

Summary of External Assessments of Financial Reporting

Throughout the year the City's financial report and budget documents are reviewed by a number of agencies including Standard and Poor's as part of the City's annual credit rating review, the Government Finance Officers Association as part of their annual awards programs, and the C.D. Howe Institute as part of their annual assessments of municipal transparency.

C.D. Howe Institute

In January 2021, the C.D. Howe Institute has released a report entitled "Time for an Upgrade: Fiscal Accountability in Canada's Cities, 2020" that gave the City of Edmonton a failing grade for financial reporting and transparency. The C.D. Howe has released this report for a number of years and the City of Edmonton typically has not scored well.

The report was scored across a number of categories and the methodology is available with the release of an Intelligence Memo from the C.D. Howe. The scoring is across two broad categories of Budget and Financial statements, each of which has a number of criteria.

Administration contacted the C.D. Howe Institute to share concerns regarding the methodology and lack of engagement prior to release of the scores. Key points raised with the Institute include the following:

1. Budget approval timing: A key criteria is a measurement of the prompt presentation of budgets. The C.D. Howe report indicated that "Councillors should not approve spending after it has occurred..." The scoring suggested that the 2020 budget was not passed until April 27, 2020, which was the date of the Spring 2020 Budget Adjustment, including the budget adjustment to respond to the COVID-19 pandemic. The scoring criteria does not appear to recognize that the City budgets on a multi-year basis with budgets set for four years, 2019 - 2022. The original budget was approved in December 2018. The large, non-pandemic adjustments to the 2020 budget were approved December 13, 2019. The Institute agreed to update this component but said it will not change the City's published score. The Institute also indicated that they may object to multi-year budgets in the future.
2. Expenditure presentation: The City presents its four-year operating budget showing revenues and expenditures on a gross basis and a balanced budget. The documents then present the budget by department, branch and program. In an effort to be transparent, the detailed documents focus on the net presentation for programs and the allocation of tax dollars collected from taxpayers within the City.
3. The Focus on Headline Results: The Institute provides scores for both the budget and the financial report based on how close to the front of the

reports a reader will find a financial summary (headline results). For this score, the City of Edmonton appears to be penalized by providing the financial statements, and financial statement discussion and analysis within a comprehensive annual financial report. Cities that scored full marks in this category published their annual financial statements with no analysis. In addition to the full annual report, the City prepares a document called the Financial Report to Citizens, which is a significantly condensed report designed for readers without a financial background. The C.D. Howe did not consider this document in their analysis.

4. Below the line adjustments: The C.D. Howe Institute deducts points for “below the line adjustments” in the financial statements, viewing them as expenditures that are not transparent. The City separates capital revenue “below the line” to be transparent about the differences between operating and capital revenues, in accordance with accounting standards and in a manner acceptable to credit agencies. The City of Edmonton also reflects the accounting for EPCOR Utilities Inc., a wholly owned subsidiary of the City, “below the line,” which is the appropriate accounting practice for a Government Business Enterprise. If accounting was adjusted to accommodate the scoring, it would likely result in a qualified audit opinion.

Annual Credit Rating

Each year the City receives a credit rating from Standard & Poor (S&P) that includes a review of the City’s documentation, including budgets, financial statements and supplementary reports. Analysts from S&P interview key City staff including the Chief Financial Officer, Chief Investment Officer, Branch Manager of Financial Services and the Chief Economist. The City’s current credit rating is AA stable. In their most recent ratings report the agency noted “The city has a robust set of financial policies and a well-documented financial plan. In addition, it provides transparent disclosure of pertinent information.”

Annual Awards for Financial Reporting

The City of Edmonton has received a number of Government Finance Officers Association Awards:

- The City received the Distinguished Budget Presentation award for its most recent multi-year budget (20 consecutive years).
- The City has received the Canadian Award for Financial Reporting (26 consecutive years).
- The City has received the Popular Annual Financial Report award for the Annual Financial Report to Citizens (6 consecutive years).

These awards are based on comprehensive criteria and awarded after a review by

national financial peers.

Administration is always seeking to improve its transparency and reporting to residents and Council. Administration is closely reviewing its practices to address the C.D. Howe's concerns without compromising compliance with accounting standards or requirements in the *Municipal Government Act*.