

Municipal Wage Watch

Municipalities across Canada overspend by \$3.4 billion per year on employee compensation

What is the issue?

Municipalities continue to seek additional revenues and revenue-generating power. Yet, evidence suggests that they do not have a revenue problem, but a spending problem. Employee compensation, making up about half of most municipal budgets, is beyond private sector norms.

Compensation premiums favouring municipal public sector employees across Canada are 22.3 per cent over the private sector.ⁱ On a per-hour basis, the compensation of a municipal government worker is \$6.43 higher than that of a private sector worker in a similar job.ⁱⁱ

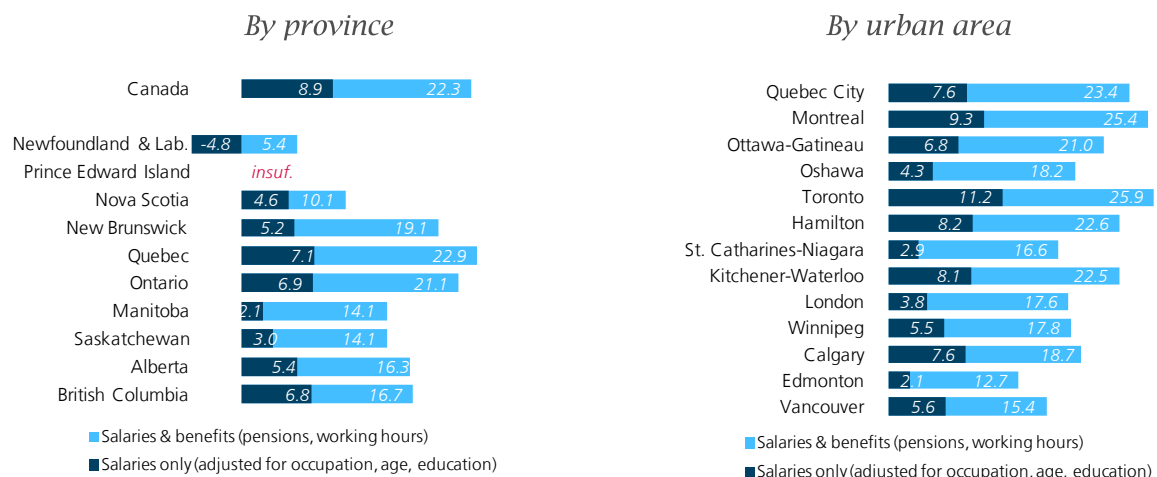
Where are the largest municipal compensation gaps in Canada?

Compensation advantages in municipal governments are highest in Quebec (22.9 per cent), Ontario (21.1 per cent) and New Brunswick (19.1 per cent), while more narrow in Newfoundland and Labrador (6.2 per cent), Manitoba (14.1 per cent) and Saskatchewan (14.1 per cent).

When considering urban areas, the largest compensation premiums exist in Toronto (25.9 per cent), Montreal (25.4 per cent) and Quebec City (23.4 per cent), respectively (see Figure 1).

Figure 1

Municipal Government Salary and Benefits Advantages (Per Cent Above Comparable Private Sector Wages)



Source: CFIB (2015), *Wage Watch: A comparison of public-sector and private-sector wages*.

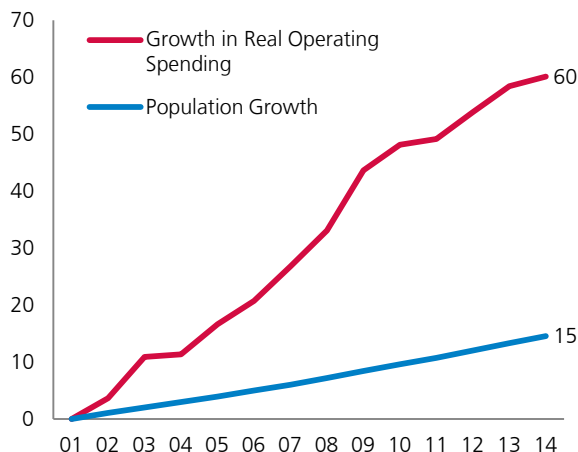
Why should Canadians care?

Municipal spending increases have far outpaced the reasonable benchmark of inflation and population growth for years.

Inflation-adjusted (i.e. real) operating spending by Canadian municipalities increased by 60 per cent from 2001 to 2014— four times the rate of population growth of 15 per cent (see Figure 2).

Figure 2

Cumulative Growth in Population and Real Operating Spending in Canada's Municipalities, 2001-2014 (in Per Cent)



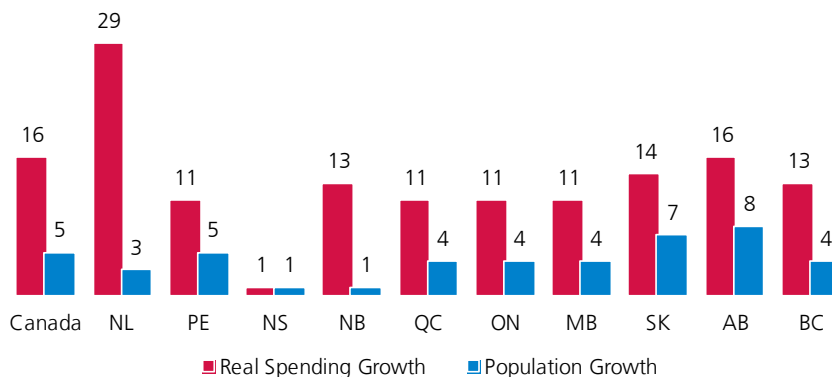
Sources: CFIB analysis of Statistics Canada, CANSIM Tables 380-0080 (expenditure), 326-0021 (Canada CPI) and 051-0001 (population).

Note: School boards are excluded

Looking at the situation by province, municipalities in Newfoundland and Labrador have increased spending by almost 10 times the rate of population growth between 2008 and 2012, whereas local governments in Nova Scotia have controlled spending growth (see Figure 3).

Figure 3

Cumulative Growth in Population and Real Operating Spending in Canada's Municipalities, 2008-2012 (in Per Cent)



Sources: CFIB analysis of Statistics Canada, CANSIM Tables 380-0080 and 385-0037 (municipal spending), 326-0021 (CPI) and 051-0001 (population).

Notes: (1) School boards are not included. (2) The definition of municipalities for Canada and the provinces are not identical. Data for Canada include spending of municipalities, while that for provinces also include other local public administrations (e.g. utilities, housing corporations).

Canadian municipalities spend \$29.5 billion a year on salaries and benefits. In fact, the lion's share of their operating spending goes to compensation. For example, on average, from 2001 to 2012, wages, salaries and benefits, as a share of operating spending in Canada's major cities have varied between 40 per cent (Charlottetown) and 66 per cent (Vancouver).

Overspending has a direct impact on taxpayers as it translates into higher taxes and fees. Whether municipalities raise additional revenues through property tax hikes or receive more funds from senior governments, we must remember that there is only one taxpayer. Tax hikes especially affect small businesses, as they already face disproportionately higher property taxes compared to residents. Better fiscal management by municipal governments would result in lower taxes and fees, allowing small businesses to grow and, in turn, support their communities and benefit the local economy.

How do we close municipal compensation gaps?

Before municipalities ask for more money from senior levels of government, they need to control their own spending. Minimizing compensation differentials between municipal and private sector employees is a good place to start. **Municipalities should:**

- ▶ Compare the combined value of wages, benefits and working hours with relevant local private sector data to establish appropriate compensation levels.
- ▶ Limit compensation increases, particularly where there are significant gaps, until public and private sector compensation levels are aligned.
- ▶ Eliminate early retirement provisions in pension plans.
- ▶ Eliminate banking of sick days.
- ▶ Enrol new hires in defined contribution plans or shared risk models rather than defined benefit plans.

ⁱ As indicated in CFIB's latest Wage Watch report. The study compares wages and benefits (i.e. pensions and the length of an average actual workweek) of 188 similar occupations in the municipal sector versus the private sector. For more information, please visit our website at cfib.ca/wagewatch.

ⁱⁱ Calculated as the difference between the average municipal government workers salary on a per-hour basis—including an excess pension benefit of 2.5 per cent—and the average salary of a comparable private sector worker on a per-hour basis. Only comparable occupations are included.