

Intelligence MEMOS



From: William B.P. Robson

To: Toronto Budget Watchers

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Re: **TORONTO'S ANNUAL BUDGET PANIC IGNORES ITS SURPLUS**

The annual panic over the City of Toronto budget is peaking. The 2024 version stands out in a bad way, with a double-digit tax increase proposed for homeowners and many businesses. Yet much of the ritual is familiar. For one thing, it is late: The city is already collecting and spending money council has not approved. Worse, the dire numbers just released by city staff are long on alarm and short on useful information.

Suppose you are preparing a year-ahead budget for your family, or a business or non-profit (which, of course, you do before the year begins). You start with recent experience. Your last complete year is key, because you have actual revenue and expenses for a full year, and know the difference between them – your surplus or deficit. The current year isn't yet over, so you need some estimating for the final months, but you have a pretty good idea of your revenue and expenses, and surplus or deficit. Now you are ready to look ahead – pencil in revenue and expenses for the coming year, and see what they imply for your bottom line. If you like the result, great. If not, you adjust for a result you can live with.

The stuff Toronto has released is nothing like that. Audited results for 2022? Not there. Estimated results for 2023? Not there either. Anticipated results for 2024 – and the implications for the bottom line and the city's capacity to provide services in the future? Also not there.

The only comparisons offered are with previous budgets, and previous budgets have been next to useless for predicting results. To see how useless, you need to go to Toronto's annual reports. In stark contrast to its budgets, its annual reports are models of clarity, with a single page showing consolidated revenue, expenses and surpluses.

You read that right: Surpluses. The year 2023 just ended, so we don't have the audited information for it yet – but we can look at 2022. That year also started with a panic about tax hikes and service cuts. After year-end, the annual report showed \$15.7 billion in revenue and \$13.9 billion in expenses. Toronto's surplus in 2022 was \$1.8 billion.

What about 2021, which also started with its own version of the annual budget panic? That year's annual report showed \$15.2 billion in revenue and \$13.2 billion in expenses, for a surplus of \$2 billion. And 2020 – the year that COVID-19 hammered the economy and forced myriad health and other protective measures? Revenue of \$14.1 billion and expenses of \$12.5 billion. A surplus of \$1.6 billion.

As regularly as it panics over its budgets, Toronto runs big surpluses. Spending rises, no surprise there. But so does revenue. Year after year, more than one in every 10 dollars of Toronto's revenue has flowed through to a surplus on the bottom line. The city's accumulated surplus – the measure of net worth that represents its ability to deliver services – stood at \$32.3 billion at the end of 2022.

Anyone who knows this history would bet that Toronto ran another healthy surplus in 2023. Notwithstanding the peaking budget panic, I'll stake my soon-to-jump property tax bill that Toronto will run yet another one this year.

The discrepancies between the mess Toronto just presented and the budget we should get – one consistent with the audited financial statements in its annual report – are many. The worst is that the annual report, as is appropriate, amortizes capital projects, showing their expenses over the years that the assets deliver their services. But the material just released shows capital outlays as cash, as though a subway train were like a cup of coffee, gone after one use.

This discrepancy does more than prevent comparisons between budgets and results. Exaggerating the cost of capital discourages investments in infrastructure. It also encourages collecting too much money upfront for the projects that do proceed. So, adding to the dissonance between the annual budget panic and end-of-year surpluses, Toronto is piling up cash. At the end of 2022, its financial assets totalled \$16.7 billion – up \$4.4 billion since 2019, despite the pandemic.

Torontonians don't need another panic. They need city staff to produce a budget that they and voters can understand. If councillors hear that the material just released, including cash accounting for capital, is "what we have always done," they should push back, and demand straightforward comparisons with past years, and straightforward projections of how the budget will play out this year. Better information and less panic – we'd have smaller tax hikes, and Toronto might even pass its 2025 budget on time

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A version of this Memo first [appeared](#) in The Globe and Mail.