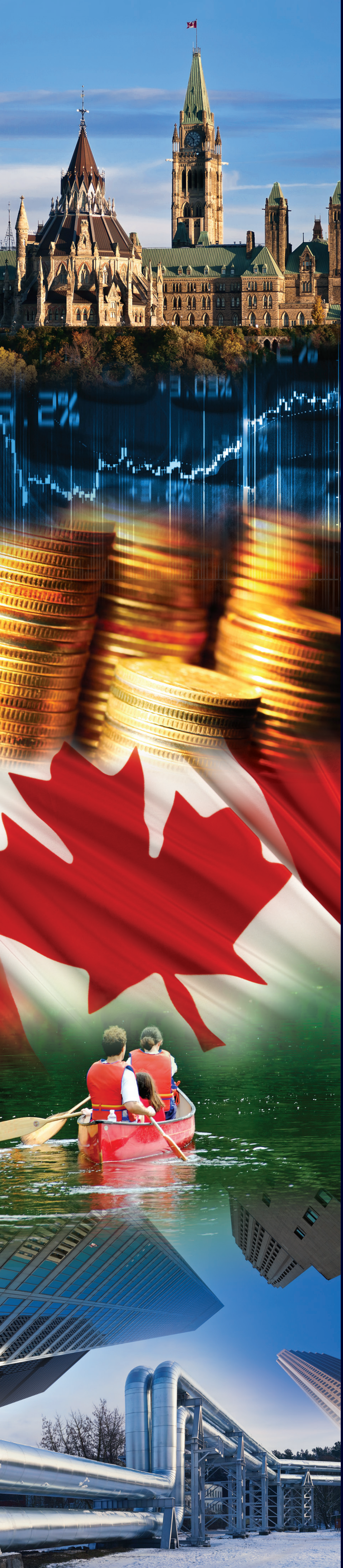

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COMMENTARY
NO. 589

Time for an Upgrade: Fiscal Accountability in Canada's Cities, 2020

The financial results Canada's major cities publish, if not always timely, are typically easy to find and understand. By contrast, the budgets most of them present are often late and confusing, giving councillors, ratepayers and voters little insight about what will actually happen during the year. This scorecard grades 31 cities for the quality of their budgets and financial statements, and shows how the middling performers and failures can improve.

William B.P. Robson and Miles Wu

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The Study In Brief

The COVID-19 crisis and its impact on the revenues and expenses of all governments will make the fiscal capacity of Canada's municipalities a pressing topic for years to come. All the more reason for municipalities to present budgets and other financial information that let Canadians understand how their city governments tax and spend so they can hold them accountable for their performance.

The financial statements Canadian municipalities publish after year-end are typically transparent, if not always timely. Unfortunately, however, their budgets – the documents that determine property taxes, capital spending and so much else critical to quality of urban life and fiscal sustainability – are typically neither transparent nor timely.

Nearly every major Canadian city presents separate budgets for current spending and for big-ticket capital items. Many use accounting and aggregation methods that only experts can reconcile with their financial statements. The key numbers are often hard to find and recognize. And councillors often vote on these non-transparent budgets after the fiscal year has started and money is already being spent.

Opaque and late budgets impede accountability. 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 plan, is hard or impossible for a non-expert to find.

Moreover, the differences between how the numbers appear in budgets and in year-end financial statements have real-world consequences.

This C.D. Howe Institute annual report card grades the financial presentations of 31 major Canadian municipalities based on their most recent budgets and financial statements. Of those 31, Edmonton, Saskatoon and London sadly earn Fs, failing to meet a minimal standard of transparency, usefulness and timeliness. Happily, Vancouver and Surrey garner A+s for clarity and completeness. Markham, Richmond, and York Region also stand out favourably, each earning an A-.

Our core recommendation to improve this situation is that municipal governments should present budgets using the same public sector accounting standards (PSAS) and format that they use in their year-end financial statements. One key consequence of this change would be that municipal budgets would use accrual accounting with respect to capital, recording revenues and expenses as assets deliver their services. Provincial governments that impede the preparation of PSAS-consistent municipal budgets – for example, by mandating that cities present separate operating and capital budgets – should stop doing so. Meanwhile, even as municipalities observe the rules obliging them to produce certain numbers, they should provide additional information, including PSAS-consistent budget projections.

A second implication of using consistent accounting standards is that municipal budgets, like municipal financial statements, would 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.

Along with more transparently presented numbers and more timely information, these changes would raise the fiscal accountability of Canada's municipalities to a level more commensurate with their importance in Canadians' lives.

Note to Readers: This is a revised version of the Commentary first published in January 2021. It features revised scores for Brampton (budget date), Edmonton (budget date), Halifax (budget comparison in financial statements), Halton (reconciliation to PSAS in budget), London (budget and financial statement dates), Mississauga (grade calculation), Niagara (reconciliation to PSAS in budget), Vaughan (budget comparison in financial statements) and Winnipeg (reconciliation to PSAS in budget and budget comparison in financial statements). It also fixes an error in the grading formula that affected the grades of some municipalities.

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Canada's cities provide vital services such as policing and firefighting, roads and transit, water and sewers, parks and recreation. To do so, they raise and spend large amounts of money, and their taxes affect the decisions Canadian households and businesses make about where to live and invest.

It is reasonable to expect Canada's cities to present financial information that meets high standards of transparency, usefulness and timeliness. Sadly, most of them do not.

The problem is not so much with their year-end financial statements, although this survey highlights some problems, notably with respect to timeliness. The bigger problem is with the budgets they present around the beginning of the year. In most cities, simple questions such as how much a municipal government plans to spend, how that plan compares with the previous year and how actual spending compares with budget plans, are too often impossible for non-experts to answer.

Inconsistent accounting also means that municipal budgets often understate the size of city operations, omit key activities, exaggerate the costs of investments, hide the cost of pension obligations and obscure the sustainability of their fiscal positions over time. Worse, too many municipalities vote their budgets after the fiscal year has started and publish financial information so late that decisions about the budget for the *second* year following the reporting year are already made.

How can Canadian municipalities improve accountability for the money they raise and spend? A key recommendation is that municipal governments should present their annual budgets on the same accounting basis as their year-end financial statements. They should use accrual accounting, matching revenues and expenses to the relevant activities. Provincial governments that impede accrual-based budgets at the municipal level – for example, by requiring separate operating and capital budgets – should stop doing so. Municipalities that face those impediments can and should publish supplementary information on their own.

In addition, budgets and financial statements should show gross, not net, revenues and expenses, aggregated on a consistent basis. Netting fees from the totals, such as charges for water, sewage and parking – and the cost of these services – hides important activities and means that only experts with lots of time for the task can compare intentions with results.

City accounting and other budgeting practices might sound arcane to some, but they have real-world consequences. When it comes to infrastructure, the big price tags in cash-based capital budgets likely bias councillors against investing in long-lived assets, induce them to raise too much money up front to finance the projects

We thank Alexandre Laurin, Benjamin Dachis, Philippe Chenard, Tom Wilson, members of the C.D. Howe Institute's Fiscal and Tax Competitiveness Council and a number of other reviewers for comments on earlier drafts and Nicholas Dahir for help with data. This *Commentary* is the latest in a decade-long series of C.D. Howe Institute publications on municipal fiscal accountability going back to Dachis and Robson (2011). Many colleagues and reviewers provided valuable advice and feedback on those previous publications. We note particularly the comments of municipal officials, which have improved our grading system and explanations of it, and deepened our understanding of the legal and other constraints affecting municipal budgeting. We are responsible for the conclusions and any errors in this report.

Key Concept Explainer

Two Tales of a City: Cash versus Accrual Accounting. Cities' budgets typically feature a lot of cash accounting, while their financial statements use accrual accounting. Cash accounting recognizes receipts and outlays when money changes hands. Accrual accounting relates revenues and expenses to the period when the relevant activity occurs. The differences between the two are especially notable in the case of capital projects. Cash outlays for roads, for example, occur early in their lives, so cash accounting records large amounts up-front, and little or nothing later on – as though a road is gone after one use, like a cup of coffee or a payroll service. Accrual accounting recognizes the expense over the period the road is expected to deliver its services.

If all municipalities presented budgets using the same accrual accounting they use in their year-end financial statements, the numbers in the two documents would be directly comparable – a big step forward in transparency.

they do undertake and encourage neglect of those assets once they are in place and delivering their services. Focusing on cash also encourages neglect of obligations that will come due in the future – notably pensions for municipal employees.

Budgets presented on a basis that does not match financial reports means that the starting place for each year's budget is not based on past results – the most recent year for which final results are available, or even estimates of the results for the year about to end – but on the previous year's budget. While municipal councillors are used to this process, it strikes most people familiar with budgeting in a household, business or senior government context as ridiculous. Up-to-date information on where you are is critical to planning where you will go.

Finally, inconsistent budgeting among different levels of government obscures useful comparisons. Provinces, most of which have large deficits and debts, are under constant pressure to increase grants to cities that are typically in better fiscal shape. Better accounting would give everyone a clearer picture – especially important in the post-COVID era when municipalities will be under more intense financial pressure and eager for more financial support from other levels of government.

Better accounting in budgets, clearer presentation of key numbers and timelier publication would help raise the financial management of Canada's cities to a level more appropriate to their importance in Canadians' lives.

Municipal Budgets and Financial Reports

Accountability in democratic governments has many aspects. At its root, it means monitoring whether public employees are carrying out their duties to citizens and performing in line with their elected representatives' instructions. Along with such measures of performance as adherence to schedules in public transit, diligence in waste removal and quality of drinking water, financial documents are key tools for holding governments to account for their fiscal plans and performance. They let citizens monitor the taxes, fees and other charges they are paying, how those funds translate into public services and whether their governments have the capacity to maintain or improve services in the future.

Like most organizations, and like Canada's senior governments, municipalities produce two key documents in their annual fiscal cycles: budgets and audited financial statements.[1]

Budgets contain fiscal plans for the coming year. They provide the principal opportunity for elected representatives, the public and the media to learn about, and provide input on, municipal priorities.

Audited financial statements show what a municipality actually raised and spent during the year, the resulting change in the municipality's net worth and its capacity to deliver services. Public sector accounting standards (PSAS) ensure that cities' year-end financial statements provide largely comparable measures of revenue, expenses and financial position, with taxpayers, the media and councillors getting additional comfort from certification by external auditors.

What Users Need

The starting point for most scrutinizers of a government budget or financial report is the key revenue and expense figures. A citizen/taxpayer, councillor or journalist will typically start by asking how much the government plans to raise and spend in the upcoming year or actually raised and spent in the year just past. Those numbers are the basis for further questions, such as how future plans compare to past performance and how well results corresponded to past plans – and, if discrepancies are large or poorly explained, how to ensure better performance in the future.

The Merits of Consistent Numbers

Ideally, municipal budgets and financial statements would let users who are attentive and motivated, but not necessarily expert, easily find and confidently identify key numbers and make the relevant comparisons. So the documents must meet certain criteria.

- They must be accessible to a lay, time-constrained reader, displaying the key numbers early, prominently and in plain language.
- They should present the full picture of the municipality's activities, including all services, regardless of how they are funded.
- The numbers in one document should match their counterparts in others: they should allow comparisons of intentions to results – both final results for past years and estimated results for the latest year – and comparisons of results to intentions.[2]
- They should be timely: the presentation and voting of budgets should precede – preferably by several months – the beginning of the fiscal year, and financial statements should be published within a few months after the fiscal year-end,

1 Most of the municipalities we look at include their audited financial statements in annual reports, which also include further financial analysis and discussion. In our analysis and grading of municipal financial reporting practices, we use the annual report when available and grade the municipality based on the information in it. To avoid complicating the terminology in this report, we use the term "financial statements" to refer both to free-standing statements, and the statements in annual reports.

2 As the Public Sector Accounting Board expresses it in its Revised Conceptual Framework for the Canadian Public Sector (PSAB 2018, p.12): "Accountability is better demonstrated in financial statements if the budget is prepared: (a) using the same basis of accounting as the financial statements; (b) following the same accounting principles used in preparing financial statements; (c) for the same scope of activities as those reported on in the financial statements; and (d) using the same classifications as the financial statements."

> when the information is fresh and useful for budgeting decisions, and before other matters can overshadow any need for corrective action.

The financial documents of a typical Canadian business or not-for-profit and those of most senior governments in Canada (Robson and Omran 2020) satisfy these conditions. In particular, their consolidated revenue and expense figures appear clearly in the financial statements and in budgets, on the same page, in one single pro-forma statement of operations for the year.

Municipal governments typically publish satisfactory financial statements after year-end, but most do not present budgets anywhere close to this standard.

The Challenge of Non-PSAS-Consistent Municipal Budgets

Many readers of this *Commentary* will be surprised to learn that most Canadian cities do not present budgets that match their financial statements. Because the discrepancies between the two documents are critical to the grades we assign in this report card, we review the main problems in this section. One key difference between the PSAS-consistent presentations found in municipal financial statements and the non-PSAS-consistent presentations in most municipal budgets is that public sector accounting standards mandate accrual accounting whereas municipal budgets are largely cash-based.

Accrual and cash accounting differ in two related ways. Accrual accounting attempts to match revenues and expenses to the period in which the relevant activity occurs. It also attempts to capture in revenues and expenses all items that potentially add to, or subtract from, the capacity of the entity to deliver services: the difference between the two, the surplus or deficit, represents the resulting change in the government's net worth.

Cash accounting is about tracking money in and out. It may not reflect when taxes became payable, for example, or when public servants or assets delivered their services. Worse, cash accounting often makes money coming out of special accounts – typically "reserves" – look like income and money going into these accounts look like outlays. Even cash raised by borrowing can look like income.

The differences between PSAS-consistent presentations and cash accounting can be sizable. For example, the cost of government employees looks different under accrual and cash accounting because accrual accounting attempts to record entitlements such as pensions and post-retirement health benefits while the employee earning them is working, whereas cash accounting ignores them until they are paid.

Another vital difference between accrual and cash accounting is in capital outlays. Accrual accounting records the expenses associated with long-lived items such as buildings, roads and sewers as they deliver their services – ideally writing them down over the years in which they remain useful and before they need replacing. Cash accounting records the outlays as they occur – a big cost upfront and nothing thereafter. Recognizing that cash outlays for capital are fundamentally different from cash outlays for operating costs, Canada's municipalities typically present separate operating and capital budgets, which means their budgets do not show consolidated revenues and expenses on the same PSAS-consistent basis that their financial statements do.[3]

3 To be more precise, most municipalities use accrual accounting in parts of their budgets, such as receivables and payables. Cash accounting for capital has survived because of another regulatory holdover from earlier days when the ability of smaller governments to make payments was more of a concern: namely, that cities should balance their operating budgets and borrow only for capital. Provinces continue to enforce this approach on the cities they control, even though they have long abandoned it in their own fiscal frameworks.

The inconsistencies on the revenue side – in particular the conflating of funds from reserves and borrowing with revenues that potentially increase a city's net worth – are so formidable that a non-expert reader finds a scan of most municipal budgets utterly confusing. If we included a criterion in our report card related to the presentation of revenues on a PSAS-consistent basis, the majority of municipalities would get a zero in that area, which would lower their grades and widen the gap between the municipalities that do not present any PSAS-consistent budget numbers and the smaller number that do. We look forward to the day when meaningful revenue numbers in a larger number of municipalities will make such a criterion more applicable.

We do, however, include criteria related to expenses. Ideally, a municipality will prominently and clearly present a PSAS-consistent figure for expenses in its budget. If we do not find a suitably prominent PSAS-consistent figure in the body of the budget, we look for it in supplementary materials.

PSAS also mandate that financial statements be comprehensive, capturing the full range of activities under the control of the reporting entity. However, some municipal budgets provide a narrower view. In many cases, budgets separate tax-supported from fee-supported services and sometimes show only net figures – inflows minus outflows – for the latter. Highlighting items that residents will pay for, regardless of use, as opposed to those over which they have some control has merit, and could warrant a separate explanation. But doing it that way in the main budget presentation presents a misleadingly small fiscal footprint and confounds efforts to compare plans and results.

Rating Municipal Budgets and Financial Reports

We can now proceed to a deeper level of detail about how we look at, and grade, various elements of municipal budgets and financial statements in our 2020 report card.[4]

Timeliness

With the exception of Halifax, which has a fiscal year that runs from April 1 to March 31, our 31 municipalities have fiscal years that coincide with the calendar year: January 1 to December 31. Since spending without authorization by elected representatives violates a core principle of representative democracy, councillors clearly should vote on budgets before the beginning of the fiscal year. We award a top score of 3 if a municipality approved its budget before the start of the fiscal year, a score of 2 if it approved it not later than four weeks into the year,[5] 1 if it approved it four to eight weeks into the year and zero if it approved its budget more than eight weeks into the year.

4 In the next section, we discuss the sensitivity of our results to our grading system and show how applying our 2020 grading system would have affected the results in our 2019 report card.

5 In most cases, municipal websites clearly label budget documents by year, such that a non-expert user will be able to confidently identify the 2020 budget and determine the date on which council approved it. In some cases, however, finding a municipality's 2020 budget is a challenge. Calgary and Edmonton have published multi-year operating budgets for the 2019-2022 period. Calgary does not identify any budget document as applying to 2020 particularly, and the first budget document Edmonton identifies as pertaining to 2020 is a supplemental operating budget voted on April 27th of that year. In those cases, we have assumed an arguably extreme amount of investigative persistence on our user's part in finding the right documents. We hypothesize that the user might look for the last version published before the beginning of the year and, with the caveat that our scoring in this respect errs in being too generous, used the supplemental budgets the two cities passed in late 2019 in scoring this criterion for them.

Timely publication of financial statements helps councillors and others understand and react to deviations of results from plans. It also encourages faster gathering of the necessary information, which helps the budget process by providing more current estimates for the year about to end – a critical baseline for future plans. We use the date of the auditor's signature on the financial statements[6] and award a top score of 2 to municipalities with such signatures three months or fewer after year-end, a score of 1 to municipalities with signatures four to six months after year-end and zero to municipalities with signatures more than six months after year-end.[7]

Placement of Key Numbers

In thinking about how easy it is for a non-expert to confidently identify key numbers, our target is the consolidated expense figure or figures. In municipal financial statements, this is not an issue; in budgets, it usually is. Our score regarding the placement of this vital information reflects where it appears. Closer to the document's beginning is better, reducing the chance that a user will give up or encounter figures that appear to be the relevant figures but are not.

We look through the most prominently displayed budget documents posted on a municipality's website, stopping at the first aggregate figures identified as relevant totals. In cases where the user faces a choice between similar-looking documents displayed equally prominently – similar fonts and colours on clickable links, for example – we choose the first one in the list or menu. We award a top score of 3 to municipalities that display their headline operating and capital figures within the first 15 pages of the budget document, a score of 2 to municipalities that present these numbers from 16 to 30 pages into the document, 1 to municipalities that present them from 31 to 50 pages into the document and zero to municipalities that present them farther in than that.[8]

We award a bonus point to municipalities that present both operating and capital totals on the same page. Municipalities that present their budgets on a PSAS basis, combining both operating and capital budgets into a consolidated total, naturally present both numbers on the same page, so they also receive the bonus mark.

For the reporting of year-end results, we award a 3 to municipalities that display their statements of operations within the first 15 pages of their reports, 2 to municipalities that present them from 16 to 30 pages in, 1 to municipalities that present them from 31 to 50 pages in, and zero to municipalities that present them beyond 50 pages.

Adherence to PSAS

With respect to the critical criterion of PSAS-consistent budget presentations, we award a score of 4 to municipalities that use consistent accounting in their budgets and financial statements, 3 to

6 We use the date of the auditor's signature because cities do not usually record the date when they post their financial statements. Our method flatters cities that post their statements weeks or months after the auditor has signed them. Short of comparing archived websites, it is the only option we have, but it is not ideal because the lag between the auditor's signature and the public posting of financial statements varies and can be long. In 2017, for example, London's auditor signed the financial statements in June, but their public release occurred in September.

7 The differences in scoring ranges for each criterion reflect the granularity we think is useful in distinguishing good from bad performance. As we explain later, the differences in scoring ranges do not affect the weights of the criteria in a municipality's overall grade.

8 In determining the page number, we consider the entire electronic version of the document and begin counting from the first page of the PDF version.

municipalities that use different accounting but prominently present a reconciliation following the budget overview, 2 to municipalities that provide a partial reconciliation following the budget overview, 1 to municipalities that provide a reconciliation as supplemental information (such as an appendix or later in the document) and zero to municipalities that use different accounting methods and provide no reconciliation.[9]

Happily, all the municipalities we look at in this survey publish PSAS-consistent financial statements, and their latest statements received unqualified audits from their external auditors. Because conformity to consistent accounting standards is a vital element in the reliability and comparability of financial presentations, it figures in our grading system. We award a 2 to all the municipalities on this criterion. (We would have awarded a 1 to any municipality that nominally conforms to PSAS but received a qualified audit opinion and zero to any municipality that explicitly does not conform to PSAS.)

Comparisons between Projections and Results

A useful budget should show projections for the coming year along with final results for the year before and expected results for the current year – the year about to end. That kind of presentation lets users see whether their municipality expects revenue and expenses to rise or fall, and by how much. As noted, municipal budgets typically provide revenue numbers that even an expert will struggle to understand, so we restrict our examination of these comparisons to the spending side.

Moreover, most municipalities do not present PSAS-consistent budgets, so only in a minority of cases can a user find past or anticipated results that are comparable to the numbers in the budget plan. At the risk of being overly lenient, we therefore award marks for presentations that clearly compare budget plans to previous budgets. We award a 3 to municipalities that use PSAS-consistent numbers for this comparison; 2 to municipalities that present such comparisons for operating and capital spending, 1 to municipalities that do so for operating spending only and zero to municipalities that do not present such comparisons.

For their part, financial statements are more useful if they show and explain differences between results and beginning-of-year plans. Because most municipalities do not present PSAS-consistent budgets, our scoring on this criterion reflects both the availability of any such comparison, and the consistency of the accounting that underlies it.

We award a 4 if the municipality's financial statements compare its actual expenses to budget projections, when the numbers in those budget projections actually match the numbers that appeared in the budget itself; 3 if its financial statements compare results to budget expense projections that are restated, but reconciled with the numbers that appeared in the budget; 2 if its financial statements compare results to restated budget projections that resemble, but are not identical to, the numbers in the budget; 1 if its financial statements compare results to restated expense projections that do not resemble the numbers in the budget; and zero if the financial statements do not show expense projections from the budget. We award a bonus point if the statements that do provide a budget comparison accompany it with explanations for variances of results from projections.

9 Some municipalities, such as Calgary, presented PSAS-consistent figures in a separate supplemental document. While a separate presentation is arguably better than none at all, it falls well short of a reasonable standard of transparency. Even experts may not look for such documents, and non-experts will not know they exist. These figures need to be in the main document to be useful.

Comprehensiveness of Budget Information

Budgets should show a municipality's consolidated spending plans so users can understand the total projected claim on community resources. We award a 2 to municipalities that present gross expenditures as their unique headline measure; 1 to municipalities that present net and gross expenditures equally prominently and zero to municipalities that show only net expenditures in their headline numbers, do not consolidate rate- and tax-supported expenditures or otherwise omit government controlled entities.[10]

Below-the-Line Adjustments

Financial results are easier to understand if the difference between revenues and expenses – the annual surplus or deficit – is straightforwardly related to the change in the government's net worth over the fiscal year. Even experts can have trouble figuring out what lies behind a line with a label such as "other capital contributions" or "other comprehensive loss" that adjusts the year's results to produce a change in the government's accumulated surplus or deficit that differs from what the year's operations produced. For non-experts, these "below-the-line" adjustments are problematically opaque.

There are justifications for such adjustments, and public sector accounting standards allow them under some circumstances. For example, a government might discover that a contingent liability related to cleaning up an environmental problem that is years old was more or less expensive than expected. It then might want to show the impact of that item on its financial position separately from the revenues and expenses it was able to control during the fiscal year. But there are many reasons to dislike these adjustments.

For one, the accumulated surplus or deficit is intended to be the definitive measure of the implications of each year's results for a government's capacity to provide future services. It is problematic if the annual results and the adjusted amounts do not agree. As well, a below-the-line adjustment can hide a problem that is within a government's control – as when it deliberately underreports an expense in one year, producing a misleadingly positive bottom line for that year, and brings the underreported amount in later as a reconciliation item that hardly anyone understands.

Because below-the-line adjustments are an obstacle to transparency and accountability, we include a criterion that notes whether a municipality had an adjustment. We award a 1 to municipalities that did not have one and zero to those that did.

The Report Card on Canada's Major Municipalities

We are now in a position to construct a report card for Canada's major cities, based on their most recent (2020) round of budgets and most recent (2019) rounds of financial statements. We looked at the 25 largest cities by population plus the six most populous regional municipalities in Ontario.

Deriving Letter Grades

We derive our letter grades for each city by normalizing the score on each criterion to be

10 Quebec amalgamated a number of municipalities, including Gatineau, Laval, Longueil, Montreal and Quebec City, in the early 2000s. Municipalities that are part of a larger agglomeration typically present numbers for themselves and the larger entity. We award a 2 on this criterion to municipalities that show both with equal prominence, since both numbers help users understand the scope and cost of municipal operations.

between zero and 1.[11] We weight each criterion based on our judgments of relative importance to the overall goals of clarity, reliability and timeliness. We then sum the standardized, weighted scores to produce a percentage, which we convert to a letter grade.

Municipalities received an A+ if they scored 90 percent or more, A for 85 percent, A– for 80 percent, B+ for 77 percent, B for 73 percent, B– for 70 percent, C+ for 67 percent, C for 63 percent, C– for 60 percent, D+ for 57 percent, D for 53 percent, D– for 50 percent and F for less than 50 percent.[12]

The Best and Worst for Financial Reporting

Overall, the picture is disappointing (Table 1). The state of municipal budgeting in Canada is unimpressive, notably the failure of most cities to present planned expenses using PSAS-consistent accounting. Amid the generally bleak picture, however, we highlight some important variations.

The best performers, garnering a grade of A+, are Surrey and Vancouver. Both approved their 2020 budgets before the start of the fiscal year and published their 2019 financial statements just five months and two months after year-end, respectively. Their budgets presented the spending numbers near the front of the document. Surrey and Vancouver are two of the few municipalities that provided budget information on a PSAS basis that is clear and follows the initial budget presentation immediately.

Next best are Markham, Richmond and York Region, each with an A-. These cities also presented clear and timely budgets. Richmond is the only municipality that reported its headline budgetary totals on the same accounting basis as its financial statement, with non-PSAS adjustments appearing later in the document. Had its budget and financial statements been timely, it would have joined Surrey and Vancouver in the top rank. Markham and York Region presented their PSAS reconciliations immediately following the initial budget figures, but they were not as quick as Vancouver in publishing their financial statements. Both could further benefit from improvement in their presentation and explanation of variances between budget plans and results.

At the opposite end of the scale, with grades of F, are Edmonton, Saskatoon and London. Both Edmonton and London presented budgets that were confusing and late, and their financial statements compared results to numbers that did not appear in their budgets, without explanation. Saskatoon's budget had no PSAS-consistent numbers, only compared its operating budget to its prior-year counterpart, and showed net numbers. Edmonton had a below-the-line adjustment in its financial statements, and London published its statements nine months after the end of the year.

Weights in this kind of grading inevitably reflect judgments about which reasonable people may differ. A simple test of the sensitivity of our 2019 grades to the weights we choose is to compare those grades to the grades that would have resulted from equal weights for each criterion. That exercise produces an average absolute change across the 31 municipalities of one degree – equal, for example, to a change from a B to a B-. The correlation between the rankings using weighted and non-weighted criteria is 93 percent, while the correlation between the numerical grades using weighted and non-weighted criteria is 96 percent.

11 For example, a score of 2 in a criterion with a maximum score of 4 would yield a normalized score of 0.5, meaning the municipality received 50 percent on that criterion. We calculate maximum scores without reference to bonus points.

12 For each of the scores below A+, the percentage mentioned is the bottom of a range extending to the threshold for the next higher grade.

Table 1: Municipal Fiscal Accountability Scorecard, 2020

	Budget					Financial Statements					Overall grade
Municipality	Date 2020 budget approved	Page of headline operating and capital total	Is budget PSAS-consistent?	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2019 statements released	Page of headline consolidated results	Are figures compared to their budget counterparts and variances explained?	Do statements receive an unqualified opinion?	Do statements contain "below the line" adjustments?	
Grading Scheme	**3 if before the year starts; 2: if less than 4 weeks after; 1 if less than 8 weeks after; 0 otherwise**	**3 if operating total is less than 16 pages in; 2 if it is 16-30 pages in; 1 if it is 31-50 pages in; 0 otherwise; extra point if capital and operating totals are on same page**	**4 if yes; 3 if full reconciliation; 2 if incomplete reconciliation; 1 if supplemental reconciliation; 0: otherwise**	**2 if both capital and operating compared; 1 if operating compared; 0 otherwise**	**2 if gross only; 1 if gross and net shown equally prominently; 0 otherwise**	**2 if less than 4 months after year-end, 1 if 4-6 months after year-end, 0 otherwise**	**3 if less than 16 pages in; 2 if 16-30 pages in; 1 31-50 pages in; 0 otherwise**	**4 if consistent numbers shown; 3 if restated but reconciled; 2 if restated and close to budget; 1 if restated; 0 otherwise; extra point if the statements accompany the table of variances**	**2 if unqualified opinion, 1 if one qualification, 0 otherwise**	**1 if no; 0 otherwise**	
Grade Weight	**2**	**1**	**3**	**1**	**3**	**2**	**1**	**2**	**3**	**1**	
Brampton (ON)	8 weeks late 26-Feb-20	Operating: p.29 out of 340 Capital: p. 30 out of 340	Reconciliation prominent after budget overview	Both	Gross	5 months 05-May-20	p. 23 out of 62	Restatement almost matches and table of variance explained	Yes	No	B-
Score	*0*	*2*	*3*	*2*	*2*	*1*	*2*	*3*	*2*	*1*	
Burnaby (BC)	19 weeks late 12-May-20	Operating and Capital Both: p.12 out of 272	Supplemental	Both	Gross	4 months 27-Apr-20	p. 22 out of 108	Restatement matches and table of variance explained	Yes	No	B-
Score	*0*	*4*	*1*	*2*	*2*	*1*	*2*	*4*	*2*	*1*	
Calgary (AB)	4 weeks early 25-Nov-19*	Operating and Capital Both: p. 8 of 668	No	Operating only	Gross	2 months 13-Feb-20	p. 15 out of 100	Restatement almost matches and table of variance explained	Yes	Yes	B
Score	*3*	*4*	*0*	*1*	*2*	*2*	*3*	*3*	*2*	*0*	
Durham (ON)	9 weeks late 02-Mar-20	Operating and Capital Both: p. 5 of 309	Incomplete PSAS reconciliation but prominently displayed after non-PSAS figures	Both	Both	6 months 30-Jun-20	p. 40 out of 80	Restatement almost matches and no table of variance	Yes	No	C-
Score	*0*	*4*	*2*	*2*	*1*	*1*	*1*	*2*	*2*	*1*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Municipality	Date 2020 budget approved	Page of headline operating and capital total	Is budget PSAS-consistent?	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2019 statements released	Page of headline consolidated results	Are figures compared to their budget counterparts and variances explained?	Do statements receive an unqualified opinion?	Do statements contain "below the line" adjustments?	
Edmonton (AB)	2 weeks early 13-Dec-19*	Operating: p.7 of 9 Capital: p.45 of 696	No	Operating only	Net	6 months 08-Jun-20	p. 36 out of 110	Restatement does not match but table of variance explained	Yes	Yes	F
Score	*3*	*3*	*0*	*1*	*0*	*1*	*1*	*2*	*2*	*0*	
Gatineau (QC)	3 weeks early 10-Dec-19	Operating: 5 of 28 Capital: 7 of 28	No	Operating only	Gross	5 months 25-May-20	p. 8 out of 100	Restatement does not match and no table of variance	Yes	No	C+
Score	*3*	*3*	*0*	*1*	*2*	*1*	*3*	*1*	*2*	*1*	
Halifax (NS)	6 weeks early 14-Feb-20	Operating: p. 15 of 371 Capital: 25 of 371	No	Both	Both	5 months 01-Sep-20	p. 8 out of 38	Restatement matches but no table of variance	Yes	Yes	C-
Score	*3*	*3*	*0*	*2*	*1*	*1*	*3*	*3*	*2*	*0*	
Halton (ON)	6 weeks early 21-Nov-19	Operating and Capital Both: p. 52 out of 322	No	Both	Gross	6 months 17-Jun-20	p. 6 out of 27	Restatement matches and table of variance explained	Yes	No	B
Score	*3*	*1*	*0*	*2*	*2*	*1*	*3*	*4*	*2*	*1*	
Hamilton (ON)	11 weeks late 20-Mar-20	Operating and Capital Both: p. 11 of 87	No	Operating only	Gross	6 months 24-Jun-20	p. 6 out of 70	Restatement almost matches but no table of variance	Yes	No	C-
Score	*0*	*4*	*0*	*1*	*2*	*1*	*3*	*2*	*2*	*1*	
Kitchener (ON)	3 weeks late 20-Jan-20	Operating and Capital Both: p. 2 of 184	No	Operating only	Both	6 months 22-Jun-20	p. 33 out of 161	Restatement does not match but table of variance explained	Yes	No	D
Score	*2*	*4*	*0*	*1*	*1*	*1*	*1*	*2*	*2*	*1*	
Laval (QC)	4 weeks early 02-Dec-19	Operating: p.17 out of 112 Capital: p.72 out of 112	No	Both	Gross	4 months 27-Apr-20	p. 19 out of 102	Restatement does not match and no table of variance	Yes	No	C+
Score	*3*	*2*	*0*	*2*	*2*	*1*	*2*	*1*	*2*	*1*	
London (ON)	8 weeks late 02-Mar-20	Operating: p. 8 out of 173 Capital: p. 11 out of 173	No	Operating only	Net	9 months 29-Sep-20	p. 8 out of 74	Restatement does not match and no table of variance	Yes	No	F
Score	*0*	*3*	*0*	*1*	*0*	*0*	*3*	*1*	*2*	*1*	
Longueuil (QC)	4 weeks early 03-Dec-19	Operating: p.8 out of 42 Capital: p.24 out of 42	No	Operating only	Gross	5 months 22-April-20	p. 11 out of 168	Restatement does not match and no table of variance	Yes	No	C+
Score	*3*	*3*	*0*	*1*	*2*	*1*	*3*	*1*	*2*	*1*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Municipality	Date 2020 budget approved	Page of headline operating and capital total	Is budget PSAS-consistent?	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2019 statements released	Page of headline consolidated results	Are figures compared to their budget counterparts and variances explained?	Do statements receive an unqualified opinion?	Do statements contain "below the line" adjustments?	
Markham (ON)	2 weeks early 19-Dec-19	Operating and Capital Both: p. 9 of 408	Reconciliation prominent after budget overview	Operating only	Gross	4 months 28-Apr-20	p. 17 out of 43	Restatement almost matches and table of variance explained	Yes	No	A-
Score	*3*	*4*	*3*	*1*	*2*	*1*	*2*	*3*	*2*	*1*	
Mississauga (ON)	3 weeks late 22-Jan-20	Operating and Capital Both: p.76 of 886	Supplemental	Operating only	Gross	4 months 01-May-20	p. 23 out of 91	Restatement reconciled to budget figures and table of variance explained	Yes	No	C+
Score	*2*	*1*	*1*	*1*	*2*	*1*	*2*	*4*	*2*	*1*	
Montreal (QC)	5 weeks early 25-Nov-19	Operating: p.5 out of 432 Capital: p. 33 out of 40	No	Operating only	Gross	4 months 14-Apr-20	p. 15 out of 122	Restatement almost matches and table of variance explained	Yes	No	B-
Score	*3*	*3*	*0*	*1*	*2*	*1*	*3*	*3*	*2*	*1*	
Niagara (ON)	2 weeks early 13-Dec-19	Operating and Capital Both: p. 2 out of 300	Supplemental	Operating only	Gross	5 months 21-May-20	p. 40 out of 97	Restatement reconciled to budget figures but no variance table explanation	Yes	No	B
Score	*3*	*4*	*1*	*1*	*2*	*1*	*1*	*3*	*2*	*1*	
Ottawa (ON)	3 weeks early 11-Dec-19	Operating: p. 13 out of 312 Capital: p. 30 out of 312	No	Both	Gross	6 months 10-Jun-20	p. 10 out of 82	Restatement almost matches and table of variance explained	Yes	No	B
Score	*3*	*3*	*0*	*2*	*2*	*1*	*3*	*3*	*2*	*1*	
Peel (ON)	2 weeks early 19-Dec-19	Operating and Capital Both: p.12 out of 378	Supplemental	Both	Gross	4 months 16-Apr-20	p. 4 out of 31	Restatement reconciled to budget figures but no variance table explanation	Yes	No	B-
Score	*3*	*4*	*1*	*2*	*1*	*1*	*3*	*3*	*2*	*1*	
Quebec City (QC)	5 weeks early 25-Nov-19	Operating and Capital Both: p.12 of 234	No	Operating only	Gross	4 months 23-Apr-20	p. 9 out of 196	Restatement almost matches and table of variance explained	Yes	No	B
Score	*3*	*4*	*0*	*1*	*2*	*1*	*3*	*3*	*2*	*1*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Municipal-ity	Date 2020 budget approved	Page of headline operating and capital total	Is budget PSAS-consis-tent?	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2019 statements released	Page of headline consolidated results	Are figures compared to their budget counterparts and variances explained?	Do statements receive an unqualified opinion?	Do statements contain "below the line" adjustments?	
Regina (SK)	2 weeks early 13-Dec-19	Operating and Capital Both: p. 2 of 120	No	Operating only	Net	6 months 30-Jun-20	p. 50 out of 144	Restatement does not match but table of variance explained	Yes	No	D-
Score	*3*	*4*	*0*	*1*	*0*	*1*	*1*	*2*	*2*	*1*	
Richmond (BC)	6 weeks late 12-Feb-20	Operating and Capital Both: p. 3 of 13	Yes	Neither	Gross	5 months 11-May-20	p. 14 out of 72	Compares actual figures to budget and table of variance explained	Yes	No	A-
Score	*1*	*4*	*4*	*0*	*2*	*1*	*3*	*5*	*2*	*1*	
Saskatoon (SK)	5 weeks early 27-Nov-19	Operating: p. 10 of 314 Capital: p. 12 of 314	No	Operating only	Net	6 months 30-Jun-20	p. 78 out of 156	Restatement does not match but table of variance explained	Yes	No	F
Score	*3*	*3*	*0*	*1*	*0*	*1*	*0*	*2*	*2*	*1*	
Surrey (BC)	3 weeks early 09-Dec-19	Operating and Capital Both: p.15 out of 382	Reconciliation prominent after budget overview	Both	Gross	5 months 25-May-20	p. 4 out of 126	Compares actual figures to budget but no table of variance	Yes	No	A+
Score	*3*	*4*	*3*	*2*	*2*	*1*	*3*	*4*	*2*	*1*	
Toronto (ON)	7 weeks late 19-Feb-20	Operating: p. 13 of 747 Capital: 16 of 747	Reconciliation prominent after budget overview	Both	Gross	11 months 16-Dec-20	p. 18 ouf of 141	Restatement does not match and no table of variance	Yes	No	C+
Score	*1*	*3*	*3*	*2*	*2*	*0*	*2*	*1*	*2*	*1*	
Vancouver (BC)	2 weeks early 17-Dec-19	Operating and Capital Both: p.8 out of 650	Reconciliation prominent after budget overview	Both	Gross	2 months 28-Feb-20	p. 6 out of 53	Restatement almost matches and table of variance explained	Yes	No	A+
Score	*3*	*4*	*3*	*2*	*2*	*2*	*3*	*4*	*2*	*1*	

Table 1: Continued

	Budget					Financial Statements					Overall grade
Municipal-ity	Date 2020 budget approved	Page of headline operating and capital total	Is budget PSAS-consis-tent?	Does budget compare to last year's budget projections?	Does budget present city-wide gross expenditure?	Date 2019 statements released	Page of headline consolidated results	Are figures compared to their budget counterparts and variances explained?	Do statements receive an unqualified opinion?	Do statements contain "below the line" adjustments?	
Vaughan (ON)	2 weeks early 19-Dec-19	Operating and Capital Both: p.15 out of 425	Reconciliation prominent after budget overview	Operating only	Both	9 months 29-Sep-20	p. 6 out of 40	Restatement matches but no table of variance	Yes	No	B-
Score	*3*	*4*	*3*	*1*	*1*	*0*	*3*	*3*	*2*	*1*	
Waterloo (ON)	5 weeks late 10-Feb-20	Operating and Capital Both: p.5 out of 272	No	Operating only	Gross	4 months 06-May-20	p. 7 out of 28	Restatement does not match and no table of variance	Yes	No	C-
Score	*1*	*4*	*0*	*1*	*2*	*1*	*3*	*1*	*2*	*1*	
Windsor (ON)	4 weeks late 19-Dec-19	Operating and Capital Both: p.3 out of 267	No	Both	Gross	8 months 04-Aug-20	p. 6 out of 44	Figures not compared to budget and no table of variance	Yes	No	C
Score	*3*	*4*	*0*	*2*	*2*	*0*	*3*	*0*	*2*	*1*	
Winnipeg (MB)	12 weeks late 20-Mar-20	Operating and Capital Both: p. 14 of 325	Supplemental	Both	Gross	5 months 22-May-20	p. 36 out of 88	Restatement almost matches and table of variance explained	Yes	Yes	C-
Score	*0*	*4*	*1*	*2*	*2*	*1*	*1*	*3*	*2*	*0*	
York (ON)	2 weeks early 19-Dec-19	Operating and Capital Both: p.6 out of 304	Reconciliation prominent after budget overview	Operating only	Gross	4 months 30-Apr-19	p. 51 out of 102	Compares actual figures to budget and table of variance explained	Yes	No	A-
Score	*3*	*4*	*3*	*1*	*2*	*1*	*0*	*5*	*2*	*1*	

Note: * Supplemental 2019-2022 operating budgets; see footnote 5.

Source: Municipal financial documents.

Table 2: Sensitivity of Results to Grading Scheme

	2020	2019 *Using 2020 Grading System*	2019
Brampton	B-	B-	B
Burnaby	B-	C-	C-
Calgary	B	C	B-
Durham	C-	F	F
Edmonton	F	F	D-
Gatineau	C+	C+	C
Halifax	C-	F	D+
Halton	B	B-	B-
Hamilton	C-	D-	D-
Kitchener	D	D	D
Laval	C+	C+	F
London	F	F	F
Longueuil	C+	C-	C
Markham	A-	C+	C+
Mississauga	C+	C+	C+
Montreal	B-	B-	C+
Niagara	B	D+	D
Ottawa	B	C-	D+
Peel	B-	C	C
Quebec City	B	C+	C
Regina	D-	D-	D-
Richmond	A-	B+	A-
Saskatoon	F	D-	D-
Surrey	A+	A-	A-
Toronto	C+	F	D
Vancouver	A+	A+	A+
Vaughan	B-	F	D+
Waterloo	C-	C-	D+
Windsor	C	D-	F
Winnipeg	C-	D+	C
York	A-	B-	B

Note: Changes in grades reflect both changes in governments' financial reporting, and changes in our grading system, as described in the text.

Table 2 provides another test of the sensitivity of our grades to the criteria and the weights by showing both the grade we awarded each municipality in last year's version of this report and the grade we would have awarded it if we had used this year's criteria and weights.

Getting Better from Here

Why is municipal budgeting in Canada such a mess? History sheds some light on current practices and provides useful context for a discussion of how to improve.

Public Sector Accounting Standards and Municipalities

Today's approach to municipal budgets has roots in the distant past, when modern accrual accounting did not exist and cash was a natural focus. A century ago, governments were much smaller, and legislators could oversee transactions – such as the hiring of an individual person or the purchase of a horse – that are trivial by today's standards. In the past, liquidity – a government's ability to cover payroll and make its interest payments on time – was a major concern. Modern governments have more capacity to tax and borrow, making their comprehensive net worth – their capacity to provide services – a more salient focus.

PSAS evolved in the 1980s, introducing accrual accounting and taking a more comprehensive approach to the reporting entity's service capacity – for example, by considering non-financial assets, such as buildings and infrastructure, alongside financial assets, such as bank deposits, and considering liabilities, such as pension promises and environmental cleanup, alongside market debt. Canada's senior governments, with their greater legislative autonomy, have gradually – and not without setbacks – adopted PSAS, first in their financial statements and later in their budgets.

For their part, as noted, municipalities follow PSAS in their financial statements, and all the municipalities in our survey received clean audits. But most do not in their budgets. Even the five Quebec municipalities in our survey, subject to a provincial regulation to report PSAS-consistent budgets to the province, do not present PSAS-consistent budgets to their councillors and the public. They should.

Municipal Budgets Should Amortize Capital

Capital assets provide a salient example of the superiority of accrual accounting as mandated by PSAS. Clearly, long-lived capital assets are central to municipal operations. Budgets that treat outlays on them as expenses – as though a road is gone after one use, like a cup of coffee or a payroll service – distort financial planning. Better is to capitalize investments in buildings, infrastructure and other long-lived items, showing them as assets on the balance sheet and writing them down as they deliver their services with the relevant amounts showing as expenses during those years.

Accrual accounting for capital assets helps achieve fairness among taxpayers over time – it is logical to assess revenues that match those expenses year by year. In addition, the dwindling recorded value of the asset helps managers and elected representatives anticipate the need to replace it.

Municipalities already follow this accrual approach in their end-of-year financial statements, but resist doing the same in their budgets due to inertia: the easiest way to deal with periodic demands in any bureaucracy is simply to do whatever you did last time. Twenty years ago, when senior governments began to issue PSAS-consistent financial statements, arguments that they should prepare their budgets the same way tended to prompt the response, "But this is how the numbers are presented to the legislature." Over time, however, this circular response lost its force: most senior governments now present PSAS-consistent budgets as well (Robson and Omran 2020).

Indeed, we note that even cities that do not present PSAS-consistent budgets incongruously note the superiority of the PSAS framework. Toronto's 2020 budget stated that complying with PSAS and producing an accrual budget "provides more information as to whether the government entity… is in better or worse condition than the previous year" (City of Toronto 2020, p.21). Similarly, in its 2020 budget, Brampton noted that "full accrual budgeting provides stakeholders with a better reflection of the long-term financial health of the municipality for decision-making purposes" (City of Brampton 2020, p.48). We agree with these statements and look forward to all municipal budgets reflecting the superiority of the PSAS framework.

Provinces also create obstacles to PSAS-consistent budgets. Some, such as Alberta, require their municipalities to have separate operating and capital budgets. Others, such as Ontario, require their municipalities to balance their operating budgets, including transfers to and from reserves. And others, such as BC, require their municipalities to include debt principal repayments in their spending. Yet, we have the examples of Richmond, which produces a budget that matches its financial statements, and Vancouver and Surrey, which produce reconciliations of budgets to PSAS-consistent statements that are immediate, straightforward and easy to understand, to show how cities that want to provide this kind of information can do so.

Another argument against PSAS-consistent budgets relates to the apparent cheapness of capital expensed over many years. If the cost of a long-lived asset – one that will deliver its services over, say, 30 years – shows in the budget as one-thirtieth of its upfront cost, so the argument goes, then councillors will buy more of it. But for capital, the 30-year perspective is the better guide to action: it more straightforwardly matches the investment's future costs against its future benefits. Perhaps councillors *should* buy more long-lived assets. It is unhelpful if apparently massive upfront costs lead municipalities to delay or reject some capital projects that would otherwise pass muster.

Moreover, those upfront costs lead cities to finance some projects they do approve by raising revenues up front, rather than by borrowing and servicing the debt over the period the project yields its benefits. A prominent real-life example of inappropriate upfront financing is the infrastructure charges municipalities impose on developers. These charges, which are a key financing mechanism for municipal capital assets, can be as high as $80,000 for a single-family house in the Greater Toronto Area, between $30,000 and $35,000 in cities such as Hamilton and Surrey and more than $20,000 in Calgary (Dachis 2018). Why should new homebuyers bear so much of these costs? Water and other infrastructure provide benefits over a wider geography, and over a longer period, than is relevant to the average homebuyer in the present. To the extent that cash budgeting encourages upfront financing, it makes new homes less affordable.

A related problem is that cash budgeting for infrastructure means councillors tend not to monitor the ongoing expenses linked to that infrastructure once it is in place. Ignoring amortization encourages undercharging for ongoing services, such as water or roads, and means budgets do not show councillors the cumulating depreciation that signals an asset is approaching the end of its useful life.

Readers who doubt that accounting can drive such decisions should consider the justification in Ontario's 2019 budget for the province's intended takeover of the Toronto subway. The province can support municipal investments in transit-related capital, as it can support investments in any capital project, with transfer payments. But, as the 2019 Ontario budget stated: ". . . provincial ownership of the assets would allow the Province to amortize its capital contributions, thereby treating subway builds in the same manner as other provincially owned infrastructure projects, such as hospitals and schools. This ownership transaction ultimately creates the fiscal space to allow the Province to significantly deepen its commitment to transit and start projects immediately, not sometime in the distant future." In a nutshell, the subway looked easier to build if the province were to own it – an illusion that would not have existed if the city of Toronto also budgeted capital on an accrual basis (Robson 2019).

The Accountability Imperative

Most fundamentally, budget presentations that prevent people from comparing intentions with past or future results create a major disconnect that affects the understanding of, and engagement in, municipalities' finances and activities more generally. Consider the controversy every fall and winter as municipal councils prepare for the coming year. The headlines are about the dire challenge of balancing the budget: cuts to services, hikes to fees and taxes. Yet end-of-year results show surpluses. Over the decade to the third quarter of 2020, local governments raised their net worth by close to half, from $210 billion to $311 billion, and increased their stock of financial assets by almost two-thirds, from $86 billion to $141 billion.[13]

In these days of unprecedented borrowing, it is a relief that one level of government in Canada has positive net worth. Indeed, the relatively robust state of Canada's municipal governments has helped them weather the leading edge of the COVID storm. The fact that municipalities have been accumulating such large stocks of financial assets, however, suggests that they are hoarding cash and that their complaints about the unaffordability of infrastructure are off the mark. One way or another, budget rhetoric and fiscal reality are problematically out of sync.

A further problem with budgets that don't reconcile with financial statements is that councillors and others cannot evaluate budget plans relative to past results or the projections for the year about to end. Instead of operating with up-to-date information, most municipal councils develop their budgets with reference to past budgets – a practice that councillors and officials with experience outside municipal government readily acknowledge makes little sense. It is obvious that budgeting with reference to actual and anticipated results would be better.

Moreover, inability to compare intentions and results reduces the attention councillors, the media and the public pay to municipal budgets. Why look at something that is so hard to understand – especially if experience shows that you will not be able to compare it to the outcome? Consider what would happen if a diligent but non-expert councillor delved into his or her municipality's operating and capital budgets and did what a motivated but naïve person might do to calculate spending: add the operating and capital totals together.

The numbers this approach would have yielded during the 2019 municipal budget round appear in Table 3, where we compare them with the expenses reported in each city's 2019 financial statements. For example, Saskatoon's 2019 budget showed $1.19 billion in spending. Its 2019 financial statements showed $0.82 billion in expenses. This gap is so large that an expert with time to spare might suspect it resulted from an accounting discrepancy and start to read the fine print – but a non-expert, struggling with financial reporting that we think merits a grade of F, might think the city's financial management is utterly inept. Other municipalities – notably Halton Region and Burnaby – also had discrepancies between their 2019 budgets and results that would lead a councillor to conclude that the city's execution was widely off: in 12 of the 26 cities we survey, the gap a numerate but non-expert reader would calculate was 25 percent or more.

13 See Statistics Canada, Government Finance Statistics, Table 10-10-0015-01.

Table 3: Budget Estimated Spending vs. Actual Spending, 2019

Municipality	Spending in Budget *($billions)*	Expenses in Financial Statements *($billions)*	Difference *(percent)*
Brampton	0.82	0.82	-0.3
Burnaby	0.77	0.47	-38.2
Calgary	5.83	3.91	-32.8
Durham	0.77	1.30	68.8
Edmonton	4.27	3.19	-25.4
Gatineau	0.77	0.75	-2.9
Halifax	1.12	1.03	-7.7
Halton	1.55	0.84	-45.7
Hamilton	2.32	1.73	-25.4
Kitchener	0.51	0.39	-23.4
Laval	1.11	1.05	-5.0
London	1.15	1.20	3.9
Longueuil	0.83	0.83	-0.3
Markham	0.46	0.44	-4.2
Mississauga	1.11	0.96	-13.3
Montreal	7.80	7.21	-7.6
Niagara	1.25	0.95	-23.7
Ottawa	4.67	3.77	-19.3
Peel	3.77	2.46	-34.7
Quebec City	2.11	1.55	-26.3
Regina	0.79	0.66	-15.7
Richmond	0.46	0.48	4.4
Saskatoon	1.19	0.82	-31.2
Surrey	0.82	0.84	3.2
Toronto	17.25	12.75	-26.1
Vancouver	1.84	1.67	-9.6
Vaughan	0.48	0.51	7.0
Waterloo	1.66	1.10	-33.7
Windsor	0.92	0.80	-13.4
Winnipeg	2.27	1.70	-24.8
York	3.21	2.25	-29.8

Source: Authors' calculations from municipal financial documents.

The differences in Table 3 might reflect, in part, municipalities' over- or underspending relative to their budget commitments. What is certain is that they reflect inconsistent accounting. Municipalities that present PSAS-consistent budgets or very prominent PSAS reconciliations still experience gaps between beginning of year intentions and year-end results: even well-managed businesses, households, not-for-profits and governments do not hit their budget targets exactly. But gaps for those municipalities presenting PSAS-consistent budgets tend to be smaller. Table 3 shows that four of our A-level performers, Surrey, Vancouver, Richmond and York, are among the municipalities with comparatively small misses relative to intentions.

Our key concern is that the numerate councillor, taxpayer or journalist typically cannot make sense of these discrepancies. An understandable reaction would be to throw one's hands in the air and conclude – and tell anyone listening – that the city's finances are out of control.

Recommendations for Better Municipal Financial Documents

Municipal fiscal accountability will be better when a smart and motivated, but non-expert, councillor or taxpayer can pick up his or her municipality's budget and financial statements for a given year, start at page 1, and find the consolidated revenue and expense figures early and easily. Ideally, this reader will also be able readily to compare budget projections to past experience and the results in the financial statements to the budget for that year. Moreover, the information should be timely enough to inform budget decisions and votes. The budgets and financial statements of most of Canada's senior governments – which have not consistently met this standard in the past – now make this exercise possible (Robson and Omran 2020). Several steps could bring Canada's municipalities up to the same mark.

Adopt PSAS-Consistent Accounting in Budgets

A key start is for municipalities to prepare and present their budgets using the same accounting they use in their financial statements. This change would make the numbers in the two documents directly comparable – a big step forward in transparency. It would bring municipal capital budgeting into the modern era, expensing long-lived assets as they deliver their services and wear out, rather than showing them as massive cash outlays upfront and ignoring them afterwards. And it would provide budget readers with the same consolidated measures of revenues and expenses – and the more meaningful bottom lines – that they get with financial statements, including all entities that the municipal government controls and that depend on it for financing.

Ideally, provinces that mandate cash accounting for capital, along with for separate operating and capital budgets, would change their rules to mandate accrual accounting in budgets – or at least to facilitate that presentation alongside the current one. Even in provinces that do not change obstructive rules, municipalities can present budget numbers consistent with their financial statements on their own initiative. The introductions by mayors and city managers in the opening pages of a typical municipal budget would be excellent places to present PSAS-consistent summaries of the budget's revenues, expenses and expected bottom line. We note that modern financial statements include a schedule of changes in cash, so for those who think cash is still particularly relevant for governments, plenty of information – including, potentially, a reconciliation with the budget plan – would still be available.

Cities that wish to present breakdowns of fee- versus tax-supported services, or other informative disaggregations, in their budgets would be able to do so. But that would enhance the information in the PSAS-consistent numbers, rather than providing an alternative, and less helpful, view of reality.

We do not think that fears that amortizing capital and the related elimination of the requirement for balanced operating budgets would foster fiscal irresponsibility justify current budgeting confusion. Consolidating all items affecting net worth into comprehensive revenue and expense totals provides a more complete picture of a city's operations and their implications for its capacity to deliver future services.

Provinces that wish to constrain their municipalities could change their balanced-budget requirement to refer to the overall bottom line: the surplus or deficit, and the resulting change in the municipality's net worth. These are familiar figures at the senior-government level and would give users vital information in a widely understood format.

In provinces that mandate budget targets that are not PSAS-consistent, municipalities should present an accrual-based budget as the central one for public debate and council approval and present operating and capital cash budgets as supplementary information.

Municipalities have been presenting PSAS-consistent financial statements for a decade. As the top cities in our report card demonstrate, presenting budgets on the same basis is not an overwhelming administrative challenge. PSAS-consistent budgets would convey far better information at minimal additional cost. Public sector accounting standards continue to evolve, as they should, but the way to address current imperfections and uncertainties is by improving the standards themselves, not complying with them in financial statements but refusing to follow them in budgets.

Present Key Figures Early and Unambiguously

The time-constrained non-expert should not have to dig through dozens or even hundreds of pages of a document or slide deck – or, worse, more than one document or slide deck – to find a municipality's total budgeted or actual expenses. Nor should this person come across more than one candidate for each total and wonder which is correct.

This is not a trivial point – readers who doubt the obstacle created by obscure and fragmented presentations should check the budget documents produced by their own municipalities. Chances are the search will involve dozens, or even hundreds, of pages. Chances also are the search will turn up many numbers that a naïve reader might think are the right ones, but are not.

Nor is early and unambiguous presentation hard to do. Among senior governments, Yukon presented the key consolidated figures on page 3 of its 2019 budget and on page 2 of its 2018/19 public accounts. Municipalities should follow that example. Vancouver's annual report shows its year-end results on page 6. More accessible display of the key numbers would also help municipalities explain their content and importance to councillors, the media and taxpayers.

Show and Explain Variances between Results and Projections

Municipalities should reconcile their year-end results with their budget projections, using common accounting methods, consistent numbers and informative commentary. We also encourage municipalities to follow the valuable practice of the federal and many provincial and territorial governments: publishing in-year reports that, using PSAS-consistent accounting, compare interim results to plans.

Publish Timely Budgets and Financial Statements

Prompt presentation of budgets and timely publishing of financial statements are key elements in accountability. Councillors should not approve spending after it has occurred, and should not be starting their discussions of one year's budget when the results from two years earlier are still a mystery. Municipalities that use a calendar year for financial purposes should vote on their budgets well before January 1 and publish their financial statements

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before April 30. Some provinces impede timely presentations – in such cases, they should amend the problematic legislation.[14]

Conclusion: The Need to Improve Municipal Fiscal Accountability

Canada's cities are central to the lives of most Canadians and absorb commensurately large shares of Canadians' incomes. City councillors, taxpayers and voters need clear information about their finances if they are to hold officials and elected representatives to account for the quality and cost of municipal services. Cities will be under financial stress in the post-COVID era, elevating the importance of good understanding of, and intelligent debate about, municipal finances.

The budgeting practices of most major Canadian municipalities are not up to the mark. Municipalities should present budgets that are consistent with PSAS and that readers can compare easily with their subsequent financial statements. Municipalities should produce information that is more accessible and timelier. Before Canadians grant their cities more taxing powers or increase the support cities receive from senior governments, they should insist on better transparency and accountability for cities' use of public funds. The recommendations in this *Commentary* would help raise the financial management and fiscal accountability of Canada's municipalities to levels more in line with their importance in Canadians' lives.

14 Ontario's *Municipal Act* prevents municipalities from approving a budget for the year following an election in the same year as the election. As a result, municipal elections in October 2018 prevented Ontario municipalities from presenting their 2019 budgets until January 2019. Many did not present until February, March or even April – not consistent with legislative control of public funds.

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