

City spending difficult to assess due to accounting dichotomy

Obtuse budgets: Hard for experts, laymen to fathom

BY DON CAYO, VANCOUVER SUN JANUARY 16, 2014

true

If you, like me, are perplexed by the complexities of municipal budgeting, you might find solace in knowing it's not just us.

Two of the savviest guys I know when it comes to parsing complex economic documents are William Robson, the president of the C.D. Howe Institute, and Benjamin Dachis, his senior policy analyst. And they say most city budgets really are obtuse. So if this stuff makes these guys scratch their heads, no wonder it hurts ours.

"What should be a simple exercise - comparing the spending city council votes in its annual budget with the actual spending reported at year-end - will baffle any but the most expert reader," they write in a just-released study.

"The headline totals for revenue and spending in budgets and financial reports are usually not comparable, and judging whether a city over-or under-shot its budget targets, and by how much ... is not possible for a typical councillor, taxpayer or citizen."

Although Vancouver is the only city in B.C. to make the list of cities their study examines, it does not, so to speak, make the grade.

To cherry-pick one of the worst local examples, when the researchers delved down into the murky depths of Vancouver's published numbers, they found that in 2010 - the year of the Olympics - the city said it would spend \$1.4 billion, or 29 per cent, more than the year before. In its year-end statement, it reported spending just \$1.2 billion, or 17 per cent more than the year before.

And, indeed, a comparison of budgets and year-end reports will tell us that for most years, most cities, including Vancouver, wind up with an unplanned surplus. It adds up to, if you believe the numbers, a whopping \$631 million over five years for Vancouver.

You might think this is a good thing, reflective of careful management, restraint and all that. But no such luck, because you can't believe the numbers. There is no way, the researchers say, to determine from the figures if this is a consequence of real economizing, or merely a quirk of inconsistent accounting standards.

The nub of the problem, says Dachis, is that cities like Vancouver use different accounting methods in their budgets and their year-end spending reports.

The best way to understand the difference between cash accounting (used in the budgets) and accrual counting (used in the year-end reports) is to think about personal finances in a year when a family acquires a new car.

Let's say the car costs \$50,000 - a hefty amount in most family budgets, and a rough equivalent of a moderately large capital expenditure for a typical city.

If you tell your spouse you need an extra \$50,000 in your pocket this year to cover the new car cost - even if you're paying it off over several years - that is cost accounting. And this is what the city does in its budget, putting in the whole amount for assets whose value is spread over many years.

Then, if you make minimum monthly payments and tally only this amount when you tell your spouse how frugal you are at year's end, this is accrual accounting. And this is what the city does in its year-end financial reports. And if you never, ever point out to your spouse the true reason for the huge difference in these two numbers, well, that's also taking a page from what the city does.

The result, Dachis says, is that not only are citizens who make an honest effort to understand city finances stymied, so are most councillors whose job it is to oversee civic spending.

Vancouver isn't the worst city for this kind of obfuscation, but it fails the study's test on two of four measures of budget transparency. And it is 16th worst out of 24 when it comes to matching its reported and forecast spending.

Ottawa and the provinces have dealt with this issue, Dachis said, and it is easy to compare what they say they will spend with what they actually do - an essential step in evaluating their performance. He sees no reason cities couldn't be just as forthright, although it might take intervention from the province to prod them to do it.

But it's important. "After all," he said, "how can you get where you want to go if you don't know where you are?" dcayo@vancouversun.com

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