



Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6366
Fax: (306) 787-6383
Internet e-mail: fwendel@auditor.sk.ca

SASKATCHEWAN

September 10, 2002

The Honourable P. Myron Kowalsky
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2002 Fall Report - Volume 1*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

Respectfully yours,

Fred Wendel, CMA, CA
Provincial Auditor

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Foreword

I am pleased to present my *2002 Fall Report – Volume 1* to the Legislative Assembly. This Report focuses on understanding the finances of the Government. Later this year, I will present Volume 2. Volume 2 will include the results of our work at government organizations with years ended March 31, 2002.

Regina, Saskatchewan
September 10, 2002



Fred Wendel, CMA, CA
Provincial Auditor

Understanding the Finances of the Government

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Executive summary

In this report, we have two main focuses. First, we focus on the financial condition of the Government. Second, we focus on the Government's Budget and the need for a financial plan for the entire Government.

For our first focus, we measure the financial condition of the Government by using indicators from a research report commissioned by The Canadian Institute of Chartered Accountants.

First, we measure whether the Government lived within its means. Second, we measure the Government's flexibility to meet rising commitments by increasing its revenues or increasing its accumulated deficit. Third, we measure the extent to which the Government relies on money from the Federal Government to pay for existing provincial programs.

Using these indicators, we conclude that after seven years of gaining strength, the state of the Government's finances weakened over the past year. In 2002, the Government did not live within its means. The Government spent \$483 million more than it raised in revenue. This increased the Government's accumulated deficit to \$8.7 billion and thus reduced the Government's flexibility to meet its commitments. Also, in 2002, the Government relied more on the Federal Government to pay for provincial government programs. To some extent, the Government reduced the negative impact of these factors as it increased the value of its capital assets and reduced its interest costs.

Saskatchewan's accumulated deficit of \$8.7 billion is large for one million people. Also, the provincial economy remains vulnerable to changes in commodity prices, interest rates, and the weather. The Government will have to carefully manage its future revenues and spending to ensure it maintains the benefits obtained through past improvements in its financial condition. These benefits include greater flexibility regarding revenue raising and spending decisions and lower interest costs.

We also include information to help readers compare the condition of Saskatchewan's finances to that of other provinces. At March 31, 2001, Saskatchewan's finances continue to compare favourably with most other provinces.

Understanding the Finances of the Government

The second main focus of this report is on the Government's Budget. In this report, we continue to recommend that the Government publish a financial plan for the entire Government.

Currently, the Government's public financial plan focuses on the General Revenue Fund. That plan is not sufficient to have an informed debate on whether or not the people of Saskatchewan can afford new and existing government programs because it excludes a significant amount of the Government's revenue and spending. Also, a plan focused on the General Revenue Fund is not sufficient to inform people if the Government plans to live within its means.

The Government's public financial plan for 2002 said that the Government planned to raise \$3 million more revenue than it would spend. The actual results for 2002 for this Fund showed that the Government raised \$1 million more than it spent in 2002. Focusing only on this Fund could cause people to think that the Government had a plan for the entire Government for 2002 to live within its means and that for 2002 it did so.

However, the financial results for the entire Government show that the Government did not live within its means for 2002. The Government spent \$483 million more than the revenue it raised. This is nearly a \$1.0 billion turnaround from last year when the Government raised \$461 million more than it spent. A published financial plan for the entire Government would improve the Government's accountability by allowing legislators and the public to assess whether this financial performance is better or worse than what was planned.

It is time to change the focus of the Government's financial plan from the General Revenue Fund to that of the entire Government. Across Canada, seven provincial governments and the Federal Government have already changed the focus of their financial plans to show their entire government. The only governments that do not focus their financial plans on the entire government are Saskatchewan, Newfoundland and Labrador, and Prince Edward Island.

We include further information on government budgeting in Canada in Appendix 4.

Glossary

Annual surplus or deficit – is the difference between revenues and expenditures in one year. This measure shows the extent to which revenues raised in the year were sufficient or insufficient to meet expenditures in that year.

Accumulated deficit – is the sum of all annual deficits and surpluses. This deficit is equal to the difference between total liabilities and total financial assets.

Liabilities – are amounts owed. Liabilities include bonds and debentures, pension obligations, and a variety of other payables and claims. Total liabilities equal total debt.

Financial assets – are cash and other assets convertible to cash which are not intended for consumption in the normal course of operations, but which could provide resources to pay liabilities or finance future operations. Examples include claims on outside organizations, investments in marketable securities, and inventories for resale.

General Revenue Fund – is a special purpose fund that the Government uses to pay for some of the programs it provides. The financial statements of the General Revenue Fund reflect only a part of the Government's activities. The Government sets out a financial plan for the Fund in its annual budget. Transfers to and from other organizations that the Government controls impact the financial results of the General Revenue Fund.

Government enterprises – are self-sufficient Crown corporations that have the financial and operating authority to sell goods and services to individuals and non-governmental organizations as their principal activity. Examples include SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority. Their financial results are included in Schedule 3 to the summary financial statements.

Understanding the Finances of the Government

Government service organizations – are organizations that are accountable to the Government and are either owned or controlled by the Government, and are not government enterprises. A listing of government service organizations is provided in Schedule 14 to the summary financial statements.

Gross domestic product (GDP) – is a measure of the value of the goods and services produced in a jurisdiction in one year.

Own source revenue – is the revenue raised by a provincial government from sources within the province and, thus, excludes revenue transferred to a provincial government from the Federal Government.

Summary financial statements – is a report of the financial results of all organizations that the Government uses to provide goods and services to the public. The summary financial statements combine the financial activity of all government organizations including departments, Crown corporations, agencies, boards, and commissions, etc.

Key financial and economic indicators for Saskatchewan

(derived from the Government's summary financial statements)

	(in millions of dollars)											
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Annual Surplus (Deficit)	(752)	(1,676)	(900)	(281)	141	563	545	326	69	406	461	(483)
Accumulated Deficit	7,879	9,555	10,455	10,736	10,595	10,032	9,487	9,161	9,092	8,686	8,225	8,708
Gross Domestic Product (GDP)	21,542	21,772	21,421	23,033	24,925	26,834	29,197	29,298	29,232	30,240	33,741	33,235

	(in percentages)											
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Accumulated Deficit as a % of GDP	37%	44%	49%	47%	43%	37%	32%	31%	31%	29%	24%	26%
Interest Costs as a % of Revenue	20%	21%	24%	23%	22%	20%	20%	19%	18%	14%	13%	13%
Own source revenue as a % of GDP	17%	17%	18%	18%	18%	20%	18%	19%	18%	19%	18%	16%
Federal Government Transfers as a % of own source revenue	43%	46%	37%	37%	33%	19%	16%	12%	21%	27%	17%	28%

- Notes
1. The Government's summary financial statements cover the fiscal year ending March 31.
 2. As GDP statistics are not available for a fiscal year, we use GDP statistics for a calendar year in our analysis. For example, the GDP statistic in the 2002 column is for the year ended December 31, 2001. The GDP statistics were obtained from the Saskatchewan Bureau of Statistics. These GDP statistics are not adjusted for inflation.

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Introduction

Our Office is often asked about the state of the Saskatchewan Government's finances. Legislators, government officials, and the public want to know whether the Government's finances are gaining strength or weakening, and why. Also, many want to know where they can obtain information that can help them make their own assessments.

A sound understanding of the Government's finances is an important ingredient to an informed debate about the issues faced by the Government. Those issues pertain to the affordability of programs and services; the best sources of revenue; and the maintenance of Saskatchewan's infrastructure including its buildings, roads, and dams.

In this report, we set out some financial and economic information to help Saskatchewan people to understand the state of the Government's finances. We continue to encourage the Government to publish overall financial planning information.

The information in this report is derived from the Government's statistical reports and from its summary financial statements contained in Volume 1 of the Public Accounts (the 2001-02 summary financial statements are set out in Appendix 5). The information is not adjusted for inflation.

In this report, we focus on the status of several financial and economic indicators for the years 1991 to 2002. The Government has prepared summary financial statements since 1992. In Appendix 1, we also set out other financial information and analyses in the form of questions and answers. This information is included to assist legislators, government officials, and the public to understand the state of the Government's finances.

Interprovincial comparisons

We are also asked how the state of the Saskatchewan Government's finances compares with other provinces. Therefore, we include several graphs that will assist readers to compare the state of Saskatchewan's finances to those of other provinces. The most recent year for which complete information is available for all provinces is for the year ended March 31, 2001. This information is one year older than the information

used in the rest of this report. Saskatchewan completes its Public Accounts earlier than most other provinces.

Readers of these graphs should be aware that provincial governments are organized differently and that this can result in differences in how sectors of government are reported in their financial information. For example, some provincial governments include the results of health districts in their summary financial statements, while others do not. Also, the economic characteristics of provincial economies differ. For example, some provincial governments obtain significant revenue from non-renewable resources such as oil and gas, while others do not.

To prepare these graphs, we used Gross Domestic Product (GDP) statistics for the year ended December 31, 2000, which we obtained from Statistics Canada. This information was prepared for each province and is available on the Internet at: <http://www.statcan.ca/english/Pgdb/Economy/Economic/econ15.htm>. In addition, we used financial information from the audited summary financial statements prepared for each province for the year ended March 31, 2001.

The state of the Government's finances

After seven years of gaining strength, the state of the Government's finances weakened in 2002. In 2002, total revenues were \$151 million less than in 2001. Also, total expenditures were \$793 million more than in 2001. In addition, Saskatchewan was more dependent on transfers from the Federal Government to pay for provincial government programs. Transfers from the Federal Government were \$489 million more than in 2001. In summary, the Government spent \$483 million more than its total revenue. This increased the accumulated deficit by \$483 million.

Also, in 2002, Saskatchewan's economy—as measured by its overall Gross Domestic Product—weakened due to the impact of drought on agricultural production and falling commodity prices.

The Government's accumulated deficit of \$8.7 billion is large for a population of one million people and recent experience shows that the Saskatchewan economy remains vulnerable to changes in commodity prices, interest rates, and the weather. Therefore, the Government must carefully manage its future revenues and expenditures. A continued

downturn in Saskatchewan's economy would require the Government to make difficult decisions on revenue raising and spending.

Key indicators of the state of a government's finances

Governments should publish financial and economic information to help people assess:

- ◆ The ability of a government to meet its existing program commitments and creditor requirements without increasing its accumulated deficit – **sustainability**.
- ◆ The degree to which a government can increase financial resources to respond to rising commitments either by expanding its revenues or by increasing its accumulated deficit – **flexibility**.
- ◆ The degree to which a government becomes dependent, and thus, vulnerable to sources of funding outside of its control or influence – **vulnerability**.

There are several financial and economic indicators that can help people make these assessments. The trends in these indicators provide insight into the state of a government's finances. The Research Report entitled *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants, further describes these indicators.

In this report, we discuss these indicators in the Saskatchewan context. Each indicator can and should be analyzed in detail, combined with other information, and monitored over time. The Government should include such an analysis in an annual performance report. Performance reports show planned and actual results. Publishing an annual performance report would also provide the Government with the opportunity to set out its thinking on the underlying issues, the status of its key performance indicators, and its plans for the future.

Five other provincial audit offices and the Manitoba Government use similar indicators to report on the state of government finances in their jurisdictions. Also, in 2000, The Canadian Institute of Chartered

Accountants used similar indicators to measure progress on the state of the Federal Government's finances.

Sustainability

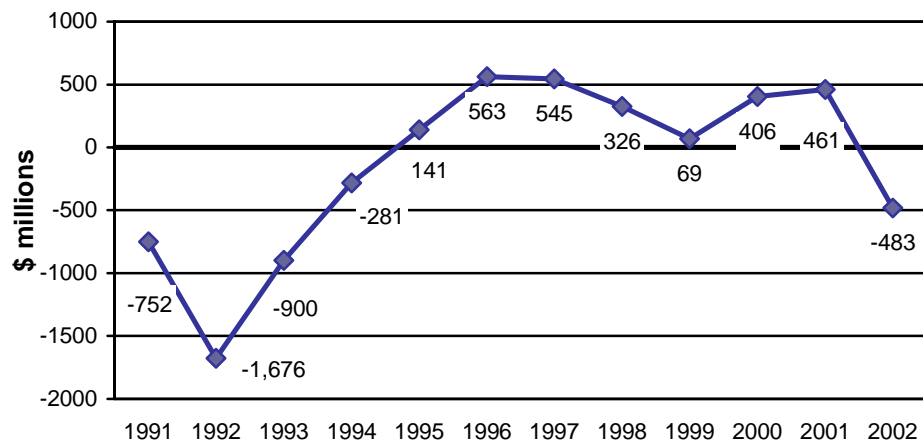
A government's annual surplus or deficit, its accumulated deficit, and a province's gross domestic product (GDP) are important indicators of the state of a government's finances. Each of these indicators provides useful insight into the **sustainability** of a government's revenue raising and spending practices.

The annual surplus or deficit shows the extent to which a government spends less or more than what it raises in revenues in one fiscal year. In simple terms, it shows whether a government is living within its means.

Graph 1 shows the Government lived beyond its means in 2002. However, the Government lived within its means for the previous seven years. During this eight-year period, the Government has spent \$2.0 billion less than the revenue it has raised. The \$2.0 billion includes about \$0.8 billion of revenue from the sale of investments such as the Government's shares in Cameco.

Graph 1

The Government's Annual Surplus or Deficit

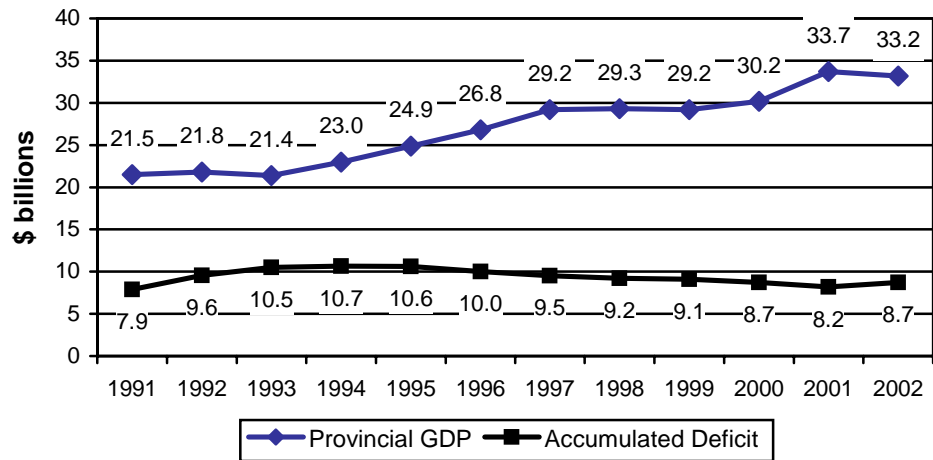


The accumulated deficit is the sum of all annual deficits and surpluses. The Government's accumulated deficit is the amount that current and past generations of Saskatchewan citizens are leaving to future generations of citizens to pay or finance. On March 31, 2002, the accumulated deficit was \$8.7 billion (see Graph 2).

The Province's GDP is a measure of the total value of all the goods and services produced in Saskatchewan in one year. The GDP indicates the size of the provincial economy. The Government must manage its revenue raising and spending practices in the context of the economy of Saskatchewan.

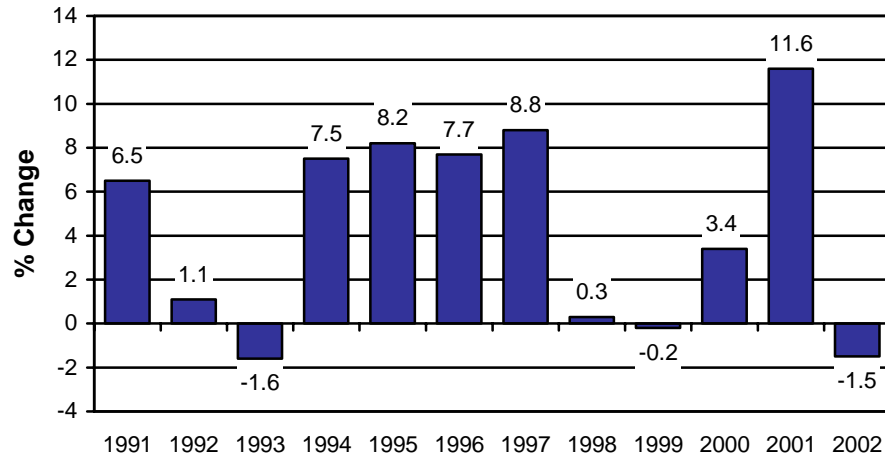
Since 1991, the GDP of Saskatchewan has increased by 54% (unadjusted for inflation). During the same period, the consumer price index increased by 28%. In 2002, the GDP of Saskatchewan was \$33.2 billion (see Graph 2).

Graph 2 The Province's GDP and the Government's Accumulated Deficit



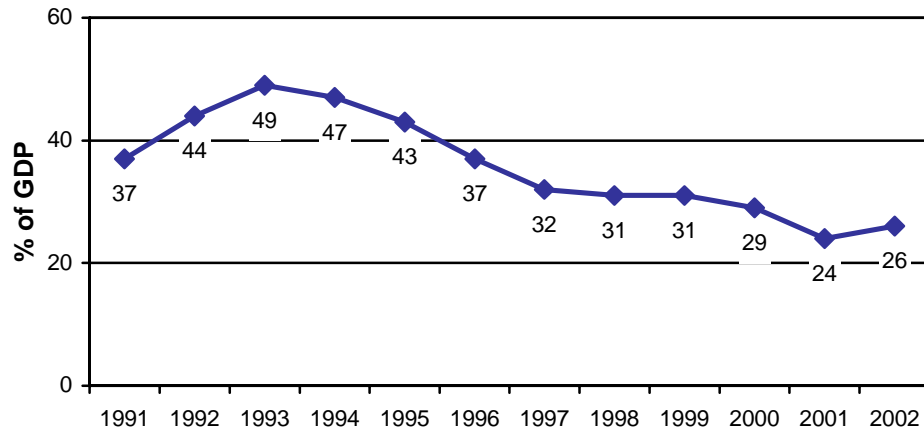
Graph 3, shows the annual percentage change in the Saskatchewan economy as measured by the change in the GDP (unadjusted for inflation). The graph shows that the Saskatchewan economy is subject to significant fluctuation. The Saskatchewan economy remains vulnerable to changes in commodity prices, interest rates, and the weather. In 2002, after two years of solid growth, the Saskatchewan economy weakened due to the impact of drought on agricultural production and falling commodity prices.

Graph 3 Annual % Change in Gross Domestic Product, 1991 to 2002



The financial demands placed on the economy by the Government's spending and revenue raising practices can be assessed for sustainability by comparing the Government's accumulated deficit to the Province's GDP (see Graph 4). This graph provides a measure of how much debt the Government can afford to carry. The thinking behind this measure is that the larger the GDP the more debt the Government can afford to carry.

Graph 4 The Government's Accumulated Deficit as a % of GDP



In Saskatchewan, this graph shows that from 1991 to 1993 the trend in the Government's spending and revenue raising practices was not sustainable. If that upward trend had continued, the Saskatchewan economy would not have been able to meet the financing needs of a growing accumulated deficit. During these years, the credit rating of the Government was lowered. The Government had access to fewer sources

for borrowing, paid higher interest costs, and was more dependent on equalization payments from the rest of Canada through the Federal Government.

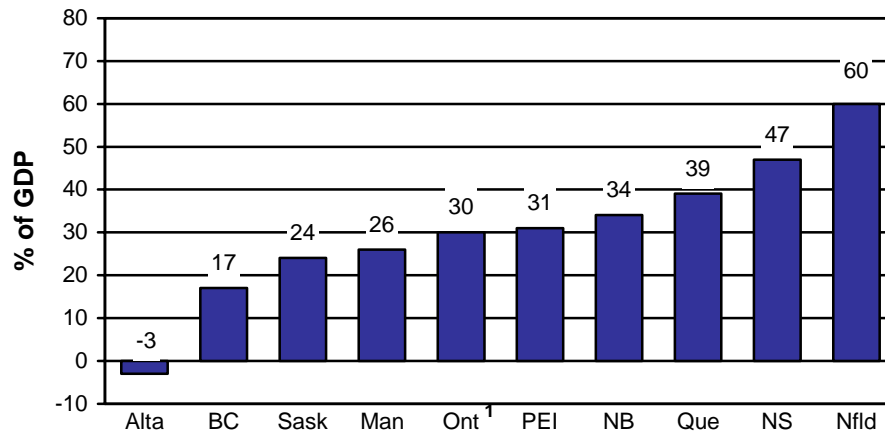
Saskatchewan's economy has grown over the past twelve years. Also, between 1995 and 2001, the Government spent less than it received in revenues. As a result, the accumulated deficit as a percentage of GDP decreased. This downward trend enabled the economy to better sustain the demands placed on it by the Government. The public benefited by an improved credit rating of the Government. The Government now has more sources for borrowing and pays lower interest costs. Also, the Government relies less on equalization payments.

In 2002, the accumulated deficit as a percentage of GDP increased from 24% to 26% as a result of the Government's decision to spend more than it received in revenues. The 2002 increase is a change from the downward trend of the previous eight years. The Government will need to carefully manage its future revenues and expenditures to ensure that the benefits obtained over the past eight years are maintained. These benefits include better flexibility regarding revenue raising and spending decisions and lower interest costs.

Interprovincial comparison

In graph 5, we compare accumulated deficit as a percentage of each province's GDP as at March 31, 2001. This graph shows that Saskatchewan's accumulated deficit as a percentage of Saskatchewan's gross domestic product is the third lowest in Canada. Saskatchewan was also the third lowest at March 31, 2000. This means that the Saskatchewan economy is better able to sustain the demands placed on it by the Government than most other provinces.

Graph 5 Interprovincial Comparison of Accumulated Deficit as a % of GDP as at March 31, 2001



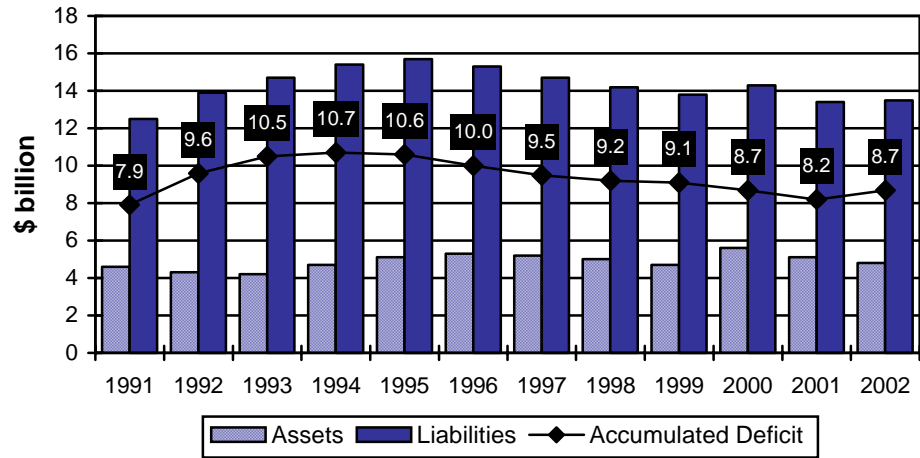
Flexibility

A government's interest costs, capital assets, and own source revenues are also important indicators of the state of its finances. Together with a government's accumulated deficit and a province's GDP, these indicators provide insight into a government's **flexibility** in responding to rising commitments. For example, when a government has a large accumulated deficit and high interest costs, it has fewer resources to allocate to programs and services.

The Government's accumulated deficit reached a peak of \$10.7 billion in 1994. Since 1994, the Government's accumulated deficit has decreased from \$10.7 billion to \$8.7 billion (see Graph 6). As noted earlier, the accumulated deficit is equal to the difference between a government's total liabilities and its total financial assets.

¹ Accumulated deficit includes stranded debt of \$20 billion. Stranded debt represents debt accumulated in a regulated electricity market that cannot be serviced or retired in a competitive electricity market.

Graph 6 The Government's Accumulated Deficit as at March 31

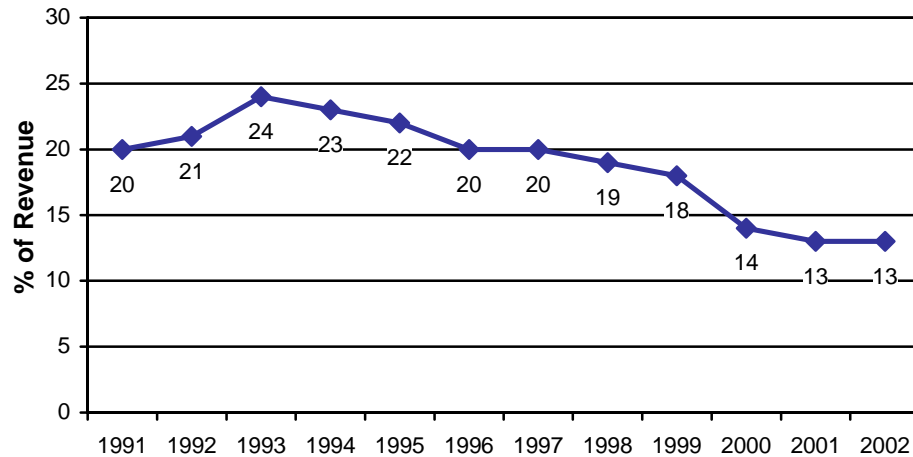


The Government incurs interest costs on its debt of bonds and debentures and its unfunded pension liabilities. At March 31, 2002, the Government's debt of bonds and debentures was \$8.2 billion and its unfunded pension liabilities were \$4.0 billion. The money to pay interest costs is raised by levying taxes or by charging directly for services, e.g., utility rates. In 2002, the Government's interest costs were \$0.9 billion. To put that \$0.9 billion in perspective, in the same year, the Government spent \$1.0 billion on education and \$2.4 billion on health.

The trend in interest costs as a percentage of total revenue, sometimes called the "interest bite", is an important indicator of the state of a government's finances. This indicator shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

In 1993, twenty-four cents of every dollar of the Government's revenue was needed to pay for interest costs (see Graph 7). Since 1993, the amount of revenue the Government needed to pay for interest costs has declined. In 2002, thirteen cents of every dollar of the Government's revenue was needed to pay for interest costs.

**Graph 7 The Government's Interest Costs as
a % of Revenue**

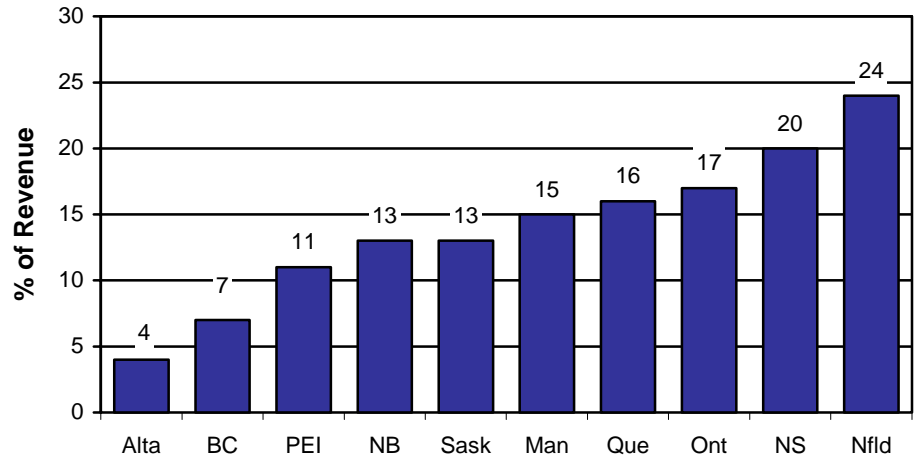


As a result of the reduction in the interest bite, the Government can now use more of its revenues to pay for programs and services, and use less of its revenues to pay for the interest costs of debt. Interest costs peaked in 1995 at \$1.3 billion. In 2002, interest costs were \$447 million less than in 1995 and \$56 million less than in 2001. The reduction in the interest bite is the result of a combination of debt reduction, increased revenue, and lower interest rates. Although the Government's interest costs are declining, these costs remain significant.

Interprovincial comparison

In graph 8, we compare government interest costs as a percentage of government revenue. This graph shows that Saskatchewan's interest costs, as a percentage of revenue, is fifth lowest of the ten provinces at March 31, 2001. Saskatchewan was also fifth lowest at March 31, 2000.

Graph 8 Interprovincial Comparison of Interest Costs as a % of Revenue as at March 31, 2001



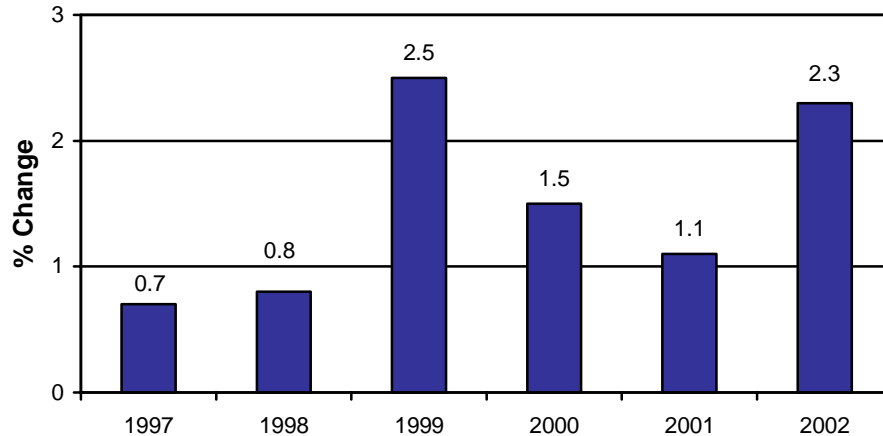
Graph 9 shows the annual percentage change in the net book value of the Government’s capital assets. Governments invest billions of dollars in capital assets such as buildings, equipment, roads, and dams. These assets are essential for the economy and for delivering government services. They are recorded at cost and their value is reduced by amortization as the assets are consumed. At March 31, 2002, the net book value of the Government’s capital assets is \$3.6 billion (estimated historical cost of \$6.5 billion less accumulated amortization of \$2.9 billion).

The annual percentage change in the net book value of capital assets is an important indicator because it measures the extent to which a government is maintaining or failing to maintain the capital assets needed to deliver its services. For example, continual decreases in the net book value of capital assets may indicate that a government is not maintaining or enhancing its capital asset base. This can adversely affect service delivery and lead to increased financial burdens on future taxpayers. Also, the associated costs of restoring the capital asset base could impair a government’s ability to pay for other government programs. Although, a failure to maintain essential capital assets can improve a government’s financial results in the short term, such deferral of capital spending will lead to higher costs and poorer financial results in future periods.

Graph 9 shows that for the last five years the Government has increased the net book value of its capital assets. Since March 31, 1996, the net book value of the Government’s capital assets has increased by 9%. We

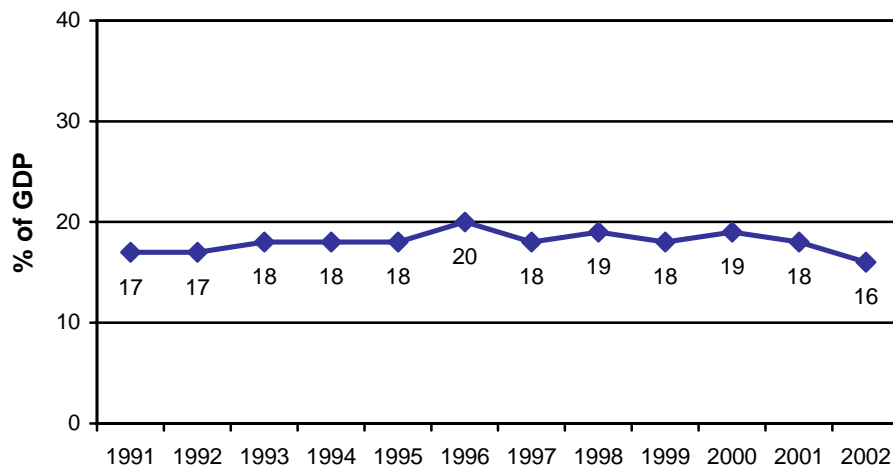
have not provided an inter-provincial comparison for this indicator as complete information on capital assets is not yet available for all provinces.

Graph 9 Annual % Change in Net Book Value of Capital Assets from 1997 to 2002



Another important indicator of the state of a government's finances is shown by comparing the change in a government's own source revenue to the size of the economy (see Graph 10). The Saskatchewan Government raises revenue from two general sources. The first revenue source is from within the Province. This source is called "own source revenue." The second source of revenue is transfers from the Federal Government.

Graph 10 The Government's Own Source Revenue as a % of GDP



Since 1991, the revenue raised by the Saskatchewan Government, as a percentage of GDP from sources within the Province remained fairly

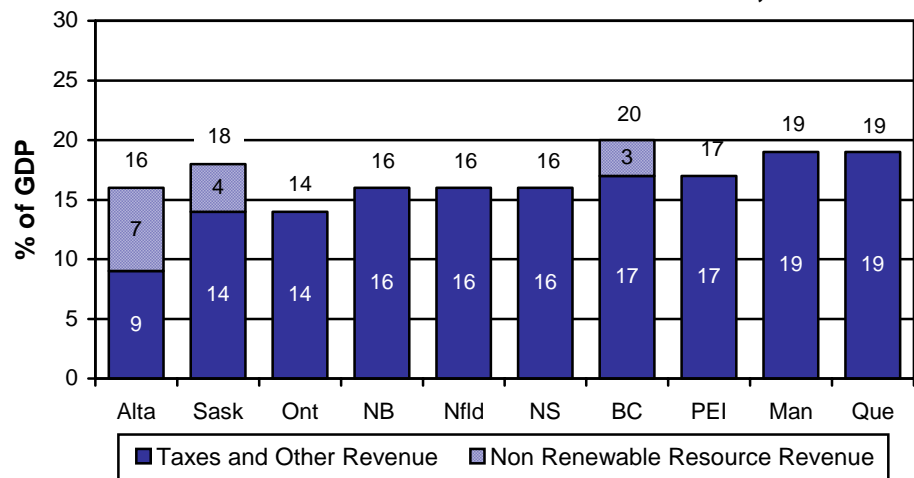
constant. However, in 2002 the percentage dropped 2% to 16%. The drop in 2002 was due to the impact of drought on the agricultural economy and falling commodity prices.

Interprovincial comparison

In graph 11, we compare government own source revenue as a percentage of GDP as at March 31, 2001. This shows the extent of a government's revenue demands on a provincial economy.

This graph shows that Saskatchewan's own source revenue from taxes and other revenue are second lowest of the ten provinces. At March 31, 2000, Saskatchewan was fifth lowest of the ten provinces. Also, the graph shows that Saskatchewan has higher revenue from non-renewable resources than most other provinces as a percentage of GDP.

Graph 11 Interprovincial Comparison of Own Source Revenue as a % of GDP as at March 31, 2001



Vulnerability

An important indicator of the state of the Saskatchewan Government's finances is the extent to which it raises its own revenue from within the Province (own source revenue) as compared to the extent to which it receives revenue transfers from the Federal Government. This indicator provides a valuable insight into the Saskatchewan Government's **vulnerability** to sources of revenue outside of its control. In simple terms, this indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

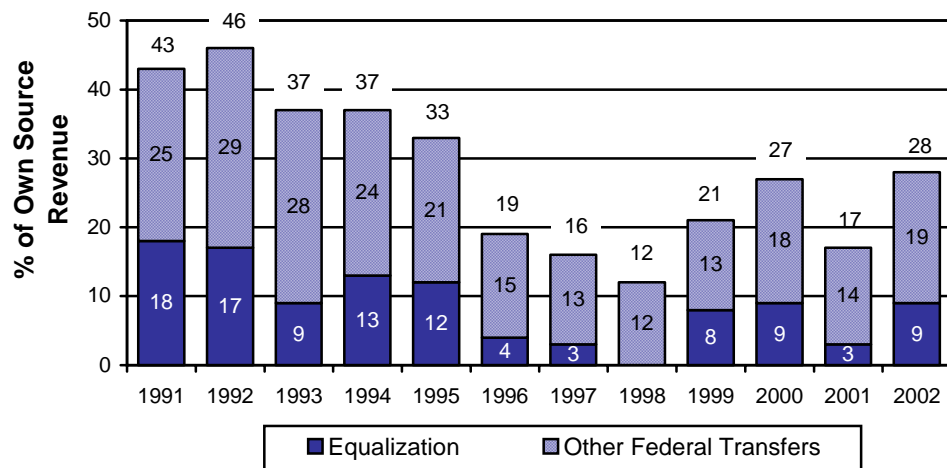
Understanding the Finances of the Government

A significant portion of the Saskatchewan Government’s revenue consists of transfers from the Federal Government. These revenue transfers are intended to help pay for the costs of such programs as health, education, social services, and agriculture. In addition, the Saskatchewan Government receives equalization transfers from the Federal Government.

The Federal Government calculates the amount of equalization transfers by comparing the ability of a province to raise revenues with a standard set by the Federal Government. As a result of this calculation, the annual amount of equalization transfer due to Saskatchewan is significantly affected by the performance of provincial economies outside Saskatchewan.

Since 1991, revenue transfers from the Federal Government have decreased as a percentage of the revenues raised directly by the Saskatchewan Government from sources within the Province (see Graph 12). Graph 12 also shows the fluctuation in equalization and other transfers from the Federal Government. Other transfers include Canada Health and Social (CHST) transfers; and transfers for education and agriculture.

Graph 12 Federal Government Transfers as a % of Saskatchewan Government Own Source Revenue



From 1991 to 2001, revenue transfers from the Federal Government decreased from \$1.6 billion to \$1.0 billion before rising again to \$1.5 billion in 2002. Also, revenue raised directly by the Saskatchewan Government from sources within the Province has increased significantly.

For example, since 1991:

- ◆ Taxation revenue increased from \$2.0 billion to \$3.2 billion before falling to \$3.0 billion in 2002. Over the period, tax revenue increased by 50% while GDP has increased by 54%; and
- ◆ Non-renewable resources revenue increased from \$0.4 billion to \$1.3 billion in 2001 before falling to \$0.9 billion in 2002.

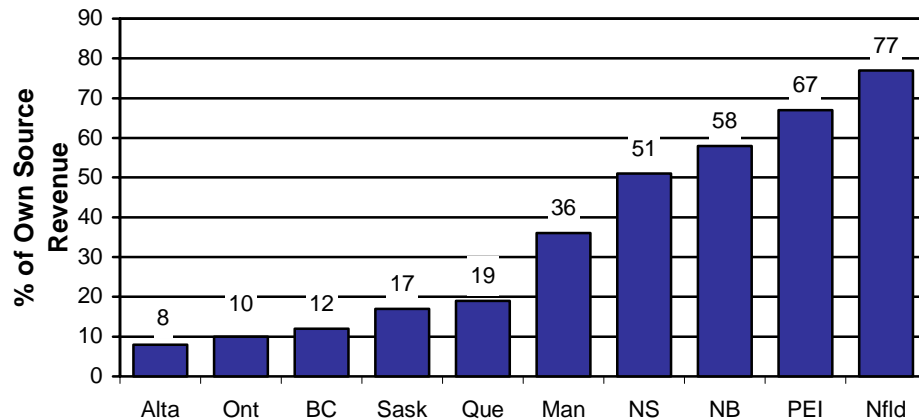
Since 1991, Federal Government transfers as a percentage of Saskatchewan Government's own source revenue have declined from 43% to 28%. During this period, the Government became less dependent on, or less vulnerable to, sources of revenue outside its control. However, in 2002, this percentage increased 11% from the previous year indicating more reliance on the Federal Government to pay for provincial government programs.

More detailed information on trends in the Government's revenues and expenditures is set out in Appendix 2.

Interprovincial comparison

In graph 13, we compare Federal Transfers as a percentage of own source revenue at March 31, 2001. This graph shows that Saskatchewan's revenue transfers from the Federal Government as a percentage of own source revenue is fourth lowest of the ten provinces. At March 31, 2000, Saskatchewan was fifth lowest of the ten provinces.

Graph 13 Interprovincial Comparison of Federal Transfers as a % of Own Source Revenue as at March 31, 2001



Overall financial planning information needed

In addition to questions about the state of the Government’s finances, we are often asked whether the Government is managing our resources in the best possible manner. This is a very difficult question because the answer involves important policy issues related to the role of government and whether individual programs are worthwhile. Such issues are best debated among legislators and the public. However, to know if something is worthwhile, the public needs to know the planned and actual benefits of government programs. The public also needs to know the planned and actual costs of government programs.

The Government needs to publish better overall financial planning information to help legislators, government officials, and the public debate the best use of the public resources available to the Government.

Currently, the Government does not publish overall financial planning information. We think it should. The issues and decisions faced by Saskatchewan are far too important and complex to be considered in the context of incomplete planning information.

The financial planning information now published by the Government focuses on an incomplete picture of its finances as set out in one government fund called the General Revenue Fund. That picture is not complete because significant Government financial activity takes place outside of that Fund. This activity takes place in Government enterprises

such as SaskTel and SaskPower and other organizations such as the Saskatchewan Crop Insurance Corporation and the Fiscal Stabilization Fund.

Planning information focused only on the General Revenue Fund is not sufficient to understand the overall financial picture of the Government and to have an informed debate on the affordability of new or existing government programs. For example, in 2002, the General Revenue Fund reported a surplus of \$1 million, while the entire Government incurred a deficit of \$483 million.

Also, the information that is presented in the General Revenue Fund can be changed by arbitrary Government decisions about which revenues or expenditures to include in the Fund and in which year. For example, the Government can choose to transfer money from Crown corporations and other organizations and include the transfer as revenue in the General Revenue Fund. In 2001, the Government chose to transfer no revenue from Crown Investments Corporation of Saskatchewan (CIC) versus the \$200 million that the Government chose to transfer in 2002.

Also, the Government may choose to record transfers to or from other Government Funds, such as the Fiscal Stabilization Fund, and record the transfers as expenditures or revenues of the General Revenue Fund. In 2001, the Government chose to record a \$775 million transfer to the Fiscal Stabilization Fund as an expenditure of the General Revenue Fund. In 2002, the Government chose to record a \$280 million transfer from the Fiscal Stabilization Fund as revenue of the General Revenue Fund. This was the second time that the \$280 million had been recorded as revenue of the General Revenue Fund. It was also included in revenue in 2001.

It is time for Saskatchewan to change. The Government should focus its overall financial planning information on the entire Government. For several years, we have recommended that the Government base its overall financial plan on the entire Government.

Across Canada, seven provincial governments and the Federal Government have already changed the focus of their financial planning information to include their entire governments. These governments no longer focus on incomplete information in funds such as the General

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Revenue Fund. Also, many governments no longer produce audited financial statements for their equivalent of Saskatchewan's General Revenue Fund. The only provincial governments that do not focus their financial plan on the entire Government are Saskatchewan, Newfoundland and Labrador, and Prince Edward Island.

In Appendix 3, we set out a model that could be used as a supplementary statement attached to the Budget to provide an overall picture of the Government's financial plan. This model provides important information to have an informed debate on the affordability of new and existing programs. This model brings together the three main areas of the Government's revenues and expenditures.

First, the model shows the revenues and expenditures as set out currently in the Budget for the General Revenue Fund. Legislators vote on expenditures as part of the Budget approval process. Second, the model shows the net income of the Government's enterprise Crown corporations in a similar way to that of the Government's summary financial statements. Finally, the model shows the remaining revenues available to the Government that are included in the various Government service organizations that are not included in the Budget for the General Revenue Fund, such as the Saskatchewan Crop Insurance Corporation and the Fiscal Stabilization Fund.

Some argue that providing the planned net income of Government enterprises as part of the overall financial plan might impair the competitive position of the Government enterprises. However, as part of their Balanced Scorecard reporting system, the Government enterprises in the CIC sector already report or will report their long-term targets for net income (return on equity). This shows that the Government has already recognized that providing the planned net income of Government enterprises will not impair the competitive position of these organizations. In addition, seven provincial governments and the Federal Government now include the net income of their government enterprises as part of their overall financial plans.

Providing a financial plan for the entire Government will help legislators and the public to have an informed debate on issues such as the affordability of new or existing Government programs.

Recommendation

- 1. We continue to recommend that the Government should publish a financial plan for the entire Government.**

In November 2001, the Standing Committee on Public Accounts (PAC) considered the above recommendation. PAC agreed to defer a decision on this recommendation until they have received a presentation from the Provincial Auditor and the Department of Finance on how other governments had approached this issue. To further assist PAC, we provide further information on provincial government budgeting in Canada in Appendix 4.

Appendix 1 – Other questions and answers

In this appendix, we set out other financial information and analyses in the form of questions and answers. This information is included to assist legislators, government officials, and the public to understand the state of the Government's finances.

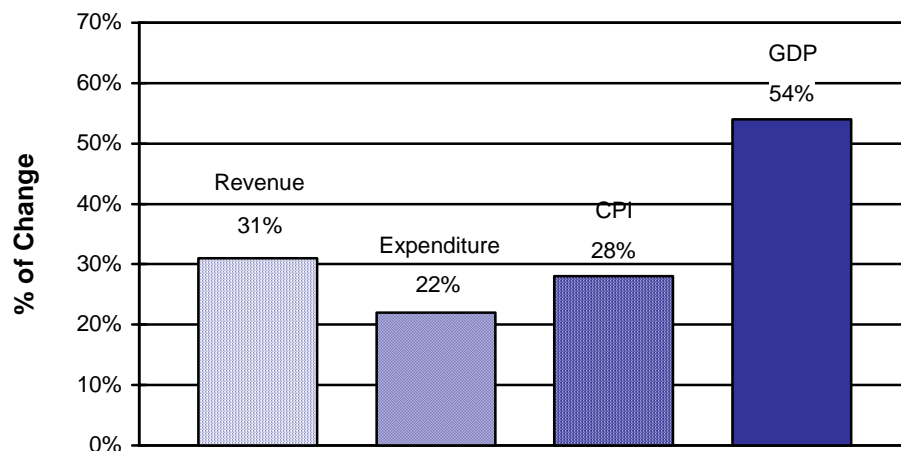
1. Is the Government making the best use of the public's resources?

This is a question that involves important policy issues best left to informed legislative and public debate. However, the Government should do more to foster that debate by publishing overall planning information for the entire Government, and by publishing a comparison of planned and actual results. For legislators to hold the Government fully accountable they need to know the Government's entire plan and its expected and actual performance.

2. Is the Government's revenue raising and spending increasing at a rate less than or greater than inflation?

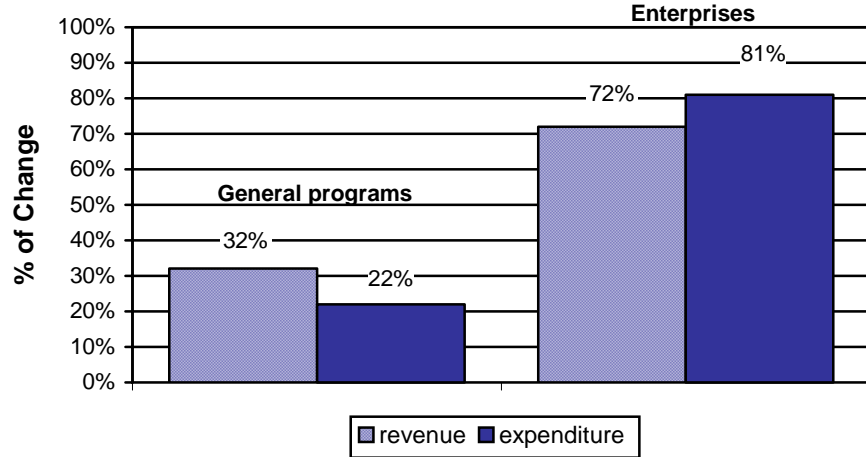
In the following graph, the percentage changes in revenues and in expenditures are compared to the change in Saskatchewan's consumer price index (CPI) and its gross domestic product (GDP). The revenues, expenditures, and GDP statistics are not adjusted for inflation.

Graph 14 **Percentage of Change**
(1991 to 2002)



3. Is the Government changing the level of activity carried out through its Crown corporation enterprises²?

Graph 15 Percentage of Change (1991 to 2002)



From 1991 to 2002, general program revenues increased 32% and general program expenditures increased 22%. General program revenues do not include revenues and expenditures of government enterprises. In the same period, government enterprise revenues increased 72% and their expenditures increased 81%. These amounts are not adjusted for inflation.

More detailed information on trends in the Government’s revenues and expenditures is set out in Appendix 2.

4. To what extent are the Government’s financial results affected by the sale of its investments?

In 1992, the Government recorded a \$189 million loss from the sale of shares in Cameco.

In 1996, the Government recorded a \$615 million gain from the sale of shares of Cameco, LCL Cable, and ISM.

² The Government’s enterprises include Crown corporations such as SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority. They are included in Schedule 3 to the summary financial statements. These enterprises raise revenue through direct charges for goods and services.

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In 1998, the Government recorded a \$175 million gain from the sale of shares in Wascana Energy Inc. and the sale of the Bi-Provincial Upgrader.

In 2000, the Government recorded a \$69 million gain from the sale of its interests in Saturn Communications Limited and the Saskfor MacMillan Limited Partnership.

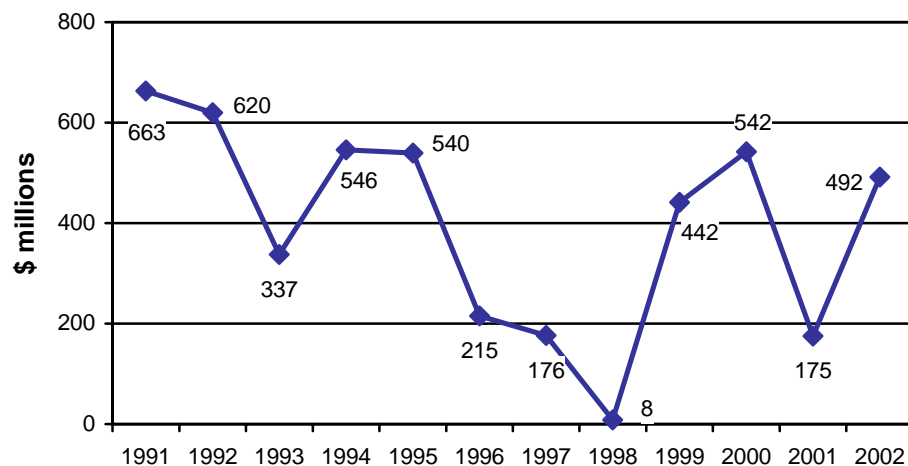
In 2002, the Government recorded a \$112 million gain from the sale of its remaining shares in Cameco.

5. How are the Government's finances affected by transfers from the Federal Government for equalization?

The Saskatchewan Government has received transfers for equalization from the Federal Government for many years. The Federal Government calculates the amount of the transfers by comparing the ability of a province to raise revenues with a standard set by the Federal Government. As a result of this calculation, the annual amount of equalization transfer due to Saskatchewan is significantly affected by the performance of provincial economies outside Saskatchewan.

The following graph shows the volatility of equalization transfer revenue recorded in the Government's summary financial statements from 1991 to 2002.

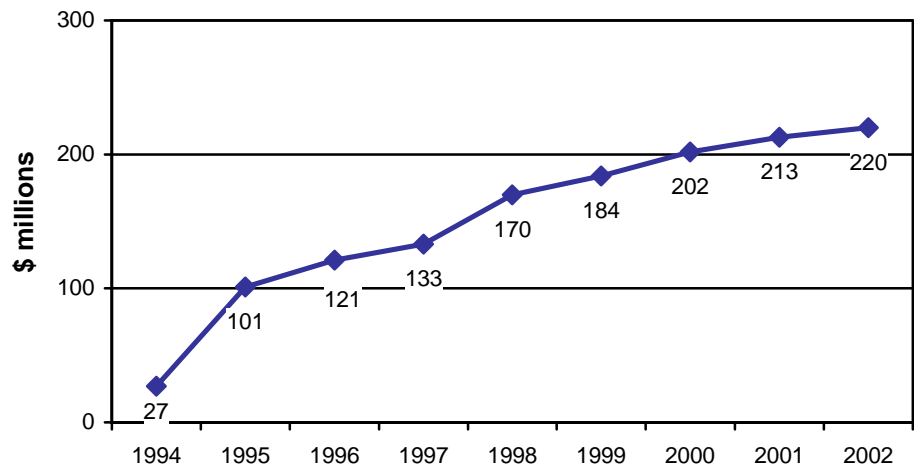
Graph 16 **Equalization Transfer Revenue**
from 1991 to 2002



- 6. What impact have gaming operations had on the Government's finances?

The Government has earned net income from gaming since 1994. Net income is the amount of gaming revenues received by the Government after deducting expenditures for gaming operations. In 1994, the net income from gaming was \$27 million. Since then, net income from gaming has increased steadily as shown below.

**Graph 17 Impact of gaming net income
 on the Government's finances**



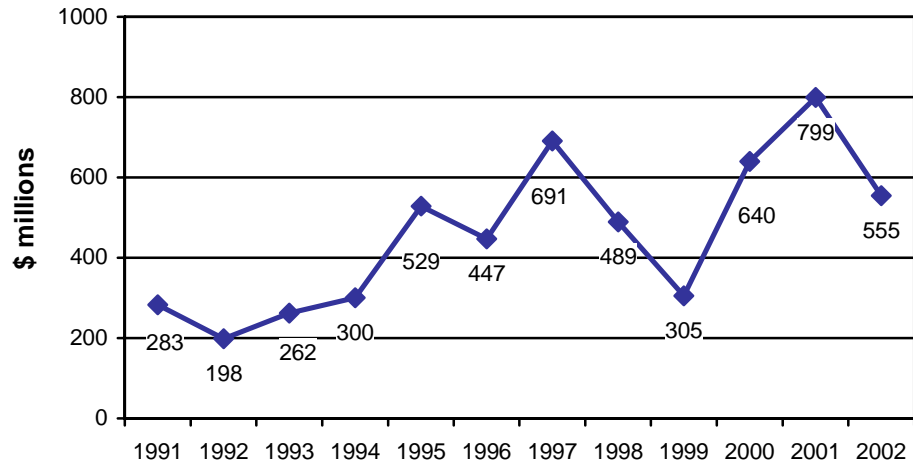
- 7. What impact have oil revenues had on the Government's finances?

Oil is traded on the world markets and the price fluctuates due to world supply and demand. In recent years, the price of oil has been subject to extreme price swings resulting in similar swings in the Government's oil revenues. Such revenue swings are beyond the control of the Saskatchewan Government.

The impact of changes in oil and other natural resource royalties are significant to the Government's finances. However, the Federal Government deducts a substantial portion of oil and other natural resource royalties from amounts due to Saskatchewan for equalization.

Graph 18

**Oil Revenue from
1991 to 2002**



8. Which items significantly affected the summary financial statements results for 2002?

Federal Government transfer revenue increased by \$489 million from last year. This was mainly due to an increase in equalization revenue of \$317 million and increased transfer revenue for agriculture.

Non-renewable resources revenue decreased by \$390 million from last year mainly due to lower oil and natural gas prices. In 2002, oil and gas revenues were \$555 million and \$129 million respectively versus \$799 million and \$239 million in 2001 (see schedule 11 of Appendix 5 to this report).

Taxation revenue decreased by \$180 million from last year. In 2002, Saskatchewan received \$188 million less in corporate income tax receipts from the Federal Government.

Other own source revenue included a gain of \$112 million for the sale of shares in Cameco.

Agricultural expenditures increased by \$515 million from last year. This was due to increased payments for crop insurance of about \$200 million and increased payments to enhance or stabilize the income of farmers under the Canada-Saskatchewan Assistance

Program and the Agricultural Income Disaster Assistance Program—Canadian Farm Income Program.

Interest costs decreased by \$56 million from last year. This was mainly due to decreases in the Government's total outstanding debt in 2001 and lower interest rates on the debt.

Health expenditures increased by \$201 million from last year due to increased costs for salaries and benefits, drugs and equipment, and other inflationary increases.

Finally, net income earned by Government enterprises decreased by \$216 million from last year. Weaker financial results at SaskPower, SaskEnergy, and Workers' Compensation Board accounted for most of the decrease.

9. How much debt and interest per capita does the Government have?

The debt per person has decreased from a high of \$15,433 at March 31, 1994 to \$13,387 at March 31, 2002. As the debt has declined, the annual interest cost per person has declined from a high of \$1,321 at March 31, 1994 to \$881 at March 31, 2002. As noted earlier, a government's debt equals its total liabilities.

10. How much of the Government's debt of bonds and debentures owed to external markets is owed by Government service organizations and Government enterprises?

At March 31, 2002 the Government's total debt of bonds and debentures was \$11.5 billion (net of sinking funds). Government service organizations owed \$8.2 billion (net of sinking funds). Government enterprises owed \$3.3 billion (net of sinking funds). For further information, see schedule 9 of Appendix 5.

11. How much of the Government's debt in bonds and debentures is payable in foreign currencies?

At March 31, 2002, the Government service organizations owed \$8.2 billion (net of sinking funds). Of this amount, \$1.1 billion (net

of sinking funds) or 13% was payable in U.S. dollars. Government enterprises owed \$3.3 billion (net of sinking funds). Of this amount \$0.9 billion (net of sinking funds) or 27% was payable in U. S. dollars. For further information, see schedule 9 of Appendix 5.

12. Why do agriculture expenditures fluctuate so much?

Agriculture spending fluctuates depending on the state of the agriculture economy. The agriculture economy is dependent on prices for commodities that are traded in world markets and that are subject to world supply and demand. The agriculture economy is also affected by trading subsidies paid by foreign governments. Further, the state of the agriculture economy is also dependent on the weather.

In addition, large agriculture programs are often cost-shared with the Federal Government. These cost-share programs can be administered by the Federal Government or the Saskatchewan Government. The accounting for cost-share programs can have a significant impact on the amount recorded as agricultural expenditures.

For example, if Saskatchewan administers the program, as is done with crop insurance, the Saskatchewan Government shows the total expenditures for the program, even though some of the money to pay for the program came from the Federal Government and farmers. The money from the Federal Government and farmers shows up separately in the financial statements as revenue.

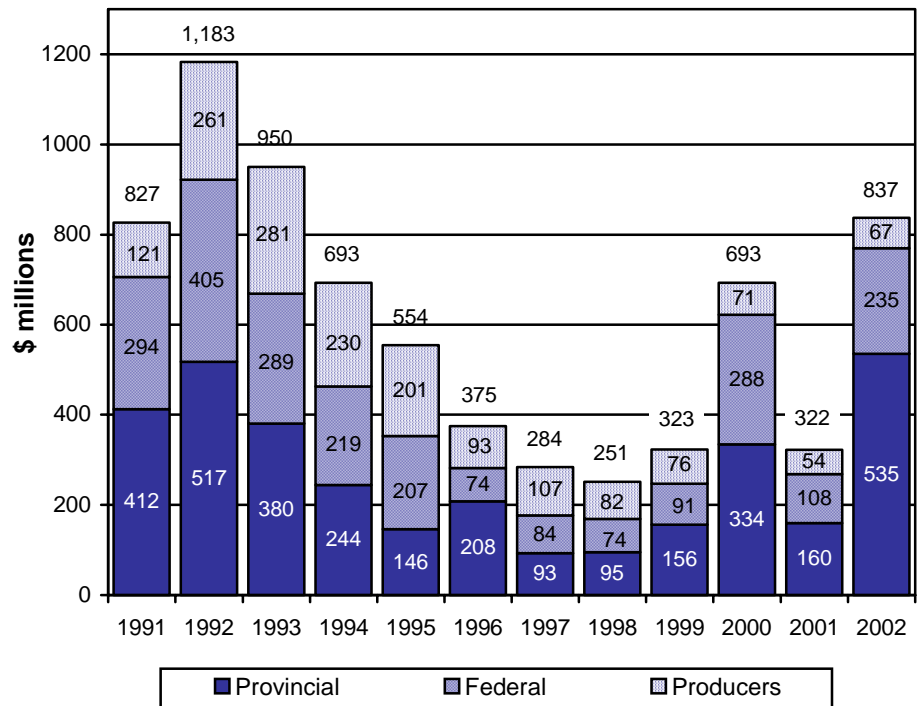
If on the other hand, as with the Agricultural Income Disaster Program (AIDA), Saskatchewan does not administer the program, but instead pays its share of the cost to the Federal Government (administrator), then the Saskatchewan Government shows only its share of the cost of the program as an expenditure.

The following graph shows how the Saskatchewan Government financed agricultural expenditures for the past 12 years. However, the graph does not include significant Government support provided to the agriculture sector through tax concessions and

rebates. For example, in the 2002-03 Budget the fuel tax exemption and rebates for farm activity is estimated to be \$118 million for 2002.

Agricultural expenditures increased by \$515 million from last year. This was due to increased payments for crop insurance of about \$200 million and increased payments to enhance or stabilize the income of farmers under the Canada-Saskatchewan Assistance Program and the Agricultural Income Disaster Assistance Program–Canadian Farm Income Program.

Graph 19 Financing Sources for Agriculture Expenses



13. How much debt is guaranteed by the Government?

At March 31, 2002, the Government had guaranteed debt of \$323 million. These guarantees relate to the debt of non-governmental organizations. For further information, see schedule 10 of Appendix 5.

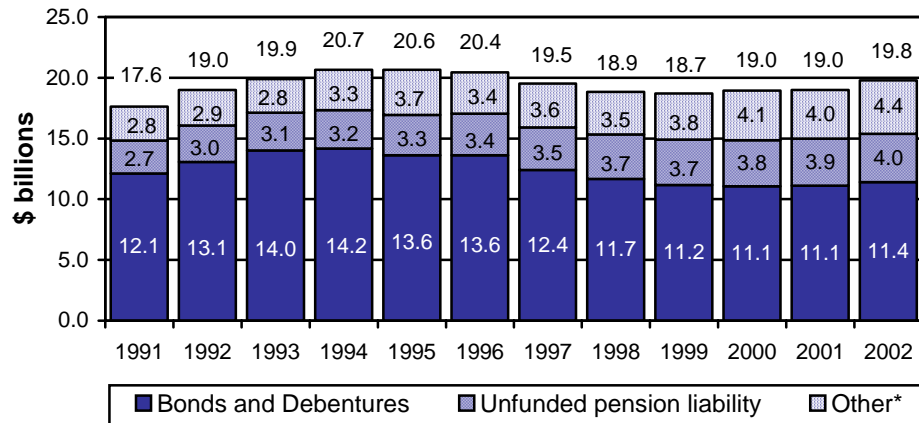
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14. How much are the Government's total liabilities including liabilities of Government enterprise Crown corporations?

Graph 20 shows the Government's total liabilities including liabilities of Government enterprise Crown corporations from 1991 to 2002. The graph also shows a breakdown of these liabilities between bonds and debentures and other liabilities. Other liabilities include trade accounts payable, accrued interest, and unpaid claims for government insurance programs.

Although the Government's total liabilities provides important information to understand the Government's financial condition, this report focuses on the Government's accumulated deficit which is a better indicator of a government's financial condition.

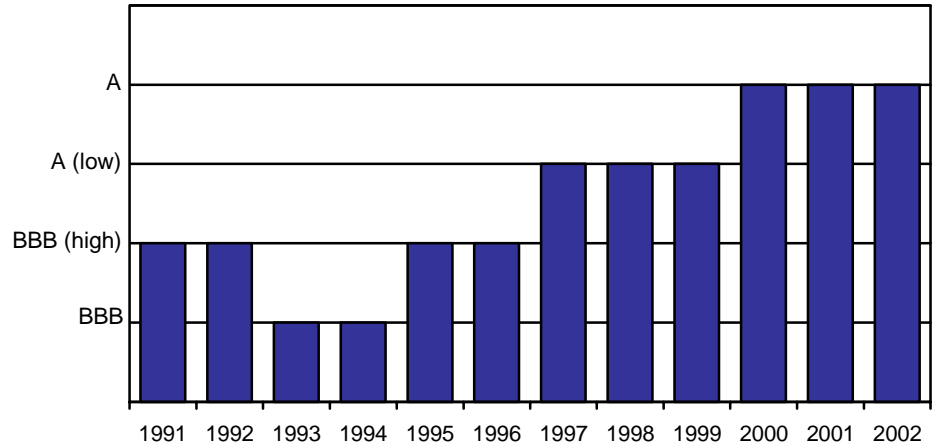
Graph 20 The Government's Liabilities including Liabilities of Government Enterprises as at March 31



* Excludes amounts owed by the GRF to the Liquor and Gaming Authority since they are not owed to non-government agencies (in millions: 2002 - \$32, 2001 - \$13, 2000 - \$674, 1999 - \$364, 1998 - \$386, 1997 - \$451, 1996 - \$197, 1995 - \$241, 1994 - \$140, 1993 - \$116, 1992 - \$118, and 1991 - \$70).

15. How has Saskatchewan's credit rating changed from 1991 to 2002?

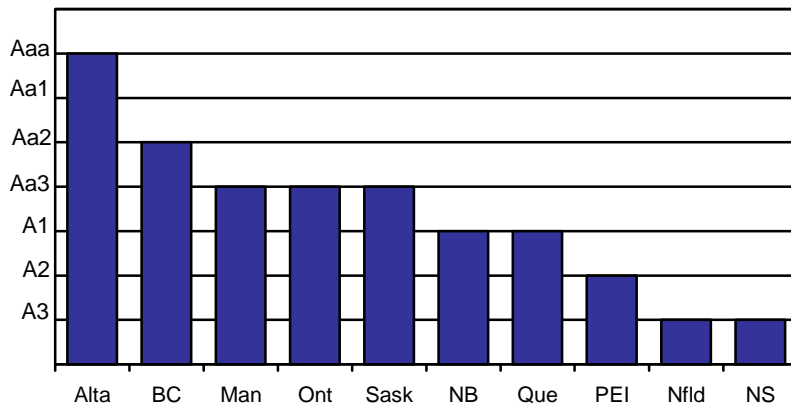
Graph 21 Dominion Bond Rating Service Credit Ratings from 1991 to 2002



Saskatchewan received a credit rating of BBB from 1993 to 1994 from the Dominion Bond Rating Service. Since that time, Saskatchewan's rating has gradually improved, rating A from 2000 to 2002.

16. How does Saskatchewan's credit rating compare to the credit ratings of the other provinces?

Graph 22 Moody's Investors Service Credit Ratings as at June 17, 2002

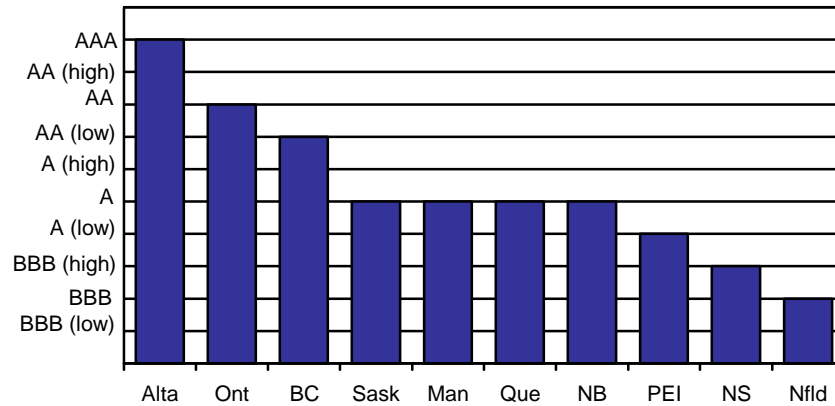


Saskatchewan, Manitoba, and Ontario have the third highest credit rating of the ten provinces, per the most recent ratings list by Moody's Investors Service at June 17, 2002 (see

<http://www.moodys.com/moodys/cust/staticcontent/2000400000333838/SovRatList.pdf>.)

Graph 23

**Dominion Bond Rating Service
Credit Ratings as at June 24, 2002**



Saskatchewan, Manitoba, Quebec, and New Brunswick have the fourth highest credit rating of the ten provinces, per the most recent ratings list by the Dominion Bond Rating Service at June 24, 2002 (see <http://www.dbrs.com/web/sentry?COMP=650>.)

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Appendix 2 – Other more detailed information

(Derived from the Government's summary financial statements)

	(in \$ millions)				
	1991	1992	1993	1994	1995
	(unaudited)				
Revenue					
General Programs					
Taxes	1,988	2,163	2,276	2,536	2,643
Federal government transfers	1,603	1,706	1,447	1,488	1,512
Non-renewable resources	423	323	393	453	718
Income from government enterprises	362	266	249	310	313
Other	932	952	948	775	899
Total Revenue	<u>5,308</u>	<u>5,410</u>	<u>5,313</u>	<u>5,562</u>	<u>6,085</u>
Expenditure					
General Programs					
Agriculture ¹	827	1,183	950	693	554
Community development	143	107	104	145	160
Debt charges (interest costs)	1,053	1,147	1,299	1,285	1,338
Economic development	86	125	81	79	79
Education	847	871	883	849	874
Environment and natural resources	184	20	87	151	116
Health	1,659	1,641	1,614	1,553	1,622
Protection of persons and property	262	274	248	178	187
Social services and assistance	446	507	547	550	584
Transportation	283	242	201	212	228
Other	270	969	199	148	202
Total Expenditure	<u>6,060</u>	<u>7,086</u>	<u>6,213</u>	<u>5,843</u>	<u>5,944</u>
Annual surplus (deficit)	(752)	(1,676)	(900)	(281)	141
Accumulated (deficit), beginning of year	(7,127)	(7,879)	(9,555)	(10,455)	(10,736)
Accumulated (deficit), end of year	<u>(7,879)</u>	<u>(9,555)</u>	<u>(10,455)</u>	<u>(10,736)</u>	<u>(10,595)</u>

¹ The Agriculture expenditure does not include significant Government support provided to the agriculture sector through tax concessions and rebates. Also, certain agriculture programs, such as Crop insurance, are cost-shared by the Saskatchewan Government. The above table represents Saskatchewan Government expenditures for agricultural programs, plus the total expenditures of the cost-shared programs administered by the Saskatchewan Government. The contributions by the Federal Government and producers, towards these cost-shared programs, are recorded as revenue by the Saskatchewan Government. Funding provided by the Federal Government in millions amounted to \$235 for 2002, \$108 for 2001, \$288 for 2000, \$91 for 1999, \$74 for 1998, \$84 for 1997, \$74 for 1996, \$207 for 1995, \$219 for 1994, \$289 for 1993, \$405 for 1992, and \$294 for 1991. Funding provided by producers in millions amounted to \$67 for 2002, \$54 for 2001, \$71 for 2000, \$76 for 1999, \$82 for 1998, \$107 for 1997, \$93 for 1996, \$201 for 1995, \$230 for 1994, \$281 for 1993, \$261 for 1992, and \$121 for 1991.

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1996	1997	1998	1999	2000	2001	2002
2,854	3,125	3,116	3,155	3,224	3,203	3023
1,046	853	675	1,088	1,553	1,029	1518
673	907	781	622	943	1,293	903
590	549	568	652	582	642	426
1,260	791	983	784	909	924	1070
<u>6,423</u>	<u>6,225</u>	<u>6,123</u>	<u>6,301</u>	<u>7,211</u>	<u>7,091</u>	<u>6940</u>
375	284	251	323	693	322	837
158	148	152	160	158	176	204
1,305	1,224	1,175	1,111	1,026	947	891
148	132	96	110	109	150	141
828	853	855	886	901	1,019	987
192	142	119	202	168	149	156
1,623	1,682	1,761	1,931	2,174	2,223	2424
195	190	203	230	262	266	299
588	586	700	747	785	783	784
236	248	273	272	273	303	337
212	191	212	260	256	292	363
<u>5,860</u>	<u>5,680</u>	<u>5,797</u>	<u>6,232</u>	<u>6,805</u>	<u>6,630</u>	<u>7423</u>
563	545	326	69	406	461	(483)
<u>(10,595)</u>	<u>(10,032)</u>	<u>(9,487)</u>	<u>(9,161)</u>	<u>(9,092)</u>	<u>(8,686)</u>	<u>(8,225)</u>
<u>(10,032)</u>	<u>(9,487)</u>	<u>(9,161)</u>	<u>(9,092)</u>	<u>(8,686)</u>	<u>(8,225)</u>	<u>(8,708)</u>

Appendix 3 – Proposed model for an overall Government financial plan

Note: This model does not include a Statement of Financial Assets, Liabilities, and Accumulated Deficit or a Statement of Cash Flow. The model should include these statements in a similar format to those currently presented by the Government in its summary financial statements. Also, the model should include key financial and economic indicators such as those included in this report.

Estimated Government Surplus Overview

	<u>(\$000's)</u>
General Revenue Fund ³	
Revenue	6,094,300
Expenditure	<u>6,094,255</u>
Surplus for the year	<u>45</u>
Net revenue/(expenditure) from Government service organizations ⁴	XXX
Income from Government Enterprise Crown Corporations ⁵	<u>XXX</u>
Government Surplus for the year	<u><u>XXX</u></u>

Estimated Government Accumulated Deficit

Accumulated Deficit, beginning of year	XXX
Government Surplus for the year	<u>XXX</u>
Accumulated Deficit, end of year	<u><u>XXX</u></u>

³ See Saskatchewan Estimates - 2002-03, p.10

⁴ Net of dividends paid and transfers from the General Revenue Fund

Estimated Government Surplus

	(\$000's)
General Revenue Fund surplus for the year	XXX
Net revenue/(expenditure) from Government service organizations⁵	
Agricultural Credit Corporation of Saskatchewan	XXX
Agri-Food Innovation Fund	XXX
CIC Industrial Interests Inc.	XXX
Crop Reinsurance Fund	XXX
Crown Investments Corporation of Saskatchewan (non-consolidated)	XXX
District Health Boards	XXX
Fiscal Stabilization Fund	XXX
Information Services Corporation of Saskatchewan	XXX
Milk Control Board	XXX
Public Employees Disability Income Fund	XXX
Public Employees Group Life Insurance Fund	XXX
Saskatchewan Agricultural Stabilization Fund	XXX
Saskatchewan Cancer Foundation	XXX
Saskatchewan Crop Insurance Corporation	XXX
Saskatchewan Housing Corporation	XXX
Saskatchewan Institute of Applied Science and Technology	XXX
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation	XXX
Saskatchewan Opportunities Corporation	XXX
Saskatchewan Property Management Corporation	XXX
Saskatchewan Student Aid Fund	XXX
Saskatchewan Water Corporation	XXX
Other	XXX
Net revenue/(expenditure)	XXX
 Income from Government Enterprise Crown Corporations	
Municipal Financing Corporation of Saskatchewan	XXX
Saskatchewan Auto Fund	XXX
Saskatchewan Gaming Corporation	XXX
Saskatchewan Government Growth Fund Management Corporation	XXX
Saskatchewan Government Insurance	XXX
Saskatchewan Liquor and Gaming Authority	XXX
Saskatchewan Power Corporation	XXX
Saskatchewan Telecommunications Holding Corporation	XXX
SaskEnergy Incorporated	XXX
Worker's Compensation Board (Saskatchewan)	XXX
Income	XXX
Government Surplus for the year	XXX

⁵ Net of dividends paid and transfers from the General Revenue Fund

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Appendix 4 – Government budgeting in Canada

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What information do legislative assemblies vote on? 50

Why budget for the entire government? 51

Will disclosure impair the competitive position of the government enterprises? 52

Is it difficult to change the budget to focus on the entire government? 52

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Budgeting for capital expenditures 58

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Introduction

For several years, we have recommended that the Government publish an overall financial plan for the entire Government. Currently, the Government does not publish an overall financial plan. The financial plan published by the Government focuses on an incomplete picture of its finances as set out in one government fund called the General Revenue Fund. That picture is not complete because significant Government financial activity takes place outside of the General Revenue Fund.

The Government needs to publish an overall financial plan. This plan would help legislators, government officials, and the public to debate the best use of public resources available to the Government.

The Government's public financial plan is focused only on the General Revenue Fund. Therefore, it is not sufficient to have an informed debate on the affordability of new or existing government programs. In addition, the plan is not sufficient to inform users if the Government plans to live within its means. The Government's public financial plan for 2002 said that the Government planned to raise \$3 million more revenue than it would spend. The actual results for the General Revenue Fund showed that the Government raised \$1 million more than it spent in 2002. Focusing only on this Fund could cause people to think that the Government had a plan for 2002 to live within its means and that for 2002 it did so.

However, the financial results for the entire Government show that the Government did not live within its means for 2002. The Government spent \$483 million more than the revenue it raised thus incurring a deficit of \$483 million for 2002. This deficit is nearly a \$1.0 billion turnaround from last year when the Government had a surplus of \$461 million. A published financial plan for the entire Government would improve the Government's accountability by allowing legislators and the public to assess whether this financial performance is better or worse than what was planned.

In our 2001 Fall Report – Volume 1, we reported that across Canada seven provincial governments and the Federal Government have already changed the focus of their published financial plans to include their entire governments. In that report, we again recommended that the Government should publish a financial plan for the entire Government.

In November 2001, the Standing Committee on Public Accounts (PAC) considered our recommendation. PAC agreed to defer a decision on this recommendation until it had received a presentation from our Office and the Department of Finance on how other governments had approached this issue.

We prepared this Appendix to provide information about the budgets of other provincial governments across Canada.

Standards and guidance for preparing budgets

Legislators, investors, and other users of government financial statements need information to help them assess the Government's performance in the management of its financial affairs and resources. A comparison of actual results with planned results set out in budgets is necessary to understand and assess trends in government financial operations and to identify significant differences that need explanation.

The Canadian Institute of Chartered Accountants (CICA) provides guidance for the measurement, presentation, and disclosure of financial plans (future-oriented financial information) when presented to external users in the format of financial statements. The CICA recommends that organizations present financial plans in the same format as the organization's historical financial statements.

The CICA recommends that government summary financial statements should present a comparison of actual results with those originally set out in the financial plan. The CICA further recommends that governments present planned results in the summary financial statements on the same basis as that used for actual results.

The CICA has not set specific standards for how a government should present a budget for the entire government to a legislative assembly. However, across Canada, most governments have moved forward to provide overall financial plans for their jurisdictions.

Saskatchewan was among one of the first provinces to address this issue. In 1992, the Saskatchewan Financial Management Review Commission noted that the Budget (financial plan) should cover the entire Government so that comparisons of budget and actual results would be

meaningful. The Commission also noted that such changes would take time and could affect the review procedures of the Legislature's Committee of Finance. To date, Saskatchewan has not published a budget for the entire Government.

Several other provinces also created similar commissions or panels that considered changes to their governments' budgeting processes to improve information for both legislators and the public. These provinces include British Columbia, Alberta, Manitoba, and Ontario. These provinces have changed their processes to provide an overall financial plan for the entire government rather than a plan focused on one fund of government.

More discussion on the "Experiences in Saskatchewan and other provinces" follows later in this report.

Components of government

Although governments consist of many different organizations, there are usually three specific components:

1. General revenue fund or consolidated fund – consisting mainly of government departments;
2. Government enterprises – examples include SaskPower, SaskTel and the Liquor and Gaming Authority; and
3. Government service organizations – examples include Saskatchewan Crop Insurance Corporation and the Fiscal Stabilization Fund.

A complete listing of Saskatchewan's government enterprises and government service organizations is included in Schedule 14 to the summary financial statements (see Appendix 5).

In the following section, we provide information on how governments provide financial planning information for each of these three components.

Provincial government budget models

Across Canada, all provinces publish summary financial statements following the recommendations of The Canadian Institute of Chartered

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Accountants. However, the provinces do not all use the same model when publishing their overall financial plans. Three provinces do not publish an overall financial plan.

Provincial governments use one of three basic models for publishing their financial plans. In simple terms, we describe these three models as follows:

- ◆ Overall Financial Plan
 - Summary budget model
 - Modified summary budget model
- ◆ No Overall Financial Plan
 - Single fund budget model

Summary budget model

We use the term summary budget to describe the budget model where the budget is published on the same basis as that of a government's summary financial statements. As shown in Exhibit 1, this model includes detailed revenue and expenditure information for the general revenue fund or consolidated fund (GRF) and for government service organizations. For government enterprises, the model includes only the budgeted net income and not the detailed revenues and expenditures.

Exhibit 1	
Summary budget model	
	<u>(\$000s)</u>
GRF and government service organizations	
Revenue	xxx
Expenditure	<u>xxx</u>
Surplus/deficit for the year	xxx
Net income from government enterprises	<u>xxx</u>
Government surplus/deficit for the year	<u>xxx</u>

Modified summary budget model

Some provinces use a model that we refer to as a modified summary budget. As shown in Exhibit 2, this model is prepared on the same basis as the summary financial statements with one exception. The exception is

that for government service organizations this model shows only the budgeted net income and not their revenues and expenditures.

Exhibit 2	
Modified summary budget model	
	<u>(\$000s)</u>
GRF	
Revenue	xxx
Expenditure	<u>xxx</u>
Surplus/deficit for the year	xxx
Net income from government service organizations	xxx
Net income from government enterprises	<u>xxx</u>
Government surplus/deficit for the year	<u>xxx</u>

Single fund budget model

We refer to the last model used as the single fund budget. As shown in Exhibit 3, this model includes only the general revenue fund or consolidated fund. It is incomplete because it does not include the significant activity that takes place in government service organizations and government enterprises. At one time all provinces used this model, but most have now changed their focus to provide more complete planning information. Saskatchewan, Prince Edward Island, and Newfoundland and Labrador still use this model.

Exhibit 3	
Single fund budget model	
	<u>(\$000s)</u>
GRF	
Revenue	xxx
Expenditure	<u>xxx</u>
Surplus/deficit for the year	<u>xxx</u>

In Exhibit 4, we set out a table showing the model currently used by each province and by the Government of Canada.

Exhibit 4

Overall Financial Plan		No Overall Financial Plan
Summary budget model	Modified summary budget model	Single fund budget model
Alberta Ontario Quebec New Brunswick Canada	British Columbia Manitoba Nova Scotia	Saskatchewan Prince Edward Island Newfoundland and Labrador

What information do legislative assemblies vote on?

Each government publishes a budget that sets out its revenue and expenditure plans for the upcoming fiscal year. Some of the expenditures included in budgets require the annual approval of the legislative assemblies through appropriation acts. Other expenditures are already approved in law.

Currently, the provincial legislative assemblies provide approval for expenditures in the following manner:

- ◆ For the general revenue fund or consolidated fund—some expenditures are voted annually, others are permanently authorized by a statute (e.g., interest on public debt);
- ◆ For government enterprises—expenditures are authorized by statute and are not voted on; and
- ◆ For government service organizations—with the exception of Alberta and New Brunswick, expenditures are authorized by statute and are not voted on. Alberta votes on the expenditures of its Lottery Fund and New Brunswick votes on the expenditures of three of its government service organizations.

Although not all expenditures are voted on annually, there is a need to provide information on expenditures authorized by statute in the plan so that it is more complete. In addition, planned results should be readily comparable with actual results. Therefore, governments that use the summary budget or modified summary budget models present their

financial plans in a comparable manner to their summary financial statements.

Why budget for the entire government?

As noted above, most provincial governments and the Federal Government have moved away from single fund budget models to budget models that include the entire Government.

To understand the reasons behind the changes in the way that governments budget, it is important to understand the advantages of budgeting for the entire government versus the single fund model. In essence, the reasons behind the movement toward budgeting for the entire government are similar to the reasons why governments moved from reporting their actual results based on a single fund of government to reporting the actual results for the entire government in their summary financial statements.

There are several significant advantages for preparing a budget for the entire government rather than for a single fund of government. An overall plan:

1. Allows for an informed debate by legislators and the public on the affordability of new or existing government programs when the budget is considered.
2. Enhances both the accountability and transparency of a government. Legislators and the public need to know what was planned to effectively assess a government's actual performance.
3. Promotes better management of public resources. Having to answer for what you plan to do and what you actually did improves the management of public resources.
4. Prevents governments from balancing their budgets simply by making transfers from one government agency to another.
5. Reduces public scepticism and enhances public confidence in the reliability and accuracy of the budget.

Will disclosure impair the competitive position of the government enterprises?

Some argue that disclosing the planned net income of government enterprises as part of an overall financial plan might impair the competitive position of the government enterprises. However, as part of the Balanced Scorecard reporting system already approved by the Government, Saskatchewan's government enterprises report or will report their long-term targets for net income (return on equity). Therefore, providing the planned net income of Saskatchewan's government enterprises as part of the Government's overall financial plan would not impair the competitive position of these organizations.

Most governments across Canada are already providing this information. Seven provincial governments and the Federal Government already disclose the planned net income of their major government enterprises as part of their summary budgets. Therefore, disclosure of this information is already common practice.

Some governments provide even more information than planned net income. For example, Alberta discloses planned revenues and expenditures of its government enterprises and government service organizations. Other provinces publish detailed business plans for these organizations. For example, since 2000-01, British Columbia has required its government enterprises (e.g., BC Hydro) and most of its government service organizations to present annual three-year service (business) plans to the Assembly. Also, since 1996-97, Nova Scotia has published business plans for most of its Crown corporations.

Is it difficult to change the budget to focus on the entire government?

It should not be difficult for the Government of Saskatchewan to publish its budget using the modified summary budget model. In Appendix 4, we have provided an example of this model for Saskatchewan. This model would be a good first step.

If the Government of Saskatchewan decides to use the summary budget model, we expect it will take more time to develop the budget processes

to include the revenues and expenditures of the Government's service organizations. One difficulty will be to ensure that the budget properly consolidates these organizations. However, the Department of Finance currently does an excellent job of consolidating the actual results of these organizations into its overall actual financial results in the Government's summary financial statements. Therefore, we think the Department has the capacity to use similar processes to produce its budget information.

Experiences in Saskatchewan and other provinces

To understand why other provinces have moved toward publishing budgets for their entire government, we looked at recent experiences in Saskatchewan and other provinces.

Saskatchewan

In November 1991, the Saskatchewan Government announced that it would create a commission to provide advice on improving the financial management and public accountability of the Government.

The Saskatchewan Financial Management Review Commission released its report on February 18, 1992. The report contains several recommendations designed to open the business of government to greater public scrutiny. One of the key recommendations was that the Government prepare summary financial statements following CICA standards.

Along with the recommendations, the report discusses implications for the preparation of Saskatchewan's Annual Estimates:

The PSACC [CICA] guidelines require that the Province's main financial statements should include the approved budgetary figures for comparative purposes. Therefore, the changes in accounting principles and format, plus the expanded scope of the reporting entity, will also apply to the preparation of the Estimates.

While the Commission has been able to obtain financial statements under the PSSAC guidelines within a relatively short period of time, we are aware that it will not be possible to convert the budgeting process as quickly. Many procedural issues need to be considered, including determining whether there will be any implications on the review procedures of the Legislature's Committee of Finance. The implementation may have to be

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phased in over several years to provide the Members of the Legislature and others who are involved in the preparation, review, and analysis of the annual Estimates with an opportunity to become fully familiar with the implications of the various components of these guidelines.⁶

In his 1992 report, the Provincial Auditor, who had acted as a special advisor to the Committee, endorsed the recommendations. The Provincial Auditor also pointed out that the Commission said the Government should prepare the Budget using the same standards it uses for the summary financial statements.

Since that report, the Provincial Auditor has continued to recommend to the Legislative Assembly that the Government should present a financial plan for the entire Government.

Alberta

In January 1993, the Alberta Government announced the creation of the Alberta Financial Review Commission. The Commission, made up of business executives and financial experts, was to review the Government's financial position and reporting procedures and report by March 1993.

In March 1993, the Commission released its report noting the Government's practice of presenting a fiscal plan that focuses solely on the GRF made it difficult for Albertans to understand the Province's financial situation:

One of the Commission's most significant concerns is the provincial government's apparent lack of an overall plan. Such plans may exist in part, but need to be drawn together in total. By establishing long-term goals and relevant program objectives, and then developing the required budgets and financial reporting systems, performance can be measured against the plan.⁷

As a result, the Commission recommended that the Budget and financial statements should be prepared on a government-wide basis in accordance with CICA standards.

⁶ Saskatchewan Financial Review Commission, (February 1992), p. 26.

⁷ The Alberta Financial Review Commission. (March 1993). p. 4.

The Commission noted that others, including the Auditor General for Alberta, had already made many of its recommendations and the Government had already committed to adopting them on a timely basis. The 1996-97 Budget released by the Government was a summary budget on a government-wide basis consistent with the financial statements.

Ontario

In July 1995, the Government of Ontario announced it would set up the Ontario Financial Review Commission to provide advice on the Province's financial reporting practices. The Government noted that:

...there has been confusion about the Provinces' books because results are presented in one format in the Public Accounts, while the Budget uses a different format ... This commission is the next logical step forward in restoring confidence and improving the way we present our financial information.⁸

The Provincial Auditor for Ontario had been advocating such changes since 1993. In the Auditor's opinion:

With the adoption of the PSAB [CICA] basis of accounting in both the Financial Statements and the Budget, the Legislature will have a much clearer and complete picture of the government's overall fiscal plan and be able to more readily compare the subsequent actual financial results to that plan.⁹

In November 1995, the Ontario Financial Review Commission released its report. The Commission agreed that the Government should publish a government-wide budget using the same CICA standards as the financial statements. The Government agreed to implement this recommendation immediately and released its 1995-96 Financial Plan and 1996 summary budget, which were prepared on a government-wide basis using the same CICA standards as its financial statements.

British Columbia

In British Columbia, the Government called an election right after it presented its 1996-97 Budget. After the election, significant public concerns arose about the reliability of the Budget.

⁸ Government of Ontario. (1995, July 21). News release.

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In response to the increasing public concern, the Auditor General for British Columbia announced in the Fall of 1996 that his Office would review the effectiveness of the budget process and recommend improvements. The Government supported the review. In February 1999, the Auditor General released his report *A Review of the Estimates Process in British Columbia*.

In his report, the Auditor General recommended reforms to the budget process. In the Auditor's opinion, a committee—either of the Legislative Assembly or of appointed external experts—should review his recommendations and report to the Legislative Assembly.

In response, the Government formed the Budget Process Review Panel (Panel) in April 1999 to review the process and report to the Legislative Assembly and the public. On September 27, 1999, the Panel released its report *Credibility, Transparency & Accountability – Improving the B.C. Budget Process*.

This report contained many recommendations to improve the budget process in British Columbia. One specific area dealt with was the definition of the budget entity. The Panel thought that basing the budget on one general fund of government:

...is problematic in that it does not represent the full scope of the Government's responsibility so that apparent size of the deficit, and of the provincial public sector can easily be arbitrarily changed.... While there may be good management reasons for such changes, they distort financial reporting on provincial public sector activities.¹⁰

The Panel recommended that legislation:

1. Require the budget to include all the Government's enterprises and organizations that should be included in the summary financial statements. The legislation was also to be clear that financial information on government enterprises and organizations outside the general fund was to be included in the budget at a summary level only (i.e., all school districts as a total, not each school district separately)

⁹ Office of the Provincial Auditor of Ontario. (1996). p. 276.

¹⁰ British Columbia. Budget Process Review Panel, (September 27, 1999), p. x.

and that the Legislative Assembly was not required to vote or approve the expenditures of the government enterprises and organizations.

2. Require the budget to be prepared using the same accounting policies, including policies on the budget entity, consolidation and future-oriented financial information, as the summary financial statements.

In its 2000-01 Budget, the Government of British Columbia responded to the Panel's recommendations. Many of the changes made by the Government were contained in the new *Budget Transparency and Accountability Act* introduced by the Government with its 2000-01 Budget. One of the most significant changes was to agree to include in the budget all the government enterprises and organizations that were currently included in the summary financial statements.

However, the Government decided to phase in the second recommendation, which was to consolidate organizations on the same basis as the summary financial statements. In the meantime, the Government published the revenues and expenses of the general fund, and the net income of its enterprises and organizations. As a result, the Government presented its first modified summary budget for the 2000-01 fiscal year.

In the budget for 2002-03, the Government included for the first time a summary budget schedule in its Estimates showing all government organizations consolidated on the same basis as they are in the summary financial statements.

Manitoba

Starting in 1997-98, the Provincial Auditor for Manitoba made several recommendations to improve the clarity of the Public Accounts. One of these recommendations was for the Government to prepare and present a summary budget to the Legislative Assembly. The Provincial Auditor stated that the summary budget should be prepared using the same accounting principles used for the summary financial statements. As well, the budgeted amounts should then be presented in the summary financial statements to allow for a comparison of budget to actual.

After the election in September 1999, one of the top priorities of the new Government was to conduct an independent review of the Province's books to address serious concerns about spending and accounting practices. The Government hired an accounting firm, Deloitte & Touche, to conduct the review.

One of Deloitte & Touche's recommendations was that the Government had to improve its financial management and reporting practices to provide greater transparency and accountability. As a result, together with the Provincial Auditor, the Government undertook several initiatives, including developing Manitoba's first modified summary budget in 2001–02.

In his March 31, 2001 report on the *Audit of the Public Accounts*, the Provincial Auditor noted that although the Government had published a summary budget for 2001-02 the budget was very brief and was not in the same format as the summary financial statements (i.e., Government service organizations were not fully consolidated). The Provincial Auditor reported that the budget "...should be presented on the same basis as the Summary Financial Statements to enable a reader to directly compare the budget to the Summary Financial Statements."¹¹ The Provincial Auditor noted that Canada and other provinces already published summary budgets.

Summary

Across Canada, most governments have moved forward to provide overall financial plans for their jurisdictions. Saskatchewan was among one of the first provinces to raise this issue. However, unlike its neighbouring provinces who now provide government-wide plans, Saskatchewan has still not addressed this issue.

Budgeting for capital expenditures

Capital asset expenditures include items that are purchased or constructed and will be used in the provision of services for many years (e.g., buildings, equipment, roads, etc.). Generally accepted accounting

¹¹ Manitoba. Office of the Provincial Auditor, (January 2002), p. 7.

principles for governments allow two methods for accounting for capital assets. These methods are the expenditure basis and the expense basis. Because the method chosen to account for capital assets also affects the budgeting practice, it is important to understand the different accounting methods.

In the past, all governments accounted for capital assets on the expenditure basis. That means that the full cost of a capital asset is recorded as an expenditure in the year of purchase. Saskatchewan uses the expenditure basis for capital assets.

In recent years, some governments have switched their accounting method to the expense method of accounting for capital items. The private sector also uses this method of accounting for capital assets.

In simple terms, the expense method recognizes that a capital asset is not consumed in one year and therefore the cost should not be charged just to one year. Because the capital asset will provide services over its useful life, the cost of using that capital asset should be spread out over its useful life. The portion of the cost of a capital asset that is allocated to each year of useful life is referred to as amortization.

For governments using the expense method of accounting, the budget includes a separate capital expenditure budget showing the full cost of planned capital investments. It is not combined with other operating expenses. For governments using the expenditure basis, there is no separate capital budget because capital expenditures are included with non-capital operating expenditures.

The following table shows the method of accounting for capital assets used by each province in their budget:

Expense	Expenditure
Alberta British Columbia Manitoba Nova Scotia Ontario Quebec	New Brunswick Newfoundland and Labrador Prince Edward Island Saskatchewan

Regarding voting approval of capital expenditures, provincial government practice is as follows:

- ◆ For the general revenue fund or consolidated fund—most capital expenditures are voted on annually and some are permanently authorized by a statute (e.g., British Columbia, Ontario, and Quebec);
- ◆ For government enterprises—capital expenditures are authorized by statute and are not voted on; and
- ◆ For government service organizations—capital expenditures are authorized by statute and are not voted on.

In summary, regardless of which method of accounting for capital assets a government chooses, it still votes on capital expenditures.

Budgeting for contingencies

Governments generally prepare their budgets on a conservative basis. These involve the use of prudent assumptions and caution to ensure that estimates made are reasonable and achievable.

However, it is not possible to budget for all the potential items that might significantly affect the actual financial results. For example, budgets would not normally make specific provision for the impact of a natural disaster or volatility in commodity prices. However, budget preparers seek to achieve a stable record of accomplishment in a government's financial results. Therefore, some governments build contingency funds into their budgets to offset the impact of these unexpected events. In the following paragraphs, we provide examples of how individual provinces budget for the impact of unexpected events.

To budget for unexpected events, British Columbia's budget includes an amount for contingencies. This amount is included in the modified summary budget as a "forecast allowance". The 2002-03 budget included a forecast allowance of \$750 million on a total budget of \$26.4 billion.

Alberta does not include a forecast allowance or a contingency allowance in its budget. Instead, Alberta uses an "economic cushion." In simple terms, Alberta prepares its budget for revenues and expenses by ensuring there is a sufficient cushion between revenues and expenses to

allow it to balance the budget even if the revenue forecasts fall short. For example, in 2002-03 the target economic cushion was \$724 million on a total budget of \$19.2 billion.

Because Saskatchewan does not include the entire Government in its budget, it uses transfers from other government organizations to protect the budget against unexpected events. For example, in 2002, Saskatchewan balanced its budget by recording a \$264 million change in the amount due from a fiscal stabilization fund as revenue in the General Revenue Fund.

Manitoba uses the modified summary budget model to prepare its budget. Manitoba does not include a specific amount in its budget for unexpected events.

To budget for unexpected events, Ontario's budget includes an amount for contingencies. This amount is included in the summary budget as a "reserve". In the budget for 2002-03, the reserve was \$1 billion on a total budget of \$66.5 billion.

Quebec also provides for unplanned expenditures that may arise in government programs. Quebec's 2002-03 budget includes a contingency fund of \$404 million on a total budget of \$51.9 billion.

New Brunswick, Nova Scotia, and Newfoundland and Labrador do not include specific amounts in their 2002-03 budgets for unexpected events. However, Newfoundland and Labrador did include a contingency reserve in its previous two budgets.

Prince Edward Island uses a contingency fund to protect its budget against unexpected events. In 2002-03, Prince Edward Island had a contingency fund of \$2 million on a total budget of \$997 million.

In summary, government budgets include prudent assumptions and caution to ensure estimates made are reasonable and achievable. Most also build in contingency funds or forecast allowances to offset the impact of unexpected events.

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**Appendix 5 – The Government’s 2001-02
summary financial statements**

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