

# Intelligence MEMOS



From: William B.P. Robson and Nick Dahir

To: Canadian Taxpayers

Date: June 20, 2024

Re: **GETTING CLEARER MUNICIPAL BUDGETS – THE STRUGGLE CONTINUES**

The budgets that show a city's plans for the upcoming fiscal year and the audited financial statements that report its results after year-end are crucial tools both for the city councillors who steward public funds and for the public that holds them accountable. But, as the C.D. Howe Institute's [latest scorecard](#) on the transparency and accountability of Canada's 32 largest municipalities reveals, many city budgets are opaque – likelier to confuse councillors and the public than inform them.

Unlike their budgets, the financial statements of Canadian municipalities are comprehensible even to people who aren't experts. They present revenues, expenses and the bottom-line surplus – yes, contrary to what budgets often suggest, Canadian municipalities run surpluses – all on one page. The financial statements follow public sector accounting standards (PSAS) and the financial-office staff in the 32 municipalities covered by the Institute's report card do a good job: Their financial statements typically get clean opinions from their auditors. What's especially important is that the standards ensure that cities show the full scope of their activities, whether financed by fees or taxes, and that they amortize capital – showing expenses on long-lived items such as roads, sewers and buses as they deliver their services, not all at once when assets are purchased or built.

Ironically, the clean and clear presentations of municipal financial statements, published *after* the money is raised and spent, cast into stark relief the confusing presentations of municipal budgets, which ought to give councillors and citizens a say *before* the money is raised and spent.

The items that appear on one page in financial statements are spread over dozens or even hundreds of pages or slides in budgets and finding them often requires looking through more than one document. Tax-supported and fee-supported items typically do not appear together; operating and capital outlays are also separate; and different accounting approaches make comparisons with year-end results hard even for experts – and impossible for most people.

Budget debates would be much more productive if cities presented their budgets using the same PSAS-consistent numbers they use in their financial statements. Comparable numbers would appear on one page. There would be fewer frightening up-front price tags for capital projects – which either put councillors off pursuing the project at all or persuade them to raise too much up-front money with measures such as development charges, rather than spreading costs over time as citizens enjoy the services from the project.

Happily, over the years more cities have been following PSAS in at least some of their budget presentations. In 2010, not one of Canada's major municipalities showed PSAS-consistent projections anywhere in its budget. But of the 32 municipalities in the C.D. Howe Institute's 2023 report card, at least some PSAS-consistent numbers were found. Ideally, all cities would follow the lead of Richmond, BC, and present an entirely PSAS-consistent budget, but it is encouraging to see the spread of presentations that make budgets more transparent and useful.

Sadly, however, backsliding is always a threat. This year fewer municipalities included PSAS-consistent projections in their budgets than last. Loss of transparency is never good, and it is especially troubling that PSAS-consistent numbers became rarer in Ontario, where new "strong mayor" powers limit councillors' roles in budget-making. Councillors need to receive a clear picture of their city's financial plans that they – and indeed anyone who is interested, numerate and literate – can understand so they can make informed objections if necessary.

Objections that PSAS-consistent budgets would be confusing or more work than they are worth simply do not stand up. Municipalities' year-end financial statements not only show PSAS-consistent results on one page, they compare the results to the year's budget projections line-by-line on the same page. That is the kind of clarity we need: It makes the budget projections as easy to find and take in as the results. Translating the budget projections into PSAS-consistent numbers is no more work at the beginning of the year than at the end, and is a whole lot more useful.

Cities loom as large in Canadians' lives as provinces and the federal government, which nowadays present budgets that are relatively easy to compare to their financial statements. Cities provide vital infrastructure and services and are on the front line of pressures related to housing, transit and much else. We need more cities to present transparent budgets that let us compare their plans to what actually happened in previous years and then compare their results to their plans. It is up to councillors and the public. We have seen progress in the past. If we demand more, we can get it.

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