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Big City Spenders

An Analysis of Municipal Spending Trends with a Focus on Vancouver, Toronto and Montreal

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Canadian municipalities consistently say they are squeezed and do not have sufficient revenues to provide essential services. This report builds on CFIB's previous research on municipal spending[1] and challenges the assertion that municipalities have a revenue problem. It provides evidence that operating spending has consistently increased above sustainable rates overall in Canada and in Canada's three largest cities—Vancouver, Toronto and Montreal.

Big Cities' Spending Trends

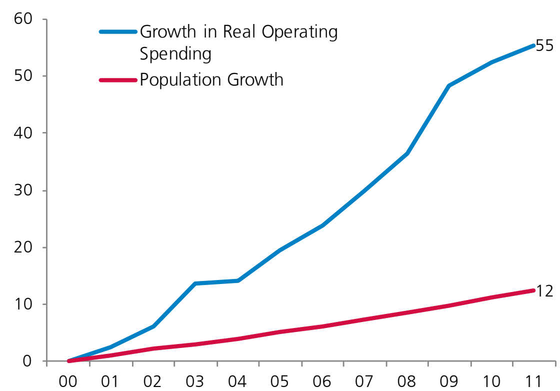
Municipalities continue to argue they need more revenue due to senior levels of government "downloading" additional responsibilities on to them.[2] Yet, revenues and spending have increased dramatically over the past decade for municipalities overall and for Canada's three biggest cities.[3]

Spending and Population Growth

Municipalities across Canada have increased their operating spending adjusted for inflation by 55 percent over the past twelve years (Figure 1). Operating spending refers to money spent to run a city's operations; it does not include spending on capital (infrastructure) projects. Spending is adjusted for inflation to remove the effect of price increases over time. Over the same twelve year period, population growth was much lower than inflation-adjusted operating spending at twelve percent.

Figure 1

Cumulative Operating Spending Growth (Adjusted for Inflation) in Canada's Municipalities, 2000-2011 (in %)

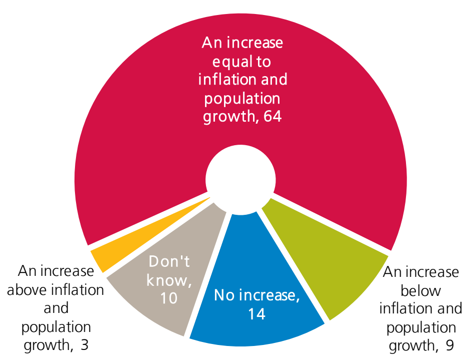


Source: CFIB analysis of Statistics Canada, CANSIM Tables 380-0080 (expenditure) and 051-0001 (population).

Why compare real (i.e. inflation- adjusted) spending growth to population growth? It makes sense that municipal spending would increase to accommodate increases in population and prices. Spending beyond this benchmark is unsustainable and means taxes are higher than would otherwise be the case. It should also suggest that citizens are getting additional services and/or value from existing services. In terms of Canada's municipalities overall and its three largest cities, spending is far outpacing inflation and population growth. At the same time, businesses are not feeling there is additional value in the services being provided and municipalities continue to argue they are underfunded. This begs the question: Do municipalities have a revenue problem or a spending problem? Small business owners support spending increases to match increases in population and prices but not beyond (Figure 2).

Figure 2

What Do You Consider an Appropriate Increase in Municipal Spending? (% Response)



Source: CFIB, *Focus on British Columbia Survey*, November 2007, n=1,341.

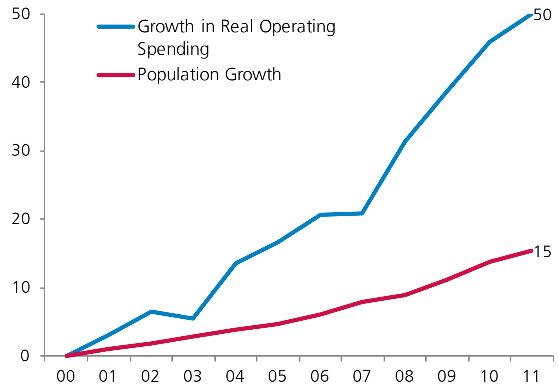
Vancouver

From 2000 to 2011, Vancouver's[4] spending adjusted for inflation grew by 50 per cent—a stark contrast to the 15 per cent population growth in the same period (Figure 3a).

Moreover, when considered on a year- over- year basis, inflation- adjusted spending growth in Vancouver was above population growth in nine of eleven years (Figure 3b).

Figure 3a

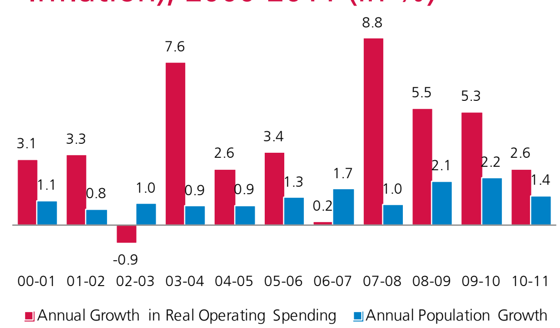
Vancouver Cumulative Operating Spending[5] Growth (Adjusted for Inflation), 2000-2011 (in %)



Source: CFIB analysis of BC Ministry of Community, Sport & Cultural Development, Division of Local Government Statistics, *Sch402* (expenses) for 2000-2011; BCStats, *British Columbia Regional District and Municipal Population Estimates*.

Figure 3b

Vancouver Annual Operating Spending[5] Growth (Adjusted for Inflation), 2000-2011 (in %)



Source: see Figure 3a.

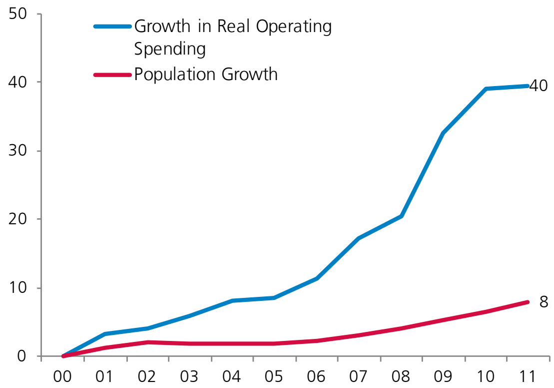
Toronto

Similar spending trends occurred in Toronto.[6] Spending adjusted for inflation increased by 40 per cent from 2000 to 2011, while the city's population grew by eight per cent (Figure 4a).

On a year- over- year basis, spending growth adjusted for inflation was above population growth in nine of eleven years and at roughly the same rate in one year (Figure 4b).

Figure 4a

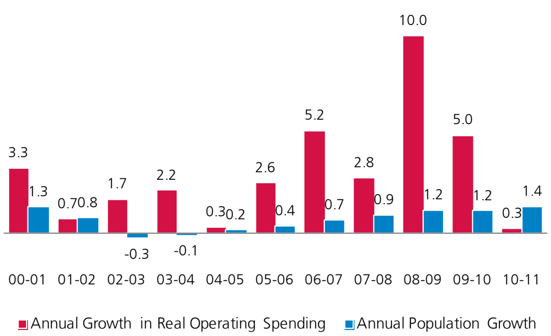
Toronto Cumulative Operating Spending[5] Growth (Adjusted for Inflation), 2000-2011 (in %)



Source: CFIB analysis of City of Toronto, Consolidated Financial Statements for 2000-2011; Statistics Canada, CANSIM Table 051-0052 (population estimates).

Figure 4b

Toronto Annual Operating Spending[5] Growth (Adjusted for Inflation), 2000-2011 (in %)



Source: see Figure 4a.

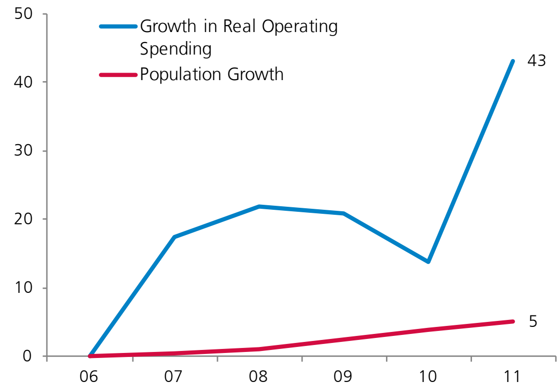
Montreal

Spending trends in Montreal[7] are even worse. From 2006 to 2011, the city increased its spending by 43 per cent when adjusted for inflation, while its population grew by five per cent (Figure 5a).

When considering year- over- year increases, spending growth (adjusted for inflation) was above population growth in three of five years (Figure 5b).

Figure 5a

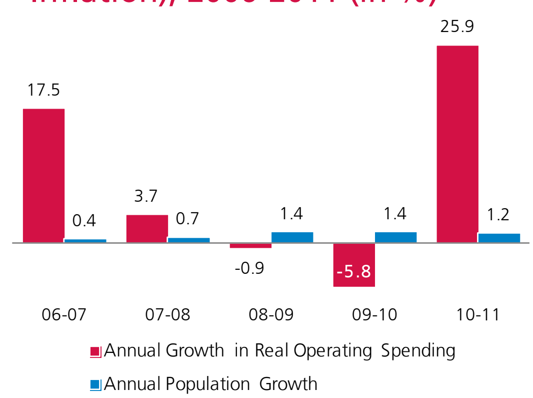
Montreal Cumulative Operating Spending[5] Growth (Adjusted for Inflation), 2006-2011 (in %)



Source: CFIB analysis of Ministère des Affaires municipales et de l'Occupation du territoire du Québec, Financial Statements for 2006-2011; Quebec Institute of Statistics, Municipal population estimates. Note: Operating spending of the City of Montreal includes an adjustment for pension liabilities.

Figure 5b

Montreal Annual Operating Spending[5] Growth (Adjusted for Inflation), 2006-2011 (in %)



Source: see Figure 5a.

Excess Spending = Potential Savings

None of the three big cities has held spending increases to sustainable rates (i.e. to inflation and population growth). All have consistently spent well above this reasonable benchmark over the years. This excess municipal spending adds up.

Table 1

How Municipalities Spend[5]

	Vancouver	Toronto	Montreal	Total, all municipalities
Actual operating spending in 2011 (in $ Million)	1,122	9,836	5,120	55,960
Operating spending in 2011 if held to inflation and population growth (in $ Million)	863	7,611	3,761	39,621
For the period 2000-2011*				
Total excess spending (in $ Million)	1,247	10,135	3,610	86,399
Total savings for family of 4 (in $)	8,007	15,116	8,553	10,375

Sources: see Figures 1, 3a, 4a and 5a.
Notes: * For Montreal, the period is 2006-2011.
Spending in the three cities is not directly comparable due to different definitions and scope of categories/entities included in the accounting of each city's operations. Vancouver includes six entities, none of them related to transit. Toronto comprises many agencies, boards and commissions, including the Toronto Transit Commission (TTC), as well as arenas, community centres and business improvement areas. Montreal includes about a dozen entities, including the Société de transport de Montréal (STM) responsible for transit.

For example, Toronto's actual spending in 2011 was over $9.8 billion. Had increases between 2000 and 2011 been at a more sustainable pace, spending in 2011 would have been $7.6 billion, a difference of $2.2 billion in Toronto for 2011 alone. Accumulated from 2000 to 2011, excess spending translates into potential savings of $10.1 billion in Toronto. To put it in perspective, better control over growth in operating spending could have saved a family of four a total of $15,116 from 2000 to 2011 (Table 1).

What drives spending growth?

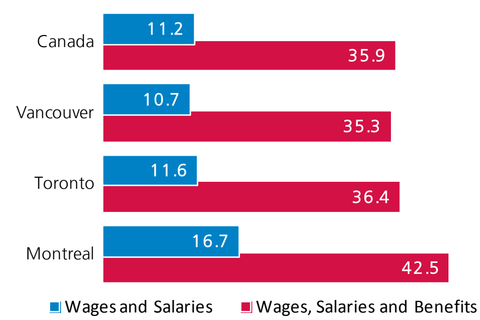
The lion's share of municipalities' spending goes to employees' compensation. In Vancouver, 67 per cent of operating spending went to wages, salaries and benefits, on average, annually between 2000 and 2011. In Toronto, 52 per cent of operating spending was spent on wages, salaries and benefits each year, on average, between 2000 and 2011. In Montreal, an average of 57 per cent was spent annually on compensation between 2006 and 2011. Local government compensation contributes to the excess spending as municipal employees enjoy wages, salaries and benefits that are almost 36 per cent higher, on average, than their private sector counterparts (Figure 6).

In addition, staffing levels are increasing faster than population growth. From 2000 to 2011, employment in Canadian municipalities increased by one quarter[8] compared to an overall population increase of 12 per cent.

Consistent growth in city staff at generous compensation levels has been a major driving force behind steep municipal spending growth.

Figure 6

Municipal Government Wage and Benefit Advantage by City (% Above Private Sector for Comparable Occupations)



Source: CFIB, *Wage Watch*, 2008, based on CFIB analysis of Census 2006 custom tabulation.
Notes: Data are for Census Metropolitan Areas, e.g. Toronto refers to the Greater Toronto Area (GTA).
Public-private sector differentials for wages, salaries and benefits include differences in actual hours worked and employer paid pension contributions, health benefits and other deferred wage benefits.

If wages, salaries and benefits had been held at private sector levels, a significant portion of spending would have been freed up. For 2011 alone, this would have amounted to $173 million in Vancouver (15 per cent of operating spending), $1.3 billion in Toronto (14 per cent of spending), and $936 million in Montreal (19 per cent of spending). Accumulated over the period 2000- 2011, compensation in line with private sector norms would have freed up over $1.7 billion in Vancouver and $12.3 billion in Toronto, and nearly $4.2 billion in Montreal for the period 2006- 2011.

Value- for- money

Spending per capita adjusted for inflation increased from $1,083 in 2000 to $1,407 in 2011 in Vancouver and from $2,188 to $2,828 in Toronto—an increase of around 30 per cent over twelve years in both cities. In Montreal, the increase was much larger (36 per cent), given the shorter time period (Table 2). Although spending levels between cities are not comparable due to differences in what is included in operating spending, the important point is that all three cities have seen dramatic increases in how much is spent per citizen.

Table 2

Operating Spending[5] per Capita

	Vancouver	Toronto	Montreal	Average, all municipalities
Base year	2000	2000	2006	2000
Operating spending per capita in base year (in $)	1,083	2,188	2,008	934
Operating spending per capita in 2011 (adjusted for inflation, in $)	1,407	2,828	2,733	1,291
Growth in operating spending per capita from base year (adjusted for inflation, in %)	30	29	36	38

Sources: see Figures 1, 3a, 4a and 5a.
Note: Spending in the three cities is not directly comparable due to different definitions and scope of categories/entities included in the accounting of each city's operations. Vancouver includes six entities, none of them related to transit. Toronto comprises many agencies, boards and commissions, including the Toronto Transit Commission (TTC), as well as arenas, community centres and business improvement areas. Montreal includes about a dozen entities, including the Société de transport de Montréal (STM) responsible for transit.

At the same time that spending has increased, many citizens do not feel that public services have increased accordingly. CFIB regularly asks its members to rate their local government's value- for- money of public services from "poor" to "adequate" to "good". Consistently across cities, the majority of business owners gave their municipality a "poor" rating in early 2013: 70 per cent in Montreal, 61 per cent in Toronto and 53 per cent in Vancouver[9]. The results have even worsened from 2006: a "poor" rating was given by 60 per cent in Montreal, 58 per cent in Toronto and 45 per cent in Vancouver.[10]

Conclusion: It's time to change the conversation

Municipalities have been asking for more transfers or taxing authority for years. At the same time, overall spending in Canada's municipalities, including Canada's three largest cities, has increased dramatically. This trend is not sustainable without significant increases in taxes and/or fees, something most taxpayers have little appetite for. This is particularly true of Canada's small business sector—a sector that already pays a disproportionate share of property taxes.[11] The taxation used to fund excess spending places an undue burden on small businesses and undermines communities.

Clearly, the municipal conversation needs to change from its current focus on revenue challenges to a focus on what is driving dramatic increases in spending.

How do we better control spending? At least part of the answer lies in controlling public sector wages and benefits, which represent the majority of municipal costs and are currently far more generous than private sector equivalents. This has not been an important part of the conversation and needs to be.

Municipalities constantly refer to an "infrastructure deficit". Yet, infrastructure is a core municipal responsibility. How can planning for infrastructure maintenance and replacement be improved?

Finally, the conversation needs to include a discussion about budgetary and financial transparency and accountability. Responsible policy making depends on it. This report is meant to be a catalyst to start this important conversation.

[1] Canadian Federation of Independent Business, *Municipal Spending Watch*, BC: 2008-2012, and Alberta: 2008-2010.

[2] Mirza, Saeed. (2007). *Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure.* Ottawa: Federation of Canadian Municipalities. [Pdf]. Accessed on May 3, 2013: http://www.fcm.ca/Documents/reports/Danger_Ahead_The_coming_collapse_of_Canadas_municipal_infrastructure_EN.pdf and Mackenzie, Hugh. (2013). *Canada's Infrastructure Gap - Where It Came From and Why It Will Cost So Much To Close.* Ottawa: Canadian Centre for Policy Alternatives. [Pdf]. Accessed on May 3, 2013: http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/01/Canada's%20Infrastructure%20Gap.pdf

[3] Hollands, Bruce. (2008). *Toward more efficient municipal government in Canada. Part 1: Municipalities a growing force.* Ottawa: Canadian Taxpayers Federation. [Pdf]. Accessed on May 3, 2013: http://www.taxpayer.com/media/Toward_more_efficient_municipal.pdf

[4] In this report, Vancouver does not include West Vancouver, North Vancouver and other parts of the Greater Vancouver Regional District (GVRD).

[5] Due to changes in accounting, amortization was deducted from consolidated total expenses for 2009-2011 for Vancouver, Toronto and Montreal. Pre-2009, operating expenditures were reported separately from capital expenditures.

[6] In this report, Toronto refers to the amalgamated municipalities of East York, Etobicoke, Metropolitan Toronto, North York, Toronto, Scarborough and York since 1998, not the Greater Toronto Area (GTA).

[7] In 2001, the 28 municipalities on the Island of Montreal merged, of which 15 demerged in 2006. For consistency, this report only considers the current City of Montreal for the period 2006-2011.

[8] CFIB analysis of Statistics Canada, CANSIM Table 383-0010 (labour statistics).

[9] CFIB, *Our Members' Opinion Survey No. 72*, January-March 2013, n=154 in Montreal, 217 in Toronto and 195 in Greater Vancouver.

[10] CFIB, *Our Members' Opinion Survey No. 58*, January-June 2006, n=373 in Montreal, 355 in Toronto and 498 in Greater Vancouver.

[11] Mallett, Ted, Queenie Wong and Simon Gaudreault. (2012). *Communities in Boom: Canada's Top Entrepreneurial Cities.* Toronto: Canadian Federation of Independent Business. [Pdf] Accessed on May 14, 2013: http://www.cfib-fcei.ca/cfib-documents/rr3274.pdf