

(February 3, 1914.)

Toronto's Financial Administration.

By FREDERICK A. CLEVELAND, PH.D.*

AT a special luncheon of the Club held on the 3rd February, Mr. John A. Macdonald, speaking preliminary to the address by the guest of the day, Dr. F. A. Cleveland, said:

Mr. Chairman and Gentlemen,—What I have to say will be as brief as possible, for I know that you are waiting to hear Dr. Cleveland; and I will put a few facts before you which will be new, possibly to some of those who are present.

One day last winter Mr. John I. Sutcliffe and myself were discussing the necessity of a better understanding of civic problems before much needed reforms could be hoped for, and we decided to write to the New York Bureau of Municipal Research for advice, which we received in the shape of some very interesting literature on the subject of Municipal Research.

Mr. John Firstbrook and others joined in this inquiry, and some fifteen or twenty of us united in an invitation to Mr. Henry Bruere, a Director of the New York Bureau, to address a meeting. This meeting was held at the National Club one day last July, and it was then decided to form a Committee of One Hundred Citizens—each pledged to pay one-hundredth part of the expense of a preliminary Survey of Toronto's Civic Administration, which was estimated to cost about \$5,000. As a matter of fact the Survey has cost much more than that, and a Civic Survey Committee of about 130 members has subscribed over \$6,000.

On September 28th, a deputation headed by Sir Edmund Osler waited upon the city council and received permission to make the survey.

Mr. Fred. W. Linders, accompanied by several municipal specialists in various departments, made the survey during November and December.

During January, Messrs. Driscoll and Holton, two of these specialists, presented the sections of the Survey Report

* Dr. Cleveland is one of the principals in the Bureau of Municipal Research of New York City, who were retained by the Civic Survey Committee of Toronto to make a special report on Toronto's Civic Administration. Dr. Cleveland was Chairman of ex-President Taft's Commission on Economy and Efficiency, which made a special study of the United States Civil Service. He is one of the leading authorities on civic finance on this continent.

dealing with the Fire Department and Works Department. The section of the Property Department was published last week. The section on the Assessment Department will come later.

Dr. Frederick A. Cleveland, Managing-Director of the Bureau of Municipal Research of New York, has come from that city to present to the Civic Survey Committee the section of the report dealing with the City Treasurer's Department. This was done yesterday when the Committee met at the National Club.

Through the courtesy of the Canadian Club, this meeting has been arranged so that the *public* may hear Dr. Cleveland on the Financial Administration of Toronto.

Dr. Cleveland is a national figure in the United States, and is fast becoming an international figure in North America. Accountancy and Finance are his specialties. When ex-President Taft, whom you heard last week, formed his famous Commission on Economy and Efficiency in the great Spending Departments of the United States Federal Government, Dr. Cleveland was chosen as the chairman of that committee.

At first some few, and they were very few, were sceptical as to the value of this Survey. If there are still any unbelievers, which I doubt, I have this to say in answer. Last November the Survey staff found such conditions in some of the theatres in Toronto that they felt it a duty to make a special Preliminary Report to the Mayor. As the result of that report thousands of dollars have been spent by the theatres in better methods of fire prevention. Every man on the Executive Committee of the Survey feels that this result alone has been worth all the time and trouble he has given to this undertaking, and that the whole cost of the entire Survey has been well repaid by this one achievement in itself.

We have been asked repeatedly—How do you expect to get practical results from this inquiry? What prospect is there of the many valuable suggestions made in the Survey Report being carried out?

The answer is that civic governments everywhere, and Toronto is no exception, respond freely and quickly to any interest manifested by the citizens in their own government. Toronto city officials have already shown their willingness to respond to such interest, and to consider our recommendations and to carry them out.

That citizen support of this Municipal Research Movement is of pressing interest is unquestionable, not only to

Toronto but to all Canadian cities. The success of the movement in the United States has demonstrated conclusively how vital a force it is in securing efficient municipal government. Toronto should be awake to this and reaping the benefits of the experience of the New York Bureau by at once establishing a local Bureau of Municipal Research, which will have at its back the results of eight years' practical application of these methods in thirty-five United States cities—the principal ones of which are New York, Philadelphia, Cincinnati, Milwaukee, St. Louis, Dayton, etc.

The formation of a local Bureau in Toronto, we feel sure, will eventuate in the spread of this work throughout the Dominion.

We can hope for no better achievement than first to demonstrate practically in Toronto what can be done, and then nothing can prevent our being called upon to lead the way, or to perform services for the municipalities throughout Canada. Dr. Allen, another doctor of the N. Y. B., will be here to talk about this Tuesday next.

The financial support necessary to the success of this undertaking must emanate from interested citizens. That there are such citizens in Toronto the Survey has proved. That their interest will be continuous will soon be demonstrated by their subscribing a total of not less than \$20,000.00 per annum for five years. The local Bureau will be started at once. You will all have an opportunity to give it your support, and I have no doubts as to the outcome.

Gentlemen, in conclusion, I have just one word to say. I think there are very few of those here, and possibly not all the members of the Civic Survey Committee, who are aware of the wonderful services and the immense benefits that our Honorary Secretary, Mr. John I. Sutcliffe, has rendered to us. He has been twice in New York, and has worked at it day and night, and I would ask you to remember, whenever you hear of the good this Survey is doing and is going to do,—please remember the name of John I. Sutcliffe. (Applause.)

Dr. Cleveland was then introduced, and said:

Mr. Chairman, and Gentlemen of the Canadian Club and the Civic Survey Committee.—In the States we have looked to English institutions and English experience as a boy looks to his tutor for ideals and leadership. England and her colonies have given to the world her most important lessons in democracy—in responsible government—government as an organized trusteeship administered for the welfare of the gov-

erned. The greatest contribution of England has been a parliamentary system in which provision is made for responsible leadership. The greatest contribution of the English colonies has been in the development of the functions of the electorate. From England we took our constitution. From the colonies we have taken many of our best methods of popular control. From the colonies we have also taken many of our ideals of public service. We speak of our Australian ballot; of our Initiative, Referendum and Recall; of our Torrens system; of our methods of administering public works, and other community enterprises. In speaking of them as ours, however, we do not forget that nearly all of our highest ideals and practical solutions in government, in adapting our institutions to the fulfilment of the hopes of the people have come from our British ancestors and our British brothers. (Applause.)

Toronto has been before us for years as an example of civic interest and civic accomplishment, which we have sought to emulate. We have not only been struck with the unwritten law in this community that has demanded the retention in public service of men who have proved their fitness without regard to party, but we have also looked to Toronto for some of the best pioneer work that has been done in marking out the way for rendering public service through government enterprise. When asked to come to Toronto, therefore, we approached the subject of its institutions and practices with much of the same feeling that a student of political science goes to the House of Parliament.

The reason for our being here, as we understand it, is that both citizens and officers in the city of Toronto have been conscious of the fact that the city has been growing at a marvellous rate—during the last nine years it has doubled its population—that its Civic needs have far outstripped the provisions made for meeting them. Since our organization has been engaged in specializing for a number of years in the cities of the States in finding how cities are adapting their institutions to meet their growing needs (in the consideration of practices that have been found to be useful in one part of the world or another) we were asked to come here and make a survey—to apply methods of independent research as an aid to both citizens and officers in thinking about the civic problems with which they are confronted.

With this in view we have undertaken to make a careful study of conditions and practices; to submit our statements of fact to officers who are in charge of administrative details;

and having reached an agreement with respect to what the facts are, to submit our conclusions:

1. Pointing out what are deemed to be the defects in present methods.

2. The changes which should be made in order to adapt government methods to the necessity for administering to the wants of a much larger and more complex community.

As has been pointed out by Mr. Macdonald the results of our survey have been submitted to the Civic Survey Committee in reports on the following departments, viz., fire, property, works, finance and assessment. We are happy to say that with respect to none of these has there been any question raised on statements of facts. The only differences have been differences of opinion. These are to be expected, and discussion of such differences cannot do harm.

In taking up the subject of finance yesterday with officers discussing statements of fact, criticism of methods and recommendations, there were many points reviewed. Most of these would be of little interest to you at the time. But there are a few recommendations which are so close to the citizenship of Toronto that I am venturing elaboration to-day.

Among the constructive suggestions is one pertaining to the budget.

The budget, as conceived by English people—for they are the ones who have most successfully developed and used a system of budgetary control—is employed as an instrument by means of which a large community of citizens, a Dominion, a Nation, an Empire may have laid before them each year a definite program for the next year's business. Recognizing that public opinion is the great force, the controlling factor to be relied on to support the activities of government, it was found to be in every way desirable to get before the people what it is their government is doing, and what it proposes to do. This was the fundamental concept of a budget. This has been the theory of the constitutional inhibitions attached to money bills running back to the days of Magna Charta. This idea, however, did not become fully developed in the British system until within the last hundred years. It was not until the last fifty years that one of its most salient features was firmly established, namely, the provisions which fixed executive responsibility, by requiring that the Prime Minister become a leader before the Nation. In formulating our recommendations we have thought that the city of Toronto should take the steps necessary to develop just this kind of leadership, a leadership which will assume responsibility before the people for what

the administration is doing, and what it proposes to do, and to do this through the submission of a budget before each annual election.

Concretely, our budget proposals are these: To utilize your annual election as a referendum on questions of administration policy. Your elections of Mayor and Board of Control come just at the beginning of the fiscal year. In order to get a clear expression of views issues must be clearly defined. Instead of waiting until the new administration has been installed, instead of waiting for the new administration (which has only a year of official life) to take up the subject of what it proposes to do, and how it proposes to finance its projects after it has been seated, instead of waiting until after the first of January to begin consideration of what it will undertake for the city within the next twelve months, our first proposal is that the city shall require of its officers who are in responsible positions to begin in the autumn to make plans for the next year to let the people know what has been done, and what is proposed by the administration and by the opposition before the election. (Hear, hear, and applause.) As a means to this end we suggest that the departmental heads be required to submit their estimates—their detail statements telling about what service is being rendered, and the cost of what has been done by them, what additional work they are proposing to do, with an estimate of the cost of these proposals—that these business statements of cost and estimate be prepared by the heads of the departments and be placed in the hands of the Board of Control not later than October. (Hear, hear.) That when these cost data and estimates go to the Board of Control, the Mayor as the chairman (or prime minister) shall be required to assume responsibility for preparing and submitting a budget, which will clearly lay before the Aldermanic Council, as the appropriating body, what it is that the administration through its Board of Control recommends for the next year, that in order to inject the element of personal responsibility, and give definiteness to your discussion in municipal campaign, in order that you may have before you as an electorate well-defined issues when you determine by ballot who shall exercise the functions of government during the next year, each member of the Board of Control shall be required either to concur in the budget submitted by the Mayor or, in case he does not, to state specifically the items in which he does not concur and his reasons for disagreement. (Hear, hear.)

Here in Toronto the Board of Control is the Administration and the Mayor is its head. Having required that the administration clearly define its position, having utilized the experience gained by officers during their incumbency, and the experts of the Government in the various departments to formulate an administration platform, one which very directly and concretely relates the business of the government to the welfare of the city, and to lay this before the Aldermanic Council as a proposal, then each member of the Council would also be placed in such position that he would be held responsible for the manner in which he acted or failed to act on the budget proposal. So that before the day of election the city of Toronto, its citizens, its voters, would have before them an administrative program and the counter proposals of an opposition—a statement of issues joined, which would be just as clearly defined as would be required in a Court of Justice when parties litigant come before it to have their rights adjusted. (Hear, hear.)

If there is one thing in the English governmental system that both the people and their political agents have carefully guarded, it is its judicial procedure. By most carefully elaborated rules parties litigant are required to define clearly their issues by employment of counsel, or otherwise, before they are permitted the court will take testimony and admit argument of them before it. Our proposal is that the mayor shall be the leader—the advocate for the people—the attorney for the plaintiff in the formulation and submission of the complaint for social service; that the Aldermanic Council shall be regarded as a Court of First Instance in the matter of city administration against the opposition on all issues presented by the budget; the electorate shall act as a Court of Last Resort. That in these proceedings and during the campaign both the Aldermanic Council and the electorate should have the benefit of the same clarity of presentation of issues as a court of justice has when it is called upon to act on a subject of litigation. (Hear, hear.)

Now, let us suppose that the council, the aldermanic body, fails to agree, or fails to reach a decision before the 31st of December, and let us assume that the time has come when the case of the administration or the opposition is taken before the electorate without any act of appropriation having been passed. Notwithstanding the failure to act on the part of the board of aldermen there would be a month of deliberation in council during which members must assume responsibility for action or inaction, and the attitude of each representa-

tive or council would be before the city. The issues would be first presented in the form of a budget, the proposal of the mayor and of members of the opposition members on the Board of Control; this would be submitted to council in administration and opposition proposals. Following this the people would have the benefit of the discussion in council before action would be required by the electorate. With such a system instead of having our political campaign waged on personal lines,—instead of having the question as to whether Bill Smith is a good fellow the question before constituents in the campaign, would be “What has Bill Smith done, and what does he propose to do for this town?” and is the position of the mayor sound? Is he standing for or against public welfare? (Applause.) In other words, a procedure would be established that would insure that before January 1st you as citizens would have mapped out a public service program, and a financial program; every man in the Government would have to take sides—to assume definite responsibility and let the people know where he stands on a platform that could not be accepted or rejected as the act of an irresponsible unofficial partisan body.

Think of the advantage which this would have for the citizen; think also of the advantage such a procedure would give to officers who are trying to render efficient service. When the new administration comes in, if it is a continuation of the old one, (*i.e.*, if the proposals of the mayor are sanctioned by the electorate), the mayor, as head of the new administration, would have a clear sailing chart before him from the first day of the new fiscal year. The mayor would also have about him controllers as members of a board committed to the support of his policies. But let us assume that the mayor fails to receive a vote of confidence, that his program is not approved by the electorate. Then the opposition would become the new administration, and since the issues had been clearly defined before the campaign, the new mayor would have just as clear a sailing chart. Both the board of control and the Council would know just where the acts of appropriation would require change. So that by leaving the tax levy to be made after January 1, any modification in the appropriations could be covered by revenue provisions.

Fixing responsibility for leadership would give to the elected officers the added advantage, at the beginning of the new administration, of knowing what amount they could spend. This is very important. At the present time, no one knows what will be available for carrying on the city's govern-

ment till near the middle of the fiscal year. Last year, it was some time in May that the appropriations were passed. Each administration is handicapped; the city as a corporation is handicapped; citizens who are looking for service are disappointed. You cannot make the tax levy till the rate is fixed, and you cannot fix the rate till you know what is needed. Following present procedure, usually it is the first of July before you can make the tax levy for the fiscal year which begins January 1st. Meanwhile, the Government has no revenues, except what comes from miscellaneous sources. It must depend on borrowing. (Hear, hear.)

I could spend much more time than we have to-day on the subject of the budget. We know that the city of Toronto will spend many days considering it. Within the short time available I have tried to get before you one of the recommendations of our report. There will doubtless be differences of opinion on this matter. But it is of such commanding importance, and has so many bearings on the welfare of the city as we see it, that this occasion was welcomed, to get before you our reasons for recommending the submission of an annual budget, by the mayor as the chairman of your board of control—the responsible head of your government before the annual election.

We are submitting another matter, the need for a business statement such as we think the citizens ought to have before them. To-day none is submitted except in the annual report. Usually this is ancient history when it reaches you, and is then in a form which makes it almost useless. That is, it serves but poorly to give you an idea of your city's business. In the report just submitted we have pointed out the character of the annual statement and its defects.

One of the primary defects of the annual report which is now issued to citizens is that it is not so framed as to help either the people or the officer to understand what is going on, or what are the results obtained—to get a picture of the problem, that the government has before it, and how the administration has handled it. We think that citizens as the beneficiaries of this great corporation, organized for welfare purposes, are entitled to the same clarity of statement, as are the shareholders of Mr. Macdonald's company. We think the city is entitled to know what it owns and what it owes. It does not to-day. (Applause.) We think that citizens are entitled to know what are the different kinds of activity which the government is conducting, the cost of each and the amount and

sources of revenue. These facts are not available to-day. We think the citizens should be told how the city is being financed, and what is the condition of each of the funds through which it is being financed. This information is not available to-day. In calling attention to this lack of information we do not charge officers with neglect. We think present conditions are an inheritance of bad methods, and lack of system—an inheritance which is quite as much of an injustice to officers as it is to you. In other words, the official has a day's work to do every day. He comes to office and finds it equipped with inferior tools. He as our servant is not given the ordinary facilities for rendering efficient service. Nor is he given the facilities for improving methods and equipment. You are calling for more information. The processes through which information must be obtained if at all remain the same as they were years ago in the city's years of infancy. It is still in its swaddling clothes. Unless someone is given time and opportunity to go into the whole subject of its administrative methods systematically, unless time and opportunity is given to devise ways of making new adaptations, unless officers can then have the opportunity to bring about the co-operation required between the officers to enable them to adopt improved methods, the old methods must remain. This can't be done by a man who must sit at his desk and do his routine day's work every day, meet the public, attend public dinners, and do other things that public officials are called upon to do.

We are suggesting, therefore, that some provision be made for what in the German Government is called "staff" as distinct from the "line organization." The "staff" organization would be employed by the Board of Control to collect information and advise with the mayor and other officers who are correcting defects—those who are responsible for making decisions but who now are quite fully occupied with the day's work of the busy official. In other words, you have now a well organized line for the conduct of government, but you have no staff to speak of—persons relieved from the line duties to give attention to problems of planning and observing the manner in which plans are executed with a view of advising officers of the line. This is a weakness of nearly every government on this continent. We have to go to Germany, France and England to find well equipped staff organizations, except in military affairs. In the United States there are well organized staffs in the military departments but absolutely no staff for civil departments. The President has no staff; the cabinet officers are simply men

of the line. To study and deliberate on problems of administration requires time for the acquisition of scientific information. This our busy executives have not. This statement is quite as true of our municipalities. It is quite true also, so far as we are able to learn, of your Canadian municipalities.

Perhaps I may say a word about one other matter of primary importance in the few minutes which remain—the necessity for citizen co-operation with officers. In Toronto this is an element of great strength. We have found here the facilities for intelligent citizen co-operation in the city of Toronto developed to a much higher degree than in any of our American cities. We have been working toward this end in recent years. We believe that a government which has not the co-operation of its citizens cannot do good work (hear, hear, and applause)—that intelligent citizen support and intelligent citizen opposition is essential to democratic institutions. When we found that one of the principal organizations of this city, one of the large organizations was devoted to non-partisan inquiry and action; that this organization was sub-organized by wards and precincts (the manner usually employed by us in the United States to control the electorate through misinformation in the interest of those who live by patronage, and to support what is called the "pork barrel" legislation (laughter)); when we found a citizen's organization in Toronto organized in this manner for the purpose of keeping out of politics, and for getting efficient and trustworthy men to run for office, no matter to what party they belong; when we found that this organization, with its many centres and points of contact was attempting to understand problems of government and through knowledge of facts know how to act, and that feeling itself handicapped for obtaining information about the more complex and technical aspect of city business, it had organized this Civic Survey Committee with a view of getting information for the use of citizens and officials, we had a new emotion! It was the first time we had found a community which is thoroughly alive to citizen opportunity and citizen responsibility in any municipality. (Applause.) Here is a great urban community interested in having a civic survey made, a survey through the agency of a keenly alert citizenship. A survey made by an agency of government may be made equally valuable, if through responsible official leadership its results are dramatized for the people, and can be made to reach them in a manner to inspire confidence. But where men through the agencies of citizenship undertake to act in a broadly organized movement for the welfare of the community, as is being done here, it

seems to me, Mr. Chairman, that the city of Toronto has every reason to congratulate herself.* (Applause.)

Dr. Cleveland.—Mr. Macdonald has asked me to say a word about this balance sheet, this financial statement. The balance sheet, using the term as understood in business circles, is nothing more or less than a statement on a single page (so that it can be apprehended at a glance)—a summary statement of what the city owns, and what it owes. In determining what shall be the form or arrangement of items on the balance sheet, it is clear that the facts should be so arranged and displayed as to give all interested readers the answers to their questions. What are the questions which citizens and officers ask? What are the answers you want? In the first place, you as a citizen, as a taxpayer, an officer, want to know about the present or pressing financial needs of the city. To answer questions about pressing financial needs we have arranged the items in the first section of the statement before you under the caption "Current Assets and Liabilities." This gives the picture of what the city owns and what it owes, that may be used for its immediate purposes; what arrangements have been made for meeting current obligations, for protecting the city's trading credit. This section deals with the present.

The second section deals with the future: what is owned by the city acquired for continuous use, and what is the indebtedness incurred in acquiring these properties. In other words, the section of the balance sheet under the caption "Capital Assets and Liabilities" is an account with the next generation. The items are the inheritance which this generation is passing down to its children—an inheritance of property on the one hand, and of indebtedness on the other. Closely related to this group is the sinking fund—its assets, liabilities and reserves, shown under a third general caption. In other words, the funds which have been accumulated and made available for meeting the indebtedness that has been left to the next generation, when due. The sinking fund is a part of this inheritance.

These three groups of acts presented in a single summary put you in a position to think about and know conditions—to know something about the financial and property affairs of Toronto. This is presented as an alternative to having as a regular diet of intellectual hash, information all mixed up in

*At this point the speaker took his seat, the hour of two having arrived. He was urged to continue, and Mr. Macdonald requested an explanation of the form of balance sheet that had been handed to each person present.

the annual report. Let us look at the statement a little more closely.

For example, with regard to "current assets and liabilities," what are the main facts shown. On one side is set up the amount of cash, the amounts due the city (uncollected taxes, etc.), the advances that are to be repaid as for local improvements, the stores and reserves that might have been available for future expenses. On the other side is shown the amount of the city's current liabilities such as bank overdrafts, three million dollars; loan by R. McCollum, sixteen thousand; interest due but not paid, \$946,000; these are in the nature of immediate demands, amounting to over five million dollars. The total cash available to meet these immediate demands on the day shown is only \$488,000. The total of amounts receivable, such as uncollected taxes and other amounts receivable, are less than \$2,000,000; in other words, the statement shows that the city has about half as much in hand and available in the form of collectibles as there are immediate demands to be met. This it is assumed is desirable information. It is a picture that can be caught at a glance while it helps you to answer questions about current finances.

Has the city \$3,000,000 more of immediate demands than it has current assets available to meet them? We find that on this day advances amounted to more than the uncollected taxes and accounts receivable. In the statement it is shown by the indented figures that about two and a half million of these advances are for local improvements. What does this mean? You have been using money collected from taxes to finance these improvements until they are completed at which time you will be able to float debenture issues, or, if you do not do this, until you can collect the assessments. In other words, it shows that you have not provided for financing your permanent improvements, except through advances from collections of taxes, and that by doing so you are unable to meet current demands for which taxes are levied. This we think raises an important question. How it shall be answered is for you to determine. Will you continue to use money collected from taxes for local improvements and then meet current bills through overdrafts on your London banks? This is one of the questions of policy clearly presented by a balance sheet on the form suggested.

In relation to capital assets and liabilities. I may say we don't assume that this balance sheet represents facts—only figures. You will see that the picture is taken as of more than a year ago. It is presented merely as a way of getting at the

problem. As to the capital assets, the stars on this balance sheet show that we are unable to get any satisfactory information whatever about the cost or present worth of lands, buildings, street and sewer improvements, municipal enterprises, many of these great classes of corporate properties and equipment that are necessary to the successful handling of your business. A total figure is shown opposite one of the items, but this means nothing except the accumulation of a lot of old book balances, which we have put down here in toto. The statement simply shows what should be listed as items of capital assets on the one side. On the other side we have attempted to represent the amounts that the city owes in the nature of capital obligations—the city debt, and the amount which may be deducted from the city debt as cash and increments to the sinking fund. This gets before you the capital indebtedness. It also should inform you about the relation of indebtedness to the cost and present worth of properties owned.

There are many relations of property and debt that require consideration, but the purpose of this balance sheet is not only to give the picture of inheritance but also to enable citizens and officers to consider questions of administration—property administration on the one hand and debt administration on the other. The property items lead into supporting statements and details having to do with repairs, replacements, physical deterioration, obsolescence, and funding provisions for upkeep. The debt items lead into considerations having to do with borrowing, sinking funds, etc.

The sinking fund statement, I think, needs no further explanation than this: the balancing figure here shown means nothing. Instead of the item "Sinking fund requirements" being arbitrarily established as an amount equal to sinking fund assets it should be determined by actuarial calculations. This is necessary to enable one to know whether the assets are sufficient to meet actual requirements. In that event, the balancing figures would be significant in that they would show a surplus or deficiency.

You will find on the back of the sheet before you what is called "fund statement." This is also a one-page summary. The facts are not combined with the balance sheet for the reason that they speak of a new and entirely different set of relations. As has been said the purpose of a balance sheet is to show what the city owns and what it owes—the corporation's financial condition, its assets, its liabilities, and the conclusion reached by its comparison,—its surplus or deficit; the laws which govern the balance sheet are the laws of property, and

the laws controlling relations of debtor and creditor. But the purpose of the fund statement is to show what are the conditions of the authorizations to spend that have been given to officials. It deals not with corporate conditions but with limitations placed upon the officers as agents of the corporation; the laws which govern those relations expressed by the "fund statement" are laws of trusteeship.

While these data are often confused with balance sheet items, there is nothing lost and much gained by way of clarity by separating them. The only reason that there are any such relations and facts to express is to be found in constitutional and statute law enacted for purposes of control.

In order that there may be a definite limitation placed upon the spending power of officials, funds are created. One of these, we will say, is created to earmark the resources that are available for appropriation for current expenses; another fund is created to earmark the resources which officers may use for capital improvements, and a third class of resources is earmarked for special and trust use. In the statement before you each of these funding relations is distinguished.

In this statement under the caption "general fund" are summarized the resources available to meet appropriations, and on the other hand the authorizations to spend, and the incumbrances on these authorizations. You will notice that nearly every item is in red ink. Red ink means something unusual—something to excite immediate attention. That a condition is present which is not normal or the reverse of that has been intended. Instead of there being resources in the fund there is a deficiency. Taking the figures from the books as of the date represented, the red ink entries on the resource side indicate that the general fund is in what would be called in vernacular a "busted condition." (Laughter.) I am not saying that this is a true representation (laughter) but it gives an illustration of what would have been reflected from the books if a statement of this kind had been made at a particular moment something over a year ago.

In this picture we have something novel in municipal financing. (Laughter.) We found on the assets side only \$67,000 of reputed assets which is an unrealized estimate of what was thought would be accrued as revenue. The second item that stands in place of a fund resource is a current deficit amounting to \$583,000, which as the figure shows in the balance sheet is the shortage in current assets available to meet current liabilities. In other words, the current liabilities are larger than the current assets by an amount exceeding \$583,-

000, and there is no balance available for appropriation. The fund deficiency is again increased by a third condition, namely, expenditures which are unauthorized amounting to \$938,000, shown on the other side of the account. What are marked "additional resources" would be additional if they were not deficiencies. (Laughter.) But these are in red ink also, you will notice.

Much the same condition is found in the "debenture fund." The principal resources are bonds authorized but not issued, and a reserve of cash that should be but is not in the general fund. Against these are set up the unexpended balances of authorizations to spend debenture funds. To this amount is added a further item novel in fund accounts, viz., expenditures for local improvement purposes not authorized. In other words, that there has been expended on capital account as well as for current purposes public moneys, without authority given in money bills, sums amounting in this case to \$4,245,000.

I wish to call your attention also to certain blank spaces, lines both in the "general fund" and "debenture fund" accounts. Indented under the item unexpended balance of appropriations will be found blank spaces for showing what part of the unexpended balances are unencumbered. To illustrate, let us assume that the appropriation for running public works were \$10,000,000, and that \$5,000,000 contracts have been let without a dollar having been paid out. In this event \$5,000,000 should be shown as in reserve for contracts, and \$5,000,000 as unencumbered. This information is not now available. We could not get it from the book. Responding to the request of your chairman I have pointed to some of the uses of the statements before you, and some of the relations that should excite your attention. If information of this kind were put in your hands each month, if this were supplemented with an operation account, and if early in the autumn of each year the citizens had before them estimates and requests for appropriations that would enable them to think about the municipal problem; if in addition the mayor were required to submit and assume responsibility for a definite budget, I venture to suggest that the municipal campaign of Toronto would be a very lively and animated parliament in which the whole electorate would take sides and executive responsibility, and leadership would be something real and vital. (Applause.)