



The Culture of Public Money

Local, Provincial, and Federal Perspectives

Peter Wallace

April 11, 2024

IMFG
Institute on Municipal
Finance & Governance



UNIVERSITY OF
TORONTO

**SCHOOL
OF CITIES** 

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

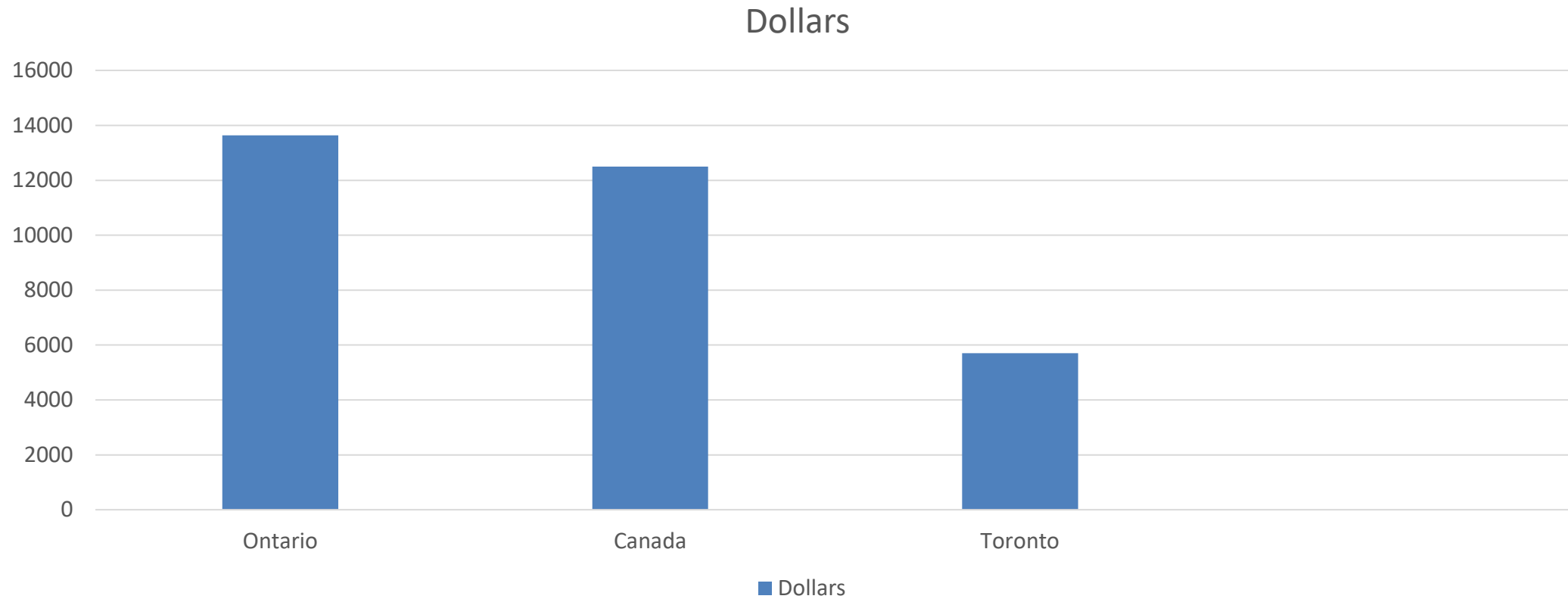
Ontario

- \$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

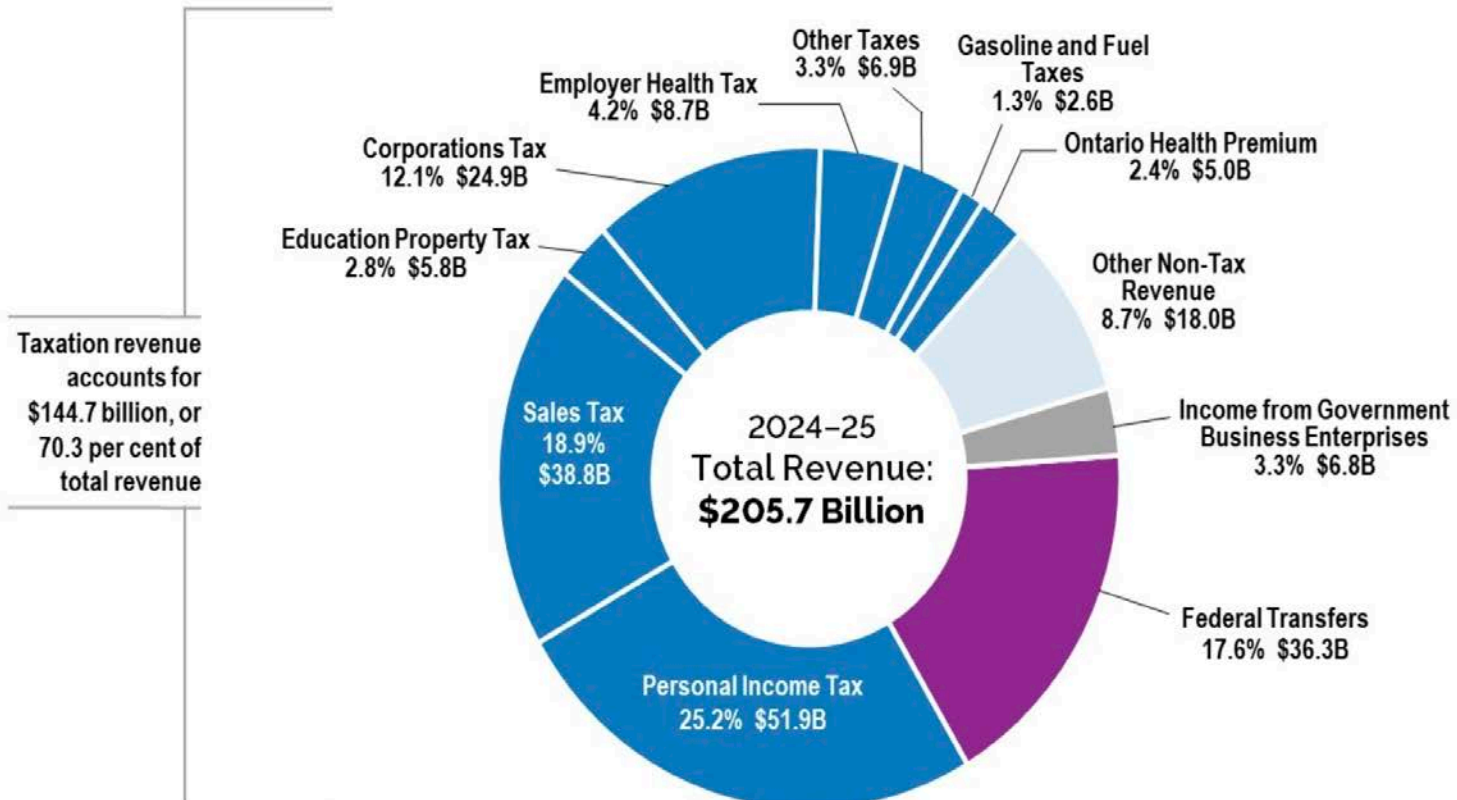
- **Small group integrates policy and fiscal intentions**
 - Budget, fall economic statement, and in-year cycles
- **Associated budget and FES legislation**
- **Communications build up and rollouts**
- **Treasury Board role post-budget – pace and fine tuning**

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

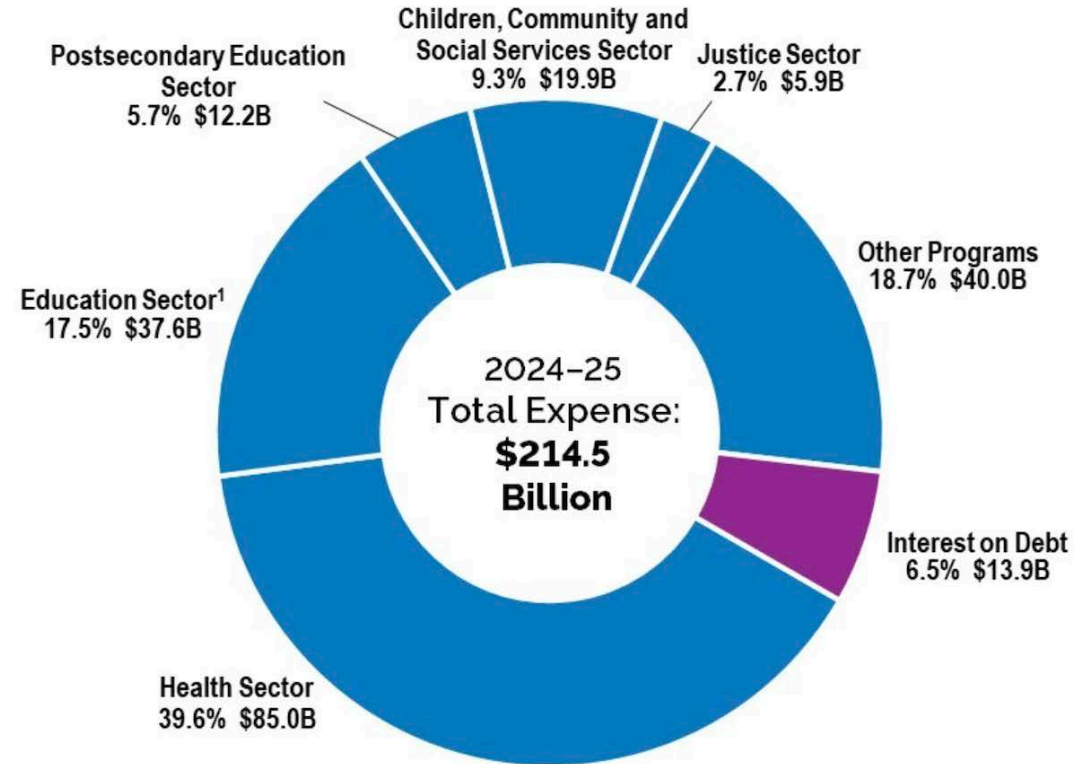
Ontario revenue

Composition of Total Revenue, 2024–25



Ontario spend

Composition of Total Expense, 2024–25



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**

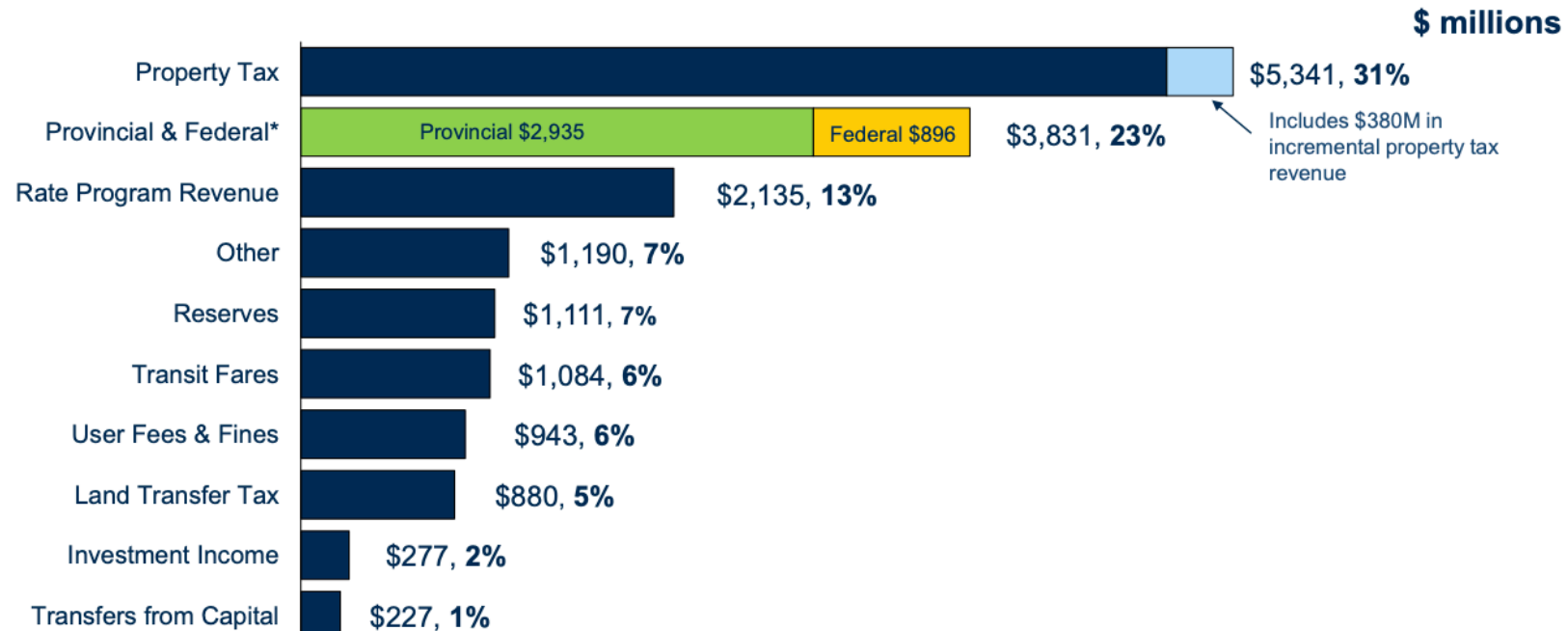
Financial governance

- 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

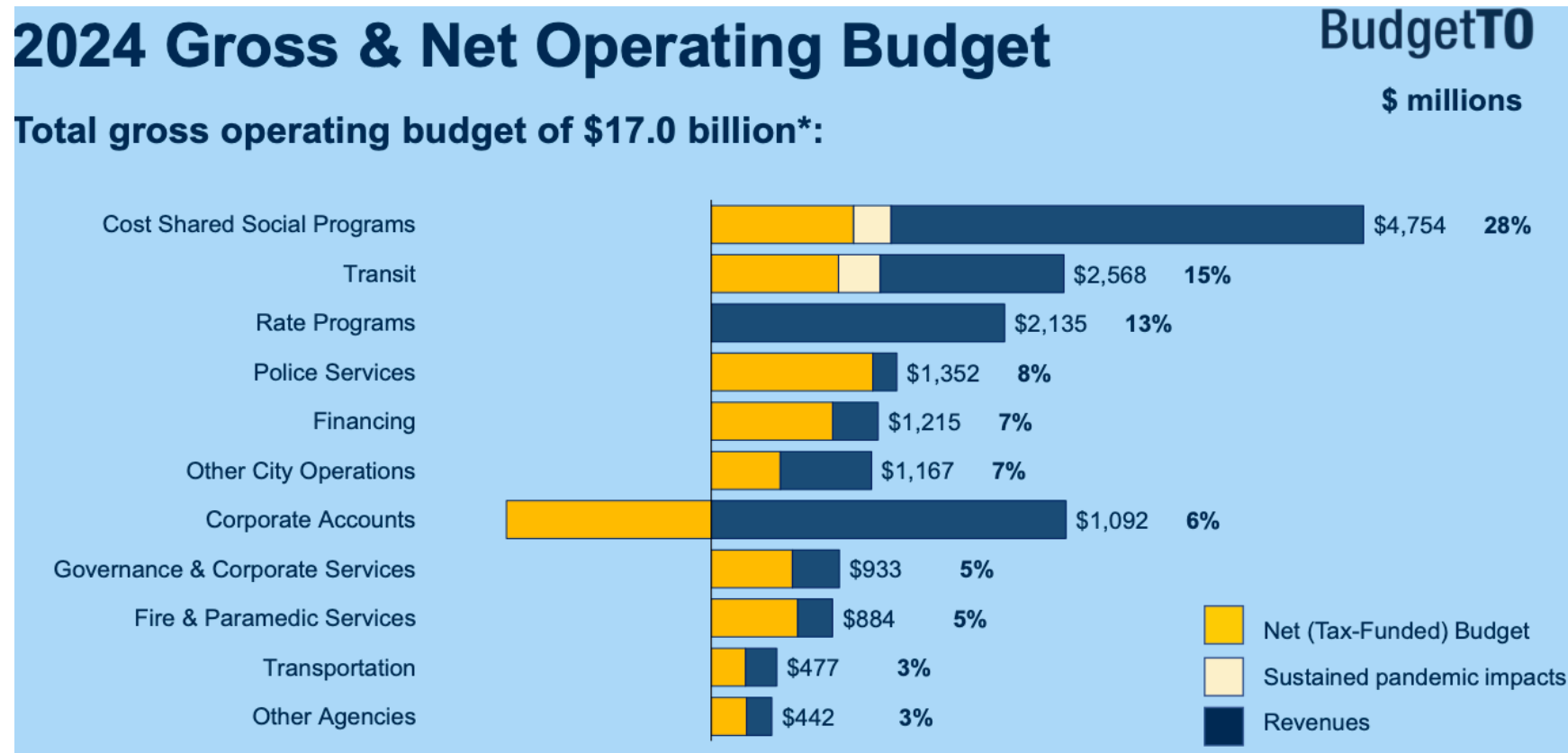
BudgetTO



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

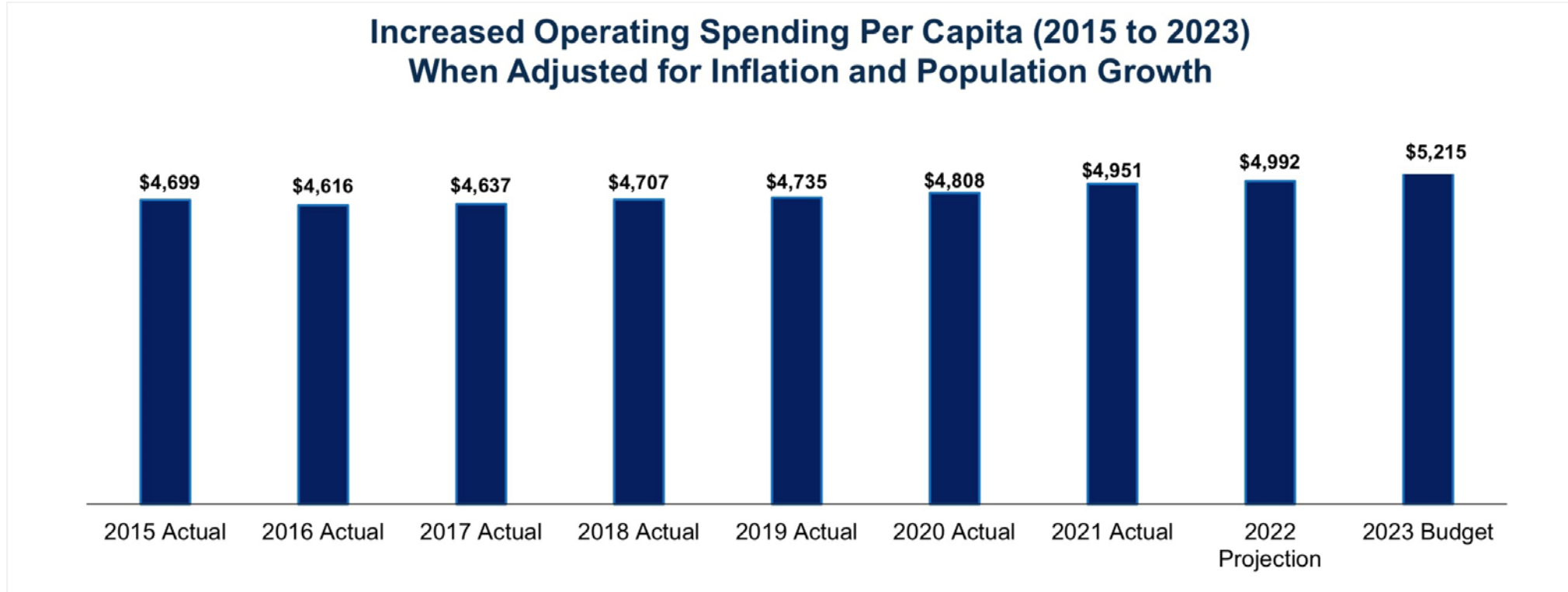
Some Toronto complexities – continued

- 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