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Canada's 2012 Fiscal Accountability Rankings

Despite progress over the past decade, Canada's senior governments can still improve their financial reporting and accuracy in hitting budget targets. Their record of missed targets and spending overruns should inspire reforms for better accountability to voters and taxpayers.

Colin Busby and William B.P. Robson

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A handwritten signature in black ink that reads 'Finn Poschmann'.

Finn Poschmann
Vice-President, Research

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THE STUDY IN BRIEF

Canada's governments have regularly missed budget spending and revenue targets during the last decade. Taken together, the spending overruns of federal, provincial and territorial governments have surpassed \$53 billion in the last 10 years. If budget targets were met more accurately, current debt loads, tax burdens and deficits would be lower and more manageable.

There is considerable variation in the financial reporting of Canadian governments. Some jurisdictions present budget and public accounts figures clearly, making the results in both documents easily comparable. Further, some governments table their public accounts in a timely way, with clean audits and updates on changes to budget plans during the fiscal year. Others, however, do not.

The federal government and the governments of Ontario and New Brunswick are leading the way in presenting clear public accounts documents and making an effort to compare and explain deviations from budgeted and year-end revenue and spending figures. At the other end of the scale are the governments of Quebec, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, and the Northwest Territory and Nunavut, which do not present straightforward and comparable figures in their budgets or public accounts.

This fifth annual study of governments' fiscal accountability measures each jurisdiction's 10-year fiscal record for bias (the average difference between budget projections and actual results) and accuracy (overshoots and under-shoots of budget targets).

The results for spending show Ottawa having the best (lowest) bias score with Newfoundland and Labrador, Ontario and Nova Scotia not far behind. On accuracy, Quebec, New Brunswick, Ontario and Nova Scotia show respectable scores. Resource-dependent jurisdictions, such as Saskatchewan and Alberta, have poor bias and accuracy scores, making them more likely to miss budgeted spending promises than other jurisdictions.

The past decade's cumulative revenue and spending overshoots, and the emerging understanding that a lack of fiscal transparency undermines good management of public money, should inspire Canadian senior governments to improve their financial reporting and their adherence to targets – and for legislators and voters to hold them more closely to account.

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Canada's fiscal straits are far less dire than those of the European Union and the United States, but control of public funds is an ongoing challenge for Canadian governments as well.

It is not just genuinely complex problems – such as purchasing defence equipment or projecting the costs of social programs affected by demography decades into the future – that complicate fiscal accountability; surprises also occur frequently. Two examples from fiscal year 2011/12 are the spending undershoot revealed in the federal government's public accounts and Manitoba's 8-percent-plus overshoot.

Indeed, simply presenting meaningful budgets and financial reports, and using a common basis for calculating both, is a problem for many Canadian governments. Since those budgets and financial reports are the starting place for scrutiny and accountability on the part of legislators and citizens alike, getting them right is an essential condition for democratic control over the public purse and for ensuring that, when budget promises and actual results differ, we can understand why and policymakers can fix any problems the deviations reveal.

Canada's federal and provincial governments have similar financial cycles, with fiscal years running from April 1 to March 31 of the following calendar year. Their cycles turn on two key events. The first – which usually, and certainly ideally, takes place well before the beginning of the year – is the budget. The budget sets out the government's fiscal plan, with planned spending and revenue over the coming fiscal year. Votes on budgets are automatically votes of confidence, reflecting their fundamental importance in parliamentary

government. A failed budget vote triggers a change in government and/or an election. The second major event – which generally occurs in the fall, after the end of the fiscal year – is the release of the public accounts: the government's financial statements for the fiscal year, including actual spending and revenue. Scrutinized by the relevant auditor, they are the official record of a government's financial activities and position.

The numbers in a government's end-of-year public accounts might differ from those in the budget for that year for many reasons: the economy might have performed better or worse than expected; fluctuations in key tax bases, especially for governments of resource-rich jurisdictions, might have pushed revenues up or down; or specific events such as a natural disaster might have forced unexpected expenditures. Less acceptably, governments deliberately might under- or overstate certain spending and revenue items in budgets to manage expectations, especially if the bottom-line result is under scrutiny. Unfortunately, governments commonly present legislatures with spending estimates that are inconsistent with budget projections, both at the beginning of the fiscal year and during it. And, perhaps surprisingly, the preparation and presentation of key numbers in the public accounts might be inconsistent with the figures shown in the spring budgets, making straightforward comparisons of outcomes to projections practically impossible.

While consistent and meaningful presentations of budget projections and results are the main focus of this survey, they are not by themselves enough to ensure accountability to legislators, taxpayers, and voters. Transparency with regard to the details of spending and revenue, and the reasons for changes in-year and over time, involves much more consultation and communication than we cover here. Indeed, although we treat the public accounts presentations as the appropriate standard for our purposes, we note that standard practice in government financial reporting leaves much to be desired. Widening the gap between what governments report and economic reality are such practices as understating pension and other deferred obligations, and netting benefits delivered through the tax system against revenue rather than disclosing them as spending.

The inspiration for the C.D. Howe Institute's annual fiscal accountability rankings is to summarize the good and not-so-good practices of Canada's senior governments, encourage transparent reporting of budget plans and actual results – and, ideally, bring the results more closely in line with projections over time.¹ Our 2012 update of this analysis reveals some areas of progress and others where governments clearly could do better. As for governments' ability to hit budgeted targets for spending and revenues, the trend in the most recent decade has been to overshoot both. Over the past 10 years, Canada's senior governments spent around \$53 billion more than they had originally planned for in the spring, with the Prairie provinces and the territories being the worst offenders. The revenue overshoot – the amount by which actual revenues exceeded budget projections – was even larger: \$85 billion. Encouragingly, however, the tendency to

overshoot in both spending and revenue was less pronounced in the second half of the decade than in the first half.

RATING FISCAL ACCOUNTABILITY

The premise of our fiscal accountability survey is straightforward: that a motivated person of reasonable intelligence – a voter, taxpayer, or elected representative – should be able, without hours of effort or detailed financial expertise, to find key revenue and spending figures in a budget and in a set of public accounts, compare one to the other, and gain some useful insight into variations between plans and results. Accordingly, for each government, we compile the spending and revenue totals displayed earliest and most prominently in budgets and in the public accounts – in the latter, the earliest and most prominent that the relevant auditor has reviewed. With these basic numbers in hand, we then ask a series of questions related to the usefulness of these documents to legislators or citizens who seek to hold governments to account:

- Are the key spending and revenue totals prominently displayed in budgets and public accounts prepared and presented on the same basis?
- Do the public accounts show and explain deviations from the budget figures?
- Did the auditor give the public accounts a clean opinion?
- How soon after the end of the fiscal year did the public accounts pass the audit?
- Does the government publish in-year updates showing deviations from budget plans?

Table 1 shows our evaluations by these criteria. We give top marks when budget and account figures match and when spending and revenue figures are:

1 This *Commentary* updates previous work on Canadian government's relative in-year fiscal performance; see Busby and Robson (2008, 2009, 2010, 2011) and Adrian, Guillemette, and Robson (2007) for prior years' accountability rankings.

1) accompanied by a table showing the variance between planned and actual results; 2) supported with explanations of any discrepancy; and 3) presented early in the document. We reduce letter grades by one full grade for each criterion not fulfilled. When budget and public accounts figures do not match, no grade above C is possible; instead, we award grades of C or lower depending on the transparency of the reconciliation (if any) to budget figures in the public accounts.

The federal government and the governments of Ontario and New Brunswick are leading the way in presenting clear public accounts documents and making an effort to compare and explain deviations from budgeted and year-end revenues and spending figures. As well, all three received clean opinions from their auditors in a timely way. Manitoba, Saskatchewan, Alberta, and British Columbia also get an A for preparing their budgets and public accounts on a common accounting basis, although we marked them lower on other aspects of their presentation of the numbers and their reporting.

At the other end of the scale are the governments of Quebec, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, and the territories, which do not present straightforward and comparable figures in their budgets or public accounts.² The most important differences, both historically and today, are between budgets prepared at least partially on a cash basis and financial statements that use accrual accounting, recording

revenue and expenditure when the activity to which they relate takes place rather than when cash is received or disbursed.³ Some governments' public accounts do contain figures that show budget plans using public accounts presentations, along with summaries of deviations between those adjusted figures and results, but this practice is less helpful than using comparable figures in the first place, and complicates what is sometimes an inadequate explanation of variances between the projections and the results.

Importantly, some provinces – particularly Saskatchewan and British Columbia – have long-standing differences with their auditors about their financial reporting, and therefore have not received clean opinions. And although Ottawa and most provinces tend to get their auditor's approval and opinion in a timely manner, a few provinces and the territories tend to take longer to get the auditor to sign off on their financial statements, which tends to delay the release of their public accounts.

Table 1 is a snapshot of the situation for fiscal year 2011/12. Before moving on, we should note actions by some governments to improve the comparability of budget and public accounts documents. Although all of Canada's senior governments used different accounting methods in their budgets and public accounts a decade ago, that objectionable practice is on its way out. Ontario's and Ottawa's public accounts provide a wealth of information on their in-year, budgeted versus actual,

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- 2 In previous years' reports, we graded Newfoundland and Labrador harshly for not producing budgets and public accounts on the same accounting basis. In our numerical comparisons of plans and results for Newfoundland and Labrador, we did not use the straightforward figures from the public accounts, but instead used a supplementary un-audited report that compared the budget figures to year-end results using the same accounting. Recognizing that using this supplementary report violated our premise that the intelligent but non-expert reader would use the most prominently displayed, and audited, totals in the budgets and public accounts themselves, we use those documents only in the current version.
- 3 A key example of a category of spending where cash and accrual accounting produce very different results is long-lived assets. Cash budgeting records the entire cost of an asset as the money is spent. Accrual accounting records the amortization of the asset as it yields its services – and, ideally, records the last dollar of expenditure coincident with the end of the asset's useful life.

Table 1: Evaluating the Reporting Practices of Public Accounts Documents in Canada, 2011/12

Jurisdiction	Budget Presentation Consistent with Public Accounts	Grade	Use of Reconciliations Tables and Figures, Explanation of Deviations, Placement in document	Grade	Use of Interim Budget Reports Yes (M- Monthly, Q-quarterly, H-mid-year) / No	Number of Auditor reservations over 10 years (and most recent year); comments	Date of Audit Approval
Federal	Yes: budget figures match	A	Public accounts use multiple tables and figures, supported by text, at the beginning of document	A	Yes (M,H)	0 (0); no major reservations	Aug. 30, 2012
Newfoundland & Labrador	No: comparable budget figures appear only in unaudited, additional report on program expenditures and revenues	F	Some reconciliation explanations, figures do not appear in main documents	D	Yes (H)	0 (0); no major reservations	NA
Prince Edward Island	No: revised estimates appear in public accounts	C	Reconciliation table appears late in document; little explanation for in-year spending changes; focus is on year-over-year spending increases	C	No	0 (0); no major reservations	Jan. 2, 2013
Nova Scotia	No: consolidated budget estimates are adjusted for analyses	C	Variance tables given, with explanation of deviations from budget, but comes later in document	B	No	1 (1); auditor was unable to provide an opinion on uncertainty related to accumulated sick leave benefits in certain government units	Jul. 30, 2012
New Brunswick	Yes: budget figures match	A	Multiple variance tables and figures, supported by text, at the beginning of document	A	Yes (H)	0 (0); no major reservations	Aug. 9, 2012

Source: Authors' estimates based on 2011/12 Public Accounts documents, or previous years' documents if 2011/12 documents were not published at the time of writing.

Table 1: Continued

Jurisdiction	Budget Presentation Consistent with Public Accounts	Grade	Use of Reconciliations Tables and Figures, Explanation of Deviations, Placement in document	Grade	Use of Interim Budget Reports Yes (M- Monthly, Q-quarterly, H-mid-year) / No	Number of Auditor reservations over 10 years (and most recent year); comments	Date of Audit Approval
Quebec	No: budget figures match only in unaudited Volume II of Public Accounts	D	Multiple variance tables and graphics, supported by text, but for different budget figures, at the beginning of Volume I in the public accounts	C	Yes (M,H)	17 (0); Reservations from 2001/02 to 2005/06 concerned the exclusion of broader public sector in education and health from results, improper recording of pension liabilities and losses on guaranteed financial initiatives	Oct. 19, 2012
Ontario	Yes: budget figures match	A	Multiple variance tables, supported by text, at the beginning of document	A	Yes (Q)	0 (0); no major reservations	Sep. 6, 2012
Manitoba	Yes: budget figures match	A	Variance tables, some explanation of deviations from budget, but comes later in document	B	Yes (Q)	3 (0); most recent reservation in 2006/07 was the exclusion of public school divisions, which was inconsistent with accounting principles	Aug. 29, 2012
Saskatchewan	Yes: budget figures match	A	Good use of reconciliation tables, detailed explanation for variation, results appear at beginning of document	A	Yes (Q)	27 (4); ongoing objections on failure to record pension liabilities, which, if properly recorded, would add \$6.1 billion to the province's liabilities; auditor also critical of the limited scope of the audit	Jun. 14, 2012

Source: Authors' estimates based on 2011/12 Public Accounts documents, or previous years' documents if 2011/12 documents were not published at the time of writing.

Table 1: Continued

Jurisdiction	Budget Presentation Consistent with Public Accounts	Grade	Use of Reconciliations Tables and Figures, Explanation of Deviations, Placement in document	Grade	Use of Interim Budget Reports Yes (M- Monthly, Q-quarterly, H-mid-year) / No	Number of Auditor reservations over 10 years (and most recent year); comments	Date of Audit Approval
Alberta	Yes: budget figures match	A	No use of reconciliation tables or explanations, results appear early in document	C	Yes (Q)	0 (0); no major reservations	Jun. 20, 2012
British Columbia	Yes: budget figures match	A	Variance analysis and reconciliation tables, limited explanation, results appear early in document	B	Yes (Q)	17 (5); auditor cautions numerous instances of departures from Canadian Generally Accepted Accounting Principles, all of which result in a deficit figure underreported by \$0.5 billion	Jun. 29, 2012
Northwest Territories	No: comparable figures appear in non-audited, non-consolidated statements	D	Little use of reconciliation tables or explanations, results appear early in document	C	No	0 (0); Clean record since 2000/01, when interim expenditures were made without submitting a proper appropriation (without tabling an associated bill)	NA
Yukon	No: budget figures do not match (in 2011/12: most recent budget is on consistent basis)	F	Some reconciliation with budget, an explanation of variations, located in separate document	C	No	4 (0); Most recent reservation highlighted a violation of the <i>Financial Administration Act</i> through the purchase of non-bank, asset-backed commercial paper	Oct. 10, 2012
Nunavut	No: budget figures do not match	F	Only previous years' public accounts figures are presented	F	No	12 (0); government struggles to table its consolidated financial accounts on time	Dec. 7, 2012

Source: Authors' estimates based on 2011/12 Public Accounts documents, or previous years' documents if 2011/12 documents were not published at the time of writing.

fiscal performance. Other jurisdictions are taking an extra step to make an in-year fiscal evaluation more accessible. For instance, Yukon and Newfoundland and Labrador normally publish supplementary financial reports that compare budgeted to actual amounts. Yukon's budget for 2012/13 presented figures consistent with its public accounts for the first time, and Newfoundland and Labrador could easily do the same.⁴

Canada's senior governments increasingly publish in-year updates – usually quarterly reports – that track results relative to budget projections. These updates are more common from the western and central provinces, although Quebec publishes a Monthly Report on Financial Transactions. The federal government produces a mid-year update that shows current fiscal year results against budget targets, in addition to a monthly Fiscal Monitor that tracks results to date versus the prior fiscal year.

SCORING GOVERNMENTS' OVER- AND UNDERSHOOTS

The deficiencies noted in Table 1 mean that comparing results to projections is sometimes not straightforward. With the caveat that these adjustments would not be easy for our intelligent but non-expert user of these documents to make, we do two things to cover some gaps. First, since some territorial and provincial governments had not released their public accounts at the time of writing, we fill those holes by using figures from the federal Department of Finance's fiscal reference tables for the most recent year.⁵

Second, we mitigate the distortions caused by the use – now much less common than in earlier

years – of different accounting methods in budgets and public accounts presentations. The reason is that, when the two are not prepared and presented in the same way, even a motivated and intelligent reader cannot meaningfully compare levels of projected and actual revenue or spending, or calculate changes against, say, a prior year chosen from one or the other. To produce a less distorted measure of variances between projections and actual revenue and spending in these situations, we calculate percentage changes for each from the relevant figures in the respective documents. That is, we calculate the percentage changes between the budget figures and the prior year's figures shown in the same budget, and percentage changes between the public accounts figures and the prior year's figures in the same public accounts. Our assessment of over- and undershoots is based on a comparison of those percentage changes.

This treatment is not without drawbacks. For one, as noted already, it bends our rule that the assessment proceed with the motivated and intelligent but non-expert reader in mind. Although our adjustment is not mathematically difficult and makes use of the numbers highlighted in the documents, it is not something a non-expert automatically would do.

Another drawback is that, in grading governments that do use consistent accounting in both budgets and public accounts, our treatment creates other risks that comparisons of outcomes to projections using simple dollar totals would avoid. Governments with budget projections for spending and revenue that turn out to be very accurate in dollar terms could get marked down because

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- 4 Canadian municipalities continue to use different accounting methods in their budgets and financial results; thus, the example of the senior governments is important in showing that opposition to using the same methods can be overcome, and that a long history of inconsistent accounting is no justification for continuing with it. Dachis and Robson (2011, and forthcoming) provide a survey of the fiscal accountability of Canada's larger municipalities.
 - 5 This fill-in admittedly is inadequate, since the fiscal reference tables' main source of data is each government's public account documents; when these are not available, the fiscal reference tables use the most recent budgetary information.

we calculate growth rates relative to preliminary revenue and spending figures for the fiscal year not yet ended that turn out to be off the mark. Among governments that do use consistent accounting, this problem does not appear to us to be serious, since, with one exception, differences between the preliminary numbers that appear in budgets for the year ending are not consistently different in one direction or the other from the numbers subsequently published for that year in the public accounts. The major exception is Alberta, where, over the past four years, the preliminary numbers in budgets for the year ending have averaged almost 7 percent lower than the numbers subsequently published in the public accounts. This would tend to make Alberta's budgeted spending increases larger using our methods, and Alberta stands out for overshooting budget targets rather than undershooting them, so our method flatters Alberta rather than penalizing it.

In general, this problem is less important the closer a government's budget figures for the year about to close are to its final numbers. We look forward to the day when consistent accounting in budgets and financial results on the part of all senior Canadian governments make this adjustment in our report unnecessary.

Spending

In Table 2, we present the most recent decade of spending changes projected in Canadian governments' spring budgets (the top panel, in which we also show fiscal year 2012/13 projections for reference) and spending changes reported in their public accounts (the middle panel), as well as the differences between them (the bottom panel). Table 3 presents two measures to summarize the 10-year record:

- *bias*, the average difference between projected and actual changes; this is the arithmetic mean of the differences shown in the bottom panel of Table 2, and captures the direction, over or

under, of deviations, weighing each annual figure equally; and

- *accuracy*, the root average square of the deviations; if over- and undershoots cancel out, a series of large misses will have the same bias score as a series of small ones. The accuracy measure weighs the larger misses more heavily and sums them without regard to sign – a useful summary of how close governments are to their targets, whether they miss up or down.

When it comes to bias, Canada's senior governments clearly tend to overshoot projected spending. Only Newfoundland and Labrador had an average undershoot over the 10 years, while the average of all 14 governments was an overshoot of 2.7 percentage points annually. That is no small figure, cumulatively amounting to more than \$53 billion over the decade. The final column of Table 3 gives a sense of scale by comparing the cumulative 10-year over- or undershoot relative to spending in fiscal year 2012/13. The degree to which budget misses raised the baseline for current spending – by one-sixth, one-quarter, or even one-half in some cases – is quite sobering.

Another sense of scale can be had by thinking about these misses relative to governments' bottom lines. The total deficit forecast by all senior governments for fiscal year 2012/13 is about \$39 billion, which means that, if governments had stuck to their projected changes in spending each year, the senior governments would have forecast a collective surplus of nearly \$14 billion for the current fiscal year. Although some of this overshoot would have occurred even with better financial reporting and parliamentary oversight, we think – for reasons we elaborate below – that a combination of more realistic projections in budgets and a stronger commitment to execute according to plan could reduce overshoots in the future.

The federal government's 0.6 percent mean overshoot puts it in first place among the 14 governments, with Newfoundland and Labrador coming second. Ontario, Nova Scotia, Quebec,

Table 2: Budgeted and Annual Expenditures, 2002/03–2011/12

Announced Spending Change (%)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2002/03	3.3	1.5	1.3	0.9	4.4	2.0	3.5	2.2	-0.8	-8.1	-0.3	5.1	-4.4	2.0
2003/04	2.8	5.5	4.7	3.8	4.3	4.3	7.1	4.1	3.4	0.2	-2.4	5.7	-6.8	3.2
2004/05	2.3	0.4	-3.6	4.9	2.3	3.1	6.9	1.1	0.9	2.9	-2.6	2.7	5.1	-6.5
2005/06	1.9	5.5	1.4	4.2	3.2	3.3	4.2	3.5	1.1	5.7	4.7	1.5	5.0	-2.3
2006/07	5.0	3.7	2.6	6.3	1.7	4.1	2.1	3.4	0.1	4.0	3.7	0.8	-3.1	2.6
2007/08	4.6	8.8	8.0	5.1	2.9	3.9	2.6	5.8	1.6	11.7	3.9	4.7	-0.6	2.8
2008/09	2.3	11.1	6.4	2.5	2.7	3.6	0.2	3.3	4.6	9.7	1.1	-1.5	-0.9	4.0
2009/10	8.9	12.2	9.2	6.7	5.9	3.3	11.9	1.8	-0.9	-1.8	4.9	1.0	4.4	1.3
2010/11	4.8	14.4	0.8	0.4	1.6	3.9	7.0	1.6	0.1	4.2	2.3	5.6	-0.8	-7.5
2011/12	3.6	11.8	1.3	6.2	-1.6	3.5	1.0	2.3	-2.5	0.5	2.2	2.9	-3.4	-2.5
Memo: 2012/13	1.2	2.1	1.0	3.7	1.3	3.0	1.4	-3.9	1.6	3.3	-1.2	0.8	4.1	-7.8
Actual Spending Change (%)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2002/03	4.0	7.0	2.3	2.1	4.2	3.7	4.1	3.1	0.6	-1.5	1.1	5.7	3.0	5.1
2003/04	3.5	9.6	12.6	6.8	3.9	3.6	7.8	7.1	6.2	5.9	1.1	5.8	9.0	7.1
2004/05	11.5	-3.8	0.3	7.4	2.0	5.1	7.4	2.7	3.9	11.1	1.4	5.6	10.7	2.9
2005/06	-0.8	8.9	1.8	7.4	5.9	4.6	5.7	7.2	9.2	11.6	7.2	7.3	1.6	8.2
2006/07	6.2	0.2	3.3	7.3	5.3	5.8	4.9	5.3	7.4	9.1	4.8	4.3	6.7	5.6
2007/08	4.8	6.6	8.2	9.6	7.3	6.3	9.4	8.7	3.9	20.4	7.2	11.0	6.3	8.8
2008/09	2.6	10.4	7.9	4.1	6.3	4.4	0.4	4.3	20.4	8.3	3.5	5.0	5.7	12.8
2009/10	14.9	18.3	11.6	4.0	5.7	10.8	12.0	4.3	-2.5	-1.1	2.8	3.4	9.0	4.9
2010/11	-1.4	3.9	1.2	-1.9	4.6	5.3	4.8	5.0	8.6	2.9	2.3	3.3	4.8	3.8
2011/12	0.4	3.8	3.7	6.7	-1.6	4.4	1.3	10.5	0.9	5.5	6.4	5.7	2.0	11.2
Difference (%)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2002/03	0.7	5.5	1.0	1.2	-0.2	1.7	0.7	0.9	1.3	6.5	1.4	0.6	7.5	3.1
2003/04	0.7	4.1	7.9	3.0	-0.4	-0.6	0.7	3.0	2.7	5.7	3.5	0.1	15.8	3.9
2004/05	9.2	-4.2	3.9	2.5	-0.3	2.0	0.5	1.6	3.0	8.2	4.0	2.9	5.5	9.4
2005/06	-2.6	3.4	0.4	3.3	2.7	1.2	1.5	3.7	8.1	5.9	2.4	5.8	-3.4	10.5
2006/07	1.2	-3.5	0.7	1.1	3.6	1.7	2.8	2.0	7.2	5.1	1.1	3.5	9.8	3.0
2007/08	0.1	-2.2	0.3	4.5	4.5	2.4	6.8	2.9	2.3	8.7	3.4	6.3	6.9	6.0
2008/09	0.3	-0.7	1.5	1.6	3.7	0.8	0.2	0.9	15.7	-1.4	2.4	6.5	6.6	8.9
2009/10	6.0	6.1	2.4	-2.7	-0.2	7.5	0.2	2.5	-1.5	0.8	-2.1	2.4	4.5	3.6
2010/11	-6.2	-10.5	0.4	-2.3	3.0	1.3	-2.2	3.4	8.4	-1.3	0.0	-2.3	5.6	11.4
2011/12	-3.2	-8.0	2.5	0.5	0.0	1.0	0.3	8.2	3.4	5.1	4.2	2.8	5.4	13.7

Sources: Federal/Provincial/Territorial budget documents; fiscal reference tables (Finance Canada); authors' calculations.

Table 3: Bias and Accuracy in Budget Forecasts of Changes in Spending, 2002/03–2011/12

Jurisdiction	Bias		Accuracy		Total Overrun (\$M)	Total Overrun to 2012/13 Expenditures (%)
	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank		
Federal	0.6	1	4.2	9	6,216	2
Newfoundland and Labrador	-1.0	2	5.5	10	-861	-12
Prince Edward Island	2.1	8	3.1	6	241	15
Nova Scotia	1.3	4	2.5	4	721	8
New Brunswick	1.6	7	2.5	2	1,099	13
Quebec	1.4	5	1.8	1	11,404	16
Ontario	1.1	3	2.5	3	9,011	7
Manitoba	2.9	10	3.5	7	3,143	22
Saskatchewan	5.1	12	6.9	12	4,211	38
Alberta	4.3	11	5.6	11	11,071	27
British Columbia	2.0	8	2.8	5	6,670	15
Northwest Territories	2.9	9	3.9	8	282	20
Yukon	6.4	13	7.9	14	513	47
Nunavut	7.3	14	8.2	14	796	59

Note: Bias results in bold font represent a statistically significant result at a 5 percent confidence level.

Sources: Federal/Provincial/Territorial budget documents; fiscal reference tables (Finance Canada); authors' calculations.

Prince Edward Island, and New Brunswick recorded average overshoots larger than 1.0 but less than 2.0. Alberta and Saskatchewan are the worst-performing provinces, with average overshoots in the 4–5 percentage point range, while Yukon and Nunavut bring up the rear with average overshoots close to 7 percentage points.

In our measures of accuracy, the governments line up slightly differently. Quebec's 1.8 percentage-point standard deviation is the smallest. New Brunswick, Ontario, and Nova Scotia also show respectable accuracy scores. Newfoundland and Labrador's unimpressive 5.5 percentage point accuracy score suggests an element of luck in its

small 10-year bias. Alberta and Saskatchewan were the least accurate provinces over the period, and Nunavut and Yukon score worst of all on accuracy, as they do on bias. Ottawa's standard deviation of 4.2 percentage points puts it below the middle of the pack, showing that its good bias score is the result of some sizable offsetting misses, particularly during the last two fiscal years.

Revenues

Although revenue arguably is less subject to government control than spending, as it is affected more by economic conditions and less prone to

in-year discretionary moves – tax-rate changes, for example, are budget measures – a similar review of projected and reported revenue changes rounds out the fiscal picture.

Table 4 presents the revenue changes projected in governments' spring budgets over the past 10 years (the top panel, in which we also show fiscal year 2012/13 projections for reference, as we did for spending) and revenue changes reported in their public accounts (the middle panel), as well as the differences between the actual and projected changes (the bottom panel). Table 5 summarizes the 10-year record with the same measures used for spending: bias is the average difference between projected and actual changes; accuracy weighs larger misses more heavily and sums without regard to sign.

In general, Canadian governments have been very conservative in their revenue projections: only Ontario saw lower revenues than projected on average over the decade, while the average positive surprise for all governments was 3.8 percent. The cumulative revenue overshoot by all governments over the decade to 2010/11 was a startling \$85 billion. It is not surprising that revenue overshoots, individually and collectively, exceed spending overshoots. Governments typically include margins – “fiscal prudence” – in their revenue forecasts. But for all governments to average a 3.8 percent overshoot over 10 years goes beyond prudence. To the extent that such understatements affect the impression legislators and commentators form of governments' intended fiscal footprints, these figures indicate material unplanned increases in those footprints over the decade.

Prince Edward Island showed the smallest bias among all the governments, with Ontario and Ottawa also recording biases of 1.0 percentage points or less. Not surprisingly, jurisdictions that are more dependent on natural resource revenues, which have surprised on the upside more often than not over the past decade, tended to overshoot projected revenues the most, with Newfoundland and Labrador, Alberta, and Saskatchewan all

recording bias measures above 10 percentage points.

As for accuracy, Ontario's standard deviation of 4.5 percentage points puts it in the middle of the pack, suggesting – along similar lines to our comment on Newfoundland and Labrador's spending – that its low bias owes something to fortunate offsets in deviations from plan. Jurisdictions with greater dependence on natural resources, such as Newfoundland and Labrador, Saskatchewan, and Alberta, have more difficulty in projecting revenue, as shown by their low accuracy scores. Notably, the federal government's revenue forecasts were the most accurate, with a standard deviation over the decade of only 2.5 percentage points.

Are Revenue Surprises Associated with Spending Surprises?

Over- and undershoots of spending and revenues might occur together for several reasons or combinations of reasons. One explanation is innocent: a natural resource boom or bust that unexpectedly boosted or depressed revenue could simultaneously generate unexpectedly high or low demand for public services, for example. Another is less commendable: governments might deliberately budget conservatively to leave room for in-year sprees. Perhaps most objectionable is when governments manipulate their reported numbers to achieve a given bottom line.

While detecting a pattern is not the same as identifying a cause, the summary of annual under- and overshoots in Table 6 does show that positive and negative surprises on both the revenue and spending sides tend to occur together. The table presents the correlations between annual in-year revenue and spending deviations over the decade for each jurisdiction. Everywhere but Manitoba, the relationship is positive, and in five jurisdictions it exceeds the 0.55 figure that normal statistical tests say is significant, with Ontario coming in marginally below that mark. We accord governments with lower correlations a higher rank,

Table 4: Budgeted and Actual Revenues, 2002/03–2011/12

Announced Revenue Change (%)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2002/03	0.3	0.7	-0.4	3.1	1.2	2.0	4.9	0.6	2.3	-5.6	-3.6	-13.1	-2.4	-2.5
2003/04	3.4	1.8	4.6	3.8	4.4	4.3	7.8	4.6	-2.8	-2.9	4.1	10.3	1.1	10.4
2004/05	3.4	-3.8	3.1	4.2	4.6	3.1	14.8	4.0	1.8	-9.4	3.2	6.9	2.1	2.7
2005/06	2.3	3.5	3.1	4.4	2.8	3.3	5.9	-0.3	-9.2	-4.9	1.1	1.9	5.0	5.4
2006/07	2.8	2.3	3.1	5.1	0.1	4.4	2.1	3.4	-3.5	-6.3	-0.3	2.0	1.1	2.5
2007/08	1.9	12.2	8.0	5.8	2.8	1.2	2.6	5.8	-6.2	-4.7	-1.7	4.3	-3.3	2.9
2008/09	-1.1	-3.4	6.8	2.3	2.7	0.1	0.4	1.3	-0.3	2.2	-2.3	-4.5	1.0	4.5
2009/10	-4.9	-29.5	6.7	-1.0	-0.6	-0.4	2.7	-0.4	-12.4	-11.1	-1.9	3.4	5.3	5.6
2010/11	8.0	5.6	3.0	3.7	1.8	2.9	10.9	1.7	-0.8	1.3	5.8	5.0	7.9	5.9
2011/12	5.7	-1.1	2.1	-3.1	2.1	4.8	2.2	2.0	-1.8	4.7	3.6	3.0	5.6	7.0
Memo: 2012/13	2.8	-10.9	1.3	4.3	5.2	5.9	2.7	0.3	1.9	4.6	2.8	9.5	7.3	8.0
Actual Revenue Change (%)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2002/03	3.8	1.4	-2.8	0.6	-1.3	4.2	3.7	3.2	6.7	3.5	-3.3	-11.4	6.5	10.3
2003/04	4.7	3.0	5.3	7.1	4.1	4.3	-0.7	4.7	1.6	14.3	8.1	3.0	12.0	6.0
2004/05	7.2	6.4	9.5	10.4	9.4	4.5	13.8	11.5	19.1	13.6	14.2	13.1	12.0	10.1
2005/06	5.2	24.8	5.0	6.8	5.8	5.9	8.3	2.3	5.5	22.0	7.9	11.4	9.4	13.2
2006/07	6.2	-0.7	5.4	6.7	5.2	9.3	7.4	6.1	5.3	7.7	7.1	8.7	5.5	19.0
2007/08	2.8	31.2	5.9	13.2	5.0	5.6	7.5	9.4	14.4	0.0	3.5	12.9	2.1	-7.3
2008/09	-3.8	21.9	5.8	-0.8	2.1	-0.3	-6.9	3.4	26.2	-6.3	-3.7	-6.1	5.0	9.7
2009/10	-6.1	-15.9	8.7	0.9	-1.7	8.4	-1.2	-0.9	-16.9	0.2	-2.0	3.0	6.8	4.3
2010/11	8.6	13.2	2.7	8.2	6.3	6.5	11.3	4.5	7.9	-2.1	6.6	2.0	7.2	8.3
2011/12	3.5	5.2	2.8	-2.8	3.6	5.7	2.4	4.7	0.5	12.7	2.6	4.8	8.7	9.4
Difference (%)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2002/03	3.4	0.7	-2.4	-2.5	-2.5	2.2	-1.1	2.6	4.4	9.0	0.3	1.7	8.8	12.9
2003/04	1.3	1.2	0.7	3.3	-0.3	0.1	-8.5	0.1	4.3	17.2	4.0	-7.4	10.8	-4.4
2004/05	3.9	10.2	6.4	6.2	4.9	1.4	-1.0	7.5	17.3	23.0	11.0	6.3	9.9	7.4
2005/06	2.9	21.3	1.9	2.5	2.9	2.6	2.4	2.6	14.7	26.9	6.8	9.4	4.4	7.8
2006/07	3.4	-3.0	2.3	1.6	5.1	4.9	5.2	2.7	8.8	14.1	7.5	6.7	4.4	16.5
2007/08	0.9	19.0	-2.1	7.4	2.1	4.4	4.9	3.6	20.5	4.6	5.2	8.6	5.4	-10.3
2008/09	-2.7	25.3	-0.9	-3.2	-0.5	-0.4	-7.3	2.1	26.5	-8.5	-1.4	-1.5	4.0	5.2
2009/10	-1.3	13.5	2.0	1.9	-1.2	8.8	-4.0	-0.5	-4.5	11.4	-0.2	-0.3	1.5	-1.3
2010/11	0.6	7.6	-0.2	4.5	4.5	3.6	0.4	2.7	8.7	-3.4	0.9	-3.0	-0.7	2.4
2011/12	-2.3	6.3	0.8	0.3	1.5	0.9	0.3	2.7	2.3	7.9	-1.0	1.8	3.0	2.4

Sources: Federal/Provincial/Territorial budget documents; fiscal reference tables (Finance Canada); authors' calculations.

Table 5: Bias and Accuracy in Budget Forecasts of Changes in Revenue, 2002/03-2011/12

Jurisdiction	Bias		Accuracy		Total Overrun (\$M)	Total Overrun to 2012/13 Revenues (%)
	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank		
Federal	1.0	3	2.5	1	16,790	7
Newfoundland and Labrador	10.2	12	13.6	12	6,052	84
Prince Edward Island	0.8	1	2.6	2	92	6
Nova Scotia	2.2	6	3.9	6	1,459	180
New Brunswick	1.7	4	3.1	2	1,065	13
Quebec	2.1	5	3.1	3	16,684	24
Ontario	-0.9	2	4.5	7	-6,513	-6
Manitoba	2.6	8	3.3	5	2,458	18
Saskatchewan	10.3	14	13.6	13	8,284	73
Alberta	10.2	13	14.6	14	28,341	70
British Columbia	3.3	10	5.2	8	10,456	24
Northwest Territories	2.2	7	5.6	9	246	16
Yukon	5.1	11	6.2	10	353	30
Nunavut	3.9	10	8.5	11	198	13

Note: Bias results in bold font represent a statistically significant result at a 5 percent confidence level.

Sources: Federal/Provincial/Territorial budget documents; fiscal reference tables (Finance Canada); authors' calculations.

reflecting our judgment that in-year spending surprises triggered by higher-than-expected revenues – or, worse, manipulation of either revenue or spending to achieve a target bottom line – undermine accountability to legislators and voters.

Did Governments Improve Their Scores over the Past Decade?

Have things gotten better over time? One might expect not: cynicism about governments aside, the first half of the decade under review was

relatively calm while the second half was a period of exceptional economic volatility. We draw some mild encouragement, therefore, from looking at our measures of bias and accuracy for the two halves of the decade separately.

As Table 7 shows, 8 of the 14 senior governments had smaller spending biases over the 2006/07–2010/11 period than during the preceding five fiscal years, and the declines in their biases, which are based on the difference from a bias score of zero, were larger than the increases that occurred in the other six. This lowered the national average bias

Table 6: Correlation of Deviations, 2002/03-2011/12

Announced Revenue Change (%)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
Correlation of surprises	0.25	0.09	0.33	0.25	0.40	0.87	0.53	-0.10	0.68	0.72	0.35	0.64	0.45	0.09
Rank	5	2	6	4	8	14	10	1	12	13	7	11	9	3

Note: The 10-year observation period makes the statistically significant level of correlation about 0.55 with a two tailed 10 percent significance test.

Sources: Federal/Provincial/Territorial budget documents; fiscal reference tables (Finance Canada); authors' calculations.

from 3.0 percentage points in the first half of the decade to 2.5 in the second half. Less happily, but not surprisingly under the unpredictable economic circumstances, accuracy scores deteriorated for most governments, raising the national average from 4.0 in the first half of the decade to 4.6 in the second half.

On the revenue side, both measures improved. Fully 10 of the 14 governments recorded smaller revenue biases in the second half of the decade, and the average bias for all of them fell from 5.2 percentage points to 2.7. The same 10 governments also improved their accuracy scores, lowering the national average standard deviation to 5.4 percentage points during the 2007/08–2011/12 period from 7.0 five years earlier.

We take the smaller biases in both spending and revenue, and the improved accuracy in revenue, as signs that Canadian governments might be improving the degree to which they actually execute their plans according to their projections, and are pleased to report these improvements alongside those in financial reporting.

POLICY RECOMMENDATIONS

One key message from this review of the fiscal projections and results of Canada's senior governments over the decade prior to fiscal year 2011/12 is that spending overshoots are too common to be accidental. Canada went into the financial crisis of 2008 and ensuing recession in better fiscal shape than most developed countries, and has shown better results than most since then. It would have been still better prepared, however, if governments had stuck to their previous fiscal plans. The cumulative \$53 billion in spending beyond what legislatures approved at the beginning of each fiscal year represents a large amount of debt not paid down and/or taxes higher than elected representatives presumably intended when making early plans.⁶

A second problem worth highlighting is the persistence of inconsistent accounting between budget and public account documents. The federal government, Ontario, New Brunswick, Manitoba, Saskatchewan, Alberta, and British Columbia

6 This criticism applies whether overshoots resulted from inadequate control of in-year spending or from deliberate underprojection of spending in budgets. Bottom-line projections in budgets receive a good deal of attention in budget speeches and other commentary, so it seems reasonable to assert that they are material in legislatures' decisions about whether to vote for budget bills.

Table 7: Improvements and Deteriorations in Accountability, 2002/03-2006/07 vs. 2007/08-2011/12

Expenditures (%)															
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU	National Average
Bias: First 5 years	1.8	1.1	2.8	2.2	1.1	1.2	1.2	2.2	4.5	6.3	2.5	2.6	7.0	6.0	3.0
Bias: Last 5 years	-0.6	-3.0	1.4	0.3	2.2	2.6	1.0	3.6	5.7	2.4	1.6	3.1	5.8	8.7	2.5
Difference	-1.2	2.0	-1.4	-1.9	1.1	1.4	-0.2	1.4	1.2	-3.9	-0.9	0.6	-1.2	2.7	-0.5
Accuracy:															
First 5 years	4.3	4.2	4.0	2.4	2.0	1.5	1.5	2.4	5.2	6.4	2.7	3.3	9.4	6.8	4.0
Last 5 years	4.1	6.6	1.7	2.7	2.9	3.6	3.2	4.3	8.2	4.6	2.8	4.5	5.9	9.4	4.6
Difference	-0.2	2.3	-2.3	0.3	0.9	2.1	1.7	1.9	3.0	-1.8	0.1	1.2	-3.6	2.6	0.6
Revenues (%)															
Bias: First 5 years	3.0	6.1	1.8	2.2	2.0	2.2	-0.6	3.1	9.9	18.0	5.9	3.4	7.7	8.0	5.2
Bias: Last 5 years	-1.0	14.3	-0.1	2.2	1.3	3.5	-1.1	2.1	10.7	2.4	0.7	1.1	2.6	-0.3	2.7
Difference	-2.0	8.3	-1.7	0.0	-0.8	1.2	0.5	-1.0	0.8	-15.6	-5.2	-2.3	-5.0	-7.7	-2.4
Accuracy:															
First 5 years	3.1	10.7	3.3	3.6	3.6	2.7	4.6	3.9	11.2	19.1	6.9	6.8	8.1	10.7	7.0
Last 5 years	1.8	16.0	1.4	4.2	2.4	4.7	4.3	2.5	15.7	7.7	2.5	4.2	3.4	5.4	5.4
Difference	-1.4	5.4	-1.9	0.6	-1.2	2.0	-0.3	-1.4	4.4	-11.4	-4.4	-2.6	-4.8	-5.3	-1.6

Sources: Federal/Provincial/Territorial budget documents; fiscal reference tables (Finance Canada); authors' calculations.

now use consistent accounting in both documents, and Yukon has just begun to do so, but the other provinces and territories still do not. Further, detailed explanations of why actual spending and revenue differed from budget estimates are still comparatively rare. Such analyses of variances greatly help legislators and the public hold governments to account. Actual year-end results

that miss the target thanks to forecast errors or a natural disaster are much easier to accept than in-year project spending because of, say, windfall revenues. Better scrutiny by legislators and voters generally should help improve this record – a process this survey is intended to assist. Beyond this general exhortation, a handful of specific changes in processes might help.

Improved Reporting in the Estimates

One change we would urge is better reconciliation between the main and supplementary estimates of government spending plans prepared by treasury departments and the revenue and expenditure figures in budget documents prepared by finance departments. Although budgets provide the plans for an upcoming fiscal year and the public accounts provide the audited results at year's end, the main and supplementary estimates are released and voted on sometime between the two documents. These estimates reflect a mix of planned priorities as well as in-year spending initiatives.⁷ Since the estimates report spending on a basis that differs from that of either budgets *or* public accounts, even an intelligent and motivated parliamentarian, especially under the time constraints that typically affect such votes, would find comparing them to plans (and results) practically impossible.

The presentation of supplementary estimates, which legislatures vote on to approve in-year changes, is naturally vital to improving legislators' control of, and accountability for, adherence to budget targets. A recent report by the House of Commons Standing Committee on Government Operations and Estimates (Canada 2012b) recommends that the federal government identify separately, in the estimates, all the new funding that is being voted on and link other spending initiatives back to the budget. If each set of supplementary estimates showed item-by-item comparisons to budget plans and how the supplementary estimates, if approved, would work with or against the plans, legislators would have with better information on how the fiscal year was unfolding compared with projections in the spring budget and whether they

should respond to any deviation from plans.

Improved Committee-level Scrutiny

More powerful legislative committees providing better scrutiny of in-year developments could help resolve the awkward choice of whether or not to include reserves for contingent spending in budgets. When governments know from experience that they are likely to face demands arising from events such as a natural disaster, including such reserves in the fiscal plan helps legislators anticipate the bottom line more accurately. The objection to such reserves is that they provide cover for spending that might not pass muster if evaluated explicitly. A countervailing consideration is that revealing contingencies such as exposure to legal judgments or compensation settlements could increase governments' liabilities. On balance, we favour including such contingencies in budgets, counting on appropriate parliamentary scrutiny to ensure that they do not end up as slush funds.

More powerful public accounts committees particularly could strengthen the back end of the oversight process. Historically, public accounts committees provided key oversight of public accounts documents and governments' financial management in Westminster-style parliaments. The relative importance of such committees, or complementary bodies such as the House of Commons Government Operations and Estimates Committee, appears to have diminished over time (Malloy 2004). Regular reports from such bodies that explored in-year deviations from plans would strengthen parliamentary oversight of government decisions.⁸

7 The main estimates must be tabled before March 1 every year, which means that they sometimes come before the release of the budget; hence the supplementary estimates, not the main estimates, will reflect budgetary initiatives. These estimates use cash-based accounting methods, unlike the accrual accounting methods used in most budgets and public accounts.

8 At the federal level, although most estimates are referred to these committees, other committees also review estimates – for example, estimates that fall under the Department of Finance are reviewed by the House of Commons Finance Committee.

Budget Rules and Legislation Governing Windfalls

Particularly in resource-rich provinces, legislated spending limits and balancing funds that smooth the impact of fluctuating resource-related revenues on spending appear attractive. In principle, such legislation treats natural resources partially or fully like capital assets, with the government putting royalties from the resources into a provident fund and setting rules on the annual level of distributions from that fund into revenue (Busby 2008; Landon and Smith 2010).

In practice, Canadian governments have not implemented these ideas very well, the general problem simply being that annual contributions to, and disbursements from, provident funds have tended to be short-run decisions with no consistent rules over time. When such funds do not operate with consistent rules – and, worse, when different funds, with separate mandates, proliferate, as has happened in Alberta – they make government budgets less transparent. Limited success in recent history makes us hesitate to put too much weight on provident funds as a means to cope with cyclical revenues. They have such potential, however, that we think they have a place in mitigating the challenge many Canadian governments face in budgeting realistically and executing according to budget.

Timely Publishing of Year-end Results

Finally, the timeliness of the publication of public accounts matters. The public accounts documents provide important information early in the next budget cycle, and the process of preparing them in a timely way should promote accuracy in the preliminary historical figures presented in the budget. If the audited financial statements appear

six months or more after year-end, they have less value. Some provinces consistently publish their public accounts earlier than others. Alberta, for example, has enshrined in legislation the requirement to publish public accounts documents before the end of June, which is three months after the close of the prior fiscal year and the end of the first quarter of the new budget year. Other jurisdictions could do the same.

CONCLUDING REMARKS

Canada's good fiscal standing today is the result of sound management on many levels – some of it as straightforward as competent, consistent accounting. Yet a close investigation of Canadian senior governments' fiscal results shows that there is still plenty of room for improvement.

Some of those improvements go beyond those we have discussed explicitly. Transparency with regard to what governments plan to do and why, as well as reasons for changes in direction, are an ongoing challenge with many dimensions – and are not getting easier as the economy gets more complex and the range of government activity widens. As we noted at the outset, however, consistent and meaningful presentations of budget projections and results, although not sufficient by themselves to ensure accountability, are a necessary condition.

The past decade's cumulative revenue and spending overshoots, and the emerging understanding that a lack of fiscal transparency undermines good management of public money, should inspire Canadian senior governments to improve their financial reporting and their adherence to targets, and for legislators and voters to hold them more closely to account.

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