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BETTER, BUT STILL RISING STEADILY: AN UPDATE ON MUNICIPAL SPENDING IN METRO VANCOUVER

HIGHLIGHTS

- Collectively, the 21 municipalities that comprise Metro Vancouver allocated $3.74 billion to operating or program spending in 2015, up 67% from a decade ago.
- Dividing the last decade into two periods, spending growth has slowed appreciably: between 2010 and 2015 total program spending by Metro municipalities rose 21%, whereas it surged 39% between 2005 and 2010.
- In real per capita terms, municipal government expenditures in Metro Vancouver grew by 6.9% over the past five years. This is a notable reduction from the 20% jump recorded between 2005 and 2010.
- On a per person basis, Metro municipal expenditures on average are still growing at more than twice the rate of inflation, which means the municipal tax burden for residential and business taxpayers continues to rise faster than overall wages and prices.
- Real per capita spending by Metro Vancouver municipalities continues to increase more quickly than similar spending by the BC government.
- Among the region's 21 municipalities, the growth in real per capita spending was slower over the past five years than during the 2005-2010 period in all but three municipalities.

Municipal governments deal with transportation and road networks, water and sewer services, housing, and housing affordability, development, public safety, garbage and recycling, parks and other services for local residents. In Metro Vancouver, most communities are growing in demographic terms. Spending by local governments has climbed as these municipalities deliver services to more residents while also striving to maintain an inventory of infrastructure assets.

The pace of municipal spending increases, however, has rightly attracted scrutiny in recent years. As it happens, municipal spending in the region has outpaced inflation and population growth by a wide margin, and many residents and businesses across Metro Vancouver are feeling "tax fatigue." Indeed, this arguably was a factor in the 2015 Translink plebiscite which saw citizens in Metro reject a proposed regional 0.5% retail sales tax that would have helped to fund $7.5 billion in expanded transit and transportation infrastructure. Another consideration that has brought a greater focus on municipalities' fiscal performance is that government spending at the provincial level has been much more constrained than is the case for local governments in the Metro region.

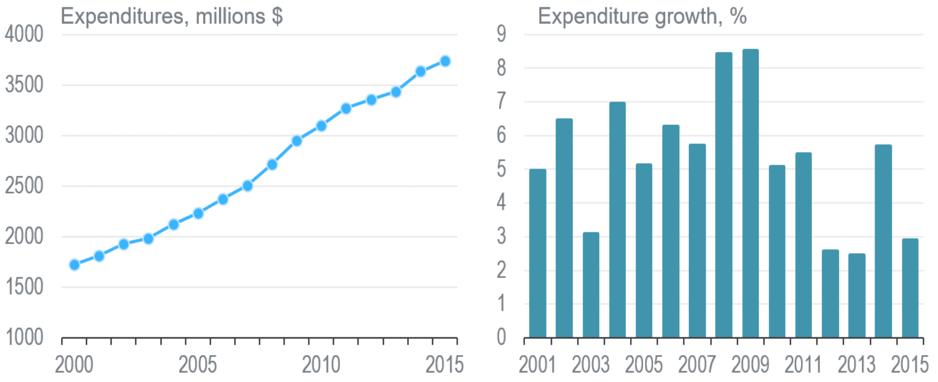
For the province, overall expenditure growth has been closely aligned with population growth and inflation. At the municipal level, the picture is quite different, with a less obvious commitment to fiscal discipline by many local governments in Metro Vancouver.

Back in 2012, the Business Council reviewed spending by municipal governments in Metro Vancouver. At the time, financial data for municipalities was available up to 2010. Our analysis showed that collective operating spending across the 21 Metro Vancouver municipalities was soaring. Measured in per capita terms, total municipal expenditures went from $844 per person in 2000 to $1,321 by 2010, which amounted to a cumulative 56% increase.[1] Even after allowing for the general rise in prices that occurred over the decade, per person municipal spending in Metro Vancouver exceeded measured inflation by a whopping 32% between 2000 and 2010.

Financial data for BC municipalities are now available through 2015. So this issue of Policy Perspectives revisits and updates the trends in local government spending in Metro Vancouver. Five years of additional data provide a solid basis to evaluate the underlying trends in spending and to render a judgement as to whether municipal spending patterns in the region have shifted.

The results are mixed. The good news is that the growth of municipal spending across Metro Vancouver has slowed significantly relative to the previous, unsustainable pace. However, region-wide municipal spending is still rising ahead of the combination of population growth plus inflation. From a taxpayer perspective, escalating municipal outlays are still translating into higher taxes and are taking proportionally larger bites out of business and household incomes.

FIGURE 1: **COLLECTIVE SPENDING BY METRO VANCOUVER MUNICIPALITIES***



* excluding infrastructure and other capital spending.
Source: Ministry of Community, Sport and Cultural Development, local government statistics.

AGGREGATE MUNICIPAL SPENDING GROWTH HAS SLOWED

Over the past decade, the rise in municipal government spending in Metro Vancouver has slowed. In 2005 municipal governments in the region collectively spent $2.2 billion (excluding outlays for large capital projects). By 2015, expenditures reached $3.7 billion, which amounts to a 67% increase in total spending over a ten-year period. As we reported in our earlier review of municipal finances, over the decade spanning 2000 to 2010 spending (excluding capital) rose by a whopping 80%. So based simply on changes in aggregate expenditures over a decade (with an overlapping five-year period), the rate of growth in spending by local governments in the Metro area has moderated.

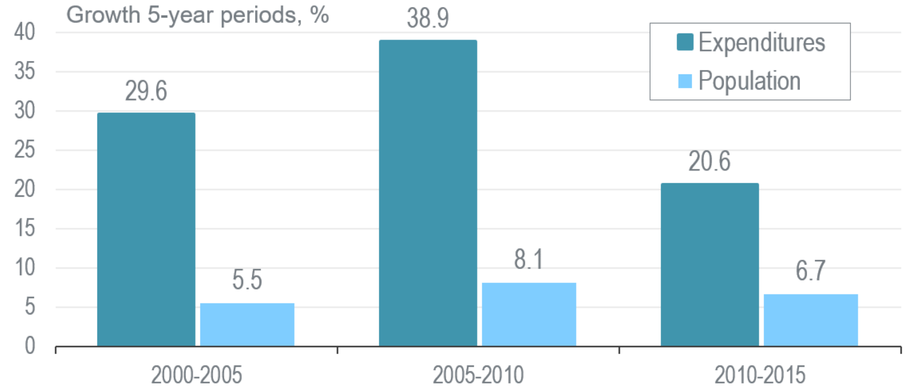
Looking at the year-to-year changes in spending as depicted in Figure 1, it is clear that municipal expenditures have grown at a more modest pace in recent years, with the most pronounced spending increases generally occurring in the 2005 to 2010 period. Examining spending growth over five-year intervals points to a slowing in municipal spending increases. Between 2010 and 2015 overall local government spending in the region rose from $3.1 billion to $3.7 billion – equating to a 21% increase. Although this is still a sizable jump, anyone concerned about run-away spending at the local government level can take some comfort in knowing that it is well below the 39% surge in spending recorded between 2005 and 2010. It also compares favourably with the 30% rise seen between 2000 and 2005.

THE GROWTH IN PER CAPITA SPENDING MODERATES

The region's population has risen substantially over time, and to some extent simply having to provide services to more people and households drives spending upwards. So it is not surprising that the five-year period that saw the largest jump in municipal spending in Metro Vancouver also saw the biggest increase — 8.1% — in the region's population. However, many other factors, including municipal councils' approach to fiscal management and the details of collective agreements,

[1] Jock Finlayson, Ken Peacock and Tom Syer, "Up and Away: The Growth of Municipal Spending in Metro Vancouver," Policy Perspectives (May 2012). Note that these figures exclude capital spending.

FIGURE 2: **METRO MUNICIPALITIES: SPENDING AND POPULATION GROWTH**



Source: Ministry of Community, Sport and Cultural Development; BC Stats (municipal population).

also influence local government spending. Population growth is not always the main factor. The first five-year period under consideration, for example, saw the slowest population growth (5.5%) but also the second biggest increase in spending of the three periods covered in this article. Over the most recent five-year period, Metro's population expanded by 6.7% (the second fastest increase), yet this period also reported the smallest gain in overall municipal expenditures. To account and adjust for variations in population growth, changes in government spending are best measured in per capita terms.

The per capita increases in total municipal spending in Metro Vancouver over the three five-year periods of interest here were as follows:

- between 2000 and 2005, per capita municipal spending grew by 22.8%;
- over the five years to 2010, expenditures rose by 28%; and
- between 2010 and 2015, per capita spending increased by 13%.

After adjusting for population, overall municipal spending in Metro Vancouver in the last five years grew at less than half the pace recorded between 2005 and 2010 and was almost ten percentage points slower than the increase recorded in the earlier 2000-2005 period.

While the moderation in spending growth is welcome, most taxpayers will recognize that a 13% increase in per person municipal outlays is in excess of inflation, which was just 5.6% over the same five year period. Actual dollar figures (rather than percentage increases) provide a somewhat more intuitive sense of the spending trajectory and may be a better basis for judging value-for-money in the municipal government domain. Between 2010 and 2015, spending by local governments in Metro Vancouver on average increased by $172 per person. Over the preceding 2005 to 2010 period, per person spending increased by $295.[2]

Taxpayers can ask themselves whether an additional $172 in municipal spending per resident since 2010 is reflected in improvements to local services, such as waste and recycling pick up, road maintenance, and protective services. Taxpayers should recall that the expenditure figures cited in this article do not include capital projects like enhancements to the road network or community centres, ice rinks or swimming pools. Readers should also keep in mind that the spending increases referenced here are on a per person basis, so the impact of the added municipal spending on household property tax bills is actually bigger because the typical household is comprised of 2.6 persons.[3] Businesses too will have seen property taxes rise by considerably more than what

Anyone concerned about local government spending and rising property taxes will be interested to learn that, on average, municipal spending across the region exceeded inflation plus population growth by nearly 7%.

[2] As we noted in our first review of municipal spending in Metro Vancouver, some municipalities incurred additional expenses related to hosting the 2010 Olympics, which may have contributed to the larger increases in per capita spending. In 2008 and 2009 per capita expenditures grew by 7.0% and 6.5% respectively. In 2010 per capita expenditures rose by a more moderate 3.0%. The Olympics may have influenced larger-than-average annual spending increases but note that this did not reflect construction of any venues or other infrastructure as these types of capital expenditures are not included in the data.

[3] In 2011 there were around 891,000 households in Metro Vancouver and 2.35 million people in the region. This means the average household in Metro Vancouver had 2.6 occupants.

is suggested by looking at the estimated increase in per capita expenditures.

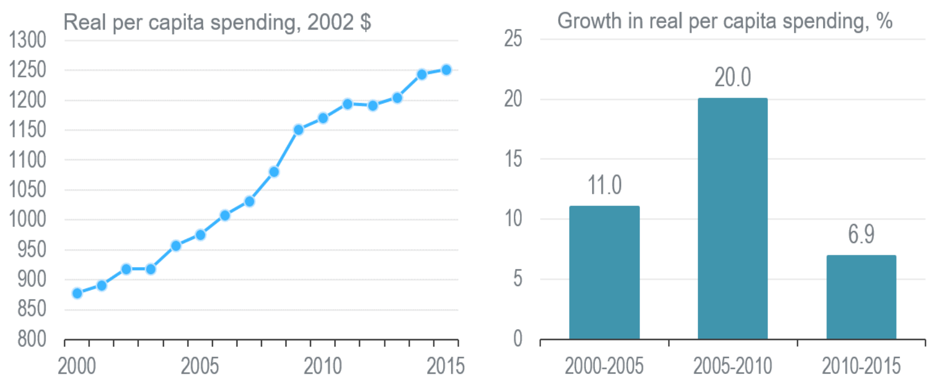
INFLATION DOES NOT ALTER THE OVERALL PICTURE

In examining local government spending over a number of years, higher costs for materials, equipment, supplies, and wages resulting from a general rise in prices should be factored into any assessment of fiscal trends. After adjusting for inflation, per capita municipal expenditures across Metro Vancouver still grew by 6.9% between 2010 and 2015.

Anyone concerned about local government spending and rising property taxes will be interested to learn that, on average, municipal spending across the region exceeded inflation plus population growth by nearly 7%. Another way of thinking about this is that per person spending across Metro Vancouver municipalities rose more than twice as fast as inflation over the past five years. Many Metro residents who did not manage to secure wage or salary increases of a similar magnitude will find themselves allocating a larger proportion of their income to cover their property tax bills.

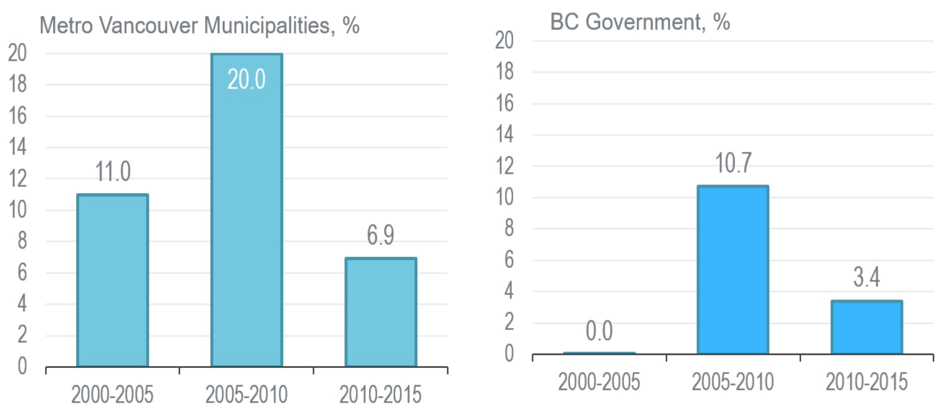
On the other hand, taxpayers in the region can take some comfort in the fact that the real per capita increase in municipal spending over the most recent half decade was a little over one-third of the astonishing 20% jump recorded between 2005 and 2010. In percentage terms, the latest spending increase was also substantially less than the 11% advance in real per capita municipal outlays seen between 2000 and 2005.

FIGURE 3: **REAL PER CAPITA SPENDING, METRO VANCOUVER MUNICIPALITIES**



Source: Ministry of Community, Sport and Cultural Development; BC Stats.

FIGURE 4: **GROWTH IN REAL PER CAPITA PROGRAM SPENDING**



Source: Ministry of Community, Sport and Cultural Development; BC Economic and Financial Review.

STILL GROWING MORE QUICKLY THAN PROVINCIAL PROGRAM EXPENDITURES

To provide some context, it is instructive to compare municipal spending growth in Metro Vancouver to increases in 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, the K-12 system, post-secondary education, provincial transportation networks, social services, natural resources, and much more. As such, the provincial government spends about six times more per person as local governments on average do in Metro Vancouver.

Measured in real per capita terms, provincial spending in BC grew 3.4% between 2010 and 2015. By comparison, the 6.9% rise in in real per capita outlays by Metro Vancouver municipalities was double provincial pace. Between 2005 and 2010, the growth in Metro municipal spending was 10 percentage points greater than that at the provincial level. Local taxpayers may ask why municipal government expenditures continue to outpace provincial program spending, although the gap thankfully has narrowed a bit in recent years.

CONCLUDING THOUGHTS

While one can debate whether Metro Vancouver residents have experienced service improvements that match the scale of the recorded increases in municipal per capita spending over time, most residents and businesses in 2016 are likely feeling some degree of tax fatigue as local spending hikes continue to outstrip inflation. At the region-wide level, there is evidence that municipal officials are beginning to recognize the problem of tax exhaustion and are working to limit spending increases. Slower growth in average per capita municipal expenditures (after taking inflation into account) is a welcome development. Moreover, some individual municipalities in the Metro region managed to hold real per capita expenditure essentially flat or slightly reduced such spending on a per resident basis from 2010 to 2015. Overall in the Metro area, municipalities seem to be showing a stronger commitment to fiscal discipline. Having said that, on average across the region per capita municipal spending over the past five years still rose at more than twice the rate of inflation; it also continued to outstrip the growth of provincial government program spending. Note, too, that the recent increases in municipal spending in Metro Vancouver come on the heels of a period when per capita municipal outlays climbed far faster than the rate of inflation. Arguably, several years of outsized spending increases prior to 2010 meant there was ample scope for greater fiscal restraint in the most recent period.

The table below shows per capita operating spending measured in inflation-adjusted dollars (or constant 2002 dollars) along with the growth in spending for each of the 21 municipalities in Metro Vancouver. The list reflects a descending ranking (the highest spending and the biggest increase in spending are #1).

In examining expenditures by individual municipalities, we find that, consistent with the Metro-wide pattern, the growth of real per capita spending has slowed in all but three municipalities. Furthermore, both Pitt Meadows and the City of Langley actually reduced spending (after accounting for inflation and adjusting for population growth) in the most recent five-year period.

At nearly $2,500 per person (in inflation adjusted dollars), West Vancouver is the biggest spender in Metro; it also recorded one of the steepest increases in municipal government spending. At the other end of the spectrum, Surrey stands out as having one of the lowest levels of per capita spending in the region.

Meanwhile, the City of Vancouver, the largest municipality in the region by population, managed to contain real per capita spending growth to a modest 2% over the past five years, a substantial improvement compared to the 21% increase seen in the earlier five-year period. Spending growth in Surrey, the second largest municipality, was essentially the same in both periods.

REAL PER CAPITA EXPENDITURES BY METRO MUNICIPALITIES

	Per capita spending adjusted for inflation (2002$)						Spending growth %			
	2005		2010		2015		2005-2010		2010-2015	
Anmore	684	(19)	786	(20)	870	(21)	15.0	(17)	10.6	(13)
Belcarra	802	(15)	923	(18)	1,658	(3)	15.1	(16)	79.7	(1)
Bowen Island	1,020	(6)	1,283	(7)	1,286	(10)	25.8	(5)	0.2	(19)
Burnaby	887	(11)	1,010	(16)	1,184	(13)	13,8	(19)	17.3	(5)
Coquitlam	844	(13)	1,016	(14)	1,063	(15)	20.4	(11)	4.6	(15)
Delta	1,108	(5)	1,322	(5)	1,479	(6)	19.3	(14)	11.9	(11)
Langley C	843	(14)	1,098	(12)	1,035	(16)	30.2	(4)	-5.8	(21)
Langley D	710	(17)	1,132	(10)	1,144	(14)	59.6	(2)	1.0	(18)
Lions Bay	700	(18)	1,348	(4)	1,651	(4)	92.6	(1)	22.5	(2)
Maple Ridge	749	(16)	915	(19)	1,030	(17)	22.2	(8)	12.6	(9)
New Westminster	1,368	(2)	1,510	(3)	1,769	(2)	10.4	(21)	17.2	(6)
North Van C	1,149	(4)	1,319	(6)	1,335	(8)	14.8	(18)	1.2	(17)
North Van D	1,001	(7)	1,235	(8)	1,432	(7)	23.4	(7)	15.9	(7)
Pitt Meadows	659	(20)	1,014	(15)	1,008	(19)	53.9	(3)	-0.6	(20)
Port Coquitlam	858	(12)	962	(17)	1,029	(18)	12.2	(20)	6.9	(14)
Port Moody	970	(8)	1,118	(11)	1,247	(12)	15.2	(15)	11.6	(12)
Richmond	959	(9)	1,157	(9)	1,295	(9)	20.7	(10)	11.9	(10)
Surrey	615	(21)	737	(21)	872	(20)	19.9	(12)	18.2	(4)
Vancouver	1,252	(3)	1,519	(2)	1,550	(5)	21.4	(9)	2.0	(16)
West Vancouver	1,684	(1)	2,088	(1)	2,491	(1)	24.0	(6)	19.3	(3)
White Rock	904	(10)	1,084	(13)	1,256	(11)	19.9	(13)	15.8	(8)

NOTE: Numbers in parantheses are the rankings from highest to lowest.

Source: Ministry of Community, Sport and Cultural Development; BC Stats for consumer price idex.

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