

Intelligence MEMOS



From: Benjamin Dachis and William B.P. Robson
To: Toronto City Council
Date: December 22, 2016
Re: **MUNICIPAL FISCAL ACCOUNTABILITY IN TORONTO**

It's budget season again here in Toronto. With all this attention on municipal finances, you might think such questions as "How much does Toronto plan to spend this year compared to last year?" or "How much is it spending now compared to the last budget?" would be part of the conversation. But they are not, because the way Toronto presents its finances makes them all but impossible to answer.

The C.D. Howe Institute's recent report [*Two Sets of Books at City Hall? Grading the Financial Reports of Canada's Cities*](#) gives Toronto an *F* on its fiscal accountability report card.

Why an *F*? Toronto, like all cities, votes a budget around the start of the year, showing its spending plans. At year-end, the city releases its annual report, showing what the city actually spent. But the figures in the budget and the annual report are all but impossible to compare.

To begin with, they use different accounting. Cities, like other governments in Canada, present their annual reports using accrual accounting, which among other things, writes off capital assets as they deliver their services. Yet budgets are on a cash basis.

The difference between the two is not small. The combined operating and capital expenditures presented in Toronto's 2015 budget was \$11.8 billion. In the annual report, the corresponding figure was \$10.8 billion. Did the city underspend by \$1 billion? Unlikely – yet it is hard for even experts to be sure, because the two figures are not calculated on the same basis. Standardizing the formats between the two documents should be top of mind for Toronto.

A second major problem is that Toronto does not present a single total spending figure for all the city's activities. It presents one for spending that property taxes cover, and one that includes fully rate-supported divisions of the city, such as water and waste. That duplication muddles the understanding of how much the Toronto residents – who pay both taxes and fees – pay for city services.

Presentation of financial information matters on the ground. Cash budgeting makes infrastructure look expensive, discouraging major projects, tilting their financing toward up-front charges that make new housing too expensive, and neglecting maintenance later on. Councillors will make better decisions about that and much else if they get clear, comparable, timely figures about what has happened in the past, and what might happen in the future.

Exhibit one of Toronto's 2017 budget should have a single page that shows planned revenue and spending for the year. On the same basis as the city's financial reports. And showing total, gross revenue and spending.

Better fiscal accountability would bring the financial management of Toronto more into line with the importance of the city's services in residents' lives, and its cost to taxpayers.

*Benjamin Dachis and William B.P. Robson are co-authors, with Jennifer Y. Tsao, of the recent C.D. Howe Institute report [*Two Sets of Books at City Hall? Grading the Financial Reports of Canada's Cities*](#)*