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Holding Canada's Cities to Account: An Assessment of Municipal Fiscal Management

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Financial Management Institute of Canada– June 27, 2012



Outline of presentation

- **An introduction to municipal budgets and financial reports:**
 - Cash versus accrual budgets;
 - Operating and capital budgets;
 - Budgets and financial reports.
- **Canadian municipal fiscal accountability**
- **Implications of adopting accrual budgeting for:**
 - Municipalities;
 - Provincial governments;
 - Transition issues: the case of Ontario school boards.
- **Recommendations for better municipal budgets.**



Cash versus accrual accounting

Cash accounting

- Shows cash the municipality expects to receive or disburse during the year, regardless of when the activities those receipts and disbursements relate to are expected to occur;
- Allows municipality to allocate money to reserve funds, which they draw down at a later date;
- Analogy: including the full cost of buying a car or a house in the same budget as the grocery money.

Accrual accounting

- Recognizes income as it is earned, not necessarily when cash is received, and obligations as they are incurred, not necessarily when the cash is disbursed;
- Matches revenues and expenditures to relevant activities;
- Capital projects are not expensed at once but give rise to annual amortization charges as they deliver their services;
- Pension liabilities are recorded as they accrue.



Operating budgets versus capital budgets

Operating budget

- For expenditures that take place in a single year: wages, materials, etc.;
- Operating budgets must be balanced without relying on borrowed funds;
- Usually for single year, but some cities have a multi-year operating budget with annual updates;
- The majority of municipal expenses.

Capital budget

- For expenditures that typically occur over multiple years or benefits last many years;
- Mainly financed by development charges, provincial and federal government grants and municipal debt;
- Capital budgets treat debt issuance as funding source to meet expenses;
- Usually on multi-year (10 year) horizon.



Budgets and financial report

Budget

- A planning document laying out expenditures and revenue estimates for year;
- Most cities produce separate capital and operating budgets and vote on them at different times;
- Aggregated on basis of departmental responsibility;
- Usually separate tax-supported functions (police, fire, etc.) from rate-supported functions (water, sewage).

Annual financial report

- Consolidate all directly-operated municipal operations for actuals;
- Since 2009, Canada's municipalities have been required by the Public Sector Accounting Board to produce financial reports at year-end using accrual accounting;
- Same standard as provinces and federal government;
- Ontario cities file the provincial Financial Information Return with standardized aggregations of municipal operations, and use the same basis of departmental aggregation in their financial statements.



Grading Canadian municipal budgets: the criteria

- *Consistent accrual accounting in budgets and financial reports.* Does the municipality present its budgets and financial reports on a consistent basis, using full accrual accounting for both?
- *Combined operating and capital budget.* Does the municipality report combined capital and operating expenses to present the total amount of annual municipal spending?
- *Multi-year budgets.* Does the municipality present more than one year of projected municipal-wide operating expenditures and revenues?



Grading Canadian municipal budgets: the criteria

- *Consistent aggregation.* Does the municipality use the same department-level aggregation in budgets and annual reports or provide a separate summary with consistent aggregation?
- *Combined rate- and tax-supported expenditures.* Does the municipality report the full revenues and expenditures of all municipal entities by including rate-supported programs and utilities in total expenditures?
- *Gross revenues and expenses.* Does the municipal budget report gross expenditure figures for municipal departments and entities?

Table 1: Scorecard for Most Recent Approved Budgets, Major Canadian Municipalities

Criterion								
Municipality	Year	Budget and Financial Reports on Same Accounting Basis?	Same Department Aggregation in Budget and Audited Financial Statement?	Combined Operating and Capital Budget?	Multi-year Operating Budgets?	Budgets Report Total of Rate-Supported and Tax-Supported Expenditures?	Departmental Gross Expenses Reported Clearly?	Grade
Brampton	2011	No	No	No	No	Yes	No	D
Calgary	2011	No	No	No	Yes	Yes	Yes	B
Durham Region	2011	No	No	Yes	No	Yes	Yes	B
Edmonton	2011	No	No	No	No	No	Yes	D
Halifax	2010/11	No	No	No	No	No – Halifax Water is separate body	Yes	D
Halton Region	2011	No	No	No	All but gross expenses	Yes	Yes	C
Hamilton	2010	No	No	No	No	No	No	F
London	2011	No	Close – only for net expenditures	Yes	All but gross expenses	Yes	Yes	A
Markham	2011	Yes	Yes	Yes	No	Yes	Yes	A

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Montreal	2011	Yes	Yes – for expenses only	No	No	Yes	Yes	B
Niagara Region	2010	No	No	No	No	Yes	Yes	C
Ottawa	2011	No	No	Yes, but not totalled	No	Yes	Yes	C
Peel Region	2011	No	No	No	No	Yes	Yes	C
Sudbury	2011	No	No	No	No	Yes	Gross not by department	D
Surrey	2011	Yes	No	Yes	Yes	Yes	Yes	A



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Toronto	2010	No	No	No	No	Yes	Yes	C
Vancouver	2011	No	No	No	No	Yes	Yes	C
Vaughan	2010	No	No	Yes	No	Yes	Yes	B
Waterloo Region	2010	No	No	Partly, only in pie chart	No	Partly, only in pie chart	Yes	C
Windsor	2010	No	No	No	No	No	Yes	D
Winnipeg	2011	No	No	No	Yes	Yes	Yes	B
York Region	2011	No	Yes	No	Yes	No	Yes	B

Note: Scale runs from 4 or more points (A), at least 3 points (B), 2 points (C), 1 point (D), and 0 points (F). Cities partly meeting criteria are awarded a half mark. Analysis is based on the most recent council-approved budget book posted on the municipality's website as of August 9, 2011.

Example: 2009-11 City of Calgary Budget

- Multi-year forecast of aggregate operating budget
- Combines utilities and tax-supported operations

The City of Calgary Table 2: 2009 – 2011 Approved operating budget summary by department (\$000s) (continued)

Department/ Budget Grouping	2007 Actual	2008 Budget	Approved Budget	2009		2010			2011		
				Change from previous year		Approved Budget	Change from previous year		Approved Budget	Change from previous year	
				\$	%		\$	%		\$	%
TOTAL CITY ⁽¹⁾											
Revenues ⁽²⁾	(2,428,004)	(2,332,863)	(2,472,282)	(139,419)	6.0 %	(2,599,453)	(127,171)	5.1 %	(2,746,042)	(146,589)	5.6 %
Expenditures	2,678,458	2,553,706	2,768,642	214,936	8.4 %	2,924,406	155,764	5.6 %	3,093,387	168,981	5.8 %
Recoveries	(329,359)	(290,209)	(357,157)	(66,948)	23.1 %	(377,568)	(20,411)	5.7 %	(392,843)	(15,275)	4.0 %
Net Budget	(78,905)	(69,366)	(60,797)	8,569	(12.4)%	(52,615)	8,182	(13.5)%	(45,498)	7,117	(13.5)%
FTEs	13,061.7	13,687.4	14,039.9	352.5	2.6 %	14,195.1	155.2	1.1 %	14,552.9	357.8	2.5 %

- Total expenses do not include capital expenses or amortization: what is the total fiscal footprint of municipal expenditures?

Example: 2009-2011 City of Calgary Budget



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The City of Calgary Table 2: 2009 – 2011 Approved operating budget summary by department (\$000s)

Department/ Budget Grouping	2007 Actual	2008 Budget	Approved Budget	2009		2010			2011		
				Change from previous year		Approved Budget	Change from previous year		Approved Budget	Change from previous year	
				\$	%		\$	%		\$	%
ASSET MANAGEMENT & CAPITAL WORKS											
Revenues	(141,366)	(77,127)	(77,257)	(130)	0.2 %	(78,790)	(1,533)	2.0 %	(80,357)	(1,567)	2.0 %
Expenditures	300,836	252,481	276,447	23,966	9.5 %	287,621	11,174	4.0 %	299,204	11,583	4.0 %
Recoveries	(132,782)	(139,485)	(163,332)	(23,847)	17.1 %	(171,436)	(8,104)	5.0 %	(179,069)	(7,633)	4.5 %
Net Budget	26,688	35,869	35,858	11	–	37,395	1,537	4.3 %	39,778	2,383	6.4 %
FTEs	640.3	660.8	702.8	42.0	6.4 %	705.8	3.0	0.4 %	711.8	6.0	0.9 %
COMMUNITY SERVICES & PROTECTIVE SERVICES											
Revenues	(120,125)	(121,278)	(86,907)	34,372	(28.3) %	(78,677)	8,229	(9.5) %	(79,812)	(1,134)	1.4 %
Expenditures	413,250	434,498	421,613	(12,884)	(3.0) %	420,379	(1,234)	(0.3) %	441,530	21,151	5.0 %
Recoveries	(17,539)	(13,515)	(13,896)	(381)	2.8 %	(14,760)	(865)	6.2 %	(15,358)	(597)	4.0 %
Net Budget	275,586	299,705	320,810	21,107	7.0 %	326,942	6,132	1.9 %	346,360	19,418	5.9 %
FTEs	3,338.2	3,490.1	3,121.3	(368.8)	10.6 %	3,158.3	37.0	1.2 %	3,229.3	71.0	2.2 %
CORPORATE SERVICES											
Revenues	(13,181)	(9,240)	(11,149)	(1,909)	20.7 %	(11,401)	(252)	2.3 %	(11,580)	(179)	1.6 %
Expenditures	184,571	177,190	191,632	14,442	8.2 %	199,454	7,822	4.1 %	206,296	6,842	3.4 %
Recoveries	(70,879)	(51,480)	(65,191)	(13,711)	26.6 %	(70,356)	(5,165)	7.9 %	(73,833)	(3,477)	4.9 %
Net Budget	100,511	116,470	115,292	(1,178)	(1.0) %	117,697	2,405	2.1 %	120,883	3,186	2.7 %
FTEs	1,161.2	1,204.2	1,318.3	114.1	9.5 %	1,331.5	13.2	1.0 %	1,335.8	4.3	0.3 %
PLANNING, DEVELOPMENT & ASSESSMENT											
Revenues	(83,341)	(67,274)	(67,178)	96	(0.1)%	(67,651)	(473)	0.7 %	(70,483)	(2,832)	4.2 %
Expenditures	116,087	104,397	103,022	(1,375)	(1.3)%	104,580	1,558	1.5 %	108,939	4,359	4.2 %
Recoveries	(3,000)	(1,020)	(1,072)	(52)	5.1 %	(1,117)	(45)	4.2 %	(1,165)	(48)	4.3 %
Net Budget	29,746	36,103	34,772	(1,331)	(3.7)%	35,812	1,040	3.0 %	37,291	1,479	4.1 %
FTEs	728.2	770.7	801.2	30.5	4.0 %	803.2	2.0	0.2 %	809.2	6.0	0.7 %

- Department gross expenditures clearly reported in summary table

Source: City of Calgary 2009-2011 Corporate Summary – Approved Business Plans and Budgets, page 37



Example: 2009-2011 City of Calgary Budget

The City of Calgary Table 3: 2009 – 2013 Approved capital plan summary (\$000s)

	2009	2010	2011	2012	2013	TOTAL
TAX-SUPPORTED/SELF-SUPPORTED						
Projects in progress & pre-approved (not requiring adjustment)	932,448	557,785	320,433	187,687	73,837	2,072,190
BUDGET APPROVED						
Projects in progress & pre-approved (adjustment approved)	191,641	121,093	91,659	64,950	87,800	557,143
New programs (approved)	599,144	581,686	619,546	173,424	144,528	2,118,328
TOTAL BUDGET APPROVED	790,785	702,779	711,205	238,374	232,328	2,675,471
Projects commencing in future years	–	–	–	259,859	466,097	725,956
TOTAL TAX-SUPPORTED	1,723,233	1,260,564	1,031,638	624,981	696,104	5,473,617
UTILITIES						
Projects in progress & pre-approved (not requiring adjustment)	38,541	–	–	–	–	38,541
BUDGET APPROVED						
Projects in progress & pre-approved (adjustment approved)	286,960	56,000	13,831	32,454	15,489	404,734
New programs (approved)	221,091	295,976	318,439	68,093	2,480	906,079
TOTAL BUDGET APPROVED	508,051	351,976	332,270	100,547	17,969	1,310,813
Projects commencing in future years	–	–	–	287,261	426,240	713,501
TOTAL UTILITIES	546,592	351,976	332,270	387,808	444,209	2,062,855
TOTAL CITY						
Projects in progress & pre-approved (not requiring adjustment)	970,989	557,785	320,433	187,687	73,837	2,110,731
BUDGET APPROVED						
Projects in progress & pre-approved (adjustment approved)	478,601	177,093	105,490	97,404	103,289	961,877
New programs (approved)	820,235	877,662	937,985	241,517	147,008	3,024,407
TOTAL BUDGET APPROVED	1,298,836	1,054,755	1,043,475	338,921	250,297	3,986,284
Projects commencing in future years	–	–	–	547,120	892,337	1,439,457
TOTAL CITY	2,269,825	1,612,540	1,363,908	1,073,728	1,216,471	7,536,472

•Separate capital budgets

Source: City of Calgary 2009-2011 Corporate Summary – Approved Business Plans and Budgets, page 41

Example: 2009 City of Calgary Financial Statements



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Expenditures: note the difference in amortization between budget and actual expenditures

	Budget 2009 (unaudited) (note 15)	Actual 2009	Actual 2008 (restated) (note 27)
EXPENDITURES			
Police	316,581	316,025	285,936
Fire	183,324	181,149	159,998
Emergency medical services	14,449	15,939	53,928
Public transit	295,111	295,252	283,688
Roads, traffic and parking	188,260	205,663	166,415
Water services and resources	159,881	157,277	147,041
Waste and recycling services	95,154	82,934	60,632
Community and social development	43,896	49,535	50,641
Social housing	93,672	105,528	75,153
Parks and recreation facilities	178,160	189,898	162,997
Societies and related authorities	57,908	66,925	41,559
Calgary Public Library Board	41,244	37,574	35,325
General government	224,170	199,821	160,958
Public works	131,709	125,718	129,428
Real estate services	43,839	46,598	37,631
Amortization	1,797	341,792	304,383
Interest and financing fees	112,963	108,823	99,392
	2,182,118	2,526,451	2,255,105

Source: City of Calgary 2009 Consolidated Financial Statement, page 48

- Department aggregation differs between budget and financial statement

Example: 2009 City of Calgary Financial Statements



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Revenues

	Budget 2009 (unaudited) (note 15)	Actual 2009	Actual 2008 (restated) (note 27)
REVENUES			
Net taxes available for municipal purposes (Note 18)	\$ 1,240,091	\$ 1,292,408	\$ 1,223,187
Sales of goods and services	810,652	844,256	781,437
Government transfers and revenue sharing agreements			
Federal	6,983	9,506	8,202
Province of Alberta	117,511	165,753	111,098
Investment income	49,216	40,486	57,873
Fines and penalties	57,447	60,075	56,156
Licences, permits and fees	58,703	69,061	77,700
Miscellaneous revenue	42,864	46,343	35,751
Equity in earnings of government business enterprises (Note 6)	205,900	204,637	181,994
	2,589,367	2,732,525	2,533,398
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER OTHER	407,249	206,074	278,293
Developer contributions	48,810	44,383	80,872
Government transfers related to capital (Note 20)	627,637	376,424	548,117
Developer contributions-in-kind related to capital	3,765	75,242	56,042
NET REVENUES	1,087,461	702,123	963,324

Source: City of Calgary 2009 Consolidated Financial Statement, page 48



2009 City of Calgary budget vs. financial report

Totals in budget

- Operating: \$2.77 billion
- Capital: \$2.27 billion
- Total expenses: Headline estimate \$5.04 billion
- Result: balanced budget, after taking into account payments to the City from the utilities

Totals in financial report

- Total consolidated expenditures: \$2.53 billion
- “Unaudited” budgeted expenditures: \$2.18 billion
- Total actual revenues: \$3.23 billion
- Result: 2009 actual surplus of \$700 million



Measuring fiscal accountability – example: Calgary

2008 budget plans – cash basis:

- **Total headline expenses: \$4.54 billion**
(operating expenses restated on equivalent basis as 2009).
Capital expenditure plans taken from 2008 budget.

2009 budget plans – cash basis:

- **Total headline expenses: \$5.04 billion**

Change in 2008-2009 budgeted expenses:

- **Total headline expenses change: \$496 million**

2008 actuals – accrual basis:

- **Total expenses: \$2.26 billion**
(restated to equivalent basis as 2009)

2009 actuals – accrual basis:

- **Total headline expenses: \$2.53 billion**

Change in 2008-2009 actual expenses:

- **Total headline expenses change: \$271 million**



Measuring fiscal accountability – spending accuracy

Table 2: Summary of Spending Bias and Accuracy, Budgets of Major Canadian Municipalities, 2001-'10

Municipality	Change in Expenditure Forecast			
	Bias (%)	Rank	Accuracy (%)	Rank
Brampton	1.5	12	51.4	23
Calgary	0.1	2	6.2	7
Durham Region	0.7	8	3.9	1
Edmonton	4.1	20	9.9	13
Halifax	0.5	6	5.1	4
Halton Region	3.9	19	14.2	20
Hamilton	1.0	9	11.3	15
London	4.5	21	7.4	10
Markham	2.0	14	10.8	14
Mississauga	2.8	18	11.4	17
Montreal	0.5	5	5.8	6

Note: Gross operating expenditure data for Halton Region for 2000 and 2001 are unavailable. Calgary and Mississauga did not provide capital expenses for 2000 that were comparable with those of 2001; the analysis for these cities and for Hamilton starts in 2002. For Sudbury and Ottawa the analysis starts in 2003. Montreal data for 2002 are excluded because of amalgamation.

Sources: Authors' calculations, from municipal budgets and financial reports, and, for Ontario municipalities, the Financial Information Return.



Measuring fiscal accountability – spending accuracy

Table 2: Summary of Spending Bias and Accuracy, Budgets of Major Canadian Municipalities, 2001-'10

Municipality	Change in Expenditure Forecast			
	Bias (%)	Rank	Accuracy (%)	Rank
Niagara Region	0.6	7	4.7	3
Ottawa	1.7	13	12.2	19
Peel Region	0.0	1	14.4	21
Sudbury	1.4	10	6.4	8
Surrey	2.6	17	7.8	11
Toronto	0.4	4	5.1	5
Vancouver	0.2	3	9.5	12
Vaughan	4.5	22	21.6	22
Waterloo Region	2.5	16	4.3	2
Windsor	1.5	11	12.0	18
Winnipeg	4.6	23	7.3	9
York Region	2.2	15	11.3	16

Note: Gross operating expenditure data for Halton Region for 2000 and 2001 are unavailable. Calgary and Mississauga did not provide capital expenses for 2000 that were comparable with those of 2001; the analysis for these cities and for Hamilton starts in 2002. For Sudbury and Ottawa the analysis starts in 2003. Montreal data for 2002 are excluded because of amalgamation.

Sources: Authors' calculations, from municipal budgets and financial reports, and, for Ontario municipalities, the Financial Information Return.



Implications of move to accrual budgets for municipalities

- Cities financing capital investment with upfront capital revenues will run surpluses in years of revenue collection but deficits later:
 - Cities financing capital investment with debt backed by future revenue streams over life of asset will run consistently balanced budgets;
 - The implication is that having no debt sounds like prudent fiscal management but is poor public policy for intergenerational equity.
- PSAB requires that reserve fund balances be classified as deferred revenue. Under PSAB rules, reserves are not spending – they are surpluses.

Implications for provincial governments

- Reporting fiscal balance of cities on same basis as province.

Ontario Major Cities Total Actual Revenues and Expenditures			
<i>Billions (\$)</i>	2008 - restated	2009	2010
Revenues	20.2	23.7	26.1
Expenses	18.0	21.6	22.6
Total surplus	2.2	2.1	3.5
Share of Expenses	12%	10%	16%

- On an accrual basis, major cities in Ontario ran surplus of 16 percent of annual expenses in 2010

Cities: Toronto, Ottawa, Hamilton, London, Mississauga, Brampton, Vaughan, Markham, Peel Region, York Region, Waterloo Region, Durham Region, Halton Region.

Source: consolidated financial statements of cities



Addressing transition issues

- In Ontario, municipalities are required to present balanced operating budgets, while capital budgets may be in surplus or deficit;
- Analogy of transition issue similar to this was for Ontario school boards, which now have budgets and financial reports on same basis;
- Ministry of Education made parallel reforms to:
 - Limit on use of operating reserves. Makes in-year deficit/surplus transparent;
 - Gradually transition recognition of non-cash expenses in budgets.
- Aligns board accounting – which is consolidated with provincial accounts – with provincial accounting.



Recommendations for better municipal budgets

- **Adopt accrual accounting in budgets:**
 - Provinces need to address balanced budget requirements;
 - Municipal staff in Ontario cities must report to council, but not necessarily include in budget, amortization costs. The province is slated to review this additional regulation by the end of 2012;
 - **Accrual accounting compels cities to finance infrastructure over its lifespan;**
 - **Fiscal outlook for cities much brighter under accrual accounting than under cash accounting.**



Recommendations for better municipal budgets

- **Present multi-year budgets:**
 - Today's capital spending has key implications for tomorrow's capital and operating spending;
 - Cities should approve budgets – or deviations from long-term plans – on an annual basis but initiate a budget over a term of council;
 - Especially important if moving to accrual budgeting;
 - **Greater fiscal capacity for capital expenditures now must be paired with long-term restraint.**



Recommendations for better municipal budgets

- **Report department-by-department results on the same basis as in budgets:**
 - Consistent aggregation allows observers to identify activities in which results differ significantly and consistently from what was budgeted;
- **Show gross, rather than net, amounts:**
 - Municipal gross expenditure and revenue budgets should also include wholly owned corporations such as utilities;
 - Residents still pay expenses on rate-supported programs, such as water and sewer services and having different presentations for fee-supported services creates a misleading measure of a city's fiscal footprint.



Thank you