INSTITUT C.D. HOWE INSTITUTE

COMMENTARY
NO. 524

Show Us the Numbers: Grading the Financial Reports of Canada's Municipalities

Municipal budgeting in Canada is bad. Most major cities produce budgets that omit key activities, treat operating and capital expenditures inconsistently and are impossible to reconcile with their audited financial statements. Worse, city councils often vote budgets after the fiscal year has already started. Some straightforward improvements would produce budgets that councillors and taxpayers could understand and use to hold their cities accountable for their use of public funds.

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Commentary No. 524
November 2018
Public Governance and Accountability

$12.00
ISBN 978-1-987983-80-7
ISSN 0824-8001 (print);
ISSN 1703-0765 (online)

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The Study In Brief

In nearly all larger Canadian municipalities, obscure financial reports – notably, inconsistent presentations of key numbers in budgets and end-of-year financial statements – hamper councillors, ratepayers and voters who seek to hold their municipal governments to account. Simple information, such as how much the municipality plans to spend this year or how its spending plan this year compares with the previous year's, is hard or impossible for a non-expert citizen or councillor to find.

The differences between how the numbers appear in budgets and in financial results have real-world consequences. For example, by presenting net, rather than gross, budget figures, municipalities exclude key services such as water and the fees that fund them, obscuring key activities and understating both their revenue and expense. By using cash, rather than accrual, accounting, they exaggerate infrastructure investment costs, hide the cost of pension obligations, and make it hard to match the costs and benefits of their activities. Moreover, many municipalities approve their budgets after significant money has already been committed or spent in the fiscal year, fail to publish their fiscal year-end financial results in a timely way and bury key numbers deep in their documents.

This report card grades the financial presentations of major Canadian municipalities in their most recent budgets and financial statements. Of those we assessed, Toronto, Durham Region, Quebec City and Longueuil failed, providing little information in reader-friendly form. More happily, Surrey garners an A+ for clarity and completeness of its financial presentation, York Region is a close second with an A, while Vancouver and Markham are also good performers.

We have two key recommendations. First, municipal governments should present their annual budgets on the same accounting basis as their year-end financial statements. Their budgets should use accrual accounting, recording revenues and expenses as the relevant activities occur. For their part, provincial governments that impede the use of accrual-based budgets – by mandating that cities present separate operating and capital budgets, for example – should stop doing so. Indeed, provinces should mandate cities to present accrual budgets so the fiscal pictures of municipalities and the province use the same transparent standard. Even in cases where a province is an impediment, municipalities could release the relevant information on their own – and they should.

Second, budgets, like financial statements, should show city-wide consolidated, gross revenue and spending figures that represent the city's full claim on its citizens' resources and the full scope of its activities.

These changes would help raise the financial management of Canada's municipalities to a level more commensurate with their importance in Canadians' lives.

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Municipal governments provide services such as policing, firefighting, sanitation and recreation that are vital to quality of life.

They raise and spend large amounts of money, and their taxes affect Canadians' decisions about where to live and invest. But the quality of their financial management is nowhere near a standard appropriate to their importance. Information such as how much the local government plans to spend this year, how this year's plan compares with the previous year's results or how actual spending the previous year compares with what was planned is all but impossible for city councillors, taxpayers and local media to obtain.

Poor financial reporting is not just a problem for accountants. Financial statements are a key tool with which people can determine if organizations that claim to act on their behalf are actually doing so. In the case of cities, elected representatives, ratepayers and voters need budgets and financial statements that allow them to understand what their municipal governments are doing and to hold them to account. In Canadian cities, however, this tool is needlessly hard to use. Not only do municipalities make it hard to compare results with intentions, their budgets often understate the size of their operations, obscure key activities, exaggerate the costs of investments, hide the cost of pension obligations and leave unclear the sustainability of their fiscal positions over time. It used to be the same for higher levels of government. At the beginning of the 2000s, the federal government and all the provincial and territorial governments presented budgets using different accounting and/or aggregation methods than they used in their financial statements. Since then, those differences have been disappearing.

This review of Canadian municipalities' fiscal reporting shows how local governments can, and should, improve their accountability for the money they raise and spend. A key recommendation is that municipal governments should present their annual budgets on the same accounting basis as their year-end financial statements. They should use accrual accounting, matching revenues and expenses to the relevant activities. Provincial governments that impede accrual-based budgets at the municipal level by requiring separate operating and capital budgets should stop doing so. Municipalities that face those impediments should publish supplementary information on their own. Municipalities that wish to highlight sources and uses of cash for their councillors could always do so in their financial statements and through reconciliations in their budgets. In addition, budgets and financial statements should show gross, not net, revenue and expense, aggregated on a consistent basis. Netting in budgets hides revenue and expense that are material to municipal services and to the costs residents must pay – and means that only experts with lots of time on their hands can compare intentions with results.

We thank Alexandre Laurin, William Forward, Brian Johnston, Enid Slack, Almos Tassonyi and other reviewers and municipal officials who provided input and helpful comments on earlier drafts. This paper builds on Robson, Dachis and Omran (2017) and previous studies on this subject, and we are grateful to the many people who commented on them, before and after publication. Responsibility for views expressed and any remaining errors is the authors'.

The accounting and other budgeting practices of Canada's municipalities might sound arcane, but they have real-world consequences. When it comes to infrastructure, cash-based capital budgets likely bias councillors against investing in long-lived assets, induce them to raise too much money up front to finance the projects they do undertake and encourage neglect of those assets once they are in place and delivering their services. Focusing on cash also encourages neglect of obligations to pay in the future – with pensions being a particular problem for municipalities. Finally, inconsistent budgeting among different levels of government obscures useful comparisons. Provinces that face severe deficits might be increasing grants to municipalities that are fiscally healthier than the provinces themselves. Better accounting would give everyone a clearer picture – especially important if municipalities are to get new taxing powers or direct financial support from other levels of government.

Municipal Budgets and Financial Reports

Accountability in democratic governments means monitoring whether public employees are carrying out their duties to citizens and performing in line with the instructions of their elected representatives. Many relevant measures exist: monitoring the adherence of public transit to schedules, testing whether students are learning in school, checking how patients fare in publicly funded hospitals, auditing spending in government agencies, etc. Annual budgets and financial statements are salient illustrations. A municipality's annual fiscal operations determine the taxes, user fees, and other charges that residents and businesses must pay. Furthermore, they are a critical element in assessing public services and their effect on the local economy.

Like most organizations, and like Canada's senior governments, municipalities produce two major documents in their annual fiscal cycles: budgets and audited financial reports. Budgets contain fiscal plans for the year that is about to start. They take months of preparation and are the principal opportunity for elected representatives, the public, and the media to learn about and provide input on municipal priorities. In most cases, municipalities present both an operating budget that is subject to a provincial requirement for annual balance and a capital budget for infrastructure and other long-lived assets. Audited financial reports show what municipalities actually raised and spent during the year. Under public sector accounting standards (PSAS), all municipalities must present their financial statements on a standardized basis. This common accounting provides largely comparable measures of municipal finances, with taxpayers, the media, and councillors getting additional comfort from certification by external auditors.

The Perspective of Users

To be useful, municipal budgets and financial statements must allow users who are attentive and motivated, but not necessarily experts, to find and identify key numbers easily, compare projections for the upcoming year to the previous year's budget[1] and compare results with past plans. Users may do these things, however, only if the documents meet certain key criteria. To begin with, they must be accessible to a lay, time-constrained reader, and they should display the key numbers up front, prominently and identified in plain language. Otherwise the non-expert reader faces a gratuitous

1 We note that a better comparison would be of the budget projections to the anticipated results for the year about to end. Since most municipalities do not produce PSAS-consistent budgets, however, comparisons with the anticipated results on a PSAS basis are not possible. Asking only for projections compared with the previous year's budget is relatively lenient, awarding marks that exaggerate the utility of a budget-to-budget comparison for a councillor, ratepayer or voter.

obstacle from the outset, and if forced to search through perhaps hundreds of pages for the "right" numbers is likelier to come across wrong ones.

A frequent problem is how municipalities present the spending of a department, certain services or expenses for the municipality as whole, net of user fees and other non-property tax revenues. The rationale for this is that "tax-supported" services such as policing differ from "rate-supported" services such as water and sewage: homeowners and businesses can adjust their use of the latter, whereas the former are more of an imposition. But a government's total claim on community resources matters, and the comprehensive revenue and spending numbers should give a meaningful picture of it. Obscuring it with multiple figures or not showing consolidated figures at all will only baffle the non-expert reader.

Ideally, municipalities should show total, consolidated revenue and spending intentions or results using consistent accounting, so that budget intentions are easy to compare with past and anticipated results,[2] and the most recent results are easy to compare with the budget. As we will see, however, municipal budgets typically do not present their plans using the PSAS-consistent accounting that underlies their financial statements. Unlike Canada's senior governments, most of which present their budgets and financial statements on a consistent basis, municipalities typically present separate operating and capital budgets on a modified-cash basis, while PSAS – and therefore their financial statements – require accrual accounting. Reconciliation tables and explanations of how budgets compare with previous years' plans, and how the financial statements compare with the budget, are helpful, especially if the headline numbers are not consistent.

Timeliness also matters in the usefulness of budgets and financial statements. The budget is the cornerstone document that lays out a municipality's plan over the course of the coming year. Accordingly, councillors should vote on the budget before – or at least no later than – the start of the fiscal year. A budget presented well into the fiscal year asks councillors to approve spending that has already happened – a clear violation of accountability. Timely publication of audited financial statements also matters. The longer it takes to find out what a government actually did – including whether what it did matched what it said it would do at budget time – the harder it is for councillors and voters to correct problems.

Rating Municipal Budgets and Financial Reports

How easy is it for a motivated but non-expert reader to find and understand the financial documents of Canada's major cities? Our evaluation according to the principles of usefulness just outlined takes us to a further level of precision about what we are looking for, and how we judge what we find.

To begin with, financial documents often bury key numbers where they are hard to locate and recognize, and/or they confuse matters by presenting more than one plausible figure. Taking the perspective of the non-expert reader, we looked through the most prominently displayed budget documents posted on a municipality's website, stopping at the first aggregate figures that the documents identify as relevant totals. We did the

2 We express it this way because a budget for the year about to start necessarily needs approval before the final results for the year about to end are known. The accounting in the budget and the results – actual or projected at the time of the budget presentation – need to be the same if one is to make meaningful comparisons.

same with the municipality's financial statements.[3] For governments that use accrual accounting to produce consolidated revenue and expense figures, this was less of a challenge. For municipal budgets, which typically present operating and capital totals separately, we preferred a budget that presents both totals prominently on the same page.[4]

For governments that use accrual accounting to produce comprehensive revenue and expense figures in their budgets, identifying the definitive total for each was not usually an issue. The two typically appear on one single pro-forma statement of operations for the year. Because cities do not typically do this, however, readers of their budgets face an additional obstacle: the accounting on the revenue side of their capital budgets is an utter mess in that it mixes borrowing, which does not increase a municipality's net worth, with tax and other revenues, which do. For that reason, we limited the investigation to the spending side.

With those explanations in hand, we can proceed to our report card for Canada's major cities. We looked at the 25 largest by population, plus the 6 most populous regional municipalities in Ontario.[5] Our evaluation focused on the municipality's 2018 budget and its 2017 financial statements, including the comparison in the financial statements with the municipality's 2017 budget. We derived our letter grades for each city by adding weighted scores in each of the following categories:

Timeliness of budget: Councillors should vote on budgets before the beginning of the fiscal year.[6] We awarded a score of 0 if the municipality publishes its budget later than eight weeks into the year, 1 if it publishes four to eight weeks into the year, 2 if it publishes not later than four weeks into the year and 3 if it publishes before the start of the year.

Placement of spending figures in budget: Budgets should present key figures early and prominently, where readers can find and identity them easily. We awarded 0 to municipalities that present their headline operating spending totals more than 50 pages into the budget, 1 to those that present them 31–50 pages into the budget, 2 to those that present them 16–30 pages in and 3 to those that present them within the first 15 pages. We awarded an extra point if the operating and capital totals are on the same page of the document.

Budget comparisons to previous year estimates: A useful budget should show its projections for the year about to start along with the expected results for the year about to end. Such a comparison would be hugely helpful to readers seeking to understand whether revenue and spending levels are expected to rise or fall, and by how much. As noted earlier, this is a standard most municipalities cannot meet, since they do not budget and report using the same accounting. We therefore looked for comparisons of the budget projections with the previous year's budget projections. We awarded 0 to municipalities that do not present such comparisons, 1 to municipalities that do so for either operating or capital spending and 2 to municipalities that do so for both.

3 When the presentation gives equal prominence to different documents – similar fonts and colours on clickable links, for example – we chose the one that appears first in the list or menu.

4 We marked the municipalities based on the page number of the operating total. This also represents a lenient marking scheme, leaving out the pages the reader of a municipal budget would need to flip through to find the capital total.

5 Regional municipalities, also referred to as upper-tier municipalities, provide much of the large-scale infrastructure in their areas while supplying fewer direct services than do lower-tier municipal counterparts. Notwithstanding these differences, their budgets and financial reports may be evaluated using the same criteria as other municipalities.

6 Municipal fiscal years are calendar years (January 1–December 31), except for Halifax, which follows the fiscal year of senior governments (April 1–March 31).

Gross versus net spending in budgets: Budgets should show the total city-wide consolidated spending plans of a municipality, so users can understand its total claim on community resources. We awarded 0 to municipalities that show only net expenditures in their headline numbers or do not consolidate rate- and tax-supported expenditures, 1 to municipalities that present net and gross expenditures with equal prominence and 2 to municipalities that present gross expenditures as the unique headline measure.

Consistent accounting: Inconsistent presentations of information in budgets and financial statements present even expert users with a formidable obstacle to understanding a municipality's finances. We awarded 0 to municipalities that use different accounting in their budgets and financial statements and provide no supplemental information in their budgets to explain the differences, 1 to municipalities that use different accounting but do provide supplemental information and 2 to municipalities that use consistent accounting in their budgets and financial statements.

Timeliness of financial statements: Timely publication of financial statements helps councillors and others understand, and react to, deviations of results from plans, and also encourages faster gathering of the necessary information, which helps compile the baseline for future plans. We awarded 0 to municipalities with signatures on their financial statements more than seven months after year-end, 1 to municipalities with statements dated five to six months after year-end, and 2 to municipalities with statements dated four months or less after year-end.[7]

Showing differences between results and plans: Clear presentations of results versus plans give users a key perspective on a municipality's fiscal position and prospects – especially helpful if the budget was not on the same basis as the financial statements. We awarded 0 if the municipality's financial statements do not show the expense projections from the corresponding budget, 1 if its financial statements show restated revenue and expense projections without explaining the restatement, 2 if its financial statements show restated revenue and expense projections and explain the restatement using numbers that match either the original operating or capital budget, 3 if its financial statements show restated revenue and expense estimates and explain the restatement using numbers that match both the original operating and capital budgets and 4 if its financial statements show revenue and expense that match the budget projections.

Explaining differences between results and plans: Numbers are helpful by themselves, but narrative and other explanations of why the results in the financial statements differ from the budget projections make the user's life much easier. We awarded 0 if the municipality's financial statements do not reconcile its results against the budget, 1 if its financial statements reconcile results to budget but do not explain the deviations of results from intentions and 2 if its financial statements reconcile results to budget and explain deviation of the results from intentions.

Adherence to public sector accounting standards: Conformity to consistent accounting standards is vital to the reliability and comparability of financial presentations. We awarded 0 if the municipality explicitly does not conform to PSAS, 1 if it nominally conforms to PSAS but does not receive a clean audit and 2 if it conforms to PSAS and has no auditors' reservations.

7 We used the date of the auditor's signature on the financial statements. Unfortunately, the lag between the auditor's signature and the posting of financial statements for the public to see varies from municipality to municipality. Since the posting date is not typically recorded, we had to use the auditor's signing date in our grading, which risks flattering municipalities that let time elapse between signing and posting. For example, London's financial statements were signed by the auditor in June, but were posted for the public only in mid-September.

Putting It All Together

As in any evaluation, we needed a system to roll up our assessments in each area into a single grade. We normalized the scores in each of the above criteria to be between 0 and 1 for each criterion.[8] We then weighted the criteria based on our judgments of relative importance to the overall goal of clarity, reliability and timeliness, and summed them. Municipalities received an A+ if they scored 90 percent or above, A for 85 percent,[9] A– for 80 percent, B+ for 77 percent, B for 73 percent, B– for 70 percent, C+ for 67 percent, C for 63 percent, C– for 60 percent, D+ for 57 percent, D for 53 percent, D– for 50 percent and F for less than 50 percent.

The Best and Worst for Financial Reporting

Scanning the results, we see a disappointing overall picture (Table 1). The state of municipal budgeting in Canada is unimpressive, with the failure to present the projections using PSAS-consistent accounting being a critical and widespread one. Amid the generally bleak picture, however, we highlight some important variations.

The best performer, garnering a score of A+, is Surrey. Surrey approves its budget and financial statements early, and clearly presents its overall fiscal footprint near the front of its budget. Surrey is the only major municipality that reports its headline budgetary revenue and expense totals on the same accounting basis as its financial statements. Next best is York Region, with an A: not presenting its budget on the same accounting basis as its financial statements is the only defect keeping it out of the topmost rank. To York Region's credit, however, its supplementary accrual treatment of budgetary revenue and expense totals matches those in its financial statements.

At the poor end of the scale, each with a score of F, are Toronto, Durham Region, Quebec City and Longueuil. All these municipalities use inconsistent accounting in their budget and financial statements, mix gross and net figures, compare their results with numbers that do not appear in their budgets and are late with both their budgets and financial statements. Calgary, London and Saskatoon garnered scores of D–. They are guilty of the same charges as those with F, but their slightly earlier publication dates and/or more prominent presentation of operating and capital totals on the same page kept them out of the bottom category.

Getting Better from Here

Why is municipal budgeting in Canada such a mess? History sheds some light on current practices, and also illuminates the case for improvement.

Public Sector Accounting Standards and Municipalities

Government accounting in Canada historically emphasized cash. Governments were smaller, and legislators were able to oversee individual transactions – such as the hiring of an individual or the purchase of a horse – that are trivial by today's standards. Liquidity was a relatively greater concern: an entity's ability to make payments loomed much larger than modern efforts to understand changes in the comprehensive net worth of entities with much greater taxing power and capacity to borrow.

8 For example, if a municipality received a grade of 2 in a criterion with a maximum grade of 4, that would result in a score of 0.50, meaning the municipality received 50 percent on that specific criterion.

9 For each of the scores below A+, the percentage mentioned is the bottom of a range extending to the threshold for the next higher grade.

Table 1: Evaluating the Fiscal Reporting of Canada's Municipalities

Municipality	Latest budget approval date	Page number of headline operating and capital total	Comparison of budget projections to previous year's totals	Does budget present city-wide gross expenditure?	Budget on same basis of accounting as the consolidated financial statements	How long after fiscal year end are consolidated financial statements published?	Are figures compared to their budget counterparts?	Do financial reports explain variance from operating budget plans?	Are consolidated financial statements on PSAS basis?	Overall grade
Grade Weight	**2**	**1**	**1**	**3**	**3**	**2**	**1**	**1**	**4**	
Grading Scheme	**3 (3:early, 2: less than 4 weeks late, 1: less than 8 weeks late, 0: otherwise)**	**4 (3: operating total on first 15 pages, 2: first 15-30 pages; 1: 30-50 pages, 0: 50+ pages). Extra point if capital and operating on same page of same document.**	**2 (2: both capital and operating compared 1: one compared 0: none)**	**2 (2: gross only, 1:net and gross equal prominence, 0: net)**	**2 (2: budgets and audited statements on same basis, 1: information supplemental, 0: otherwise)**	**2 (2 if within 4 months of year-end, 1 if published 5-6 months after, 0 if 7 months)**	**4 (4: full, 3: yes, budget figures restated with both op./cap. adjustments explained, 2: yes, with either op./cap. adjustments explained, 1: yes, with adjustment not explained/doesn't match, 0: no)**	**3 (3: full, 2: reconciled and deviations explained, 1: reconciled but not explained, 0: none)**	**2(2: yes, 1: yes, with auditors' reservation(s), 0: no)**	
Brampton (ON)	3 weeks early 6-Dec-17	Operating: p.13 out of 509 Capital: p. 16 out of 509	1	Gross	Supplemental	6 months 14-Jun-18	Restated, adjustment explained but does not match	Reconciled, deviations not explained	yes	B
Score	3	3	1	2	1	1	1	1	2	
Burnaby (BC)	19 weeks late 14-May-18	Operating and Capital Both: p.85 out of 266	2	Gross	Yes	5 months 7-May-18	Restated, not explained	Reconciled, deviations not explained	yes	B-
Score	0	1	2	2	2	1	1	1	2	
Calgary (AB)	6 weeks early 17-Nov-17	Operating: p.21 out of 72 Capital: p. 31 out of 72	0	Net	No	4 months 23-Apr-18	Restated, adjustment explained but does not match	Reconciled, deviations explained	yes	D-
Score	3	2	0	0	0	2	1	2	2	
Durham (ON)	5 weeks late 2-Feb-17	Operating: p.3 out of 338 Capital: p.4 out of 338	1	Net	No	5 months 31-May-18	Restated, adjustment explained but does not match	Reconciled, deviations not explained	yes	F
Score	1	3	1	0	0	1	1	1	2	

Table 1: Continued

Municipality	Latest budget approval datee	Page number of headline operating and capital total	Comparison of budget projections to previous year's totals	Does budget present city-wide gross expenditure?	Budget on same basis of accounting as the consolidated financial statements	How long after fiscal year end are consolidated financial statements published?	Are figures compared to their budget counterparts?	Do financial reports explain variance from operating budget plans?	Are consolidated financial statements on PSAS basis?	Overall grade
Edmonton (AB)	3 weeks early 8-Dec-17	Operating: p.6 out of 136 Capital: p.51 out of 103	1	Net	No	4 months 24-Apr-18	Restated, not explained	Reconciled, deviations explained	yes	D
Score	3	3	1	0	0	2	1	2	2	
Gatineau (QC)	3 weeks early 18-Dec-17	Operating: p.6 out of 36 Capital: p.8 out of 36	1	Gross	No	5 months 2-May-18	Restated, not explained	Reconciled, deviations not explained	yes	C
Score	3	3	1	2	0	1	1	1	2	
Halifax (NS)	3 weeks late 23-May-18	Operating and Capital Both: p.7 out of 24	1	Net	No	4 months 31-Jul-18	Restated, operating adjustment explained and matches	Reconciled, deviations not explained	yes	D
Score	2	4	1	0	0	2	2	1	2	
Halton (ON)	2 weeks early 14-Dec-17	Operating and Capital Both: p. 26 out of 577	2	Gross	No	5 months 23-May-18	Restated, operating adjustment explained and matches	Reconciled, deviations not explained	yes	C+
Score	3	3	2	2	0	1	2	1	2	
Hamilton (ON)	10 weeks late 8-Mar-18	Operating and Capital Both: p. 9 out of 82	1	Gross	No	6 months 13-Jun-18	Restated, capital adjustment explained and matches	Reconciled, deviations not explained	yes	D+
Score	0	4	1	2	0	1	2	1	2	
Kitchener (ON)	3 weeks late 22-Jan-18	Operating: p. 10 out of 190 Capital: p.59 out of 190	1	Both	No	6 months 11-Jun-18	Restated, not explained	Reconciled, deviations not explained	yes	D
Score	2	3	1	1	0	1	1	1	2	
Laval (QC)	3 weeks early 11-Dec-17	Operating: p.11 out of 102 Capital: p.68 out of 100	1	Net	No	4 months 18-Apr-18	Restated, not explained	Reconciled, deviations not explained	yes	D
Score	3	3	1	0	0	2	1	1	2	

Table 1: Continued

Municipality	Latest budget approval date	Page number of headline operating and capital total	Comparison of budget projections to previous year's totals	Does budget present city-wide gross expenditure?	Budget on same basis of accounting as the consolidated financial statements	How long after fiscal year end are consolidated financial statements published?	Are figures compared to their budget counterparts?	Do financial reports explain variance from operating budget plans?	Are consolidated financial statements on PSAS basis?	Overall grade
London (ON)	3 weeks early 7-Dec-17	Operating: p.4 out of 41 Capital: p.11 out of 41	2	Net	No	6 months 26-Jun-18	Restated, adjustment explained but does not match	Reconciled, deviations not explained	yes	D-
Score	3	3	2	0	0	1	1	1	2	
Longueuil (QC)	1 week early 31-Dec-17	Operating: p.4 out of 22 Capital: p.4 out of 26	1	Net	No	5 months 18-May-18	Restated, not explained	Reconciled, deviations not explained	yes	F
Score	3	3	1	0	0	1	1	1	2	
Markham (ON)	2 weeks early 13-Dec-17	Operating and Capital Both: p.8 out of 373	2	Gross	Supplemental	4 months 24-Apr-18	Restated, adjustment explained but does not match	Reconciled, deviations not explained	yes	A-
Score	3	4	2	2	1	2	1	1	2	
Mississauga (ON)	2 weeks early 13-Dec-17	Operating and Capital Both: p.6 out of 865	1	Both	Supplemental	4 months 23-Apr-18	Restated, adjustment explained but does not match	Reconciled, deviations explained	yes	B
Score	3	4	1	1	1	2	1	2	2	
Montreal (QC)	1 week late 10-Jan-18	Operating: p.35 out of 344 Capital: p. 24 out of 142	1	Gross	No	4 months 13-Apr-18	Restated, not explained	Reconciled, deviations not explained	yes	C
Score	2	1	1	2	0	2	1	1	2	
Niagara (ON)	3 weeks early 7-Dec-17	Operating and Capital Both: p. 15 out of 179	1	Both	No	5 months 24-May-18	Restated, operating adjustment explained and matches	Reconciled, deviations not explained	yes	C-
Score	3	4	1	1	0	1	2	1	2	
Ottawa (ON)	2 weeks early 13-Dec-17	Operating: p. 13 out of 229 Capital: p. 29 out of 229	2	Both	No	6 months 27-Jun-18	Restated, adjustment explained and matches	Reconciled, deviations not explained	yes	C-
Score	3	3	2	1	0	1	3	1	2	

Table 1: Continued

Municipality	Latest budget approval date	Page number of headline operating and capital total	Comparison of budget projections to previous year's totals	Does budget present city-wide gross expenditure?	Budget on same basis of accounting as the consolidated financial statements	How long after fiscal year end are consolidated financial statements published?	Are figures compared to their budget counterparts?	Do financial reports explain variance from operating budget plans?	Are consolidated financial statements on PSAS basis?	Overall grade
Peel (ON)	5weeks early 23-Nov-17	Operating and Capital Both: p.11 out of 418	2	Gross	No	4 months 19-Apr-18	Restated, capital adjustment explained and matches	Reconciled, deviations explained	yes	B+
Score	3	4	2	2	0	2	2	2	2	
Quebec City (QC)	3 weeks early 11-Dec-17	Operating: p.13 of 178 Capital: p.14 out of 178	1	Net	No	5 months 4-May-18	Restated, not explained	Reconciled, deviations not explained	yes	F
Score	3	3	1	0	0	1	1	1	2	
Regina (SK)	7 weeks late 23-Feb-18	Operating: p.18 of 179 Capital: p.19 out of 179	1	Net	Yes	5 months 28-May-18	Restated, not explained	Reconciled, deviations explained	yes	D+
Score	1	2	1	0	2	1	1	2	2	
Richmond (BC)	10 weeks late 15-Mar-18	Operating: p.11 of 14 Capital: p.10 of 14	0	Gross	Yes	5 months 14-May-18	Restated, operating adjustment explained and matches	Reconciled, deviations not explained	yes	C+
Score	0	3	0	2	2	1	2	1	2	
Saskatoon (SK)	5 weeks early 27-Nov-17	Operating and Capital Both: p.2 out of 84	1	Net	No	5 months 28-May-18	Restated, not explained	Reconciled, deviations explained	yes	D-
Score	3	4	1	0	0	1	1	2	2	
Surrey (BC)	1 week early 22-Dec-16	Operating and Capital Both: p.14 out of 373	2	Gross	Yes	5 months 7-May-18	full	Reconciled, deviations not explained	yes	A+
Score	3	4	2	2	2	1	4	1	2	
Toronto (ON)	6 weeks late 12-Feb-18	Operating: p.5 of 68 Capital: p.48 of 68	1	Net	No	7 months 23-Jul-18	Restated, adjustment explained but does not match	Reconciled, deviations explained	yes	F
Score	1	3	1	0	0	0	1	2	2	

Table 1: Continued

Municipality	Latest budget approval date	Page number of headline operating and capital total	Comparison of budget projections to previous year's totals	Does budget present city-wide gross expenditure?	Budget on same basis of accounting as the consolidated financial statements	How long after fiscal year end are consolidated financial statements published?	Are figures compared to their budget counterparts?	Do financial reports explain variance from operating budget plans?	Are consolidated financial statements on PSAS basis?	Overall grade
Vancouver (BC)	2 weeks early 12-Dec-17	Operating and Capital Both: p.2 out of 439	1	Gross	Supplemental	3 months 28-Mar-18	Restated, operating adjustment explained and matches	Reconciled, deviations explained	yes	A-
Score	3	4	1	2	1	2	2	2	2	
Vaughan (ON)	4 weeks late 30-Jan-18	Operating and Capital Both: p.17 out of 443	1	Both	Supplemental	6 months 19-Jun-18	Restated, adjustment explained and matches	Reconciled, deviations not explained	yes	C-
Score	1	3	1	1	1	1	3	1	2	
Waterloo (ON)	2 weeks early 13-Dec-17	Operating and Capital Both: p.10 out of 269	0	Gross	No	5 months 9-May-18	Restated, adjustment explained but does not match	Reconciled, deviations not explained	yes	C
Score	3	4	0	2	0	1	1	1	2	
Windsor (ON)	3 weeks late 17-Jan-18	Operating: p.8 of 246 Capital: p.4 of 673	1	Gross	No	9 months 17-Sep-18	Not compared	Not reconciled	yes	D
Score	2	3	1	2	0	0	0	0	2	
Winnipeg (MB)	2 weeks early 12-Dec-17	Operating and Capital Both: p.10 out of 305	2	Net	No	5 months 15-May-18	Restated, adjustment not explained in the financial report. Explained in 2018 Budget and it matches	Reconciled, deviations explained	yes	D
Score	3	4	2	0	0	1	2	2	2	
York (ON)	2 weeks early 14-Dec-17	Operating and Capital Both: p.5 out of 409	1	Gross	Supplemental	4 months 27-Apr-18	Restated, adjustment explained and matches	Reconciled, deviations explained	yes	A
Score	3	4	1	2	1	2	3	2	2	

Public sector accounting standards evolved in the 1980s to introduce such concepts as recognizing revenues and expenses when the relevant activity took place, and giving much higher profile to capital assets and over time to obligations other than ordinary funded debt. Canada's senior governments, with their much greater legislative autonomy, have gradually – and not without setbacks – adopted PSAS, first in their financial statements and more recently in their budgets. Municipalities follow PSAS in their financial statements, and all the municipalities in our survey received clean audits using those standards. But even in Quebec, which requires its municipalities to report PSAS-consistent budgets to the province, municipalities typically do not publish their budgets on the same basis to the public.

One often-cited justification for not budgeting on a PSAS-consistent basis is that cities can only issue debt for capital projects – which means they should balance their operating budgets, and consider capital spending separately with attention to sourcing the required funds. So while most municipalities use accrual accounting – recognizing relevant amounts when the activity to which they relate occurs, rather than when cash is received or disbursed – in parts of their budget (such as accounts receivable), they use cash accounting for big-ticket items such as roads, bridges, pipes, and buildings.

PSAS-Consistent Municipal Budgets: Some Debates

Because long-lived capital assets are so salient in municipal budgets, treating outlays on them as expenses – as though a road were a consumption item, like a cup of coffee or a payroll service – distorts financial planning. A more sensible approach would be to capitalize investments in long-lived assets – showing them on the positive side of the balance sheet – and to amortize the expense, writing the road off as it delivers its services. That is what municipalities, like other governments, do in their end-of-year financial statements. Matching the period during which taxpayers cover the cost of long-lived assets with the period during which the assets provide services is a straightforward tool to achieve fairness among taxpayers over time.

Some of the resistance to adopting PSAS-consistent budgets is simply inertia: city staff and councillors are used to preparing and reviewing budgets in a certain way, and the easiest way to deal with daily demands in any bureaucracy is simply to do whatever was done before. Twenty years ago, when the federal and provincial governments began to publish PSAS-consistent financial statements, arguments that they should prepare their budgets the same way tended to prompt the response "but this is how the numbers are presented to the legislature." Over time, however, this circular response lost its force at the senior level, and most federal and provincial governments now present PSAS-consistent budgets as well as financial statements (Robson and Omran 2018).

Another argument against adopting PSAS-consistent budgets comes from a different angle entirely: many officials and critics worry that accrual-based capital budgeting would cause councillors to vote more extravagantly. If the cost of a long-lived asset – one that will deliver its services over, say, 30 years – shows in the budget as one-thirtieth of its up-front cost, the argument goes, councillors will want to buy more of them. However valid that concern might be at the time an initial investment is up for consideration, some major costs likely offset any benefit to the taxpayer from the "sticker shock." For one thing, apparently massive up-front costs likely lead municipalities to delay or reject some capital projects that would otherwise pass muster. For another, the focus on cash also likely leads them to finance the projects they do approve by raising revenues up front, rather than by borrowing and servicing the debt over the period the project yields its benefits. A prominent example of inappropriate up-front financing is the infrastructure charges municipalities impose on developers. Such charges are a key financing mechanism for municipal capital assets: they can be as high as $80,000 for a single-family house in a new development area in some Greater Toronto Area municipalities, between $30,000 and $35,000 in cities such as Hamilton and Surrey and more than $20,000 in Calgary (Dachis 2018). Imposing these costs exclusively on new home buyers does not make sense: the benefits of water and other infrastructure are enjoyed over a wider geography, and certainly will be enjoyed over a longer period than is relevant to the average home buyer. To the extent that these fees are higher because cash budgeting encourages up-front financing, they make new homes less affordable.

A related problem is that cash budgeting for infrastructure means councillors tend not to monitor the ongoing expenses related to that infrastructure once it is in place. Ignoring amortization encourages undercharging for ongoing services, such as water or roads, and means budgets do not show councillors the cumulating depreciation that signals that an asset is approaching the end of its useful life.

The Accountability Imperative

Most fundamentally, budgeting that uses different accounting methods from those of financial statements creates a major disconnect that affects understanding of, and engagement in, municipalities' finances and activities more generally.

Consider the heated debates that occur every fall and winter as municipal councils consider their revenue and spending for the coming year. The headlines are about the dire challenges in balancing the budget: the dangers of cuts to services, the pain of hikes in property taxes. Yet the end-of-year results in Canadian cities large and small show surpluses. Over the decade up to the second quarter of 2018, local governments improved their net worth by some $123 billion – by 74 percent – including an increase of some $33 billion in their financial assets.[10] It is nice that one level of government in Canada has positive net worth. But the fact that municipalities have such high levels of financial assets suggests that they are hoarding cash and that their complaints about the unaffordability of infrastructure are off the mark. One way or another, budget rhetoric and fiscal reality are problematically out of sync.

More generally, the inability to compare intentions and results in a meaningful way reduces the attention councillors, the media, and the public pay to budgets. Why look at something you know you won't understand? And those who try might reasonably conclude that municipal budgeting is a farce. Consider what would happen if a diligent but non-expert councillor delved into his or her municipality's operating and capital budgets and did what a motivated but naïve person might do to calculate spending: add up the totals from each. The numbers the councillor would have calculated from cities' 2017 budgets appear in Table 2, where we compare them with the spending published in each city's financial reports for that year.

For example, Calgary's budget showed $6.75 billion in spending for 2017. Its end-of-year financial statements showed $3.82 billion in expense for the year. This gap is so large that, although an expert would hesitate to attribute it to underspending relative to budget targets, a non-expert, working from financial reports that overall merited a grade of D+, might indeed draw that conclusion. Durham Region offers another example: its main budget presentation focused only on net

10 Statistics Canada's government financial statistics show net worth for local governments of $290 billion at the end of the second quarter of 2018, up from $167 billion at the end of the second quarter of 2008. The figures for financial assets were $111 billion and $79 billion, respectively.

Table 2: Total Spending, Budget Versus Financial Statements, 2017

Municipality	Spending in Budget *($ billions)*	Spending in Annual Report *($ billions)*	Difference *(percent)*
Toronto	16.03	11.08	-30.9
Montreal	7.03	6.37	-9.5
Calgary	6.75	3.82	-43.4
Ottawa	4.47	3.33	-25.6
Edmonton	3.79	2.96	-22.0
York	3.04	2.02	-33.4
Peel	3.03	2.26	-25.4
Hamilton	2.17	1.69	-22.0
Quebec City	2.01	1.44	-28.4
Vancouver	1.81	1.52	-16.1
Waterloo	1.54	1.03	-33.2
Winnipeg	1.51	1.59	5.3
Niagara	1.11	0.89	-19.9
London	1.09	1.08	-0.3
Halifax	1.08	0.95	-11.8
Halton	1.08	0.80	-25.6
Saskatoon	1.07	0.77	-28.6
Laval	1.02	0.89	-11.9
Mississauga	0.96	0.85	-11.9
Windsor	0.86	0.74	-13.9
Brampton	0.81	0.72	-11.8
Surrey	0.75	0.73	-3.4
Gatineau	0.70	0.63	-10.2
Regina	0.69	0.58	-16.1
Burnaby	0.63	0.43	-31.9
Durham	0.61	1.10	79.6
Longueuil	0.54	0.68	25.9
Richmond	0.53	0.41	-22.2
Markham	0.51	0.39	-24.5
Kitchener	0.49	0.31	-36.2
Vaughan	0.39	0.45	14.7

Source: Authors' calculations from municipal financial documents.

property-tax-supported spending, and the expense it reported in its financial statements was almost 80 percent higher than it reported in its budget. Other municipalities – such as Toronto, York Region and Waterloo Region – also had discrepancies between budgets and results that would lead our idealized reader to conclude that their execution was off by one-third or more.

The differences in Table 2 might reflect, in part, municipalities' over- or underspending relative to their budget commitments. What is certain is that they reflect inconsistent accounting. Our key concern is that the numerate councillor, taxpayer or journalist typically cannot tell. An understandable reaction would be to throw one's hands in the air and conclude – and tell anyone listening – that the city's finances are out of control.

Recommendations for Better Municipal Financial Reports

Municipal fiscal accountability will be better when the smart and motivated, but non-expert, councillor or taxpayer can pick up his or her municipality's budget and financial statements for a given year, start at page one, find the consolidated revenue and expense figures early and easily and compare them to see how close they are to the past or to the plan. The majority of Canada's senior governments now publish budgets and financial reports in a way that make this exercise possible (Robson and Omran 2018). Several steps could bring Canada's municipalities up to the same mark.

Adopt PSAS-Consistent Accounting in Budgets

A key start is for municipalities to prepare and present municipal budgets using the same accounting conventions they already use in their financial statements released after year-end. Ideally, provinces that directly or indirectly mandate cash accounting would change their rules to permit accrual accounting instead of, or alongside, cash. Even absent provincial requirements, municipalities on their own can present budget numbers consistent with their financial statements. Municipalities that judge cash to be especially relevant for fiscal decisions can give particular prominence to the consolidated statement of cash flow in their financial statements, and provide a comparable, and prominently displayed and explained, reconciliation in their budgets.

Since municipalities have been presenting PSAS-consistent financial statements for almost a decade, presenting budgets on the same basis will not present any major challenge. PSAS-consistent budgets would make the multiyear capital plans produced by all large municipalities easier to understand, because they would show the amortization of the assets as they wear out. They would inform municipal councillors and taxpayers – whether considering infrastructure or future obligations, such as the pension entitlements of municipal employees or landfill decommissioning and other environmental liabilities – about the longer-term sustainability of their city's budgetary stance. Municipalities might want to continue their practice of paying for capital assets up front, but accrual accounting would make clearer the intergenerational effects of their choice. As in the private sector, public sector accounting standards evolve as opinions about the best ways to represent economic reality evolve, and current public sector standards are open to criticism.[11] Still, municipalities could take a big step forward by adopting, in their budgets as in their financial statements, the standards that the federal government and most provinces and territories currently follow.

11 For example, valuing pension obligations by using arbitrary, rather than market-based, discount rates typically makes those obligations look smaller than it would actually cost to discharge them at the valuation date (Robson and Laurin 2016).

As for the fear that dropping the requirement for balanced operating budgets would foster fiscal irresponsibility, consolidating all items affecting net worth into comprehensive revenue and expense totals would give a more complete picture of an entity's operations and their effect on its financial position. Provinces that wish to constrain their municipalities should change their balanced-budget requirement to refer to the *overall* bottom line: the change in the municipality's net worth. That is how the senior governments do it, and it is more consistent with financial reporting in the private sector in that it gives users vital information in a widely understood format. In provinces that mandate budget targets that are not PSAS-consistent, municipalities should present an accrual-based budget as the central one for debate by the public and approval by council and an operating cash budget as supplementary information.

Present Key Figures Early and Prominently

The time-constrained non-expert should not have to dig through dozens or even hundreds of pages of a document or slide deck – or, worse, more than one document or slide deck – to find a municipality's total budgeted or actual spending. Similarly, a reader should not come across more than one candidate for each total and wonder which is correct. Some senior governments put their consolidated figures close to the front of their budgets and financial statements; there is no reason municipalities cannot do the same. More accessible display of the key numbers would also help municipalities explain their content and importance to councillors, the media, and taxpayers.

Show Gross Revenue and Expense

Municipal budgets should show gross revenue and expense figures so that users of financial statements have a comprehensive overview of the municipality's fiscal footprint. Budgets, like financial statements, should consolidate all entities that the municipal government controls and that depend on it for financing. Presenting numerous versions of the footprint, such as separating services covered by property taxes from services supported by rates, muddles understanding of how much taxpayers, who pay both property taxes and user fees, actually pay for their services.

Show and Explain Variances between Results and Projections

Municipalities should display prominently tables that reconcile year-end results with budget projections, using common accounting methods and accompanied by informative commentary. In so doing, municipalities would be better positioned to pursue the valuable practice, which the federal and many provincial governments follow, of publishing in-year reports that compare results to plan.

Publish Timely Budgets and Financial Statements

Prompt presentation of budgets and timely publishing of financial statements are key elements in accountability. Councillors should not approve spending after it has occurred, and should not be starting their discussions of one year's budget when the two previous years' results are still a mystery. Municipalities that use a calender year for financial purposes should vote on their budgets before January 1, and publish financial statements no later than June 30.

Conclusion: The Need to Improve Municipal Fiscal Accountability

Cities spend a great deal of money and provide key services. In the interest of accountability, therefore, councillors, ratepayers, and voters should be able to access clearly understandable financial information from municipal government documents.

To that end, municipalities should present budgets that are consistent with public sector accounting standards and that readers can compare easily with municipalities' financial statements. Before Canadians grant their cities more taxing powers or increase the support cities receive from senior governments, they should demand cleaner, better and timelier financial presentations. The adoption of the recommendations in this *Commentary* would be a welcome indication that the financial management of Canada's municipalities is rising to a level more in line with their importance in Canadians' lives.

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NOTES:

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