Institut C.D. HOWE Institute

COMMENTARY

NO. 560

From A to F: Grading the Fiscal Transparency of Canada's Cities, 2019

The budgets of most major cities in Canada are confusing, arrive late, and give councillors, ratepayers and voters little insight about the upcoming year's planned spending, revenue or bottom line. This scorecard grades 31 cities for their transparency, and suggests how the many laggards can raise their game.

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Commentary No. 560
December 2019
Public Governance and Accountability

$12.00
ISBN 978-1-989483-23-7
ISSN 0824-8001 (print);
ISSN 1703-0765 (online)

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The Study In Brief

Financial presentations are key tools for Canadians who want to understand what their governments are doing with their money, and hold them to account. Unfortunately, Canada's cities do not typically present information that lets Canadians do this. The problem is not so much their end-of-year financial statements as their budgets: nearly every major Canadian city presents budgets that separate current spending and capital spending on big-ticket items, and use accounting and aggregation methods that are inconsistent with their financial statements. Worse, many make the key numbers hard to find and recognize, and councillors often vote these non-transparent budgets after the fiscal year has already started and money has gone out the door.

Bad budgeting practices impede councillors, taxpayers and voters seeking accountability from city staff and elected representatives. 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 plan, is hard or impossible for a non-expert to find. Moreover, the differences between how the numbers appear in budgets and in year-end financial statements have real-world consequences. Budgets that exclude key services such as water and the user fees that fund them, for example, understate their claim on community resources. Budgeting the cost of capital items on an up-front, cash basis, rather than recording the relevant expenses over the useful life of the asset through accrual accounting, exaggerates the cost of infrastructure investments, hides the cost of pension obligations, and undermines intergenerational fairness by mismatching costs and benefits over time.

This report card grades the financial presentations of 31 major Canadian municipalities, based on their most recent budgets and financial statements. Of those we assessed, Durham Region, Windsor, London, and Laval fail, providing little information in reader-friendly form. More happily, Vancouver garners an A+ for the clarity and completeness of its financial presentations, followed by Surrey and Richmond, each with an A-.

Our overarching recommendation is that municipal governments should present budgets using the same public sector accounting standards (PSAS) and format that they use in their year-end financial statements. Most do not, and those that present supplementary PSAS-consistent information in their budgets typically do not do it in user-friendly ways.

One key implication of this change would be that municipal budgets would use accrual accounting with respect to capital, recording revenues and expenses as assets deliver their services. Provincial governments that impede the preparation of PSAS-consistent municipal budgets – by mandating that cities present separate operating and capital budgets, for example – should stop doing so. Better would be to require cities to present PSAS-consistent budgets. Municipalities in provinces that continue to impede PSAS-consistent budgets can, and should, release the relevant information on their own.

A second implication of this change is that municipal budgets, like municipal financial statements, would 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.

Our second key recommendation is that cities should present and councillors should vote, budgets before the beginning of the fiscal year.

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

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Canada's cities provide services such as policing, firefighting, sanitation and recreation that are vital to Canadians' quality of life. To do these things, they raise and spend large amounts of money, and their taxes affect Canadians' decisions about where to live and invest.

Such critical institutions should present financial information that meets high standards of transparency, usefulness and timeliness. Municipal financial presentations, especially their budgets, are not at a high enough standard. Information such as how much a municipal 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 too often impossible for nonexperts to figure out.

For elected representatives, taxpayers and voters, budgets and financial statements are key tools for understanding what their governments are doing and holding them to account. In Canadian cities, this tool set is needlessly hard to use. Municipal financial statements typically make it hard to compare results with intentions, and municipal budgets often understate the size of city operations, obscure key activities, exaggerate the costs of investments, hide the cost of pension obligations and obscure the sustainability of their fiscal positions over time.

The same was once true for federal, provincial and territorial governments. Two decades ago, the senior governments presented budgets using different accounting and/or aggregation methods than they used in their financial statements. Those differences have become rarer and less salient. It is time that municipal governments improved their performance commensurately.

This review of Canadian municipalities' financial presentations shows how cities can 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, for example, should stop doing so. Municipalities that face those impediments can and should publish supplementary information on their own. In addition, budgets and financial statements should show gross, not net, revenues and expenses, aggregated on a consistent basis. Netting fees such as charges for water, sewage and parking, and the cost of related services, out of the totals hides revenues and expenses 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, members of the C.D. Howe Institute's Fiscal and Tax Competitiveness Council, and a number of other reviewers for comments on earlier drafts of this *Commentary*. This *Commentary* is the latest in a series of C.D. Howe Institute publications on municipal fiscal accountability going back to Dachis and Robson (2011). Many colleagues and reviewers provided valuable advice and feedback on those previous publications. We note particularly the comments of municipal officials, which have improved our grading system and explanations of it, and deepened our understanding of the legal and other constraints affecting municipal budgeting. We are responsible for the conclusions and any remaining errors in this report.

The accounting and other budgeting practices of Canada's municipalities might sound arcane, but they have real-world consequences. When it comes to infrastructure, the big price tags in 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 that will come due in the future – with pensions being a particular problem for municipalities. Finally, inconsistent budgeting among different levels of government obscures useful comparisons. Provinces with large deficits and accumulated debt are under constant pressure to increase grants to cities that are typically in better fiscal shape than they are. 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 measures exist, such as on-time performance in public transit, tests of students in public schools, tracking patient outcomes in publicly funded healthcare, and auditing government agencies. Annual budgets and financial statements are key tools for holding governments to account for their fiscal plans and performance. They let citizens monitor the taxes, fees, and other charges they are paying, how those funds translate into public services, and whether their governments have the capacity to maintain or improve services in the future.

Like most organizations, and like Canada's senior governments, municipalities produce two key documents in their annual fiscal cycles: budgets and audited financial statements.[1]

Budgets contain fiscal plans for the upcoming year. They 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 statements show what a municipality actually raised and spent during the year, the resulting change in the municipality's net worth and its capacity to deliver services. Under public sector accounting standards (PSAS), all municipalities must present their year-end 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.

What Users Need

The starting point for most users of a government budget or financial report is the key revenue and expense figures. In other words, how much the government plans to raise and spend in the upcoming year, or actually raised and spent in the year just past. Those are the critical first step for such natural questions as how future plans compare to past performance, and how well results corresponded to past plans.

1 Most of the municipalities we look at include their audited financial statements in annual reports, which include further financial analysis and discussion. In our analysis and grading of municipal financial reporting practices, we refer to the annual report when available, and grade the municipality based on the information in it. For simplicity, we refer to financial statements in either case.

The Merits of Consistent Numbers

Ideally, municipal budgets and financial statements would let users who are attentive and motivated, but not necessarily expert, easily find and confidently identify key numbers, and make the relevant comparisons. To be useful in these ways, the documents, in our view, must meet certain criteria:

- They must be accessible to a lay, time-constrained reader, displaying the key numbers early, prominently, and in plain language.
- They should present the full picture of the municipality's activities – both the services, such as policing, funded from property taxes, and the services, such as water and sewage, funded by user fees.
- They should allow comparisons of intentions to results, including the anticipated results for the year currently under way, and of results to past intentions.
- They should be timely: the presentation and voting of budgets should precede – preferably by several months – the beginning of the fiscal year, and financial statements should come out within a few months after the end of the fiscal year, while the information is fresh and before other matters can obscure the need for any corrective action.

Those amounts and comparisons are far easier to find if the numbers and the presentations in the budgets and financial statements match. As the Public Sector Accounting Board expresses it in its Revised Conceptual Framework for the Canadian Public Sector (PSAB 2018, p.12):

> Certain aspects of public accountability are provided by comparing actual performance with that budgeted.… Accountability is better demonstrated in financial statements if the budget is prepared:
>
> (a) using the same basis of accounting as the financial statements;
>
> (b) following the same accounting principles used in preparing financial statements;
>
> (c) for the same scope of activities as those reported on in the financial statements; and
>
> (d) using the same classifications as the financial statements.

The financial documents of a typical Canadian business or not-for-profit, and those of most senior governments in Canada (Robson and Omran 2019), satisfy these conditions. In particular, their consolidated revenue and expense figures appear clearly in the financial statements and in budgets, on the same page, in one single pro-forma statement of operations for the year. Unfortunately, the same is not true in the budgets of most municipal governments.

The Challenge of Non-PSAS-Consistent Municipal Budgets

Municipal governments conform to PSAS in their financial statements. But for a variety of historical and regulatory reasons, most do not in their budgets.

One salient difference between PSAS-consistent presentations and what we typically find in municipal budgets is that PSAS mandate accrual accounting, which attempts to match revenues and expenses to the period in which the relevant activity occurs, while municipal budgets are largely cash-based, with receipts and outlays anticipated during the year they come in or go out. Accrual accounting aims to capture in revenues and expenses all items that potentially add to, or subtract from, the capacity of the entity to deliver services – the difference between the two, the surplus or deficit, is understandable as a change in the government's net worth. Cash accounting is about tracking money in and out, which may not correspond with the timing when taxes became payable, for example, or when public servants or assets delivered their services. To add the confusion, cash accounting often makes money coming out of special accounts – typically "reserves" – look like income, and money going into these accounts look like outlays. Cash from borrowing can even look like income.

The differences between PSAS-consistent presentations and cash accounting can be sizeable.

For example, the cost of government employees looks different under accrual and cash accounting, because accrual accounting attempts to record entitlements such as pensions and post-retirement health benefits as they accrue – that is, while the employee earning them is working – whereas cash accounting ignores them until they are paid. Another example, critical to this analysis, is capital outlays. Accrual accounting records the expenses associated with long-lived items such as buildings, roads and sewers as they deliver their services – ideally such that they get written off over their useful lives. Cash accounting records the outlay as it happens – a big cost up front, and nothing thereafter. Recognizing that cash outlays for capital are fundamentally different from cash outlays for operating costs, Canada's municipalities typically present separate operating and capital budgets – which means their budgets do not show consolidated revenues and expenses on the same PSAS-consistent basis that they report in their financial statements.[2]

The inconsistencies on the revenue side – in particular the conflating of funds from reserves and borrowing with revenues that potentially increase a city's net worth – are so formidable that our idealized motivated but non-expert reader would find a scan of most municipal budgets utterly confusing. If we included a criterion related to the presentation of revenues on a PSAS-consistent basis in our report card, the majority of municipalities would get a zero on that criterion, which – subject to the weighting system – would tend to lower the grades of most of them, and widen the gap between the municipalities that do not present any PSAS-consistent budget numbers, and the smaller number that do. We look forward to the day when meaningful revenue numbers in a larger number of municipalities will make such a criterion more applicable.

We do, however, include a criterion related to expenses. Ideally, a municipality will prominently and clearly present a PSAS-consistent figure for expenses in its budget, meaning, for example, that it reflects accrual accounting for big-ticket capital assets. If we do not find a suitably prominent PSAS-consistent figure in the body of the budget, we look for such a figure in supplementary materials.

PSAS also mandate that financial statements be comprehensive, capturing the full range of activities under the control of the reporting entity. Some municipal budgets define the boundary more narrowly, and in some cases separate tax-supported from fee-supported services, with the latter potentially netted out. Whatever the value of presenting these two types of services separately – there is a case for highlighting items that residents will pay for regardless of use, as opposed to those over which they have some control – defining the city's activities too narrowly and netting present a misleadingly small fiscal footprint. It also complicates some critical comparisons of projections versus past results, and results against past projections.

Rating Municipal Budgets and Financial Reports

Those criteria for usefulness, and complications related to municipal budgeting noted, we proceed to the next level of detail about how we look at, and

2 To be more precise, most municipalities use accrual accounting in parts of their budgets, such as accounts receivable. Cash accounting for capital has survived because of another regulatory holdover from earlier days, when the ability of smaller governments to make payments was more of a concern: namely that cities should balance their operating budgets and borrow only for capital. Provinces continue to enforce this approach on the cities they control, even though they have long abandoned it in their own fiscal frameworks.

grade, various elements of municipal budgets and financial statements in our 2019 report card.[3]

Placement of Information and Presentation of Budget Headline Totals

Starting with the ease with which the non-expert can confidently identify the key numbers, our target is the consolidated expense figure or figures. In municipal financial statements, this is not an issue; in the case of budgets, it usually is. Our grade regarding the placement of the information reflects how close to the beginning of the document it appears. Earlier is better, reducing the chance that a user will give up, or encounter figures that appear to be the relevant figures but are not.

We look 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. In cases where the user faces a choice between similar-looking documents displayed equally prominently – with similar fonts and colours on clickable links, for example – we choose the first one in the list or menu. We award 0 to municipalities that display their headline operating and capital figures more than 50 pages into the budget document, 1 to municipalities that present these numbers between 31 to 50 pages into the budget document, 2 to municipalities that present them between 16 to 30 pages deep, and 3 to municipalities that present them within the first 15 pages.[4] We award a bonus point to municipalities that present both operating and capital totals on the same page. Municipalities that present their budgets on a PSAS basis, combining both operating and capital budgets into a consolidated total, naturally present both numbers on the same page, so they receive the bonus mark.

Going further into the presentation requirement, we award 0 to municipalities that use different accounting in their budgets and financial statements and provide no reconciliation in their budgets to the financial statements, 1 to municipalities that use different accounting but do provide this reconciliation as supplemental information (such as an appendix or later in the document), 2 to municipalities that use different accounting but provide this reconciliation prominently following the budget overview, and 3 to municipalities that use consistent accounting in their budgets and financial statements.

For the reporting of year-end results in the annual reports, which include the municipality's financial statements, we award 0 to municipalities that display their actual results more than 50 pages into their document, 1 to municipalities that present them between 31 to 50 pages into the document, 2 to municipalities that present them between 16 to 30 pages in, and 3 to municipalities that present them within the first 15 pages.

Comprehensiveness of Budget Information

Budgets should show the consolidated spending plans of a municipality, so users can understand its total projected claim on community resources. We award 0 to municipalities that show only net expenditures in their headline numbers, or do not consolidate rate- and tax-supported expenditures or otherwise leave out government controlled entities from their totals, 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.

3 We discuss the sensitivity of our results to our grading system, and show how applying our 2019 grading system would have affected the results in our 2018 report card, in the next section.

4 In determining the page number, we consider the entire electronic version of the document, and begin counting from the first page – which corresponds to page 1 in the PDF version – and count the number of pages that the user needs to flip to find the relevant numbers.

Adherence to PSAS in Financial Statements

Happily, all the municipalities we look at in this survey adhere to PSAS in their financial statements, and their latest statements received unqualified audits from their external auditors. Because conformity to consistent accounting standards is a vital element in the reliability and comparability of financial presentations, it figures in our grading system. We would have awarded 0 to any municipality that explicitly does not conform to PSAS in its financial statements, and 1 if it nominally conforms to PSAS but did not receive a clean audit. We award all the municipalities in our survey a 2 for conforming to PSAS and receiving unqualified audit opinions.

Comparisons between Projections and Results

A useful budget should show projections for the year about to start along with the expected results for the year about to end, letting users see whether their municipality expects revenue and spending to rise or fall, and by how much. As noted already, municipal budgets typically do not provide revenue numbers that anyone but an expert can make sense of, so we restrict our examination of these comparisons to the spending side. We award 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.

For their part, financial statements are more useful if they show and explain differences between the results and the beginning-of-year plans. We award 0 if the municipality's financial statements do not explain the difference between results and budget intentions, 1 if its financial statements present a table with the difference between results and intentions but do not explain the deviations between them, and 2 if its financial statements both show and clearly explain the deviations.

Because most municipalities do not present PSAS-consistent budgets, we also consider how readily a reader can understand a comparison of results to intentions in the financial statements, given that the expense number(s) in the budget itself likely did not match the projected expenses in the financial statements. We award 0 if the municipality's financial statements do not show the expense projections from the corresponding budget. We award 1 if its financial statements show restated expense projections without explaining the restatement. We award 2 if its financial statements show restated expense projections and explain the restatement using initial numbers that closely match the figures in the budget. We award 3 if its financial statements show restated expense projections and explain the restatement using initial numbers that exactly match the figures in the budget. We award 4 if its financial statements show expense projections that match the budget.

Timeliness

With the exception of Halifax, which has a fiscal year that runs from April 1st to March 31st, the municipalities we look at have fiscal years that coincide with the calendar year: January 1st to December 31st. Spending without authorization by elected representatives violates a core principle of representative democracy, so councillors should vote on budgets before the beginning of the fiscal year (typically January 1st).

To prefigure some of our results, the municipal elections in Ontario in October of 2018 help explain why all Ontario municipalities presented their 2019 budgets in January, February, March, or even April of 2019. Ontario's *Municipal Act* prevents municipalities from approving a budget for the year following an election in the same year as the election, forcing Ontario municipalities to delay their budget approval until the new fiscal year was under way and money had already been spent. Amending the *Act* to allow municipalities to honour this principle will enhance timeliness and accountability among Ontario municipalities. We award a score of 0 if the municipality approved its budget later than eight weeks into the year, 1 if it approved four to eight weeks into the year, 2 if it approved not later than four weeks into the year and 3 if it approved before the start of the year.

Timely publication of financial statements helps councillors and others understand, and react to, deviations of results from plans. It also encourages faster gathering of the necessary information, which helps the budget process by providing more current estimates for the year about to end, which is a critical baseline for future plans. Because cities do not usually provide the date of posting for their financial statements, we use the date of the auditor's signature on the financial statements in our assessment.[5] We award 0 to municipalities with signatures on their financial statements more than six months after year-end, 1 to municipalities with statements dated four to six months after year-end, and 2 to municipalities with statements dated three months or less after year-end.

The 2019 Report Card on Canada's Major Municipalities

We are now in a position to construct a report card for Canada's major cities, based on the most recent rounds of budgets (2019), and financial statements (2018). We looked at the 25 largest cities by population, plus the six most populous regional municipalities in Ontario.

Deriving Letter Grades

We derive our letter grades for each city by normalizing the scores on each sub-criterion, and then weighting them. We normalize the scores to be between 0 and 1 for each: for example, a grade of 2 in a sub-criterion with a maximum grade of 4 would yield a score of 0.50, meaning the municipality received 50 percent on that specific sub-criterion. We then weight each criterion based on our judgments of relative importance to the overall goals of clarity, reliability and timeliness, and sum the standardized scores to produce a weighted percentage score which we convert to a letter grade.

Municipalities received an A+ if they scored 90 percent or above, A for 85 percent, 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.[6]

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 grade of A+, is Vancouver. Vancouver approved its 2019 budget before the start of the fiscal year, and published its 2018 financial statements in a timely way, three months after year-end. It presented its spending numbers prominently, near the front of its budget. Vancouver is one of the few municipalities that provided budget information on a PSAS basis that is clear and follows the initial budget presentation immediately.

Next best are the cities of Richmond and Surrey, each with A-. Both cities, similar to Vancouver, presented clear and relatively timely budgets and

5 This method is not ideal, because the lag between the auditor's signature and the posting of financial statements for the public to see may vary from municipality to municipality. The gap can be long. In 2017, for example, London's auditor signed the financial statements in June, but their public release only occurred in September.

6 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

	Budget					Financial Statements					Overall grade
Munici-pality	**Date 2019 budget approved**	**Page of headline operating and capital total**	**Is budget PSAS-consistent**	**Does budget compare to last year's budget projections?**	**Does budget present city-wide gross expenditure?**	**Date 2018 statements released**	**Page of headline consolidated results**	**Are figures compared to their budget counterparts?**	**Are variances from budget plans explained?**	**Do statements receive an unqualified opinion?**	
Grading Scheme	**3: early, 2: < 4 weeks late, 1: < 8 weeks late, 0: 8+ weeks late**	**3: operating total < 16, 2: 16-30, 1: 31-50, 0: 51+. Extra point if capital and operating on same page.**	**3: yes, 2: full PSAS reconciliation prominently displayed after non-PSAS figures, 1: supplemental, 0: otherwise**	**2: both capital and operating compared 1: one compared 0: no**	**2: gross only, 1: net and gross equal prominence, 0: net**	**2: <4 months of year-end, 1: 4-6 months after year-end, 0: > 6 months**	**3: < 16, 2: 16-30, 1: 31-50, 0: 51+**	**4: yes, not restated, 3: restatement explained, matches, 2: restatement explained, almost matches, 1: restatment not explained, doesn't match, 0: no**	**2: full, 1: variance table but variances not explained, 0: none**	**2: unqualified opinion, 1: one qualification, 0: more than one qualification**	
Grade Weight	**2**	**1**	**3**	**1**	**3**	**2**	**1**	**1**	**1**	**3**	
Brampton (ON)	12 weeks late 27-Mar-19	Operating: p.27 out of 333 Capital: p. 28 out of 333	Reconciliation prominent in table of contents after budget overview	2	Gross	5 months 24-May-19	p. 8 out of 45	Restatement explained and almost matches	Deviations from target clearly explained	yes	B
Score	*0*	*2*	*2*	*2*	*2*	*1*	*3*	*2*	*2*	*2*	
Burnaby (BC)	16 weeks late 29-Apr-19	Operating and Capital Both: p.15 out of 272	Supplemental	2	Gross	4 months 29-Apr-19	p. 44 out of 96	Restatement not explained	No	yes	C-
Score	*0*	*4*	*1*	*2*	*2*	*1*	*1*	*1*	*0*	*2*	
Calgary (AB)	4 weeks early 30-Nov-18	Operating and Capital Both: p. 8 of 668	No	0	Gross	4 months 29-Apr-19	p. 15 out of 96	Restatement explained and almost matches	Deviations from target clearly explained	yes	B-
Score	*3*	*4*	*0*	*0*	*2*	*1*	*3*	*2*	*2*	*2*	
Durham (ON)	5 weeks late 13-Feb-19	Operating and Capital Both: p. 5 of 327	No, reconcilation not complete	2	Net	5 months 30-May-19	p. 33 out of 84	Restatement explained and almost matches	No	Yes	F
Score	*1*	*4*	*0*	*2*	*0*	*1*	*1*	*3*	*0*	*2*	
Edmonton (AB)	3 weeks early 14-Dec-18	Operating: p.8 of 696 Capital: p.45 of 696	No	1	Net	4 months 16-Apr-19	p. 38 out of 112	Restatement not explained	Variance tables and deviations clearly explained	yes	D-
Score	*3*	*3*	*0*	*1*	*0*	*1*	*1*	*1*	*2*	*2*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Munici-pality	Date 2019 budget approved	Page of headline operating and capital total	Is budget PSAS-consistent	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2018 statements released	Page of headline consolidated results	Are figures compared to their budget coun-terparts?	Are variances from budget plans ex-plained?	Do statements receive an unqualified opinion?	
Gatineau (QC)	3 weeks early 11-Dec-18	Operating: 5 of 34 Capital: 8 of 34	No	1	Gross	4 months 26-Apr-19	p. 9 out of 96	Restatement not explained	No	yes	C
Score	*3*	*3*	*0*	*1*	*2*	*1*	*3*	*1*	*0*	*2*	
Halifax (NS)	2 weeks late 16-Apr-19	Operating: p. 13 of 341 Capital: 20 of 341	No	2	Both	4 months 16-Jul-19	p. 8 out of 37	Restatement explained and matches	No	yes	D+
Score	*2*	*3*	*0*	*2*	*1*	*1*	*3*	*3*	*0*	*2*	
Halton (ON)	3 weeks late 16-Jan-19	Operating and Capital Both: p. 27 out of 465	No	2	Gross	5 months 22-May-19	p. 28 out of 60	Restatement expalined and matches	Deviations from target clearly explained	yes	B-
Score	*2*	*3*	*0*	*2*	*2*	*1*	*2*	*3*	*2*	*2*	
Hamilton (ON)	12 weeks late 27-Mar-19	Operating and Capital Both: p. 5 of 61	No	1	Gross	7 months 12-Jul-19	p. 5 out of 68	Restatement explained but does not match	No	yes	D-
Score	*0*	*4*	*0*	*1*	*2*	*0*	*3*	*2*	*0*	*2*	
Kitchener (ON)	4 weeks late 31-Jan-19	Operating: p. 8 out of 191 Capital: p.57 out of 191	No	1	Both	6 months 24-Jun-19	p. 29 out of 155	Restatement not explained	Deviations from target clearly explained	yes	D
Score	*2*	*3*	*0*	*1*	*1*	*1*	*2*	*1*	*2*	*2*	
Laval (QC)	3 weeks early 8-Dec-18	Operating: p.15 out of 103 Capital: p.66 out of 103	No	2	Net	4 months 18-Apr-19	p. 18 out of 100	Restatement not explained	No	yes	F
Score	*3*	*3*	*0*	*2*	*0*	*1*	*2*	*1*	*0*	*2*	
London (ON)	6 weeks late 12-Feb-19	Operating and Capital Both: p. 4 of 53	No	2	Net	6 months 26-Jun-19	p. 14 out of 78	Restatement explained but does not match	No	yes	F
Score	*1*	*4*	*0*	*2*	*0*	*1*	*3*	*1*	*0*	*2*	
Longueuil (QC)	1 week early 31-Dec-18	Operating: p.4 out of 22 Capital: p.4 out of 25	No	1	Gross	5 months 17-May-19	p. 11 out of 168	Restatement not explained	No	yes	C
Score	*3*	*3*	*0*	*1*	*2*	*1*	*3*	*1*	*0*	*2*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Munici-pality	Date 2019 budget approved	Page of headline operating and capital total	Is budget PSAS-consistent	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2018 statements released	Page of headline consolidated results	Are figures compared to their budget coun-terparts?	Are variances from budget plans ex-plained?	Do statements receive an unqualified opinion?	
Markham (ON)	11 weeks late 20-Mar-19	Operating and Capital Both: p. 8 of 385	Supplemental	2	Gross	4 months 30-Apr-19	p. 23 out of 44	Restatement explained and almost matches	Deviations from target clearly explained	yes	C+
Score	*0*	*4*	*1*	*2*	*2*	*1*	*2*	*2*	*2*	*2*	
Missis-sauga (ON)	5 weeks late 6-Feb-19	Operating and Capital Both: p.29 of 883	Supplemental	1	Gross	4 months 12-Apr-19	p. 23 out of 91	Restatement explained and almost matches	Deviations from target clearly explained	yes	C+
Score	*1*	*3*	*1*	*1*	*2*	*1*	*2*	*2*	*2*	*2*	
Montreal (QC)	7 weeks early 8-Nov-18	Operating: p.39 out of 364 Capital: p. 20 out of 28	No	1	Gross	4 months 24-Apr-19	p. 15 out of 102	Restatement explained and matches	Reconciled, deviations explained	yes	C+
Score	*3*	*1*	*0*	*1*	*2*	*1*	*3*	*3*	*2*	*2*	
Niagara (ON)	8 weeks late 1-Mar-19	Operating and Capital Both: p. 2 out of 199	No, reconcilation not complete	1	Gross	5 months 16-May-19	p. 41 out of 88	Restatement explained and matches	No	yes	D
Score	*0*	*4*	*0*	*1*	*2*	*1*	*1*	*3*	*0*	*2*	
Ottawa (ON)	9 weeks late 6-Mar-19	Operating: p. 15 out of 347 Capital: p. 32 out of 347	No	2	Gross	6 months 12-Jun-19	p. 7 out of 60	Restatement explained and almost matches	No	yes	D+
Score	*0*	*3*	*0*	*2*	*2*	*1*	*3*	*2*	*0*	*2*	
Peel (ON)	4 weeks late 31-Jan-19	Operating and Capital Both: p.10 out of 366	Supplemental	2	Gross	5 months 2-May-19	p. 67 out of 129	Restatement explained and matches	Variance tables and deviations clearly explained	yes	C
Score	*2*	*4*	*1*	*2*	*1*	*1*	*0*	*3*	*2*	*2*	
Quebec City (QC)	3 weeks early 10-Dec-18	Operating and Capital Both: p.11 of 188	No	1	Gross	4 months 26-Apr-19	p. 9 out of 182	Restatement explained but does not match	No	yes	C
Score	*3*	*3*	*0*	*1*	*2*	*1*	*3*	*1*	*0*	*2*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Munici-pality	Date 2019 budget approved	Page of headline operating and capital total	Is budget PSAS-consistent	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2018 statements released	Page of headline consolidated results	Are figures compared to their budget coun-terparts?	Are variances from budget plans ex-plained?	Do statements receive an unqualified opinion?	
Regina (SK)	6 weeks early 16-Nov-18	Operating and Capital Both: p. 3 of 148	No	1	Net	5 months 27-May-19	p. 47 out of 148	Restatement not explained	Variance tables and deviations clearly explained	yes	D-
Score	*3*	*4*	*0*	*1*	*0*	*1*	*1*	*1*	*2*	*2*	
Richmond (BC)	6 weeks late 11-Feb-19	Operating and Capital Both: p. 3 of 12	Yes	0	Gross	5 months 13-May-19	p. 17 out of 72	Full	Deviations from target clearly explained	yes	A-
Score	*1*	*4*	*3*	*0*	*2*	*1*	*2*	*4*	*2*	*2*	
Saskatoon (SK)	5 weeks early 28-Nov-18	Operating: p. 10 of 314 Capital: p. 12 of 314	No	1	Net	6 months 4-Jun-19	p. 37 out of 74	Restatement not explained	Deviations from target clearly explained	yes	D-
Score	*3*	*3*	*0*	*1*	*0*	*1*	*1*	*1*	*2*	*2*	
Surrey (BC)	2 weeks early 19-Dec-18	Operating and Capital Both: p.14 out of 369	Reconciliation immediately after budget presentation	2	Gross	5 months 1-May-19	p. 49 out of 146	Full	No	yes	A-
Score	*3*	*4*	*2*	*2*	*2*	*1*	*2*	*4*	*0*	*2*	
Toronto (ON)	10 weeks late 7-Mar-19	Operating: p. 12 of 534 Capital: 16 of 534	Reconciliation prominent in table of contents after budget overview	2	Gross	7 months 17-Jul-19	p. 48 out of 144	Restatement explained but does not match	No	yes	D
Score	*0*	*3*	*1*	*2*	*2*	*0*	*1*	*1*	*0*	*2*	
Vancouver (BC)	2 weeks early 18-Dec-18	Operating and Capital Both: p.2 out of 568	Reconciliation immediately after budget presentation	2	Gross	3 months 28-Mar-18	p. 6 out of 51	Restatement explained and matches	Deviations from target clearly explained	yes	A+
Score	*3*	*4*	*2*	*2*	*2*	*2*	*3*	*3*	*2*	*2*	
Vaughan (ON)	7 weeks late 20-Feb-19	Operating and Capital Both: p.10 out of 494	Supplemental	1	Both	6 months 12-Jun-19	p. 6 out of 39	Restatement explained and almost matches	No	yes	D+
Score	*1*	*4*	*1*	*1*	*1*	*1*	*3*	*2*	*0*	*2*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Munici-pality	Date 2019 budget approved	Page of headline operating and capital total	Is budget PSAS-consistent	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2018 statements released	Page of headline consolidated results	Are figures compared to their budget coun-terparts?	Are variances from budget plans ex-plained?	Do statements receive an unqualified opinion?	
Waterloo (ON)	7 weeks late 19-Feb-19	Operating and Capital Both: p.5 out of 272	No	1	Gross	4 months 30-Apr-19	p. 7 out of 27	Restatement explained but does not match	No	yes	D+
Score	*1*	*4*	*0*	*1*	*2*	*1*	*3*	*1*	*0*	*2*	
Windsor (ON)	13 weeks late 1-Apr-19	Operating: p.8 of 257 Capital: p.5 of 668	No	1	Gross	8 months 26-Aug-19	p. 6 out of 44	No	No	yes	F
Score	*0*	*3*	*0*	*1*	*2*	*0*	*3*	*0*	*0*	*2*	
Winnipeg (MB)	12 weeks late 20-Mar-19	Operating and Capital Both: p. 14 of 299	No	2	Gross	5 months 7-May-19	p. 42 out of 94	Restatement explained and matches reconciliation in 2019 budget	Deviations from target clearly explained	yes	C
Score	*0*	*4*	*0*	*2*	*2*	*1*	*1*	*3*	*2*	*2*	
York (ON)	9 weeks late 28-Feb-19	Operating and Capital Both: p.6 out of 297	Reconciliation prominent in table of contents	1	Gross	4 months 30-Apr-19	p. 45 out of 92	Matches the accrual reconciliation in the 2018 budget	Deviations from target clearly explained	yes	B
Score	*0*	*4*	*2*	*1*	*2*	*1*	*1*	*4*	*2*	*2*	

financial statements. The city of Richmond is the only municipality that reported its headline budgetary totals on the same accounting basis as its financial statements, with non-PSAS adjustments appearing later in the document. Had it not released its budget late – as it also did last year – it would have joined Vancouver in the top rank. Surrey, like Vancouver, presented a PSAS reconciliation that immediately followed the initial budget figures. Late presentation of its financial statements harmed its overall ranking. Both cities, Richmond and Surrey, would also have benefited from a timelier release of year-end results.

York Region and Markham have featured among our top performers in previous versions of this report card, but their later budget release dates – dictated by provincial legislation in an election year – set them back this year.

At the opposite end of the scale, each with a grade of F, are Durham Region, Windsor, London, and Laval. All these municipalities used inconsistent accounting in their budgets and financial statements, and all of them were late with both their budgets and financial statements. All except Windsor mixed gross and net figures in their budgets, and all except Durham Region compared their results with numbers that did not appear in their budgets.

Weights in this kind of grading inevitably reflect judgements on which reasonable people may differ. A simple test of the sensitivity of our 2019 grades to the weights we choose is to compare those grades to the grades that would have resulted from equal weights for each criterion. That exercise produces an average absolute change across the 31 municipalities of 1 degree – equal, for example, to a change from a B to a B-. The correlation between the rankings using weighted and non-weighted criteria is 94 percent, while the correlation between the numerical grades using weighted and non-weighted criteria is 95 percent. Table 2 provides another test of the sensitivity of our grades to the criteria and the weights by showing both the grade we awarded each municipality in last year's version of this report, and the grade we would have awarded it if we had used this year's criteria and weights.[7]

Getting Better from Here

Why is municipal budgeting in Canada such a mess? History sheds some light on current practices, and provides useful context for a discussion of how to improve from here.

Public Sector Accounting Standards and Municipalities

Today's approach to municipal budgets has roots in the distant past, when modern accrual accounting did not exist, and cash was a natural focus. A century ago, governments were much smaller, and legislators could oversee transactions – such as the hiring of an individual or the purchase of a horse – that are trivial by today's standards. In the past, liquidity – an entity's ability to cover payroll and make its interest payments on time – was a relatively greater concern. Modern governments have far greater taxing power and capacity to borrow, making their comprehensive net worth – their service capacity – a more salient focus.

PSAS evolved in the 1980s, introducing accrual accounting and taking a more comprehensive approach to the operations of the reporting entity, and its assets and liabilities – considering non-

7 The main changes to this year's grading scheme included adding a criterion on the page of headline figures in the financial statements. We made two other main changes. We altered the way we mark the criterion on whether the budget is PSAS consistent to reward municipalities that present clear, prominent and early PSAS reconciliations of their budgets. We also adjusted the criterion on whether the financial statements compare to restated budget figures in order to account for municipalities that present figures that are restated but differ only marginally from their budget counterparts.

Table 2: Municipalities Fiscal Reporting Grades Since Report on 2018 Fiscal Year

	2019	2018 Using 2019 Grading System	2018
Brampton	B	B+	B
Burnaby	C-	D	B-
Calgary	B-	F	D-
Durham	F	F	F
Edmonton	D-	D-	D
Gatineau	C	C	C
Halifax	D+	F	D
Halton	B-	B-	C+
Hamilton	D-	D+	D+
Kitchener	D	D	D
Laval	F	F	D
London	F	F	D-
Longueuil	C	F	F
Markham	C+	A-	A-
Mississauga	C+	C+	B
Montreal	C+	C	C
Niagara	D	C-	C-
Ottawa	D+	C-	C-
Peel	C	B+	B+
Quebec City	C	F	F
Regina	D-	F	D+
Richmond	A-	B-	C+
Saskatoon	D-	D-	D-
Surrey	A-	A-	A+
Toronto	D	F	F
Vancouver	A+	A+	A-
Vaughan	D+	D+	C-
Waterloo	D+	C	C
Windsor	F	D	D
Winnipeg	C	D	D
York	B	A-	A

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

financial assets such as buildings and infrastructure alongside financial assets such as bank deposits, for example, and liabilities such as pension promises and environmental cleanup alongside market 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 later in their budgets. Municipalities follow PSAS in their financial statements: as noted already, 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 present PSAS-consistent budgets to their councillors and the public.

Municipal Budgets Should Amortize Capital

Because long-lived capital assets are so salient in municipal budgets, treating outlays on them as expenses – as though a road is like a cup of coffee or a payroll service: gone after one use – distorts financial planning. A more sensible approach is to capitalize investments in buildings, infrastructure and other long-lived items – showing them as assets on the balance sheet – and write their costs down as they deliver their services. Amortizing them in this way, recording the expense over a period of years, helps achieve fairness among taxpayers over time – it is logical to assess revenues that match those expenses year by year. In addition, the dwindling recorded value of the asset helps managers and elected representatives anticipate the need to replace it. As noted already, municipalities already follow this approach, as PSAS mandate that they should, in their end-of-year financial statements.

Some resistance to adopting PSAS-consistent budgets is inertia: the easiest way to deal with periodic demands in any bureaucracy is simply to do whatever you did last time. Twenty years ago, when senior governments began to issue 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: most senior governments now present PSAS-consistent budgets as well (Robson and Omran 2019).

Indeed, we note that cities that do not present PSAS-consistent budgets comment on the superiority of the PSAS framework for understanding their finances. The city of Toronto's 2019 budget states that complying with PSAS and producing an accrual budget "provides more information as to whether the government entity… is in better or worse condition than the previous year" (City of Toronto 2019 Budget, p.20). Similarly, in its 2019 budget, the city of Brampton 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 2019 Budget, p.47). We agree with these statements, and look forward to municipal budgets that reflect the superiority of the PSAS framework.

Another set of obstacles to adopting PSAS-consistent budgets relate to provincial rules. Provinces may require their municipalities to have separate operating and capital budgets, as Alberta does. They may require their municipalities to balance their operating budgets and include transfers to and from reserves, as Ontario does. They may require their municipalities to include debt principal repayments in their spending, as British Columbia does. Yet we have the examples of Richmond, which produces a budget that matches its financial statements, and Vancouver and Surrey, which produce reconciliations of budgets to PSAS-consistent statements that users can easily find and understand, to show how cities that want to provide this kind of information can do so.

Another argument against PSAS-consistent budgets relates to the apparent cheapness of capital expensed over many years. 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 buy more of it. But the 30-year perspective in this case is actually the better guide to action: it more straightforwardly matches the future costs against the future benefits of the investment. Perhaps councillors should be buying more long-lived assets. It is unhelpful if apparently massive up-front costs lead municipalities to delay or reject some capital projects that would otherwise pass muster.

Moreover, those up-front costs likely lead 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. This is not just a speculation: a prominent real-life example of inappropriate up-front financing is the infrastructure charges municipalities impose on developers. These charges, which are a key financing mechanism for municipal capital assets, 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). Why should new home buyers be bearing so much of these costs? Water and other infrastructure provide benefits over a wider geography, and over a longer period, than is relevant to the average home buyer in the present. To the extent that cash budgeting encourages up-front financing, it makes 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.

Readers who doubt that accounting can drive decisions should consider the justification offered in the province of Ontario's 2019 budget for the province's intended takeover of the Toronto subway. The province can support municipal investments in transit-related capital, as it can support investments in any capital, with transfer payments. But, as the 2019 Ontario budget stated, "provincial ownership of the assets would allow the Province to amortize its capital contributions, thereby treating subway builds in the same manner as other provincially owned infrastructure projects, such as hospitals and schools. 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." In a nutshell, the subway looked easier to build if the province were to own it – a comparison that would not look so lop-sided if the city of Toronto also budgeted capital on an accrual basis (Robson 2019).

The Accountability Imperative

Most fundamentally, budgeting in a way that prevents people from comparing intentions with past or future results creates a major disconnect that affects the understanding of, and engagement in, municipalities' finances and activities more generally.

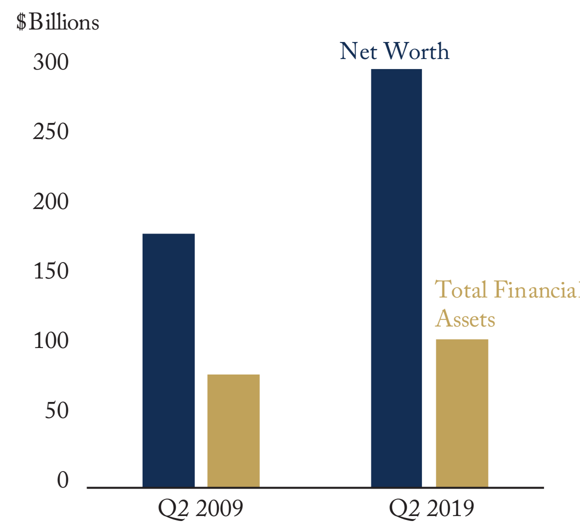
Consider the controversy every fall and winter as municipal councils prepare for the coming year. The headlines are about the dire challenge of balancing the budget: cuts to services, hikes to fees and taxes. Yet the end-of-year results in Canadian cities large and small show surpluses. Over the decade to the second quarter of 2019, local governments improved their net worth by some $119 billion – by 65 percent – including an increase of some $25 billion in their financial assets (Figure 1). 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, inability to compare intentions and results reduces the attention councillors, the media, and the public pay to municipal budgets. Why look at something that is so hard to understand, especially when experience has taught you it tells you nothing useful about the outcome? 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 the operating and capital totals together. The numbers this approach would have yielded during the 2018 municipal budget round appear in Table 3, where we compare them with the expenses reported in each city's financial 2018 statements. For example, Saskatoon's 2018 budget showed $1.1 billion in spending. Its 2018 financial statements showed $0.8 billion in expenses. This gap is so large that an expert with time to spare might suspect it resulted from an accounting discrepancy, and start to read the fine print – but a non-expert, struggling with financial reporting that we think merits a grade of D-, might think the city's financial management is utterly inept. Other municipalities – notably Halton and Burnaby – also had discrepancies between their 2018 budgets and results that would lead a naïve reader to conclude that their execution was widely off: in eight of the 31 cities we survey, the gap was 25 percent or more.

The differences in Table 3 might reflect, in part, municipalities' over- or underspending relative to their budget commitments. What is certain is that they reflect inconsistent accounting. Although municipalities that present PSAS-consistent budgets or very prominent PSAS reconciliations still experience inevitable gaps between beginning of year intentions and year-end results – even well managed business, household, not-for-profits and governments do not hit their budget targets exactly – these gaps are much less pronounced. Table 3 shows that our top performing municipalities, Surrey, Vancouver and Richmond, are among the municipalities that reveal the smallest misses relative to intentions.

Our key concern is that the numerate councillor, taxpayer or journalist typically cannot make sense

Figure 1: Local Governments Net Worth and Financial Assets, 2009 and 2019



Source: Statistics Canada, National Balance Sheet Accounts.

of these discrepancies. 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, and find the consolidated revenue and expense figures early and easily. Ideally, this reader will also easily be able to compare the projections in the budget to past experience, and the results in the financial statements to the budget for that year. The budgets and financial statements of most of Canada's senior governments – which have not consistently met this standard in the past – now make this exercise possible (Robson and Omran 2019). Several steps could bring Canada's municipalities up to the same mark.

Table 3: Total Spending, Budgets Versus Financial Statements, 2018

Municipality	Spending in Budget *($billions)*	Expenses in Financial Statements *($billions)*	Difference *(percent)*
Halton	1.35	0.82	-39
Longueuil	0.57	0.78	37
Burnaby	0.69	0.44	-36
Calgary	5.71	3.87	-32
Saskatoon	1.14	0.80	-30
Waterloo	1.53	1.08	-29
Toronto	17.00	12.31	-28
York	3.04	2.25	-26
Peel	3.10	2.35	-24
Kitchener	0.49	0.37	-24
Winnipeg	2.12	1.62	-24
Regina	0.77	0.60	-22
Ottawa	4.55	3.55	-22
Edmonton	3.88	3.03	-22
Quebec City	1.96	1.54	-22
Hamilton	2.22	1.76	-20
Durham	1.55	1.25	-19
Niagara	1.12	0.91	-19
Laval	1.17	0.97	-17
Vaughan	0.58	0.50	-13
Markham	0.46	0.41	-10
Montreal	7.56	6.79	-10
Gatineau	0.73	0.66	-9
Windsor	0.88	0.80	-8
London	1.07	1.15	7
Brampton	0.94	0.78	-7
Richmond	0.44	0.41	-6
Vancouver	1.67	1.59	-5
Mississauga	0.98	0.93	-5
Halifax	1.05	1.01	-4
Surrey	0.79	0.77	-2

Note: Ranked based on the absolute value of the difference.

Source: Authors' calculations from municipal financial documents.

Adopt PSAS-Consistent Accounting in Budgets

A key start is for municipalities to prepare and present their budgets using the same accounting conventions they already use in their financial statements. This change would make the numbers in the two documents directly comparable – a big step forward in transparency. It would bring municipal capital budgeting into the modern era, expensing long-lived assets as they deliver their services and wear out, rather than showing them as massive cash outlays up front and ignoring them afterwards. And it would provide readers of budgets with the same consolidated measures of revenues and expenses – and the more meaningful bottom lines – that they get with the financial statements, including all entities that the municipal government controls and that depend on it for financing.

Ideally, provinces that mandate cash accounting for capital, and separate operating and capital budgets, would change their rules to mandate accrual accounting in budgets – or at least to facilitate that presentation alongside the current one. Even in provinces that do not change obstructive rules, municipalities can present budget numbers consistent with their financial statements on their own initiative. The introductions by mayors and city managers in the opening pages of a typical municipal budget would be excellent places to present PSAS-consistent summaries of the budget's revenues, expenses, and expected bottom line. We note that modern financial statements include a schedule of changes in cash, so for those who think cash is still particularly relevant for governments, plenty of information – including, potentially, a reconciliation with the budget plan – will still be available.

Cities that wish to present breakdowns of fee- versus tax-supported services, or other informative disaggregations, in their budgets would be able to do it. But that would enhance the information in the PSAS-consistent numbers, rather than providing an alternative, and less helpful, view of reality.

As for the fear that amortizing capital, and the related elimination of the requirement for balanced operating budgets, would foster fiscal irresponsibility, consolidating all items affecting net worth into comprehensive revenue and expense totals gives a more complete picture of a city's operations and their implications for its capacity to deliver services in the future. Provinces that wish to constrain their municipalities could change their balanced-budget requirement to refer to the overall bottom line – the change in the municipality's net worth – or to the change in its net debt: net worth minus nonfinancial assets such as buildings and infrastructure. These are familiar figures at the senior-government level, and would give 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 operating and capital cash budgets as supplementary information.

Since municipalities have been presenting PSAS-consistent financial statements for a decade, presenting budgets on the same basis will present no major challenge. 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.[8] 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.

8 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 2018).

Present Key Figures Early and Unambiguously

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 expenses. Nor should this person come across more than one candidate for each total and wonder which is correct.

This is not a trivial point – readers who doubt the obstacle created by obscure and fragmented presentations should check the budget documents produced by their own municipalities. Chances are the search will involve dozens, or even hundreds, of pages. Chances also are the search will turn up many numbers that a naïve reader might think are the right ones, but are not.

Nor is early and unambiguous presentation hard to do. Nova Scotia and Nunavut produce budgets with the key consolidated figures on page 5. Vancouver's annual report shows its year-end results on page 6. Municipalities should follow these good examples. More accessible display of the key numbers would also help municipalities 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, clear and readily identifiable tables, and informative commentary. We also encourage municipalities to follow the valuable practice of the federal and many provincial and territorial governments: publishing in-year reports that, using PSAS-consistent accounting, compare 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 not approve spending after it has occurred, and should not be starting their discussions of one year's budget when the results from two years earlier are still a mystery. Municipalities that use a calendar year for financial purposes should vote on their budgets well before January 1st, and publish their financial statements before April 30th. Provinces that hinder timely budget presentations, such as Ontario, by preventing their municipalities from approving their budgets in an election year, should stop doing so.

Conclusion: The Need to Improve Municipal Fiscal Accountability

Canada's cities are central in the lives of most Canadians, and absorb commensurately large shares of Canadians' incomes. Councillors, taxpayers, and voters need clear information about their finances if they are to hold officials and elected representative to account for the quality and cost of municipal services.

Financial information from most of Canada's major municipalities, especially in their budgets, is well below a reasonable standard. Municipalities should present budgets that are consistent with public sector accounting standards and that readers can compare easily with their financial statements. Municipalities should produce information that is more accessible and more timely. 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 for cities' use of public funds. The recommendations in this *Commentary* would help raise the financial management and fiscal accountability of Canada's municipalities to levels more in line with their importance in Canadians' lives.

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