cent while population grew by 8 per cent.
- ▶ Municipal governments grew spending by \$848 million more than the sustainable benchmark of inflation and population growth from 2008-2014, or \$875 per person.
- ▶ In 2014, municipalities spent \$1,516 per resident for the operations of their governments, \$221 more than in 2008 (\$1,295).
- ▶ Rural Municipalities grew operating spending by 33 per cent, or over three times (3.3) more than the sustainable benchmark of population growth, costing residents \$722 per capita. In Rural Municipalities their population grew by 10 per cent.
- ▶ Winnipeg operating spending grew by 28 per cent, or three and a half times the rate of population growth of eight per cent. This unsustainable spending cost each resident \$964 over the seven-year study period.
- ▶ Manitoba's other Cities and Towns recorded population growth of eight per cent while operating spending grew by 17 per cent, over double the benchmark. This cost a family of four \$2,244 between 2008 and 2014.

- ▶ Much of this spending growth is driven by labour costs, which make up 57 per cent of total municipal spending while increasing by 25 per cent over the study period.

Municipality Specific Results

The Good

- ▶ The Rural Municipality of Hanover ranked best in its category for sustainable spending, recording a seven per cent decrease in real operating spending per capita. Hanover spent \$449 per capita in 2014 to provide services.
- ▶ The City of Dauphin, once again, ranked first in the Cities and Towns category for sustainable spending. Real operating spending per capita grew by only three per cent over the past seven years. Spending per resident totaled \$1,321 in 2014.

The Bad

- ▶ The Rural Municipality of Portage la Prairie was ranked the worst for sustainable spending. Real operating spending per capita increased by 39 per cent over seven years, with 2014 spending levels at \$1,739 per resident⁵.
- ▶ In the Cities and Towns category, the City of Flin Flon was ranked as the worst for sustainable spending. Real operating spending per capita grew by 14 per cent in seven years. Spending levels were \$2,566 per resident in 2014

⁵ The operating spending increase in the Rural Municipality of Portage la Prairie is partly due to a \$3.3 million conditional grant received from the province of

Manitoba to cover additional costs from flood damages in 2011 and 2013.

The Operating Spending Benchmark: Inflation and Population Growth

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

It makes sense that municipal operating spending would increase to accommodate population growth to provide the same level of 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.

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 growth (GDP) 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.

⁶ 2008 is used as base year due to the significant amalgamation of many municipalities in 2007 that makes pre-2008 data incomparable.

Municipal Spending Trends 2008-2014

In Manitoba, municipal responsibilities differ by type of local government and population size. To provide comparable analysis, municipalities have been separated into three groups: Rural Municipalities (RMs), the City of Winnipeg, and Cities and Towns (CTs).

Operating Spending Growth

Since 2008⁶, the gap between sustainable spending and inflation-adjusted operating spending has widened in all classes of municipality.

When examining overall spending trends by group, RMs lead the province when it comes to unsustainable spending. RMs' real operating spending grew by 33 per cent while their populations grew by just 10 per cent, exceeding the spending benchmark by over three times (see Table 1). Spending more than the benchmark cost each RM resident \$722 over the seven year period.

Table 1:

Growth of Municipal Operating Spending: 2008-2014

	Real Operating Spending Growth (%)	Sustainable Benchmark (Population Growth) (%)	Spending Above Benchmark (per Capita) (\$)
Rural Municipalities	33	10	722
Winnipeg	28	8	964
Cities and Towns	17	8	561

Source: CFIB analysis of 2008 – 2014 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

Winnipeg had the second largest gap between the sustainable benchmark and operating spending growth. This resulted in

real operating spending exceeding the benchmark by three and a half times, or \$964 per resident from 2008 to 2014.

While Manitoba CTs were the closest to reaching the sustainable spending benchmark, they still fell short. Manitoba CTs increased operating spending by 17 per cent, or over twice the amount of the sustainable benchmark. This cost a family of four \$2,244 over seven years.

Municipal Spending Rankings

While some municipalities are doing their part to keep operating spending sustainable, the majority are not. To rank municipalities' efforts to keep operating spending at sustainable levels, CFIB reviewed the growth rate of real operating spending per capita, less amortization, and the level of real per capita spending in 2014 (for methodology details see Appendix I).

To provide accurate comparisons between local governments, municipalities are grouped and ranked by category.⁷

Rural Municipalities

When ranking Manitoba's RMs, Hanover's spending was the most sustainable. Hanover recorded a decrease of seven per cent in per capita real operating spending, and spent \$449 per resident on operating spending in 2014 (see Table 2). Hanover has been able to achieve this level of success due to a high level of population growth (17%) over the study period.

The RM of Portage la Prairie ranked the worst for sustainable operating spending with real per capita operating spending growth of 39 per cent. In 2014 the RM spent \$1,739 per resident on services.

Worthy of mention is the RM of Ste. Anne, which had the lowest per capita spending of all RMs. Ste. Anne spent \$401 per resident

on operating spending in 2014, but its real operating spending per capita grew by 13 per cent over the seven years. If Ste. Anne were to keep operating spending growth in check, there is potential to rank first among RMs in Manitoba.

Table 2:

RM Rankings (Best to Worst)

RM	Real Operating Spending Growth Per Capita, 2008-2014 (%)	Real Operating Spending Per Capita, 2014 (\$)	Rank
Hanover	-7	449	1
La Broquerie	-7	560	2
East St. Paul	-7	710	3
Ste. Anne	13	401	4
Ritchot	-7	830	5
Taché	18	560	6
St. Andrews	11	692	7
Springfield	24	834	8
West St. Paul	31	750	9
Stanley	46	787	10
Macdonald	33	1,031	11
Rockwood	50	870	12
St. Clements	73	859	13
Gimli	39	1,544	14
RM of Portage la Prairie	39	1,739	15
Overall (RM's)	21	799	-

Source: CFIB analysis of 2008 – 2014 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

Cities and Towns

When ranking Manitoba CTs on sustainable spending, the City of Dauphin ranked first. Dauphin had only three per cent growth in real operating spending per capita, resulting in spending of \$1,321 per resident (see Table 3).

with a population density of more than 400 residents per square kilometer.

⁷ Rural Municipality (RM) refers to an area with at least 1,000 residents, with a population density of less than 400 residents per square kilometer. Cities and Towns (CTs) refers to an area with at least 1,000 residents,

In last place with the highest real operating spending per capita was the City of Flin Flon. Flin Flon recorded real operating spending growth per capita of 14 per cent from 2008 to 2014, which translates to spending of \$2,566 per resident in 2014.

Table 3:

Cities and Towns Rankings (Best to Worst)

City and Town	Real Operating Spending Growth Per Capita, 2008-2014 (%)	Real Operating Spending Per Capita, 2014 (\$)	Rank
Dauphin	3	1,321	1
Morden	5	1,134	2
Winkler	7	1,081	3
Selkirk	6	1,340	4
Thompson	8	1,541	5
Brandon	8	1,588	6
City of Portage la Prairie	11	1,614	7
Steinbach	18	1,077	8
The Pas	19	1,979	9
Flin Flon	14	2,566	10
Overall (CT's)	8	1,482	-

Source: CFIB analysis of 2008 – 2014 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

While Winnipeg is not directly comparable to other Manitoba CTs due to different responsibilities, if it were to be included it would rank third last. Winnipeg recorded a per capita real spending growth rate of 18 per cent, and spent \$1,657 per resident on operating spending.

Spending by Municipal Category

While unsustainable spending trends are common to all types of local governments, the cost centers driving spending growth can vary.

To identify spending drivers, CFIB evaluated spending by both department and function. Spending by department refers to the specific area of government where the

money was spent (e.g. Transportation Services, Recreation and Cultural Services). Expense by function refers to the specific activity where the expense was incurred (e.g. Personnel Services, Grants and Contributions).

When evaluating operating spending by either department or function, two aspects must be considered - the size of the spending category and the growth rate of spending within that category.

As responsibilities differ between RMs, the City of Winnipeg, and Manitoba's other CTs, the analysis of operating spending is separated by municipality type.

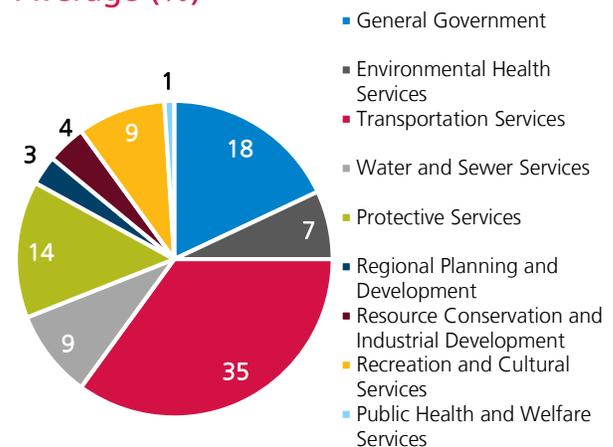
Rural Municipalities

Spending by Department

When looking at RM departmental spending, Transportation Services and General Government make up the majority of spending (see Figure 2). Transportation Services account for the largest portion of spending at 35 per cent. This is almost double the spending on General Government, which accounts for 18 per cent.

Figure 2:

RM Spending by Department, 7 Year Average (%)

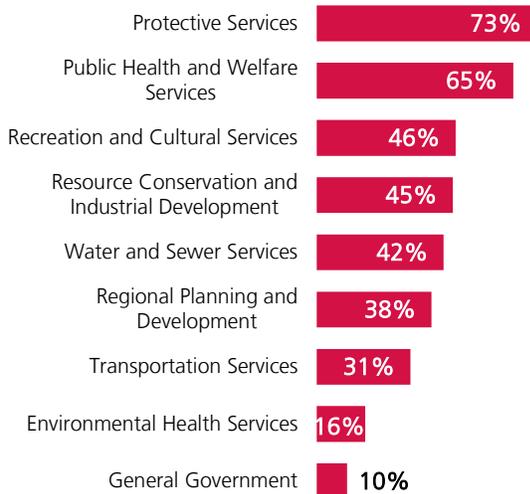


Source: Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index by Province, Statistics Canada.

A review of RM departmental growth rates indicates that all departments besides General Government are growing faster than the sustainable spending benchmark (see Figure 3).

Figure 3:

Growth of RM Departmental Spending: 2008-2014



Source: *Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index, By Province, Manitoba, Statistics Canada.*

Note: The large increase in Protective Services spending partly due to a \$3.3 million conditional grant from the province of Manitoba, to cover additional spending on flood repair damages that occurred in the RM of Portage la Prairie in 2011 and 2013, which were recorded under protective services.

Protective Services is the fastest growing department, recording a growth rate of 73 per cent, or over seven times the sustainable benchmark. This is cause for concern as this department accounts for 14 per cent of RM operating spending.

Public Health and Welfare Services is the second fastest growing department, recording a growth rate of 65 per cent from 2008 to 2014. Fortunately, this department accounts for only one per cent of operating spending in RMs.

Transportation Services, the largest department, recorded a growth rate of 31 per cent, the third lowest of all the departments. While this may sound promising when compared to other growth rates, comparing this to the sustainable benchmark tells another story.

Transportation Services grew over three times faster than the sustainable benchmark of population growth, a major cause for concern.

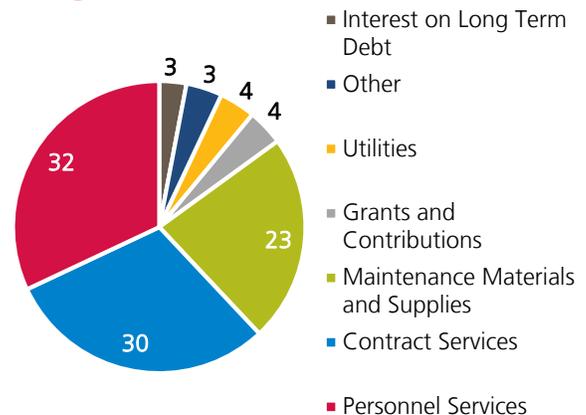
Spending by Function

Labour Costs - referred to as Personnel Services in consolidated financial statements - and Contract Services account for the majority of functional spending in RMs. Labour Costs account for 32 per cent of total spending, while Contract Services consume 30 per cent of operating spending (see Figure 4).⁸

It should be noted that most RMs contract policing services with the Royal Canadian Mounted Police (RCMP), which are thus recorded as Contract Services.

Figure 4:

RM Spending by Function, 7 Year Average (%)



Source: *Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index by Province, Statistics Canada.* Note: May not add to 100 due to rounding.

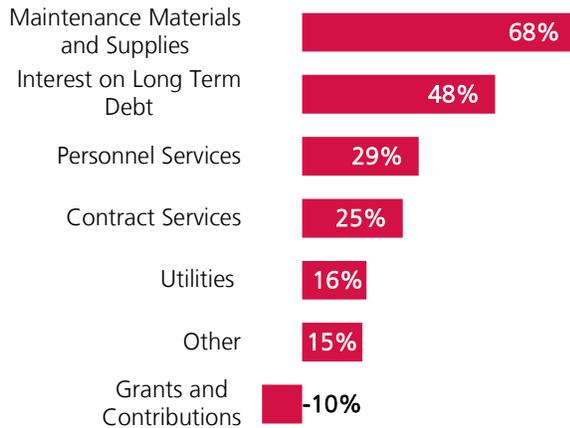
policing services to the Royal Canadian Mounted Police (RCMP).

⁸ Contract Services include all expenses resulting from the purchasing of services from the private sector or other government bodies, such as contracting out

The third biggest expense for RMs is Maintenance Materials and Supplies, which accounts for 23 per cent of operating spending. This functional expense has also grown unsustainably from 2008 to 2014, recording a growth rate of 68 per cent, the highest of all functional expenses (see Figure 5).

Figure 5:

Growth of RM Functional Spending: 2008-2014



Source: *Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index, By Province, Manitoba, Statistics Canada.*

As Labour Costs account for the largest portion of operating spending, examining the growth rate becomes a necessity. Labour Costs grew 29 per cent, or almost three times the sustainable benchmark, from 2008 to 2014. This is a key area for local governments to focus on if they want to control operating spending.

Expenditures on Interest on Long Term Debt recorded a growth rate of 48 per cent, the second highest of all functions. Despite the fact that it accounts for just three per cent of operating spending, this is still an area for concern as the money does not go towards providing tangible services or benefits.

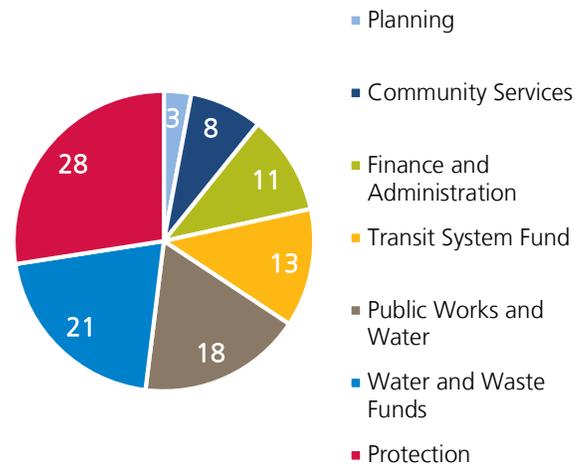
Winnipeg

Spending by Department

When examining spending by department in the City of Winnipeg, Water and Waste Funds were the largest driver of spending growth, experiencing an increase of 35 per cent from 2008 to 2014. It also accounts for almost a quarter (21%) of Winnipeg's total operating spending, making it a major cause for concern (see Figures 6 & 7).

Figure 6:

Winnipeg Spending by Department, 7 Year Average (%)



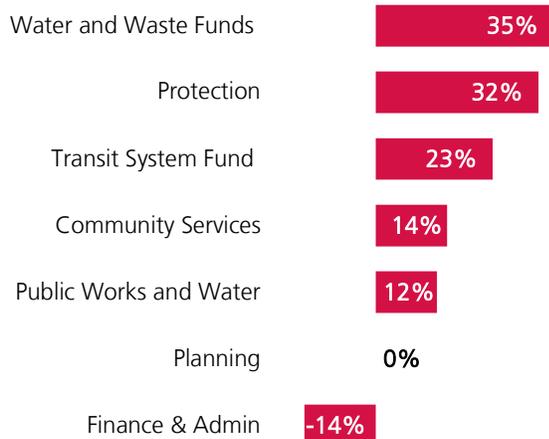
Source: *Winnipeg Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index Winnipeg, Statistics Canada. Note: May not add to 100 due to rounding.*

Protective Services, which include firefighters, paramedics, and police officers, account for the largest portion of operating spending. This department makes up 28 per cent of Winnipeg's operating spending, while also recording a spending growth rate of 32 per cent, four times the sustainable benchmark.

In Winnipeg, all departments, with the exception of Planning and Finance and Administration, are growing faster than the sustainable benchmark (see Figure 7).

Figure 7:

Growth of Winnipeg Departmental Spending: 2008-2014



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

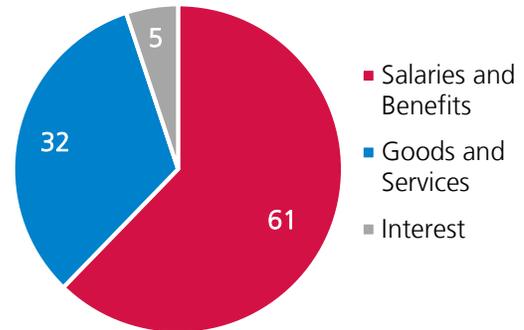
Finance and Administration, commendably, decreased spending by 14 per cent over the seven year study period. Unfortunately, the strong performance had little impact on the overall direction of Winnipeg's spending patterns but it is a good start and should be used as an example for other departments. This highlights the fact that more must 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.⁹ Labour Costs made up 61 per cent of total operating spending for Winnipeg, while Goods and Services made up 32 per cent (see Figure 8).

Figure 8:

Winnipeg Spending by Function, 7 Year Average (%)

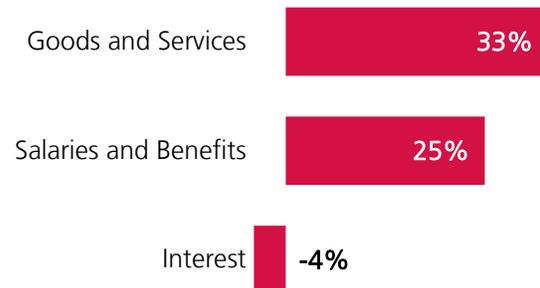


Source: Winnipeg Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index Winnipeg, Statistics Canada. Note: May not add to 100 due to rounding.

Labour Costs and Goods and Services together make up 93 per cent of Winnipeg's total operating spending. It is thus extremely worrying that they have increased by 25 per cent and 33 per cent, respectively, significantly above sustainable levels (see Figure 9).

Figure 9:

Growth of Winnipeg Functional Spending: 2008-2014



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

⁹ Labour costs consist of salaries, wages, benefits and employer contributions to payroll taxes (CPP, EI etc.).

Cities and Towns

Spending by Department

Similar to RMs, Protective Services make up the largest portion of operating spending in CTs.

Spending on Protective Services accounted for 26 per cent of operating spending. Both Water and Sewer Services and Recreation and Cultural Services departments each consumed 18 per cent of the total budget (see Figure 10).

Figure 10:

Cities and Towns Spending by Department, 7 Year Average (%)



Source: Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index by Province, Statistics Canada. Note: May not add to 100 due to rounding.

Resource Conservation and Industrial Development is the fastest growing department, recording a growth rate of 35 per cent, or over four times the sustainable benchmark (see Figure 11). Fortunately, this department makes up only two per cent of total operating spending.

Protective Services, the largest department, was tied for the third highest growth rate of all departments. It grew by 22 per cent from 2008 to 2014, almost three times the sustainable benchmark.

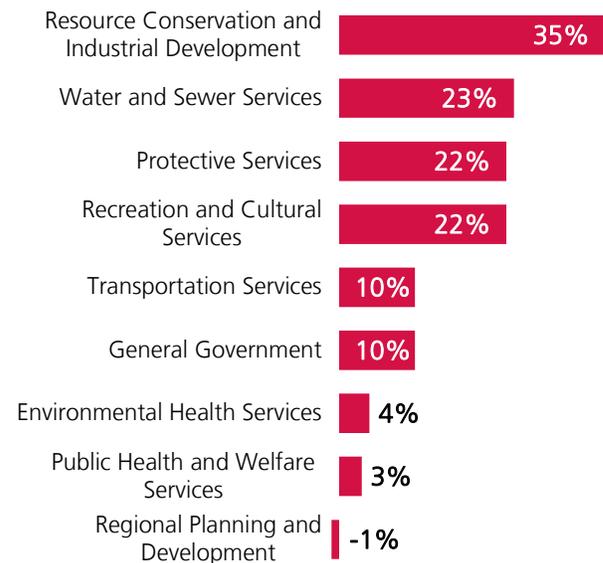
Tied for the second largest department, Water and Sewer Services also grew unsustainably with a growth rate of 23 per cent.

Of notable mention are the three departments whose growth rates achieved the sustainable spending benchmark of eight per cent or less. Environmental Health Services, Public Health and Welfare Services, and Regional Planning and Development all maintained sustainable spending growth rates, with the latter actually recording a negative growth rate.

However, these departments together account for just nine per cent of operating spending, leaving room for much more to be done to bring operating spending under control.

Figure 11:

Growth of Cities and Towns Departmental Spending: 2008-2014



Source: Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index, By Province, Manitoba, Statistics Canada.

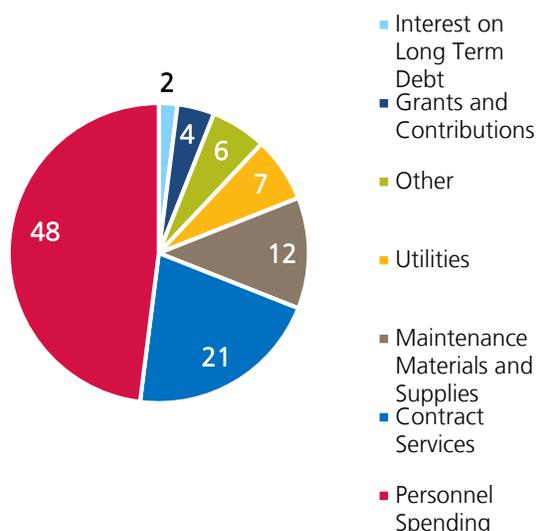
Spending by Function

Like Winnipeg and RMs, Labour Costs make up the largest portion of operating spending within CTs. 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 12).

Figure 12:

Cities and Towns Spending by Function, 7 Year Average (%)



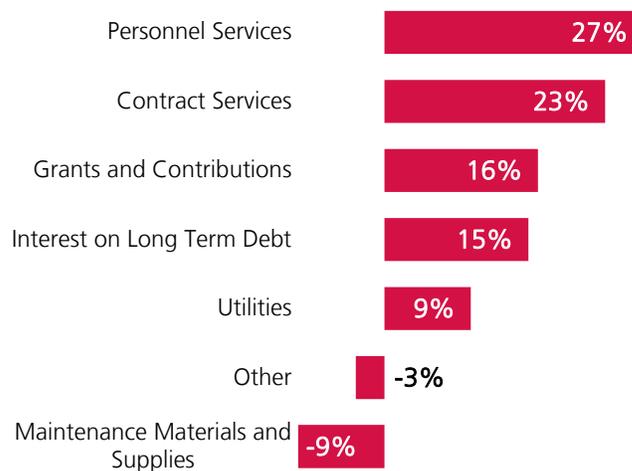
Source: *Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index by Province, Statistics Canada.*

Examining growth rates of functional expenses show that Personnel Services grew at a rate of 27 per cent from 2008 to 2014 (see Figure 13). The second highest growth rate was 23 per cent for Contract Services. Not only are these two functions the fastest growing, but they are also the largest functions by share of overall spending, 69 per cent, which is a major cause for concern.

One area of achievement comes from Maintenance Materials and Supplies, which decreased its spending by nine per cent. As this function makes up 12 per cent of total operating spending, this is a great start that other functions should seek to replicate.

Figure 13:

Growth of Cities and Towns Functional Spending: 2008-2014



Source: *Municipal Audited Consolidated Financial Statements 2008 – 2014, Consumer Price Index, By Province, Manitoba, Statistics Canada.*

Labour Costs Drive Spending

Regardless of municipal size or type, it is clear that Labour Costs are the driving force behind spiraling municipal operating spending. Considering Labour Costs accounted for the majority of real operating spending within municipalities – 57 per cent in 2014 – addressing these costs is the only way to return to sustainable spending growth.¹⁰

All three classes of municipalities have increased Labour Costs by close to three times their sustainable benchmarks (see Table 4). Over just seven years RMs increased Labour Costs by 29 per cent, CTs increased Labour Costs 27 per cent, and The City of Winnipeg recorded 25 per cent growth in Labour Costs.

These unsustainable Labour Costs, \$471 million in total above the benchmark, make up 56 per cent of the total overspending in Manitoba over the seven year period.

¹⁰Municipal Annual Financial Reports 2008-2014.

Table 4:

Growth of Municipal Personnel Services: 2008-2014

	Real Labour Cost Growth (%)	Sustainable Benchmark (Population Growth) (%)	Spending Above Benchmark (per Capita) (\$)
Rural Municipalities	29	10	166
Cities and Towns	27	8	485
Winnipeg	25	8	538
Overall Total	25	8	480

Source: CFIB analysis of 2008 – 2014 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

Causes of Increasing Labour Costs

As Labour Costs are the largest driver of increasing operating spending, it follows that the determinants of Labour Costs must be controlled. The two parts of Labour Costs that are controllable are the cost per worker and the number of workers. CFIB focuses on the cost per worker as data on the number of workers are not readily available for individual Manitoba municipalities.

Cost Per Worker (Wages)

Increasing Labour Costs are driven by overly generous remuneration. 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).¹¹ This advantage increases to 14.1 per cent when employer contributions to benefit plans are included.

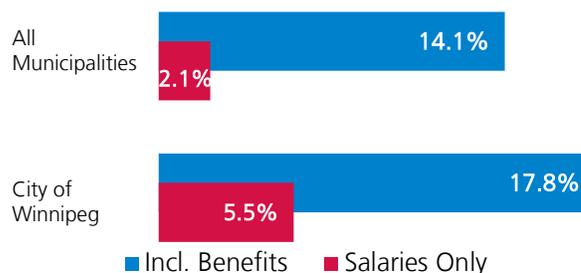
In Winnipeg the compensation gap is larger yet, recording a five and a half per cent

¹¹ Figure 14: All Municipalities category includes Winnipeg

wage advantage for municipal public sector employees. When benefits are added in, this premium soars to 17.8 per cent.

Figure 14:

Municipal Public Sector Wage and Benefit Advantages



Source: CFIB Wage Watch Report 2015.

While there are wage gaps, it is clear that generous public sector benefits, such as shorter working hours and defined benefit pension plans, drive per worker costs higher.

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.¹² While this gap may seem small, it equates to over four work weeks every year!

The Cost of Protective Services

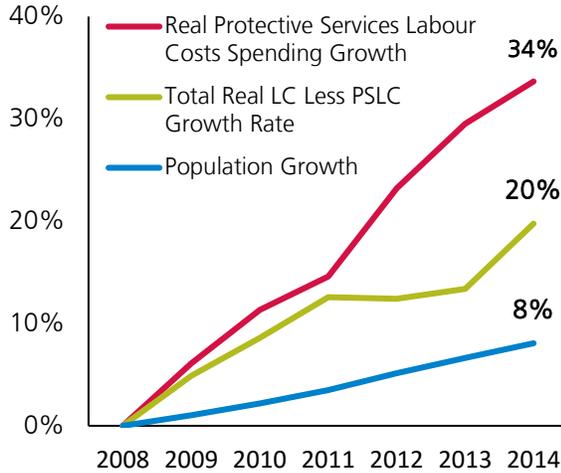
A new addition in the third edition of the *Manitoba Municipal Spending Watch* is the specific analysis of Protective Services Labour Costs (PSLC). It is clear that Labour Costs (LC) as a whole have grown significantly above sustainable levels, and now serve as a major contributor to the overall increase in municipal operating spending. As such, it is important to consider the specific components that are driving this growth. Foremost among them is spending on Protective Services. Labour Costs for those employed in police, fire, and other emergency services make up 44 per

¹² CFIB, Wage Watch Report 2015

cent of total real labour costs for all municipalities.

Figure 15:

Growth of Protective Services Labour Costs vs. Labour Costs Excluding Protective Services: 2008-2014¹³



Source: Municipal Audited Consolidated Financial Statements 2008 – 2014. MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

By examining the growth rate of Labour Costs excluding spending on Protective Services Labour Costs, we see that it has increased at a rate of 20 per cent from 2008 to 2014 (see Figure 15). While this figure alone is enough to cause concern, the growth rate of Protective Services Labour Costs itself is an alarming 34 per cent.

Entrepreneurs understand that police, fire, and emergency services are essential to all Manitoba communities and do not advocate for their dismantling. However, increasing spending on these services at quadruple the rate of population growth is not sustainable. Indexing changes in Protective Services Labour Costs to inflation and population growth would have saved Manitoba residents an average of \$280 from 2008 to 2014, or the equivalent of an extra \$1,120 for a family of four (see Table 5).

¹³ LC refers to Labour Costs, while PSLC refers to Protective Services Labour Costs specifically.

Table 5:

Growth of Protective Services Labour Costs: 2008-2014

	Real Protective Services Labour Cost Growth (%)	Sustainable Benchmark (Population Growth) (%)	Spending Above Benchmark (per Capita) (\$)
Rural Municipalities	-2	10	-15
Cities and Towns	34	8	186
Winnipeg	34	8	354
Overall Total	34	8	280

Source: CFB analysis of 2008 – 2014 Municipal Audited Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

The Cost of Unsustainable Spending

Overall, Manitoba’s largest 26 municipalities are increasing operating spending at an unsustainable rate. Municipal governments spent \$848 million in excess of the sustainable spending benchmark. For overspending by individual municipality please see Appendix III.

If local governments had kept spending in line with inflation and population growth, each Manitoba resident would have saved \$875, or \$3,500 for a family of four.

This unsustainable spending is a problem for all Manitobans as excess operating spending leads to higher taxes and/or lower infrastructure investment. As governments increase taxes or cut capital budgets to cover this unsustainable spending, Manitoba’s small business climate will become less and less competitive, causing economic growth and job creation to slow. Neither of these outcomes bode well for increasing Manitoba’s prosperity.

Conclusion

It is evident that over the seven year period from 2008 to 2014, Manitoba's 26 largest municipalities have not provided residents with sustainable operating spending. In fact, only four municipalities achieved sustainable spending growth throughout the entire study period, although some governments have made strong efforts to control their spending.

Higher-than-needed municipal operating spending ultimately leads to a combination of higher taxation and/or 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.

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 municipal 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:
 - A. Limit compensation increases, particularly where there are any significant gaps, until public and private sector compensation levels are aligned.
 - B. 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).
 - C. Eliminate the Bridge Benefit for early retirement.
 - D. Reduce unfunded Pension Liabilities without relying solely on taxpayer bailouts.
 - E. If applicable, eliminate the costly and outdated banked sick day policies and replace with affordable short-term disability plans.
4. Provide more transparent communication of financial information:
 - A. Every municipality should publish at least the five most recent Audited Financial Statements on their websites.
 - B. The City of Winnipeg should publish a financial report comparable to those provided by all other Manitoba municipalities on its website.

For the Manitoba Government:

1. Improve the quality of municipal financial data to allow for better assessment and comparison of municipal spending:
 - A. Municipal financial data should be more accessible and include more detailed analysis, such as amortization of tangible capital assets.
 - B. 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:
 - A. 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.
 - B. Reject calls from municipalities for new taxation powers.
3. Revise provincial labour laws:
 - A. 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.
 - B. 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.

Sources

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- Rural Municipality of Hanover, Consolidated Financial Statements, 2009-2014
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- Rural Municipality of Macdonald, Consolidated Financial Statements, 2009-2014
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- Rural Municipality of Ritchot, Consolidated Financial Statements, 2009-2014
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- Rural Municipality of Ste. Anne, Consolidated Financial Statements, 2009-2014
- Rural Municipality of St. Clements, Consolidated Financial Statements, 2009-2014
- Rural Municipality of Stanley, Consolidated Financial Statements, 2009-2014
- Rural Municipality of Taché, Consolidated Financial Statements, 2009-2014
- Rural Municipality of West St. Paul, Consolidated Financial Statements, 2009-2014
- Town of Morden, Consolidated Financial Statements, 2009-2014
- Town of The Pas, Consolidated Financial Statements, 2009-2014

Appendix I

Methodology

How is Spending Measured?

The *Manitoba Municipal Spending Watch* report analyzes municipal spending statistics from 2008-2014 for Manitoba municipalities with populations over 5,000 (26 municipalities in total). 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.

Report rankings are based on an equal weighting of growth in inflation-adjusted consolidated operating spending per capita (2008-2014) and the 2014 real operating spending per capita¹⁴.

A standardized index is created for each indicator (between 0 and 100). The municipality with the lowest 2008-2014 real operating spending per capita growth is given a score of 0 while the municipality with the highest 2008-2014 real operating spending per capita growth is given a score of 100. All other municipalities are given a proportionate score within that range. The same exercise is then applied to the indicator for the 2014 real operating spending per capita. The average of the two scores is then converted to a percentage score which is subsequently ranked against the other municipalities.

Municipal operating spending is calculated using total municipal expenditures less amortization. School division tax transfers are also excluded from the operating expenditure analysis.

Operating expenditures are adjusted for inflation and expressed in 2008 dollars so figures have comparability. The Winnipeg Consumer Price Index (CPI) is used in this report to measure inflation for Winnipeg; the Manitoba CPI is used for all other municipalities¹⁵.

Municipalities with lower rankings have performed poorly in achieving a sustainable level of operating spending, whereas those municipalities with higher rankings performed well to achieve a more sustainable level of operating spending.

Municipal population growth rates are calculated based on data from Statistics Canada's Demography Division (Table 1, Annual population estimates by sex, July 1, 2001 to 2014, Census Subdivisions, Canada).

Inflation-adjusted (i.e. real) municipal operating spending is considered excessive when it exceeds the benchmark of population growth. Excess spending is used as a measure to indicate how much a municipality could have saved if spending had been held to the benchmark.

¹⁴ The seven year average is used in place of 2014 data in order to account for sharp fluctuations in total spending from year to year, due to the regular variance

of expenditures on grants and contributions and contract services.

¹⁵ Statistics Canada, Table 326-0021

Appendix II

Table 6:

2008-2014 Overall Provincial Results

Municipality	Population Growth (%)	Real Operating Spending Growth (%)	Real Operating Spending Growth Per Capita (%)	Real Operating Spending Per Capita, 2014 (\$)
Brandon	10	19	8	1,588
City of Portage la Prairie	0	11	11	1,614
Dauphin	-1	1	3	1,321
East St. Paul	5	-3	-7	710
Flin Flon	-3	11	14	2,566
Gimli	0	40	39	1,544
Hanover	17	9	-7	449
La Broquerie	30	21	-7	560
Macdonald	13	50	33	1,031
Morden	16	22	5	1,134
Ritchot	12	4	-7	830
RM of Portage la Prairie	-3	35	39	1,739
Rockwood	5	57	50	870
Selkirk	6	12	6	1,340
Springfield	8	33	24	834
St. Andrews	5	16	11	692
Ste. Anne	10	24	13	401
St. Clements	8	86	73	859
Stanley	21	76	46	787
Steinbach	21	42	18	1,077
Taché	14	36	18	560
The Pas	-1	18	19	1,979
Thompson	1	9	8	1,541
West St. Paul	10	44	31	750
Winkler	14	22	7	1,081
Winnipeg	8	28	18	1,657
Overall	8	26	17	1,516

Source: CFIB analysis of 2008 – 2014 Municipal Consolidated Financial Statements. MB Municipal Population Estimates 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.

Appendix III

Table 7:

2008-2014 Total Excess Spending

Municipality	Cumulative Excess Spending (\$)	Excess Spending Per Capita (\$)	Cost of Excess Spending to a Family of Four (\$)
Brandon	26,857,818	558	2,232
City of Portage la Prairie	10,151,589	778	3,112
Dauphin	2,250,114	277	1,108
East St. Paul	-4,275,281	-454	-1,816
Flin Flon	-2,571,998	-470	-1,880
Gimli	10,625,041	1,801	7,204
Hanover	663,130	44	176
La Broquerie	-152,951	-27	-108
Macdonald	12,998,394	1,999	7,996
Morden	2,473,042	298	1,192
Ritchot	1,237,033	209	836
RM of Portage la Prairie	7,513,339	1,150	4,600
Rockwood	9,042,823	1,102	4,408
Selkirk	4,799,933	465	1,860
Springfield	14,291,917	967	3,868
St. Andrews	7,635,942	618	2,472
Ste. Anne	2,203,183	434	1,736
St. Clements	17,798,698	1,627	6,508
Stanley	6,057,668	683	2,732
Steinbach	9,246,454	633	2,532
Taché	3,618,951	326	1,304
The Pas	6,765,823	1,204	4,816
Thompson	13,649,476	1,000	4,000
West St. Paul	7,030,417	1,367	5,468
Winkler	4,920,196	435	1,740
Winnipeg	673,844,802	964	3,856
Overall	848,675,554	875	3,500

Source: CFIB analysis of 2008 – 2014 Municipal Consolidated Financial Statements. MB Municipal Population Estimates - 2008 – 2014 Statistics Canada, Consumer Price Index, By Province, Manitoba, Statistics Canada.