

Intelligence MEMOS



From: William B.P. Robson and Farah Omran
To: Canada's Municipal Councils
Date: November 28, 2018
Re: **GRADING THE FINANCIAL REPORTS OF CANADA'S MUNICIPALITIES**

In nearly all larger Canadian municipalities, obscure financial reports – notably, inconsistent presentations of key numbers in budgets and end-of-year financial statements – hamper councillors, ratepayers and voters who seek to hold their municipal governments to account.

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, is hard or impossible for a non-expert citizen or councillor to find. The differences between how the numbers appear in budgets and in financial results have real-world consequences. For example, by presenting net, rather than gross, budget figures, municipalities exclude key services such as water and the fees that fund them, obscuring key activities and understating both their revenue and expense.

By using cash, rather than accrual, accounting, they exaggerate infrastructure investment costs, hide the cost of pension obligations, and make it hard to match the costs and benefits of their activities. Moreover, many municipalities approve their budgets after significant money has already been committed or spent in the fiscal year, fail to publish their fiscal year-end financial results in a timely way and bury key numbers deep in their documents.

In our recent C.D. Howe Institute [report card](#), we graded the financial presentations of major Canadian municipalities in their most recent budgets and financial statements. Of those we assessed, Toronto, Durham Region, Quebec City and Longueuil failed, providing little information in reader-friendly form. More happily, Surrey garners an A+ for clarity and completeness of its financial presentation, York Region is a close second with an A, while Vancouver and Markham are also good performers.

We have two key recommendations. First, municipal governments should present their annual budgets on the same accounting basis as their year-end financial statements. Their budgets should use accrual accounting, recording revenues and expenses as the relevant activities occur. For their part, provincial governments that impede the use of accrual-based budgets – by mandating that cities present separate operating and capital budgets, for example – should stop doing so. Indeed, provinces should mandate cities to present accrual budgets so the fiscal pictures of municipalities and the province use the same transparent standard. Even in cases where a province is an impediment, municipalities could release the relevant information on their own – and they should.

Second, budgets, like financial statements, should 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. These changes would help raise the financial management of Canada's municipalities to a level more commensurate with their importance in Canadians' lives.

The Baffling Budget Scorecard for Canada's Major Cities

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

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To send a comment or leave feedback, email us at blog@cdhowe.org.

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