

Intelligence MEMOS



From: Benjamin Dachis, William B.P. Robson and Farah Omran
To: Concerned Canadians
Date: December 1, 2017
Re: **FUZZY FINANCES NEED TO END IN CANADA'S MUNICIPALITIES**

Cities across Canada are embarking on their annual budget reviews. However, in nearly all large Canadian municipalities, it is far too hard for city councillors, ratepayers and voters to understand municipal budgets and to hold their government to account on following through on budget promises.

Simple questions like, “How much does your town plan to spend this year?” or “How does that compare to what it spent last year?” are hard or impossible for a non-expert citizen or councillor to answer. The differences between budget accounting methods and presentations of financial results have real world consequences.

For example, by presenting net rather than gross budget figures, many municipalities obscure key activities and understate both their revenue and spending. 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 municipal activities. Moreover, many municipalities approve their budgets after significant money has already been committed or spent, do not publish their financial results in a timely way, and bury key numbers deep in their statements.

We [assessed](#) how Canada's 28 most populous municipalities are performing, according to these criteria:

Include the Previous Year's Spending

Some municipal budgets present spending estimates without the context of what council approved – or what the municipality is likely to have actually spent – the year before. The lack of previous-year reference points particularly affects capital budgets.

Show Combined Rate- and Tax-supported Gross Spending

A pervasive problem is presenting the spending of a department, certain services or expenses, or of the municipality as whole, net of user fees and other non-property tax revenues. “Tax-supported” services typically attract more attention than “rate supported” services such as water and sewage or other activities for which municipalities charge user fees.

Reconcile Results to Original Budget Projections

Even when accounting and reporting on a gross basis are consistent between budgets and financial reports, it helps to have reconciliation tables that itemize how actual expenses may have deviated from the budget numbers. When accounting and gross/net reporting are inconsistent, such reconciliation tables are critical.

Present Budgets and Financial Reports on a Timely Basis

Budgets are the cornerstone documents that lay out a municipality's plan over the course of the coming year. A budget presented well into the fiscal year asks councillors to approve spending that has already happened – a clear violation of accountability.

Present Budgets and Financial Reports on the Same Accounting Basis

If an organization uses inconsistent accounting in preparing its budgets and its audited financial reports, people will not be able to tell whether its revenue and spending were close to budget, or far from it – or in which direction.

This year, Calgary registered the largest year-over-year decline in budget clarity: like Durham Region in Ontario, it provides little information in reader-friendly form. More happily, Vancouver, Surrey, B.C., and Peel and Niagara Regions in Ontario garnered the highest marks for clarity of financial presentation.

Our key recommendations are that municipal governments should present their annual budgets on the same accounting basis as their year-end financial statements and that those budgets should show gross, not net, revenue and spending figures.

As well, 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.

Benjamin Dachis is Associate Director, Research, at the C.D. Howe Institute, William B.P. Robson is President and CEO of the C.D. Howe Institute. Farah Omran is a Researcher at the C.D. Howe Institute.

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