CANADIAN FEDERATION
OF INDEPENDENT BUSINESS.

640 – 175 Hargrave St.
Winnipeg, MB
R3C 3R8

March 17, 2015

Winnipeg City Council
510 Main Street
Winnipeg, MB R3B 1B9

Re: Proposed 2015 City of Winnipeg Budget

City Council Members:

On behalf of the Canadian Federation of Independent Business (CFIB) and our 1,700 Winnipeg members, I am pleased to provide CFIB's recommendations for the city's proposed 2015 budget.

As you may know, the CFIB is a non-profit, non-partisan business association that seeks to give independent business a greater voice in determining the laws that govern business and the country. With 4,800 members in Manitoba and 109,000 members across Canada, we are the largest organization exclusively representing the interests of small and medium-sized businesses (SMEs) to all levels of government.

While Winnipeg has many qualities that make it great place to live, the small business climate provides fewer reasons for entrepreneurs to be confident to expand their business and create jobs. In 2014 Winnipeg ranked 61st among 120 Canadian cities and economic regions in CFIB's *Entrepreneurial Cities* index for having a small business climate that encourages entrepreneurism. Even more concerning, Winnipeg had the worst rank of the major Prairie cities.

Unfortunately the proposed 2015 budget threatens to make this mediocre ranking worse. While the budget contains some positive steps, such as sustainable operating spending and a true freeze on the Winnipeg business tax, property-based tax increases and higher licensing and permit fees negate much of this good work. Unless the City of Winnipeg provides truly sustainable spending, continual tax increases will erode our ability to compete against other cities for investment and job creation.

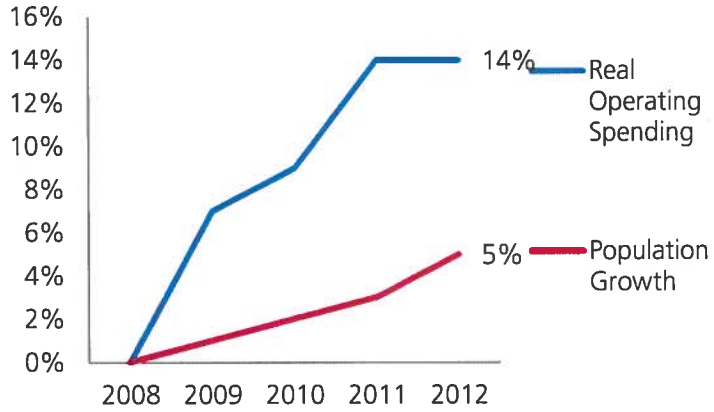
Poor Track Record on Sustainable Spending

Small business owners believe municipal governments must maintain sustainable operating spending in order to provide a competitive business climate. To small business, this means holding operating spending growth to the rate of inflation plus population growth. In Winnipeg, this benchmark would result in annual spending growth of about 2.8 per cent. Unfortunately Winnipeg has a poor track record on this front.

From 2008 to 2012, operating spending growth at the City of Winnipeg far outpaced the reasonable spending benchmark outlined above. Inflation-adjusted spending increased by 14 per cent, nearly 3 times the rate of population growth (see Figure 1). As a result of exceeding this benchmark, CFIB estimates that the city spent $326 million more on operating spending than needed in just 5 years.

Figure 1:

Cumulative Growth in Population and Operating Spending; Winnipeg 2008-2012 (adjusted for inflation, in %)

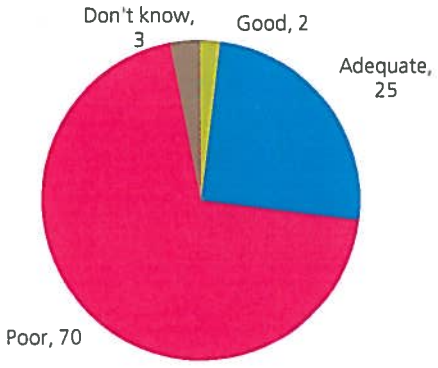


Source: CFIB Manitoba Municipal Spending Watch, 2014

This spending record creates significant concern within Winnipeg's small business community. When CFIB recently asked its Winnipeg members to rate the city on value-for-money of public services, 70 per cent believed they received poor value. Only 2 per cent believed they received good value-for-money (see Figure 2).

Figure 2:

"How do you rate the local government where your business is situated on: value-for-money of public services?" (% response)



Source: CFIB, Our Members' Opinions survey, Winnipeg respondents (n=528), July 2013-June 2014

Sustainable Labour Costs Needed, Not Additional Revenues

Thankfully the 2015 budget reverses this trend and promises operating spending growth of 2.6 per cent, the first year of sustainable operating spending since at least 2007. The council's efforts on this front should be commended. Unfortunately, many years of overspending has bloated the operating budget and reduced resources available for infrastructure spending. For this reason, efforts to reduce operating costs must still be pursued.

While efficiencies may be found in many areas, city labour costs are the most likely area to find significant savings. On average, wages, benefits, and employer contributions to CPP and EI account for approximately 61 per cent of all operating spending. At the same time, labour costs rose faster than

overall spending (16 per cent compared to 14 per cent). Combining these facts, labour costs are the primary driver of spending growth.

This significant growth in labour costs is attributable to two factors, the cost per municipal worker and the total number of municipal workers. On both fronts, Winnipeg must do a better job to contain costs.

When it comes to the cost per worker, Winnipeg has among the highest costs per municipal worker in Western Canada. Compared to private sectors workers doing the same job, Winnipeg employees make 18 per cent more in wages and benefits. The result of these unreasonable compensation levels is that Winnipeg spends over $125 million more than needed on labour costs each and every year. If this money had been directed to infrastructure investment rather than overly generous remuneration, it could have funded two-thirds of the 2015 budget's additional infrastructure spending.

While the cost per worker is important, the number of employees is also important. Across the country, some provincial and local governments have initiated civil service reduction plans conducted through attrition. With record retirement levels on the horizon in the coming years, this is a once in a generation opportunity to right-size the footprint of municipal government. The City of Winnipeg should evaluate if there are opportunities to achieve similar savings in all sectors of the municipal government.

Montreal plans to reduce the size of its civil service

In early 2014, the Mayor of Montreal announced plans to reduce the municipal workforce by 2,200 employees over five years to lower wage costs. The reductions are to be achieved by replacing only every second employee who retires (except police and fire department staff would all be replaced). It is estimated that this would save the City of Montreal $240 million during the next five years. Source: CBC News (2014). *Montreal to cut 2,200 jobs over next five years – Plan will save $240 million over five years and $2 billion over 10 years, Mayor Denis Coderre says.* CBC News, published April 3, 2014.

While some labour costs are controlled by provincial laws, the city has a role to play in advocating for provincial policies that reflect the economic realities of the city. Winnipeg should be a leading voice calling for reform of laws and regulations to ensure they can offer benefits comparable to those received in the private sector. Specifically, this means the city should:

- Limit any employee wage increases to the rate of inflation;
- Move all new hires from Defined Benefit to Defined Contribution pension plans;
- Eliminate the Bridge Benefit for early retirement.

By better controlling labour costs, there is a real opportunity to free up financial resources to allocate towards infrastructure spending, a high priority spending area for this city council and Winnipeg's citizens. With the city's largest collective bargaining agreement up for negotiation in 2015, now is the time to make real progress on this front.

Tax Hikes Impact Overall Competitiveness

CFIB recognizes budget deliberations require difficult decisions as council strives to meet the demands of a growing population. While CFIB applauds the city's move to provide a true freeze on the Winnipeg

Business Tax, our members are concerned the city is considering a 2.3 per cent property tax hike and a 16 per cent increase to frontage fees in this budget.

After several years of property tax increases, this additional increase will only impede economic growth and community development in Winnipeg. While it has been noted that Winnipeg has had fewer property tax increases and lower than average municipal tax rates than other major Canadian cities, the existence of the Winnipeg Business Tax negates the benefit of these rates for businesses.

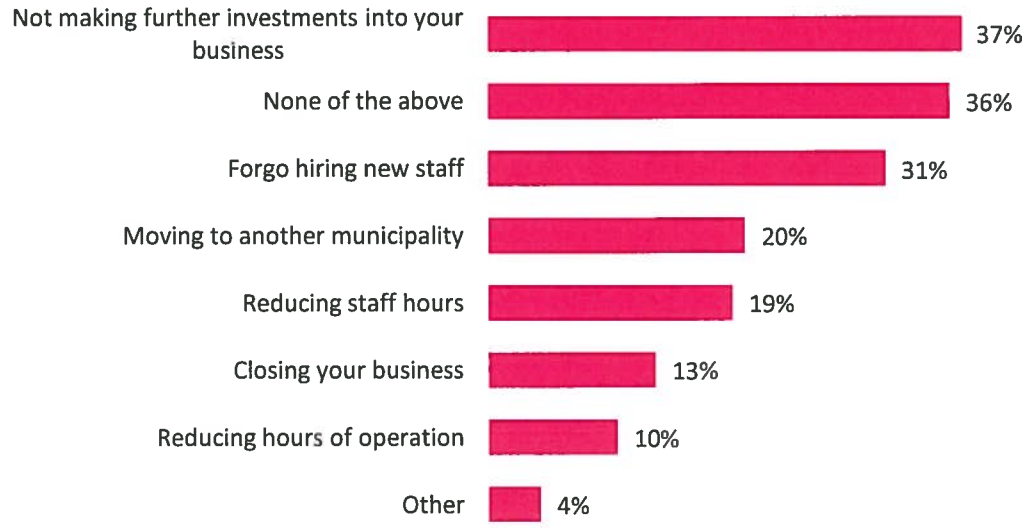
As the last major Canadian city to levy a business tax for which the business community receives no additional services, Winnipeg will continue to be at a disadvantage as long as the tax exists. CFIB applauds the efforts of the Mayor and City Council to create a true revenue freeze from this tax by reducing the rate by 0.1 per cent and increasing the small business exemption level to $30,000, but more needs to be done. While these changes will take many more businesses off the tax rolls, over half of businesses still pay this tax. The elimination of the Winnipeg business tax remains a top priority for our members with 84 per cent saying they would like to see city council outline a plan to accomplish this goal.

CFIB members are also concerned by the significant increase in various user fees and licensing permits considered in the 2015 budget. Winnipeg entrepreneurs spend considerable time and energy complying with city by-laws and regulations. The additional costs that would be imposed by the changes in the draft budget will make it even more expensive to do business in Winnipeg.

The existence of the Winnipeg Business Tax, continual property tax hikes and unwarranted fee and permit increases have a combined negative influence on business investment in our city. In a recent pre-budget survey of our Winnipeg members, respondents indicated the current level of municipal property taxes is impacting their business by restricting further investment in their business (37 per cent) or forgoing the hire of additional staff (31 per cent) – see Figure 3. Most concerning, one in five members is considering moving their business to another municipality.

Figure 3:

Given the current municipal property taxes on your business, which of the following have you considered?



Source: Manitoba 2015 Pre-Budget Survey, October 2014, Winnipeg Responses n=163

Until city council begins to seriously address the growing taxation burden of small and medium sized businesses, Winnipeg will jeopardize business expansion and job creation in our city.

Recommendations:

With these facts in mind, CFIB urges the City of Winnipeg to consider the following recommendations for the 2015 budget to contain operating costs and mitigate the proposed property tax increase:

1. **Continue to limit year-over-year operating spending growth to a maximum of inflation plus population growth;**
2. **Reduce labour costs to allow additional infrastructure investment without the proposed tax increases by:**
    a. **Initiating a plan to reduce the size and cost of the municipal civil service (primarily through attrition);**
    b. **Limit any employee wage increases to the rate of inflation;**
    c. **Move all new hires from Defined Benefit to Defined Contribution pension plans;**
    d. **Eliminate the Bridge Benefit for early retirement.**
3. **Table a long term plan to eliminate the Winnipeg Business Tax.**

If you or your staff has any questions, please do not hesitate to call our office at (204) 982-0817. Thank you for considering the views of Winnipeg's small business community as you work towards finalizing the 2015 City Budget.

Respectfully submitted by,



Elliot Sims
Director, Provincial Affairs, Manitoba