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OpEd

Toronto needs a budget that speaks to its citizens

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The release of the City of Toronto operating budget on Feb. 16 will be the public's first glimpse of the city's likely financial shape in 2010.

However, a look back at previous budgets - and the audited reports that accompany them at year's end – reveals there may be more to understanding these documents than the figures in them suggest.

This exercise offers hints of how the city could improve reporting practices for better financial management and taxpayer participation in the budget process, beginning with a longer-term fiscal plan and a clear reconciliation of the city's budgets and audited accounts.

The budget is the city's cornerstone document for financial management, framing priorities and service delivery. For city staff, it represents the fulcrum for making decisions about the needs of residents and determines who gets what and for how long.

Currently, the inability of most citizens to easily reconcile Toronto's budget promises with audited year-end results blurs any evaluation of the city's ability to meet budget promises. And the limited time horizon of the budget process, plus the impacts of capital expenses on future operating budgets, means that city councillors often overlook potential opportunities and threats to future Torontonians.

Some background on municipal budgeting: Toronto first produces a "capital" budget on key infrastructure projects that take more than one year to complete. After that is voted on, two to three months later the city produces an "operating" budget that covers day-to-day costs. At the end of the year, the city then files an audited annual report that combines both spending plans and tallies up how much was actually spent.

Trouble is, the City of Toronto's annual report is not easily comparable to either budget. Busy Torontonians and city councillors would struggle to see whether the city met its budgeted targets and spending priorities - and promises made are not always promises kept.

For instance, over two budgets between 2006 and 2008, the city budget said it would increase spending by about \$900 million. But after taking on the complex task of reconciling the annual report to the budget, we found that spending actually increased by about \$1.26 billion, a difference of \$360 million - a gap just short of the city's impending fiscal shortfall.

An overarching concern, beyond Toronto's apparent struggles in hitting spending targets, has a lot to do with budget document presentation. There are a few obvious reforms that would make clear to city council and citizens what's happening with city finances. We offer four such proposals:

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The city should present a consolidated government budget at the beginning of the year that combines the capital and operating budgets. To facilitate comparisons between targets and performance, this consolidated budget should be laid out in the same way as the audited year-end statement. The year-end statement, in turn, should provide an explanation for any deviation in proposed spending that has occurred. This would clearly differentiate one-time expenses from those that affect the long-term fiscal stance of the city.

The city should have five-year forecasts of the operating budget, currently planned to begin with the 2011 budget. Given the current state of the city's finances, decisions made today must avoid one-time fixes that ignore, or even create, future budget calamities. Multi-year budgets would highlight the city's structural deficit and would provide a context for smart decisions for both today and tomorrow. Ignoring the cost of current spending on future taxpayers may make their tax burden unfairly high.

The city should not vote on the capital and operating budgets in isolation. One budget affects the other, especially in the long run. For example, although the current TTC expansion has a significant upfront capital cost, new lines mean new operating expenses. The TTC forecasts that by 2013 municipal subsidies and fare revenues, if maintained at current levels, will fall short of expected operating costs by \$689 million. The TTC either will need to raise more revenue, likely through higher fares, or receive a larger municipal subsidy. Another example is how recurring interest rate payments from debt on new capital projects show up in the operating budget. Because capital spending decisions are made before operating spending decisions, the long-term costs of capital projects are not reflected in a budget with a one-year horizon.

The city should incorporate performance-based budget measures that highlight objectives in the budget that city departments must deliver. Budget documents should incorporate output measures based on Ontario-wide – and preferably, city-wide – benchmarks aimed at increasing performance. A greater focus on performance budgeting would identify areas for cost cutting, and encourage departments to improve the value of their services.

A budget document should communicate city priorities to both city staff and the public.

A more transparent and accessible budget process will help identify forecasting struggles and missed targets. A forward-looking budget would also deal with looming budget issues, while bolstering public confidence and participation in the direction of financial planning and priorities.

The current confusion in the presentation of the audited reports makes it difficult for the city to manage its budget and, more important, for Torontonians to know how well the city follows through on its goals.

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