



C.D. Howe Institute

BACKGROUNDER

FISCAL & TAX COMPETITIVENESS

Impulse Spending: Canada's 2011 Fiscal Accountability Rankings

Colin Busby
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In this issue...

Fiscal troubles abroad are intensifying scrutiny of government reporting and management of public finances. Canadian governments also need to improve their accountability and rein in chronic spending over-runs.

THE STUDY IN BRIEF

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Rigorous external review of every major policy study, undertaken by academics and outside experts, helps ensure the quality, integrity and objectivity of the Institute's research.

Fiscal pressures and sovereign debt concerns around the world are intensifying scrutiny of government finances. Even in Canada, where these pressures and concerns are less acute, federal and provincial fiscal controls could be better.

Some Canadian governments still present budgets to their legislatures using different accounting than appears in their public accounts at year-end. Some present their public accounts far too late. Auditors do not always give unqualified approval. Most, however, have improved their financial reporting – with Ottawa, Ontario and New Brunswick standing out – showing that progress is possible, and setting the mark for others to follow.

When it comes to the differences between budgets and results, spending overruns and missed revenue targets have been commonplace over the past decade. Spending overruns are so frequent and large that the cumulative total among the federal, provincial and territorial governments over the decade exceeded \$82 billion – meaning that Canada entered the slump with debts and taxes higher than would have occurred if governments had fulfilled their budget promises. Deviations between budgeted and actual amounts tend to be worse in the jurisdictions heavily dependent on natural resource revenues. New Brunswick and Quebec, by contrast, top the list of governments that have tended to hit their targets.

Canada's reputation for good fiscal management is deserved, but events elsewhere are raising the bar. Legislators and citizens alike should insist on comparable presentations in budgets and public accounts, publication of results that is more transparent and timely, and hold governments more strictly to account when the results – as is too often the case – are badly out of line with budget plans.

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Introduction and Overview

Is fiscal policy out of control in the advanced democracies? In some jurisdictions abroad, the explosions of government spending and borrowing after the 2008/09 crisis and slump show it is. Greece's example has worldwide attention: not only is its public-sector debt so high that interest-rate movements affect its fiscal balance more than policy decisions, but deeper scrutiny is revealing that its tracking of actual transactions – as opposed to what was expected or planned – is primitive.¹ Canada's situation is very different: borrowing costs are not currently a problem here, and our financial management is comparatively good. With disasters brewing abroad, however, the stakes have risen, as has the need for transparency and accountability in fiscal management. As this annual update of the C.D. Howe Institute's fiscal accountability rankings reveals, Canadian governments can still usefully do much to improve their control over public funds and their reporting to the public.

The fiscal cycle of Canada's senior governments normally turns on two major events. One is the spring budget, containing the fiscal plan with key revenue, spending and balance sheet items, usually delivered around the beginning of the fiscal year on April 1. These documents are forward-looking and tend to make headlines – if they are rejected by legislators, they trigger elections. The other is the publication of the public accounts, containing official, audited statements of financial results, usually about eight months after the fiscal year-end. These documents are backward-looking and do not trigger confidence votes, so they create less excitement.

The comparative inattention to public accounts by legislators and voters is a shame. These documents usually give key information about how well the fiscal plans released with such fanfare a year and a half earlier anticipated the actual results. But not always: straightforward comparisons with the relevant budgets are sometimes hard. Newfoundland and Labrador, along with Prince Edward Island, present incompatible figures in the two documents, and the Northwest Territories and Nunavut publish their public accounts objectionably late – more than a year after the year to which they apply has ended. Critically, where straightforward comparisons between budgets and results are possible, the public accounts typically show that the government in question overshot its projected spending. The cumulative total spending overshoot for Ottawa, the provinces and territories over the past decade amounts to \$82 billion, some 14 percent of total current expenditures and about the same as the sum of currently projected deficits.

While this snapshot is discouraging, our review over time gives grounds for hope. The transparency and comparability of budgets and public accounts has improved in recent years. Incompatible figures, once the rule, are now the exception. While recent extraordinary events might reasonably be expected to have thrown results more out of line with budget plans, moreover, the tendency of spending to overshoot the mark is less evident in the last five years than the five before them. We trust that this review of Canadian governments' financial controls will help Canadians push for continued improvements in the years ahead – years in which fiscal policy, even in the best-governed countries, seems likely to come under more intense scrutiny than ever.

This paper updates previous work on Canadian governments relative in-year fiscal performance. See Busby and Robson (2010, 2009, 2008) and Adrian, Guillemette, Robson and (2007) for prior years' accountability rankings. We thank our C.D. Howe Institute colleagues and a number of outside reviewers for comments and suggestions on earlier drafts.

1 See, for example, IMF (2011, pp. 12-13, 47-48), which describes such problems as ineffective tax collection, lack of accounting officers in government operations, weak parliamentary controls, fragmented and inadequate tracking of spending commitments, and fiscal reporting that is slow and incomplete.

Rating Governments' Fiscal Accountability

The premises behind our survey of governments' fiscal accountability are straightforward: first, that without poring over dozens of pages, tables of numbers and footnotes, or doing lots of arithmetic, a person of reasonable intelligence – or a motivated but time-constrained elected representative – should be able to pick the key revenue and spending totals out of a budget or a set of public accounts; second, that with no inordinate effort or expertise, this person should be able to compare the same totals between the two documents. Ideally, then, the figures this person would use – and the ones we would use in this review – would be displayed early and prominently in each year's budget documents and in Volume 1 of each year's public accounts.

Comparability and Quality of Fiscal Information

In the case of some Canadian governments – the federal and Ontario governments being key examples – finding and comparing these numbers is straightforward.² Budgets and public accounts present the key aggregates in places that are easy to find and in formats that are easy to interpret. The accounting basis for the two documents is the same. Better yet, the public accounts provide reconciliations of the results to the budget figures, showing and explaining variances. A reservation-free note from the relevant auditor is another key sign of quality. Prompt publication also matters: it is clearly more useful, for example, to get each year's public accounts in the summer or fall, well ahead of the end of the subsequent fiscal year and

the presentation of the budget for the fiscal year following that.

In other cases, though, the comparisons are tougher and the quality of the numbers is lower. The key aggregates are hard to find, or to interpret once they are found. The accounting basis for the budget and the public accounts is different. The auditor expresses reservations about the public accounts. And, as in the case of some territorial governments, the public accounts are released unconscionably late: more than 12 months after the end of the fiscal year to which they apply, and well after the following budget has been tabled.

To begin our survey of the fiscal transparency and accountability of Canada's federal and provincial governments, we ask the following specific questions:

- Are the key spending and revenue figures prominently displayed in budget documents and public accounts?
- Are the key spending and revenue figures that are prominently displayed in budget documents and public accounts comparable and reconcilable?
- Do the public accounts clearly show deviations from budget figures and explain the reasons for them?
- Does the jurisdiction use quarterly or mid-year updates to show deviations from budget plans?
- Does the relevant auditor express any concerns about the public accounts figures?
- How soon after the end of the fiscal year did the public accounts appear?

The results of this survey appear in Table 1. Ottawa, Ontario and New Brunswick set the standard for transparency and comprehensiveness in helping readers understand the relationship of results to budget plans. In each case, the key figures are easy to find, comparisons of results to

² That the numbers are straightforwardly and consistently presented does not mean that they necessarily capture everything that they can or should. One of these authors has argued, for example, that Ottawa's financial statements understate the cumulative obligation and ongoing accruals of federal-employee pensions (Laurin and Robson 2010), a problem that afflicts all provinces and territories to at least some degree. Another disputed area is the netting of tax credits against revenue: many would argue that governments should report fully refundable credits, or potentially any credit unrelated to a taxpayer's marginal tax rate as spending, with revenues shown gross of the credits. Consensus on how private- and public-sector financial statements should reflect economic reality is not a realistic objective. For the purposes of this study, conventional practices as reflected in public-sector auditing standards, published in the CICA Public Sector Accounting Handbook (PSACC), are the appropriate benchmark.

Table 1: Evaluating the Reporting Practices of Public Accounts Documents in Canada, 2009/10

Jurisdiction	Matching of Public Accounts with Budget Figures	Grade	Use of Reconciliations Tables and Figures, Explanation of Deviations, Placement in document	Grade	Use of Interim Budget Reports Yes (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 (H)*	0 (0) – No major reservations	26-Aug-10
NL	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	No	0 (0) – No major reservations	10-Dec-10
PEI	Revised estimates appear in public accounts	C	Reconciliation table appears late in document, without explanation for changes.	D	No	0 (0) – No major reservations	26-Nov-10
NS	Consolidated budget estimates match but appear later in public accounts	B	Variance tables given, with explanation of deviations from budget, but comes later in document.	A	No	1 (0) – Last reservation, in 1999/00, was about a late report from a Crown Corporation regarding its pension liabilities.	30-Jun-10
NB	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	30-Jul-10
QC	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 (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	12-Nov-10
ON	Yes, budget figures match	A	Multiple variance tables, supported by text, at the beginning of document.	A	Yes (Q)	0 (0) – No major reservations	30-Jul-10
MB	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 is the exclusion of public school divisions, which was inconsistent with accounting principles	16-Aug-10
SK	Yes, budget figures match	A	Good use of reconciliation tables, detailed explanation for variation, results appear at beginning of document.	B	Yes (Q)	24 (2) – Ongoing objections to recording transaction with Fiscal Stabilization Fund as revenue or expense and lack of recording for pension liabilities	4-Jun-10
AB	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	21-Jun-10
BC	Yes, budget figures match	A	Variance analysis and reconciliation tables, limited explanation, results appear early in document.	B	Yes (Q)	11 (4) – Auditor cautions numerous instances of departures from Canadian Generally Accepted Accounting Principles.	30-Jun-10
NWT	Budget figures do not match. Comparable figures appear in non-audited, non-consolidated statements	A	Some 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)	10-May-11
YK	Budget figures do not match	F	Some reconciliation with budget, an explanation of variations, located in separate document.	B	No	4 (1) – Most recent reservation highlighted a violation of Financial Administration Act through the purchase of non-bank asset-backed commercial paper	8-Oct-10
Nuna	Budget figures do not match	F	Only previous years' public accounts figures are presented.	F	No	13 (2) – The Government of Nunavut has never tabled its consolidated financial accounts on time. 2007/08 reservations, like the year prior, are concerned with the Nunavut Business Credit Corp.'s improper books of accounts.	N/A

Source: Authors' estimates based on 2009/10 Public Accounts documents.

Note: Astute readers will note that Ottawa publishes a monthly fiscal monitor to show the month by month fiscal results. These figures, however, are not necessarily stated in comparison to budgeted amounts, but rather the previous year's results.

budgets are clearly presented using the same accounting, and the relevant auditors expressed no major reservations. Saskatchewan, Alberta, British Columbia and Nova Scotia produced their public accounts quite quickly – before the end of June – while most other jurisdictions followed shortly after, in July and August.

Less happily, Quebec, Newfoundland and Labrador, the Northwest Territories and Nunavut do not use the same accounting for their budgets and public accounts. Among other jurisdictions that do use the same accounting in both, some do not provide reconciliations of results to budgets, or do so in ways that are hard to find or understand. Our table also reports examples of qualifications by auditors, such as in Saskatchewan and British Columbia, and some very late releases of public accounts, including the Northwest Territories and the egregious example of Nunavut.

Although Table 1 provides a snapshot rather than showing changes relative to the past, some key improvements deserve mention. Canada's senior governments increasingly publish in-year updates – usually quarterly reports – that track results relative to budget projections. On this score, western and central provinces are more likely to have many fiscal update publications during the budget cycle. Happily, while it has not been many years since all Canada's senior governments used different accounting in their budgets and public accounts, this is becoming rare. In 2009/10, Yukon published a "Financial Statement and Discussion" that compares budgeted to actual amounts – a step toward comparable presentation throughout that other non-conforming jurisdictions should imitate, and that Yukon should see through to the logical conclusion of using consistent accounting for both.³ Further, in fiscal year 2010/11, Quebec has

announced that it will publish the public accounts on the same accounting basis as its budget.

Scoring Budget Over- and Undershoots

Before we can present a scoresheet of governments' stewardship of public money, we need to deal with some of the financial-reporting deficiencies that can complicate what should be a straightforward process of pulling and comparing the key numbers from the budgets and public accounts.

The worst deficiency is the Territorial public accounts not yet published. For these missing years, we use figures from the Department of Finance's fiscal reference tables for the most recent year.⁴ Turning to the matter of clear and accessible presentation, in the case of Newfoundland and Labrador, we deviate from our rule that the comparison should be between the most prominent totals in budgets and public accounts. That province uses a different accounting basis for the two sets of figures, but its public accounts provide a variance report on the same accounting basis as the budget, and our judgement is that the additional report is prominently enough displayed to warrant using for the comparison.

Finally, the fact that budget and public accounts presentations in some jurisdictions still use different accounting, and historically more did, makes it impossible to get meaningful figures by comparing levels of spending or revenue between the two documents, or calculating gaps or percent changes with regard to a base figure chosen from one or the other. Instead, we calculate percent changes from the prior year's figures reported in the same document – the budget in the case of budgets, and the public accounts in the case of the public accounts – and compare those two numbers.

3 Canadian municipalities do not use similar accounting methods in their budgets and in presenting their financial results; the example of the senior governments is important in showing that opposition to doing so can be overcome, and that a long history of inconsistent accounting is no justification for continuing with it. See Dachis and Robson (forthcoming) for a similar survey of the financial accountability of Canada's municipal governments.

4 This fill-in is admittedly very inadequate, since the fiscal reference tables' main source of data is the public account documents in each jurisdiction, and when those are not available the fiscal reference table uses the most recent budgetary information.

Table 2: Budgeted and Annual Expenditures, 2000/01-2009/10

Projected Spending Change (%)														
	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	NWT	Yukon	Nunavut
2000/01	0.6	3.1	1.5	-0.6	-2.3	2.8	-1.2	-0.6	3.6	1.8	-1.3	4.8	-1.9	3.2
2001/02	5.1	5.4	-0.2	0.5	6.6	3.4	2.2	1.7	5.8	12.5	7.4	4.5	-1.1	1.8
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	10.1	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	17.1	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	0.0	0.8	0.4	1.6	3.9	7.0	1.6	0.1	4.2	2.3	5.6	-0.8	-7.5
Actual Spending Change (%)														
	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	NWT	Yukon	Nunavut
2000/01	6.0	6.4	10.7	0.2	-2.3	4.9	-0.5	2.8	2.6	9.5	1.1	6.0	4.1	10.7
2001/02	2.1	5.5	3.8	5.1	7.3	3.2	3.0	1.8	7.0	9.9	10.1	9.2	5.5	8.4
2002/03	4.0	5.9	2.3	1.5	4.2	3.7	4.1	3.1	0.6	-1.5	1.1	5.7	3.0	5.1
2003/04	3.5	5.1	12.6	6.6	3.9	3.6	7.8	7.1	6.2	5.9	1.1	5.8	9.0	7.1
2004/05	11.5	0.8	0.3	7.9	2.0	5.1	7.4	2.7	3.9	11.1	1.4	5.6	10.7	2.9
2005/06	-0.8	4.9	1.8	6.1	5.9	4.6	5.7	7.2	9.2	11.6	7.2	7.3	1.6	8.2
2006/07	6.2	5.0	3.3	4.6	5.3	5.8	4.9	5.3	7.4	9.1	4.8	4.3	6.7	5.6
2007/08	4.8	11.2	8.2	8.3	7.3	6.3	9.4	8.7	3.9	20.4	7.2	11.0	6.3	8.8
2008/09	2.6	13.8	7.9	4.8	6.3	4.4	0.4	4.3	20.4	8.3	3.5	5.0	5.7	12.8
2009/10	14.9	8.0	11.6	4.0	5.7	10.8	12.0	4.3	-2.5	-1.1	2.8	3.4	9.0	1.1
Difference (%)														
	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	NWT	Yukon	Nunavut
2000/01	5.3	3.3	9.2	0.8	0.0	2.1	0.7	3.4	-1.1	7.7	2.4	1.2	6.0	7.5
2001/02	-3.1	0.1	4.0	4.6	0.7	-0.2	0.8	0.1	1.2	-2.6	2.7	4.8	6.7	6.6
2002/03	0.7	4.4	1.0	0.6	-0.2	1.7	0.7	0.9	1.3	6.5	1.4	0.6	7.5	3.1
2003/04	0.7	-0.4	7.9	2.8	-0.4	-0.6	0.7	3.0	2.7	5.7	3.5	0.1	15.8	3.9
2004/05	9.2	0.4	3.9	3.0	-0.3	2.0	0.5	1.6	3.0	8.2	4.0	2.9	5.5	9.4
2005/06	-2.6	-0.6	0.4	2.0	2.7	1.2	1.5	3.7	8.1	5.9	2.4	5.8	-3.4	10.5
2006/07	1.2	-5.1	0.7	-1.7	3.6	1.7	2.8	2.0	7.2	5.1	1.1	3.5	9.8	3.0
2007/08	0.1	-5.9	0.3	3.2	4.5	2.4	6.8	2.9	2.3	8.7	3.4	6.3	6.9	6.0
2008/09	0.3	2.8	1.5	2.2	3.7	0.8	0.2	0.9	15.7	-1.4	2.4	6.5	6.6	8.9
2009/10	6.0	-4.2	2.4	-2.7	-0.2	7.5	0.2	2.5	-1.5	0.8	-2.1	2.4	4.5	-0.2

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

Spending

Those caveats noted, we turn to the record over the past decade. Table 2 documents budget projections versus end-of-year results for each fiscal year since 2000/01, showing yearly percent changes in spending as projected in budgets in the top panel, yearly percent changes in spending as reported in public accounts in the middle panel, and the difference between them in the bottom panel.

We use two measures to summarize the 10-year record (Table 3):

- Bias – the average difference between actual and predicted results. This is the arithmetic mean of the differences shown in the bottom panel of Table 1, and captures the direction – over or under – of actual versus budgeted results, weighing each percent deviation over the period equally.

Table 3: Bias and Accuracy in Budget Forecasts of Changes in Spending, 2000/01-2009/10

Jurisdiction	Change in Expenditure Forecast (%)					Ratio: Total Difference to 2010/11 Expenditures
	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank	Total Difference (\$M)	
Federal	1.8	6	4.1	9	34,942	12
Newfoundland	-0.5	1	3.4	7	-333	-
Prince Edward Island	3.1	9	4.3	10	316	21
Nova Scotia	1.5	4	2.6	5	839	9
New Brunswick	1.4	3	2.3	2	895	11
Quebec	1.4	2	1.8	1	10,740	15
Ontario	1.5	5	2.4	4	12,199	10
Manitoba	2.1	7	2.4	3	1,805	14
Saskatchewan	3.9	11	6.3	12	2,994	30
Alberta	4.5	12	5.9	11	10,419	27
British Columbia	2.1	8	2.7	6	6,088	15
Northwest Territories	3.4	10	4.1	8	284	22
Yukon	6.6	14	8.0	14	458	43
Nunavut	5.9	13	6.7	13	616	51

Sources: Federal/provincial/territorial budget documents, fiscal reference tables (Finance Canada), authors' calculations.

- Accuracy – the root average square of the deviations. If over- and under-shoots cancel out, a series of large misses will have the same bias score as a series of small misses. The accuracy measure weighs the larger misses in the bottom panel of Table 2 more heavily and sums them without regard to sign – a useful summary of how close governments were to their targets, regardless of whether the result was above or below the projection.

When it comes to bias, the results in Table 3 show a clear tendency to overshoot rather than undershoot spending targets. Of the 14 governments, only Newfoundland shows a negative average error – a small undershoot – over the 10 years and the average of all governments for the period is an overshoot of 2.7 percentage points. The cumulative overshoot of all governments for the period was \$82 billion – a large number by any standard, equal to the entire amount of projected deficits across Canadian jurisdictions in 2010/11.

As for rankings, Newfoundland's closeness to target overall puts it in first place, with Quebec, New Brunswick, Nova Scotia and Ontario clustered together with average overshoots of 1.4–1.5 percentage points. Scanning the country from east to west, the rankings generally deteriorate. Alberta and Saskatchewan are the worst-performing provinces, with average overshoots of about 4 percentage points, and Yukon and Nunavut bring up the rear, with average overshoots in the 6-plus range. The federal government's mean overshoot of 1.8 percentage points puts it in the middle of the pack.

The accuracy measures tell a slightly different story. Quebec compliments its good bias score with a first-place – that is, smallest – 1.8 percentage-point standard deviation. New Brunswick, Manitoba and Ontario also show respectable accuracy scores. Newfoundland, however, shows a less impressive 3.4 percentage point score, suggesting an element of luck in its good 10-year bias performance. Bringing up the rear among the provinces, Alberta and Saskatchewan also have the worst accuracy scores, and Nunavut and Yukon's scores of over 7 percentage points put them worst of all. Ottawa's standard deviation is about 4 percentage points, below the median score for all senior governments.

Revenue

The annual results for revenue, calculated the same way as the spending results just surveyed, appear in Table 4, while Table 5 shows the corresponding summary measures for the decade.

In general, Canadian governments appear in retrospect to have been conservative in their budget revenue projections: only Ontario has seen revenues come in lower than expected on average, and the mean positive revenue surprise for all governments over the decade was 4.3 percent. As it happens, this unique performance by Ontario – like Newfoundland's in spending – comes with an unimpressive accuracy score. Jurisdictions that are more dependent on natural resource revenues, which have surprised on the up-side more often than not over the past decade, tended to overshoot

their revenue targets the most, with Newfoundland, Saskatchewan and Alberta showing bias measures of 7, 10 and 12 percentage points respectively. The federal government's relatively good showing in this respect puts it in fourth place among the senior governments.

As for accuracy, Ontario's standard deviation of 4.6 percentage points puts it in the middle of the pack: seriously adverse revenue surprises in the past two years counteracted happier surprises in earlier years to produce its low bias score. In general, jurisdictions with greater dependence on natural resources tended to have less accurate revenue projections, with Newfoundland, Saskatchewan and Alberta scoring worst on this scale. Ottawa again shows relatively well, standing in fourth place.

The Association between Revenue and Spending Overshoots

It is natural to wonder if governments' tendency to overshoot spending targets is related to their tendency to overshoot revenue targets. This could happen for several reasons or combinations of reasons. It could be because of genuine surprises – buoyant natural resource revenues creating a boom that also creates unexpected demands for public services, for example. It could be because governments deliberately budget conservatively to leave room for happy in-year surprises. Or it could be because governments manage their reported numbers to achieve targeted bottom-line results. This survey of under- and overshoots cannot say definitively why the pattern occurs for any given government, but it does reveal an association between surprises on the revenue and spending sides across the country.

Table 6 presents the correlations between the annual in-year revenue and spending surprises over the decade for each jurisdiction. For every government but Nunavut, the relationship is positive – in six jurisdictions it is over the 55 percent level that normal statistical tests say is significant, with Ontario and the Northwest Territories showing around 60 percent, Saskatchewan and Alberta showing 70 percent

Table 4: Budgeted and Actual Revenues, 2000/01-2009/10

Projected Revenue Change (%)														
	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	NWT	Yukon	Nunavut
2000/01	1.3	3.9	-1.7	0.2	-1.5	2.8	-0.7	1.3	9.8	-1.6	0.5	4.9	1.7	3.1
2001/02	-4.1	5.7	0.6	1.8	4.4	0.5	-1.0	0.6	-11.1	-10.7	2.3	1.6	0.9	5.5
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	0.0	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	15.8	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	-3.7	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
Actual Revenue Change (%)														
	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	NWT	Yukon	Nunavut
2000/01	9.0	6.8	4.5	6.4	1.3	7.8	2.8	6.5	15.4	28	10.4	22.1	13.7	10.8
2001/02	-3.3	-1.3	4.2	1.0	7.7	-1.5	-1.2	-0.1	-10.2	-14.1	-5.5	10.5	-4.5	-5.2
2002/03	3.8	2.5	-2.8	1.0	-1.3	4.2	3.7	3.2	6.7	3.5	-3.3	-11.4	6.5	10.3
2003/04	4.7	2.9	5.3	7.2	4.1	4.3	-0.7	4.7	1.6	14.3	8.1	3.0	12.0	6.0
2004/05	7.2	2.1	9.5	9.4	9.4	4.5	13.8	11.5	19.1	13.6	14.2	13.1	12.0	10.1
2005/06	5.2	18.9	5.0	7.0	5.8	5.9	8.3	2.3	5.5	22.0	7.9	11.4	9.4	13.2
2006/07	6.2	-3.2	5.4	5.7	5.2	9.3	7.4	6.1	5.3	7.7	7.1	8.7	5.5	19.0
2007/08	2.8	30.2	5.9	12.2	5.0	5.6	7.5	9.4	14.4	0.0	3.5	12.9	2.1	-7.3
2008/09	-3.8	28.3	5.8	-0.6	2.1	-0.3	-6.9	3.4	26.2	-6.3	-3.7	-6.1	5.0	9.7
2009/10	-6.1	-20.6	8.7	0.9	-1.7	8.4	-1.2	-0.9	-16.9	0.2	-2.0	2.0	6.8	8.2
Difference (%)														
	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	NWT	Yukon	Nunavut
2000/01	7.7	2.9	6.2	6.2	2.8	5.0	3.5	5.3	5.6	29.6	9.8	17.2	12.1	7.7
2001/02	0.8	-7.1	3.6	-0.8	3.3	-1.9	-0.2	-0.7	0.8	-3.3	-7.8	8.9	-5.4	-10.7
2002/03	3.4	1.8	-2.4	-2.1	-2.5	2.2	-1.1	2.6	4.4	9.0	0.3	1.7	8.8	12.9
2003/04	1.3	1.1	0.7	3.4	-0.3	0.1	-8.5	0.1	4.3	17.2	4.0	-7.4	10.8	-4.4
2004/05	3.9	5.9	6.4	5.2	4.9	1.4	-1.0	7.5	17.3	23.0	11.0	6.3	9.9	7.4
2005/06	2.9	15.4	1.9	2.6	2.9	2.6	2.4	2.6	14.7	26.9	6.8	9.4	4.4	7.8
2006/07	3.4	-3.2	2.3	0.6	5.1	4.9	5.2	2.7	8.8	14.1	7.5	6.7	4.4	16.5
2007/08	0.9	14.4	-2.1	6.4	2.1	4.4	4.9	3.6	20.5	4.6	5.2	8.6	5.4	-10.3
2008/09	-2.7	32.1	-0.9	-2.9	-0.5	-0.4	-7.3	2.1	26.5	-8.5	-1.4	-1.5	4.0	5.2
2009/10	-1.3	8.9	2.0	1.9	-1.2	8.8	-4.0	-0.5	-4.5	11.4	-0.2	-1.4	1.5	2.6

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

plus, and Quebec showing a correlation of nearly 90 percent. We accord jurisdictions with lower correlations higher ranks in our assessment, on the grounds that in-year spending surprises occurring thanks to higher-than-expected revenues – or, worse, deliberate manipulation of numbers to achieve a target bottom line – undermine accountability to legislators and voters.

Splitting the Sample: Did Governments Get Better over the Decade?

It is also natural to wonder about trends over time: have Canadian governments become better or worse at fulfilling their budget promises? Table 7 provides a very rough assessment of this question: rough because one or two extraordinary years will naturally affect a five-year average more than a 10-year one, and also because the final two years of the decade were highly unusual.

Table 5: Bias and Accuracy in Budget Forecasts of Changes in Revenue, 2000/01-2009/10

Jurisdiction	Change in Revenue Forecast					Ratio: Total Difference to 2010/11 Revenues
	Mean Error (%)	Rank	Root Mean Square Error (%)	Rank	Total Difference (\$M)	
Federal	2.0	4	3.4	4	34,565	15
Newfoundland	7.2	12	12.9	12	4,257	63
Prince Edward Island	1.8	3	3.4	3	174	12
Nova Scotia	2.0	5	3.8	6	1,186	14
New Brunswick	1.7	2	3.0	1	933	13
Quebec	2.1	6	3.1	2	15,268	24
Ontario	-0.6	1	4.6	7	-5,152	-5
Manitoba	2.5	7	3.5	5	2,056	16
Saskatchewan	9.8	13	13.4	13	7,544	76
Alberta	12.4	14	17.1	14	31,679	93
British Columbia	3.5	9	6.5	8	10,763	27
Northwest Territories	4.8	10	8.3	10	441	32
Yukon	5.6	11	7.4	9	358	34
Nunavut	3.5	8	9.4	11	258	21

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

Table 6: Correlation of Surprises, 2000/01-2009/10

	Federal	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	NWT	Yukon	Nunavut
Correlation of surprises	0.29	0.08	0.56	0.12	0.27	0.87	0.62	0.19	0.74	0.71	0.29	0.59	0.26	-0.06
Rank	7	2	9	3	6	14	11	4	13	12	8	10	5	1

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

Table 7: Improvements and Deteriorations in Accountability, 2000/01-2004/05 vs. 2005/06-2009/10 (percentage points)

Expenditures															
	Federal	NFLD	PEI	NS	NB	QUE	ON	MAN	SASK	ALB	BC	NWT	Yukon	Nunavut	National Average
Bias: First 5 years	2.6	1.6	5.2	2.4	0.0	1.0	0.7	1.8	1.4	5.1	2.8	1.9	8.3	6.1	2.9
Bias: Last 5 years	1.0	-2.6	1.0	0.6	2.9	2.7	2.3	2.4	6.4	3.8	1.4	4.5	4.9	5.6	2.6
<i>Difference</i>	-1.6	-4.2	-4.2	-1.7	2.9	1.7	1.6	0.6	4.9	-1.3	-1.4	2.6	-3.4	-0.5	-0.3
Accuracy: First 5 years	5.0	2.5	6.0	2.8	0.4	1.5	0.7	2.2	2.0	6.5	2.9	2.6	9.1	6.5	3.6
Accuracy: Last 5 years	3.0	4.2	1.3	2.4	3.3	3.7	3.4	2.6	8.6	5.3	2.4	5.1	6.6	6.8	4.2
<i>Difference</i>	-2.0	1.7	-4.7	-0.4	2.9	2.1	2.7	0.4	6.6	-1.2	-0.6	2.5	-2.5	0.3	0.6
Revenues															
Province	Federal	NFLD	PEI	NS	NB	QUE	ON	MAN	SASK	ALB	BC	NWT	Yukon	Nunavut	National Average
Bias: First 5 years	3.4	0.9	2.9	2.4	1.6	1.3	-1.5	3.0	6.5	15.1	3.5	5.3	7.2	2.6	3.9
Bias: Last 5 years	0.6	13.5	0.6	1.7	1.7	4.1	0.3	2.1	13.2	9.7	3.6	4.4	3.9	4.4	4.6
<i>Difference</i>	-2.8	12.6	-2.3	-0.7	0.1	2.7	1.7	-0.9	6.7	-5.4	0.1	-1.0	-3.3	1.8	0.7
Accuracy: First 5 years	4.2	4.4	4.4	4.1	3.1	2.7	4.2	4.3	8.6	18.9	7.7	9.7	9.7	9.1	6.8
Accuracy: Last 5 years	2.4	17.7	1.9	3.5	2.9	5.1	5	2.5	17.0	15.1	5.1	6.5	4.1	9.7	7.0
<i>Difference</i>	-1.8	13.3	-2.5	-0.6	-0.2	2.4	0.8	-1.8	8.4	-3.8	-2.5	-3.2	-5.5	0.6	0.2

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

For what they are worth, the results give grounds for tentative optimism when it comes to spending biases. More jurisdictions had smaller overshoots during the 2005/06-to-2009/10 period than during the five years before it, lowering the national average bias from about 2.9 percentage points to about 2.6 percentage points. The accuracy scores, by contrast, deteriorated on average. Prince Edward Island, Yukon, Ottawa and Alberta deserve mention for achieving improvements in both their bias and accuracy

scores in the more recent five-year period; Saskatchewan, New Brunswick, the Northwest Territories, Ontario and Quebec saw deteriorations in both.

The results on the revenue side are also mixed. Alberta and Yukon showed improvements on both the bias and accuracy measures, as did Ottawa – which, though its scores are less noticeable in percentage terms, inevitably matters a great deal for the national fiscal scene. Newfoundland and Saskatchewan saw the biggest deteriorations

between the two five-year periods in both bias and accuracy.

Discussion and Policy Recommendations

The principal message from this review of fiscal intentions and outcomes over the decade to 2009/10 is that spending overshoots are very common – too common to be accidental. Canada went into the 2009 slump in better fiscal shape than most developed countries, but would have been better equipped yet if governments had stuck to their previous fiscal plans. The cumulative \$82 billion in spending beyond what legislatures approved at the beginning of their fiscal years represents a large amount of debt not paid down and taxes that are higher than elected representatives presumably intended when making early plans.

Better scrutiny by legislators and voters generally should help improve this record – a process this report is intended to assist. Beyond this general exhortation, however, a handful of specific changes in parliamentary processes might help.

One helpful change would be a stronger role for public accounts committees – historically, the bodies providing key oversight of public accounts documents and governments' financial management in Westminster-style governments. The relative importance of parliamentary committees, such as public accounts committees or complementary bodies such as the Government Operations and Estimates Committee in the Parliament of Canada, appears to have diminished over time (Malloy 2004); regular reports from them that explored in-year deviations from plans would strengthen parliamentary oversight of governmental decisions.⁵

A complementary change would be better presentation of information in the supplementary estimates that legislatures vote to approve in-year changes, after the voting of the main estimates that reflect the budget plans. Each set of supplementary estimates should show item-by-item comparisons to budget plans, and show how the supplementary estimates, if approved, would work with or against the plans. For instance, was spending on a given program announced in the budget? Does it indirectly flow from a budget initiative? Or, depending on whether it is voted or statutory, is the amount different from what was planned in the budget?⁶ Such presentations might have inclined parliamentarians to ask different questions about how their decisions affected the overall fiscal plan: in general, they would equip legislators with better information on how the fiscal year is unfolding differently from what was anticipated in the spring budget, and whether they should do anything about it.

More powerful committees providing better scrutiny of in-year developments could help resolve the awkward choice about 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 natural disasters, 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. On balance, we would favour including such contingencies in budgets, counting on appropriate parliamentary scrutiny to ensure that they do not end up as slush funds.

Finally, the timeliness of the publication of public accounts matters, as they provide some important information early on in the next budget

⁵ Although the bulk of estimates are referred to these committees, other federal committees also review estimates; for example, estimates that fall under Finance are reviewed by the Finance committee and the same for the other committees.

⁶ Notably, Ottawa has developed a reporting tool, an Integrated Monitoring Database, which provides legislators with up-to-date quarterly results contained in the government's estimates. By demonstrating the variance of the actual results vis-à-vis the estimates, the database can help parliamentarians highlight areas where greater scrutiny is needed.

cycle. 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 coincides with three months after the close of the prior fiscal year and the end of the first quarter of the new budget year. Other provinces should consider similar legislation.

Concluding Comments

Canada is among the best fiscally managed developed countries, and not by accident: the transparency and rigour of its federal and

provincial budgets and public accounts are better than those of most counterparts abroad. The recent record shows, however, that Canadians can legitimately demand better. The past decade's cumulative spending overshoot, and the likely impact of fiscal debacles elsewhere, should be inspirations for Canadian governments to improve their financial reporting and their adherence to targets, and for legislators to exercise their powers to hold them to the mark.

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