

# Building a Better Budget Process in Toronto

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**EXAM TIME!!!!!!**

# How much did the City of Toronto say it spent in 2016?

## ❖ A. \$11.8 billion

- Tax- and rate-supported operating budgets. Rate-supported budget already approved (with little coverage).

## ❖ B. \$10.1 billion

- This is the tax-supported operating budget. It's the budget being debated now.

## ❖ C. \$14.9 billion

- This is the total of all operating and capital budgets.

## ❖ D. \$11.0 billion

- This is the actual spending amount from 2016 financial statements on an accrual basis.

**The good news: you're all right**

**The bad news: that's a problem**

# Why are there different budget numbers? 2016 Edition

Municipality	Latest Budget Approval Date	Budget Approval Date: Late or Early?	Page Number of Headline Total Figure (Operating + Capital)	Reconciliation Table Explaining Differences in Total	Comparison of Budget Projections to Previous Year's Totals	Does Budget Present City-wide Gross or Net Expenditures or Both as Headline Expenditure?	How Long after Fiscal Year End are Financial Reports Approved?	Budget on Same Basis of Accounting as Financial Report? (Y/N)	Overall Grade
Grading Weight (Scoring)	3 (3 if early, 2 less than 4 weeks late, 1 less than 8 weeks late, 0 otherwise)	4 (3: operating total on first 15 pages, 2: first 15-30 pages; 1: 30-50 pages, 0: 50+ pages). Extra point if capital and operating on same page of same document.	3 (3 for full, 2 for at least one of cap/op. matching, 1 for a reconciliation, but when numbers do not match, 0 for none)	2 (2 if both capital and operating restated, 1 if one restated, 0 if not all)	2 (2 if gross only, 1 if net and gross equal prominence, 0 if net)	2 (2 if within 4 months of year-end, 1 if published 5-6 months after, 0 if 7 months)	4 (4 if budgets and audited statements on same basis, 2 if information supplemental, 0 otherwise)	20 (A: >13, B:11-13, C: 8-10, D: 5-7 F: <5)	
Toronto	February 17, 2016	6 weeks late	Operating: p. 96 out of 1024; Capital: p. 130 out of 1024	1	1	Both	7 months (July 13)	No	F (4)

Source: Dachis, Robson and Tsao (2016)

# What has Toronto improved on for the 2017 budget?

Municipality	Latest budget approval date	Budget approval date: late or early?	Page number of headline operating and capital total	Reconciliation table explaining differences in gross operating total	Comparison of budget projections to previous year's totals
Toronto	16-Feb-17	Six weeks late	Operating and Capital Both: p.9 out of 979	1	1
















Does budget present municipality-wide gross or net expenditures or both as a headline expenditure?	How long after fiscal year-end are financial reports published?	Budget on same basis of accounting as financial report? (Y/N)	Overall grade (Score) in 2017	Memo: Grade (Score) in 2016
Gross	Seven months (July 4)	No	C (9)	F (4)

Source: Dachis, Robson and Omran (2017)

## What is wrong with presenting gross and net?

	2015		2016	
	Gross	Net	Gross	Net
City Operations	4,960.3	2,049.5	5,065.7	2,087.5
Agencies	3,598.6	1,822.1	3,602.2	1,879.9
Corporate Accounts	1,426.6	(23.0)	1,399.6	(36.2)
<b>Net Operating Budget</b>	<b>9,985.5</b>	<b>3,848.6</b>	<b>10,067.4</b>	<b>3,931.2</b>
Special Levy for Scarborough Subway				40.7
<b>Total Rate Supported</b>	<b>1,586.1</b>		<b>1,684.4</b>	
<b>Total Tax &amp; Rate Supported</b>	<b>11,571.7</b>	<b>3,848.6</b>	<b>11,751.9</b>	<b>3,971.9</b>

Source: City of Toronto 2016 Budget

Year	Revenues	Expenses: Cash Accounting			
		Operating Expenses	Capital Expenses	Pension Expenses	Balance
1	 \$100  \$100	 \$100	  \$100	\$0	\$0
2	 \$100	 \$100	\$0	\$0	\$0
3	 \$100	 \$100	\$0	\$0	\$0
4	 \$100	 \$100	\$0	\$0	\$0
5	 \$100  \$50	 \$100	\$0	 \$50	\$0
<b>Total</b>	<b>\$650</b>	<b>\$500</b>	<b>\$100</b>	<b>\$50</b>	<b>\$0</b>

Cash accounting:

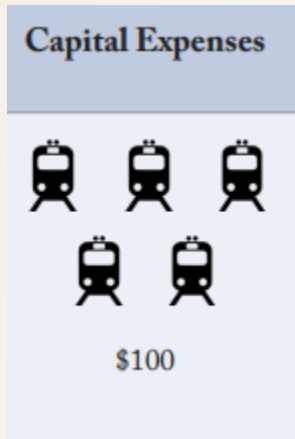
How the budget works now

Source: Dachis, Robson and Tsao (2016)



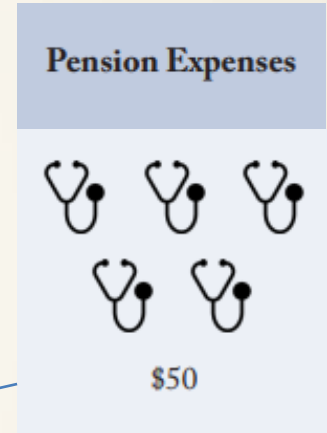
**Accrual accounting:**

**How the budget should work**



**Accrual accounting shows when one generation of taxpayers pays more (surplus) or less (a deficit) than the services it is getting**

Expenses: Accrual Accounting	
Consolidated Expenses	Balance
 \$130	+\$70
 \$130	-\$30
 \$130	-\$30
 \$130	-\$30
 \$130	\$20
<b>\$650</b>	<b>\$0</b>



Source: Dachis, Robson and Tsao (2016)



## How accrual accounting changes your perspective on municipal finances

Municipality	2016 surplus		2008-2016 surplus
	As share of 2016 revenues (percent)	Total (\$millions)	Cumulative (\$millions)
Toronto	10	1,248	7,724
Montreal	6	403	4,281
Calgary	25	1,237	8,875

**On accrual basis, surplus for 28 largest Canadian cities in 2016:  
\$7.9 billion**

**2008-2016 surplus:  
\$59.9 billion**

Source: Dachis,  
Robson and Omran  
(2016)

# How to improve Toronto's budget?

- Adopt Accrual Accounting in Budgets
  - provincial legislation should not mandate balanced operating budget targets that are inconsistent with accrual accounting
- Present Headline Figures Early and Prominently in Budgets and Financial Reports
- Show Gross, Consolidated, Municipality-wide Spending
- Explain Deviations from Budget Plans
- Publish Budgets and Financial Reports in a Timely Manner

Thank you!