The Culture of Public Money
Local, Provincial, and Federal Perspectives

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This presentation

• Big challenges in urban space: housing, homelessness, crime and security, transit and road congestion, carbon, etc.

• Overlapping federal, provincial and municipal space. Both causes and mitigation potential

• Key lens in this presentation: relative capability

• Who can do what – before who should do what
Caveats

• Practitioner perspective. Looking at the art from one foot away.

• Ontario and Canada combined. Using Toronto as a stand in for municipalities.

• This blurs important nuances. But otherwise, you’re here all night.

• Will say a few outrageous things to be less boring.

• Might well backpedal on some points during the Q&A discussion.
Starting off with raw dollars  
(apples and oranges warning)

Canada
• $500 billion  
• 360,000 public service

Ontario
• $210 billion  
• 60,000 (+) public service

Toronto
• $17 billion  
• 40,000 public service
Per capita
(4x apples and oranges warning....)
Local governments are very prominent

- Service delivery – everyday impact
- Taxes and fees – everyday impact
- Very ambitious and vocal, at least in Toronto
- Get a big chunk of the blame
- Looking for local leadership...
- But...
What it takes to make and sustain real change

• Jurisdiction and legislative authority
• Ability to decide and to act strategically
• Financial capacity
• Risk appetite and absorption capability
• Explore this for both senior and municipal governments
Senior government authorities / rights

• Constitutional foundation

• Overlapping jurisdiction in most domestic spheres

• Expansive legislative and regulatory tools + work arounds

• Boundaries:
  • Geography for Ontario
  • Courts – at the far margin
Westminster financial and policy governance and practice are centralized and certain

• Budget secrecy traditions + rituals

• Financial decision rights concentrated in first minister and finance minister + their political and public service teams

• Integrated legislative authorities – budget bills

• High degree of fidelity to policy direction – Cabinet and legislative acceptance
Decision making mechanics

- Small group integrates policy and fiscal intentions
  - Budget, fall economic statement, and in-year cycles
- Associated budget and FES legislation
- Communications build up and rollouts
- Treasury Board role post-budget – pace and fine tuning
Robust capacities

• Revenue
  • Grow and contract with economy
  • Overall progressive incidence
  • Shared and opaque – difficult to track costs tied to each level

• Expense dominated by major transfers + compensation
  • Automatic stabilizers
  • Indirect – intermediaries often shield political fallout

• Readily absorb risk
  • Unbalanced budgets / swings in borrowing needs are easy peasy
Ontario revenue

Composition of Total Revenue, 2024–25

- Personal Income Tax: 25.2% $51.9B
- Sales Tax: 18.9% $38.8B
- Corporations Tax: 12.1% $24.9B
- Education Property Tax: 2.8% $5.8B
- Employer Health Tax: 4.2% $8.7B
- Gasoline and Fuel Taxes: 1.3% $2.6B
- Other Taxes: 3.3% $6.9B
- Ontario Health Premium: 2.4% $5.0B
- Other Non-Tax Revenue: 8.7% $18.0B
- Income from Government Business Enterprises: 3.3% $6.8B
- Federal Transfers: 17.6% $36.3B

Total Revenue: $205.7 Billion

Taxation revenue accounts for $144.7 billion, or 70.3 per cent of total revenue.
Ontario spend

Composition of Total Expense, 2024–25

- Postsecondary Education Sector: 5.7% $12.2B
- Children, Community and Social Services Sector: 9.3% $19.9B
- Justice Sector: 2.7% $5.9B
- Other Programs: 18.7% $40.0B
- Education Sector: 17.5% $37.6B
- Health Sector: 39.6% $85.0B

Total Expense: $214.5 Billion

Interest on Debt: 6.5% $13.9B
Additional flexibility

- Accrual accounting
  - Capital expense amortization
  - Non-cash (pension and other liability adjustments)

- Consolidate revenue fund construct

- Contingency
  - Formal and informal
  - Underspend allowance

- In year management/implementation timing

- Accountability mechanics
  - Audited financials – 18 months post-budget, 6 after year-end
In practical terms...

• Ability to establish and sustain strategic objectives

• All-in tool kit
  • Spending power – tax and spend incentives/disincentive
  • Legislative and regulatory compulsion
  • In concert or in conflict with other government levels

• Resulting financial and legal risks are generally within the capacity of each senior government to manage

• Policy intent can be translated into change...
And senior governments have done some pretty radical things recently

Fill in your own favourite hobby horses here...
Toronto

• One of 444 municipalities

• Creature of the province

• Etobicoke Creek/Rouge/Steeles

• Myriad provincial policy directions
Municipal financial rule set

- Cash-based accounting
  - Capital spend is expensed
- Annual balance requirement
- Single budget cycle
- Real world: minimal capacity to absorb financial risks
Financial governance

• Staff/mayor request for budget submissions
  • Divisions
  • Agencies

• Staff/mayor proposed budget
• Consultations/engagement
• Budget committee and council consideration

• High visibility (transparency?)
• Shared/diverse decision rights
Toronto revenue

2024 Operating Budget Funding Sources: $17.0 billion

- Property Tax: $5,341, 31%
- Provincial & Federal: $3,831, 23%
- Rate Program Revenue: $2,135, 13%
- Other: $1,190, 7%
- Reserves: $1,111, 7%
- Transit Fares: $1,084, 6%
- User Fees & fines: $943, 6%
- Land Transfer Tax: $880, 5%
- Investment Income: $277, 2%
- Transfers from Capital: $227, 1%

Includes $380M in incremental property tax revenue
Revenue limitations

• Provincial policy/own-revenue restrictions

• High impact and visibility
  • Property tax
  • User fees

• Unclear incidence (at best)

• Transfer conditions

• Annual reset required
Toronto expense and net expense
Expense limitations

- Service level policies from council
- Visibility and impact of municipal services
- Service obligations from senior government transfers
- No amortization of capital/reliance on reserve accounts
- Cascading caution to avoid overspend
Some Toronto complexities

- Policy adjusted through the year, budget is annual
- Big gap starting point and annual struggle to balance
- Reserve treatment – expense and revenue
- Potential for estimation error/risk:
  - MLTT, federal and Ontario transfers, transit and other user fees
- Tax vs. rate base
Some Toronto complexities – continued

• Net vs. gross expense

• Agency and council interaction

• Temporary fixes from senior governments – level and timing

• Trend towards underspend and eventual surplus
  • Built-in caution

• Audited statements on accrual basis
What municipalities can do

• What they are allowed/get away with

• What’s supported by council, after public input and process

• What they able to finance
  • Low appetite for downside risk
  • Potentially regressive incidence
Actual outcomes are stable
This is not a critique of municipalities

• Deep, deep operational expertise in many areas. Impactful leadership
• Stable city policies very unlikely to be driving key problems
• Cities really don’t get into much trouble in absence of provincial and federal policy shifts
• Visibility and local impact are great things
• Community leaders are far, far better positioned to actually understand policy directions and unintended consequences
Some observations

• Focus policy expectations and accountabilities on senior governments for issues that are regional or broader in nature

• Maybe senior government operations and transparency should be more like cities...
Some Q&A suggestions/provocation

• Whose fault are those problems anyway?

• Do broader revenue measures make sense for Toronto (HST, PIT)?
  • Not really – unintended consequences abound

• Potential for senior governments to right-size transfers
  • Transit, social services, climate, public health, policing

• Public service cultures
Public service cultures – senior

• Feds and Ontario are similar cultures
  • Serve the government
  • Policy driven, focus on policy and managerial capacity
  • Centralized, government-wide decision making
  • Organized leverage: fiscal, policy, legislative, HR, organizational
  • Rapid turnover
  • Cabinet and public service confidentiality prioritized
  • Often distant
Toronto public service culture

- Serve the council, work with councillors
- Program focus: division and agency program, expense and revenue
- Decentralized authority and decision making
- Deep program and delivery expertise
- Transparency prioritized/extensive consultations
- Ride the TTC/live the daily friction