Intelligence MEMOS

From: Farah Omran and William B.P. Robson

To: Municipal Taxpayers

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Re: **City Budgets Are Not What They Seem**

Canadians always hear that their cities are strapped for cash. But our new C.D. Howe Institute **report** shows that Canada's biggest municipalities ran aggregate budget surpluses of $11 billion in 2018.

Municipal budget debates mislead councillors, commentators and citizens about the state of city finances. We compared the budgets of Canada's 31 most populous municipalities from 2010 to 2018 to the results reported in those municipalities' year-end financial statements.

When it comes to spending, the difference between what a reader of city budgets would have expected and what the financial statements showed averaged 8 percent over that period. And far from what the annual angst around balanced budgets would lead people to expect, these municipalities reported a staggering total accumulated surplus of $207 billion by the end of 2018.

A key reason for these gaps between expectations and results is that most cities use different accounting in their budgets than in their year-end financial statements.

Municipalities must follow Public Sector Accounting Standards (PSAS) when they publish their results. But fewer than one third of these 31 cities show PSAS-consistent figures in their budgets. Critically, municipal budgets show investments in buildings and infrastructure as cash outlays, while their financial statements, more reasonably, write capital assets off over their useful lives – typically many years.

Using PSAS-consistent budget numbers and comparing them to results yields an average annual gap between plans and outcomes of 4 percent – still high, but not as erratic as what a reader of city budgets would conclude. That comparison also suggests cities tend to under-shoot their spending targets, and are taking in far more revenues than they need.

One simple step would move us way ahead: all cities should present budgets that are consistent with how they present their financial results. Only about one-third of Canada's major cities provide this information in their budgets, and those that do often make it hard to find. Ideally, all cities would publish the same PSAS-consistent information in their budgets that they provide in their year-end financial statements, and do it up-front, so that we could easily find and compare the numbers.

Cities may blame their provinces for the disconnect between their budgets and results. They have a point. Alberta requires its municipalities to have cash-based capital budgets separate from their operating budgets. Ontario requires its municipalities to balance their operating budgets and include transfers to and from reserves in revenue. British Columbia requires municipalities to include debt principal repayments in their spending. All silly – but none of it prevents municipalities from presenting PSAS-consistent budget information as well.

Canada's cities are crying poor, yet record big surpluses and sit on piles of cash. Councillors, ratepayers, and voters should demand budgets that help them anticipate what their cities will report at year-end. Consistent accounting is not too much to ask.

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