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Show Us Our Money: Fiscal Accountability in Canada's Cities, 2022

Municipal finances in Canada are unnecessarily confusing. City budgets get lots of attention, but many are opaque and late. Municipal year-end financial statements are more transparent, but get little attention. Better budgets would help voters and councillors understand and manage city finances.

William B.P. Robson and Nicholas Dahir

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THE STUDY IN BRIEF

The budgets governments present around the beginning of their fiscal year and the financial statements they publish after the fiscal year has ended are critical tools for legislators and voters. To non-experts, the transparency of these documents matters: from them, readers should be able to understand the government's plans, see how results differed from plans, discern the implications for the government's future capacity to deliver services, and hold the government accountable for its performance. This annual report assesses the transparency and quality of the budgets and financial statements of 32 major Canadian municipalities.

The grades for 2022 ranged from A to D-. At the top was Richmond, British Columbia, whose documents earned an A for their clarity, completeness and promptness. Markham, Surrey, Vancouver and Quebec City, each with A-, also stood out favourably. The financial statements these municipalities published after fiscal year-end were typically clear. The statements followed public sector accounting standards (PSAS) and presented the key figures where users could find and identify them easily. Although some municipalities released their financial statements late and the documents have features that impede understanding, their statements generally earned high scores.

The budgets of many other municipalities were less satisfactory. At the bottom were Durham Region, Kitchener, London, Hamilton, Regina and Halifax, whose D-range grades reflect multiple problems with transparency, reliability and timeliness. Most municipalities did not present PSAS-consistent figures prominently and many did not present them at all. Most presented separate operating and capital budgets, with the latter prepared on a cash basis. Even experts struggle to reconcile such budgets with past results or to predict what the municipality will report at year-end. Many budgets also separated tax- and rate- supported activities, presenting a fragmented picture. Municipal councillors often voted on budgets after the fiscal year started and money was already committed or spent.

These problems matter. Opaque budgets foster citizens' disengagement and discourage informed input. In fact, Canada's municipalities are in more robust financial shape than most people know. Cash budgeting for capital likely helps explain why some cities collect funds up front for projects that might proceed late, if ever; it also fosters neglect of infrastructure once in place.

A municipality's budget should follow the same accounting rules and format as its year-end financial statements. In particular, the budget should use accrual accounting with respect to capital, showing long-lived items such as buildings and bridges as assets that get written off as they deliver their services. Provincial governments that impede PSAS-consistent municipal budgets – for example, by mandating separate operating and capital budgets – should stop doing so. With PSAS-consistent accounting, the municipality's budget, like its financial statements, would show city-wide consolidated gross revenue and spending, capturing the full scope of the city's activities and claim on its citizens' resources. Along with timelier presentations, these changes would raise the fiscal accountability of Canada's municipalities to a level more commensurate with their importance.

Policy Area: Fiscal and Tax Policy.

Related Topics: Municipal Finance; Governance.

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Canada's cities provide vital infrastructure and services, for which they raise and spend large amounts of money. The quality and cost of municipal services affect where households and businesses live and invest, and the municipality's capacity to deliver services will affect future living standards.

All governments should present financial information that meets high standards of transparency, usefulness and timeliness. As this report card on the budgets and annual reports of 32 major Canadian municipalities reveals, however, many cities do not.

Municipal year-end financial statements are generally good, although this survey highlights some concerns, notably with timeliness. The budgets municipalities present around the beginning of their fiscal years are generally not good. Many understate the size of city operations, omit key activities and exaggerate the costs of capital projects. In most cities, simple questions – such as how much the government plans to spend, how its plans compare with its current activities and what its plans imply for its capacity to deliver services in the future – are impossible for non-experts to answer. Councillors often vote on their cities' budgets after the fiscal year has started, and receive financial information too late to use in making budget decisions for the upcoming year.

These shortcomings matter. For example, big price tags in cash-based capital budgets can discourage councillors from investing in certain long-life infrastructure and induce them to raise too

much money up front to finance the projects they do undertake. Focusing on cash transactions also encourages neglect of future obligations, including repair and replacement of infrastructure.

Confusing budgets can also cause citizens' disengagement if people do not understand their government's plans or think its plans have no relationship to what will actually happen. Discussions about potential changes in taxes, services or government transfers would be more fruitful if people knew that Canada's cities have accumulated substantial surpluses and are in better financial shape than many budget debates suggest.

A key step forward would be for all municipalities to present budgets that match their year-end financial statements. Provincial governments that impede municipal budget presentations based on public sector accounting standards (PSAS) – for example, by requiring separate operating and capital budgets – should stop doing so. Municipal budgets should show consolidated revenues and expenses, rather than netting the cost of services such as water, sewage and parking – which hides important activities and means that only experts with ample time can compare intentions with results. Municipalities that

We thank Alexandre Laurin, anonymous reviewers and members of the C.D. Howe Institute's Fiscal and Tax Competitiveness Council for comments on earlier drafts. This report is part of a decade-long C.D. Howe Institute project on municipal fiscal accountability. Among the many colleagues and reviewers who have provided advice for this report card, we highlight the comments of municipal officials, which improved our grading system and our discussion of it, and deepened our understanding of the legal and institutional context of municipal budgeting. We alone are responsible for the conclusions and any errors.

Key Concept Explainer:

The Evolution from Cash to Accrual Accounting

Cash accounting, which records expenses up-front rather than over the life of an asset, has its roots in the past, when modern accrual accounting did not exist and cash was a natural focus. A century ago, governments were smaller and legislators could oversee individual transactions that are trivial by today's standards. Liquidity – a government's ability to cover payroll and make its interest payments on time – used to be a more prominent concern than it is with modern governments, which have greater capacity to tax and borrow.

Public sector accounting standards (PSAS) evolved in the 1980s, introducing accrual accounting and taking a more comprehensive approach to the reporting entity's service capacity – for example, by considering non-financial assets (such as buildings and infrastructure), alongside financial assets (such as bank deposits), and considering liabilities (such as pension promises and environmental cleanup) alongside market debt. Canada's senior governments, with their greater legislative autonomy, gradually – and not without setbacks – adopted PSAS, first in their financial statements and later in their budgets.

face provincial or other impediments to PSAS-consistent budgets should publish supplementary information on their own.

Better and timelier budgets and financial statements would help raise the financial management of Canada's cities to a level more appropriate to their importance in Canadians' lives.

MEASURING FISCAL ACCOUNTABILITY

Financial documents are tools to help people make decisions. To be useful, they must be accurate, complete and timely, and present information that lets users readily find and interpret the principal numbers. These criteria are as important in government as they are in any other setting – arguably more so, since paying taxes is not optional and accountability for public funds is central to

representative government. Legislators and citizens need financial information to monitor whether public employees are doing what they should be doing, and citizens need it to monitor whether legislators are doing what they said they would do. Along with measures of performance – such as on-time departures in transit, thoroughness in waste removal and quality of drinking water – financial documents should let legislators and citizens monitor what is happening and take corrective action if necessary.

In the case of a government's financial documents, an essential minimum is that a reader who is motivated and numerate, but not an expert in accounting, should easily be able to find consolidated revenues and expenses, and the resulting surplus or deficit, and relate those numbers to changes in the government's net worth and its

capacity to deliver future services.¹ These documents should inform the votes that authorize spending, taxing and borrowing, as well as the votes citizens cast in elections.

The Fiscal Cycle and Principal Documents

Like most organizations, and like Canada's senior governments, municipalities produce two key documents in their annual fiscal cycles: budgets and audited financial statements.

The budget contains fiscal plans for the coming year. It is the main opportunity for elected representatives, the public and the media to learn about, and provide input on, municipal priorities. Councillors should consider the budget well in advance of the fiscal year, to have time to deliberate before money is committed or spent.

Budgets typically inspire a great deal of debate in councils and the media. Ideally – as is the case for most senior governments, but too few municipalities, as we will see – key exhibits in a budget are a projected statement of operations showing consolidated revenues and expenses, along with the resulting annual surplus or deficit, and the impact that surplus or deficit will have on the municipality's accumulated surplus – its capacity to deliver services.

Year-end audited financial statements show what a municipality actually raised and spent during the budget year, and the resulting change in the municipality's accumulated surplus. Prepared according to public sector accounting standards, these statements provide largely comparable measures of revenue, expenses and financial

position, with councillors, citizens and the media getting additional comfort from certification by external auditors.

Most of the municipalities we looked at in this report included their audited financial statements in annual reports, which also included further financial analysis and discussion. We used the annual report when it was available and graded the municipality based on the information in the report. To avoid complicating our terminology, we use the term “financial statements” to refer both to free-standing statements and the statements in annual reports.

What Users Need

The starting point for engaged users of a government's budget or financial statements is the headline figures for revenues and expenses and for the surplus or deficit. The concerned citizen, councillor or journalist will want to know how much the government plans to raise and spend in the coming year, or how much it actually raised and spent in the year just past. Those numbers are the basis for understanding how future plans compare to past performance, how well results corresponded to past plans and, if discrepancies are large or poorly explained, for acting to reduce them in the future.

To address these questions, users who are numerate and motivated, but not necessarily expert, need budgets and financial statements that:

- present the key numbers early and identify them prominently;
- use PSAS-consistent accounting that presents the full picture of the municipality's activities;
- use consistent numbers that allow forward- and

1 The C.D. Howe Institute's annual report card on the financial documents of the federal, provincial and territorial governments reflects these important themes in the framework of the Public Sector Accounting Board (PSAB 2018, 2021) and complements international measures of fiscal transparency such as the Organisation for Economic Co-operation and Development's Best Practices for Budget Transparency (OECD 2002) and the Open Budget Survey (International Budget Partnership 2020).

backward-looking comparisons of intentions and results;² and

- are timely, with the budget presented well in advance of the beginning of the fiscal year, and the financial statements published shortly after the end of the year, when the information is fresh and useful for budgeting and any necessary corrective action.

The financial documents of well-run Canadian businesses and charities and of most Canadian senior governments (Robson and Dahir 2022) have these features. The consolidated revenues and expenses, and surpluses or deficits, of senior governments usually appear clearly in their budgets and financial statements, on one page. Canadian regulators require listed companies to file their financial results no more than four months after the end of their fiscal year (see, for example, OSC 2021).

While the financial statements of the municipalities in this survey typically score well on these criteria, most of their budgets do not. Notably, most city budgets are not consistent with PSAS. Readers of their financial documents cannot easily find the information that would help them understand the city's projections relative to past experience, or how results compare to projections, or whether the budget's bottom line accurately prefigured the actual change in the city's accumulated surplus.

The Challenge of Non-PSAS-Consistent Municipal Budgets

Many readers might not know that the budgets of most Canadian cities do not match the cities' financial statements, and might be surprised to

learn that our repeated recommendation that they should is controversial. Most municipal budgets depart from PSAS in two major ways.

One is with respect to accrual accounting. Accrual accounting shows revenues and expenses during the period when the relevant activity occurs, rather than when cash changes hands. It records the expenses associated with long-lived items such as buildings and bridges, roads and sewers as they deliver their services – ideally, writing them down over the years in which they remain useful and before they need replacing. This approach means that the difference between consolidated revenue and expense, the surplus or deficit, represents the change in the government's net worth – its capacity to deliver services – over the course of the year.

PSAS mandate accrual accounting. But although municipalities use accrual accounting in their budgets in some areas, such as receivables and payables, they typically do not use it for capital projects. Instead, they apply cash accounting to capital outlays as they occur – a big cost upfront and nothing thereafter.

Because cash outlays for capital are so different from cash outlays for operating costs, municipalities typically present separate operating and capital budgets, rather than showing PSAS-consistent consolidated revenues and expenses, as they do in their financial statements. This difference makes most municipal budgets impossible for non-experts to reconcile with municipal financial statements.

With accrual accounting, in contrast, cash collected in taxes or received from senior governments in transfers to finance capital items need not be recorded as revenue until the item in question is delivering its services. Until it is

2 To quote the Public Sector Accounting Board (PSAB) “[t]he actual-to-budget comparison is meaningful when the budget: (a) is prepared on the same basis of accounting (i.e., accrual accounting), (b) follows the same accounting principles (i.e., the standards in the PSA Handbook), (c) is for the same scope of activities (i.e., includes all components, where applicable, and all controlled entities) and (d) uses the same classification (i.e., revenue by type and expenses by function or major program) as the financial statements” (PSAB 2021, 34).

recorded in revenue, the cash on the asset side of the municipality's statement of financial position has a counterpart liability, "deferred revenue." That liability signifies that the money is not the city's to do with as it pleases: its obligation is to use the money to build the item.³

In most municipal budgets, the focus on cash and separate operating and capital budgets means funds received during the year but not used for capital outlays during the year flow into "reserves," and funds received in prior years used for capital outlays during the year flow out of "reserves." By adding and subtracting flows of funds in and out of reserves to operating revenue and spending, operating budgets mix items that do not affect the annual surplus or deficit – and the city's net worth – with items that do. The focus on cash and separate operating and capital budgets also means that budgets in many municipalities omit the amortization of capital assets as they deliver their services – a category of expense that is large for municipalities, which are capital-intensive operations.

The other major deviation from PSAS in many municipal budgets relates to fragmented presentation of revenues and expenses. PSAS mandate that financial statements present consolidated numbers, capturing the full range of activities under the control of the reporting entity. Many municipal budgets separate tax-supported from fee-supported services, and sometimes show only net figures – inflows minus outflows – for the latter. That practice drives another wedge between budgets and results, and frustrates councillors, voters and others trying to compare plans and results.

RATING MUNICIPAL BUDGETS AND FINANCIAL REPORTS

This overview of users' needs and existing practices sets up a closer look at municipal budgets and financial statements, and the criteria we used to grade them. This evaluation is not about whether municipalities tax and spend too much, or too little, or in the wrong ways. It is about how well their financial documents help councillors, taxpayers and citizens make such judgments. Our scores on each criterion reflect the range between good and bad performance for each. We weight each criterion's score in the overall grade according to our judgment of its importance to overall transparency and accountability.

Timeliness

Except Halifax, whose fiscal year runs from April 1 to March 31, all our municipalities have calendar fiscal years, running from January 1 to December 31. Spending without authorization by elected representatives violates a core principle of democracy, and formal passage of a budget is a major event not only for taxpayers, but also for departments and municipally funded organizations that cannot make commitments if they do not know what resources they will have. Councillors, then, should consider their budget well before the fiscal year starts, and vote on it before the year starts. We awarded a top score of 2 if a municipality approved its budget 30 days or more before the fiscal year started, 1 if it approved the budget less than 30 days before the year started and 0 if approval occurred after the year started.

3 This is a superior way to treat cash received for capital projects, including transfers from other levels of government. We stress this point because some municipalities object that PSAS do not allow this treatment and that they therefore should not use accrual accounting in budgets. In fact, PSAS do allow it, and it is a logical approach, both in budgeting and reporting.

Timely publication of financial statements helps councillors and others understand and react to deviations of results from plans. It also encourages faster gathering of information, which helps budgeting by providing more current estimates for the year about to end – the baseline for future plans. We used the date of the auditor’s signature on the financial statements in our scores. Although not ideal – months can pass between the auditor’s signature and the public posting of financial statements – the signature is easier to verify than the financial statements, which are often undated. We awarded a top score of 2 to municipalities with an auditor’s signature no more than 90 days after year-end, 1 to municipalities with a signature more than 90 days but no more than 181 days after year-end and 0 to municipalities with a signature more than 181 days after year-end.

Placement of Key Numbers

Key numbers should be easy to find and identify. No user should have to search through dozens of pages in a document or slides in a deck to find the headline numbers for revenue, expense and surplus or deficit. Although municipal financial statements usually present these numbers early and identify them clearly, many budgets do not. Our score on this criterion reflects where the numbers appeared: closer to the beginning of the document is best, as it reduces the chance that a user will give up, or encounter wrong figures before finding the right ones.

We looked through the most prominently displayed budget documents posted on a municipality’s website, stopping at the first aggregate figures identified as relevant totals. When similar-looking documents appeared equally prominently – similar fonts and colours on clickable

links, for example – we chose the first one in the list or menu.

We referenced the physical budget books and annual reports, or their electronic PDF equivalents.⁴ We began our count at the first physical or electronic page, omitting pages containing tables of contents and lists of tables and figures, since they help readers navigate the document.

We awarded a top score of 3 to municipalities that displayed consolidated revenues and expenses and the surplus or deficit – or, in the case of municipalities with separate operating and capital budgets, their operating and capital totals – within the first 15 pages of the budget document. We awarded a score of 2 to municipalities that presented these numbers from 16 to 30 pages into the document, 1 to municipalities that presented them from 31 to 50 pages in and 0 to municipalities that presented them more than 50 pages in.

We also scored year-end results in annual reports, counting the pages to a table that was clearly a summary statement of operations. We did not scale our scores according to the overall length of the documents – by using percentages, for instance – because long documents are less user-friendly than short ones.

With respect to budgets, we awarded a further point to municipalities that presented operating and capital totals on the same page. Municipalities that presented their budgets on a PSAS basis showed consolidated totals, automatically earning that point. We also looked at the placement of any reconciliation between the budget totals and PSAS-consistent numbers. We awarded 3 points to municipalities that presented the reconciliation within the first 30 pages of their budget documents, 2 to municipalities that presented the reconciliations from 31 to 60 pages in, 1 to

4 Web pages can change without clear dates, making verification hard. Links can create navigation challenges for users that do not lend themselves to quantification in a scoring system.

municipalities that presented the reconciliation after the first 60 pages and 0 to municipalities that presented no reconciliation.

Reliability and Transparency of Numbers

With respect to both budgets and annual reports, we determined if a user could readily find consolidated revenues and expenses and the projected or actual surplus or deficit,⁵ and relate these projections to the projected change in the government's net worth, all presented in accordance with PSAS.

Happily, all the municipalities in our survey satisfied these criteria in their financial statements and received unqualified audit opinions. They earned a top mark of 2 on that criterion, which we weight relatively heavily. We would have awarded 1 to any municipality that nominally conformed to PSAS but received a qualified audit opinion and 0 to any municipality that explicitly did not conform to PSAS.

Unhappily, as explained above, budgets are more complicated. We looked first at whether a municipality presented PSAS-consistent consolidated revenues, expenses and surpluses in its budget. We awarded 1 point for each. We then looked to see if the municipality highlighted PSAS-consistent figures in its budget. We awarded a score of 4 to municipalities that presented PSAS-consistent numbers as their primary exhibit. We awarded 3 to municipalities that did not present

PSAS-consistent numbers as their primary exhibit, but provided a prominent reconciliation to PSAS-consistent numbers. By "prominent," we mean the reconciliation was listed in the table of contents, and/or appeared in the main budget tables and/or had its own section in the text (not in an appendix or supplemental material). We awarded 2 to municipalities that presented a prominent reconciliation to PSAS-consistent numbers but did not explain it. We awarded 1 to municipalities that provided a reconciliation, but did not present it prominently. Municipalities that did not present PSAS-consistent numbers at all, or that presented incomplete numbers that did not help users anticipate what a full reconciliation would show, received 0.

Because many municipalities did not present PSAS-consistent figures in their budgets, we added another criterion: whether a municipality presented gross expenditures – both tax- and rate-supported – to give users a better view of operating spending's projected claim on community resources. We awarded 2 to municipalities that presented gross expenditures as their unique headline measure, 1 to municipalities that presented net and gross expenditures equally prominently and 0 to municipalities that presented only net expenditures in their headline numbers, did not consolidate rate- and tax-supported expenditures and/or otherwise omitted government-controlled entities.⁶ Municipalities that presented PSAS-consistent consolidated expenses got the top mark of 2 on this criterion.

5 In principle, a PSAS-consistent budget can project either a surplus or a deficit. In practice, the municipalities we looked at projected surpluses when they did present PSAS-consistent numbers in their budget and recorded surpluses on a PSAS basis in their financial statements.

6 Quebec amalgamated several municipalities, including Gatineau, Laval, Longueuil, Montreal and Quebec City, in the early 2000s. Municipalities that are part of a larger agglomeration typically present numbers for themselves and the larger entity. We awarded 2 on this criterion to municipalities that showed both with equal prominence, since both numbers help users understand the scope and cost of municipal operations.

Below-the-Line Adjustments

Financial results are easier to understand if the difference between revenues and expenses – the surplus or deficit – relates straightforwardly to the change in the municipality’s net worth, representing its capacity to deliver services, over the fiscal year. A line such as “other comprehensive income or loss” between the year’s surplus or deficit and the associated change in the accumulated surplus or deficit loosens that link, and we penalized those lines for that reason.

This penalty reflects more nuanced considerations than problems such as omitting key numbers or getting a qualified audit. PSAS allow or mandate below-the-line adjustments in some circumstances, such as gains and losses of city-owned enterprises. That example illustrates the justification for such lines: gains or losses on investments the council does not control directly differ from revenues and expenses council does control. It also illustrates why they are problematic: a government that reports such gains and losses has undertakings that expose taxpayers to risks it cannot budget for or control.

So even when used correctly, below-the-line entries indicate a problem: a gap between budget decisions and ultimate changes in a government’s service capacity. Moreover, a government might not reliably honour the principle that such adjustments should relate to matters the budget could not have anticipated – for example, omitting an expense in one year to produce a bigger surplus for that year and reporting that expense in a later year as a reconciliation item that most users likely will ignore.

Because below-the-line adjustments are an obstacle to transparency and accountability, we included a criterion that notes whether a municipality had such an adjustment. We awarded 1 to municipalities without an adjustment and 0 to those with one. The nuances in this area led us to weight this criterion relatively lightly in our overall grade.

Comparability of Projections and Results

A useful budget should show projections for the coming year alongside expected results for the current year – the year about to end – and historical results for at least one year before that. That presentation lets users see whether their municipality expects revenue and expenses to rise or fall, and by how much. It is standard in the budget presentations of Canada’s senior governments.

Unfortunately, none of our 32 cities produced a budget comparing projections to anticipated results for the current year using PSAS-consistent numbers. The prevailing practice is to compare the budget to the previous year’s budget – an approach that would strike most managers of businesses and not-for-profits, and many household budgeters, as silly. Our scoring scheme accommodated that practice – arguably too leniently. We awarded 3 to municipalities that provided a comparison of the budget to the previous year’s budget using PSAS-consistent numbers. We awarded 2 to municipalities that presented comparisons to the previous year’s budget for operating and capital spending, 1 to municipalities that did so for operating spending only and 0 to municipalities that provided no budget comparison.

For their part, financial statements are more useful if they show and explain differences between results and budget plans. Because most municipalities did not present PSAS-consistent budgets, our scoring on this criterion reflected both the availability of any such comparison and the consistency of the accounting that underlay any available comparison. We awarded a score of 3 to municipalities whose financial statements compared results to budget projections, provided that the budget projections in the financial statements contained numbers that matched the numbers in the budget itself. We awarded 2 for financial statements that compared results to budget projections, but showed budget projections

with numbers different from those in the budget itself, as long as the statements reconciled the two sets of numbers. We awarded 1 for financial statements that compared results to projections that did not match the numbers in the budget, with no reconciliation. We awarded 0 for financial statements that did not compare results to budget projections. We awarded a further point for statements that accompanied a budget comparison with explanations for variances of results from projections.

THE 2022 REPORT CARD ON CANADA'S MAJOR MUNICIPALITIES

The points we awarded, based on these criteria, form our 2022 report card on the fiscal accountability of 26 of Canada's most populous cities, plus the 6 most populous regional municipalities in Ontario. Our grades for each are based on their 2022 round of budgets and 2021 round of financial statements.

To produce an overall grade, we standardized the scores for each criterion to be between 0 and 1.⁷ We then weighted the scores based on our judgment of the importance of each criterion to accountability, and summed the weighted scores to produce percentages. We converted the percentages to letter grades on a standard scale: A+ for 90 percent or above, A for 85–89 percent, A– for 80–84 percent, B+ for 77–79 percent, B for 73–76 percent, B– for 70–72 percent, C+ for 67–69 percent, C for 63–66 percent, C– for 60–62 percent, D+ for 57–59 percent, D for 53–56 percent, D– for 50–52 percent and F for less than 50 percent. Our assessments for each criterion and the resulting letter grades for each municipality appear in Table 1.

The Best and Worst for Financial Reporting

The results range from A to D–. The large number of grades below B mainly reflects problems with budgets – notably, failures to show PSAS-consistent revenues, expenses and surpluses, and to present on time.

At the top of the class, with a grade of A, is Richmond, which presented its budget and released its financial statements on a timely basis. Richmond's budget presented its headline figures up-front; it was the only municipality that used PSAS in its main budget presentation, with non-PSAS figures later in the document.

Next came Markham, Surrey, Vancouver and Quebec City, with grades of A–. All approved their budgets before the start of the fiscal year and published their financial statements within 180 days of year-end. What kept them from scoring higher? Surrey did not explain variances between its budget and its financial statements; Vancouver presented its PSAS reconciliation late in its budget; Quebec City did not highlight its PSAS reconciliation; and Markham did not provide a comparison to its previous budget using PSAS-consistent figures.

Saskatoon, Ottawa and York Region earned grades of B+. Saskatoon's and York Region's budgets and financial statements were not timely, and Ottawa's unexplained restatement of budget figures in its financial statements hurt its grade.

Six cities earned grades of B. Burnaby's budget was not timely. Mississauga presented its PSAS reconciliation in an appendix, and only compared its operating budget with previous years. Vaughan's budget, like Mississauga's, only compared its operating budget to its previous budget, and did not explain variances from its budget in its financial statements. Edmonton's budget showed a PSAS-

7 For example, a 1 on a criterion with a maximum score of 2 yields a standardized score on that criterion of 0.50; a 1 on a criterion with a maximum score of 3 yields a standardized score of 0.33.

Table 1: Municipal Fiscal Accountability Scorecard, 2022

Municipality	Financial Statements										Over-all grade	
	Date budget approved	PSAS-consistent headline numbers?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?		Unqualified audit opinion?
Scoring Scheme	2 if ≥30 days early, 1 if <30 days early, 0 if late	1 for PSAS-consistent figures for each of revenue, expense, and surplus	3 if operating <16 pages in; 2 if 16-30 pages in; 1 if 31-50 pages in; 0 otherwise; plus 1 point if operating and capital totals on same page	4 if budget PSAS-consistent; 3 if reconciliation prominent and highlighted/ explained; 2 if reconciliation prominent but not highlighted/ explained; 1 if reconciliation not prominent; 0 if no or incomplete reconciliation	3 if no more than 30 pages in; 2 if 31-60 pages; 1 if >60 pages; 0 if none	3 if PSAS-consistent comparison to previous budget; 2 if comparison of capital and operating to previous budget; 1 if comparison of operating to previous budget; 0 otherwise	2 if gross only and/or PSAS-consistent expense; 1 if gross and net equally prominent; 0 otherwise	2 if ≤ 90 days after year-end, 1 if 91-181 days, 0 otherwise	3 if <16 pages in; 2 if 16-30 pages in; 1 if 31-50 pages in; 0 otherwise	3 if numbers are consistent; 2 if restated but reconciled; 1 if restated but do not match the budget; 0 otherwise; plus 1 point if variances explained	2 if unqualified opinion, 1 if one qualification, 0 otherwise	1 if no; 0 otherwise
Grade Weight	3	1	2	2	1	1	4	3	2	2	5	1
Brampton, ON	08-Dec-21	All	Both: 24	Prominent and highlighted	44	Both	PSAS-consistent expense	26-Apr-22	32	Restated budget figures; variances not explained	Yes	No
Score	1	3	3	3	2	2	2	1	1	2	2	1
Burnaby, BC	25-Jan-22	Expense and surplus	Both: 11	Prominent	66	Both	PSAS-consistent expense	09-May-22	13	Consistent budget figures; variances explained	Yes	No
Score	0	2	4	2	1	2	2	1	3	4	2	1
Calgary, AB	08-Nov-21	None	Both: 8	No PSAS-consistent numbers	None	Both	Gross	25-Apr-22	18	Restated budget figures; variances explained	Yes	Yes
Score	2	0	4	0	0	2	2	1	2	3	2	0
Durham Region, ON	23-Feb-22	Surplus	Both: 12	Neither	8	PSAS-consistent numbers	Net	22-Jul-22	5	Restated budget figures; variances not explained	Yes	No
Score	0	1	4	1	3	3	1	0	3	2	2	1

Table 1: Continued

Municipality	Budget										Financial Statements				Overall grade
	Date budget approved	PSAS-consistent headline numbers?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?	Below-the-line adjustment?			
Grade Weight	3	1	2	2	1	1	4	3	2	2	5	1			
Edmonton, AB	17-Dec-21	Surplus	Both: 3	Prominent	5	Both	Gross	19-Apr-22	5	Restated budget figures; variances explained	Yes	Yes	B		
Score	1	1	4	2	3	2	2	1	3	3	2	0			
Gatineau, QC	31-Jan-22	None	Operating: 3 Capital: 6	No PSAS-consistent numbers	None	Both	Gross	20-May-22	6	Restated budget figures; variances not explained	Yes	No	C-		
Score	0	0	3	0	0	2	2	1	3	2	2	1			
Halifax, NS	12-Apr-22	None	Operating: 15 Capital: 22	No PSAS-consistent numbers	None	Both	Gross	23-Aug-22	7	Restated budget figures; variances not explained	Yes	Yes	D-		
Score	0	0	2	0	0	2	2	0	3	2	2	0			
Halton Region, ON	15-Dec-21	None	Both: 30	No PSAS-consistent numbers	None	Both	Gross	25-May-22	25	Restated budget figures; variances explained	Yes	No	C		
Score	1	0	3	0	0	2	2	1	2	3	2	1			
Hamilton, ON	30-Mar-22	None	Both: 4	No PSAS-consistent numbers	None	Operating only	Gross	22-Jun-22	5	Restated budget figures; variances not explained	Yes	Yes	D+		
Score	0	0	4	0	0	1	2	1	3	2	2	0			
Kitchener, ON	13-Dec-21	None	Both: 2	No PSAS-consistent numbers	None	Operating only	Gross	12-Jul-22	27	Restated figures not reconciled to budget; variances explained	Yes	No	D+		
Score	1	0	4	0	0	1	2	0	2	2	2	1			

Table 1: Continued

Municipality	Financial Statements										Overall grade	
	Date budget approved	PSAS-consistent headline numbers?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?		Unqualified audit opinion?
Grade Weight	3	1	2	2	1	1	4	3	2	2	5	1
Montreal, QC	20-Jan-22	None	Both: 4	No PSAS-consistent numbers	None	Both	Gross	11-May-22	6	Restated budget figures; variances explained	Yes	No
Score	0	0	4	0	0	2	2	1	3	3	2	1
Niagara Region, ON	16-Dec-21	Surplus	Both: 2	Neither	264	PSAS-consistent numbers	Gross	19-May-22	41	Restated budget figures; variances not explained	Yes	No
Score	1	1	4	1	1	3	2	1	1	2	2	1
Oakville, ON	20-Dec-21	None	Both: 8	No PSAS-consistent numbers	None	Operating only	Gross	25-May-22	40	Restated budget figures; variances not explained	Yes	No
Score	1	0	4	0	0	1	2	1	1	2	2	1
Ottawa, ON	08-Dec-21	All	Both: 3	Prominent and highlighted	3	PSAS-consistent numbers	PSAS-consistent expense	23-Jun-22	5	Restated budget figures; variances not explained	Yes	Yes
Score	1	3	4	3	3	3	2	1	3	2	2	0
Peel Region, ON	02-Dec-21	Revenue and expenses	Both: 16	Neither	131	Both	PSAS-consistent expense	27-May-22	3	Restated budget figures; variances not explained	Yes	No
Score	1	2	3	1	1	2	2	1	3	2	2	1
Quebec City, QC	07-Dec-21	All	Both: 10	Prominent	103	PSAS-consistent numbers	PSAS-consistent expense	19-May-22	7	Restated budget figures; variances explained	Yes	No
Score	1	3	4	2	1	3	2	1	3	2	2	1

Table 1: Continued

Municipality	Budget										Financial Statements				Overall grade
	Date budget approved	PSAS-consistent headline numbers?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?	Below-the-line adjustment?			
Grade Weight	3	1	2	2	1	1	4	3	2	2	5	1			
Regina, SK	17-Dec-21	None	Operating: 13 Capital: 14	No PSAS-consistent numbers	None	Operating only	No	15-Jun-22	15	Restated budget figures; variances explained	Yes	No	D		
Score	1	0	3	0	0	1	0	1	3	3	2	1			
Richmond, BC	06-Dec-21	All	Both: 5	No PSAS-consistent numbers	5	PSAS-consistent numbers	PSAS-consistent expense	09-May-22	14	Consistent budget figures; variances explained	Yes	No	A		
Score	1	3	4	4	3	3	2	1	3	4	2	1			
Saskatoon, SK	02-Dec-21	All	Both: 4	Prominent and highlighted	8	Both	PSAS-consistent expense	30-Aug-22	12	Restated budget figures; variances explained	Yes	No	B+		
Score	1	3	4	3	3	2	2	0	3	3	2	1			
Surrey, BC	22-Dec-21	All	Both: 9	Prominent	9	PSAS-consistent numbers	PSAS-consistent expense	26-Apr-22	3	Consistent figures; variances not explained	Yes	No	A-		
Score	1	3	4	2	3	3	2	1	3	3	2	1			
Toronto, ON	17-Feb-22	All	Operating: 6 Capital: 9	Incomplete	17	Both	PSAS-consistent expense	19-Jul-22	7	Restated budget figures; variances not explained	Yes	No	C		
Score	0	3	3	0	3	2	2	0	3	2	2	1			

Table 1: Continued

Municipality	Financial Statements										Overall grade	
	Budget					Financial Statements						
	Date budget approved	PSAS-consistent headline numbers?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?	Below-the-line adjustment?
Grade Weight	3	1	2	2	1	1	4	3	2	2	5	1
Vancouver, BC	07-Dec-21	All	Both: 44	Prominent and highlighted	125	PSAS-consistent numbers	PSAS-consistent expense	08-Mar-22	4	Restated budget figures; variances explained	Yes	No
Score	1	3	2	3	1	3	2	2	3	3	2	1
Vaughan, ON	09-Dec-21	All	Both: 20	Prominent and highlighted	75	Operating only	PSAS-consistent expense	28-Jun-22	5	Restated budget figures; variances not explained	Yes	No
Score	1	3	3	3	1	1	2	1	3	2	2	1
Waterloo Region, ON	06-Dec-21	None	Both: 5	No PSAS-consistent numbers	None	Operating only	Gross	27-Apr-22	5	Restated budget figures; variances not explained	Yes	No
Score	1	0	4	0	0	1	2	1	3	2	2	1
Windsor, ON	13-Dec-21	None	Both: 2	No PSAS-consistent numbers	None	Both*	Gross	02-Aug-22	7	Restated budget figures; variances not explained	Yes	No
Score	1	0	4	0	0	2	2	0	3	2	2	1
Winnipeg, MB	15-Dec-21	All	Both: 20	Neither	292	PSAS-consistent numbers	PSAS-consistent expense	18-May-22	15	Restated figures not reconciled to budget; variances explained	Yes	No
Score	1	3	3	1	1	3	2	1	3	2	2	1
York Region, ON	16-Dec-21	All	Both: 4	Prominent and highlighted	55	Operating only	PSAS-consistent expense	27-Apr-22	34	Consistent budget figures; variances explained	Yes	No
Score	1	3	4	3	2	1	2	1	1	4	2	1

*Windsor had a separate capital budget that is used here.

consistent surplus prominently, but did not show PSAS-consistent revenue or expense. Brampton did not explain its restated budget figures in its financial statements. Winnipeg only provided PSAS reconciliations in supplemental budget material.

Peel Region, Laval and Calgary each earned a grade of B-. Laval's documents were not timely, Peel Region provided PSAS reconciliations for revenue and expense only in supplemental budget material and Calgary did not provide a PSAS reconciliation.

Cities receiving a grade in the C range – Gatineau, Halton Region, Longueuil, Montreal, Niagara Region, Oakville, Toronto, Waterloo Region and Windsor – typically did not present PSAS reconciliations in their budgets. Toronto's PSAS reconciliation was incomplete and misleading, including only adjustments that hurt the bottom line, and omitting those that helped it. Toronto's budget and financial statements were not timely. Niagara Region presented only its surplus on a PSAS basis.

Durham Region, Kitchener, London and Hamilton earned grades of D+. Hamilton approved its budget late, presented budget numbers in its financial statements that did not match those in the budget and did not explain variances from budget. London provided partial PSAS reconciliations in its budget, but did not present the full picture. Durham Region benefited from our lenient use of the date of the auditor's signature for the release of its financial statements: it did not actually publish the statements until the end of 2022. Regina's grade of D is largely due to its practice of splitting its budget into four presentations: operating versus capital activities divided by sources of funds.

Halifax earned a D-. Its budget and its financial statements were late, the budget did not present PSAS-consistent numbers, variances from budget were not explained in its financial statements, and the financial statements had below-the-line adjustments.

Weights in grading inevitably involve judgments on which reasonable people may differ. A test of the sensitivity of our 2022 grades to the weights we chose is to compare those grades with the grades that would have resulted from equal weights for each criterion. That exercise would produce an average absolute change across the 32 municipalities of one degree – the difference between B and B-, for example. The correlation between the rankings using weighted and non-weighted criteria is 94 percent; the correlation between the numerical grades using weighted and non-weighted criteria is also 94 percent.

Changes in Grading and Grades

Notwithstanding the mixed impression left by the grades we present in Table 1, improvements have occurred over the period in which the C.D. Howe Institute has been publishing report cards on municipal fiscal transparency. Particularly notable is the prevailing adherence to PSAS in financial statements and the gradual adoption of more PSAS-consistent numbers in budgets, which allows better comparisons of projections with results and vice versa. This improvement prompted changes in our scoring system.

Report cards prior to 2021 focused on expenses only, since the flows of money in and out of reserves make the revenue side of budgets on a cash basis all but impossible to follow. Accordingly, the report cards scored the prominence of the presentation of expense numbers, regardless of whether they were PSAS-consistent. The 2021 report card applied a criterion of conformity with PSAS in budgets more broadly, looking for PSAS-consistent revenue, expenses and surplus. The criteria related to reconciliations with PSAS in budgets and comparisons of budget projections with the previous year also changed to reflect this emphasis, aligning the 2021 report card better

Table 2: Sensitivity of Results to Grading Scheme (for 2022)

	2019	2020	2021 <i>(as published)</i>	2021 <i>(using 2022 scheme)</i>	2022
Brampton	B	B-	B	B-	B
Burnaby	C-	B-	B	B-	B
Calgary	B-	B	C	C+	B-
Durham Region	F	C-	C	D	D+
Edmonton	D-	F	C	C-	B
Gatineau	C	C+	B-	C	C-
Halifax	D+	C-	D	F	D-
Halton Region	B-	B	B-	C+	C
Hamilton	D-	C-	B-	C	D+
Kitchener	D	D+	C-	D-	D+
Laval	F	C+	A-	B	B-
London	F	F	B-	C-	D+
Longueuil	C	C+	C	C-	C+
Markham	C+	A	A-	B	A-
Mississauga	C+	C+	C+	C	B
Montreal	C+	B	B	B-	C
Niagara Region	D	B	C	D+	C+
Oakville	-	-	-	-	C-
Ottawa	D+	B	C	C-	B+
Peel Region	C	B	B	B-	B-
Quebec City	C	B	A	A-	A-
Regina	D-	D	F	F	D
Richmond	A-	A	A-	A-	A
Saskatoon	D-	D-	F	F	B+
Surrey	A-	A+	A	A-	A-
Toronto	D	C+	B-	C+	C
Vancouver	A+	A+	A+	A	A-
Vaughan	D+	B-	A-	A-	B
Waterloo Region	D+	C	B-	B-	C+
Windsor	F	C	C	D	C
Winnipeg	C	C-	B	B-	B
York Region	B	A	B	B-	B+

Note: Changes in grades reflect both changes in governments' financial reporting, and changes in our grading system, as described in the text.

with the C.D. Howe Institute's report cards on Canada's senior governments.⁸ In 2022, we have refined our criterion related to the prominence, and explanation, of reconciliations between non-PSAS-consistent and PSAS-consistent budget numbers.

Our criterion related to budget approval dates was more lenient in previous report cards, awarding a top score to any budget that preceded the start of the fiscal year. This year, we awarded the top mark to budgets approved more than 30 days before the start of the fiscal year. This change also aligns the 2022 report card better with the report card on Canada's senior governments.

Table 2 compares the grade of each municipality in 2022 to the grades it earned in previous years, showing both the grade each municipality earned in the 2021 report card and the grade it would have earned in 2021 if we had used the 2022 report card's criteria and weights that year.

Comparing the 2022 grades to the 2021 grades each municipality would have earned under the 2022 scheme, we see marked improvements in several cases. Saskatoon jumped to B+ from F by including PSAS-consistent expenses in its budget, improving the reconciliation between results and budget in its financial statements, and presenting its headline figures nearer the front of both documents. Ottawa improved its grade thanks to PSAS reconciliations presented early in its 2022 budget. Markham improved its grade by moving headline figures closer to the front of its budget and its financial statements. Kitchener released its 2022 budget before the start of the fiscal year, which helped it move from the bottom to closer to the middle of the class. Calgary improved its grade by clearly identifying its budget for 2022, unlike its previous practice of presenting a multiyear document. Edmonton has made many improvements in its budgets in recent years, including showing a PSAS-consistent surplus in 2022.

Declines were, happily, less common. Among the municipalities with lower grades, later presentation of budgets and financial statements was a common problem. Also happily, several strong performers maintained their scores in the A range, with Richmond, Surrey and Vancouver standing out for consistently top-level results, and Markham and Quebec City also registering as strong performers in recent years.

DOES MUNICIPAL FISCAL TRANSPARENCY MATTER?

Relevant, accurate and accessible financial documents alone cannot ensure that city governments will serve their citizens' interests. However, they are an essential foundation for citizens and legislators to understand and act on problems the numbers reveal.

Surprising Results

Budgets that do not reconcile with financial statements impede people's ability to compare budget plans to past results. Instead of operating with up-to-date information, most municipal councils develop their budgets with reference to past budgets – a practice that people unfamiliar with municipal governments, and even many who work in them, acknowledge makes little sense. Budgeting with reference to actual and anticipated results is better.

Inability to compare intentions and results reduces the attention councillors, the media and the public pay to municipal budgets. Why struggle to understand a budget that experience suggests you will not be able to compare with the outcome? Consider what would happen if a diligent but non-expert councillor delved into a municipality's operating and capital budgets and did what a

8 The most recent is Robson and Dahir (2022).

Table 3: Budgeted Spending versus Actual Expense, 2021

Municipality	Expense/Spending in Budget (\$ billion)	Expense in Financial Statements (\$ billion)	Difference (percent)
<i>Brampton</i>	0.87	0.85	-2
<i>Burnaby</i>	0.55	0.52	-5
Calgary	7.15	3.98	-44
Durham Region	1.87	1.43	-23
Edmonton	4.83	3.09	-36
Gatineau	1.12	0.73	-35
Halifax	1.18	1.09	-8
Halton Region	1.46	0.95	-35
Hamilton	2.72	1.92	-29
Kitchener	0.55	0.38	-32
<i>Laval</i>	1.18	1.18	0
London	1.27	1.20	-6
Longueuil	0.65	0.90	38
<i>Markham</i>	0.46	0.40	-13
<i>Mississauga</i>	0.94	0.95	1
Montreal	8.22	7.49	-9
Niagara Region	1.56	1.03	-34
Oakville	0.43	0.28	-34
Ottawa	5.10	3.94	-23
<i>Peel Region</i>	2.66	2.68	1
<i>Quebec City</i>	1.67	1.66	-1
Regina	0.82	0.66	-19
<i>Richmond</i>	0.51	0.47	-7
Saskatoon	0.83	0.89	7
<i>Surrey</i>	0.87	0.88	1
<i>Toronto</i>	11.88	13.24	11
<i>Vancouver</i>	1.88	1.77	-6
<i>Vaughan</i>	0.84	0.55	-35
Waterloo Region	1.69	1.21	-28
Windsor	1.04	0.82	-21
<i>Winnipeg</i>	1.74	1.75	1
<i>York Region</i>	2.43	2.30	-5

Source: Authors' calculations from municipal financial documents.

motivated but naïve person might do to calculate spending: add the operating and capital totals together. The numbers this approach would have yielded during the 2021 municipal budget round appear in Table 3, where we compare them with the expenses reported in each city's 2021 financial statements.

To pick a dramatic example, Calgary's 2021 budget projected \$7.15 billion in spending, while its 2021 financial statements showed \$3.98 billion in expense. This 44 percent gap is large enough that an expert with time to spare might suspect an accounting discrepancy and start to read the fine print. A non-expert, struggling with financial reporting that we awarded a grade of C+, might think the city is incompetent or publishing meaningless numbers. Many other municipalities had discrepancies between their 2021 budgets and results that would lead a councillor who adds operating and capital together to conclude that the city's execution or disclosure was widely off: in 9 of the 32 municipalities we examined, the gap a numerate but non-expert reader would calculate was 30 percent or more.

The differences in Table 3 should reflect municipalities' over- or underspending relative to their budget commitments – an appropriate topic for councillors to take up with staff and explain to their constituents. But many of the biggest differences reflect inconsistent accounting. Municipalities that present PSAS-consistent budgets or very prominent PSAS reconciliations will still have variances between projections and results: even well-managed businesses, households, not-for-profits and governments do not hit their budget targets exactly. But the variances of municipalities presenting PSAS-consistent budgets

tend to be smaller. The average of the absolute values of the variances for the 14 municipalities that presented PSAS-consistent budgeted expenses was 6 percent; the average for the 18 that did not was 26 percent.

Aside from feeding an impression that city finances are out of control or incomprehensible, discrepancies between non-PSAS-consistent budgets and PSAS-consistent financial statements create particular problems. The apparent high price tag on capital projects in municipal budgets can discourage capital investments, and encourage cities to charge too much up front for the projects they undertake. Some cities, notably in Ontario, accumulate significant deferred revenue, or reserves, holding financial assets in respect of capital projects that might not be built for years, if ever.

A related point is the high profile of the annual panic over balancing the city's budget and the low profile of the sizable annual surpluses cities typically show in their financial statements. The 32 municipalities in this survey had surpluses totaling over \$13 billion in 2021 and accumulated net worth of \$244 billion (Table 4).

Cities are in better fiscal shape than most Canadians know. Cities might invest in needed infrastructure more readily if confidence in their capacity to deliver services in the future was higher.

Financial Presentations Can Affect Decisions

Disagreements between governments and auditors or other outside observers over financial presentations offer indirect but powerful testimony about the importance of these presentations. Battles between senior governments and legislative auditors show that governments think the presentation of

Table 4: Annual and Accumulated Surpluses in 2021 Financial Statements

Municipality	Annual Surplus (\$ billion)	Accumulated Surplus (\$ billion)
Brampton	0.11	4.52
Burnaby	0.43	5.10
Calgary	1.11	22.93
Durham Region	0.25	6.32
Edmonton	0.79	16.56
Gatineau	0.11	2.19
Halifax	0.05	2.36
Halton Region	0.35	7.49
Hamilton	0.22	6.69
Kitchener	0.11	1.71
Laval	0.03	2.75
London	0.28	5.08
Longueuil	0.07	1.12
Markham	0.45	5.22
Mississauga	0.19	9.40
Montreal	1.53	13.49
Niagara Region	0.16	2.06
Oakville	0.09	2.31
Ottawa	1.39	17.13
Peel Region	0.63	13.15
Quebec City	0.35	4.94
Regina	0.09	2.54
Richmond	0.10	3.49
Saskatoon	0.19	4.81
Surrey	0.31	9.92
Toronto	2.00	30.43
Vancouver	0.58	8.72
Vaughan	0.23	10.05
Waterloo Region	0.18	3.12
Windsor	0.10	2.54
Winnipeg	0.10	6.98
York Region	0.67	9.30
Total	13.26	244.40

Source: Authors' calculations from municipal financial documents.

financial information matters: why risk a qualified opinion unless the presentation of misleading numbers offers some political reward?⁹

The persistence of cash accounting in municipal budgets is partly a matter of inertia, but there is more to it than automatically repeating the previous year's routine. Advocates of cash accounting and balanced operating budgets expect the presentations they prefer to produce different outcomes than budgets prepared in accordance with PSAS. Commenting on past iterations of this report card, some municipal officials have noted the better-looking bottom lines in PSAS-consistent presentations and argued that non-PSAS budgets blunt pressures to spend and borrow. But shaping a budget presentation to produce a desired outcome is problematic in principle, and can distort decisions in regrettable ways.¹⁰

The current acute concern about housing affordability makes one particular problematic money-raising practice worth highlighting: the infrastructure charges some cities levy on developers. These charges, which are a key financing mechanism for municipal capital assets, can be as high as \$100,000 in the Greater Toronto Area and almost \$50,000 in some cities in British Columbia (Dachis 2020). Hitting new homebuyers with these charges is not equitable. Water and other infrastructure provide benefits over wider areas and longer periods. To the extent that cash budgeting

for capital encourages these charges, it makes new homes less affordable.

IMPROVING FISCAL ACCOUNTABILITY IN CANADIAN CITIES

A smart and motivated, but non-expert, councillor or taxpayer should be able to pick up a municipality's budget and financial statements and quickly and easily find consolidated revenue and expense figures. This user should also be able to compare budget projections with past experience and results in the financial statements to the budget for that year. The information should be timely enough to inform budget decisions and votes, and budgets should pass before revenues are collected and expenses incurred. In the past, the budgets and financial statements of most Canadian senior governments typically failed to meet these standards, but they have improved over time (Robson and Dahir 2022). Municipal budgets and financial statements have also improved. Several further steps could earn more of Canada's municipalities an A grade on our report card.

Adopt PSAS-Consistent Accounting in Budgets

Municipalities should prepare their budget using the same PSAS-consistent accounting they use in

9 A salient senior-government example occurred in the late 1990s and early 2000s when Ottawa prebooked large amounts of spending, artificially reducing surpluses (Robson 1999; Robson and Wu 2021). More recently, the auditors general of Ontario and Quebec objected to presentations that reduced these provinces' reported annual and accumulated deficits (see Robson and Dahir 2022).

10 The power of accounting to shape perceptions and potential policy was clear when Ontario's 2019 budget anticipated a provincial takeover of the Toronto subway. Although the province can support municipal investments with transfer payments, the budget said "provincial ownership of the assets would allow the Province to amortize its capital contributions.... This ownership transaction ultimately creates the fiscal space to allow the Province to significantly deepen its commitment to transit and start projects immediately, not sometime in the distant future." The illusion that the subway was cheaper to build if provincially owned only existed because the city of Toronto did not budget capital on an accrual basis (Robson 2019). The proposal failed on other grounds, but would never have come forward at all if Toronto had budgeted using PSAS.

their financial statements. Numbers that are directly comparable are much more transparent. Further, accrual accounting would modernize municipal capital budgeting, expensing long-lived assets as they deliver services, rather than showing massive cash outlays up front and nothing later. Readers of the budget would see the same consolidated measures of revenues and expenses – and the more meaningful surpluses – they see in financial statements, including all entities that the municipal government controls and that depend on it for financing.

Some municipal officials argue that cash budgeting for capital is easier for councillors to understand, and that separate presentations of tax- and rate-supported services are more meaningful for citizens. It is fine to present supplementary information, but the PSAS-consistent numbers should come first. Even cities that do not present PSAS-consistent budgets have noted the superiority of the PSAS framework. Toronto's 2021 budget states that complying with PSAS and producing an accrual budget "provides more information as to whether the government entity... is in a better or worse position than the previous year" (City of Toronto 2021, 18). Brampton's 2022 budget notes that "full accrual budgeting provides stakeholders with a better reflection of the long-term financial health of the municipality for decision-making purposes" (City of Brampton 2022, 46). We agree. Accrual matches revenues and expenses better than tracking cash does, and matches costs and benefits to taxpayers and citizens better over time.

One barrier to PSAS-consistent budgets in many cities is provincial regulations. Alberta requires separate operating and capital budgets. Ontario requires its municipalities to balance their operating budgets, including transfers to and from reserves.

British Columbia requires its municipalities to include debt principal repayments in their spending. These requirements are odd on their face since most provinces adhere to PSAS in their own budgets, and none objects to PSAS in municipal financial statements – indeed, Quebec mandates that its municipalities provide the province PSAS-consistent versions of their budget.

In any event, requirements that discourage municipalities from using PSAS-consistent numbers in some budget functions do not prevent them from presenting the numbers themselves. Notwithstanding British Columbia's regulations, Richmond produced a budget that matched its financial statements, and Surrey produced PSAS-consistent numbers that were up-front, straightforward and easy to understand. All cities can, and should, do likewise. The introductions by mayors and city managers in the opening pages of a typical municipal budget are excellent places to present PSAS-consistent summaries of the budget's revenues, expenses and expected surplus.¹¹

Provide Comprehensive Figures

Although PSAS prescribe a single figure for consolidated revenues and consolidated expenses, and an annual surplus or deficit that reflects the difference between the two, municipal budgets commonly separate fee- and tax-supported services. Consolidated figures are better: they provide a more complete picture of a city's operations and their implications for its future capacity to deliver services.

Nothing in the presentation of consolidated figures restricts a city's ability to adjust rates and property taxes. Budgets can also show the split between costs households can control – by using less water, for example, or smaller garbage

11 Modern financial statements include a schedule of changes in cash. Governments that wish to highlight cash transactions and balances can provide such schedules pro forma with their budget and provide reconciliations with the budget plan in their financial statements.

bins – and taxes they cannot. But that should be supporting information, not a distraction from the PSAS-consistent numbers.

With respect to municipalities' bottom lines, provinces that wish to constrain their municipalities could change their requirement for balanced operating budgets to refer to the surplus calculated according to PSAS and the resulting change in the municipality's accumulated surplus. These are familiar figures at the senior government level, and would give users vital information in a widely understood format.

Limit Below-the-Line Adjustments

Whatever the justifications for below-the-line entries, they drive a wedge between the annual surplus and the change in the accumulated surplus over the year. Budgets do not anticipate them, and most users ignore them, making them obstacles to accountability. If owning a utility or other investments is affecting a municipality's capacity to deliver services, an opaque adjustment below the formal surplus discourages a conversation that might be useful. Particularly if the impact is negative, people should talk about dealing with it, or perhaps disposing of a liability.

Present Key Figures Early and Unambiguously

No one, expert or not, should have to dig through dozens or even hundreds of pages of a document or slide deck to find a municipality's consolidated revenues, expenses and its surplus or deficit. Nor should a user come across more than one candidate for these numbers and have to ponder which is correct. The summary in Table 1 understates the obstacle that obscure and fragmented presentations create for users of municipal budget documents. We invite readers to check the budget documents

produced by their own municipality. Too often, the search will involve multiple hyperlinks, reams of pages and many numbers a non-expert might think are the right ones, but are not.

Early and unambiguous presentation is easy. Among senior governments, Yukon presented the key consolidated figures on page 8 of its fiscal year 2021/22 budget and on page 9 of its 2020/21 public accounts. Municipalities should follow that example. Vancouver's 2021 annual report showed its year-end results on page 4. Prominent display of the key numbers helps the municipality explain their content and importance to councillors, the media and taxpayers.

Show and Explain Variances between Results and Projections

Municipalities should reconcile their year-end results with their budget projections, using common accounting methods, consistent numbers and informative commentary. We also encourage municipalities to follow the valuable practice of the federal and many provincial and territorial governments and publish in-year reports that, using PSAS-consistent accounting, compare interim results to plans.

Publish Timely Budgets and Financial Statements

Prompt presentation of budgets and timely publishing of financial statements are key elements in accountability. Councillors should approve spending before it occurs, and should have timely information on the year under way when they start their discussions of the next year's budget.

Municipalities that use a calendar year for financial purposes should vote on their budget well before January 1, and publish their financial

statements before April 30. Some provinces impede timely presentations with regulations,¹² others are slow to frame their own budget; they should change the rules and ensure that their work is timely.¹³

THE FINANCES OF CANADA'S MUNICIPALITIES SHOULD BE MORE TRANSPARENT

Cities are central to the lives of most Canadians and absorb a commensurately large share of Canadians' incomes. Councillors, taxpayers and voters need clear information about their municipality's finances if they are to hold officials and elected representatives to account for the quality and cost of municipal services. Cities will be under extra financial stress in the post-COVID era, elevating

the importance of good understanding of, and intelligent debate about, municipal finances.

The budgeting practices of most major Canadian municipalities are not up to the mark. Before Canadians grant their cities more taxing powers or increase the support cities receive from senior governments, they should insist on better transparency and accountability from cities themselves. PSAS-consistent budgets that users can compare easily with their subsequent financial statements, as well as financial information that is more accessible and timely, would help raise the financial management and fiscal accountability of Canada's cities to a level more in line with their importance in Canadians' lives.

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- 12 Ontario's *Municipal Act* prevents municipalities from approving a budget for the year following an election in the same year as the election. As a result, municipal elections in October 2018 prevented Ontario municipalities from presenting their 2019 budgets until January 2019. Many did not present until February, March or even April – which is not consistent with legislative control of public funds.
 - 13 Only Halifax has a fiscal year that aligns with the fiscal year of its province. Aligning all municipal fiscal years with provincial fiscal years, which run from April 1 to March 31, would alleviate the problem that municipalities must present a budget before they know what transfers will figure in their province's budget. Absent such a far-reaching change, municipalities must simply do the best they can. Waiting for the provincial budget guarantees that a large share of the year's spending will occur without legislative authorization.

BUDGETS AND FINANCIAL STATEMENTS REFERENCED

Government	Budgets	Accessible at	Financial Statements	Accessible at
Brampton	2022 Approved Operating and Capital Budgets	http://www.brampton.ca/EN/City-Hall/budget/2022%20Budget/2022%20Approved%20Operating%20and%20Capital%20Budget_accessible.pdf	2021 Annual Report	https://www.brampton.ca/EN/City-Hall/Annual-Report/Documents/2021_Annual_Report.pdf
Burnaby	2022-2026 Financial Plan	https://www.burnaby.ca/sites/default/files/acquiadam/2022-05/2022-2026-Financial-Plan.pdf	2021 Annual Municipal Report	https://www.burnaby.ca/sites/default/files/acquiadam/2022-05/2021-Annual-Municipal-Report.pdf
Calgary	One Calgary 2019-2022 Service Plans and Budgets/ 2022 Adjustments to Capital and Operating Schedules	https://www.calgary.ca/cfod/finance/plans-budgets-and-financial-reports/plans-and-budget-2019-2022/service-plans-and-budgets.html , https://www.calgary.ca/content/dam/www/cfod/finance/documents/plans-budgets-and-financial-reports/plans-and-budget-2019-2022/2022-adjustments-capital-and-operating-schedules.pdf	The City of Calgary 2021 Annual Report	https://www.calgary.ca/content/dam/www/cfod/finance/documents/plans-budgets-and-financial-reports/annual-reports/annual-report-2021.pdf
Durham Region	Regional Municipality of Durham Consolidated Property Tax Supported Business Plans and Budgets	https://www.durham.ca/en/resources/Proposed-2022-Property-Tax-Supported-Business-Plans-and-Budgets.pdf	Consolidated Financial Statements 2020/21	https://www.durham.ca/en/resources/2021-Regional-Municipality-of-Durham-Audited-Financial-Statements.pdf
Edmonton	2022 Operating Budget & 2022 Capital Budget	https://www.edmonton.ca/sites/default/files/public-files/assets/PDF/2022BudgetHighlights.pdf	2021 Annual Report	https://www.edmonton.ca/sites/default/files/public-files/2021FinancialAnnualReport.pdf
Gatineau	Budget 2022	https://www.gatineau.ca/docs/guichet_municipal/administration_municipale/budget/budget_2022/budget_fr-CA.pdf	Rapport Financier Consolidé	https://www.gatineau.ca/upload/documents/d6464570-e357-4bb0-8f1a-354ad7d8d6eb.pdf
Halifax	2022 2023 Budget and Business Plan	https://cdn.halifax.ca/sites/default/files/documents/city-hall/budget-finances/BudgetBook_2022_23_FINAL.pdf	Consolidated Financial Statements	https://www.halifax.ca/media/78900
Halton Region	Halton Region Budget and Business Plan 2021	https://www.halton.ca/Repository/2022-Budget-and-Business-Plan-Budget-Report	Annual Financial Report	https://www.halton.ca/Repository/2021-Annual-Financial-Report
Hamilton	2022 Approved Operating and Capital Budget	https://www.hamilton.ca/sites/default/files/2022-11/Budget_2022-Approved-Operating-Capital-Book-sm.pdf	Financial Report 2020/deadlink	https://www.hamilton.ca/sites/default/files/2022-09/2021-COH-financial-statement.pdf
Kitchener	City of Kitchener Consolidated Budget Information	https://www.kitchener.ca/en/resourcesGeneral/Documents/FIN_FP_2022_Consolidated_Budget_Book.pdf	Financial Report	https://www.kitchener.ca/en/resourcesGeneral/Documents/FIN_FP_2021_Financial_Report.pdf

Laval	Budget 2022 et programme triennal d'immobilisations 2022-2024	https://www.laval.ca/Documents/Pages/Fr/A-propos/finances/budget-2022.pdf	Rapport financier annuel 2021	https://www.laval.ca/Documents/Pages/Fr/A-propos/finances/rapport-financier-consolide-2021.pdf
London	2022 Annual Budget Update	https://london.ca/sites/default/files/2022-02/2022%20Approved%20Annual%20Budget%20Update.pdf	The Corporation of the City of London	https://london.ca/sites/default/files/2022-07/2021%20Financial%20Report%20Website.pdf
Longueuil	Budget 2022 Compétences D'agglomération	https://cms.longueuil.quebec/sites/default/files/medias/2021-12/Budget_2022_Ville_de_Longueuil.pdf	Rapport Financier 2021	https://cms.longueuil.quebec/sites/default/files/medias/2022-05/Rapport%20financier%202021_0.pdf
Markham	2022 Budget	https://www.markham.ca/wps/portal/home/about/city-hall/property-tax-water-budgets-annual-reports/files/budget-documents/2022-budget-document	City of Markham Annual Report	https://www.markham.ca/wps/portal/home/about/city-hall/property-tax-water-budgets-annual-reports/files/annualreports/annual-report-2021
Mississauga	2022 Budget	https://www.mississauga.ca/wp-content/uploads/2022/03/16082448/2022_Budget_Full_File_Approved.pdf	2021 Financial and Sustainability Report	https://www.mississauga.ca/wp-content/uploads/2022/09/06152856/City-of-Mississauga-Annual-Financial-and-Sustainability-Report-2021.pdf
Montreal	Montréal Budget 2022 PDI 2022-2031	https://portail-m4s.s3.montreal.ca/pdf/budget2022_pdi_2022-2031_faitssaillants_final_web.pdf	Annual Financial Report	https://portail-m4s.s3.montreal.ca/pdf/rapport_financier_mamh_2021_version_finale_1.pdf
Niagara Region	Twenty22 Niagara Region Budget Summary	https://www.niagararegion.ca/government/budget/pdf/budget-summary-2022.pdf	2021 Annual Financial Report	https://www.niagararegion.ca/government/budget/finance/annual-reports/pdf/2021-annual-report.pdf
Oakville	2022 Approved Operating and Capital Budget	https://www.oakville.ca/assets/general%20-%20town%20hall/2022-Approved-Operating-and-Capital-Budget.pdf	Annual Report 2021	https://www.oakville.ca/assets/general%20-%20town%20hall/AnnualReport-2021.pdf
Ottawa	Budget 2022	https://documents.ottawa.ca/sites/documents/files/2022_Adopted_Budget_Book_English_CondensedAODA.pdf	Annual Report 2021	https://documents.ottawa.ca/sites/documents/files/2021%20Consolidated%20Financial%20Statements%20for%20City%20of%20Ottawa%20-%20English%20%28Signed%29-AODA.pdf
Peel Region	Budget 2022	https://www.peelregion.ca/budget/2022/ media/2022-budget.pdf	2021 Audited Financial Statements	https://www.peelregion.ca/finance/ media/2021-audited-financial-statements.pdf
Quebec City	Budget 2022	https://www.ville.quebec.qc.ca/apropos/profil-financier/docs/Budget2022_Detaille.pdf	Rapport Financier 2021	https://www.ville.quebec.qc.ca/publications/docs_ville/rapport_financier_2021.pdf

Regina	"2022 General Operating Budget 2022-2026 General Capital Plan 2022 Utility Operating Budget 2022-2026 Utility Capital Plan"	https://www.regina.ca/export/sites/Regina.ca/city-government/budget-finance/.galleries/pdfs/2022-Proposed-Budget-Book.pdf	2021 Annual Report	https://www.regina.ca/export/sites/Regina.ca/city-government/budget-finance/.galleries/pdfs/2021-Annual-Report.pdf
Richmond	Consolidated 5 Year Financial Plan (2022-2026)	https://www.richmond.ca/_shared/assets/Consolidated_5YF_PHighlights59637.pdf	2021 Annual Report	https://www.richmond.ca/_shared/assets/2021annualhighlights62804.pdf
Saskatoon	2022-2023 Approved Detailed Operating & Capital Budget	https://www.saskatoon.ca/sites/default/files/documents/2022-2023-approved_business_plan_and_budget.pdf	2021 Annual Report	https://www.saskatoon.ca/sites/default/files/documents/asset-financial-management/finance-supply/cos_2021-annualreport-final_web.pdf
Surrey	Financial Plan 2022-2026	https://www.surrey.ca/sites/default/files/media/documents/2022-2026SurreyFinancialPlan.pdf	2021 Annual Financial Report	https://www.surrey.ca/sites/default/files/media/documents/2021AnnualFinancialReport.pdf
Toronto	2022 City of Toronto Budget Summary	https://www.toronto.ca/wp-content/uploads/2022/05/95be-2022-City-of-Toronto-Budget-Summary.pdf	2021 City of Toronto Financial Report	https://www.toronto.ca/wp-content/uploads/2022/08/8f03-City-of-Toronto-YE-2021-AFR-08-15-2022.pdf
Vancouver	Vancouver Budget 2022 and Five-Year Financial Plan	https://vancouver.ca/your-government/capital-and-operating-budget-document.aspx	Annual Financial Report	https://vancouver.ca/files/cov/2021-financial-statements.pdf
Vaughan	Budget Book Volume 1: 2022 Budget and 2023-2026 Financial Plan	https://www.vaughan.ca/cityhall/city_budgets/PublishingImages/2022%20Budget%20and%202023-2026%20Capital%20Plan.pdf	The Corporation of the City of Vaughan	https://www.vaughan.ca/cityhall/accounting/General%20Documents/2021%20-%20The%20Corporation%20of%20The%20City%20of%20Vaughan%20FS%20Consolidated.pdf
Waterloo	2022 Final Budget Book	https://www.regionofwaterloo.ca/en/regional-government/resources/Region-of-Waterloo---2022-Final-Budget-Book.pdf	Consolidated Financial Statements	https://www.regionofwaterloo.ca/en/regional-government/resources/Budget/2021-Region-of-Waterloo-Consolidated-FS.PDF
Windsor	2022 Operating Budget (capital https://www.citywindsor.ca/cityhall/Budget/Documents/2022%20Approved%20Operating%20Budget%20(v4).pdf)	https://www.citywindsor.ca/cityhall/Budget/Documents/2022%20Approved%20Operating%20Budget%20(v4).pdf	2021 Annual Report	https://www.citywindsor.ca/cityhall/-Financial-Documents/Documents/2021%20City%20of%20Windsor%20Annual%20Report%20-%20FINAL.pdf
Winnipeg	2021 Adopted Budget Operating and Capital Volume 2	https://winnipeg.ca/finance/files/2022AdoptedOperatingCapitalBudget.pdf	2021 Annual Financial Report	https://winnipeg.ca/finance/files/2021AnnualReport.pdf
York Region	2022 Budget	https://www.york.ca/media/99956/download	2021 Community Report	https://www.york.ca/media/106961/download?attachment

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