



*C.D. Howe Institute*  
*Institut C.D. Howe*

# C.D. Howe Institute

# BACKGROUND

FISCAL POLICY

## Near Hits and Big Misses: Canada's 2009 Fiscal Accountability Rankings

Colin Busby  
William B.P. Robson



### **In this issue...**

Canadian governments would be projecting less red ink, and Canadians would face lower tax burdens, if governments had previously spent only what they promised at budget time.

## THE STUDY IN BRIEF

Canadian governments are projecting large amounts of red ink in their 2009 budgets. Notwithstanding the impact of the economic slump on government finances, it is natural for Canadians to ask whether this new borrowing is partly the result of insufficient fiscal discipline during the good times, and whether the actual outcomes will be worse than the projections.

In the 2009 installment of the C.D. Howe Institute's fiscal accountability rankings, we look at how well, or badly, federal, provincial and territorial governments in Canada have delivered on their spending and revenue budgetary targets over the past decade. The picture is decidedly mixed. While some governments, such as Quebec, have tended to come close to their targets, others, such as Alberta and Saskatchewan, have not, and the overall national picture is one of persistent spending over-runs, often fuelled by better-than-expected revenues.

In exploring ways in which legislators and voters might better hold governments to account in the future, this year's installment also looks at reporting procedures: whether each jurisdiction's public accounts clearly present budget-consistent figures, if they clearly explain deviations, if the relevant auditor has given the accounts a clean bill of health, and how timely the reporting is.

Our principal conclusion is that governments would be projecting less red ink, and Canadians would face lower tax burdens, if governments simply had spent only what they promised at budget time. Better reporting – and above all, more determination by legislators and voters to insist that governments deliver on the commitments voted at budget time – are critical to better fiscal performance in the future.

### ABOUT THE INSTITUTE

The *C.D. Howe Institute* is a leading independent, economic and social policy research institution. The Institute promotes sound policies in these fields for all Canadians through its research and communications. Its nationwide activities include regular policy roundtables and presentations by policy staff in major regional centres, as well as before parliamentary committees. The Institute's individual and corporate members are drawn from business, universities and the professions across the country.

INDEPENDENT • REASONED • RELEVANT

### THE AUTHORS OF THIS ISSUE

COLIN BUSBY is a Policy Analyst at the C.D. Howe Institute.

WILLIAM B.P. ROBSON is President and Chief Executive Officer of the C.D. Howe Institute.

*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.*

\$12.00; ISBN 0-88806-757-7  
ISSN 0824-8001 (print);  
ISSN 1703-0765 (online)

The financial crisis and economic downturn have changed the politics of fiscal policy in Canada. However commendable caution about deficits may be, and however important it is to distinguish spending for legitimate public purposes from old-fashioned handouts and pork-barrelling, the slump has at least temporarily knocked down previous fiscal guideposts.

For that reason, the spring round of federal and provincial budgets is a key time for Canadians to look hard at another touchstone of fiscal policy: how well governments' deeds during the year match their words at budget time.

Especially in unsettled circumstances, the natural tendency when finance ministers deliver their budgets in the legislature is to look ahead. That look forward, however, needs to be informed by the experience of the past. During fall and winter before each budget round, governments' audited accounts for the previous fiscal year are released. These results – in particular, the contrast between what the public accounts show and what each government presented in the budget for that year – give elected representatives and the people who vote for them vital context for the next budget. Are governments that project a deficit merely victims of circumstance or has their past overspending played a role? Most important, does experience provide grounds for believing that a particular government will deliver on such key targets as overall revenue, spending, and bottom-line outcomes, or will success require sharper scrutiny and harder pressure?

The C.D. Howe Institute's annual fiscal accountability rankings hold the answers to these and related questions.<sup>1</sup> The approach in these measures is straightforward: we compare each fiscal year's federal and provincial/territorial budget projections to the figures recorded in the public accounts of these jurisdictions after the end of that

year. For both spending and revenue, we measure bias, or how much governments tend to over- or undershoot on average, as well as accuracy, or how close to projections are the results, regardless of the direction of errors.

To preview the key findings, Quebec is one of Canada's perennially better performers; Alberta and Saskatchewan, by contrast, tend to struggle. The national picture is bleak: governments tend to spend more come year-end than they planned, which curtails debt reduction and forestalls tax relief. For every government that has improved its showing on that score in recent years, moreover, another has done worse. With total overspending by all governments in Canada over the past decade tallying an eye-popping \$66.8 billion, there is no doubt that upcoming deficits are larger than they would have been if governments had stuck to their plans.

One obstacle to holding governments to account can be obscure financial summaries in budgets and public accounts. For that reason, our rankings this year also examine reporting procedures in each jurisdiction. We ask if each government's public accounts clearly present figures consistent with the budget presentation, if the public accounts clearly explain deviations from budget, and if the relevant auditor has given the accounts a clean bill of health. We find considerable room for improvement in several jurisdictions, and some of these findings suggest that the apparently good target-hitting performance of some, including Quebec, needs closer scrutiny.

### *Comparing Past Targets to Actual Results*

Our fiscal accountability assessment looks at both revenues and expenses. Ideally, we would simply compare levels: dollar amounts projected in budgets versus dollar amounts recorded in public accounts. Governments have tended, however, to report revenues and spending differently in budgets and public accounts, and some still do – a problem we take up further in our look at reporting. Changes in

<sup>1</sup> See Adrian et al. (2007) and Busby and Robson (2008) for previous versions of the fiscal accountability rankings.

Table 1. Spending: Annual Projections, Outcomes, and Differences

| Announced Spending Change (%) |         |      |      |      |      |      |      |      |      |      |      |      |      |         |
|-------------------------------|---------|------|------|------|------|------|------|------|------|------|------|------|------|---------|
|                               | Federal | NL   | PEI  | NS   | NB   | QC   | ON   | MB   | SK   | AB   | BC   | NWT  | YK   | Nunavut |
| 1998/99                       | 0.3     | 0.4  | -2.2 | -0.5 | -0.5 | 1.8  | -0.6 | 1.0  | 2.0  | 0.5  | 0.8  |      | -7.4 |         |
| 1999/00                       | 0.1     | -1.0 | -0.3 | 4.6  | 2.1  | -1.2 | 2.9  | 1.8  | -0.3 | 2.2  | 1.3  |      | -3.6 |         |
| 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  | 4.0  | 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     |
| Actual Spending Change (%)    |         |      |      |      |      |      |      |      |      |      |      |      |      |         |
|                               | Federal | NL   | PEI  | NS   | NB   | QC   | ON   | MB   | SK   | AB   | BC   | NWT  | YK   | Nunavut |
| 1998/99                       | 3.8     | -5.3 | 4.3  | 3.5  | 5.5  | 5.9  | 2.3  | 3.6  | 8.7  | 4.3  | 1.1  |      | 4.6  |         |
| 1999/00                       | 0.7     | -3.4 | 6.1  | 6.2  | 3.8  | 1.9  | 7.1  | 9.4  | 3.6  | 10.0 | 7.8  |      | 3.8  |         |
| 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  | -0.8 | 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  | 2.1  | 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  | 4.9  | 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  | 3.0  | 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  | 4.7  | 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  | 5.2  | 9.4  | 8.7  | 3.9  | 20.4 | 7.2  | 8.4  | 6.3  | 3.9     |
| 2008/09                       |         |      |      |      |      |      |      |      |      |      |      |      |      |         |
| Difference (%)                |         |      |      |      |      |      |      |      |      |      |      |      |      |         |
|                               | Federal | NL   | PEI  | NS   | NB   | QC   | ON   | MB   | SK   | AB   | BC   | NWT  | YK   | Nunavut |
| 1998/99                       | 3.4     | -5.7 | 6.5  | 4.0  | 5.9  | 4.2  | 2.9  | 2.6  | 6.7  | 3.8  | 0.3  |      | 12.0 |         |
| 1999/00                       | 0.6     | -2.4 | 6.4  | 1.6  | 1.8  | 3.1  | 4.2  | 7.6  | 3.9  | 7.8  | 6.4  |      | 7.5  |         |
| 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 | -2.8 | 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 | -2.2 | 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 | 1.8  | 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  | -0.4 | 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  | 0.6  | 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  | 1.3  | 6.8  | 2.9  | 2.3  | 8.7  | 3.4  | 3.7  | 6.9  | 1.1     |
| 2008/09                       |         |      |      |      |      |      |      |      |      |      |      |      |      |         |

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

Notes: The 2007/08 public account figures for Nunavut are from Finance Canada's fiscal reference tables because at the time of preparation there were delays in either tabling the consolidated figures or completing the audit.

Table 2. Summary of Spending Bias and Accuracy, 1998/99–2007/08

| Change in Expenditure Forecast (%) |          |      |              |      |                     |
|------------------------------------|----------|------|--------------|------|---------------------|
| Jurisdiction                       | Bias (%) | Rank | Accuracy (%) | Rank | Total Overrun (\$B) |
| Federal                            | 1.6      | 3    | 3.8          | 9    | 20.3                |
| Newfoundland and Labrador          | -1.2     | 2    | 3.6          | 8    | -0.5                |
| Prince Edward Island               | 4.0      | 11   | 5.1          | 11   | 0.4                 |
| Nova Scotia                        | 2.1      | 5    | 2.7          | 2    | 1.1                 |
| New Brunswick                      | 1.8      | 4    | 2.8          | 3    | 1.0                 |
| Quebec                             | 0.8      | 1    | 2.2          | 1    | 3.4                 |
| Ontario                            | 2.2      | 6    | 2.9          | 4    | 16.0                |
| Manitoba                           | 2.8      | 8    | 3.4          | 6    | 2.0                 |
| Saskatchewan                       | 3.5      | 10   | 4.5          | 10   | 2.3                 |
| Alberta                            | 5.7      | 13   | 6.5          | 13   | 12.4                |
| British Columbia                   | 2.8      | 7    | 3.2          | 5    | 7.4                 |
| Northwest Territories <sup>1</sup> | 2.8      | 9    | 3.4          | 7    | 0.2                 |
| Yukon                              | 7.4      | 14   | 8.8          | 14   | 0.4                 |
| Nunavut <sup>1</sup>               | 5.6      | 12   | 6.5          | 12   | 0.4                 |

Sources: Federal/provincial/territorial budget documents, fiscal reference tables (federal department of finance), authors' calculations.

<sup>1</sup> Starting in fiscal year 2000/01.

accounting between budget presentation and public accounts reporting can also distort comparisons of levels. To mitigate these distortions, we compare changes: the projected year-to-year change in revenue in the budget to that shown in the public accounts, and the same comparison of year-to-year changes in spending.<sup>2</sup> We divide the discrepancies by the budgeted amounts to get percentages that ease cross-government comparisons.

Table 1 presents annual figures for announced versus actual spending since fiscal year 1998/99. The top panel shows the announced spending changes in budgets, the middle panel shows the actual spending changes in public accounts, and the bottom panel shows the differences in percentages. We summarize the 10-year record in two measures:

- *Bias* – the average of deviations. This is the simple average, or mean, of the annual results, a convenient way to assess general tendencies to under- or overshoot.
- *Accuracy* – the root mean square of deviations. The mean suppresses potentially important

information: a government could, for example, exhibit a small 10-year bias because of years of bad misses in opposite directions, which is not a satisfactory situation for voters. By showing the distance of results from projections without regard to their direction, the accuracy measure (akin to the familiar statistical standard deviation) distinguishes governments that miss targets by very little, in either direction, from those that miss their targets by a lot.

The bias and accuracy results are presented in Table 2. Quebec scores well ahead of other jurisdictions on both measures, and New Brunswick and Nova Scotia are also good performers. Prince Edward Island had a particularly good fiscal year 2007/08, but it remains low in our 10-year rankings. Newfoundland and Labrador stands out for a negative bias: on average over the decade, its government spent less than planned. That province's performance stands out all the more because other jurisdictions with revenues strongly influenced by natural resource prices tended to overshoot – among all jurisdictions, only the Yukon does worse than Alberta.

<sup>2</sup> Adrian et al. (2007) discuss these problems and the merits of comparing changes at greater length.

Table 3. Revenue: Annual Projections, Outcomes, and Differences

| Announced Revenue Change (%) |         |      |      |      |      |      |      |      |       |       |      |       |      |         |
|------------------------------|---------|------|------|------|------|------|------|------|-------|-------|------|-------|------|---------|
|                              | Federal | NL   | PEI  | NS   | NB   | QC   | ON   | MB   | SK    | AB    | BC   | NWT   | YK   | Nunavut |
| 1998/99                      | 2.4     | 1.6  | -1.5 | -1.3 | -0.2 | 4.3  | 2.5  | 0.0  | 3.6   | -11.3 | 1.1  |       | -3.7 |         |
| 1999/00                      | 0.1     | -1.2 | -2.9 | 1.6  | 1.9  | -1.2 | 6.0  | 1.8  | -0.5  | 1.6   | -0.3 |       | -7.4 |         |
| 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  | 1.3  | 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     |
| Actual Revenue Change (%)    |         |      |      |      |      |      |      |      |       |       |      |       |      |         |
|                              | Federal | NL   | PEI  | NS   | NB   | QC   | ON   | MB   | SK    | AB    | BC   | NWT   | YK   | Nunavut |
| 1998/99                      | 2.2     | -4.1 | 9.0  | 3.8  | 0.6  | 11.9 | 6.3  | 4.0  | 8.6   | -5.5  | 0.4  |       | 13.2 |         |
| 1999/00                      | 6.7     | -0.6 | 5.5  | 5.1  | 7.5  | 1.6  | 13.0 | 7.6  | 4.5   | 19.8  | 7.6  |       | -5.6 |         |
| 2000/01                      | 9.0     | 6.8  | 4.5  | 6.4  | 1.3  | 7.8  | 2.8  | 6.5  | 15.4  | 28.0  | 10.4 | 22.1  | 13.7 | 10.8    |
| 2001/02                      | -3.3    | -1.3 | 4.2  | 1.0  | 7.7  | -1.4 | -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 | -1.0 | 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  | 2.8  | -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  | 3.9  | 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  | 8.3  | 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  | 4.9  | 7.5  | 9.4  | 14.4  | 0.0   | 3.5  | 8.6   | 2.1  | -8.7    |
| 2008/09                      |         |      |      |      |      |      |      |      |       |       |      |       |      |         |
| Difference (%)               |         |      |      |      |      |      |      |      |       |       |      |       |      |         |
|                              | Federal | NL   | PEI  | NS   | NB   | QC   | ON   | MB   | SK    | AB    | BC   | NWT   | YK   | Nunavut |
| 1998/99                      | -0.2    | -5.7 | 10.5 | 5.1  | 0.8  | 7.6  | 3.8  | 4.1  | 4.9   | 5.8   | -0.7 |       | 16.9 |         |
| 1999/00                      | 6.6     | 0.6  | 8.4  | 3.5  | 5.6  | 2.8  | 7.0  | 5.9  | 5.0   | 18.2  | 8.0  |       | 1.7  |         |
| 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 | -3.0 | -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 | -1.5 | -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  | 0.7  | 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  | 3.9  | 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  | 3.7  | 4.9  | 3.6  | 20.5  | 4.6   | 5.2  | 4.3   | 5.4  | -11.6   |
| 2008/09                      |         |      |      |      |      |      |      |      |       |       |      |       |      |         |

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

Table 4. Summary of Revenue Bias and Accuracy, 1998/99–2007/08

| Change in Revenue Forecast (%)     |          |      |              |      |                     |
|------------------------------------|----------|------|--------------|------|---------------------|
| Jurisdiction                       | Bias (%) | Rank | Accuracy (%) | Rank | Total Overrun (\$B) |
| Federal                            | 3.1      | 6    | 3.9          | 3    | 54.3                |
| Newfoundland and Labrador          | 2.6      | 4    | 7.6          | 9    | 1.2                 |
| Prince Edward Island               | 3.5      | 9    | 5.4          | 7    | 0.3                 |
| Nova Scotia                        | 3.0      | 5    | 4.1          | 4    | 1.7                 |
| New Brunswick                      | 2.5      | 3    | 3.5          | 1    | 1.4                 |
| Quebec                             | 1.9      | 2    | 3.7          | 2    | 8.8                 |
| Ontario                            | 1.6      | 1    | 4.6          | 6    | 11.4                |
| Manitoba                           | 3.4      | 8    | 4.1          | 5    | 2.4                 |
| Saskatchewan                       | 8.6      | 13   | 10.6         | 13   | 6.1                 |
| Alberta                            | 14.5     | 14   | 17.6         | 14   | 34.8                |
| British Columbia                   | 4.4      | 10   | 7.0          | 8    | 12.9                |
| Northwest Territories <sup>1</sup> | 5.9      | 11   | 8.8          | 10   | 0.4                 |
| Yukon                              | 6.9      | 12   | 9.1          | 11   | 0.4                 |
| Nunavut <sup>1</sup>               | 3.2      | 7    | 10.5         | 12   | 0.2                 |

Sources: Federal/provincial/territorial budget documents, fiscal reference tables (federal department of finance), authors' calculations.

<sup>1</sup> Starting in fiscal year 2000/01.

Tables 3 and 4 present analogous measures for revenues. Scanning the summary measures suggests that jurisdictions with spending surprises also tend to have revenue surprises. Do overshoots or shortfalls of revenue within the fiscal year tend to drive overshoots or shortfalls of spending? Table 5 looks at these correlations. Quebec, Ontario, Prince Edward Island, and Alberta all have shown a high tendency to spend more (or less) than budgeted in years when revenue came in more (or less) than budgeted. One cannot say for sure whether a particular correlation owes more to an actual unbudgeted spending change or to a target for the budget balance that induces a government to manipulate its numbers to offset surprises. What one can say with confidence, however, is that spending overshoots by Canadian governments over the past decade appear to have owed much to larger-than-expected revenues.

*Trends: Is Accountability Going In or Out of Style?*

It would be nice if the unimpressive overall national result for the decade had been tempered by an

improvement in more recent years. As the comparison of the first and second five years in Table 6 shows, however, there is no consistent pattern: while many jurisdictions improved, others got worse.

Quebec, Manitoba, and Prince Edward Island have improved on both bias and accuracy. A look back at the annual spending results shows that, if Prince Edward Island were to extend its recent record, it would emerge shortly as one of the best to deliver on its budget promises. Also encouraging is that the federal government – a notorious budget breaker in the past – had its most accurate year of the decade in 2007/08, and would also substantially improve its standing if it were to maintain that record.

Alberta and Saskatchewan have done worse on both measures, a sign of the special challenges faced by jurisdictions strongly affected by the resource cycle. But they are not alone: Ontario's spending bias and accuracy both have deteriorated over the five most recent fiscal years, despite improvements on the revenue side. Ontario's record in 2007/08 is

Table 5. Correlation of Surprises, 1998/99–2007/08

|                           | Federal | NL   | PEI  | NS   | NB   | QC   | ON   | MB   | SK   | AB   | BC   | NWT  | YK   | Nunavut |
|---------------------------|---------|------|------|------|------|------|------|------|------|------|------|------|------|---------|
| Correlation of surprises* | 0.35    | 0.01 | 0.63 | 0.27 | 0.13 | 0.88 | 0.63 | 0.42 | 0.23 | 0.61 | 0.37 | 0.43 | 0.35 | 0.21    |
| Rank                      | 7       | 1    | 13   | 5    | 2    | 14   | 12   | 9    | 4    | 11   | 8    | 10   | 6    | 3       |

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.

Note: Given that the measurement period is only 10 years in duration, the statistically significant level of correlation is about 0.55 with a two-tailed 10 percent significance test.

Table 6. Improvements and Deteriorations in Accountability (%), 1998/99–2002/03 vs. 2003/04–2007/08

| Expenditures      |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
|-------------------|---------|------|------|------|-----|------|------|------|------|------|------|------|------|---------|------------------|
|                   | Federal | NL   | PEI  | NS   | NB  | QC   | ON   | MB   | SK   | AB   | BC   | NWT  | YK   | Nunavut | National Average |
| Bias:             |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| First 5 years     | 1.4     | -0.1 | 5.4  | 2.3  | 1.7 | 1.3  | 1.9  | 2.9  | 2.4  | 4.6  | 2.6  | 2.2  | 7.9  | 5.7     | 3.0              |
| Bias:             |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| Last 5 years      | 1.7     | -2.3 | 2.6  | 1.9  | 2.0 | 0.2  | 2.5  | 2.6  | 4.7  | 6.7  | 2.9  | 3.2  | 6.9  | 5.6     | 2.9              |
| <i>Difference</i> | 0.3     | -2.3 | -2.8 | -0.5 | 0.4 | -1.0 | 0.6  | -0.3 | 2.3  | 2.1  | 0.2  | 1.0  | -1.0 | -0.2    | -0.1             |
| Accuracy:         |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| First 5 years     | 3.2     | 3.7  | 6.1  | 2.9  | 2.8 | 2.8  | 2.3  | 3.9  | 3.6  | 6.1  | 3.4  | 2.9  | 8.2  | 6.0     | 4.1              |
| Accuracy:         |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| Last 5 years      | 4.3     | 3.5  | 4.0  | 2.6  | 2.8 | 1.4  | 3.4  | 2.7  | 5.3  | 6.9  | 3.1  | 3.7  | 9.3  | 6.7     | 4.3              |
| <i>Difference</i> | 1.1     | -0.2 | -2.1 | -0.3 | 0.1 | -1.4 | 1.1  | -1.2 | 1.7  | 0.8  | -0.3 | 0.8  | 1.1  | 0.7     | 0.1              |
| Revenues          |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
|                   | Federal | NL   | PEI  | NS   | NB  | QC   | ON   | MB   | SK   | AB   | BC   | NWT  | YK   | Nunavut | National Average |
| Bias:             |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| First 5 years     | 3.7     | -1.5 | 5.2  | 2.4  | 2.0 | 2.1  | 2.6  | 3.4  | 4.2  | 11.9 | 1.9  | 9.2  | 6.8  | 3.3     | 3.7              |
| Bias:             |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| Last 5 years      | 2.5     | 6.7  | 1.8  | 3.6  | 2.9 | 1.6  | 0.6  | 3.3  | 13.1 | 17.1 | 6.9  | 3.9  | 7.0  | 3.1     | 2.5              |
| <i>Difference</i> | -1.2    | 8.2  | -3.4 | 1.3  | 1.0 | -0.5 | -2.0 | -0.1 | 9.0  | 5.3  | 5.0  | -5.4 | 0.2  | -0.2    | -1.2             |
| Accuracy:         |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| First 5 years     | 4.8     | 4.3  | 6.9  | 4.0  | 3.4 | 4.6  | 3.9  | 4.1  | 4.5  | 16.4 | 6.7  | 11.2 | 10.4 | 10.6    | 4.8              |
| Accuracy:         |         |      |      |      |     |      |      |      |      |      |      |      |      |         |                  |
| Last 5 years      | 2.7     | 9.9  | 3.3  | 4.2  | 3.5 | 2.6  | 5.1  | 4.1  | 14.4 | 18.8 | 7.3  | 7.0  | 7.5  | 10.4    | 2.7              |
| <i>Difference</i> | -2.1    | 5.5  | -3.6 | 0.1  | 0.2 | -2.0 | 1.2  | -0.1 | 9.9  | 2.4  | 0.6  | -4.2 | -2.9 | -0.2    | -2.1             |

Sources: Federal/provincial/territorial budget documents; public accounts; authors' calculations.



Table 7. An Evaluation of Canadian Governments' Public Accounts, 2007/08

| Jurisdiction | Matching of Public Accounts with Budget Figures   | Grade | Use of Reconciliations Tables and Figures, Explanation of Deviations, Placement in Document  | Grade | Number of Auditor Reservations over 10 Years (and most recent year)  | 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     | 0 (0) - No major reservations.   | Sept. 17 2008          |
| NL           | Comparable budget figures appear only in unaudited, additional report on program expenditures and revenues. | F     | No use of reconciliation tables or explanations, figures do not appear in main documents.  | F     | 0 (0) - No major reservations.   | Nov. 18 2008           |
| PEI          | Revised estimates appear in public accounts.  | D     | No use of reconciliation tables or explanations, results appear early on in document.  | D     | 0 (0) - No major reservations.   | Jan. 16 2009           |
| 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     | 2 (0) - Last reservation, in 1999/00, was about a late report from a Crown Corporation regarding its pension liabilities.  | June 30 2008           |
| NB           | Yes, budget figures match.  | A     | Multiple variance tables and figures, supported by text, at the beginning of document.   | A     | 0 (0) - No major reservations.   | Aug. 14 2008           |
| 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     | 23 (0) - Reservations from 2001/02 to 2005/06 concerned the exclusion of broader public sector in education and health from results, improper recording of pension liabilities and losses on guaranteed financial initiatives. | Oct. 14 2008           |
| ON           | Yes, budget figures match.  | A     | Multiple variance tables, supported by text, at the beginning of document.   | A     | 0 (0) - No major reservations.   | Aug. 1 2008            |
| MB           | Yes, budget figures match.  | A     | Variance tables, some explanation of deviations from budget, but comes later in document.  | B     | 3 (0) - Most recent reservation in 2006/07 concerned the exclusion of public school divisions, which was inconsistent with accounting principles.  | Sept. 17 2008          |
| SK           | Yes, budget figures match.  | A     | Limited use of reconciliation tables, detailed explanation for variation, results appear at beginning of document.                               | B     | 24 (2) - Ongoing objections to recording transaction with Fiscal Stabilization Fund as revenue or expense and lack of recording for pension liabilities.   | June 6 2008            |
| AB           | Yes, budget figures match.  | A     | No use of reconciliation tables or explanations, results appear early in document.   | C     | 0 (0) - No major reservations.   | June 18 2008           |
| BC           | Yes, budget figures match.  | A     | Variance analysis and reconciliation tables, limited explanation, results appear early in document.  | B     | 7 (2) - Auditor cautioned from 1999/00 to 2003/04 about need to include broader public sector - schools, universities and health networks - in results.  | June 6 2008            |
| NWT          | Budget estimates match.   | A     | No use of reconciliation tables or explanations, results appear early in document.   | C     | 5 (0) - Clean record since 2000/01, when interim expenditures were made without submitting a proper appropriation (without tabling an associated bill)   | Dec. 5 2008            |
| YK           | Budget figures do not match.  | F     | Some reconciliation with budget, a limited explanation of variations, located early on in document.  | D     | 4 (1) - Most recent reservation highlighted a violation of Financial Administration Act through the purchase of non-bank asset-back commercial paper.  | Sept. 10 2008          |
| Nunavut      | Budget figures do not match.  | F     | Only previous years' public accounts figures are presented.  | F     | 9 (2) - The Government of Nunavut has never tabled its consolidated financial accounts on time. 2006/07 reservations are also concerned with the Nunavut Business Credit Corp.'s improper books of accounts.                   | N/A                    |

Notes: Analysis for Nunavut is based on the 2006/07 public accounts. Most regions' public accounts were published within five weeks of audit approval. Sources: Various public accounts documents.

particularly poor, with a sizable positive revenue surprise more than offset by in-year spending hikes.

### *Reporting Practices and Fiscal Accountability*

How readily legislators and voters can hold governments to account for delivering on their budget promises depends partly on the accessibility and accuracy of the figures in budgets and public accounts. So far, we have presented the relevant figures without commenting on how easy they are to find and read or questioning their reliability. We now ask:

- Are the aggregate figures for spending and revenue in public accounts presented on a consistent basis with those in budgets?
- How well do the public accounts explain in-year deviations from budget targets?
- How clean an audit have the public accounts received?

Table 7 summarizes the results. Most jurisdictions do report their budget figures in the public accounts; only a handful, however, clearly show and explain in-year variances. Ottawa – which a few years ago used different accounting methods for its budget and public accounts aggregates – now appears to set the standard, detailing differences from budgeted amounts in a very clear public accounts presentation. Newfoundland and Labrador and the territories do much less well. As for changes, Manitoba's 2007/08 public accounts improved significantly over those in prior years.

In jurisdictions where the budget and public accounts numbers are consistent and where the public accounts contain clear reconciliations, we can take comfort from the fact that a key accountability tool is available to legislators and voters – although we might wish them to use it more vigorously. In jurisdictions where the auditor has signalled problems with the numbers, however, we have a major concern – and some grounds for worrying that the summary figures for bias and accuracy might rest on weak foundations. Quebec's

shortcomings both in reporting and with regard to the auditor's reservations, for example, cloud its strong statistical performance. Saskatchewan's ongoing audit problems underscore its poor statistical performance in recent years.

## Concluding Comments

Votes on budget measures in legislatures are votes of confidence, and key links in the chain intended to keep elected representatives accountable for their use of public funds. Yet this chain breaks if legislators and citizens allow governments routinely to break their budget promises. Holding governments to account is harder if promises and outcomes cannot be compared easily.

The tendency of Canadian governments to overshoot spending targets already has had one important consequence. Canadians might be prepared to accept deficits as a consequence of the slump, but recent government budgets would show less red ink, and Canadians would now face lower tax burdens, if governments simply had spent only what they promised at budget time.

With aversion to deficits no longer acting as a check on spending, moreover, governments might be quicker to approve spending requests that, on their merits, deserve a refusal. One way to maintain fiscal discipline would be to increase the penalty inflicted by legislators and voters for deviating more from a promised fiscal course. The more Canadians hold their governments to account for delivering realistic budgets and for avoiding in-year changes that make nonsense of them, the better fiscal choices are likely to be. Pressure to improve the quality, accessibility and timeliness of the relevant information is a key element in that task.

Canada entered this economic crisis in better fiscal shape than many other countries. Improved fiscal accountability can help control spending, tax levels, and debt in the years ahead, and help ensure that Canada comes out of the crisis in better fiscal shape as well.

## References

- Adrian, Reid S., Yvan Guillemette, and William B.P. Robson. 2007. "Missed Targets: Canada's 2007 Fiscal Accountability Ranking." Backgrounder 100. Toronto: C.D. Howe Institute. March.
- Busby, Colin, and William B.P. Robson. 2008. "Off the Mark: Canada's 2008 Fiscal Accountability Rankings." Backgrounder 112. Toronto: C.D. Howe Institute. February.

*C.D. Howe Institute Backgrounder*© is a periodic analysis of, and commentary on, current public policy issues. Barry Norris and James Fleming edited the manuscript; Heather Vilistus prepared it for publication. As with all Institute publications, the views expressed here are those of the authors and do not necessarily reflect the opinions of the Institute's members or Board of Directors. Quotation with appropriate credit is permissible.

To order this publication please contact: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available on the Institute's website at [www.cdhowe.org](http://www.cdhowe.org).







- April 2009 Laurin, Alexandre. “Débâcle à la Caisse : Que faire avec le Régime de rentes du Québec?” C.D. Howe Institute e-brief.
- April 2009 Laidler, David. “The Bank of Canada Needs to Nurture those Green Shoots of Recovery.” C.D. Howe Institute e-brief.
- April 2009 Hart, Michael. *Potholes and Paperwork: Improving Cross-Border Integration and Regulation of the Automotive Industry*. C.D. Howe Institute Commentary 286.
- March 2009 Laurin, Alexandre. “A Balancing Act: Making the Canadian Secured Credit Facility Work.” C.D. Howe Institute e-brief.
- March 2009 Poschmann, Finn. “Sales Tax Reform in Ontario: The Time is Right.” C.D. Howe Institute e-brief.
- March 2009 Robson, William B.P. *To the Next Level: From Gold Standard to Inflation Targets – to Price Stability?* C.D. Howe Institute Commentary 285.
- March 2009 Johnson, David. “Collateral Damage: The Impact of Work Stoppages on Student Performance in Ontario.” C.D. Howe Institute e-brief.
- March 2009 Laurin, Alexandre. *Cleaning Up the Books: A Proposal for Revamping Corporate Group Taxation in Canada*. C.D. Howe Institute Commentary 284.
- February 2009 Allen, Franklin, Elena Carletti, and Finn Poschmann. “Marking to Market for Financial Institutions: A Common Sense Resolution.” C.D. Howe Institute e-brief.
- February 2009 Puri, Poonam. *A Matter of Voice: The Case for Abolishing the 30 percent Rule for Pension Fund Investment*. C.D. Howe Institute Commentary 283.
- February 2009 Samson, Roger A., and Stephanie Bailey Stamler. *Going Green for Less: Cost-Effective Alternative Energy Sources*. C.D. Howe Institute Commentary 282.
- February 2009 Renzetti, Steven. *Wave of the Future: The Case for Smarter Water Policy*. C.D. Howe Institute Commentary 281.
- January 2009 Bataille, Chris, Benjamin Dachis, and Nic Rivers. *Pricing Greenhouse Gas Emissions: The Impact on Canada’s Competitiveness*. C.D. Howe Institute Commentary 280.
- January 2009 Laurin, Alexandre, Colin Busby, and Benjamin Dachis. “Out on a Limb: Assessing the Fiscal Sustainability and Effectiveness of the 2009 Federal Budget.” C.D. Howe Institute e-brief.
- January 2009 Parkin, Michael. *What is the Ideal Monetary Policy Regime: Improving the Bank of Canada’s Inflation-Targeting Program*. C.D. Howe Institute Commentary 279.
- January 2009 Robson, William B.P. “Boomer Bulge: Dealing with the Stress of Demographic Change on Government Budgets in Canada.” C.D. Howe Institute e-brief.
- January 2009 Robson, William B.P., Alexandre Laurin, and Finn Poschmann “Lasting Bang for the Stimulus Buck: Priorities for the 2009 Federal Budget.” C.D. Howe Institute e-brief.
- December 2008 Laidler, David, and Robin Banerjee. *Unstable Foundations: Asset Markets, Inflation Targets, and Canada’s 2011 Policy Choices*. C.D. Howe Institute Commentary 278.
- December 2008 Dachis, Benjamin, Gilles Duranton, and Matthew A. Turner. *Sand in the Gears: Evaluating the Effects of Toronto’s Land Transfer Tax*. C.D. Howe Institute Commentary 277.

## SUPPORT THE INSTITUTE

For more information on supporting the C.D. Howe Institute’s vital policy work, through charitable giving or membership, please go to [www.cdhowe.org](http://www.cdhowe.org) or call 416-865-1904. Learn more about the Institute’s activities and how to make a donation at the same time. You will receive a tax receipt for your gift.

## A REPUTATION FOR INDEPENDENT, NONPARTISAN RESEARCH

The C.D. Howe Institute’s reputation for independent, reasoned and relevant public policy research of the highest quality is its chief asset, and underpins the credibility and effectiveness of its work. Independence and nonpartisanship are core Institute values that inform its approach to research, guide the actions of its professional staff and limit the types of financial contributions that the Institute will accept.

For our full Independence and Nonpartisanship Policy go to [www.cdhowe.org](http://www.cdhowe.org).

**C.D. Howe Institute**  
67 Yonge Street  
Toronto, Ontario  
M5E 1J8

Canadian Publication Mail Sales  
Product Agreement #40008848