



Up and Away: The Growth of Municipal Spending in Metro Vancouver

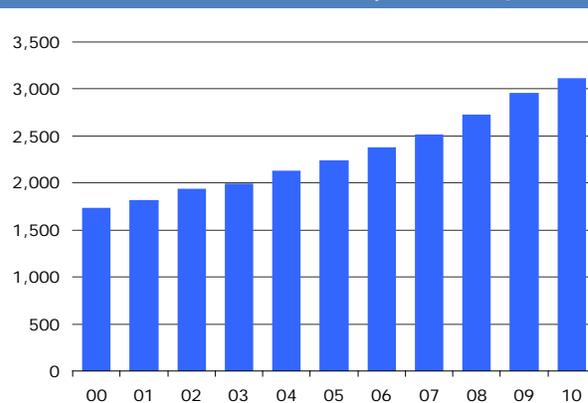
As governments around the country struggle to address deficits and manage growing debt loads in the face of often difficult economic circumstances, local government spending is also coming under scrutiny. In British Columbia, the Canadian Federation of Independent Business (CFIB) has played an important role by shining a periodic spotlight on fiscal developments at the municipal level across BC.¹ This paper builds on work done by CFIB by taking a closer look at municipal spending in the Metro Vancouver context.

Within Metro Vancouver, the pressure on municipal governments to meet existing service levels and deal with issues such as transportation funding, housing affordability, public safety, and economic development is running headlong into the onset of tax/fee fatigue among many residents and businesses.

A review of local government spending in Metro Vancouver over the past decade suggests that some of the frustration on the part of taxpayers is understandable. As we document in this paper, municipal government spending in Metro has risen quite sharply in recent years – although the picture varies significantly by individual municipality.² While some of the increase in

spending reflects greater demands for services linked to population growth, the reality is that even after adjusting for population, municipal outlays have increased markedly in Metro Vancouver – and in a way that seems out of step with what we see at other levels of government.

Figure 1
Collective Municipal Expenditures*
in Metro Vancouver, millions \$



*Excludes capital spending.

Source: Ministry of Community, Sport and Cultural Development.

How much has spending increased?

As Figure 1 depicts, collectively the 21 municipalities in Metro Vancouver spent \$3.1 billion in 2010 on **operations** [note that local government capital expenditures are not addressed in this paper]. A decade earlier, in 2000, the same municipalities spent \$1.7 billion. So, total municipal operating spending in the Metro region jumped by 80% in ten years.

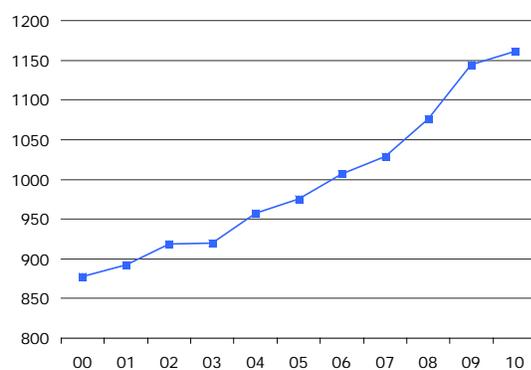
as fast as collective municipal spending in the region over the past decade (65% compared to 32%). In a future publication, we intend to take a closer look at fiscal developments and trends in the MVRD.

¹ CFIB, “BC Municipal Spending Watch,” November 2011.

² This article focuses on municipal spending in Metro Vancouver. We do not consider spending by the regional government, the Metro Vancouver Regional District (MVRD). Note, however, that real per capita operating expenditures for MVRD have grown twice

Of course the region's population has grown over time, so the cost of providing government services would be expected to rise in tandem. On average across the region, municipal governments spent \$844 **per person** to provide services in 2000. By 2010 the figure had climbed to \$1,321 per person. Thus, on a population-adjusted basis, the cost of local government operations in Metro Vancouver rose by 56% over the 2000s.³

Figure 2
Average Real per Capita Municipal Expenditures* in Metro Vancouver, 2002\$



*Excludes capital spending.

Source: Ministry of Community, Sport and Cultural Development, Statistics Canada.

In examining spending over time, rising costs related to wages/benefits, materials, and other inputs for municipal operations need to be taken into account. But even after we adjust for inflation as well as population, it turns out that **real per capita municipal spending** across Metro Vancouver still grew by 32% between 2000 and 2010. We believe that this is the figure

³ Note that these figures exclude capital spending.

which is most relevant for evaluating spending patterns.⁴

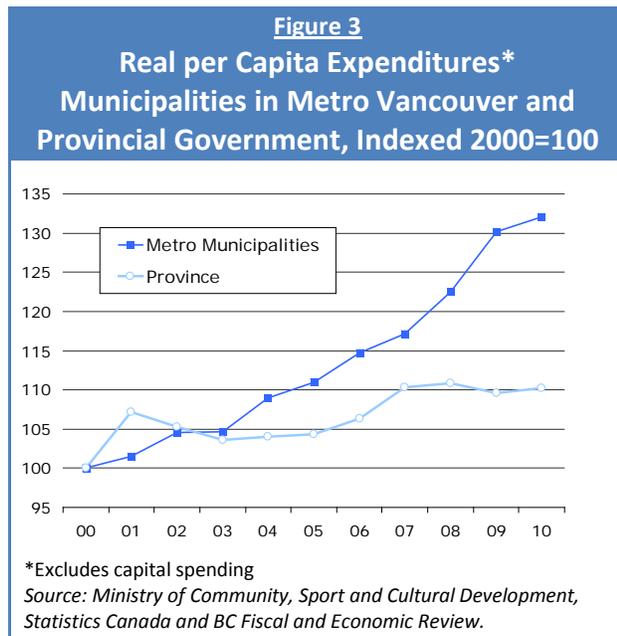
Context for spending

In public finance, keeping per capita inflation-adjusted government spending at constant levels is often viewed as a useful benchmark, one that should roughly maintain service levels over time. During periods of fiscal austerity, real per capita expenditures may be trimmed; when there is a demand for new or more services, and fiscal circumstances permit, real spending can be increased. But within Metro Vancouver, real per capita municipal spending has moved steadily higher, irrespective of economic conditions or changes in taxpayers' ability to pay.

To provide some context, it is instructive to compare municipal spending in Metro Vancouver to provincial government spending. Relative to local governments, the province of BC is responsible for a costlier (and province-wide) array of services, including health care, K-12 and post-secondary education, provincial transportation networks, social services, natural resources, and much more. As such, the provincial government spends about five times more per person as do municipal governments collectively in Metro Vancouver. Measured in real per capita terms, provincial spending in BC has increased by 10% over the

⁴ As noted earlier, the Canadian Federation of Independent Business reports annually on local government spending in the province. Their most recent report, "BC Municipal Spending Watch (November 2011)," provides a detailed examination of real per capita spending increases for all of BC's municipalities between 2000 and 2009. While we find the same magnitude of municipal spending increases as CFIB, our focus is on Metro Vancouver.

past decade. (Much of this increase is attributable to mounting health care expenditures by the province.) By comparison, the 32% jump in real per capita spending by Metro Vancouver municipalities over the same period appears out of line, particularly in the absence of a visible expansion of or improvement in locally-provided services.



What accounts for the difference in spending patterns between the different levels of government? One factor may be that the fiscal policies of individual municipal governments in the highly fragmented Vancouver region do not typically attract the same degree of systematic scrutiny from legislators, the public, the media or the business community as the spending/taxation decisions of the provincial government. At the local level property taxes seem to rise almost as a matter of course. Even if mill rates are held constant or trimmed, higher property values almost invariably assure that local governments collect more

revenue year after year. When property values decline, the common practice is to adjust mill rates upwards sufficiently so the municipality realizes additional revenue. Unlike in the case of the BC government, overall municipal spending in Metro Vancouver has been largely immune from visible fiscal restraint. As shown in Figure 3, which indexes real per capita spending for both the province and for all municipalities in Metro in aggregate at 100 in the year 2000, provincial real per capita spending dipped in the wake of the 2001 recession. It also fell before stabilizing as a result of the 2008-09 global recession. By comparison, overall municipal spending in Metro Vancouver, adjusted for inflation and population, has marched upward every year over the past decade.

Accounting for escalating local government spending

In defense of the substantial growth of real per capita municipal expenditures in Metro, a common refrain from local officials is that much of the increase is caused by fire and police services which, because of collective agreements and the perceived imperative to provide certain levels of service, are largely out of the control of local elected representatives. It is true that protective services are the biggest budget item for Metro municipalities. And the growth in spending in this area is noteworthy: of the \$282 increase in real per capita municipal spending in Metro over the decade of the 2000s, approximately \$79 (or 28% of the total increase in spending) was attributable to protective services. However, almost all other budget line items also rose

appreciably, as summarized in Table 1. For taxpayers, this is a worrisome trend.⁵

Table 1
Metro Vancouver Collective Municipal Real Per Capita Spending (2002 \$)

Budgetary Item	2000	2010	% chng
General Government	130.08	163.66	25.8
Protective Services	278.83	357.34	28.2
Solid Waste Mgmt and Recycling	37.58	55.42	47.5
Health, Social Services & Housing	32.53	16.71	-48.6
Development Services	32.89	38.53	17.1
Transportation and Transit	74.63	99.62	33.5
Parks, Recreation and Culture	159.54	224.88	41.0
Water Services	60.68	100.83	66.2
Sewer Services	42.13	86.02	104.1
Other Services	8.40	19.48	131.8
Total (excl. capital)	878.38	1160.79	32.2

Source: Ministry of Community, Sport and Cultural Development.

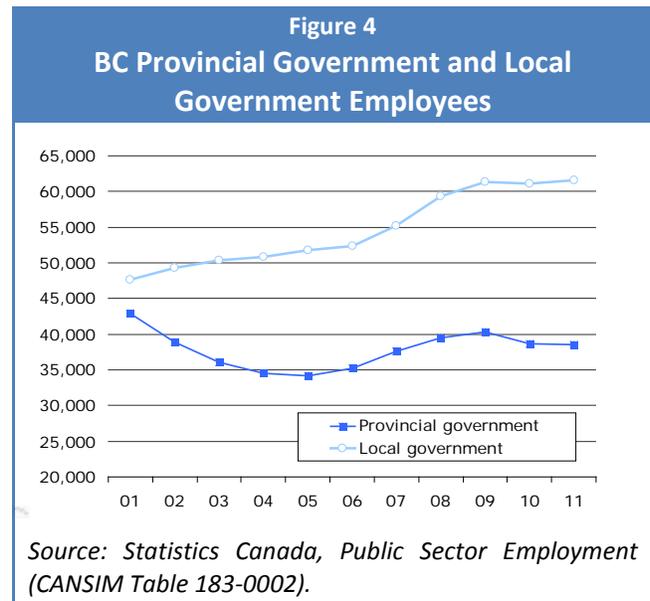
Substantial expansion of municipal payrolls

The majority of expenditures for local governments go to pay wages/salaries and benefits for their employees. Given the spending trajectory in Metro since 2000, it is

⁵ We recognize that some municipalities incurred additional expenses related to hosting the Olympics. However, using 2010 as the end year does not materially alter the overall municipal expenditure growth figures at the region-wide level. In 2010 real per capita expenditures grew by just 1.5% from the previous year, well below the average annual increase over the entire decade. The Olympics may have influenced larger-than-average annual spending increases in 2008 (4.6%) and 2009 (6.3%). Note, however, that this does not reflect construction of any Olympic venues or other infrastructure, as capital expenditures are not included in the data.

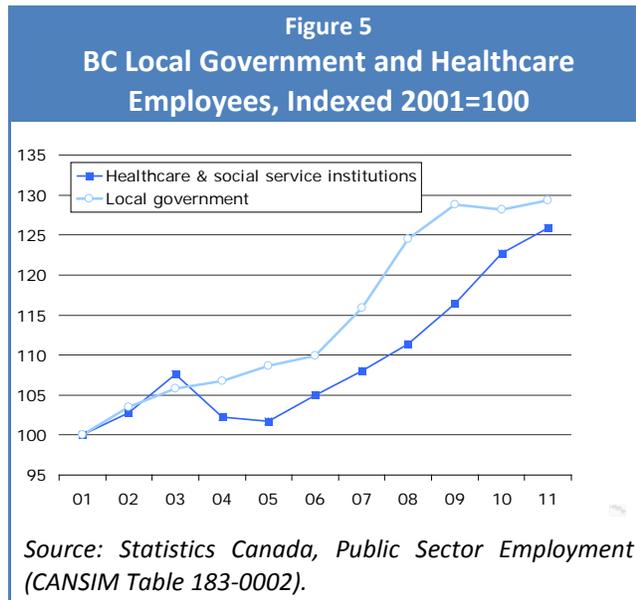
not surprising to discover that hiring patterns generally mirror the upward trend in spending.

Unfortunately, comparable data on the number of employees working for local governments are not readily available at the regional Metro level, but the relevant employment figures are tabulated at the provincial level. We can get a picture of developments at the regional level by examining the provincial data. Municipal spending in Metro Vancouver accounts for about 57% of all municipal operating expenditures in BC. The Metro region probably accounts for a similar proportion of total local government employment in the province as well.



In 2011, 61,600 people worked for local governments all across the province. From 2001 to 2011, the number of people employed in BC municipalities increased by 29%, while total employment in the province grew by 18% over the same period. At the same time, the number of people working

directly for the BC government (i.e., in public administration, and not including health care and education) has declined since 2001.



The growth in employment in provincial health care and social services institutions provides a final point of comparison, and here the data again underscore the robust pace of hiring activity in municipal government over the past decade. Somewhat surprisingly, local government employment across BC grew faster than employment in the health care system. Health care is one area of the provincially funded public sector that has expanded rapidly to keep pace with ever increasing demands for services. While one can accept that there is a greater demand for local government services over time, it is difficult to believe that the pressures facing service providers at the municipal level have been greater than those confronting the health care system.

Concluding thoughts: spending wisely

While one can debate whether Metro Vancouver residents have experienced service improvements that match the scale of the recorded increases in per capita spending and municipal payrolls since 2000, it is clear that tax/fee fatigue has become a fact of life in the region. Municipal leaders across Metro Vancouver would be wise to recognize that the cost of local government is a concern for both households and businesses. While the aggregate data on spending and employment suggest a limited commitment to fiscal restraint at the municipal level, there is evidence that elected officials are beginning to understand the problem. Recently, the Metro Vancouver regional government scrapped plans to raise taxes and fees by 12%, and set a new target that limits the increase for each household to a maximum of 2.5% in 2013. The Business Council welcomes this step. Some Metro area municipalities are also showing a greater commitment to fiscal discipline, after a decade of sharply rising operating expenditures.

An important caveat to the analysis and data provided in this paper is that they pertain solely to municipal operating expenses in the Metro region, and exclude capital outlays. Metro Vancouver requires ongoing capital spending to maintain and upgrade infrastructure, to accommodate population growth, and to sustain the high quality of life associated with effective local planning and service delivery. Particularly for the Metro Vancouver regional government, the next decade is expected to see significant pressure to boost capital spending.

Spending Levels and Growth in Individual Municipalities

The table below shows the level and growth in **real per capita operating spending** for each of the 21 municipalities in Metro Vancouver. A descending order ranking (i.e. highest spending is #1) for each measure is also shown. At more than \$2,040 per person (in inflation adjusted 2002 dollars), West Vancouver stands out as the biggest spender in Metro, and by a wide margin; it also recorded one of the steepest increases in spending. At the other end of the scale, Surrey spends the least (\$750 on a per person basis) and has also done a reasonably good job of containing costs, ranking 11th in expenditure growth. Of interest, the growth in per capita spending has exceeded growth in provincial government outlays in every municipality in the region. New Westminster has the best record in managing spending growth, with real per capita outlays rising by 11.7% since 2000. However, it had the highest per capita spending level in 2000, and it still had the second highest level in 2010.

Municipalities in Metro Vancouver <u>Per Capita</u> Spending (2002 \$)						
Municipality	Real Per Capita Expenditures (in 2002\$)				growth 2000-2010	
	2000	rank	2010	rank	%	rank
Anmore	516.23	20	755.79	20	46.4	6
Belcarra	596.57	17	873.08	19	46.4	7
Bowen Island	897.08	6	1,195.63	8	33.3	14
Burnaby	842.02	9	1,010.20	15	20.0	20
Coquitlam	763.43	12	1,034.14	14	35.5	12
Delta	1,018.40	4	1,337.30	4	31.3	16
Langley City	756.28	13	1,091.11	12	44.3	9
Langley District	630.89	15	1,138.04	10	80.4	2
Lions Bay	484.19	21	1,303.41	5	169.2	1
Maple Ridge	626.12	16	919.18	18	46.8	5
New Westminister	1,348.75	1	1,506.13	2	11.7	21
North Vancouver City	903.98	5	1,285.86	6	42.2	10
North Vancouver District	829.51	10	1,206.11	7	45.4	8
Pitt Meadows	561.05	18	1,009.80	16	80.0	3
Port Coquitlam	714.34	14	958.58	17	34.2	13
Port Moody	893.62	7	1,107.18	11	23.9	19
Richmond	889.09	8	1,150.33	9	29.4	18
Surrey	550.06	19	750.24	21	36.4	11
Vancouver	1,126.50	3	1,461.38	3	29.7	17
West Vancouver	1,242.66	2	2,043.06	1	64.4	4
White Rock	816.17	11	1,083.97	13	32.8	15

Source: Ministry of Community, Sport and Cultural Development and Business Council for calculations.

While this article provides only a cursory examination of municipal operating expenditures in Metro, the fact that spending, in aggregate, has outpaced population growth and inflation warrants attention on the part of elected officials. Increasingly, residents and businesses in Metro Vancouver are looking for leaders to hold the line on spending and find ways to reallocate expenditures to the highest priority areas.

It should be noted that within the region, Surrey, Maple Ridge and Port Coquitlam – along with tiny Anmore and Belcarra – stand out for their sound fiscal management, as proxied by their relatively modest levels of real per capita operating expenditures in 2010. West Vancouver, New Westminster and the City of Vancouver emerge as the three biggest spenders in Metro. The growth of real per capita operating spending from 2000 to 2010 was greatest in Lion's Bay, Pitt Meadows and Langley District, while New Westminister, Burnaby and Port Moody were significantly more successful in containing spending increases. The table on the previous page provides the details.

Looking ahead, to assist in managing spending growth Metro region government should explore the potential for joint procurement and cross-municipal delivery of some services

and corporate functions (e.g., fire, parks and recreation, finance, human resources). Based on the experiences of many organizations in the private sector, there may also be scope to reduce municipal-related costs by outsourcing some services. The sharp jump in the number of municipal employees across Metro, and the fact that wage/benefit gains for municipal employees have been notably higher than those experienced by the provincial government, suggests that local officials can and must do more to contain compensation costs and improve productivity. While it is difficult to know what the "correct" staffing level may be, the divergent trends in provincial and municipal government employment indicate that a review of staffing numbers and the associated expenditures by municipal leaders may generate useful insights on how to limit spending growth.

Finally, as metropolitan regions across the world become the centers of economic activity and compete for talent and high value economic activity, it is important for municipalities in Metro to turn their attention to competitiveness and how to foster conditions to support business growth and the creation of well-paying jobs. We believe greater economic integration and cooperation within Metro is essential for the future prosperity of the region.

Jock Finlayson, Executive Vice President and Chief Policy Officer
Jock.Finlayson@bccbc.com

Ken Peacock, Chief Economist and Vice President
Ken.Peacock@bccbc.com

Tom Syer, Vice President of Policy and Communications
Tom.Syer@bccbc.com