



COUNCIL REPORT

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TO: Standing Committee on City Finance and Services
FROM: General Manager of Finance and Supply Chain Management
SUBJECT: 2026-2030 Budget Outlook

Recommendations

THAT Council receive for information the 2026-2030 Budget Outlook which outlines the City's projected Operating and Capital financial outlook based on current state service levels.

Purpose and Executive Summary

The purpose of this report is to provide Council an overview of the key factors impacting the development of the City's 2026 Budget and the measures that staff are taking to preserve service levels and improve the delivery of capital assets within the constraint of a balanced budget. The Budget Outlook serves as a starting point for staff to begin the work of building the budget and is an opportunity for Council to provide direction to guide the development of the 2026 Budget.

While the rate of consumer price inflation has moderated relative to recent years, the City's costs to maintain existing service levels continue to increase at a rate exceeding CPI inflation. Additionally, historical under-investment in renewal of critical infrastructure and amenities, coupled with increasing cost of construction, present a significant demand on property tax and utility fees to fund the continuing serviceability of the City's assets.

The projected increase in costs to maintain existing service levels in 2026 translates to an increase in property tax rates for 2026 in the 5-6% range. Additionally, staff are proceeding on the basis of prior direction from Council to incorporate a 1% increase in property tax to address the infrastructure deficit. Of note, there are a number of material risks or unknowns that could impose additional costs over and above current projections.

The City has implemented multiyear strategies to address cost pressures, including realization of new revenue opportunities, process improvements for capacity building or cost reduction, and advocacy for senior government funding and partnerships. For 2026, staff anticipate new

revenue and efficiencies mitigating the upward pressure on property taxes, in the range of 1-2%.

Utility fees are estimated to increase by approximately 8%, reflecting higher Metro Vancouver regional utility charges and increased renewal and maintenance of sewer, water and solid waste infrastructure. Inflationary pressures on fees for services funded on a cost-recovery basis are projected in the range of 4-5%.

Regarding the Capital Budget, the City's rate of investment in amenities and infrastructure has increased significantly since 2022. The projected capital expenditure for 2026 and the following four years contemplates continuation of this increased pace of delivery.

Council Authority/Previous Decisions

The *Vancouver Charter*, the *Library Act*, the *Police Act*, and the City's Operating and Capital Budget policies govern the requirements for the City budget.

On December 10, 2024, Council approved the 2025 Capital Budget and 2025 Operating Budget, respectively.

City Manager's Comments

The City Manager concurs with the foregoing recommendations.

Context and Background

The Budget Outlook represents the initial step in the annual budget process and is intended to provide Council and the public with information about the financial context for the 2026 budget and the five-year horizon. The Budget Outlook will be followed by public consultation and the development of detailed budgets and service plans in quarter four of this year.

Recent global economic volatility and introduction of tariffs have created a challenging environment for residents, businesses and governments, including inflationary pressure on the price of some goods as well as threats to overall economic output locally and nationally. Current economic conditions are also having a significant negative impact on the viability of development and construction activity, which has corresponding implications for the delivery of new housing and job space as well as the City's development-related revenue streams. The City is taking action in a number of ways to address these challenges, support economic activity and build long-term resiliency, including through improvements to permitting processes and other regulatory reform.

Discussion

Operating Multi-Year Financial Plan

The foundation of the Budget Outlook is the projected increase in the City's expenditures required to maintain existing service levels. Widely used inflationary benchmarks such as the Consumer Price Index (CPI) as well as city-specific cost drivers are taken into consideration when forming the City's projected cost increases.

The Conference Board of Canada (CBOC) has forecasted a 2.2% CPI increase for Vancouver in 2025 before stabilizing to average 2.0% per annum over the subsequent 2026–2029 period. While the general CPI trend over the next five years is a return to lower inflationary levels, the City is forecasting higher rates of City-specific inflation due to the other factors including the following:

- Salaries and benefit costs, which form the largest component of the City's expenditure budget, will increase commensurate with settlements reached with several unions representing City employees. Those settlements provide for general wage increases of 3% in 2026, which reflects a moderation from salary adjustments in preceding years. Of note, several bargaining units, including units comprising police officers and firefighters, have not concluded collective agreements for 2026; those settlements could be impacted by collective agreement patterns regionally and nationally.
- Non-salary compensation-related costs are also projected to grow at rates above forecasted CPI inflation, including extended health and dental benefit costs which are anticipated to increase within the range of 10-25% based on higher cost of services and utilization.
- The City's cost of delivering existing services is also impacted by factors other than compensation costs, including significant increases to the levy imposed by EComm for 9-1-1 services, higher technology renewal costs and the full-year impact of investments approved by Council in the 2025 budget, including the introduction of Body-Worn Cameras for the Vancouver Police Department.
- In addition to the increased cost of delivering existing services, the 2026 Budget Outlook also contemplates the continuation of an annual 1% property tax increase to support infrastructure renewal and address the infrastructure deficit.

Taking the above factors into consideration, the projected increase in costs to maintain existing service levels translates to an increase in property tax rates for 2026 in the 5-6% range, plus the 1% increase in property tax to address the infrastructure deficit. Material risks that could impose additional upward pressure on costs beyond that projection associated with pending collective bargaining settlements, overtime costs for public safety services and the impact of tariffs on the price of supplies and materials.

To address the financial pressures described in this section, the City will continue to advance revenue generation opportunities and measures to reduce expenses, improve efficiency and build capacity within existing budget allocations. Staff will build the draft 2026 budget to incorporate new revenues and efficiencies that have been identified, seeking a balanced approach to maintaining service levels, advancing Council-directed initiatives and moderating property tax increases as far as possible within the statutory requirement for a balanced budget.

Utility fees are estimated to increase by approximately 8% annually on average over the next five years driven by higher Metro Vancouver regional utility charge forecasts and increased requirements for replacement and maintenance of sewer, water and solid waste infrastructure.

Fees for services that are currently provided on a cost recovery-basis are expected to increase in the 4-5% range to reflect the inflationary factors referenced above. Staff will work to identify efficiencies to offset those pressures.

Any direction provided by Council regarding increases to taxes and fees and/or new investments will be incorporated into the development of a draft detailed budget for 2026, including identification of any service implications or trade-offs to offset inflationary pressure on taxes and fees.

Appendix A outlines incremental impacts and details of Operating Revenues and Expenditures for 2026-2030.

Capital Planning & Delivery

2023-2026 Capital Plan

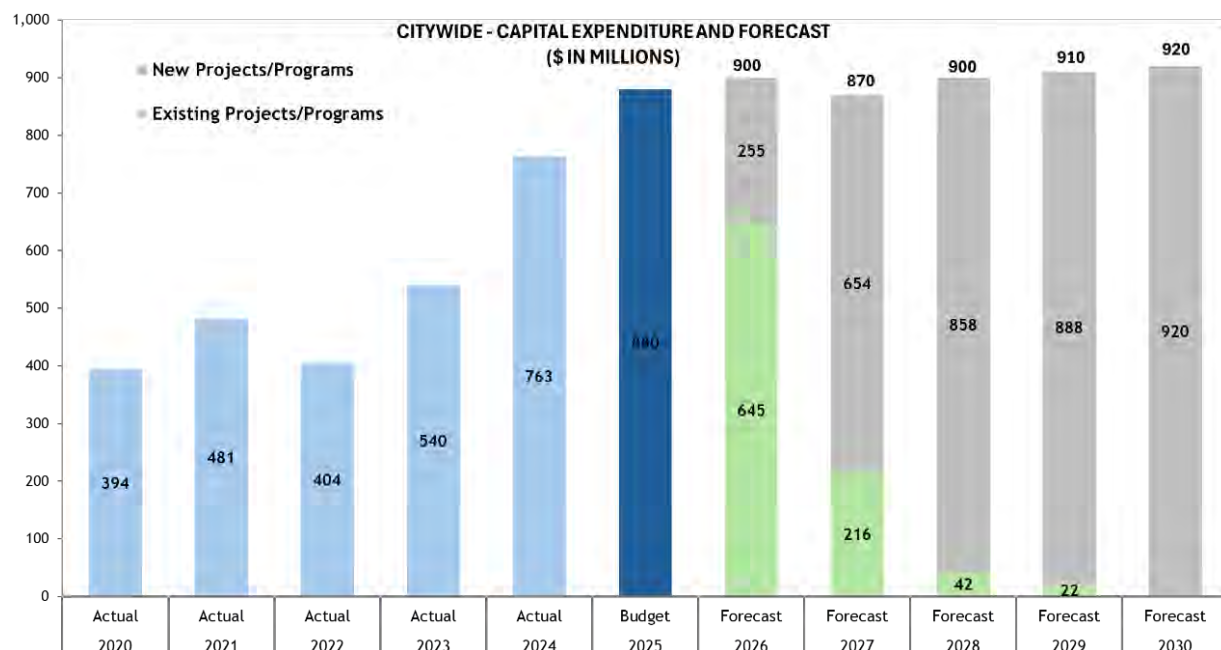
The original 2023-2026 Capital Plan was approved by Council in June 2022 and contemplates \$3.5 billion worth of capital investment, comprised of \$2.8 billion of city-led capital programs and \$0.7 billion of in-kind projects. Adjustments to the Plan are implemented throughout the four years to address new projects, incorporate additional external funding and for administrative reasons.

Enhanced Focus on Capital Delivery

Commensurate with the annual 1% property tax increment to address the City's infrastructure deficit as well as investments to accommodate growth, the 4-year Capital Plan and Annual Capital Budget have been increasing over time. In order to expedite project schedules and mitigate capital costs, staff are pursuing a range of initiatives to speed processes and increase delivery capacity.

2026-2030 Capital Expenditure Outlook

The 2026-2030 Capital Expenditure Outlook is based on the expected delivery of existing projects that are underway and the remainder of the 2023-2026 Capital Plan. The Capital Expenditure Outlook will be refined and updated based on Council's direction as part of the annual capital budget process. The following chart shows the trending of historical and forecasted capital expenditures.



Public Engagement

Public engagement on the annual budget process will take place between August and September 2025. Vancouver residents and businesses will have the opportunity to provide input on the City's spending priorities and preferences for balancing the budget via the 2026 Budget Survey. In addition, the bi-annual Civic Satisfaction Survey will gather feedback from a representative sample of residents and businesses on satisfaction with municipal services and input on service priorities. Input from both surveys will be available to inform Council deliberations in December 2025.

Financial Implications

There are no financial implications associated with this report. Staff will work over the next few months to build the draft 2026 Budget and present to Council in November 2025 for anticipated approval in December 2025.

Legal Implications

There are no legal implications associated with this report's recommendations. The report complies with the relevant statutory framework.

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APPENDIX A

Operating Revenue and Expenditure Outlook

Expenditure Outlook

The 2026 Budget Outlook reflects initial estimates of operating expense increases in the following areas:

- External agency costs driven by significant increases to Metro Vancouver charges for Water & Sewers utility and higher EComm levies.
- Infrastructure renewal strategy based on 1% property tax increment as contemplated in the 2023-2026 Capital Plan
- Salaries and benefits costs excluding collective agreements not settled
- Contingencies to mitigate risks that may arise through future settlement of collective agreements
- Increases to fixed costs such as building costs, hydro, gas, leases, insurance, etc.
- Annualization of costs related to the 2025 Council approval of Body-Worn Cameras for the Vancouver Police Department.

These are estimates representative of maintaining the City's current resource and service levels.

Operating Budget Preliminary Expense Pressures (\$ in millions)	2026	2027	2028	2029	2030
External Agency Costs passed on to the City:					
Increased Metro Vancouver charges for Water and Sewer utility	26	20	19	26	33
Anticipated external party cost increases (including ECOMM levies)	5	11	5	5	6
Debt, Transfers and Capital Program Costs:					
Infrastructure Renewal, Pay-as-you-go Sewer & Water, Transfers and Debt Financing	18	27	33	34	28
Salary and benefit costs:					
Salary and benefit projected increases (includes contractual increments and projected benefit cost increases, excludes collective agreement increases without agreements*)	16	11	11	11	11
Other Cost Pressures:					
Fixed costs (Hydro, Gas rates, IT, Rents & leases, Insurance, Grants)	19	22	24	26	25
Annualization of 2025 Council Approved Initiatives	4				
Preliminary Expense Pressures (excluding impact of collective agreements under negotiation)	88	90	91	101	102
* Plus wage increases related to collective agreements currently under negotiation (each 1% increase equals approximately \$12 million annually)	+ impact of wage increases to be determined				

Note: Totals may not add due to rounding

Revenue Outlook

The 2026 Budget Outlook reflects initial estimates of operating revenue increases required to offset the increased cost pressures outlined above:

- Property tax increases to cover fixed cost increases, infrastructure renewal and ensure a balanced budget
- An average blended utility fee increase of 8% primarily driven by higher Metro Vancouver charges
- Increases to program fees, licence and development fees, aligned with the increased cost of service delivery

Operating Budget Preliminary Revenue Changes (\$ in millions)	2026	2027	2028	2029	2030
Property Tax:					
Increase in property tax revenue: average estimated	88	94	86	95	91
New construction tax revenue	5	5	5	5	5
Utility fees:					
Increase in utility fee revenue (Average blended rate)	22	26	30	31	37
User fees:					
Increase in Program fees, Licence and Development fees (Cost recovery)	9	10	9	10	10
Total Preliminary Revenue Changes	125	134	130	141	144

Note: Totals may not add due to rounding

Staff continue to review and take measures to reduce costs while monitoring risks to revenue streams, and will identify options to balance the budget while minimizing increases to property taxes. Staff will report back through the 2026 budget process with proposed adjustments to utility and other fees for Council consideration.