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Could Do Better: Grading the Fiscal Accountability of Canada's Municipalities, 2024

Municipal finances in Canada are too confusing. City budgets get the most attention – but they are often opaque, late and needlessly alarming. Year-end audited financial statements are better, but hard to compare with inconsistently presented budgets. This report card on the fiscal transparency of 32 major Canadian municipalities awards only four grades in the A range. Sadly, there are four Fs. Better budgets would improve accountability for municipal taxes and services in Canada.

William B.P. Robson and Nicholas Dahir

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COULD DO BETTER: GRADING THE FISCAL ACCOUNTABILITY OF CANADA'S MUNICIPALITIES, 2024

by **William B.P. Robson and Nicholas Dahir**

- The budgets municipal governments present around the beginning of their fiscal years and the audited financial statements they publish after fiscal year-end are crucial for decision-making and accountability. A review of the budgets and audited financial statements of 32 major Canadian municipalities reveals a troublingly mixed picture.
- The grades in our annual fiscal accountability report card for 2024 ranged from A to F. Standing out for clarity, completeness and promptness were Ottawa, Quebec City, Vancouver and Richmond – the only municipality in our survey with a budget following public sector accounting standards (PSAS). At the bottom were Gatineau, Hamilton, Regina and Windsor. Their Fs reflect multiple problems with transparency, reliability and timeliness.
- Notwithstanding instances of late or missing information, most municipalities' financial statements earned high scores for presentation and conformity with PSAS. But many municipal budgets provided no PSAS-consistent numbers. Most presented fragmented information, with separate presentations of operating and capital outlays, and of tax- and rate-supported activities. Too many budgets were late, with councillors approving operating and capital budgets after the start of the fiscal year.
- Confusing and late financial documents discourage engagement and informed input. Timelier presentations and budgets that match financial statements, using accrual accounting for capital investments and capturing the full scope of municipal activities and claim on citizens' resources, would raise the fiscal accountability of Canada's municipalities to a level more commensurate with their importance in Canadians' lives.

FISCAL TRANSPARENCY AND ACCOUNTABILITY IN MUNICIPALITIES: THE CHALLENGE

Canada's cities provide vital infrastructure and services for which they raise, receive and spend large amounts of money. A city's capacity to deliver services affects the quality and cost of its services, and influences where people and businesses choose to live, work and invest.

All municipal governments should present financial information that is transparent, useful and timely. However, as this report card on the budgets and financial statements of 32 major Canadian municipalities reveals, many do not.

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The problem is less their year-end financial statements. Although too many cities issue them late, the financial statements tend to be clear and informative, follow public sector accounting standards (PSAS) and get clean opinions from external auditors. Municipal budgets, by contrast, typically present a fragmented view of municipal operations and are not comparable with past results or with the financial statements the same municipality issues after year-end ([Online Appendix 1](#)). Simple questions, such as how much spending is forecast to rise or what the bottom line will be, are often hard to answer. They are also problematically late, with councillors in too many municipalities voting on budgets after the fiscal year has started.

Better and timelier budgets and financial statements would elevate the financial oversight and management of Canada's municipalities to a level more appropriate to their importance in Canadians' lives.

MEASURING FISCAL ACCOUNTABILITY

Financial reports are tools for decision-making and accountability. Elected representatives and voters need to know how governments plan to raise and spend money, and whether they did what they said they would do. The financial documents – the budgets with fiscal plans for the coming year and the audited financial statements with results for the year just ended – help legislators and citizens make better decisions and monitor results.

At a minimum, a government's financial documents should let a reader who is motivated and numerate but not expert in accounting, readily find consolidated revenues and expenses and the resulting surplus or deficit, and relate those numbers to changes in a government's accumulated operating surplus or deficit – a key indicator of its capacity to deliver future services.¹

Rating Budgets and Annual Reports

The concerned citizen, councillor or journalist will want to know what revenues and expenses the municipality plans to receive and incur in the coming year or what revenues and expenses it actually received and incurred in the year just past. Those numbers are the basis for understanding how plans compare to past results, how well actual revenues and expenses corresponded to past plans, and to see, understand and potentially investigate changes or variances.

To address these questions, non-expert users need budgets and financial statements that are timely, use PSAS-consistent accounting with consolidated numbers presented early and unambiguously and that facilitate comparisons of intentions and results.

These essentials are the basis for the criteria we use to grade municipal budgets and financial statements ([Online Appendix 2](#)). Our evaluation is not about whether municipalities tax and spend too much, or too little or in the wrong ways. It is about how their financial documents equip councillors and the public to make such judgments. We score

1 The most comprehensive measure of a government's capacity to deliver services is its accumulated surplus or deficit, which is equal to its accumulated operating surplus or deficit, plus accumulated remeasurement gains and losses. We focus on the accumulated operating surplus or deficit in this report card because the change in PSAS that makes this distinction is relatively new, and while reporting of changes in accumulated operating surpluses is quite consistent across municipalities, reporting of changes in accumulated surpluses is not.

each criterion related to timeliness, usefulness and clarity, and weight each score in the overall grade according to our determination of its importance to overall fiscal transparency and accountability.²

Timeliness

Councillors should consider their municipality's budget well before, and vote on it before, the fiscal year begins.³ Spending without authorization by elected representatives violates a core principle of democracy: formal passage of a budget is a major event for taxpayers and for departments and municipally funded organizations. Timely publication of year-end financial statements helps councillors and others react to deviations of results from plans and prompts collection of the information needed when preparing the following year's budget.

We awarded a top score of 2 points if a municipality approved its budget 30 days or more before its fiscal year started, 1 if it approved the budget fewer than 30 days before the year started and 0 if approval occurred after the year began.

The date we use for financial statements is the date of the auditor's signature. This is not ideal, since time can pass between the signature and the release, but the date of the auditor's signature is easier to verify than the date when financial statements or annual reports appeared. We awarded a score of 2 points to municipalities with an auditor's signature no more than 90 days after year-end, 1 to municipalities with a signature more than 90 days but no more than 181 days after year-end

and 0 to municipalities with a signature more than 181 days after year-end.

Placement of Key Numbers

Key numbers should be easy to find and identify. If they are up front in the document, a user is less likely to give up or find wrong numbers before finding the right ones.

For budgets, we awarded 3 points to municipalities that displayed consolidated revenues and expenses, and the surplus or deficit – or, in the case of municipalities with separate operating and capital budgets, operating and capital totals – within the first 15 pages of the document.⁴ We awarded 2 points to municipalities that presented those numbers 16 to 30 pages into the document, 1 point to municipalities that presented them 31 to 50 pages in and 0 to municipalities that presented them more than 50 pages in, or did not present both operating and capital totals. We awarded a further point to municipalities that presented operating and capital totals on the same page. Municipalities that presented their budgets on a PSAS basis showing consolidated totals automatically earned that point.

We also looked at the placement of any reconciliation between the budget's operating and capital totals and PSAS-consistent numbers. We awarded 3 points to municipalities that presented the reconciliation within the first 30 pages of their budget documents, 2 to municipalities that presented it 31 to 60 pages in, 1 to municipalities

2 The C.D. Howe Institute's annual report card on the financial documents of the federal, provincial and territorial governments also reflects these important themes in the framework of the Public Sector Accounting Board (PSAB 2022). Both the senior government and municipal government report cards complement international measures of fiscal transparency such as the Organisation for Economic Co-operation and Development's Best Practices for Budget Transparency (OECD 2002) and the Open Budget Survey (International Budget Partnership 2024).

3 Except for Nova Scotia municipalities, whose fiscal year runs from April 1 to March 31, Canadian municipalities budget and report on calendar years: January 1 to December 31.

4 We looked through the most prominently displayed budget documents posted on a municipality's website, stopping at the first aggregate numbers identified as relevant totals. When similar-looking documents appeared equally prominently – similar fonts and colours on clickable links, for example – we chose the first one in the list or menu.

that presented it after the first 60 pages and 0 to municipalities that presented no reconciliation.

For annual reports and financial statements, we used the same placement scores as for budgets, counting the pages to the first table that provided consolidated revenue, expenses and surplus or deficit.⁵ If a municipality provided similar information in more than one place – a comparison of budget projections to past results, for example, or a reconciliation of a non-PSAS-consistent budget presentation with PSAS-consistent numbers – we evaluated the presentation that appeared first in the document.

Reliability and Transparency of Numbers

Financial statements that receive qualified audit opinions, by definition, do not conform to PSAS. We awarded 2 points to municipalities with unqualified audit opinions and 1 point to municipalities with one qualification. We awarded 0 to any municipality with more than one qualification or that explicitly did not conform to PSAS. We weight this score relatively heavily in our overall grades.

Financial statements are more useful if they show and explain differences between results and budget plans. We awarded 3 points to municipalities that presented PSAS-consistent budget projections alongside their results if the revenue, expense and bottom-line numbers in those budget projections matched the numbers in the budget itself. We awarded 2 points to municipalities that presented budget projections if those numbers did not match

the numbers in the budget itself, but the statements provided a reconciliation between the restated projections and PSAS-consistent projections in the original budget or to the original budget's totals for operating and capital outlays. We awarded 1 point to municipalities that restated budget projections but provided a reconciliation to the original budget numbers only for operating outlays. We awarded 0 to municipalities that did not present budget projections beside their results or presented budget numbers different from those in the budget with no reconciliation. We awarded an additional point when the statements explained the variations between the budget projections presented in the financial statements and results.

Ideally, municipalities' budgets would match their financial statements, line-by-line. Because municipalities typically presented few, or no, PSAS-consistent numbers in their budgets, we focused on whether a municipality presented PSAS-consistent consolidated revenues, expenses and surplus or deficit. We awarded 1 point for each.

We also examined whether a municipality's budget presented gross expenditures – both tax- and rate-supported – giving users a better view of the operating spending's claim on community resources. We awarded 2 to municipalities that presented gross expenditure as their unique headline number, 1 to municipalities that presented net and gross expenditures equally prominently and 0 to municipalities that presented only net expenditures in their headline numbers, or did not consolidate rate- and tax-supported expenditures and/or omitted municipal operations that are consolidated

5 We referenced the physical budget books and financial statements or annual reports, or their electronic PDF equivalents – web pages can change without clear dates, making verification hard. Links can create navigation challenges for users that do not lend themselves to quantification in a scoring system. We began our count at the first physical or electronic page, omitting pages containing tables of contents and lists of tables and figures since they help readers navigate the document. We used a straightforward page count rather than a measure, such as a percentage, that would take account of the overall length of a document because readers typically begin at the beginning, and longer documents are likelier to discourage readers.

in their financial statements.⁶ Municipalities that presented PSAS-consistent consolidated expenses got the top mark of 2 on this criterion.

We also looked at the prominence of PSAS-consistent numbers in budgets. We awarded 3 points to the one municipality, Richmond, BC, that presented a PSAS-consistent budget. We awarded 2 to municipalities that did not present PSAS-consistent numbers as their primary exhibits but provided prominent reconciliations to PSAS-consistent numbers – “prominent” meaning the reconciliation was listed in the table of contents, and/or appeared in the main budget tables and/or had its own section in the text rather than appearing in an appendix or a supplemental section. We awarded 1 to municipalities that provided a reconciliation but did not present it prominently. We awarded 0 to municipalities that did not present PSAS-consistent numbers at all or that presented incomplete numbers that did not help users anticipate what a full reconciliation would show.

Comparability of Numbers

Budget plans need context. Showing projections for the coming year alongside expected results for the current year – the year about to end – and audited results for at least one year before that lets users see whether their municipality expects revenue and expenses to rise or fall, and by how much. Most municipalities compared their budgets only to the

previous year’s budget. That approach would strike most managers of businesses and not-for-profits, and many household budgeters, as minimally useful, but it is so prevalent that we accommodated it in our scoring system.⁷ We awarded 3 points to municipalities that provided a comparison of the current year’s budget to the previous year’s using PSAS-consistent numbers. We awarded 2 to municipalities that presented comparisons to the previous year’s budget for operating and capital spending, 1 to municipalities that did so for operating spending only and 0 to municipalities that provided no budget comparison or provided incomplete comparisons.

Gaps Between the Annual and Accumulated Operating Surpluses

Financial results are easier to understand if the difference between revenues and expenses – the surplus or deficit – relates straightforwardly to the change in the government’s accumulated operating surplus or deficit over the fiscal year. If the link between the surplus or deficit and the change in accumulated operating surplus or deficit is clear, legislators can see how the fiscal plan or results affect the government’s capacity to deliver services. Adjustments between the year’s surplus or deficit and the associated change in the accumulated operating surplus or deficit loosen that link. Gaps between what decision-makers can influence

6 Quebec amalgamated several municipalities, including Gatineau, Laval, Longueuil, 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 awarded 2 to municipalities that showed both with equal prominence, since both numbers help users understand the scope and cost of municipal operations.

7 Our approach is arguably too lenient, but holding the municipalities to the same standard we apply to senior governments would produce zeros across the board on this criterion. We look forward to the day when more PSAS-consistent budgets that show prior actual results will allow us to adopt a system that better rewards good practices in this area.

and changes in service capacity⁸ are a barrier to accountability.

Our scoring system scrutinizes those gaps using two criteria. One criterion measures the difference, in absolute value, between the annual surplus or deficit and the change in accumulated operating surplus or deficit in the financial statements. We awarded a score of 3 to governments with changes in their accumulated operating surpluses or deficits equal to their annual surpluses or deficits in their 2023 financial statements, 2 to governments with gaps between the changes in their accumulated operating surpluses or deficits and their annual surpluses or deficits with absolute values less than 1 percent of their expenses, 1 to governments with gaps between 1 percent and 2 percent of expenses and 0 to governments with gaps of more than 2 percent. PSAS mandate these adjustments in some circumstances, and the new PSAS framework that came into effect for 2023 required some one-time restatements. For these reasons, the weight of this criterion in our overall grade is small.

The other gap-related criterion measures the difference, also in absolute value, between the annual surplus or deficit in the budget projections and the change in the accumulated operating surplus or deficit reported after year-end in the financial statements.⁹ Whatever the causes and justifications for these gaps, they hurt legislators' ability to oversee public finances and governments' service capacity. We awarded a score of 3 to governments with gaps between their projected annual surpluses or deficits and their actual changes in accumulated operating surpluses or deficits

that, in absolute value, were less than or equal to 2 percent of budgeted expenses, 2 to governments with gaps greater than 2 percent but no more than 4 percent of budgeted expenses, 1 to governments with gaps greater than 4 percent but no more than 6 percent of budgeted expenses and 0 to governments with gaps with absolute values greater than 6 percent of budgeted expenses.

Arriving at Letter Grades

To produce an overall grade, we standardized the scores for each criterion to be between 0 and 1, weighted the standardized scores based on our judgment of the importance of each criterion to transparency and accountability and summed the weighted scores to produce percentages. We converted the percentages to letter grades on a standard scale: A+ for 90 percent or above, A for 85–89 percent, A– for 80–84 percent, B+ for 77–79 percent, B for 73–76 percent, B– for 70–72 percent, C+ for 67–69 percent, C for 63–66 percent, C– for 60–62 percent, D+ for 57–59 percent, D for 53–56 percent, D– for 50–52 percent and F for less than 50 percent.

THE 2024 REPORT CARD ON CANADA'S MAJOR MUNICIPALITIES

Our 2024 report card uses the scores on these criteria (seven for 2024 budgets and six for 2023 annual reports or financial statements) as the basis for assessing the fiscal accountability of 26 of Canada's most populous municipalities, and

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- 8 As mentioned in footnote 1, a municipality's accumulated surplus is the measure that corresponds most exactly to its capacity to deliver services. Our judgment is that a motivated, but non-expert, user of municipal financial statements would be able to find or calculate changes in their accumulated operating surpluses in a particular year but would be flummoxed by the various presentations of accumulated surpluses. We hope that improvements in future presentations will let us focus on accumulated surpluses. For this report card, we focus on accumulated operating surpluses.
- 9 This comparison would ideally be with numbers from the budgets themselves. Since municipalities generally did not present budgets that matched their financial statements, we resorted to the restated budget numbers that appeared in their financial statements. This lenient approach overstates the usefulness of the budgets themselves for users seeking to anticipate the change in accumulated surpluses implied by the budget projections.

the six most populous regional municipalities in Ontario. Our assessments for each criterion and the resulting letter grades for each municipality appear in Table 1.

Best and Worst for Financial Reporting

The grades range from A to F. Too many grades are below the B tier, mainly reflecting budgets that were late and/or failed to show PSAS-consistent revenues, expenses and surpluses.

At the top of the class, with an A grade, was Richmond, BC. Next, with grades of A-, were Ottawa, Quebec City and Vancouver. All these municipalities had timely budgets and financial statements. Their key numbers were up front, and they prominently presented PSAS-consistent numbers in their budgets. Richmond stands out as the only municipality in our survey to produce its budget in accordance to PSAS. Vancouver was the only municipality in our survey with financial statements signed within 90 days of year-end. Ottawa and Quebec City compared results to budget projections consistent with the PSAS-consistent presentations in their budgets, while Richmond and Vancouver reconciled their restatements to original budget numbers. All explained variances between projections and results.

In the B range were Markham, Saskatoon and Surrey (B+); Brampton, Burnaby, Mississauga, Peel Region and York Region (B); followed by Laval and Vaughan (B-). This group typically presented headline numbers early in their budgets and financial statements. They also prominently reconciled headline budget numbers with PSAS-consistent revenue, expense and surplus early in their documents and had no gaps between their annual surpluses and changes in their accumulated operating surpluses.

Markham provided a reconciliation to PSAS-consistent numbers up front in its budget, but its budget was late, and it had a large gap between its projected and actual change in accumulated operating surplus. Saskatoon was one of only two

municipalities to approve its budget more than a month before the start of its fiscal year, but its year-end financial statements were not timely. Surrey presented projections in its financial statements consistent with its budget. But a late budget and a big gap between its projections and its results hurt its grade.

Brampton's documents were timely with key numbers up front, but its reconciliation to its budget projections in its financial statements showed only the operating number from the original budget. Burnaby's financial statements compared results to projections that were consistent with its budget, and its annual surplus equalled the change in its accumulated operating surplus. Still, a late budget that buried the reconciliation to PSAS-consistent numbers, and a big gap between its projections and its results, hurt its grade. Mississauga's documents were timely and had only a small gap between its projected and actual change in accumulated operating surplus, but its headline number for capital outlays appeared dozens of pages after its operating headline number. Peel Region's documents were timely and had only a small gap between its projected and actual change in accumulated operating surplus, but its budget did not show a PSAS-consistent surplus and only provided a reconciliation to PSAS-consistent numbers in a supplementary section. York Region's financial statements compared its results to projections that were consistent with its original budget, and its statements explained variances from budget plans, but it had a big gap between its projections and its results.

Laval's documents were timely, and it compared its budget projections to previous years using PSAS-consistent numbers, but problems with its auditor and restated budget projections in its financial statements kept it from achieving a higher grade. Vaughan's budget and financial statements were timely, but it buried the key numbers in its budget and its financial statements restated its budget projections.

Table 1: Municipal Fiscal Accountability Scorecard, 2024

Criterion	2024 Budget						2023 Financial Statements				Overall grade		
	Date budget approved	PSAS-consistent revenue, expense and surplus/deficit?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?		Unqualified audit opinion?	Difference between change in accumulated operating surplus/deficit as percent of expense
Scoring	2 if ≥30 days early, 1 if <30 days early, 0 if late	1 point for each	3 if <16 pages in; 2 if 16-30 pages in; 1 if 31-50 pages in; 0 otherwise; plus 1 point if operating and capital totals on same page	3 if budget PSAS-consistent; 2 if prominent reconciliation to PSAS-consistent numbers; 1 if reconciliation not prominent; 0 if no or incomplete reconciliation	3 if no more than 30 pages in; 2 if 31-60 pages; 1 if >60 pages; 0 if none	3 if PSAS-consistent comparison to previous budget; 2 if comparison of capital and operating to previous budget; 1 if comparison of operating to previous budget; 0 otherwise	2 if gross only and/or PSAS-consistent expense; 1 if gross and net equally prominent; 0 otherwise	2 if ≤ 90 days after year-end, 1 if 91-181 days, 0 otherwise	3 if <16 pages in; 2 if 16-30 pages in; 1 if 31-50 pages in; 0 otherwise	3 if numbers are consistent; 2 if budget numbers restated, but reconciled to original budget totals for operating and capital outlays, 1 if restated, but reconciled to original budget totals for operating outlays, 0 otherwise; plus 1 point if variances explained	2 if unqualified opinion, 1 if one qualification, 0 otherwise	3 if 0, 2 if <1, 1 if 1-2, 0 if >2	3 if ≤2, 2 if >2 and ≤4, 1 if >4 and ≤6, 0 if >6
Maximum Score	2	3	4	3	3	3	2	2	3	4	2	3	3
Weight in grade	3	3	2	2	1	2	4	3	2	2	4	1	1
Brampton, ON	13-Dec-23	All	Both: 13	Prominent reconciliation to PSAS-consistent numbers	71	Both	PSAS-consistent expense	26-Jun-24	24	Budget numbers restated, but reconciled to only original budget operating outlays, variances not explained	Yes	0	9.86
Score	1	3	4	2	1	2	2	1	2	1	2	3	0
Burnaby, BC	31-Jan-24	All	Both: 8	Prominent reconciliation to PSAS-consistent numbers	39	Both	PSAS-consistent expense	13-May-24	14	Consistent with budget numbers, variances explained	Yes	0	27.46
Score	0	3	4	2	2	2	2	1	3	4	2	3	0

Table 1: Continued

Criterion	2024 Budget						2023 Financial Statements					Overall grade		
	Date budget approved	PSAS-consistent revenue, expense and surplus/deficit?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?		Difference between change in accumulated operating surplus/deficit as percent of expense	Difference between change in accumulated operating surplus or deficit and projected annual surplus/deficit as percent of budgeted expense
Calgary, AB	22-Nov-23	None	Operating: 2 Capital: 6	No PSAS-consistent numbers	None	Both	Gross	30-Apr-24	21	No budget-consistent numbers, variances explained	Yes	0.11	15.98	D+
Score	2	0	3	0	0	2	2	1	2	1	2	2	0	
Durham Region, ON	27-Mar-24	Surplus	Operating: 47 Capital: 68	Supplemental reconciliation to PSAS-consistent numbers	7	PSAS-consistent numbers	Net	06-May-24	5	Consistent with budget numbers, variances not explained	Yes	0	1.32	D+
Score	0	1	0	1	3	3	1	1	3	3	2	3	3	
Edmonton, AB	23-Apr-24	Surplus	Both: 2	Prominent reconciliation to PSAS-consistent numbers	5	PSAS-consistent numbers	PSAS-consistent expense	23-Apr-24	5	No budget-consistent numbers, variances explained	Yes	4.06	41.41	C
Score	0	1	4	2	3	3	2	1	3	1	2	0	0	
Gatineau, QC	06-Dec-23	None	Operating: 3 Capital: 7	No PSAS-consistent numbers	None	Operating only	Gross	05-Jul-24	6	No budget-consistent numbers, variances not explained	One Qualification	0	2.43	F
Score	1	0	3	0	0	1	2	0	3	0	1	3	2	
Halifax, NS*	23-Apr-24	None	Both: 4	No PSAS-consistent numbers	None	Both	Gross	03-Sep-24	8	No budget-consistent numbers, variances not explained	Yes	0	1.69	D-
Score	0	0	4	0	0	2	2	1	3	0	2	0	2	
Halton Region, ON	13-Dec-23	None	Operating: 22 Capital: 23	No PSAS-consistent numbers	None	Both	Gross	22-May-24	24	Budget numbers restated, but reconciled to only original budget operating outlays, variances explained	Yes	0	2.69	D+
Score	1	0	2	0	0	2	2	1	2	2	2	3	2	

*Halifax's fiscal year runs from April 1st to March 31st.

Table 1: Continued

Criterion	2024 Budget						2023 Financial Statements					Overall grade	
	Date budget approved	PSAS-consistent revenue, expense and surplus/deficit?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?		Difference between change in accumulated operating surplus and deficit as percent of budgeted expense
Hamilton, ON	15-Feb-24	None	No operating total No capital total	No PSAS-consistent numbers	None	Incomplete: tax supported operating budget only	None	No financial statements	No financial statements	No financial statements	No financial statements	No financial statements	No financial statements
Score	0	0	0	0	0	0	0	0	0	0	0	0	0
Kitchener, ON	14-Dec-23	None	Both: 2	No PSAS-consistent numbers	None	No comparison	Gross	28-Jun-24	13	No budget-consistent numbers, variances explained	Yes	0	5.87
Score	1	0	4	0	0	0	2	1	3	1	2	3	1
Laval, QC	12-Dec-23	All	Both: 11	Prominent reconciliation to PSAS-consistent numbers	11	PSAS-consistent numbers	PSAS-consistent expense	29-Apr-24	22	No budget-consistent numbers, variances not explained	One Qualification	0	5.43
Score	1	3	4	2	3	3	2	1	2	0	1	3	1
London, ON	01-Mar-24	All	Both: 3	Prominent reconciliation to PSAS-consistent numbers	19	PSAS-consistent numbers	PSAS-consistent expense	23-Jul-24	24	No budget-consistent numbers, variances explained	Yes	0	4.27
Score	0	3	4	2	3	3	2	0	2	1	2	3	1
Longueuil, QC	13-Dec-23	None	Both: 3	No PSAS-consistent numbers	None	Both	Gross	15-May-24	7	No budget-consistent numbers, variances not explained	Yes	0	5.30
Score	1	0	4	0	0	2	2	1	3	0	2	3	1
Markham, ON	28-Feb-24	All	Both: 7	Prominent reconciliation to PSAS-consistent numbers	19	PSAS-consistent numbers	PSAS-consistent expense	17-Apr-24	12	Budget numbers restated, but reconciled to original budget operating and capital outlays, variances explained	Yes	0	41.03
Score	0	3	4	2	3	3	2	1	3	3	2	3	0

Table 1: Continued

Criterion	2024 Budget						2023 Financial Statements					Overall grade	
	Date budget approved	PSAS-consistent revenue, expense and surplus/deficit?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?		Difference between change in accumulated operating surplus/deficit as percent of expense
Mississauga, ON	18-Dec-23	All	Operating: 3 Capital: 32	Prominent reconciliation to PSAS-consistent numbers	56	Operating only	PSAS-consistent expense	19-Apr-24	7	Budget numbers restated, but reconciled to original budget operating and capital outlays, variances explained	Yes	0	0.14
Score	1	3	1	2	2	1	2	1	3	3	2	3	3
Montreal, QC	11-Dec-23	None	Both: 5	No PSAS-consistent numbers	None	Both	Gross	14-Jun-24	24	No budget-consistent numbers, variances not explained	Yes	0	5.12
Score	1	0	4	0	0	2	2	1	2	2	2	3	1
Niagara Region, ON	15-Dec-23	Surplus	Operating: 24 Capital: 3	Prominent reconciliation to PSAS-consistent numbers	28	PSAS-consistent numbers	Gross	23-May-24	51	Budget numbers restated, but reconciled to only original budget operating outlays, variances not explained	Yes	0	4.29
Score	1	1	2	2	3	3	2	1	0	1	2	3	1
Oakville, ON	21-Dec-23	None	Both: 6	No PSAS-consistent numbers	None	Operating only	Gross	21-Jun-24	7	Budget numbers restated, but reconciled to original budget operating and capital outlays, variances not explained	Yes	0	31.07
Score	1	0	4	0	0	1	2	1	3	2	2	3	0
Ottawa, ON	06-Dec-23	All	Both: 3	Prominent reconciliation to PSAS-consistent numbers	3	PSAS-consistent numbers	PSAS-consistent expense	26-Jun-24	9	Consistent with budget numbers, variances not explained	Yes	0	5.89
Score	1	3	4	2	3	3	2	1	3	2	2	3	1

Table 1: Continued

Criterion	2024 Budget						2023 Financial Statements						Overall grade	
	Date budget approved	PSAS-consistent revenue, expense and surplus/deficit?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?	Difference between change in accumulated operating surplus/deficit and projected surplus/deficit as percent of expense		Difference between change in accumulated operating surplus or deficit and projected annual surplus/deficit as percent of budgeted expense
Peel Region, ON	07-Dec-23	Revenue and expenses	Both: 2	Supplemental reconciliation to PSAS-consistent numbers	118	Both	PSAS-consistent expense	20-Jun-24	4	Budget numbers restated, but reconciled to only original budget operating outlays, variances not explained	Yes	0	0.18	B
Score	1	2	4	1	1	2	2	1	3	1	2	3	3	
Quebec City, QC	15-Dec-23	All	Both: 11	Prominent reconciliation to PSAS-consistent numbers	17	PSAS-consistent numbers	PSAS-consistent expense	10-May-24	5	Consistent with budget numbers, variances explained	Yes	0	9.91	A-
Score	1	3	4	2	3	3	2	1	3	4	2	3	0	
Regina, SK	18-Dec-23	None	Separates general and utility totals for both operating and capital budgets	No PSAS-consistent numbers	None	No operating or capital totals	No	26-Jun-24	12	No budget-consistent numbers, variances explained	Yes	0	4.43	F
Score	1	0	0	0	0	0	0	1	3	1	2	3	1	
Richmond, BC	11-Dec-23	All	Both: 5	PSAS-consistent budget	5	PSAS-consistent numbers	PSAS-consistent expense	12-May-24	8	Budget numbers restated, but reconciled to original PSAS budget, variances explained	Yes	0	22.63	A
Score	1	3	4	3	3	3	2	1	3	3	2	3	0	
Saskatoon, SK	28-Nov-23	All	Both: 7	Prominent reconciliation to PSAS-consistent numbers	10	Both	PSAS-consistent expense	28-Aug-24	15	Budget numbers restated, but reconciled to original budget operating and capital outlays, variances not explained **	Yes	0	11.53	B+
Score	2	3	4	2	3	2	2	0	3	2	2	3	0	

**Saskatoon reissued its 2023 budget with PSAS-consistent figures; to avoid penalizing it for this improvement, we used this revised budget when evaluating the consistency of budget projections in its financial statements.

Table 1: Continued

Criterion	2024 Budget						2023 Financial Statements					Overall grade		
	Date budget approved	PSAS-consistent revenue, expense and surplus/deficit?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?		Difference between accumulated operating surplus or deficit and projected surplus/deficit as percent of expense	Difference between change in accumulated operating surplus or deficit and projected annual surplus/deficit as percent of budgeted expense
Surrey, BC	22-Apr-24	All	Both: 9	Prominent reconciliation to PSAS-consistent numbers	9	PSAS-consistent numbers	PSAS-consistent expense	08-May-24	4	Consistent with budget numbers, variances not explained	Yes	0	28.32	B+
Score	0	3	4	2	3	3	2	1	3	3	2	3	0	
Toronto, ON	14-Feb-24	All	Operating: 7 Capital: 10	Incomplete	18	Both	PSAS-consistent expense	24-Jul-24	17	No budget-consistent numbers, variances not explained	Yes	0	3.51	D+
Score	0	3	3	0	3	2	2	0	2	0	2	3	2	
Vancouver, BC	12-Dec-23	All	Operating: 11 Capital: 27	Prominent reconciliation to PSAS-consistent numbers	27	PSAS-consistent numbers	PSAS-consistent expense	22-Mar-24	7	Budget numbers restated, but reconciled to original budget operating and capital outlays, variances explained	Yes	0	14.13	A-
Score	1	3	2	2	3	3	2	2	3	3	2	3	0	
Vaughan, ON	12-Dec-23	All	Operating: 35 Capital: 47	Prominent reconciliation to PSAS-consistent numbers	55	Both	PSAS-consistent expense	25-Jun-24	6	Budget numbers restated, but reconciled to original budget operating and capital outlays, variances not explained	Yes	0.17	76.15	B-
Score	1	3	1	2	2	2	2	1	3	2	2	2	0	
Waterloo Region, ON	13-Dec-23	None	Both: 3	No PSAS-consistent numbers	None	Operating only	Gross	29-May-24	6	No budget-consistent numbers, variances not explained	Yes	0	2.70	D+
Score	1	0	4	0	0	1	2	1	3	0	2	3	2	

Table 1: Continued

Criterion	2024 Budget						2023 Financial Statements					Overall grade		
	Date budget approved	PSAS-consistent revenue, expense and surplus/deficit?	Position of headline numbers	Reconciliation with PSAS-consistent headline numbers?	Position of reconciliation	Comparison of projections to previous year?	City-wide gross expenses?	Date of auditor's signature	Position of headline numbers	Comparison of results to budget?	Unqualified audit opinion?		Difference between change in accumulated operating surplus or deficit and projected surplus/deficit as percent of expense	Difference between change in accumulated operating surplus or deficit and projected surplus/deficit as percent of budgeted expense
Windsor, ON	29-Jan-24	None	Both: 2	No PSAS-consistent numbers	None	Both***	Gross	13-Jul-24	23	Budget numbers restated, but reconciled to only original budget operating outlays, variances not explained	Yes	0	14.77	F
Score	0	0	4	0	0	2	2	0	2	1	2	3	0	
Winnipeg, MB	20-Mar-24	All	Both: 32	Prominent reconciliation to PSAS-consistent numbers	33	Both	PSAS-consistent expense	22-May-24	14	No budget-consistent numbers, variances explained	Yes	0	4.69	C+
Score	0	3	2	2	2	2	2	1	3	1	2	3	1	
York Region, ON	21-Dec-23	All	Both: 6	Prominent reconciliation to PSAS-consistent numbers	62	Operating only	PSAS-consistent expense	26-Apr-24	42	Consistent with budget numbers, variances explained	Yes	0	8.68	B
Score	1	3	4	2	1	1	2	1	1	4	2	3	0	

***Windsor had a separate capital budget that is considered here.

Cities with grades in the C range – Edmonton, London, Niagara Region and Winnipeg – typically approved budgets after the start of the fiscal year and either did not provide PSAS-consistent revenue, expense and surplus numbers in their budgets, or did so only many pages in. Most did not compare budgets to previous years using PSAS-consistent numbers, and most showed restated budget projections in their financial statements.

Edmonton's budget presented only a PSAS-consistent surplus and had a big gap between its annual surplus and change in accumulated operating surplus. Winnipeg's budget buried the headline numbers. London's financial statements were not timely. Niagara Region reconciled its restated budget projections in its financial statements using only the operating number from the original budget.

Calgary, Durham, Halifax, Halton Region, Kitchener, Longueuil, Montreal, Oakville, Toronto and Waterloo Region achieved only D-range grades.

Durham, Halifax and Toronto approved their budgets after the start of the fiscal year. They either did not present complete PSAS reconciliations in their budgets or, in the case of Durham, presented a PSAS-consistent surplus only in supplemental material. Durham's budget showed net alongside gross expenses. Toronto's PSAS reconciliation in its budget was incomplete and misleading, including only adjustments that hurt the bottom line and omitting those that helped it. Toronto's financial statements were not timely.

Kitchener did not compare its budget projections to previous years. Halifax did not explain variances from budget plans. Halton Region buried its headline numbers deep in its budget and annual report. Halifax, Longueuil Montreal, and Waterloo Region's financial statements restated budget projections without reconciliations to their original budget numbers. Calgary and Oakville had large

gaps between their projected surpluses and actual changes in their accumulated operating surpluses.

Gatineau, Hamilton, Regina and Windsor were at the bottom of the group with failing grades of F. Gatineau's financial statements were not timely, its budget had no PSAS-consistent numbers and compared only its operating budget to previous years. Furthermore, it restated its budget in its financial statements, did not explain variances and had a qualified opinion from its auditor. Hamilton's budget was late, did not present city-wide gross or net expenses, and did not contain a PSAS reconciliation. Its financial statements for 2023 were very late (still not available at the time of publication). Regina's budget contained no PSAS-consistent numbers and did not provide comprehensive numbers for its operating and capital spending, instead presenting general and utility totals for each of its capital and operating budgets. Windsor's budget and financial statements were not timely. Its budget contained no PSAS reconciliation, its financial statements did not explain variances from budget projections and it had a large gap between its projected surplus and the change in its accumulated operating surplus.

Weights in grading inevitably involve judgments on which reasonable people can and do differ. As a test of the sensitivity of our 2024 grades to the weights we chose, we compared those grades with an alternative method using equal weights for each criterion. That approach would produce an average absolute change across the 32 municipalities of one degree – the difference between B and B–, for example. The correlation between the rankings using weighted and non-weighted criteria is 98 percent; the correlation between the numerical grades using weighted and non-weighted criteria is 99 percent.

Changes in Grading and Grades

Notwithstanding the disappointments in the scorecard results, improvements in municipal fiscal transparency have occurred since the C.D. Howe Institute started publishing report cards in 2011 (Dachis and Robson 2011). Particularly notable has been the gradual adoption by municipalities of more PSAS-consistent numbers in budgets. Partly because of these improvements, we have adjusted our scoring system.

In this year's report card, we adjusted the weights we applied for the comparison of projections to previous years, and for the presentation of PSAS-consistent revenue, expense and surplus/deficit numbers to align them with our scorecard on the fiscal transparency of Canada's senior governments (Robson and Dahir 2024b). We also raised the weight on the criterion regarding budget presentation of city-wide gross expenses.

We revised our criterion related to budget comparisons in municipal financial statements to highlight the match, or lack of it, between the budget projections in the financial statements and the numbers in the budgets themselves. We previously awarded points for reconciliations to total outlays in operating budgets; this year, we awarded more points to governments that also reconciled to their capital totals.

We modified our approach to gaps between annual surpluses and changes in net worth, because the new PSAS framework made our previous focus on below-the-line adjustments less apt. We now look at any gaps between the annual surplus and the change in the accumulated operating surplus.

Our other gap-related criterion, penalizing differences between budget projections of surplus or deficit and the change in accumulated operating surpluses revealed after year-end in financial statements, is new. Its centrality to the ability of councillors to understand the implications of budget decisions for the future service capacity of their municipalities means we will weight it more heavily in the future.

A final adjustment in this year's report card is a change in the rounding used to convert percentages to letter grades. We previously required a percentage score to be at or above the relevant threshold for a given letter grade to award that grade. This year's report card uses the more common convention of rounding decimal places of 0.5 or more up to the next integer.

Table 2 compares the grade of each municipality in 2024 to the grades it received in previous years, showing both the grade each municipality earned in the 2023 report card and the grade it would have earned in 2023 if we had used the 2024 report card's criteria and weights that year.

Comparing the 2024 grades to the 2023 grades each municipality would have received using the 2024 system reveals some improvements in the timeliness and quality of municipal financial documents. Timelier releases of budgets helped some scores. Ottawa joined the top of the 2024 class by approving its budget before the start of the fiscal year. More PSAS-consistent numbers also helped: London jumped to C+ from F by including prominent PSAS-consistent numbers in its budget, while Burnaby improved to a B by including PSAS-consistent revenue in its budget projections.

We also see declines. Later budget presentation was a common reason for deteriorations in grades. Other reasons for declines were qualified audit opinions for Laval and Gatineau, and lack of PSAS-consistent numbers in Regina's budget.

Happily, some strong performers maintained their place at the top of the class. Quebec City, Richmond and Vancouver stand out for consistently top-level results. Future iterations of this report may say the same of Ottawa.

DOES MUNICIPAL FISCAL TRANSPARENCY MATTER?

Battles between senior governments and their legislative auditors show that governments know that the presentation of financial information matters. A salient senior-government example

Table 2: Sensitivity of Results to Grading Scheme

	2021	2022	2023	2023 using 2024 scheme	2024
Brampton	B	B	C+	B-	B
Burnaby	B	B	B-	C+	B
Calgary	C	B-	C+	C	D+
Durham Region	C	D+	D	D	D+
Edmonton	C	B	C+	C	C
Gatineau	B-	C-	D+	D+	F
Halifax	D	D+	D	D	D-
Halton Region	B-	C	D-	F	D+
Hamilton	B-	D+	F	F	F
Kitchener	C-	D+	D-	F	D
Laval	A-	B	B+	B+	B-
London	B-	C-	F	F	C+
Longueuil	C	C+	C-	C-	D+
Markham	A-	A-	A-	B+	B+
Mississauga	C+	B	C+	C	B
Montreal	B	C-	D-	D-	D+
Niagara Region	C	C+	D	D	C
Oakville		C-	D	D	D+
Ottawa	C	B+	B	B+	A-
Peel Region	B	B-	C-	C-	B
Quebec City	A	A-	A	A	A-
Regina	F	D	B	B	F
Richmond	A-	A	A	A-	A
Saskatoon	F	B+	A-	B+	B+
Surrey	A	A-	B+	B+	B+
Toronto	B-	C	D+	D+	D+
Vancouver	A+	A-	A-	A-	A-
Vaughan	A-	B	C	C+	B-
Waterloo Region	B-	C	D-	D-	D+
Windsor	C	C	F	F	F
Winnipeg	B	B+	C+	C+	C+
York Region	B	B+	C+	B-	B

Notes: Changes in grades reflect both changes in governments' financial reporting, and changes in our grading system, as described in the text. We included Oakville in this report card for the first time in 2022.

occurred in the late 1990s and early 2000s when Ottawa pre-booked large amounts of spending, artificially reducing surpluses (Robson 1999, Robson and Wu 2021). More recently, the auditors general of Ontario and Quebec objected to presentations that reduced these provinces' reported annual and accumulated deficits (Robson and Dahir 2024b). Timely, reliable and transparent financial reports alone cannot ensure that municipal governments will serve their citizens' interests. However, they are an essential foundation for citizens and legislators to understand and act on problems the numbers may reveal.

Confusing Budgets Undermine Engagement

Inability to compare intentions and results reduces the attention councillors, the media and the public pay to municipal finances. Why would citizens pay attention to municipal finances, make representations to their councillors or attend public meetings if they do not understand the numbers or if they think budgets are misleading? Why would councillors struggle to understand a budget that experience suggests does not help them predict results?

Consider what would happen if a diligent but non-expert councillor delved into a 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 2023 municipal budget round appear in Table 3, where we compare them with the expenses reported in each city's 2023 audited financial statements. We show the municipalities without PSAS-consistent headline budget expenses in regular font and the municipalities with PSAS-consistent expenses in italics.

To pick a dramatic example, Oakville's 2023 budget projected \$530 million in spending, while its 2023 financial statements showed \$330 million in expenses. An expert who saw actual expenses so far below projections might suspect an accounting discrepancy and start to read the fine print. A

non-expert, struggling to interpret financial reports and seeing that we judge the presentation as meriting a D+, might think the city is incompetent or publishing unreliable numbers. Many other municipalities had discrepancies between their 2023 budgets and results so big that someone who adds operating and capital budget numbers might think a city's execution or disclosure was widely off: in seven of the 32 municipalities we examined, the gap between actual and budgeted expenses a non-expert reader might calculate was more than 30 percent of budgeted expenses.

One would expect that the differences in Table 3 would reflect municipalities overspending or underspending relative to their budget commitments – an appropriate topic for councillors to take up with staff and explain to their constituents. But many of the biggest differences reflect inconsistent accounting. Even the best managed businesses, households, not-for-profits and governments do not hit their budget targets exactly. Municipalities that presented PSAS-consistent budgets or very prominent PSAS reconciliations still had variances between projections and results. But the variances of municipalities presenting PSAS-consistent budgets tend to be smaller. The average of the absolute values of the variances for the 17 municipalities that presented PSAS-consistent expenses in their budgets was 6 percent; the average for the 15 that did not was 24 percent.

Financial Presentations Can Affect Decisions

Aside from fostering notions that city finances are out of control or incomprehensible, discrepancies between non-PSAS-consistent budgets and PSAS-consistent financial statements create specific problems.

Current concerns about housing affordability makes one consequence of cash-based capital budgeting worth highlighting: the infrastructure charges some cities levy on developers. These charges raise the price of homes by as much as

Table 3: Budgeted Spending versus Actual Spending or Expenses, by Municipality, 2023

Municipality	Expenses in 2023 Budget (\$ billions)	Expenses in 2023 Financial Statements (\$ billions)	Difference (percent)
<i>Brampton</i>	0.96	0.99	3.2
<i>Burnaby</i>	0.63	0.62	-1.5
Calgary	6.16	4.66	-24.4
Durham Region	2.44	1.70	-30.4
Edmonton	5.78	3.66	-36.7
Gatineau	0.98	0.82	-16.5
Halifax	1.31	1.27	-2.9
Halton Region	1.88	1.15	-38.7
Hamilton	2.64	N/A	N/A
Kitchener	0.68	0.45	-33.7
<i>Laval</i>	1.30	1.32	2.0
London	1.55	1.40	-9.3
Longueuil	0.74	1.00	35.2
<i>Markham</i>	0.51	0.48	-4.8
<i>Mississauga</i>	1.03	1.08	4.8
Montreal	9.11	8.26	-9.4
Niagara Region	1.51	1.28	-15.3
Oakville	0.53	0.33	-36.9
<i>Ottawa</i>	4.46	4.58	2.6
<i>Peel Region</i>	3.18	3.13	-1.8
<i>Quebec City</i>	1.95	1.93	-1.3
<i>Regina</i>	0.66	0.77	15.6
<i>Richmond</i>	0.56	0.54	-4.4
<i>Saskatoon</i>	1.05	0.99	-6.1
<i>Surrey</i>	1.11	1.03	-7.5
<i>Toronto</i>	18.11	15.08	-16.7
<i>Vancouver</i>	2.10	2.08	-0.6
<i>Vaughan</i>	0.85	0.60	-29.3
Waterloo Region	2.13	1.42	-33.2
Windsor	1.18	0.95	-19.7
<i>Winnipeg</i>	1.90	1.92	0.7
<i>York Region</i>	2.86	2.74	-4.0

Note: Italics signify PSAS-consistent expense in municipal budgets.

Source: Authors' calculations from municipal financial documents.

\$100,000 in the Greater Toronto Area and almost \$50,000 in some BC cities (Dachis 2020). Why should new homebuyers pay these charges? The infrastructure they cover provides benefits over wider areas and longer periods. To the extent that cash budgeting for capital encourages municipalities to levy these charges long before the outlays occur, it makes new homes less affordable.

The apparent high price tag on capital projects in municipal budgets can discourage capital investments and encourage cities to charge too much up front for the projects they undertake. Focusing on cash transactions also encourages neglect of future obligations, including repair and replacement of infrastructure. Some cities, notably in Ontario, have accumulated significant deferred revenue, or reserves – money collected in advance of projects that might not be built for years, if ever (Robson and Dahir 2024a).

The persistence of cash accounting in municipal budgets is partly a matter of inertia, but there is more to it than automatically repeating the previous year's routine. Advocates of cash accounting and balanced operating budgets expect the presentations they prefer to produce different outcomes than budgets prepared in accordance with PSAS. Commenting on past iterations of this report card, some municipal officials have noted that the better-looking bottom lines in PSAS-consistent budgets might induce councillors to spend and borrow more. But shaping a budget presentation to produce a desired outcome is problematic in principle and, as just noted, can distort decisions in regrettable ways.¹⁰

A related point is the high profile of the annual panic over balancing the city's budget and the low profile of the sizable annual surpluses cities typically show in their financial statements. The 32 municipalities in this survey had surpluses totaling more than \$12 billion in 2023 and accumulated operating surpluses of \$261 billion (Table 4).

Discussions about potential changes in taxes, services or government transfers would be more fruitful if more people knew that Canada's cities are in better financial shape than most budget debates suggest.

IMPROVING FISCAL ACCOUNTABILITY IN CANADIAN CITIES

In the past, Canadian senior governments typically failed to meet these standards, but their performance has improved over time (Robson and Dahir 2024b). Municipal budgets and financial statements have also improved, but not enough – and not consistently. How could more of Canada's municipalities do better?

Adopt PSAS-Consistent Accounting in Budgets

First, municipalities should prepare their budgets using the same PSAS-consistent accounting they use in their financial statements. Then, budget users would see the same consolidated measures of revenues and expenses – and the more meaningful surpluses – that they see in financial statements, including all entities that the municipal government controls and that depend on it for financing.

¹⁰ Accounting's potential to shape policy was clear when Ontario's 2019 budget anticipated a provincial takeover of the Toronto subway. Although the province can support municipal investments with transfer payments, the budget said: "... provincial ownership of the assets would allow the Province to amortize its capital contributions ... 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." The illusion that the subway was cheaper to build if provincially owned existed only because the City of Toronto did not budget capital on an accrual basis (Robson 2019). While the proposal ultimately failed, it would never have come forward at all if Toronto had budgeted using PSAS.

Table 4: Annual and Accumulated Operating Surpluses, by Municipality, 2023

Municipality	Annual Surplus (\$ billions)	Accumulated Operating Surplus (\$ billions)
Brampton	0.14	4.56
Burnaby	0.24	5.74
Calgary	0.89	25.03
Durham Region	0.46	7.06
Edmonton	0.78	17.78
Gatineau	0.13	2.46
Halifax	0.07	2.62
Halton Region	0.53	8.47
Hamilton	N/A	N/A
Kitchener	0.11	1.93
Laval	0.18	2.98
London	0.28	5.67
Longueuil	0.05	1.23
Markham	0.28	5.73
Mississauga	0.31	9.85
Montreal	0.87	16.05
Niagara Region	0.18	2.25
Oakville	0.18	2.72
Ottawa	0.86	18.96
Peel Region	0.35	14.08
Quebec City	0.34	5.61
Regina	0.11	2.68
Richmond	0.20	3.83
Saskatoon	0.15	5.16
Surrey	0.62	11.02
Toronto	1.25	32.73
Vancouver	0.53	9.73
Vaughan	0.55	10.95
Waterloo Region	0.12	3.28
Windsor	0.16	2.74
Winnipeg	0.38	7.31
York Region	0.77	10.74
Total	12.07	260.96

Source: Authors' calculations from municipal financial documents.

Some municipal officials argue that cash budgeting for capital is easier for councillors to understand and that separate presentations of tax- and rate-supported services are more meaningful for citizens.¹¹ Yet, even cities that do not present PSAS-consistent budgets have noted the superiority of the PSAS framework. Toronto's 2021 budget, for one, stated that complying with PSAS and producing an accrual budget "provides more information as to whether the government entity... is in a better or worse position than the previous year" (City of Toronto 2021). Brampton's 2023 budget 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 2023). We agree. Capital assets are critical to municipalities' capacity to deliver services. Accrual aligns revenues and expenses as well as aligning costs and benefits to taxpayers and citizens better over time.

One barrier to PSAS-consistent budgets in many cities is provincial regulations. Ontario requires its municipalities to balance their operating budgets, including transfers to and from reserves. British Columbia requires its municipalities to include debt principal repayments in their spending. Provinces should drop such archaic requirements.

Other measures could constrain municipal indebtedness without mandating archaic and confusing budgets. Most provinces adhere to PSAS in their own budgets, and none object to PSAS in municipal financial statements. Indeed, Quebec requires its municipalities to provide PSAS-consistent versions of their budgets to the province. Alberta's *Municipal Government Act* explicitly states

that a municipal budget presented in a format consistent with its financial statements satisfies provincial requirements with respect to operating and capital budgets.

Notwithstanding provincial obstacles, municipalities can and should put PSAS-consistent numbers in their budgets. Richmond's PSAS-basis budget matched its financial statements line by line, and Surrey produced PSAS-consistent numbers that were up front, straightforward and easy to understand. All cities can, and should, be doing this.

The introductions by mayors and city managers in the opening pages of a typical municipal budget are excellent places to present PSAS-consistent summaries of projected revenue, expenses and surplus.¹² We underline that progress has occurred in this area over the 14-year period that the C.D. Howe Institute has produced these reports. In 2010, not one municipality in our survey provided any PSAS-consistent revenue, expense and/or surplus/deficit numbers in its budget. In 2023, 20 did. Although the 2024 budget round shows some backsliding in this area, we look forward to reporting further progress in the future.

Present Formal Complete Budgets for Council Approval Every Year

Some cities do not present formal budgets each year, instead producing partial updates to previous multi-year plans. These updates are no substitute for a single document that shows annual consolidated revenue, expense and the bottom line, with meaningful breakdowns of major revenue sources and programs. All cities should present, and councils should vote on, formal annual budgets.

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- 11 York Region's 2024 budget argues that this approach "gives decision-makers and other readers a clear picture of where cash resources are expected to come from, how much tax levy will be required and how resources will be applied to all activities, including capital and operations, to meet current and future needs." (York Region 2023).
- 12 Modern financial statements include a schedule of changes in cash. Governments that wish to highlight cash transactions and balances can provide such schedules pro forma with their budget and provide reconciliations with the budget plan in their financial statements.

Provide Comprehensive Consolidated Annual Revenue, Expense and Surplus/Deficit Numbers

Consolidated numbers provide a complete picture of a city's operations and their implications for its future capacity to deliver services. Showing consolidated numbers in no way restricts a city's ability to adjust rates and property taxes or to show the split between costs households can control – by using less water, for example, or smaller garbage bins – and taxes they cannot. Indeed, cities can show the same operating and capital budgeting information they do now, but those numbers should be supporting information – supplements to, not substitutes for, PSAS-consistent numbers.

Limit Gaps between Annual Surpluses and Changes in Accumulated Operating Surpluses

Gaps between a city's annual surplus and the change in its accumulated operating surplus over the year create problems. Gains and losses below the annual surplus line represent risks – changes in the government's capacity to deliver services – that legislators cannot budget for or control. Gaps between budget decisions and ultimate changes in a government's capacity to provide services undermine fiscal accountability. If owning a utility or other investments, for example, hurts a municipality's capacity to deliver services, a negative adjustment may be appropriate in the financial statements, but it is opaque and discourages a conversation that might be useful. How about managing the asset (or liability) better, or disposing of it?

Produce More Reliable Budgets

Budgets outline the fiscal plan for the coming year, anticipating a municipality's revenues and expenses. The difference between them – the projected annual surplus or deficit – should give councillors a view of what the budget they are debating and voting on will mean for the city's accumulated operating surplus and capacity to provide services in the

future. When budgets are unreliable – significantly overestimating or underestimating revenues and expenses – they undermine accountability. Outcomes badly at odds with budgets erode councillors' ability to steward public funds when making spending and revenue decisions.

Large deviations from budget plans also discourage engagement. Why would councillors or anyone else invest time and effort in the budget process if they think it is irrelevant to what will happen? Worse, unreliable budgets foster perceptions that officials are withholding information or that the city cannot fulfill its commitments.

Present Key Numbers Early and Unambiguously

No one, however expert, should have to dig through dozens or even hundreds of pages of a document or slide deck to find a municipality's key numbers. Nor should a user come across more than one candidate for these numbers and wonder which is correct. We invite readers to check the budget documents produced by their own municipalities. Too often, the search will involve multiple hyperlinks, reams of pages and many graphically highlighted numbers that look like the right ones but are not.

Early and unambiguous presentation is easy. Among senior governments, Newfoundland and Labrador stood out for putting its key consolidated numbers on page 2 of its 2023/24 budget. Municipalities can do the same. Quebec City's 2023 annual report showed its year-end results on page 5. Such prominent display is a huge aid 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. Different accounting and inconsistent numbers are formidable obstacles even to expert users and will stymie non-experts at the outset. Adopting PSAS-

consistent budgets would make this easier. As the Public Sector Accounting Board (PSAB) has noted: “[the actual-to-budget] comparison is meaningful when the budget is presented using the same:

- (a) basis of accounting;
- (b) accounting principles;
- (c) scope of activities; and
- (d) classifications as the financial statements.”
(PSAB 2022, 38.)

Even municipalities that presented PSAS-consistent aggregate numbers in their budgets usually did not break down revenues and expenses the same way they did in their financial statements. Financial documents should let legislators and citizens monitor what is happening and take corrective action. Consistent accounting that facilitates comparisons is a must.

Municipalities should also explain the variance between their results and projections. Especially when the financial statements show line-by-line comparisons with the original numbers from budget projections, users get clear information about what happened, which equips them far better to ask why.

We also encourage municipalities to follow the valuable practice of the federal and many provincial and territorial governments and publish in-year reports that, using PSAS-consistent accounting, compare interim results to budget plans.

Publish Timely Budgets and Financial Statements

Prompt approval of budgets and timely publishing of audited financial statements are key elements in accountability. Councillors should approve spending before it occurs and should have timely information on the year under way when they start their discussions of the next year’s budget.

Municipalities that use a calendar year for financial accounting and reporting purposes

should vote on their budgets well before January 1. Ontario’s *Municipal Act* prevents municipalities from approving a budget for the year following an election in the same year as the election, which led many Ontario municipalities to present their 2023 budgets late,¹³ hurting their grades in our 2023 report card. That is a prominent example of a law that needs revision.

Ontario’s “strong mayor” law, which specifies a February 1 deadline for presenting the mayor’s budget, will apply to all non-regional municipalities in Ontario in this survey. This law also needs revising. Too many of the municipalities to which this law now applies are likely to follow the lead of Ottawa and Toronto, which got “strong” mayors first and have approved their budgets well after the January 1 start of the fiscal year ever since.

One justification for late municipal budgets is that provinces have fiscal years that run from April 1 to March 31, and the decisions provinces make about transfers are important for municipal plans. One response to that problem would be for other provinces to imitate Nova Scotia, and align the fiscal years of their municipalities with that of senior governments. Unless or until that happens, municipalities must simply do the best they can. Waiting for the provincial budget guarantees that a large share of the municipality’s spending will occur without legislative authorization.

Municipalities that use a calendar year for financial accounting and reporting purposes should publish their financial statements before April 30. Faster reporting encourages faster gathering of information, which gives budget planners more up-to-date estimates for the year about to end. Instead of operating with such up-to-date information, most municipal councils develop their budgets with reference to past budgets – a practice that people unfamiliar with municipal governments, and even many who work in them, acknowledge makes little sense. Budgeting with reference to the last year with

13 Ontario held municipal elections on Oct. 24, 2022.

audited results and estimated results for the year prior to the budget year is better.

Untimely financial statements can also signal trouble. Late statements are a red flag for auditors, donors to charities and investors in companies. The Ontario Securities Commission requires TMX-listed companies to file their annual results no later than three months after year-end (OSC 2023) – a deadline the Commission itself also achieves. Alberta requires its municipalities to release their statements by May 1 – a deadline Calgary and Edmonton are clearly able to meet. All municipalities should follow that example.

THE FINANCES OF CANADA'S MUNICIPALITIES SHOULD BE MORE TRANSPARENT

Municipalities provide critical services to most Canadians and absorb a commensurately large share of Canadians' incomes. Councillors need clear information about their municipality's finances if

they are to hold officials to account, and taxpayers and voters in turn need it to hold councillors to account. The effects of a slowing economy on revenues, pressure on spending from demands for housing and infrastructure, and constrained finances of senior governments will likely cause financial stresses for municipalities in the years ahead. Good understanding of, and intelligent debate about, municipal finances can only help.

The budgeting practices of most major Canadian municipalities should support that engagement more than they do. PSAS-consistent budgets that users can compare easily with their subsequent financial statements, as well as financial information that is more accessible and timely, would help raise the financial management and fiscal accountability of Canada's cities to a level more in line with their importance in Canadians' lives.

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