Canada’s federal government is running deficits, and its net worth is negative – its financial statements show an accumulated deficit approaching $700 billion. And as most of us know, provincial governments and territorial governments are also deficit-prone – altogether, their net worth is also negative.

What about municipal governments? You might think, given their annual budget-debate angst about service cuts and hikes to property taxes and fees, that they are also running in the red. But they aren’t. Canadian cities consistently run surpluses – and in contrast to Canada’s senior governments, have assets well in excess of their liabilities.

If you doubt this, do a web search for your own city’s 2018 financial statements. Not the beginning-of-year budget, a confusing mess in most cities, with separate schedules for operating and capital, gross and net, often buried hundreds of pages deep. The audited results after year-end – where, whether you live in Toronto, Montreal, Vancouver, Calgary or another large city, or whether you live in a small town – will show that your municipality’s revenues healthily exceeded its expenses. Thanks to Statistics Canada, which adds the numbers up Canada-wide, we know that your local surprise is typical across the country.

At the end of 2018, the net worth of Canada’s municipalities and other local governments – all their assets, minus all their liabilities – stood at $365 billion. A remarkable contrast to the equivalent figure for provincial and territorial governments, which stood at a negative $140 billion (Figure 1). Going a layer deeper, municipalities held almost $400 billion in non-financial assets – mainly capital assets such as buildings, utilities and other infrastructure – and more than $117 billion in financial assets – cash and other investments. Against this $513 billion in total assets, they carried about $148 billion in liabilities (Figure 2).

It is not a bad thing that municipalities and local governments run surpluses. We want their capacity to deliver services to grow over time, as their populations grow, and as Canadian living standards rise. The fact that these surpluses are surprises, however – the fact that readers of municipal budgets and listeners to municipal budget debates get so badly misled – creates problems.

The worst dissonance between confusing and often scary municipal budgets, and their cleaner and happier financial statements, is due to the way cities budget for capital – big-ticket items such as buildings, infrastructure, and transit systems. Instead of treating these investments as assets, and recording the related expense as they deliver their services over time – which is what cities do in their financial statements – they budget them as up-front cash outlays. The result is that cities invest less, and more slowly, in capital than they could, and raise too much revenue up front for the projects they do undertake. Their balance sheets are more financial-asset heavy, and capital-asset light, than they should be.

Rather than confusing and scaring their elected representatives at budget time, and badgering federal and provincial governments – which are in worse fiscal shape – cities should present budgets that match their financial statements. In particular, their budgets should not show long-lived assets like watermains and roads as though they were cups of coffee – consumed all at once. If they did, Canada’s cities would carry less cash and provide more services – and Canadians would both know more about their cities’ robust fiscal health, and enjoy it more thoroughly.

Figure 1: Provincial and Municipal Net Worth, 2008-18

Figure 2: Composition of Canadian Municipalities’ Net Worth, 2008-18

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