

# Intelligence MEMOS



From: William B.P. Robson  
To: Canada's Finance Ministers  
Date: January 14, 2019  
Re: CANADA'S CITIES ARE RICHER THAN WE THINK

As Canada's finance ministers know as well as anyone, our federal and provincial governments are in bad fiscal shape. Most have liabilities that vastly exceed their assets – and, whether by necessity or choice, are adding to their net debt with ongoing deficits. As you may not know – most Canadians do not – Canada's local governments are in good fiscal shape. Their liabilities are much smaller than their assets. And local governments are adding to their net worth with ongoing surpluses.

This situation seems odd. The turn of the year is when consternation about municipal budgets typically peaks, with complaints about hikes to property taxes and fees, and warnings about cuts in services. As you look ahead to your own budgets in February and March, municipal representatives and advocates are probably citing these same complaints and warnings as they lobby you for more taxing powers and higher transfers. But the reality of Canadian municipal finances is not what the rhetoric and lobbying would lead us to believe.

Statistics Canada is rolling out new compilations of government financial statistics. As a result, we now have quite current information on the revenues and expenses, and the assets and liabilities, of local governments across the country. Just last week, StatCan reported on the third quarter of 2018. At its end, local governments, in aggregate, had more than \$410 billion in non-financial assets – mainly capital assets such as buildings, utilities and other infrastructure – and almost \$110 billion in financial assets – mostly cash and other highly liquid assets (see figure). Against this \$520 billion in total assets, they carried about \$220 billion in liabilities. Their net worth – in distinct contrast to the governments whose finances you oversee – was strongly positive: \$300 billion.

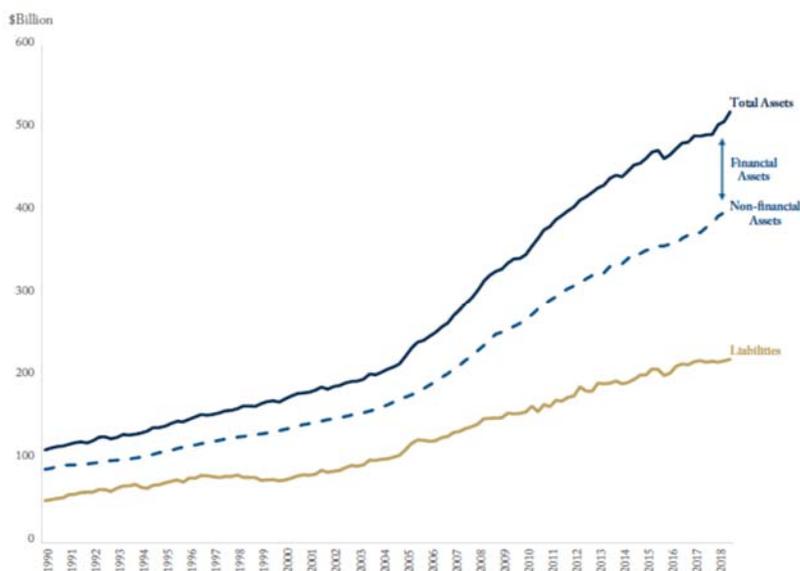
Since we all regularly hear that Canada's urban infrastructure is in terrible shape, the changes in some of these figures from a year earlier are worth highlighting. The non-financial assets of local governments are up 8 percent – which shows a much healthier rate of investment in roads, water, transit and so on than your governments are managing. Over the same period, their liabilities grew by less than 2 percent – another performance most of you might envy. And their net worth grew by 9 percent – even as the governments you oversee sank further into debt.

All this is not to knock local governments. It is nice that one level of government in Canada is running surpluses. However, the \$110 billion of financial assets on local governments' balance sheets does look odd. Even as cities complain that they cannot afford infrastructure, they are sitting on a mountain of cash and other liquid assets – much of it raised with development and other charges levied for infrastructure projects that must be proceeding slowly or not at all.

As Farah Omran and I [recently discussed](#), archaic budgeting practices and outmoded provincial restrictions on their operating budgets bias cities toward hasty financing, but slow execution, of capital projects. They could have less cash and more infrastructure – and remain just as fiscally healthy, while providing better services.

The advocates demanding more money for cities from your governments may not know that Canada's cities are in better shape than the feds and provinces. You can usefully tell them that. Meanwhile, you and your colleagues, especially in provincial governments, can lift the restrictions that discourage Canada's cities from investing more of the money they already have. We'll upgrade our urban infrastructure faster – and you can focus harder on getting your own governments' bottom lines closer to where Canada's cities already are.

Local Government Assets and Liabilities



Source: Statistics Canada, Table: 10-10-0015-01, Statement of government operations and balance sheet, government finance statistics.

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