OPINION

Make Surrey, Vancouver accountable

C.D. Howe study: Budgeting, financial reporting all over the map — and there's no improvement in sight for the two big cities

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Big Canadian cities, Surrey and Vancouver among them, are not only incredibly inconsistent in meeting their budget targets, but they muddy their accounting so badly that it is incredibly difficult to nail down just how far off-base their projections are.

The best to be said about Surrey is that, when it comes to producing budgets and year-end financial reports that can be straightforwardly compared, it is a bit better than most. And the best to be said about Vancouver is that, when it comes to hitting budget targets, it has for a couple of years been better than it used to be. And, if you overlook its dismal long-term record, Vancouver is also better than Surrey and the several other cities that drag the bar very, very low.

These are my take-away conclusions from a new C.D. Howe Institute study of municipal accounting practices. It is a second look at this issue by Howe president William Robson and senior policy analyst Ben Dachis, and they find generally no improvement since their first analysis a year ago.

Even Vancouver's less-than-awful recent performance — the analysts gave it a B-minus — may just be a blip. Over the past decade, the correlation between what the city has said it would spend and what it has actually spent has been all over the map, from under-estimating net revenues by 20.4 per cent in 2008 to over-estimating by an identical amount two years later.

Looked at over a decade, Vancouver ranked 15th out of 24 cities for budget accuracy, and Surrey was 16th.

Vancouver's financial reports showed a total of just under $1 billion in surplus revenues not forecast in its budget. The total for Surrey was even higher — $1.2 billion — earning it a special mention as one of the worst big cities in Canada.

How do such wild inaccuracies come to pass year after year?

Well, a typical example occurs when a city builds some kind of permanent structure — and they build a lot of stuff. The "cash accounting" method they use for budgeting records the full cost of this construction as a one-year expenditure — an accounting practice that, the analysts say, is antiquated and makes no sense because the asset being created will have value for many years.

Then, when the year-end financial report is eventually compiled using accrual accounting (the more sensible and more standard accounting practices used by most governments) the discrepancy can be enormous. As it very often is.

This stuff matters, or at least it ought to matter, to more people than accountants and policy wonks. The result is that today's tax rates are routinely set considerably higher than they need to be. And when politicians and bureaucrats wind up with an unexpected windfall, don't hold your breath waiting for them to give it back to taxpayers. You know they're going to spend it.

The study identifies a couple of other weaknesses in most cities' budgeting and financial reporting practices. For example, a department's expenses may be recorded as the net amount after any revenue it takes in is deducted, making the operational cost appear smaller than it really is. And deviations from the budget plan tend to be merely accepted as a matter of course, but not properly tracked.

The remedies are obvious: Use accrual accounting for both budgeting and reporting; show gross spending; and document any deviations from the budget.

The study notes that the provincial government could require these changes. But the cities could also adopt better practices on their own. Assuming they want to, that is. Their non-response to last year's analysis doesn't inspire much confidence.

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