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Credibility on the (Bottom) Line: The Fiscal Accountability of Canada's Senior Governments, 2013

Over the last decade, Canada's senior governments have overshot their spending targets by some \$47 billion combined. More accuracy in hitting budgeted amounts would have made today's taxes and public debt lower. Their record of missed targets and spending overruns should inspire continued improvements in financial reporting to provide better accountability to voters and taxpayers.

Colin Busby and William B.P. Robson

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ABOUT THE AUTHORS

COLIN BUSBY

is a Senior Policy Analyst
at the C.D. Howe Institute.

WILLIAM B.P. ROBSON

is President and CEO
of the C.D. Howe Institute.

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Finn Poschmann
Vice-President, Research

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THE STUDY IN BRIEF

Each spring, Canada's federal, provincial and territorial legislatures vote budgets that set out their spending and revenue goals for the fiscal year. Budget votes are critical for holding governments accountable to legislators, and in turn to voters and taxpayers. Over the last decade, however, Canada's senior governments have overshot their spending targets by some \$47 billion combined. More accuracy in hitting budgeted amounts would have made today's taxes and public debt lower.

A related problem is deficiencies in financial reporting. In many provinces and territories, the average citizen or legislator would have trouble simply finding and comparing the key numbers in the budget and in the end-of-year financial reports. While Ottawa and Ontario prepare their principal financial documents using the same basis of accounting, display the relevant numbers prominently, and provide informative reconciliations between budgets and results, in most of the other provinces and territories, inconsistent presentations of multiple revenue and spending figures would stump any but the most expert reader.

Our 2013 fiscal accountability survey of Canada's senior governments evaluates the clarity and adherence to public sector accounting standards in each government's budgets and public accounts, and assigns letter grades to each one. It also shows the results of a straightforward attempt to overcome varied financial presentations across the country by comparing budgeted to actual changes in spending and revenue.

This exercise shows a substantial overshoot of spending – and an even larger overshoot of projected revenues – over the past decade. Expressed as percentages of their budgeted expenditures in the current fiscal year to allow comparisons, Alberta and Saskatchewan showed the biggest overshoots among the provinces – averaging about 4 and 5 percent – over the period, while Yukon and Nunavut were even worse.

The news is not all bad, however. Over the most recent five years, most of Canada's senior governments came closer to both their spending and revenue targets than they had during the previous five years. Our survey concludes with several suggestions about how Canada's senior governments can improve their financial reporting, and with it the ability of legislators and voters to hold them to account for hitting their budget targets.

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People with a duty to act in the interest of others do not always do so. As the world grows more complex and tasks more specialized, accountability is an increasingly pressing concern, particularly in the government sphere.

In developed democracies, governments typically tax and spend close to half of national income, and provide a wide range of services, from policing, through health and education, to income supports. So accountability of public-sector organizations to the citizens they serve is a growing preoccupation.

Many actual and potential measures and safeguards can help ensure that Canada's elected representatives and public officials are acting consistent with their mandates and their fiduciary duties. At the municipal level, such indicators as crime, crime clearance rates and on-time performance by public transit systems are becoming common. Provinces track indicators of how patients fare in hospitals and how students fare in schools. And at every level, use and misuse of public funds generates regular headlines.

The topic of this study is the financial reporting and performance of Canada's senior governments. This is the latest in a series of surveys¹ examining the fiscal footprint of federal, provincial and territorial governments: how much revenue they raise, how much they spend and how these results compare with budget targets. We have views, as readers will, about whether some governments

spend too much or too little, and whether Canadians get proper value from the taxes they pay. But in this study, we do not judge whether taxes and spending are too high or too low. We ask instead whether each jurisdiction's budgets and financial reports let legislators and voters understand and influence its fiscal footprint.

The first part of our study assesses the clarity and comparability of governments' financial reporting. We adopt the perspective of a reasonably intelligent and motivated, but non-expert, reader of a government's principal financial documents: its beginning-of-year budgets and its end-of-year financial reports, known as the public accounts. We begin by asking what this person – who might be a legislator or a concerned citizen – would understand, from the presentation and layout of these documents, to be the key total revenue and spending numbers projected at the beginning of the year, and the key total revenue and spending numbers reported at the end of the year.

The question is: are these numbers straightforward to find and compare?

In some jurisdictions, such as Ottawa and Ontario the answer is yes: in each case, the budget

We are grateful to many reviewers of this draft and commentators on previous versions of our fiscal accountability surveys for observations that have improved our analysis and presentation. We note particularly the valuable input of a number of public officials, and stress that we alone are responsible for any errors that remain, and for the opinions and recommendations in this *Commentary*.

1 This *Commentary* updates previous work on Canadian governments' fiscal reporting and performance: see Busby and Robson (2008, 2009, 2010, 2011, 2013) and Adrian, Guillemette, and Robson (2007) for prior years' accountability rankings for senior governments. Dachis and Robson (2011, 2014) have undertaken a similar survey of fiscal reporting and performance in Canada's major municipalities.

and public accounts documents display the relevant numbers prominently, they are prepared on the same accounting basis, and various related aspects of financial reporting – tables that reconcile budget intentions to outcomes, a clean audit, and timely reporting – are relatively good.

Unfortunately, however, other governments do not present this basic information in a way that our intelligent but non-expert reader can readily find and understand: accounting may not be consistent between the two principal financial documents, and/or the documents may prominently show two or more sets of revenue and expense figures. Since the financial reporting practices of Canada's senior governments have improved over the time the C.D. Howe Institute has been conducting these surveys, we are confident this comparison will encourage governments that fall short to raise their game.

The second part of our study compares budget targets with results for spending and revenue. We use the most prominent numbers the curious citizen reader would conclude are the right figures – which, we emphasize, are sometimes not the ideal numbers – to assess how close Canada's senior governments came to the annual spending and revenue goals they set at budget time over the past decade.

Here, too, we have both good and bad news. Taking the bad news first, Canada's federal, provincial and territorial governments have tended to overshoot their budget targets. Over the past 10 years, they spent some \$47 billion more than projected in their spring budgets, with the prairie provinces and the territories showing the biggest over-runs relative to the size of their budgets. The revenue overshoot – the amount by which actual revenues exceeded budget projections – was even larger: \$72 billion. Encouragingly, our measures document some improvements in more recent years; although not for all governments. Notably, Newfoundland and Labrador's results tended to miss the mark more badly. However, the trend across the country in the decade's second half was smaller misses than in its first half.

Measuring Fiscal Accountability

To repeat, the key accountability questions we address in this study are whether a legislator or citizen could readily identify key revenue and spending numbers in a government's principal financial documents, and what this person – using the most prominently displayed numbers – would find when comparing results to intentions.

Background on the Financial Cycle

The principal financial documents our idealized reader would consult come at opposite ends of the fiscal cycle. Ottawa, the provinces and territories all have fiscal years that run from April 1 to March 31. Legislatures typically vote budgets before April 1 – the beginning of the fiscal year. The public accounts, which present the audited, actual results for revenues and spending, appear after March 31 – the end of the fiscal year – typically in the summer or fall.

Governments produce other financial documents. Notably, legislatures will vote spending in a series of “estimates,” which are governments formal requests for funding. They typically consider “main estimates” close to the time of the budget, and “supplementary estimates” at intervals later in the year. In addition, many governments produce interim fiscal reports, showing progress to date relative to budget plans, and in many cases updating projections for the year. While we give credit to governments that produce interim reports that our idealized reader would find useful, we consider the budgets and the public accounts to be uniquely important.

Budgets are the central statement of a government's fiscal priorities. Control of public funds being critical to parliamentary government, budget votes are automatically votes of confidence: failure to pass one triggers a change in government and/or an election. Votes on estimates matter too, but estimates receive nothing like the same scrutiny a budget does – indeed, as we expand on later, they are usually not even on the same accounting basis as

the budget or the public accounts; so our idealized reader would not be able to compare them to either.

The public accounts are the definitive statement of the government’s annual finances. Scrutinized by the relevant auditor, they are official declarations of what a government actually raised and spent over the course of the year. For all kinds of reasons – such as using last year’s results as a basis for judging this year’s plans, and seeing how close last year’s results were to plan – comparing the budget totals to the actual totals is, or should be, straightforwardly useful.

Grading the Quality of Financial Reporting

So can our intelligent and motivated, but non-expert, reader find and compare the relevant numbers? It depends on the jurisdiction. In some, the relevant numbers appear prominently and early in the documents and are accessible in a matter of minutes; in others, our reader would need to spend hours exploring dozens of pages, tables and footnotes; and in yet others, the relevant numbers do not appear at all. Our approach is to locate the spending and revenue totals displayed early and prominently in budgets and in public accounts – the ones our reader might reasonably assume are the “correct” numbers – and ask a series of questions:

- Does the budget present one prominent set of revenue, spending and balance figures calculated in accordance with Public Sector Accounting Board (PSAB) recommendations?
- Do the public accounts present, early and prominently, headline revenue, spending and balance figures?

- Do the public accounts present headline revenue and expenditure figures that correspond to the most prominent figures in the budget?
- Do the public accounts prominently explain variances between the results and the budget?

Our assessments by these criteria appear in Table 1. As just mentioned, other criteria matter as well. We could, for example, ask if governments present legislatures with estimates that are also prepared in accordance with PSAB standards – but because most governments do not prepare any that way and none present all their estimates that way, that column would add little information about relative performance. We do think some other assessments merit attention however:

- Does the government publish in-year updates showing deviations from budget plans?
- 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?

The quality and presentation of the headline revenue and spending figures in the principal financial documents are critical to the letter grades in Table 1. If a government does not meet two of the first four criteria, our idealized reader is likely to be stumped at the start, warranting a grade of C or below. For those criteria, we dock each jurisdiction a letter grade for each failure to meet a criterion, and a partial grade when a criterion is not a clear “yes” or “no”. For the remaining criteria, we deduct partial grades on a relative scale: when interim financial reports are absent, when the most recent year’s audit was not clean, and when a jurisdiction’s audit approval occurred after the end of August.²

2 We note that some governments whose financial reports did not change from those we surveyed in last year’s version of this report nevertheless get lower grades this year. This apparently unfair result happens for one or both of two reasons. First, we have changed our scoring system to give greater weight to the presentation in both principal financial documents of a single set of revenue, expenditure and bottom-line figures, a change that particularly affects Saskatchewan, as we discuss further below. Second, as some of the more egregious deviations from good practice have disappeared, it makes sense to look more closely at the remaining problems. In future years, we anticipate elevating the presentation of estimates consistent with public-sector accounting standards to a criterion in Table 1 in its own right.

Table 1: Evaluating the Reporting Practices of Budgets and Public Accounts in Canada

Presentation					Reporting Schedule and Audit			
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Does Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H], quarterly[Q])	Number of Auditor reservations over 10 years (and most recent year) – Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
Federal	Yes	Yes	Yes	Yes: Tables and figures, supported by text, at the beginning of document	Yes (M,H)	0 (0) – No major reservations	29-Aug-13	A
NL*	No: Presents multiple revenues and expenses figures	Yes	No: Public Accounts present revised budget estimates	Yes: Some reconciliation explanations exist but they are not supported by tables or figures	Yes (H)	0 (0) – No major reservations	30-Dec-13	D+
PE*	No: Presents multiple budget balance figures (surplus before interest charges and amortization, in addition to consolidated deficit)	Yes	No: Public Accounts present revised budget estimates	No	Yes (H)	0 (0) – No major reservations	24-Jan-14	D-
NS*	Yes: But prominent budget figures add consolidation and accounting adjustments for government units	Yes	No: Public Accounts present revised budget estimates	Yes: But reconciliation tables compare revised budget estimates to actual results	Yes (H)	1 (0) – Latest objection in 2011/12, when auditor was unable to provide an opinion on uncertainty related to accumulated sick leave benefits	25-Jul-13	C+

* 2013/14 budget figures come from: NL – Budget Speech, Statement of Operations; PE – Budget Summary in Estimates; Expenditures include interest and amortization costs; NS – Budget Summary in Budget Assumptions and Schedules.

Table 1: Continued

Presentation					Reporting Schedule and Audit			
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Does Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H], quarterly[Q])	Number of Auditor reservations over 10 years (and most recent year) – Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
NB	Yes	Yes	No: Some adjustments to budget estimates are made	Yes: Tables and figures, supported by text, at the beginning of document	Yes (H)	0 (0) – No major reservations	4-Oct-13	B-
QC*	No: Presents multiple revenue, spending and balance figures	Yes	No: Comparable budget figures appear later in budget document	Yes: Tables and figures supported by text, at the beginning of the document	Yes (M,H)	8 (1) – One objection was noted in 2012/13, but 7 of 8 objections during latest decade occurred between fiscal 2003/04 and 2005/06	22-Oct-13	D+
ON	Yes	Yes	Yes	Yes: Tables and figures, supported by text, at the beginning of document	Yes (Q)	0 (0) – No major reservations	14-Aug-13	A
MB*	No: Presents multiple revenue, spending and balance figures	Yes	Yes	No: While reconciliation tables explain deviations from budget, they come late in document	Yes (Q)	3 (0) – Most recent reservation occurred in 2006/07, when the exclusion of public school divisions was inconsistent with accounting principles	28-Aug-13	C

* For clarification, 2013/14 budget figures come from: QC – Summary of Budget Transactions in Budget Speech; MB – Summary budget figures.

Table 1: Continued

Presentation					Reporting Schedule and Audit			
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Does Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H], quarterly[Q])	Number of Auditor reservations over 10 years (and most recent year) – Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
SK*	No: presents multiple balance figures	No: present multiple balance figures	Yes: But comparable figures in both documents are not the consolidated results of province	Yes: Tables and figures supported by text, at the beginning of the document	Yes (Q)	**28 (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	18-Jun-13	D+
AB*	No: presents multiple revenue, spending and balance figures	No: present multiple balance figures	Yes	Yes: Tables and figures supported by text, at the beginning of the document	Yes (Q)	0 (0) – No major reservations	19-Jun-13	C
BC	Yes	Yes	Yes	Yes: But explanations for variances are limited	Yes (Q)	20 (4) – Over last decade, 9 of 20 reservations have occurred in latest 2 fiscal years. Auditor cautions numerous instances of departures from Canadian Generally Accepted Accounting Principles	4-Jul-13	B+

* For clarification, 2013/14 budget figures come from: SK – General Revenue Fund; AB – Operational Plan Budget.

** Auditor reservations for SK are based on the audit of the General Revenue Fund, which appear first in the document, but not the consolidated financial statements, where the province had a clean audit.

Table 1: Continued

Presentation					Reporting Schedule and Audit			
Jurisdiction	Does Budget Present One Prominent Set of Revenue, Spending and Balance Figures?	Do Public Accounts (Volume I) Report Headline PSAB-Consistent Figures for Revenue, Spending and Balance?	Does Public Accounts (Volume I) Present Headline Revenue and Spending Figures that Match The Earliest and Most Prominent Figures in Budget?	Do the Public Accounts Prominently Display Comparisons of Actual Results with Budget Plans?	Does Government Provide Interim Reports on Progress Toward Budget Targets? (monthly[M], half-year[H], quarterly[Q])	Number of Auditor reservations over 10 years (and most recent year) – Comments	Date of Most Recent Audit Approval	Overall Grade on Financial Reporting Presentation
NT*	No: presents multiple spending and balance figures	Yes	No: comparable budget figures are in non-audited, non-consolidated statements	Yes: but explanations are limited	No	0 (0) – No major reservations	30-Oct-13	D
YK*	No: Financial Summary shows both consolidated and non-consolidated figures	Yes	No: Figures should match in fiscal 2013/14	No: A separate document provides some explanation of variations	No	0 (0) – No major reservations	23-Oct-13	D
NU*	No: presents multiple revenue, spending and balance figures	Yes	No	No	No	10 (0) – The Government of Nunavut struggles to table its consolidated financial accounts on time	28-Nov-13	E

* For clarification, 2013/14 budget figures come from: NT – Budget Address and Papers, Medium-term outlook; YK – Consolidated summary; NU – Fiscal and Economic Indicators, Main estimates basis.

Source: This table is compiled using the most recently available government documents – 2013/14 Budget documents and 2012/13 Public Accounts.

We award A's to Ottawa and Ontario. Our idealized reader would have little difficulty finding comparable and PSAB-consistent headline revenue and spending numbers in the budgets and public accounts of these jurisdictions. While neither Ottawa nor Ontario stands out for the timeliness of auditing and publishing their year-end results, these jurisdictions prominently report informative reconciliations of results with budgets, publish interim results on the same accounting basis as the main documents, and have clean audits. This relatively good performance is not new: Ottawa and Ontario have topped the quality-of-reporting scores in our survey for the last few years.

At the opposite end of the quality-of-reporting scale is Nunavut, to which we award an E, as well as slightly better performers such as Prince Edward Island, Northwest Territories, Yukon, Newfoundland and Labrador, Quebec and Saskatchewan, to which we award D's. The budgets of these provinces and territories would bewilder our idealized reader with multiple presentations of revenue and spending figures that are not easily reconciled with headline figures in the public accounts. Not surprisingly, they also do relatively poorly on our other criteria of informative reporting.

Between the extremes of A and E are some jurisdictions worth an extra comment. One is Saskatchewan: we graded Saskatchewan higher in previous surveys because its headline budget numbers are comparable to the prominent figures presented in its public accounts, but this year mark it down because those numbers are not prepared by PSAB standards.³ We also highlight, with regret, that Alberta's relative position dropped sharply this year, because its new fiscal framework legislation

prescribes a budget presentation that replaces PSAB-consistent headline numbers for revenue and spending with a confusing array of "operating," "saving" and "capital" accounts. More positively, we note that Yukon, which used to present a budget inconsistent with its public accounts, adopted a consistent presentation for headline figures last year, making it the one territory where our idealized reader would more readily be able to make sense of the numbers.

Encouragingly, Yukon's move is more typical of what senior governments have done over the past couple of decades than is Alberta's. In the mid-1990s, no senior government prepared its budgets on the same basis as its public accounts. As Table 1 documents, Ottawa and five provinces now do so. We look forward to the day when we can award top marks for consistent PSAB-compliant budgets and public accounts across the board.

How Much Do Budget Votes Actually Mean? Targets versus Results

Until that happy day, comparing results to projections from coast to coast will not be straightforward. To make a comparison, we have to relax our assumption about the non-expert reader slightly, because making the numbers reasonably comparable requires a calculation that this person would find a stretch.

We mitigate the distortions caused by inconsistent budget presentations by basing our comparisons on year-to-year changes rather than on levels. When the budget presents a number on a different basis from the public accounts, and especially when the budget presents more than one number – separate

3 Our previous surveys focused on whether the headline figures in the principal financial documents were prepared on the same basis of accounting. That method did not penalize Saskatchewan, which – uniquely among the senior governments – presented headline figures in its budget and public accounts that are calculated the same way, but not according to public-sector accounting standards. We have corrected that oversight in this year's survey.

operating and capital accounts, for example – comparing dollar amounts in the budget to dollar amounts in the public accounts will not produce meaningful comparisons. A difference in accounting between the two documents will look like an under- or overshoot – potentially a very large one. To obtain more comparable measures, we sum separate amounts where applicable, and then calculate percent changes in revenue and in spending. For budgets, we calculate the percent changes in revenue and spending relative to the prior year’s figures as published in each budget. For public accounts, we calculate percent changes in revenue and spending relative to the prior year’s figures in each public-accounts document.

Spending

While not perfect (see Box 1), this adjustment lets us proceed to a survey of how well Canada’s senior governments have hit their budget targets over the past decade. Table 2 shows annual spending changes projected in each government’s spring budget (the top panel, which also shows the current year’s budget projections for reference), and the spending changes reported in each government’s public accounts (the middle panel), as well as the differences between them (the bottom panel). We summarize their performances over the decade in Table 3, using two measures:

- **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; and
- **Accuracy:** the root average square of the differences. 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 no matter whether they miss up or down.

Our bias measure indicates that Canada’s senior governments tended to overshoot projected spending over the decade. Only Newfoundland and Labrador had an average undershoot. Although Ottawa averaged close to its budget projections, the average bias of all 14 governments – averaged without regard to sign, so an undershoot in one jurisdiction does not offset overshoots in others – was 2.5 percentage points annually. That is no small amount. Aggregating overshoots and undershoots, the cumulative overshoot was around \$47 billion over the decade. The final column of Table 3 eases comparisons among the governments by scaling each cumulative 10-year over- or undershoot to projected 2013/14 spending. The degree to which the cumulative misses raised the baseline for spending in the current fiscal year – by more than one-third in Saskatchewan’s case and by even larger amounts in Yukon and Nunavut – is startling.

Ottawa’s average spending overshoot of 0.4 percent gives it the best – that is, the smallest – bias score among the 14 governments, with Nova Scotia and Ontario following in second and third places, respectively. Quebec, Prince Edward Island, New Brunswick and British Columbia recorded average overshoots larger than 1.0 percent but less than 2.0 percent. Alberta and Saskatchewan are the worst-performing provinces, with average overshoots of 3.8 and 5.1 percentage points, while Yukon and Nunavut bring up the rear with average overshoots of about 6 and 8 percentage points respectively.

In our measures of accuracy, the governments line up slightly differently. Quebec has the best – which again means the smallest – root average square deviation: 1.6 percentage points. Nova Scotia, Ontario, New Brunswick and British Columbia also show respectable accuracy scores. Alberta, Newfoundland and Labrador, and Saskatchewan were the least accurate provinces over the period, and Yukon and Nunavut scored worst of all on accuracy.

Box 1: Potential Objections to Percent-Change Comparisons of Budgets and Public Accounts

Our use of percent-change measures of revenue and spending, calculated from budgets and public accounts documents, respectively, to compare plans to results has its flaws. We use it because we faced a choice between two evils.

In our view, the greater evil would be to compare budgets with public accounts that are on different accounting bases, thus treating differences in dollar amounts that reflect items included, excluded, or expensed differently as over- or undershoots. When budgets are on a cash basis and public accounts are on an accrual basis, capital items alone can make dollar amounts very different, which would result in spurious measures of spending over- or under-shooting.

While we think the percent-change approach is a lesser evil, we acknowledge that it is not good. In addition to taking our non-expert reader beyond what should be a simple comparison of two dollar amounts, this approach to comparing over- and undershoots can create spurious over- and undershoots of its own.

For example, a government that uses consistent accounting in its budgets and financial reports might present a budget with projections that turn out to be spot on in dollar terms. If the preliminary figures for the previous fiscal year in that budget are different from what the public accounts will later show, however, our approach would show a discrepancy between the percent change calculated from the budget numbers and the change calculated from the public accounts. We do not think this is a serious problem for the governments that used consistent accounting in the most recent year, since the preliminary numbers for the year about to end in their budgets do not show consistent differences from the numbers subsequently published for those same years in their public accounts.

Alberta is an exception to this generalization – but in Alberta’s case, the impact of revisions to preliminary previous-year figures flatters its performance rather than creating spurious inaccuracies. While Alberta recently moved to a budget presentation with headline figures that are inconsistent with the consolidated financial figures in its public accounts, it presented public-accounts-consistent budgets over the previous decade. During the six years from 2007/08 to 2012/13, the public accounts showed spending for the previous years that averaged around 7 percent higher than the preliminary numbers in Alberta’s budgets for those years. So Alberta’s budgets showed much larger percent increases in spending in those years than they would have done if they had used actual previous-year figures. Since Alberta tended to overshoot even the exaggerated percent increases in spending calculated from its budgets, the percent-change comparisons actually reduced our measure of its over-runs, rather than exaggerating it.

Revenue

Revenue is arguably less subject to government control than spending. In-year discretionary moves are less common on the revenue side; tax-rate changes, for example, are budget measures. So ups

and downs relative to plan are likelier to result from other events, such as economic cycles. For the sake of a fuller picture of budgets and results, however, we proceed to a similar review of projected and reported revenue changes.

Table 2: Budgeted and Actual Expenditures, 2003/04-2013/14

Budget Spending Change (percent)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
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
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
2013/14	0.9	1.9	1.9	-0.9	2.5	2.6	2.9	3.1	1.4	-1.1	0.8	1.8	2.0	-0.5
Actual Spending Change (percent)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2003/04	3.4	8.2	12.0	6.2	3.9	3.6	7.4	7.2	6.2	6.0	1.1	5.5	9.6	7.2
2004/05	10.9	-3.1	0.3	6.6	2.1	4.8	7.5	2.6	3.8	11.2	1.5	5.4	11.6	3.0
2005/06	-0.7	7.7	1.7	6.2	5.9	4.3	5.7	7.3	9.3	11.8	7.2	7.0	1.8	8.8
2006/07	6.3	0.2	3.2	6.2	5.3	5.4	5.0	5.4	7.4	9.1	4.8	4.1	8.0	5.4
2007/08	4.8	6.3	8.1	8.9	7.4	5.9	9.5	8.8	3.9	20.4	7.3	10.6	7.4	7.5
2008/09	2.6	9.8	7.9	3.8	6.4	4.0	0.4	4.2	20.6	7.8	3.5	4.6	6.6	11.0
2009/10	14.8	16.7	11.3	3.7	5.8	9.9	11.3	4.4	-2.5	-1.0	2.8	2.9	10.3	4.1
2010/11	-1.4	3.5	1.1	-1.8	4.6	4.6	4.9	5.1	8.6	2.7	2.3	2.8	5.6	3.3
2011/12	0.4	3.2	3.5	6.3	-1.6	3.7	1.3	10.7	0.9	5.2	6.6	3.3	2.3	6.9
2012/13	0.1	1.2	0.3	3.8	3.0	2.7	-0.1	-2.2	3.1	4.7	-1.0	5.9	5.4	5.7
Difference (percent)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2003/04	0.6	2.7	7.3	2.4	-0.4	-0.7	0.4	3.0	2.8	5.7	3.5	-0.2	16.4	4.0
2004/05	8.6	-3.6	3.9	1.6	-0.2	1.7	0.6	1.5	2.9	8.3	4.1	2.7	6.4	9.5
2005/06	-2.6	2.2	0.3	2.1	2.8	0.9	1.5	3.8	8.1	6.1	2.5	5.4	-3.3	11.1
2006/07	1.3	-3.5	0.6	0.0	3.7	1.3	2.9	2.0	7.3	5.1	1.1	3.2	11.1	2.8
2007/08	0.2	-2.5	0.1	3.9	4.5	1.9	6.9	3.0	2.3	8.7	3.4	5.9	7.9	4.7
2008/09	0.3	-1.2	1.5	1.3	3.7	0.4	0.2	0.9	16.0	-1.9	2.4	6.1	7.5	7.1
2009/10	5.9	4.4	2.2	-3.0	-0.1	6.6	-0.5	2.5	-1.5	0.9	-2.1	1.8	5.8	2.9
2010/11	-6.1	-10.9	0.3	-2.2	3.1	0.7	-2.1	3.5	8.5	-1.5	0.0	-2.8	6.5	10.9
2011/12	-3.2	-8.6	2.3	0.1	0.0	0.2	0.3	8.4	3.4	4.7	4.4	0.4	5.7	9.4
2012/13	-1.1	-0.9	-0.7	0.2	1.7	-0.3	-1.6	1.7	1.5	1.4	0.2	5.2	1.2	13.5

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

Table 3: Bias and Accuracy in Budget Forecasts of Changes in Spending, 2003/04-2013/14

	Bias		Accuracy		Total Overrun (\$M)	Ratio: Total Overrun to 2013/14 Expenditures
	Mean Error (percent)	Rank	Root Mean Square Error (percent)	Rank		
Federal	0.4	1	4.1	9	2,110	1
Newfoundland and Labrador	-2.2	8	5.1	10	-1,172	-15
Prince Edward Island	1.8	5	2.9	6	221	14
Nova Scotia	0.6	2	2.1	2	705	7
New Brunswick	1.9	6	2.6	4	1,243	15
Quebec	1.2	4	1.6	1	10,871	15
Ontario	0.9	3	2.6	3	6,637	5
Manitoba	3.0	10	3.6	7	3,340	22
Saskatchewan	5.1	12	7.0	12	4,289	37
Alberta	3.8	11	5.2	11	10,246	27
British Columbia	1.9	7	2.8	5	6,395	15
Northwest Territories	2.8	9	4.0	8	324	22
Yukon	6.5	13	8.2	13	479	43
Nunavut	7.6	14	8.4	14	933	63

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

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

Table 4 presents the revenue changes projected in governments' spring budgets over the past 10 years (the top panel, which – like Table 2 for spending – also shows fiscal year 2013/14 projections for reference) and revenue changes reported in their public accounts (the middle panel), as well as the differences between them (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 tended to underpredict revenue by substantial margins over

the decade. Ontario was the only province that overpredicted on average, and the average upside surprise across the country was 3.4 percent. Aggregating revenue over- and undershoots across the country, the cumulative overshoot was a remarkable \$72 billion. Some tendency for revenue to overshoot projections is not surprising: governments typically include prudence margins in their forecasts. But such a large bias toward overshoot across the country over 10 years suggests that prudence and other factors have led to tax takes well beyond what legislators voting budgets intended.

Table 4: Budgeted and Actual Revenues, 2003/04–2013/14

Budget Revenue Change (percent)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
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
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
2013/14	3.8	0.1	2.8	3.3	1.8	5.0	2.3	3.0	1.9	1.4	4.6	2.5	2.4	4.8
Actual Revenue Change (percent)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2003/04	4.4	2.9	5.4	6.8	4.2	4.3	-0.7	4.7	1.6	14.2	8.2	2.6	11.6	5.2
2004/05	6.6	6.3	9.3	8.7	9.8	4.3	13.8	11.5	18.8	13.3	14.4	12.4	12.4	9.7
2005/06	4.8	23.9	4.8	5.6	5.7	5.5	8.2	2.3	5.5	21.4	7.7	11.3	9.8	12.5
2006/07	6.2	-0.6	5.2	5.3	5.2	8.6	7.3	6.0	5.2	7.4	7.0	8.0	5.6	17.1
2007/08	2.7	29.3	5.7	11.6	4.8	5.2	7.4	9.2	13.9	0.0	3.4	11.9	2.2	-5.1
2008/09	-3.8	20.9	5.7	-0.7	2.1	-0.3	-6.8	3.4	24.9	-6.2	-3.7	-5.3	5.4	7.8
2009/10	-6.2	-15.5	8.4	0.8	-1.7	7.6	-1.2	-0.9	-16.7	0.2	-2.0	3.0	7.3	3.4
2010/11	8.5	11.5	2.6	7.2	6.4	5.5	11.3	4.4	7.7	-1.8	6.6	1.9	7.7	6.4
2011/12	3.5	6.5	2.7	-2.5	3.6	4.6	2.4	4.6	0.5	11.1	2.6	3.9	9.3	7.2
2012/13	3.0	-14.2	0.6	3.5	-0.3	2.0	3.3	0.7	2.7	-2.4	0.5	16.7	8.9	6.6
Difference (percent)														
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
2003/04	1.0	1.1	0.8	3.0	-0.2	0.1	-8.5	0.1	4.3	17.1	4.1	-7.7	10.4	-5.2
2004/05	3.2	10.1	6.2	4.5	5.2	1.1	-1.0	7.5	17.0	22.7	11.2	5.5	10.3	7.0
2005/06	2.5	20.4	1.7	1.2	2.9	2.3	2.3	2.6	14.6	26.3	6.7	9.3	4.8	7.0
2006/07	3.4	-2.9	2.0	0.2	5.0	4.2	5.2	2.6	8.7	13.8	7.4	6.0	4.5	14.6
2007/08	0.8	17.1	-2.3	5.8	2.0	4.0	4.8	3.4	20.1	4.6	5.2	7.6	5.5	-8.0
2008/09	-2.8	24.3	-1.1	-3.0	-0.6	-0.4	-7.2	2.0	25.2	-8.4	-1.4	-0.8	4.4	3.3
2009/10	-1.4	14.0	1.7	1.8	-1.2	8.1	-3.9	-0.5	-4.3	11.3	-0.2	-0.3	2.0	-2.2
2010/11	0.4	5.9	-0.4	3.5	4.6	2.6	0.5	2.7	8.5	-3.1	0.8	-3.2	-0.2	0.5
2011/12	-2.3	7.5	0.7	0.6	1.4	-0.2	0.3	2.6	2.3	6.4	-1.0	1.0	3.6	0.2
2012/13	0.2	-3.3	-0.7	-0.8	-5.5	-3.9	0.6	0.4	0.8	-7.0	-2.2	7.2	1.6	-1.4

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

Table 5: Bias and Accuracy of Changes in Revenues, 2003/04-2013/14

	Bias		Accuracy		Total Overrun (\$M)	Ratio: Total Overrun to 2013/14 Revenues
	Mean Error (percent)	Rank	Root Mean Square Error (percent)	Rank		
Federal	0.5	1	2.1	1	11,334	4
Newfoundland and Labrador	9.4	13	13.1	12	5,854	84
Prince Edward Island	0.9	3	2.4	2	106	7
Nova Scotia	1.7	6	3.0	4	1,545	16
New Brunswick	1.4	4	3.4	6	780	10
Quebec	1.9	7	2.8	3	13,455	19
Ontario	-0.7	2	4.4	7	-5,096	-4
Manitoba	2.3	8	3.2	5	2,331	16
Saskatchewan	9.7	14	13.2	13	8,112	70
Alberta	8.4	12	14.2	14	23,715	63
British Columbia	3.0	10	5.2	8	9,455	21
Northwest Territories	2.5	9	5.8	10	348	22
Yukon	4.7	11	5.7	9	322	27
Nunavut	1.6	5	6.5	11	235	15

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

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

Ottawa showed the smallest revenue bias among all the governments, with Prince Edward Island and Ontario also recording absolute biases smaller than 1 percent. Not surprisingly, jurisdictions that are more dependent on natural resource revenues – which did tend to surprise on the upside over the decade – showed sizeable positive revenue biases: Saskatchewan, Newfoundland and Labrador, and Alberta all had biases of 8 to 10 percent.

As for accuracy in revenue projections, Ontario's standard deviation of 4.4 percentage points puts it in the middle of the pack, suggesting that its relatively good bias score owes something to luck. Predictably, the natural-resource-dependent

jurisdictions that are more affected by commodity-price swings – Saskatchewan, Newfoundland and Labrador, and Alberta – also had low accuracy scores. Ottawa's revenue forecasts were the most accurate, with a root average square deviation over the decade of only 2.1 percentage points.

Are Revenue Surprises Associated with Spending Surprises?

Considering over- and undershoots of spending and revenues together sheds some light on a natural question: do surprises on one side of a government's budget have anything to do with surprises on the

other? The record of the past decade in Canada suggests they do: Table 6 shows correlations among annual differences (i) between spending projections and results and (ii) between revenue projections and results, for each government. Everywhere but Manitoba, the relationship is positive, and in four jurisdictions it exceeds the 0.55 figure that normal statistical tests say is significant, with Yukon and Ontario being not far below that number.

Finding a correlation does not tell us what caused it. One explanation is innocent: an economic boom (or bust) might unexpectedly boost (or depress) revenue and also generate unexpectedly high (or low) demand for public services. However, we caution that the impact on demand for services would affect multi-year performance more than the annual measures we are investigating, since much of the higher or lower demand would affect capital spending, which is less subject to in-year surprises. The more traditional expectation is that cyclical surprises push revenue and spending in opposite directions – with booms raising revenue and lowering demand for social supports, and busts having the opposite effect.

Another explanation is less commendable: governments low-balling in budgets to leave room for in-year sprees. Arguably the worst explanation of all would be manipulation of reported numbers to achieve a given bottom line. Because negative correlations are more consistent with traditional fiscal stabilization and positive correlations could result from less than admirable fiscal practices, we view low numbers, such as those recorded by Nunavut and Manitoba, as superior to the higher ones recorded by Alberta, Saskatchewan and Quebec.

Did Governments Improve Their Scores over the Past Decade?

The economic climate in the second half of the decade we are looking at – 2008/09 to 2012/13 – was more difficult on average than the previous five years leading up to the financial crisis and recession.

So one might expect Canadian governments to have missed their budget targets by worse margins in the more recent years. Encouragingly, however, the general story is one of narrower misses.

We summarize the bias and accuracy scores for each government, separating the first and second halves of the decade, in Table 7. We underline that we see a bias in either direction as equally serious, so consider changes in the absolute values of the bias scores. Nine of the 14 senior governments recorded smaller spending biases over the 2008/09–2012/13 period than during the preceding five fiscal years. Averaging across jurisdictions, the absolute value of the bias among Canada's senior governments dropped from 3.2 to 1.8 percent from the first to the second half of the decade. Nine of the 14 also recorded better – that is, smaller – accuracy scores in the second half of the decade, though the improvement in the national average was much less impressive than in the bias measure.

The revenue side shows a more marked improvement. Twelve of the 14 governments recorded smaller revenue biases in the second half of the decade than in the first half, and the average bias across the country fell from 5.4 to 1.3 percent. Twelve of the 14 – not exactly the same ones – improved their revenue accuracy scores, and the average root square error across the country fell from 7.2 percentage points in the first half of the decade to 4.3 percentage points during its second half.

On the whole, we take an optimistic view of the better bias and accuracy scores for most of Canada's senior governments in the second half of the past decade. While our intelligent but non-expert reader would find the percent-change calculations a stretch, the comparisons they permit suggests that budget votes were more meaningful indicators of what was actually likely to happen during the more recent five years. Given the enormous weight of governments in Canada's national economy, and widespread concerns about fiscal policy at home and abroad, this is a reassuring finding.

Table 6: Correlation of Deviations

	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU
Correlation of surprises	0.24	0.22	0.41	0.24	0.20	0.84	0.50	-0.03	0.68	0.71	0.42	0.70	0.46	0.06
Rank	6	4	7	5	3	14	10	1	11	13	8	12	9	2

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 and Public Accounts documents; authors' calculations.

POLICY RECOMMENDATIONS

Having given some credits for improvements in financial reporting, and noted that results conformed more closely to budget votes in more recent years, we close by noting that this survey exposes some serious continuing deficiencies. Canadians can and should demand further improvements in the way federal, provincial and territorial governments report on, and manage, public funds.

Budgets Should Match Public Accounts

To begin with, Alberta's abandonment of PSAB-consistent presentations means that only five senior governments present their legislators and citizens with one set of prominent budget numbers suitable for comparison to the audited financial statements in their public accounts. In the remaining nine, our idealized reader would find it hard – and in several of them, practically impossible – to make what should be a simple comparison of projections and results. Alberta's new presentation is hard for even experts to understand, and the multiple revenue, spending or budget balance figures presented by Saskatchewan and Quebec would bewilder an ordinary citizen or legislator. In our modern climate of rising expectations for accountability, a director of a private company who accepted such poor information – and increasingly few would – would run a serious risk of being replaced or sued by unhappy shareholders.

Legislators in the nine jurisdictions with deficient budget presentations should insist on improvements so that they are getting useful information. Specifically, they should insist on one set of headline figures in the principal financial documents that are prepared on the same PSAB-consistent basis. Once they have it, additional documentation – including in-year updates on the evolving situation and reconciliation tables explaining differences between projections and outcomes – would be more helpful.

Estimates Should Match Public Accounts

A further step that would be desirable in every jurisdiction is spending estimates that are presented on, or at least include reconciliations with, PSAB-consistent financial statements. Ontario presents most of its estimates on a PSAB basis consistent with its budget and public accounts, but its practice is the exception, when it ought to be the rule. In most of the country, a legislator might respond to demands to bring results closer into line with budget projections by protesting that she or he was obliged to vote on estimates without knowing how they fit, or not, with the budget plan. That is true in a narrow sense, but legislators collectively have the power to remedy that situation. Responsibility to insist on estimates prepared on the same accounting basis as public accounts – and, we hope, budgets – ultimately lies with legislators themselves.

A 2012 report by the House of Commons Standing Committee on Government Operations

Table 7: Improvements and Deteriorations in Accountability, 2003/04-2007/08 and 2008/09-2012/13

Expenditures (percent)															
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU	National Average
Bias: First 5 years	1.6	-0.9	2.4	2.0	2.1	1.0	2.5	2.7	4.7	6.8	2.9	3.4	7.7	6.4	3.2
Bias: Last 5 years	-0.9	-3.4	1.1	-0.7	1.7	1.5	-0.7	3.4	5.6	0.7	1.0	2.1	5.3	8.7	1.8
Difference	-0.8	2.5	-1.3	-1.3	-0.4	0.5	-1.7	0.7	0.9	-6.1	-2.0	-1.3	-2.4	2.3	-1.4
Accuracy: First 5 years	4.1	2.9	3.7	2.4	2.9	1.4	3.4	2.8	5.3	6.9	3.1	4.1	10.1	7.2	4.3
Accuracy: Last 5 years	4.1	6.6	1.6	1.7	2.3	3.0	1.2	4.3	8.3	2.5	2.4	3.9	5.8	9.4	4.1
Difference	0.0	3.6	-2.1	-0.6	-0.6	1.6	-2.2	1.5	3.0	-4.4	-0.7	-0.2	-4.3	2.3	-0.2
Revenues (percent)															
	Federal	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	NT	YK	NU	National Average
Bias: First 5 years	2.2	9.2	1.7	2.9	3.0	2.3	0.6	3.2	13.0	16.9	6.9	4.1	7.1	3.1	5.4
Bias: Last 5 years	-1.2	9.7	0.0	0.4	-0.2	1.2	-2.0	1.4	6.5	-0.1	-0.8	0.8	2.3	0.1	1.3
Difference	-1.0	0.5	-1.6	-2.5	-2.7	-1.1	1.4	-1.8	-6.4	-16.8	-6.1	-3.4	-4.8	-3.0	-4.1
Accuracy: First 5 years	2.4	12.8	3.2	3.6	3.6	2.8	5.1	4.0	14.2	18.5	7.3	7.4	7.6	9.0	7.2
Accuracy: Last 5 years	1.7	13.3	1.0	2.3	3.3	4.2	3.7	1.9	12.1	7.7	1.3	3.6	2.8	1.9	4.3
Difference	-0.7	0.5	-2.2	-1.3	-0.3	1.3	-1.4	-2.1	-2.0	-10.8	-6.0	-3.8	-4.8	-7.1	-2.9

Sources: Federal/Provincial/Territorial Budget and Public Accounts documents; authors' calculations.

and Estimates (Canada 2012) recommended that the federal government identify separately, in the estimates, all new funding proposed and link spending initiatives back to the budget. That is a good prescription for every senior government, and we note that Ontario is already well down that

road. The task of keeping fiscal policy on track as economic circumstances change and governments react to political developments will be much easier if legislators can see how the spending they are asked to approve matches – or not – the budget they approved.

Public Accounts and Like Committees Need Revitalizing

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 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 explicit contingencies such as exposure to legal judgments or compensation settlements could increase governments' liabilities by weakening their position in litigation or negotiation. On balance, we favour including reasonable contingency reserves 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 – analyzing deviations from plan and responding as appropriate. Historically, public accounts committees provided key oversight of public accounts documents and governments' financial management in Westminster-style parliaments. Trends in these aspects of parliamentary government do not get as regular attention as they deserve, but one survey a decade ago (Malloy 2004) noted a decline in the importance of such committees, and we do not think that trend has reversed since. Regular reports from such bodies that explored in-year deviations from plans would strengthen parliamentary oversight of government decisions.⁴

Year-End Results Must be Timely

Finally, we underline the importance of publishing public accounts in a timely way. The importance of knowing where you are to figure out where you are going is a truism: every organization relies partly on recent results when making its financial plans. In addition, timely public accounts will promote accuracy in the preliminary prior-year figures in budgets.

Table 1 showed wide variation in when senior governments release their public accounts. The fiscal year ends on March 31, and there is little reason why financial results should not be audited and published by June 30 – the end of the next quarter. Yet most senior governments receive their auditors' approvals and publish their financial statements far later than this. Prince Edward Island did not close its 2012/13 books until January of 2014. While we have criticized Alberta in this report, we note that its legislation requires the provincial public accounts to appear before the end of June. Other jurisdictions should meet the same standard.

A CONCLUDING CALL TO DO BETTER

As we noted at the outset, accountability has many dimensions, and modern governments can usefully provide many measures of their effective use and stewardship of public funds. Even in such a straightforward task as presenting the ordinary person with comparable budget and public-accounts numbers, however, most of Canada's senior governments fail. Those governments should lose no time in taking this key step toward better transparency in budgeting.

Our attempt to peel back the opaque layer over many governments' budgeting practices to compare intentions and results across the country revealed

⁴ 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.

some encouraging news. Over the most recent five years, most of Canada's senior governments came closer to their budget targets than they had during the previous five years. Nevertheless, spending over-runs were far too common, and it does not take a pathologically suspicious mind to see the correlations between spending and revenue

surprises in most jurisdictions over the decade as indicative of opportunistic behaviour. Canada's senior governments can improve their financial reporting and their adherence to targets, and legislators and voters should hold them accountable for doing so.

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