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Auditor General
of British Columbia

**A Review of the
Estimates Process
in British Columbia**

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auditor general's overview



auditor general's overview



It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.

Charles Darwin

I am reporting on the process used by the government of British Columbia for preparing its annual budget and the Estimates (the “Estimates process”). Because many aspects of the government’s budget affect our daily lives, our businesses, and the future financial well-being of our Province, I believe this report will be of interest to a wide range of readers, although I have written it primarily for the Members of the Legislative Assembly.

In response to increasing public interest in issues arising from the government budgets, I formally announced in the fall of 1996 that my Office would undertake a thorough examination of how the government of British Columbia both prepares and reports its annual budget and the Estimates. I wanted to see whether the process is effective in its design, and what, if any, improvements might be made. At the same time, I also wished to determine whether Budget '96 was developed following the process as currently designed. I was pleased that the Minister of Finance and Corporate Relations of the time publicly supported this initiative.

I performed my review of the Estimates process in accordance with professional standards. These standards require me to carry out tests and procedures and obtain evidence to support my conclusions. I gathered much of my evidence through normal review procedures. For the Budget '96 issues, however, I also obtained evidence by examining certain officials under oath.

Budget '96 raised a number of questions in the minds of British Columbians. As is often the case with matters of public interest, specific questions about that budget focused public attention on due process. Because improving the process will have a lasting effect, I have dedicated the first three chapters of this report to commenting on it. I evaluated the process from two perspectives: governance

and management. Both Cabinet, being the Executive Council of government, and the Legislative Assembly are the creators and guardians of the governance framework underlying the Estimates process, and it is within this governance framework that public service employees exercise their management of the process. Therefore, my recommendations for improving the governance of the process are directed mainly at elected officials, while my recommendations for improving the management of the process are for the consideration of senior public service officials.

The Estimates Is a Contract Between the Government and the People

A government's budget is about the right of the Crown to collect revenue from the people and the right of the people to receive services for which they pay. It is also about the need for the government to be answerable for how it intends to meet its responsibilities in the exercise of the authorities granted to it in trust. The Estimates, when approved by the Legislative Assembly, is a contract between the government and the public. In this regard, not only must government be accountable to the Legislative Assembly, but the latter must hold government to account. No House majority should diminish either of these duties, for the Members of the Legislative Assembly are individually accountable to their respective constituents.

Governance of the Estimates Process Needs Major Reform

I have recommended significant improvements in all aspects of the governance of the Estimates process—improvements so significant, in fact, that I refer to them collectively as a reform of the process. For the reform to be achieved, however, the government must be committed to doing it, and must demonstrate that in a sufficiently forceful way. I recognize that the government is able to undertake the needed reform unilaterally. However, I believe that a more effective approach might be for a committee of the Legislative Assembly or of appointed external experts to be given the opportunity to first review the matter. I would suggest that this committee be responsible for reporting to the Legislative Assembly, for its approval, matters to be included in Estimates reform

legislation, and that it base these on the guiding principles and key attributes of an appropriate Estimates process, as outlined in this report.

Management of the Estimates Process Needs Some Change

My evaluation of the current system of management of the Estimates process—the system that public service employees operate, within the limits of the existing governance framework—indicates that we have a generally satisfactory system in place in British Columbia. However, given that I believe the current governance of the Estimates process is in need of reform, further changes and enhancements to management tools, methods and structures will be necessary to deal with the new and different responsibilities arising from such reform.

Budget '96: Issues Arising Confirm My Conclusion on Due Process

Almost all the weaknesses and shortcomings I found regarding Budget '96 confirm the need for the reform I am calling for in the governance of the Estimates process. We do not have, in British Columbia, an accountability discipline appropriate for the times we live in. Although governments in most democratic societies recognize the need for a long, almost continual, pre-budget public involvement, there is no assurance of this in British Columbia. We do not, for example, have legislation that requires full and fair disclosure of the assumptions on which the budget is based, and there is nothing in legislation to disallow a government from tabling a budget and immediately calling an election, thereby preventing any opportunity for deliberation and debate. Nor do we have any formally defined principles to guide the guardianship of the Province's finances. For example, our governments are not bound by law to be prudent in planning our fiscal affairs. And, although there is a principal and agent relationship between representatives of the people and members of Cabinet, the decision as to how the agent will report to the principal is left completely to the agent's discretion. Such a circumstance allows the government-of-the-day to take disproportionate risks without being obligated to explain such action.

Budget '96: Officials Observed the Legislation Governing the Estimates Process

A few sections and sub-sections of the Financial Administration Act provide the largest portion of the body of legislation governing the Estimates process in British Columbia. Other authorities are in the form of Orders in Council, ministerial orders and other regulations. With but one possible exception (in which government appears to have acted on what it thought to be appropriate legal advice), I found no action taken or decision made by senior people in government, elected or appointed, during the development of Budget '96 and the *Estimates for the Fiscal Year Ending March 31, 1997*, that was not permitted by legislation and authorities governing the Estimates Process.

Budget '96: The Interim Financial Statements Were Not Presented in June 1996 Tabling

I have explained in Chapter 4 of this report the circumstance that led the government to believe that preparing interim financial statements and presenting them to the Legislative Assembly in June, 1996 with the *Estimates for the Fiscal Year Ending March 31, 1997* was unnecessary. I am advised and am of the view that legislation in this regard is unclear, and I have, therefore, neither accepted nor rejected the government's course of action. However, I believe that the significant informative value of these statements was missed as a consequence of the lack of tabling. Complete 12-month financial statements were presented to the Assembly in 1979 when a new government tabled its budget in June of that year. The same happened in 1991 when the budget was tabled in May. Had the precedents set in 1979 and 1991 been followed in 1996, it would likely have necessitated a change in the 1995/96 Revised Forecast—a change that would have prevented one of the most controversial issues from arising over Budget '96, namely the government's reporting of a surplus for 1995/96 rather than a deficit.

Budget '96: 1995/96 Projected Operating Results Were Overstated

I concluded that the 1995/96 Revised Forecast amounts included in the *Estimates for the Fiscal Year Ending March 31, 1997*, reflecting a projected operating surplus of \$16 million for 1995/96 was overstated by up to \$272 million in each tabling of the Estimates.

In the April tabling, the result was overstated because Minister Cull, striving for a surplus, decided to include \$156 million of optimism over and above the optimistic revenue projection made by staff of the Ministry of Finance and Corporate Relations, believing the latter was too conservative. However, significant errors by staff in monthly reporting of revenue during the year to Minister Cull might have made the real deterioration of revenue less noticeable.

Just before the June tabling of the Estimates by Minister Petter, he was informed about draft financial statements from the Office of the Comptroller General that showed a deficit of \$235 million for 1995/96. He discussed with senior members of his staff the possible impact of this information on the Estimates. He decided to proceed with the tabling of the Estimates as scheduled, because he was told he could not rely on the numbers in the statements until they were verified by staff of the Treasury Board Secretariat. Minister Petter did not allow sufficient time to do all the things necessary to enable him to confirm whether the 1995/96 revised forecast numbers included in the Estimates were reasonable.

Budget '96: Information on 1996/97 Revenue Was Incomplete and Inadequate

Estimating any future outcome involves making decisions that, in due course, might prove to be wrong. A good estimate, however, builds on a proportionate risk of being wrong both on the upside and the downside. Taking risks in setting budget goals is the government's prerogative—and an acceptable practice if the risks are explained to the Legislative Assembly so as to enable it to examine the prudence and appropriateness of budget decisions taken by the government and, in particular, by the Minister of Finance and Corporate Relations. I concluded that the estimates of revenue for the 1996/97 fiscal year carried with them a disproportionate risk—in this case, a very high probability that any different results would be only on the downside. I also concluded that information provided by government when these budgets were presented did not make full and fair disclosure of the extent of the business risk being assumed and the government's plan to address it. In that sense, crucial information was missing, and consequently the prudence and appropriateness of budget decisions could not be properly examined by the Legislative Assembly and the public.

In the April tabling, Minister Cull approved the estimates of revenue based on her belief that she could tap into additional, undisclosed, revenue sources to compensate for any expected shortfall. I believe the Minister should have provided complete information about her plans to the Legislative Assembly.

In the June tabling, Minister Petter was fully aware of the disproportionate risks on which the revenue estimates were established. He decided to re-table the April budget mainly because he did not regard the June budget as a new budget. However, the June budget was, in fact, the first budget of a new government.



Government Officials Fully Cooperated in this Review

This review has taken longer to complete than I wanted or expected.

There may be some concern that the length of time it took for me to complete this work was due to a purposeful lack of cooperation by the government to delay my review, especially of the issues arising from Budget '96. This was not the case, as I received the utmost cooperation from every government official, elected and appointed, I called upon.

Part of the reason the review took so long relates to the size and complexity of it. The review required considerable research and the obtaining of evidence from a wide range of sources.

Also, because issues arising from Budget '96 had created a general atmosphere of public mistrust, a number of bureaucrats sought protection against any unfair and potentially harmful repercussions that they thought my review might have on them and their careers. In this regard, they obtained legal counsel before they agreed to meet with staff of my Office.

The need for obtaining legal advice by me and others in many stages of this review, including examination on oath, has been both time consuming and costly, and I therefore used it only when I considered it to be necessary. However, I believe that the process has been valuable in enabling me to determine the true circumstances in respect to the preparation of Budget '96.

This inquiry-type process also brought with it certain requirements over and above my normal procedures for fairness that involve obtaining management responses for inclusion in my reports. I was advised by my Office's legal counsel that, in keeping with a recent judgement by the Supreme Court of Canada (see Appendix I), I was expected to provide individuals whose interests might be adversely affected by my report with reasonable opportunity to make representation in regard to my findings. This requirement had to be applied to many present and past, elected and appointed, government officials.

I Do Not Judge Intentions, Motives, Innocence, or Guilt of Officials

Although I may use my inquiry powers, my mandate as an Officer of the Legislature does not allow me to determine guilt or innocence of individuals, nor to impugn motive for government action. These matters are the jurisdiction of the courts and of the Legislative Assembly. It is, however, within my authority to report failure to comply with legislation governing the Estimates process, and with standards of conduct required for it by current authorities, even if my report reflects adversely on some persons.



I am pleased to present this report, "A Review of the Estimates Process in British Columbia." In my view, reporting on Budget '96 alone would not have accomplished all that should be reported about the Estimates process. It was a unique opportunity for my Office to review the process and make recommendations for its improvement. I expect that this work will assist the public in understanding the complexity of government budgeting. Full accountability by government, and transparency in that accountability, is fundamental to the democratic process. I am hopeful that this report will be a springboard for the improvement of the Estimates process in British Columbia, thereby contributing to the improvement of overall government accountability.

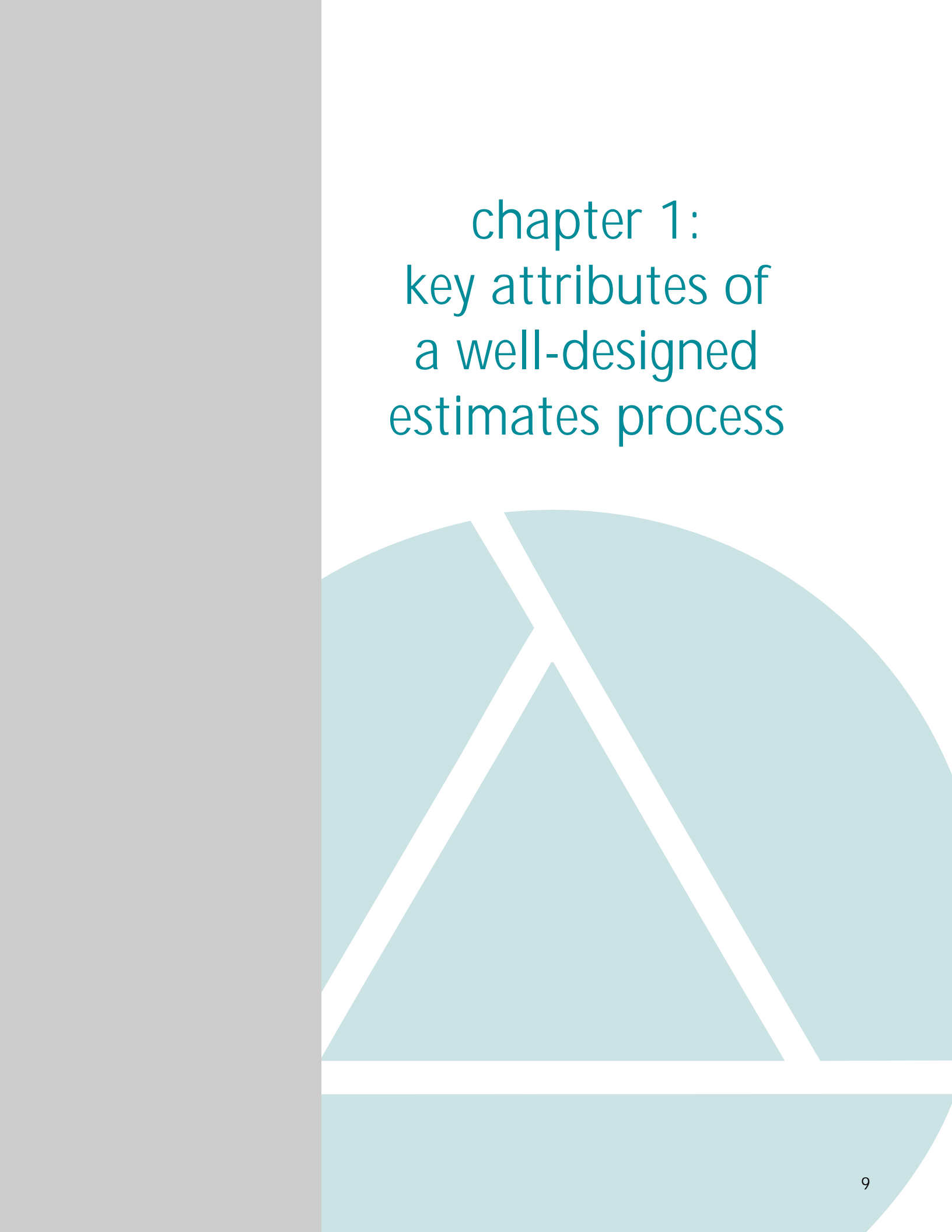
I wish to acknowledge the cooperation of many government officials, in British Columbia, elsewhere in Canada and abroad, who devoted time and effort to enable me to complete my review of the Estimates process in British Columbia.

I also wish to acknowledge the outstanding work of my staff, which has resulted in the issuing of this report. I thank them for their hard work, professionalism, and dedication.

*George L. Morfitt, FCA
Auditor General*

*Victoria, British Columbia
February 1999*





chapter 1:
key attributes of
a well-designed
estimates process

introduction

What Is the Estimates Process?

There is no one definition for the term “Estimates process,” an activity undertaken annually by the provincial government. Simply put, it may be described as the process through which the government-of-the-day forecasts its revenue, sets its spending priorities, and seeks approval from the Legislative Assembly for the expenditure proposals it is making for the next fiscal year.

As in many provinces, the Estimates process in British Columbia is lengthy and complex, involving many people in the allocation of large sums of money to various government programs. The annual provincial budget has ranged from \$18 billion to \$20 billion over the last five years, covering hundreds of revenue and expenditure programs. Budgeting for these programs, from initial planning to final approval, takes anywhere from 12 to 15 months. The process is complicated because it is expected to accommodate a large number and variety of needs and interests—economic, political and social—and, like all budgeting systems, it is about dealing with the future. The many people involved in the preparation of the Estimates include members of Cabinet and its committees, and public officials working in central agencies, ministries and special offices. The role of the Legislative Assembly is to scrutinize and approve the government’s expenditure proposals included in the Estimates.

The Estimates process results in two of the most widely recognized planning documents of the provincial government: the budget and the Estimates. As discussed later, these documents are products of an interrelated group of activities, and references made to the “Estimates process” are intended to cover significant aspects of budget building.

Annual Budget and Estimates

The annual budget and Estimates are companion documents. Together they form a set of very important financial planning, management and accountability statements, which are used or referred to by many people and organizations from both inside and outside government, as well as from within the province and elsewhere. Members of the public, investors, lenders and many business, government and community groups rely on these documents for information



Budget speech, report and information pamphlets, the Estimates and Supplement to the Estimates, and the Interim Financial Statements

and decision-making. As well, in combination with the subsequent reporting of financial results in the Public Accounts, these documents help the Legislature hold government accountable for the allocation and management of public funds.

The government presents its budget to the Legislative Assembly generally at the outset of each new fiscal period. Traditionally, the budget has been the vehicle through which the government states its priorities and initiatives, and introduces most of its revenue measures for changes in taxation, tariffs, and fees. The focus of the budget is the government’s overall fiscal plan, which describes the government’s revenue, expenditure and surplus or deficit expectations, as well as its anticipated borrowing requirements for the coming year. The budget reports also provide information on the economic outlook for the Province, including the pertinent indicators—such as assumptions regarding economic growth, population, prices, and interest rates—and the risks underlying the fiscal plan that the government is proposing.

Many of the details pertaining to the overall fiscal plan of the government, its revenue expectations and, more particularly, its expenditure intentions, are contained in the Estimates. The Estimates document begins with summary data, then lists out the sources and amounts of revenue that the government expects to collect by way of taxes and other means. Finally, it details

extensively the funding and staffing individual ministries are to receive so that they can deliver the programs for which they are responsible. Also stated, in general terms, are the purposes for which the government may spend public funds.

Unlike the Estimates, which must by law be tabled in the Legislative Assembly, there is no such formal requirement for presentation of the budget. It is through the Estimates that the Legislative Assembly approves the government’s spending plans.

In summary, the budget and the Estimates disclose what government programs will be undertaken, on what scale, and how the resources required to carry them out will be raised. Both these documents are discussed in more detail later in this report.

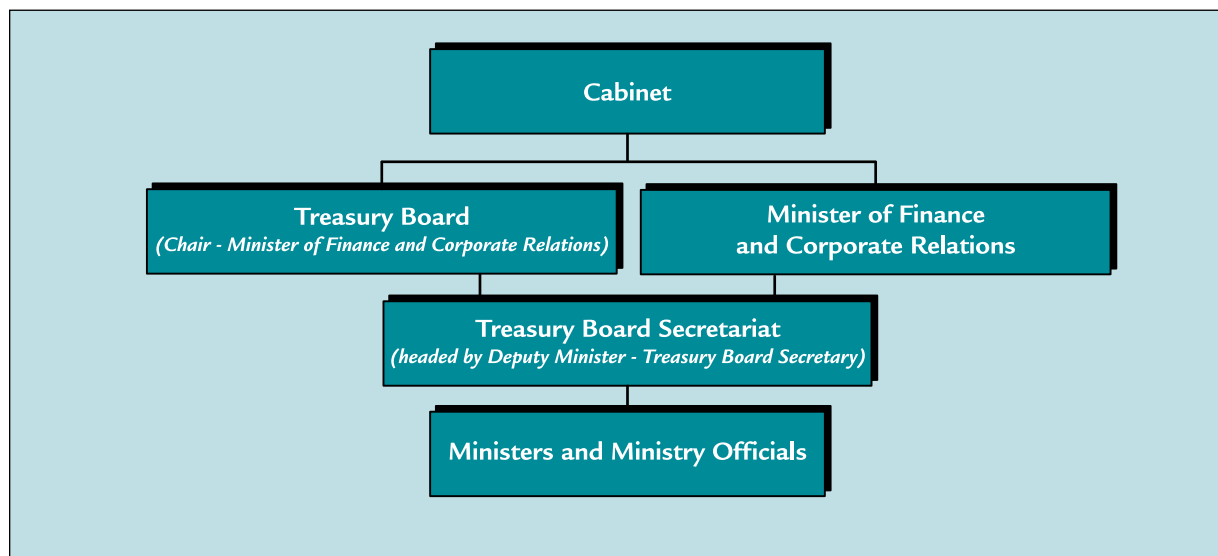
Participants and Their Roles

As already noted, the Estimates process involves many people. The key participants in the Estimates’ preparation (Exhibit 1.1) are:

- Cabinet
- Treasury Board
- Minister of Finance and Corporate Relations

Exhibit 1.1

Key Participants in the Preparation of the Estimates



- Treasury Board Staff (For the purposes of this report, we have used the term “Treasury Board Secretariat” instead of the official name “Treasury Board Staff” to refer to the central agency in its capacity as a secretariat, and to distinguish the organization from its staff.)
- other ministers and ministry officials across government

These participants receive input from many sources, including—in the area of policy and program priorities of government—the Planning and Priorities Committee of Cabinet, the Cabinet Policy and Communications Secretariat, and any advisory or review groups that may be assembled from time to time.

The Legislative Assembly, on the other hand, provides scrutiny and approval of the expenditure proposals presented by government in the Estimates.

The roles of the various parties in the Estimates process—those who prepare the Estimates, provide input in their preparation, or provide legislative scrutiny of them—are described in Exhibit 1.2.

Exhibit 1.2

Roles Within the Estimates Process

Legislative Assembly

The Legislative Assembly, through its Committee of Supply, provides scrutiny and approval of the spending plans that the government proposes to the Assembly in its budget and the Estimates.

Cabinet

Cabinet—the Executive Council—is the senior decision-making body in government, and is accountable for all government policy and decisions. It comprises the Premier, as presiding member, and ministers of the Crown. Concerning the Estimates, Cabinet sets or ratifies key budget decisions relating to overall fiscal strategy, policy priorities, and fiscal targets. It normally delegates detailed analysis and discussion of policy proposals to its committees, secretariats and working groups.

Treasury Board

Treasury Board is a statutory committee of Cabinet, with roles and responsibilities set out in the Financial Administration Act. The Act states that “the Treasury Board must act as a committee of the Executive Council in matters relating to . . . accounting policies and practices, including the form and content of the Public Accounts and the Estimates.”

Treasury Board is chaired by the Minister of Finance and Corporate Relations and is the major financial management committee of Cabinet. It deals with any issue that is largely financial in nature, particularly those involving significant expenditure decisions and those related to the budget and the Estimates. The Board provides advice and recommendations to Cabinet on significant budgetary and fiscal policy matters.

In the Estimates process, the Board is the main body responsible for developing the budget plan and the Estimates, and for presenting them to Cabinet for its consideration and ratification. Normally, its review focuses more on spending plans and expenditure options than on revenue plans. The Board also approves policies and guidelines for the detailed preparation of the Estimates, and is supported in its work by the Treasury Board Secretariat.

Minister of Finance and Corporate Relations

The Minister of Finance and Corporate Relations presents the budget and the Estimates to the Legislative Assembly. The Minister also plays a central role in setting the fiscal framework, focusing primarily on the economic outlook for the Province and on matters relating to tax and fiscal policies of the government. Generally, the estimation of government revenue is the purview of the Minister of Finance and Corporate Relations, although it would be unusual for the Minister to proceed with revenue decisions without the agreement of the Premier. The Minister also has the overall responsibility for monitoring the Province's economic performance and its revenue and expenditure.

Treasury Board Secretariat

Treasury Board Secretariat, made up of staff of Treasury Board, is a central agency within the provincial government. It is usually headed by a deputy or an associate deputy minister. The Secretariat conducts analyses and provides advice to Treasury Board and the Minister of Finance and Corporate Relations on economic, fiscal, taxation and other budgetary matters, reflecting cabinet's policy priorities. Its major role, however, is in managing the spending of public funds. It supports Treasury Board in the preparation and monitoring of the government's overall budget plan and the Estimates. The Secretariat is responsible for coordinating or preparing the fiscal framework, economic forecasts, revenue forecasts and expenditure budgets. The staff of the Treasury Board Secretariat are also delegated responsibility for the regular monitoring of, and internal and external reporting on, the progress of the provincial economy and the implementation of revenue and expenditure budgets.

Ministers and Ministry Officials

Management within each of the government ministries is responsible for preparing medium-term projections of revenue and expenditure for the government's fiscal framework, and for developing detailed revenue and expenditure plans based on targets and guidelines set by Treasury Board. The ministries are also responsible for providing to the Treasury Board Secretariat monthly monitoring information on budget pressures and fluctuations.

Planning and Priorities Committee

The Planning and Priorities Committee is a committee of Cabinet. Chaired by the Premier, the current committee is made up of seven other Cabinet ministers, including the Minister of Finance and Corporate Relations. Formed in late 1996, the committee first met in February 1997. It has no formal, written mandate, but its predecessor, the Planning Board, made recommendations on strategic and major policy or legislative matters, and on program priorities.

Cabinet Policy and Communications Secretariat

The Cabinet Policy and Communications Secretariat is a central agency of government, with a mandate to lead and coordinate policy and communications initiatives at the direction of the Office of the Premier and Cabinet. It is headed by a deputy minister. The agency's main involvement with the budget is to ensure that the policy priorities of the Premier and Cabinet are incorporated into the budget development process, and that ministry budget planning is consistent with those priorities.

Source: Ministry of Finance and Corporate Relations and Office of the Auditor General of British Columbia



annual budget and estimates cycle

The Estimates process in British Columbia has become a full-year cycle, beginning as early as 10 to 12 months before the start of the fiscal year to which it relates, and ending with the legislative debate and approval of the Estimates several months after the start of that fiscal year. This means that the process for Budget '99—that is, for the fiscal year from April 1999 to March 2000—would have started around May 1998 and could end as late as July or August 1999.

The basic elements for preparing the budget and the Estimates have generally remained little changed from one year to another. The routines or steps in the process, however, have been periodically modified to reflect changing economic and political circumstances. This has often involved, among other things, changes in how some decisions are made and who makes them. (For example, difficult economic times and a desire for more political control have generally resulted in the preference for a “top-down” approach—an approach with relatively firmer fiscal targets and more centralized decision-making.) As well, the specific timing of the various process steps has varied from year to year for administrative reasons.

Exhibit 1.3 outlines a full cycle of the Estimates process in British Columbia under its three basic elements: fiscal planning and direction, Estimates building and review, and legislative review and approval. Also shown in the exhibit are the key steps and main groups involved in the process.

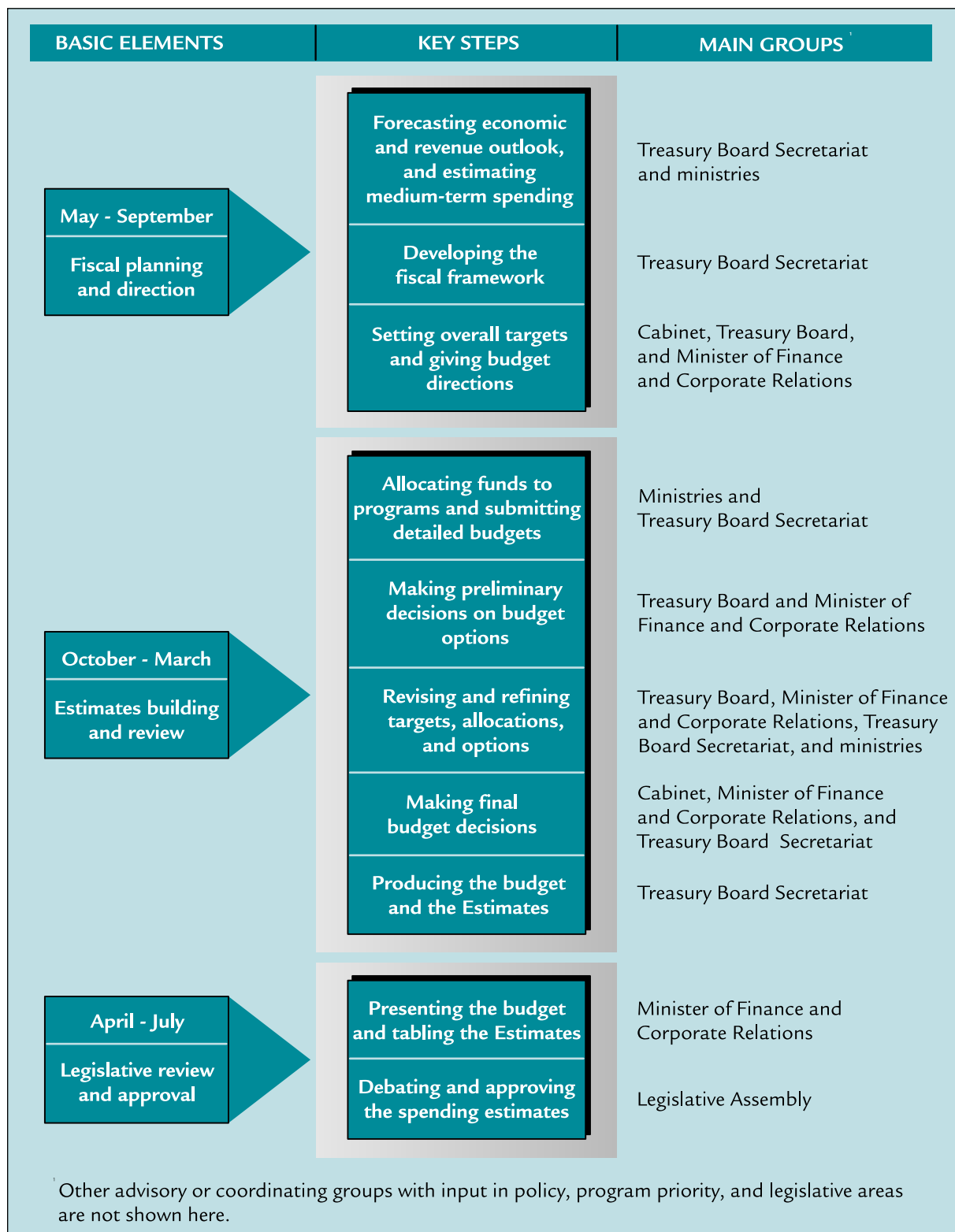
Fiscal Planning and Direction

In British Columbia, as in most provinces, the government's fiscal framework is a common starting point for putting together the budget and the Estimates. It is prepared by the staff of the Treasury Board Secretariat to convey to decision-makers (Cabinet, Treasury Board, and the Minister of Finance and Corporate Relations) the medium-term economic and financial outlook for the Province—that is, how much revenue will likely be available and what expenditures may be made under prospective economic conditions and circumstances. This helps Cabinet set the overall fiscal direction or strategy for the forthcoming year, which may call for a balanced budgetary position, or a surplus or deficit in a declining or upward trend. The fiscal framework also helps government assess policy options, determine program priorities, and provide direction to public administration on budgetary issues.

Exhibit 1.3

Annual Budget and Estimates Cycle

Basic elements, key steps, and main groups involved



Source: Office of the Auditor General of British Columbia

An important component of the fiscal framework is what is called a “status quo” forecast. This is an estimate of next year’s revenue and the cost of government programs, assuming the same level of services as for the current year but taking into account known policy changes, updated population demographics, and wage and non-wage assumptions. In preparing the fiscal framework, the staff of the Treasury Board Secretariat use, as a basis, general economic indicators for British Columbia (e.g., Gross Domestic Product and other growth factors, retail sales, commodity prices, interest rates and inflation rates), and medium-term spending projections supplied by ministries. The ministries use the same general economic and demographic assumptions, together with program-specific factors, to prepare their spending projections. Other information that is provided as part of the fiscal framework relates to fiscal trends and risks, funding pressures, the provincial credit rating situation, and the financial management plan of the government.

What then follows is consideration of the fiscal framework and many “what if” scenarios, internal debate, and a series of initial decisions by Cabinet and Treasury Board to get the Estimates preparation process underway. Decisions must be made on many issues:

- the budget theme
- the starting point or baseline budget
- the annual funding targets
- the capital needs
- the areas for expenditure reduction options and new initiatives
- the budget timetable
- the review process

At the same time as these and other decisions are being made, the Minister of Finance and Corporate Relations considers various revenue and tax options. It is through this decision-making process that Cabinet, Treasury Board and the Minister arrive at their broad policy and allocation priorities.

The directions that Treasury Board provides to its staff may be explicit or implicit, specific or general, preliminary or final. Whatever the case, the directions, together with matters discussed by staff with Treasury Board, form the basis of budget building by central agencies, ministries and special offices. In British Columbia, the preparation of the Estimates

is based largely on incremental budgeting principles. This means a base package for a substantial portion of the previous year's allocation is set first, and then increased or decreased in small increments over time.

To assist in this process, and that of preparing budget submissions, the Treasury Board Secretariat provides budget instructions to all central agencies, ministries and special offices that make up the Consolidated Revenue Fund (CRF) reporting entity. Government organizations and enterprises outside this entity are requested to provide only selected information, since the British Columbia Estimates document is prepared solely for the CRF reporting entity.

Estimates Building and Review

Estimates building, which draws on the results of the fiscal planning process, involves allocating funding targets set by Treasury Board to ministry programs and activities. The procedure takes place largely in individual government ministries, and has become more challenging over the years because of constrained funding targets that are commonplace in today's tight economic environment. The emphasis of budget building has somewhat shifted from how much one would like to deliver in the way of government programs to how much one can deliver with the funds provided. This means identifying options to limit expenditures, and assessing their consequences. During this phase, there is ongoing consultation between ministry staff and the staff of the Treasury Board Secretariat and, for some matters, Treasury Board.

In late fall, the ministries submit to Treasury Board their baseline expenditure budgets and revenue plans, along with their analyses of expenditure reduction options and, sometimes, alternative budget packages or requests. Treasury Board reviews these initial budget submissions, making broad decisions as to whether the ministry expenditure proposals are acceptable to Cabinet, and identifying cross-government issues for special attention. The preliminary decisions normally lead to further revisions and reviews of ministry expenditure budgets over the next two to three months. While this is going on, the staff of the Treasury Board Secretariat are updating and revising their economic and revenue outlooks for the Province to reflect new information and any changing economic circumstances. The continuing update and revision to the fiscal plan by the Secretariat provide decision-makers with an opportunity to reconsider, and make changes to, revenue options and expenditure targets.

The review and screening stage in preparing the Estimates is both iterative and difficult because of the need to reconcile among many groups the often-competing financial, operating, personnel, political and social objectives. Reviewing and screening activities may involve one or more committees of senior officials, in addition to those who are routinely part of the process. The final budget deliberations and decisions, however, are invariably taken within the largely closed confines of Cabinet and Treasury Board, and by the Minister of Finance and Corporate Relations. In any event, it is not uncommon for some of these decisions at the political level to be made very late in the budget cycle. They may involve reducing funding for a specific program or for certain type of expenditure across government. Other late considerations may include building into the Estimates sensitive matters such as contingencies or anticipated public sector wage settlements.

Once Cabinet has ratified the final budget decisions, the staff of the Treasury Board Secretariat prepare the budget speech and draft legislation to support budget decisions, and produce budget reports, the Estimates, the Supplement to the Estimates, and related information material. At the same time, the Comptroller General prepares and submits to the Minister of Finance and Corporate Relations Interim Financial Statements for the period from the end of the last fiscal year to the most recent date practicable.

Legislative Review and Approval

The legislative review process starts with the presentation of the budget. Shortly after the start of the spring session of the Legislature, the Minister of Finance and Corporate Relations delivers the budget speech and tables the Estimates and the latest available interim financial statements (as required by the Financial Administration Act), as well as the budget legislation for new revenue measures.

This is followed by a general budget debate in the House, lasting a maximum of six sitting days (exclusive of the day on which the budget is presented). At the conclusion of this debate, the Legislative Assembly resolves itself into a Committee of Supply to consider the Estimates. Since 1993, the Committee of Supply in British Columbia has divided into two separate sections to consider and debate the Estimates. It is during this phase of the process that members of the House—members of opposition parties as well as the governing party—have an opportunity to question each minister on his or her ministry's spending record for the past year and the spending proposals for the coming fiscal year.

The central purpose of this statutory procedure is to seek authority from the Legislative Assembly to continue to spend money on government programs. All money paid out of the Consolidated Revenue Fund, the main operating fund of the government, must be authorized (voted) by an appropriation, either through a Supply Act or through a specific provision of another statute. There may be more than one Supply Act each year. A final Supply Act is passed when all spending votes have been approved by the Committee of Supply. The bulk of the government's annual expenditure is traditionally authorized in this way.

The Legislative Assembly can also approve supplementary supply at any time it is in session. To our knowledge, this form of supply has not ever been used in British Columbia. When the Legislative Assembly is not in session, the government can use a device known as "special warrant" to authorize an additional expenditure that it considers to be urgently and immediately required for the public good. Any special warrants issued, however, must be included in the first interim supply bill of the session following their issue so that they are subject to scrutiny by the Legislative Assembly.



estimates structure

The Estimates document starts with several summary tables and then moves on to present more detailed information. Exhibits 1.4 to 1.6 provide selected extracts from the *Estimates for the Fiscal Year Ending March 31, 1997* for illustrative purposes, and to help explain the key structural components of the Estimates document.

Summary of Estimated Revenue and Expenditure

Exhibit 1.4, “Estimates Structure—Summary of Estimated Revenue and Expenditure,” shows that the Estimates are prepared on the basis of the Consolidated Revenue Fund. This fund is composed of the General Fund, which is the main operating account of the government, and Special Funds and Accounts, which are operated for specific purposes or to meet specific expenditures. The revenue estimates are presented by major categories, while the expenditure estimates are shown by special offices, ministries and other appropriations.

In presenting the Estimates for the upcoming year (in this example, 1996/97), the government also provides two different sets of dollar amounts relating to the previous fiscal year (in this example, 1995/96) for comparative purposes. They are:

- Amounts as originally forecast and estimated for the previous fiscal year, as shown in Exhibit 1.4 under “Estimates 1995/96.”

These amounts do not differ from the original Estimates except for any restatements arising from changes in organizational or program structure. The restatements are made to provide a more relevant basis for comparison, and do not affect the surplus or deficit as originally forecast.

- Amounts resulting from the government updating its original forecast or estimates of revenue and expenditure for the previous fiscal year, as shown in Exhibit 1.4 under “Revised Forecast 1995/96.”

These amounts represent what the government expects revenue and expenditure to be for that year, determined as at the time of preparing next year’s budget. Because of its timing, the revised forecast for a given year includes actual results for a substantial part of that year.

Exhibit 1.4

Estimates Structure—Summary of Estimated Revenue and Expenditure

An extract from the Estimates for fiscal year ending March 31, 1997

CONSOLIDATED REVENUE FUND SUMMARY OF ESTIMATED REVENUE AND EXPENDITURE (For illustration purposes only. Not all items are listed.)			
Estimates 1995/96 \$	Revised Forecast 1995/96 \$		Estimates 1996/97 \$
Revenue Summary			
12,753,000,000	12,600,000,000	Taxation Revenue	13,219,000,000
2,451,000,000	2,287,000,000	Natural Resource Revenue	2,401,000,000
.
.
<u>20,258,000,000</u>	<u>20,130,000,000</u>	Total Revenue	<u>20,659,000,000</u>
Expenditure Summary			
Special Offices:			
25,306,000	26,200,000	Legislation	24,294,000
.
.
Ministries:			
875,115,000	908,900,000	Ministry of Attorney General and Ministry Responsible for Multiculturalism, Human Rights and Immigration . . .	905,566,000
5,582,148,000	5,556,100,000	Ministry of Education, Skills and Training	5,794,677,000
2,637,770,000	2,731,800,000	Ministry of Social Services	2,600,811,000
.
.
Other Appropriations:			
979,000,000	979,000,000	Management of Public Funds and Debt	1,001,000,000
.
.
<u>20,144,000,000</u>	<u>20,114,000,000</u>	Total Expenditure.	<u>20,572,000,000</u>
<u>114,000,000</u>	<u>16,000,000</u>	Surplus	<u>87,000,000</u>

Source: Estimates, fiscal year ending March 31, 1997

Estimated Revenue

Each of the revenue groupings shown in the Summary of Estimated Revenue and Expenditure is detailed further by type or source. This is illustrated in Exhibit 1.5, “Estimates Structure—Estimated Revenue.”

Exhibit 1.5

Estimates Structure—Estimated Revenue

An extract from the Estimates for fiscal year ending March 31, 1997

ESTIMATED REVENUE (For illustration purposes only. Not all items are listed.)			
Estimates 1995/96 \$	Revised Forecast 1995/96 \$		Estimates 1996/97 \$
Taxation Revenue			
5,040,000,000	5,002,000,000	Personal income	5,216,000,000
1,325,000,000	1,315,000,000	Corporation income	1,450,000,000
3,034,000,000	2,959,000,000	Social service	3,127,000,000
.
.
<u>12,753,000,000</u>	<u>12,600,000,000</u>	Total Taxation Revenue.	<u>13,219,000,000</u>
Natural Resource Revenue			
Petroleum and Natural Gas			
124,000,000	99,000,000	Natural gas royalties	157,000,000
133,000,000	156,000,000	Permits and fees	137,000,000
54,000,000	56,000,000	Petroleum royalties	56,000,000
<u>311,000,000</u>	<u>311,000,000</u>	Sub-total	<u>350,000,000</u>
<u>79,000,000</u>	<u>84,000,000</u>	Minerals	81,000,000
Forests			
966,000,000	1,132,000,000	Timber sales	1,212,000,000
473,000,000	333,000,000	Small Business Forest Enterprise Program.	360,000,000
70,000,000	123,000,000	Logging tax	116,000,000
13,000,000	15,000,000	Other forest revenue	12,000,000
<u>1,522,000,000</u>	<u>1,603,000,000</u>	Sub-total	<u>1,700,000,000</u>
Other			
269,000,000	269,000,000	Water resources.	255,000,000
250,000,000	—	Downstream benefits.	—
20,000,000	20,000,000	Wildlife Act—fees and licenses.	15,000,000
<u>539,000,000</u>	<u>289,000,000</u>	Sub-total	<u>270,000,000</u>
<u>2,451,000,000</u>	<u>2,287,000,000</u>	Total Natural Resource Revenue	<u>2,401,000,000</u>

Source: Estimates, fiscal year ending March 31, 1997

Estimated Expenditure

Similarly, expenditure proposed by government is detailed under individual special offices, ministries and appropriations. This is illustrated in Exhibit 1.6, “Estimates Structure—Estimated Expenditure of a Ministry,” which in this example relates to the Ministry of Attorney General and Ministry Responsible for Multiculturalism, Human Rights and Immigration. The expenditure appropriations are grouped into “voted” or “special accounts—statutory” categories.

- The voted category covers spending proposals for which the government must annually seek the authority of the Legislative Assembly to make the expenditures necessary to deliver various government programs.

The spending proposals are segregated into packages, or votes, in order to provide a framework of legislative and administrative control. The vote amount specified represents the limit for spending and not a commitment by government to spend the entire amount. The purposes detailed in the Estimates become, once the expenditure estimates are approved, the conditions that govern the spending of public funds. The voted appropriation of funds lapses at the end of the fiscal year and, as a rule, any unspent funds cannot be carried forward to the next year.

- The special accounts—statutory category covers programs and expenditures for which no annual vote is required because legislative authority for spending exists from prior years. In this case, a special account is set up for administration purposes.

These special accounts—statutory expenditures are shown in the Estimates to provide information and a more complete or inclusive estimate of the government’s spending plans. Some expenditures (such as for the Criminal Injury Compensation program) have ongoing statutory payment authority, but are included as part of the voted category for financial control purposes.

The voted and statutory categories are further detailed by type of expenditure in the Estimates and a related document titled “Supplement to the Estimates.” This presentation helps Treasury Board and ministry management exercise administrative control over expenditures.

Exhibit 1.6

Estimates Structure—Estimated Expenditure of a Ministry

An extract from the Estimates for fiscal year ending March 31, 1997

MINISTRY OF ATTORNEY GENERAL AND MINISTRY RESPONSIBLE FOR MULTICULTURALISM, HUMAN RIGHTS AND IMMIGRATION				
<i>Summary</i>				
Estimates 1995/96	Vote			Estimates 1996/97
\$	\$	No.		\$
BUDGETARY EXPENDITURE				
Voted Appropriations				
	784,687	16	Minister's Office	425,473
	811,600,308	17	Ministry Operations	839,978,306
	15,491,696	18	Statutory Services	15,730,509
	<u>34,849,720</u>	19	Judiciary	<u>36,150,752</u>
862,726,411			Total Voted Expenditure	892,285,040
Special Accounts (Statutory)				
	1,185,743	(S)	Forfeited Crime Proceeds Fund	1,185,743
	1,492,365	(S)	Inmate Work Program	1,492,365
	<u>9,710,481</u>	(S)	Office of the Public Trustee	<u>10,602,852</u>
<u>12,388,589</u>			Total Special Accounts	<u>13,280,960</u>
<u>875,115,000</u>			Total Expenditure	<u>905,566,000</u>
6,260			Total Full-time Equivalent (FTE) Employment	6,363
FINANCING TRANSACTIONS				
Interest on Trusts and Deposits				
TOTAL EXPENDITURE BY GROUP ACCOUNT CLASSIFICATION				
	346,326,287		Salaries and Benefits	358,930,833
	220,747,453		Operating Costs	230,601,352
	19,050,758		Asset Acquisitions	18,239,185
	303,432,585		Grants and Contributions	312,027,263
	3,403,252		Other Expenditures	3,683,702
	<u>(17,845,335)</u>		Recoveries	<u>(17,916,335)</u>
<u>875,115,000</u>			Total Expenditure	<u>905,566,000</u>

Source: Estimates, fiscal year ending March 31, 1997



expectations and purposes of budgets and estimates

Despite some similarities, government budgets are in fact quite different from budgets in the private sector. Private sector budgets function as financial plans, and any changes to the plans can easily be made—and any violations, though regrettable, are not uncommon or necessarily illegal. On the other hand, government Estimates have the force of law. Public financial resources ordinarily may neither be raised nor spent without proper legislative authority. There are many political implications as well.

Formulating a provincial budget and preparing the Estimates is therefore a significant and challenging activity, the results of which are almost always controversial. Contributing to the controversy is not only the partisanship inherent in our democratic governance structure, but also the multiple—and often conflicting—public expectations. For example, the Estimates process is expected to contribute to: continuity of government operations, but allow for changes to policy and programs; flexibility and government responsiveness, but require appropriate control over spending; and openness for better accountability, but not to the extent that it unduly inhibits the government's ability to govern.

The traditional and central purpose of every Estimates process is to allocate funds to government programs. The decisions of how much to spend, and for what, rarely go undisputed, and it is reality that no budget or Estimates will ever satisfy everyone. Over the years, the decisions have also become more difficult. While needing to respond to public need for more services, the government is also having to cope with multiple and competing demands within constrained budgets. Not surprisingly then, conflict and competition for funds have become an integral and seemingly unavoidable part of preparing the Estimates. This is the reason that the Estimates process is one of building consensus, making tradeoffs among a large number of policy objectives and competing demands, and determining priorities.

As a political event, the presentation of the budget and the Estimates is especially significant. It provides an opportunity for the government to express its views about the state of, and prospects for, the provincial economy; to make a statement as to the Province's financial capability; to defend previous

policy measures; and to outline its economic, social and fiscal initiatives for at least the next fiscal year. It is also sometimes seen by the government-of-the-day as an opportunity to describe the negative effects of external factors, thereby justifying some of the new measures that the budget may contain. In this way, the budget and the Estimates act as a means of communicating financial and other information to the Legislative Assembly, the public, businesses and other stakeholder groups to assist them in planning future actions or assessing the effects of past actions.

As instruments of economic policy, the budget and the Estimates are used to respond to—and influence—the performance of the provincial economy. (To this end, for example, the government might decide to fund new physical and social infrastructure, or assist designated sectors of the economy.) As instruments of social policy, budgets are used to redistribute income generally in favour of lower-income groups, to offer support to specific disadvantaged groups deemed to merit more assistance, and to provide social programs for the benefit of the population as a whole. As economic and social policy statements, the budget and the Estimates reflect the government's preference for what services to provide, to whom and to what level. In this context, the Estimates process has become part of the government's policy formulation activity.

Also important is how the budget and the Estimates are used as vehicles for controlling public sector employment, balancing central control and managerial autonomy within government and, increasingly, promoting managerial improvement and program effectiveness in the public sector.

But above all, the Estimates process is about accountability: accountability of public administration to government, and accountability of government to the Legislative Assembly and the people of British Columbia. It is about the need for public administration and government to be answerable for how they intend to meet, and how they have met, their responsibilities in the exercise of the authorities granted them or delegated to them in trust. The Estimates, when approved by the Legislative Assembly, can be regarded as a contract between the government and the public. The Estimates process must therefore assist the government in fulfilling its duty to be publicly accountable for the monies raised and the expenditures made. From this perspective, the Estimates document, together with the Public Accounts, provides a system of accounting for public funds, and is an important link in the chain of financial accountability.



guiding principles

A large body of general information is readily available on government budgeting, but there is relatively limited comparative information about the budgetary frameworks and practices being used in jurisdictions in Canada and elsewhere. Nevertheless, it is clear that several different structures and processes have been adopted by various jurisdictions to suit their specific legislative, political, administrative and economic environments. It is also clear that many of these jurisdictions have recognized a need to reshape or strengthen their Estimates process so that they are better able to meet public expectations. Indeed, some have recently made major reforms in how they carry out their oversight, governance and management responsibilities associated with the Estimates process, and others are in the midst of making or considering incremental improvements. In this regard, we in British Columbia face many of the same issues and challenges concerning the Estimates process as those faced by others.

While the approach to it is varied, everyone seems to agree that the budgeting and Estimates process is iterative, complex, political and very sensitive. How, then, can one measure its adequacy?

In British Columbia, as in other provinces and nationally, a number of principles that underpin the Westminster form of government—that is, the British parliamentary system—are fundamental to the Estimates process. The four we have identified as being most significant are:

- Government is accountable to the Legislative Assembly.
- Government is solely responsible for the Estimates.
- Executive responsibility is both collective and individual.
- The Legislative Assembly has a duty to hold government to account.

These principles have been instrumental in shaping the establishment of the rights and responsibilities of the public, the Legislative Assembly (as representing the public), the government (as representing the Crown), and the public administration; and in defining the accountability relationships among all these players. How well these principles are upheld by our governing system and its management determines, to a large extent, the soundness and integrity of the Estimates process.

We believe that evaluating the adequacy of the Estimates process must begin with understanding these guiding principles.

Government Is Accountable to the Legislative Assembly

The principle of government being accountable to the Legislative Assembly is a fundamental tenet of our parliamentary form of government. It is under this principle that the government-of-the-day tells the Legislative Assembly its annual resource spending needs, in return for the Assembly's granting of the "ways and means" (that is, appropriation and tax-levying authorities) to meet these requirements. Subsection 23(1) of the Financial Administration Act reflects this principle by stating that "the estimates of revenue and expenditure for each fiscal year must be prepared ... for presentation to the Legislative Assembly by the Minister of Finance and Corporate Relations."

The evolution of this arrangement can be traced to events that took place in England some 300 years ago, when the balance of public administrative power shifted away from the King (the Crown or the Sovereign) to Parliament, the supremacy of which was asserted in a Bill of Rights. The redefined constitutional relations between the Crown and Parliament placed strict limits on the prerogatives of the Sovereign. Among other things, this meant that the right to raise money through taxation was limited to Parliament. But because the task of governing belonged to the Crown and it could not continue to provide its many services unless it was given the necessary resources, Parliament necessarily had to respond to the Crown's request for funds and allow it to raise money. In so doing, though, Parliament required the Crown to specify in its request how much money was needed and for what purposes. In short, the Crown was given the right (with the approval of Parliament) to collect taxes and other revenues from the people, and Parliament (representing the people) was given the right to know and approve how the Crown was going to spend the funds collected and in what amounts.

This accountability relationship, which requires the government to respond—through the Legislative Assembly or directly—to the fundamental right of the public to know about government finances, is key to minimizing the risk of abuse of power or authority.

For the relationship to operate properly, commitments must be made and mechanisms established to give both the Legislative Assembly and the public opportunities to examine

the government's fiscal plans and assess its fiscal and program performance. Putting into place a comprehensive accountability discipline, sound financial reporting standards, and an open deliberative Estimates process provides the Legislative Assembly and public that opportunity.

Government Is Solely Responsible for the Estimates

The Estimates process, which starts with the development of a fiscal framework and ends with the budget debate and Estimates approval, normally allows many participants to make contributions to it. Nonetheless, the budget and the Estimates are, in the end, the sole responsibility of the government-of-the-day.

This fact is evident when one considers that, constitutionally and historically, the prerogative of introducing money bills or financial legislation for the raising and spending of money has always belonged to Cabinet (the Executive Council) alone. Cabinet is assisted by its committees and individual members in carrying out this responsibility. The Financial Administration Act, on the functions and duties of Treasury Board and government ministers, states that “the Treasury Board must act as a committee of the Executive Council in matters relating to . . . accounting policies and practices, including the form and content of the Public Accounts and the Estimates,” and that “the Minister of Finance and Corporate Relations is responsible for . . . matters relating to the fiscal policy of the government.” Within the overall fiscal policy, the revenue and expenditure aspects of budgeting are dealt with somewhat separately. The spending plans for the Estimates process are handled by Treasury Board, and all members of Cabinet may take part in establishing those plans. The estimation of government revenue is the purview of the Minister of Finance and Corporate Relations.

The public administration—particularly the staff of the Treasury Board Secretariat, members of various policy and review committees, and senior budget staff of ministries—provides necessary financial information and research and advisory expertise to Cabinet and its committees. The Legislative Assembly, on the other hand, carries out the role of providing legislative scrutiny and approval of the spending proposals after the Estimates are tabled in the House. Ultimately, however, it is the government—Cabinet and its committees—that assesses the information and expert advice provided by the public administration, and makes final decisions about the fiscal plans and spending proposals contained in the Estimates.

Being solely responsible for the budget and the Estimates gives the government certain practical advantages, in that it can focus on its goals with little intervention. This is possible because members of Cabinet are the executive as well as the legislators. (In the United States model of government, the Executive and Congress are independent of each other and Congress can, among other things, change funding levels, programs and taxes proposed by the executive branch of the government.) Nevertheless, holding sole responsibility for the budget and the Estimates is inherently challenging because members of Cabinet, as the executive and legislators, must protect the interests of both the Crown and the public—and these may sometimes be opposing. Somehow, given that Cabinet alone has the responsibility for the Estimates, it must protect these opposing interests.

The responsibility of the government for the Estimates also carries with it several general presumptions, among them:

- That responsible stewardship practices were applied in determining the scope of the government's fiscal policy and operations. The government is entrusted by the people with the resources of the Province, and is expected to maintain high standards in the protection and use of these resources for the well-being of current and future residents.
- That fairness and honesty were applied in preparing the Estimates and related accountability documents. This stems from the duality of the role played by each member of Cabinet in representing both sides of the same contract—a contract that allows the government to tax people while at the same time it looks after their interests.
- That due diligence was exercised during all phases of Estimates planning, preparation and reporting. If the purpose of the annual Estimates were simply to allocate financial resources to anticipated activities, it may be sufficient to have a simple Estimates process. But this is seldom the case. The Estimates are expected to meet many demands, and economic, social and political conditions are constantly changing. In such an environment, applying due diligence means not only taking steps to fully ascertain present and future circumstances, but also being well aware of changing conditions and making appropriate allowances for them when preparing the Estimates.

To satisfactorily meet expectations for responsible stewardship, fairness, honesty and due diligence in determining the scope of its fiscal policies and operations, the government

must be able to demonstrate its unfailing commitment to these matters. Such commitment manifests itself primarily in government adopting sound fiscal management practices. It also requires having in place both a comprehensive accountability discipline and an open deliberative Estimates process in which the information exchanged is based on sound financial reporting standards.

Furthermore, to maintain continued public confidence in its commitment to the above values, the government needs the support of a governance and management structure. Such a structure must include administrative policies and the physical organization necessary to ensure the quality and integrity of the information used for decision-making, and used for monitoring and evaluating the conduct of the Estimates process.

Executive Responsibility Is Both Collective and Individual

Collective Cabinet responsibility and individual ministerial responsibility are other fundamental conventions under the Westminster model of government. The dual nature of this responsibility pervades nearly all ministerial activities and decisions.

The provincial Cabinet, made up of ministers of the Crown and constituting de facto executive power in British Columbia, is collectively accountable to the Legislative Assembly for all government policies. This responsibility is based on the formal relationship of Cabinet to the Crown, and it affirms the view that government is a single, cohesive administration or entity. With respect to government finances, the collective responsibility of Cabinet ministers is clearly evident in the Financial Administration Act. The Act gives Treasury Board (a committee of Cabinet), rather than any individual minister, responsibility for the form and content of the Estimates, and for overall financial management and control of government operations.

The collective responsibility in government is also evident when decisions that concern ministries and have broad governmental significance must be brought before Cabinet for approval. While the collective executive responsibility of the provincial Cabinet is a fundamental convention in our type of government, it does not prevent individual ministers from taking a lead role in specific matters on behalf of Cabinet.

In addition, each Cabinet minister is individually responsible, both legally and politically, to the Legislature for the administration of his or her portfolio. This responsibility is evident in legislation governing individual ministries, and is manifested when the Legislative Assembly requires Cabinet ministers to respond to questions about their or their staff's actions, and about activities of ministries under their administration. Subsection 6(3) of the Financial Administration Act, on addressing duties and functions of ministers, states that "each minister is responsible for the administration of the financial affairs of his or her ministry, under the general direction of the Minister of Finance and Corporate Relations and the Treasury Board." While it may not be realistic to hold a Cabinet minister personally accountable for every administrative act of his or her staff in a ministry, individual Cabinet ministers are clearly responsible for exercising duties within the area of their designated portfolio. They are also responsible for actions performed by staff in accordance with ministerial policy or instructions. In other words, ministerial responsibility persists even where the minister has delegated general or specific authority to a deputy minister.

Along with the elaborate secretariat, committee and public administration structures involved in the preparation of the Estimates comes the supervisory or oversight responsibility of decision-makers. These individuals must be able to assure themselves that the delegated authority has been exercised properly. The activities of senior public service employees in the secretariats and many policy committees of government are essential to the process of formulating, preparing and authorizing the Estimates, and these officials wield considerable influence. Cabinet and individual ministers must therefore ensure that the public service employees on which they rely for financial information and technical expertise have performed their responsibilities diligently. Normally, Cabinet delegates this supervisory responsibility to Treasury Board and the Minister of Finance and Corporate Relations.

Many key issues arise from collective Cabinet responsibility. Those that pertain to the preparation of the Estimates relate primarily to the need for an organizational and procedural environment that will reduce the risks associated with group responsibility. To achieve this, the government must promote good communication and respect for the roles of the agencies and persons involved in the process. Promoting public understanding of fiscal conditions, decisions and the risks associated with uncertainties also helps increase public confidence in the government's ability to fulfill its collective

responsibility. Fundamental to all these initiatives is establishing an open deliberative Estimates process, supported by information provided on the basis of sound financial reporting standards. Also essential is the support of a governance and management structure designed to ensure the quality and integrity of the information used for decision-making, and for monitoring and evaluating the conduct of the Estimates process.

Legislative Assembly Has a Duty to Hold Government to Account

Implicit in the right of the Legislative Assembly to know the fiscal plans and spending proposals of the government is the duty of the Assembly—as representing the people—to hold government to account. This duty exemplifies the historic origin of Parliament as a check on the prerogative powers of the Crown. In turn, implicit in this basic principle is the obligation of the Assembly to impose a suitable accountability discipline for government.

In the context of the Estimates process, the duty to hold government to account is best afforded by the Legislative Assembly providing scrutiny of the spending plans of government and exercising its constitutional right to vote (grant, deny or reduce) money requests for the public service. This duty is reflected in British Columbia’s Constitution Act, which states that “the Legislative Assembly shall not originate or pass any vote . . . for the appropriation of any part of the consolidated revenue fund . . . to any purpose that has not been first recommended by a message . . . to the Legislative Assembly.” Also, reflected in this provision of the Act is the Crown’s sole responsibility for initiating expenditure. The role of the Assembly is not a formality, but one that is intended to provide an oversight of government expenditure in a critical and public way. As political representatives of the electorate in a democratic form of government, Members of the Legislative Assembly provide the most important formal link between the public and the government, and are entrusted with the responsibility to safeguard the public interest. In this role they ensure good stewardship of public monies.

The role of the opposition parties to extract accountability from government during the budget debate is obvious. Opposition members in the Legislative Assembly may question Cabinet ministers on all matters related to policies, fiscal plans, revenue and spending proposals, and underlying assumptions. However, it is normally the spending plans included in the annual Estimates that become the focus of attention during the budget debate, since all revenues to be collected by government

in a budget year either would have already been debated and legislated by the Assembly, or will in future be debated in connection with legislation introduced at budget time.

Equally important in overseeing the Estimates is the role of individual members of the governing party. Each member is a representative of his or her constituents and must be satisfied with the requests being made by the government before voting to grant the funds. This responsibility is not diminished for the ministers of the Crown (or members of Cabinet) because of the duality of their powers—those derived from the Crown to initiate policy and administer programs, and those derived from the electorate to protect their rights and interests. To fulfill their electoral responsibility with regard to the Estimates, members of the governing party traditionally use the opportunities available to them at Cabinet and caucus meetings.

And finally, because Members of the Legislative Assembly carry out their duty of examining the Estimates in a public forum, the role of the media in transmitting the legislative debate to the public and recording public opinion is crucial. The function of a “free press” has been viewed as a necessary ingredient of democratic politics since the American Revolution. The reasoning behind this view is that self-interests of politicians and public service employees often get in the way of objectivity. This is not to say the media itself is free of bias, but that the various viewpoints expressed by and through the media generally help people better ascertain the facts.

Given the significance of this duty to hold government to account, the key issue remains as to how to maintain the capacity of the Assembly to carry out its oversight role. Essential to this is the establishment of a comprehensive accountability discipline and an open deliberative Estimates process.



key attributes of a well-designed estimates process

If the guiding principles fundamental to the Estimates process are to be upheld, then the rights of stakeholders and participants in the Estimates process must be respected and the accountability relationships among them must operate properly. This requires the Legislative Assembly, Cabinet and public administration to have developed both a collective and an individual sense of their responsibilities and the public interests they serve, based on a clear understanding of their respective roles for the oversight, governance and management of the Estimates process. It also requires the government to have established an effective structure made of values, relationships and processes that provide the environment and the means for the participants to contribute meaningfully to the process when carrying out their responsibilities. In short, we believe that a well-designed Estimates process has the following key attributes:

- comprehensive accountability discipline
- sound fiscal management
- open deliberative Estimates process
- sound financial reporting standards
- appropriate governance and management structure

Exhibit 1.7 provides a summary of the guiding principles that we believe underlie the government's Estimates process; the main issues to be addressed if those principles are to be upheld; and the key attributes that, in our opinion, should define the design of the process. While the exhibit would suggest a distinct relationship of individual guidelines to specific issues and attributes, there is a great deal of overlap among them. They have been so presented in this report for ease of discussion and analysis.

In Chapter 2 of this report, we evaluate how well the above attributes are functioning and, where necessary, make recommendations for how their application could be improved.

Exhibit 1.7

Summary of Guiding Principles, Main Issues to Be Addressed, and Key Attributes That Should Define the Design of the Government’s Estimates Process

GUIDING PRINCIPLES	MAIN ISSUES TO BE ADDRESSED	KEY ATTRIBUTES				
		Comprehensive accountability discipline	Sound fiscal management	Open deliberative Estimates process	Sound financial reporting standards	Appropriate governance and management structure
Government is accountable to the Legislative Assembly	<ul style="list-style-type: none"> Establishing mechanisms and making commitments to afford the Legislative Assembly and public the opportunity of examining the government’s fiscal plans and assessing its fiscal and program performance 	*		*	*	
Government is solely responsible for the Estimates	<ul style="list-style-type: none"> Developing the form and content of the Estimates that meet the needs of the public, Legislative Assembly, government and public administration Making a commitment to responsible stewardship Ensuring the quality and integrity of information for decision-making Monitoring and evaluating the conduct of the Estimates process 	*	*	*	*	*
Executive responsibility is both collective and individual	<ul style="list-style-type: none"> Establishing an organizational and procedural environment that promotes communication and respect for the roles of agencies and persons involved Promoting public awareness and understanding of fiscal conditions, decisions and risks (transparency of decisions) 			*	*	*
Legislative Assembly has a duty to hold government to account	<ul style="list-style-type: none"> Ensuring the capacity of the Legislative Assembly to carry out its oversight role 	*		*		



chapter 2: governance of the estimates process

introduction

We described Cabinet's role in development of the budget and the Estimates, and the Legislative Assembly's role in scrutiny and approval of the government's spending plans, in Chapter 1. Between them, Cabinet and the Legislative Assembly provide a framework for the governance of the Estimates process.

To fulfill their respective roles, Cabinet establishes administrative policies and the management structure necessary to implement them, while the Legislative Assembly applies parliamentary proceedings. By *administrative policies*, we mean those decisions and directions that affect the administration of public finances and the Estimates process. These policies also include the ways for monitoring and evaluating their results.

In this chapter, we examine the key attributes of a well-designed Estimates process, to the extent they relate to the governance responsibilities for the Estimates process. Our focus is on reviewing the legislative provisions, and evaluating recent administrative policies of Cabinet (including those of Treasury Board) regarding public accountability, fiscal management, openness of the process, financial reporting, and the organizational needs for effective governance.

Comments About Our Conclusions

In reviewing these provisions and evaluating the administrative policies, we have referred to similar practices in other jurisdictions in Canada and elsewhere.

Some of these practices may be followed more widely than others. This may be due to the evolving nature of the Estimates process, and the different stages of budgetary reforms that the various jurisdictions are at. While the general acceptance of a practice is often indicative of its merit, we believe what seem to be evolving as general directions for the future should also be considered for their merit. We have therefore been careful not to be constrained from assessing such evolving directions, and, where appropriate, incorporating them in forming our conclusions on various matters and making recommendations to improve the current Estimates process in British Columbia.

Our conclusions and recommendations in this chapter are addressed to the elected officials, those responsible for the governance of the Estimates process.



comprehensive accountability discipline

The Estimates and the Public Accounts are among the most widely recognized financial planning, management and accountability documents in government. They provide important links in the chain of financial accountability in the public sector, from legislators to those who determine the government's fiscal strategies and policies and those who administer them. For the accountability links to operate effectively, however, they must be based on a discipline that is clear and comprehensive in what it sets as the scope of financial and other information to be provided to legislators and the public, and in how it enhances the credibility of that information.

What Do We Mean by a Comprehensive Accountability Discipline?

As discussed in Chapter 1, the Estimates process is primarily about accountability—that is, about the need for one party to be answerable to another. The process involves at least two parties and is, in its simplest form, analogous to an agent-principal relationship. That is, the principal determines the requirements and the agent takes appropriate steps to meet those requirements and report the results.

The government of British Columbia carries executive authority on behalf of the people of the Province. Cabinet is therefore accountable to the people and their representatives—the Legislative Assembly. As it is the right and duty of the principal to impose on his or her agent an appropriate accountability discipline, so in this case it is the prerogative, and indeed a duty, of the Legislative Assembly to impose an appropriate accountability discipline on Cabinet. Moving down the organizational hierarchy, the next level of organizational relationship is the one between Cabinet and individual ministers (who account for the actions they take in their specific areas of responsibility). It is Cabinet that imposes the accountability discipline it requires on the ministers. In the same vein, the public service management within a ministry is accountable according to the discipline imposed on it by the minister, and ministry staff are obliged to account to ministry management based on management's requirements, and so on. At each level of organizational hierarchy there is an unmistakable principal-agent relationship that determines who has the prerogative to hold the other to account.

Therefore, a key factor in the Estimates process is what accountability discipline the “principal” has imposed on the “agent.” In this report, we are only discussing the accountability discipline between Cabinet and the Legislative Assembly, and between the public service and ministers. We do not focus on the political accountability between the people and their elected representatives, nor between a minister and Cabinet. The former is the prerogative of individual voters and the latter is that of Cabinet, both outside the purview of this report.

Of course, any discipline imposed by the Legislative Assembly on Cabinet and by government ministers on the public service must incorporate principles or standards of good practice in many areas, such as fiscal management and financial reporting. These and other such principles are discussed in subsequent sections of this chapter. Here, we focus on evaluating the adequacy of the scope and credibility of accountability information currently required.

Overall Conclusion

We concluded that, within the Estimates process, the discipline imposed on the government and public service for accountability information is not sufficiently comprehensive. It does not require the government (Cabinet) to routinely provide the Legislative Assembly with financial information relating to the fiscal plans of all organizations and enterprises that make up the government’s summary reporting entity; nor does it require the government to provide much information as to performance expectations for its programs. Fiscal plans and results for Crown corporations may be required by the Legislative Assembly occasionally during budget debates or examination of the Estimates.

Also, unlike for the financial statements of government, there is no legislative requirement for the government to provide the Legislative Assembly with independent assurance about the accounting standards and policies applied in preparing the information presented in the Estimates.

Detailed Evaluation

What did we expect to find?

For the Estimates process in British Columbia, the Legislative Assembly imposes the accountability discipline on Cabinet through legislation and established parliamentary procedures. In this regard, the Financial Administration Act is a key piece of legislation underpinning the accountability regime in government. It outlines certain rules for how the

Estimates should be prepared, what information they should contain, and how the Province's financial results should be reported.

We expected the scope of what governments in British Columbia must be accountable for in preparing the Estimates to be comprehensive, encompassing their activities. Government activities cover a wide range of public programs, some of which are delivered through ministries and some through separate government organizations. Irrespective of where these activities are carried out, the ultimate responsibility for them rests with Cabinet and its members (Cabinet ministers). The ministerial responsibility for them is evident by the range of topics covered in the budget debate or the debates of the Committee of Supply, and the questions about government activities put to ministers in the Legislative Assembly. In fact, for many of the organizations referred to above, legislative or other requirements demand that they report information on their corporate budgets and financial results to Cabinet ministers.

We also expected the scope of the Estimates process in British Columbia to address the issue of performance measurement in the public sector. Since the mid-1950s, money budgeting has been used as the basis for most management functions. In this way, instead of allocating money to organizations (as was the practice before), the appropriated funds were allocated to defined purposes (programs). The idea behind this evolution in government budgeting has been to enable legislators and the public to measure the progress towards achieving specified ends. This has also been the focus of a joint initiative by the Office of the Auditor General and the Deputy Ministers' Council, in which the group has devoted much time and energy to developing a workable accountability framework for the public sector to follow in accounting for its performance. We expected to find that this initiative had resulted, as a minimum, in performance measurement capabilities being established in ministries and performance expectations being developed.

Another important element of a comprehensive accountability discipline is that the quality and credibility of the information presented to the Legislative Assembly be assured. In this regard, as discussed later in this chapter, the requirement for sound financial reporting standards is a key part of this element. So is the requirement for regular and independent assessment of those standards.

We outline below our observations of the existing accountability discipline with respect to British Columbia's

Estimates process in terms of three issues: the entity issue, the measurability issue, and the information credibility issue.

What did we find?

Entity issue — Concerning the Estimates, the Financial Administration Act requires the Minister of Finance and Corporate Relations to:

- present the Estimates of revenue and expenditure for each fiscal year in a form directed by Treasury Board;
- describe in the Estimates the general purpose and limit of each proposed appropriation for spending public money;
- include in the Estimates any amount spent from public money that is planned to be recovered; and
- include in the Estimates a schedule for that fiscal year, showing the maximum number of staff appointed under the Public Service Act and the actual number of staff for the previous fiscal year.

The Act appears to place slightly more attention on matters related to accountability for financial results than it does on the preparation and presentation of the Estimates. This is evident by the provisions under sections 10 and 11 of the Act, on matters such as the form, content, basis of preparation, and timing of financial statements of the government and its Public Accounts (see Appendix B, Excerpts from the Financial Administration Act [R.S.B.C. 1996]).

The form and content of the Province's annual Estimates have, to date, covered only the operations of the Consolidated Revenue Fund (CRF). This is despite the fact that many important government activities take place outside the CRF but within the sphere of ministerial authority and therefore of Cabinet accountability to the Legislative Assembly, which is much more extensive than if such authority simply encompassed programs delivered directly through ministries. Cabinet ministers are responsible for a variety of government programs, as well as for the activities of Crown corporations and other government agencies.

The ministers often inform the Legislative Assembly of the operating results of organizations that are owned or controlled by government and that, by legislation, are accountable to the Assembly directly or through a Cabinet minister. However, the fiscal plans of these organizations are not ordinarily brought to the attention of the Legislative Assembly, nor are they included in the Estimates. Only an aggregated estimate of the overall surplus or deficit of the CRF and Crown corporations and

agencies has been provided in the budget documents since the 1995/96 fiscal year. In this regard, the Province is ahead of other jurisdictions in Canada—those whose Estimates are confined to cover only the main operating fund of the government.

Part of the reason for the way these organizations are treated is that no legislative approval of their spending is required, and the authority to approve these organizations' budgets has been delegated to a minister or specific governing board. However, these organizations are a significant and integral part of the operation of government. Some are even totally funded by the Province. To exclude their individual budgets in any detail from the Estimates leaves the fiscal plan for the Province incomplete. We believe the accountability regime between Cabinet ministers and the Legislative Assembly would be much strengthened if such information were incorporated in the Estimates.

In 1980, when financial administration legislation underwent extensive revision, the need for accountability legislation to cover those government operations outside the CRF was discussed. However, it was decided then that the new Financial Administration Act should be devoted strictly to the CRF, and the task of developing legislation to govern the affairs of "public bodies" was postponed. This may explain why today the planning aspects of both halves of the government operations—the CRF and organizations outside it—are not presented together in the Estimates. Exhibit 2.1 compares the extent of information provided to the Legislative Assembly on financial results with that provided on financial plans. Including the information on budgets of government organizations in the Estimates would, we believe, make the Estimates a more complete document. This would then enable the Legislative Assembly and others to make meaningful comparisons between the government's fiscal plans and its financial results.

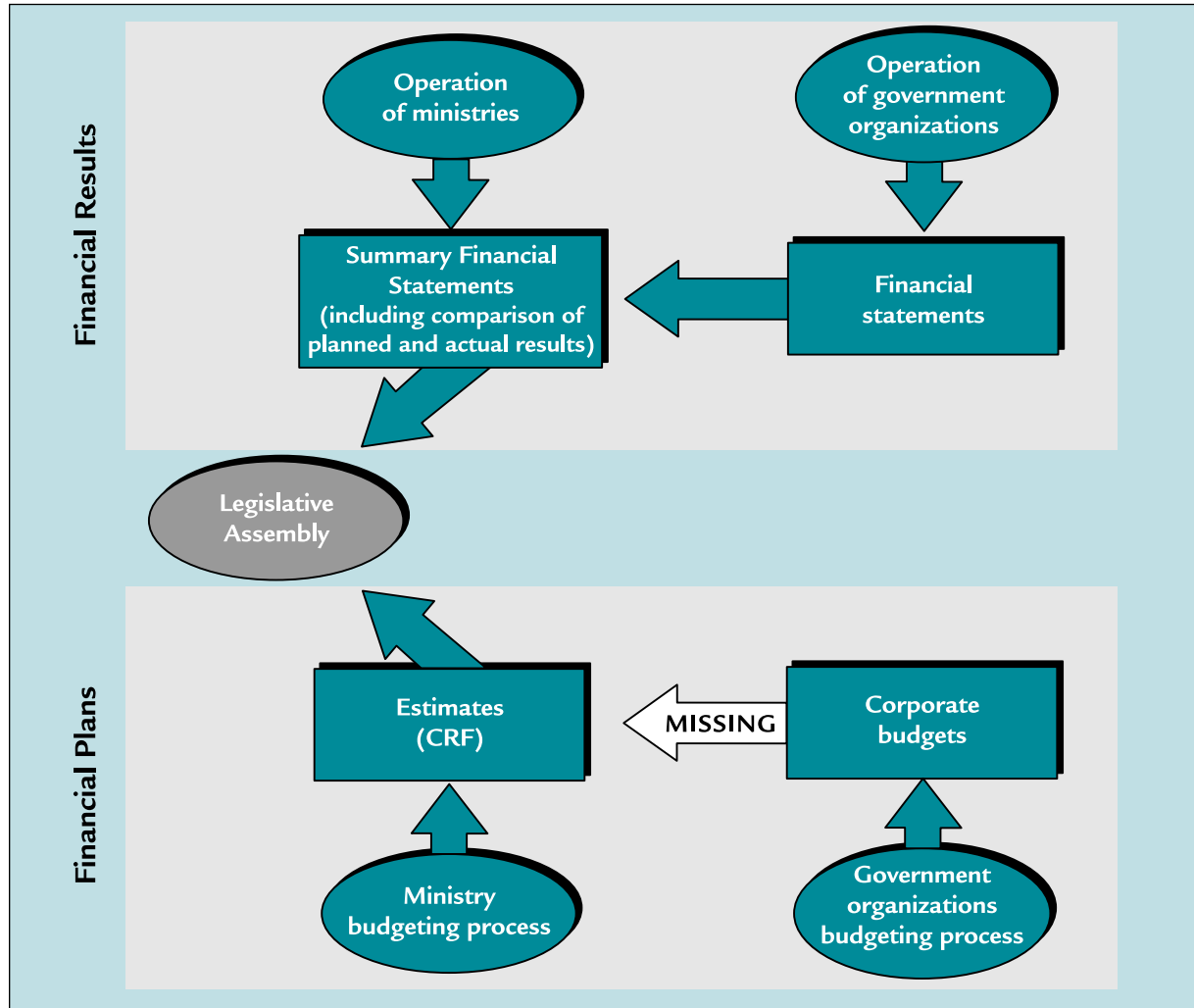
We recommend that the annual Estimates include budgets or fiscal plans of all organizations and enterprises that make up the complete government reporting entity.

Measurability issue — Monitoring performance of its programs provides a government with information essential to the governance of the Estimates process. It allows ministers to consider performance critically when they are making funding and other resourcing policies. As well, it allows them to assess ministry success in implementing policies established by Cabinet to achieve a government's political mandate. Ultimately then, this helps ministers and Cabinet fulfill their accountability responsibilities to the Legislative Assembly.

Exhibit 2.1

Comparing Government Accountability for Financial Results with That for Financial Plans

The Summary Financial Statements provide public accountability for financial results for the whole of government. The Estimates include the Consolidated Revenue Fund (CRF) financial plans only



Source: Office of the Auditor General of British Columbia

In June 1995, the Auditor General of British Columbia, together with the Deputy Ministers' Council, issued a report entitled *Enhancing Accountability for Performance in the British Columbia Public Sector*. The report expressed the government's commitment to continue the process of improving performance and accountability of government programs. It said: "Deputy Ministers, with the full support of Cabinet, have been engaged over the past number of months in an important, ground-

breaking dialogue with the Office of the Auditor General to develop a performance management and accountability framework.”

In April 1996, the second joint report, entitled *Enhancing Accountability for Performance: A Framework and an Implementation Plan*, reiterated the government’s commitment. The report set out a general direction and timelines for bringing about improved accountability and, with it, enhanced performance across government. One of the major conclusions of the report, and a major part of its implementation plan, was that the government must develop better performance measures for its programs. These measures would help the public, legislators and government managers judge how well government programs are performing and whether the programs are achieving what was intended.

Both of the joint reports were tabled in the Legislative Assembly and subsequently referred to the Select Standing Committee on Public Accounts, a committee of Members of the Legislative Assembly. As part of its review, the committee endorsed the principles on which the accountability framework was based and the general direction contained in the implementation plan of the Deputy Ministers’ Council. Moreover, in two reports to the Legislative Assembly, the committee suggested ways in which the Assembly could better use the information government provides. It also made a number of recommendations for restructuring the Estimates process in the Assembly and for reforming the legislative committee system (Appendix G). These two reports have not yet been acted on.

In January 1998, the third joint report was issued. It outlined many reasons why the implementation had not progressed as planned. The Auditor General and Deputy Ministers’ Council jointly praised the few organizations that had moved forward, but expressed concerns about the slow progress of the initiative. The report said:

Throughout the course of the year, the accountability for performance initiative was often overshadowed by other events. Just after the 1996 joint report was issued, the Legislative Assembly was dissolved and a spring election called. The previous government was returned to power, under the leadership of a new Premier. A major reorganization and restructuring of government’s ministries followed shortly thereafter as part of the government’s response to a budget deficit; many faced deep budget and staff cuts, some of which will continue into 1997/98. Crown corporations were required to revamp their plans and budgets to increase their collective

net financial contribution to government. This involved the reduction of expenditures and the pursuit of initiatives to generate additional revenue so that government subsidies to the Crown corporations could be reduced and dividend payments to government increased. Funding cuts extended to municipalities, colleges, universities and other provincially-funded bodies.... These events had widespread implications for the accountability for performance initiative. Turnover at the Deputy Minister level occurred throughout the year, resulting in 11 new appointments or reassignments. As a result, only half of the members of the Deputy Ministers' Council who signed the 1996 joint report are members of the Council today.

The accountability for stewardship of public funds is as much about public sector performance as it is about probity, prudence and legality of using funds. Although the resolve of some senior bureaucrats continues to be strong, we believe that without a publicly expressed commitment by Cabinet, this initiative, which promotes accountability for performance, will either come to a complete halt or continue to progress very slowly. For the 1997/98 and 1998/99 fiscal years, the Estimates have included some performance information, but it is very brief and covers only four minor programs.

The senior bureaucrats need the support of such public commitment—or of legislation—if this initiative is to be successful. Also, establishing performance measurement capabilities in ministries and public bodies will require sufficient funds and trained staff. Only then can the public service, in assisting the minister in his or her ministerial accountability, develop sound and practical indicators to measure program achievements. We believe that formalizing the accountability initiative would greatly improve the Estimates process by establishing measureable expectations of performance in government's fiscal plans.

We recommend that the government be required to set performance expectations for its programs (to the extent possible), and to report these expectations in the Estimates or another budget document.

Information credibility issue — Currently, the accounting policies followed in preparing the Estimates are, in all material respects, those that are used by the government in preparing the Consolidated Revenue Fund Financial Statements.

As already noted, the Financial Administration Act is currently the single most relevant legislation that deals with some aspects of the Estimates process. It empowers Treasury Board to make administrative policies that govern the

preparation of the Estimates and requires, for instance, that Treasury Board act on matters relating to accounting policies and practices that affect the form and content of the Estimates. But neither this Act nor any other legislation calls for an independent evaluation of Treasury Board's policies about the form and content of the Estimates, or the manner in which they are applied. There is also no requirement in British Columbia, nor apparently in other provinces, for assurance by an independent party that the Estimates are prepared in accordance with appropriate accounting policies.

This situation is different from that of reporting financial results. The Auditor General reports on the financial statements of the government, as required by the Auditor General Act, and also comments on the appropriateness of the Treasury Board's accounting policies that the government uses in preparing the Province's financial statements. In this way the Legislative Assembly receives an arm's-length opinion about those policies, and an assurance that they appropriately meet the requirements for fair presentation and disclosure of the Province's financial position and operations.

An independent review of particular aspects of the budget and the Estimates, or verification of specific parts of those documents, is not a new concept. Increasingly, legislatures elsewhere are recognizing the benefits of independent reviews in improving the Estimates process. For example, in Canada, the Auditor General of Nova Scotia is annually required by legislation to express an opinion on the reasonableness of the revenue estimates. Another example is in the United Kingdom. There, for the last several years, the National Audit Office has been requested to report annually to Parliament on significant budget assumptions.

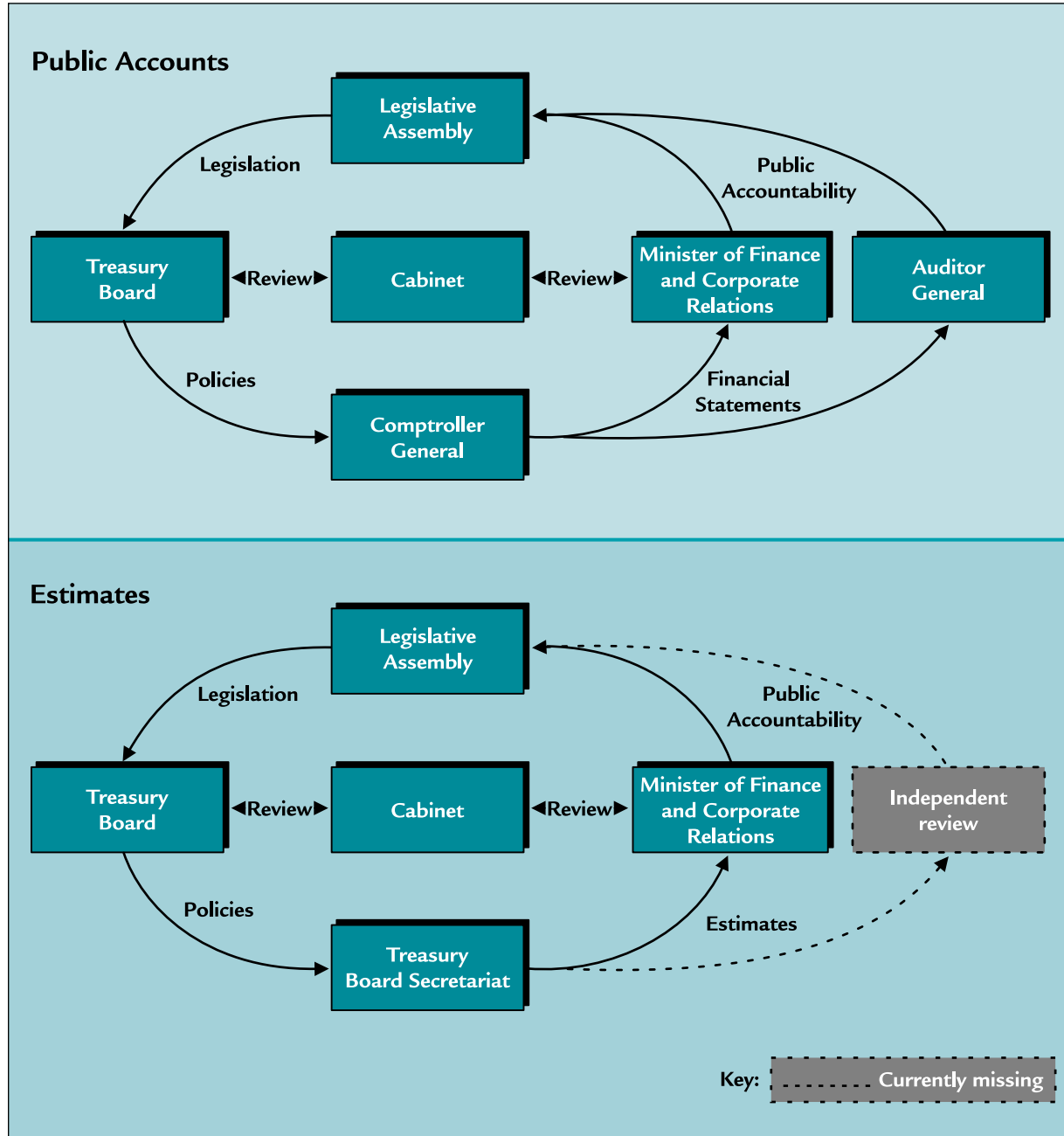
We believe that periodic independent examination of certain financial information presented in the Estimates, with a view to providing assurance that the Estimates present the government's fiscal plans in accordance with appropriate accounting policies, would enhance Cabinet's accountability to the Legislative Assembly and thus improve the Estimates process. Exhibit 2.2 compares the accountability discipline in British Columbia for the Province's financial statements and for the Estimates. The dotted line represents the missing assurance that an independent review would provide to Members of the Legislative Assembly.

We recommend that the government require the Auditor General to annually comment on the accounting policies used in preparing the Estimates.

Exhibit 2.2

Comparing the Public Accounts Process with the Estimates Process in British Columbia – An Overview

There is no requirement for an independent reviewer to comment on the form and contents of the Estimates



Source: Office of the Auditor General of British Columbia



sound fiscal management

Public confidence in the way the government manages public finances and demonstrates its stewardship responsibilities is of utmost importance to the credibility of the Estimates process. When government presents its annual budget and the Estimates, there is a presumption that it has prepared its fiscal plan according to sound and prudent fiscal management principles.

In this section of Chapter 2, we examine, in the context of the Estimates process, what sound fiscal management entails and how it is being addressed in British Columbia. We also make reference to a variety of measures that have been introduced over the last few years by other jurisdictions in Canada and elsewhere to strengthen their fiscal management of public finances.

What Do We Mean by Sound Fiscal Management?

The government's budget and Estimates are looked upon to meet many public expectations and perform a variety of functions. The plans and policies that underlie these documents represent the government's response to its extensive social, economic, fiscal, regulatory and other responsibilities. What is an appropriate and balanced response to these diverse responsibilities is largely a political consideration, and different governments will respond differently. However, with more demands being made by the public for government services, political leadership in many jurisdictions is recognizing that continuity or sustainability of social, economic and other public programs depends largely on a jurisdiction's fiscal stability and financial strength. This has made pursuing sound fiscal management strategies a central component of most, if not all, government budgets in this and other countries.

While it cannot be rigidly defined, sound fiscal management in government is about using a disciplined approach to public financial affairs, in a way that ensures government can continue to provide a sufficient level of appropriate public services for the well-being of the people, now and in the future. It is also about assuring the public, investors, lenders, businesses, government and community groups that public finances are being managed in a responsible and prudent manner.

A number of jurisdictions have formally codified their approach to fiscal management and, in Appendix E, we provide examples of the codes that have been or are being adopted in Australia, United Kingdom and New Zealand. We looked at how these countries and a number of jurisdictions in Canada have defined sound fiscal management, or aspects of it, and observed many similarities in their fiscal planning and management frameworks (Appendix D). Our analysis below also confirmed a number of basic principles that are common to these frameworks:

- responsibility and prudence in fiscal planning
- stability of economic activity and the fiscal policy-making process
- fairness and equity between generations
- openness in the fiscal planning process

Overall Conclusion

While the government has taken some steps in recent years to improve its approach to fiscal management, we concluded that the approach is deficient in many respects and remains largely undefined. The application of the principle of responsible and prudent fiscal planning has been inconsistent and unclear. Also, the Estimates preparation and fiscal planning activities in government are largely focused on a single fiscal year, with few requirements for business planning and regular public assessments of the short- and long-term effects of government policies and decisions.

Detailed Evaluation

Responsibility and Prudence in Fiscal Planning

What did we expect to find?

Responsibility and prudence in fiscal planning means that, in developing its plans about public finances, the government must identify the financial risks and other vulnerabilities it faces, and take a disciplined and prudent approach to dealing with them. These risks may arise from economic factors such as the cyclical nature of the forestry and mining industry, fluctuations in corporate and personal incomes, changes in the direction and levels of interest rates, and changes in employment. Or, they may arise from economic and other events that are not predictable at the time the fiscal plans are being prepared. Risks may also arise from a widening or continuing structural imbalance between the government's

capacity to raise taxes, fees and other revenue and its strategy on public spending. Structural imbalance is often indicated by financial circumstances such as persisting operating deficits and rising debt burden.

An approach to fiscal planning is considered responsible when it is comprehensive and addresses the different risks in a prudent manner. This means not only preparing forecasts and setting fiscal targets on the basis of best technical and professional advice and a consistent measurement base, but also making appropriate allowances to lessen the impact of some of the risks referred to above. When forecasting revenues and setting expenditure targets for the annual Estimates or other fiscal planning process, forecasters normally incorporate such allowances by making cautious assumptions about economic growth, prices, volumes, interest rates, program demand or usage, and other such factors. Budgeting lump-sum amounts as provisions or reserves is another fiscal planning tool used for cushioning against the effects of possible future adverse events and contingencies.

A responsible and prudent approach to fiscal planning also means endeavouring to avoid the development of a structural imbalance between the government's resources and its spending plans and, where such an imbalance has developed, taking active steps to correct it. This generally involves adopting not only clear rules for borrowing, but also strategies that help stabilize, lessen and ultimately remove the burden of deficits and rising debt. Not pursuing such strategies could, in the long term, severely affect government's capability to continue to sustain public services at appropriate levels.

Strategies for reducing deficits by raising taxation and fees must be assessed in terms of, among other things, the taxpayer's capacity to pay and any risks such strategies may cause to the economy and to the integrity of the tax system. Those risks may include reduced competitiveness, non-payment of amounts due, an increase in the underground economy, and erosion of the tax base. On the other hand, strategies for reducing deficits by cutting and curtailing government programs must be assessed in terms of public expectations and broader government obligations to the people, as well as in terms of risks of negative impacts on the economy.

Whatever the strategies used, a responsible fiscal planning approach has, at its core, a strong political will combined with the use of clear and firm deficit reduction/elimination and debt management/repayment plans, aimed ultimately at maintaining government debt at prudent levels. The firmness

of such plans is generally enhanced by inclusion of built-in alternative strategies to address deficit and debt reduction issues during economic downturns. As for the rules of borrowing, while few are formally standardized, there is a general consensus developing among legislators and the public that the government should not be expected to borrow “to pay for the groceries” on an ongoing basis.

What did we find?

Prudent assumptions—In presenting its Budget '97, (for the fiscal year 1997/98), the Minister of Finance and Corporate Relations made an explicit statement in the budget report concerning the use of prudent economic assumptions to prepare revenue forecasts. The reason for introducing caution into revenue forecasting was to provide greater certainty that actual revenues would be at or above the budget forecast, and to help ensure that the government's fiscal targets would be met. To help arrive at those prudent economic assumptions, the Minister had sought advice and information from economic experts attending a government-sponsored economic roundtable conference held in February 1997, approximately one month before Budget '97 was delivered. This advice was in addition to that which is regularly provided by the Treasury Board Secretariat. A similar statement was made and an economic roundtable conference held in preparation for Budget '98.

The adoption of prudent economic assumptions for 1997/98 and 1998/99 meant that the government's revenue forecasts were based on economic growth rates of 1.6% in 1997/98 and 0.3% in 1998/99, rather than on the respective rates of 2.2 and 0.9% forecast by the government and the 2.4 and 1.4% average of forecasts presented at the economic roundtable conference. As a result, a revenue cushion of between \$100 to \$150 million was built into the 1997/98 Estimates and \$130 million into the 1998/99 Estimates. While a general economic growth assumption is key to defining the economic outlook and underlies most, if not all, revenue forecasts, other assumptions have a far more direct and significant bearing on particular revenue streams. Such assumptions include market prices and demand for natural resources.

The explicit statements in Budget '97 and Budget '98 regarding the use of prudent economic assumptions for revenue forecasting reflect government's recognition of the need to be mindful of the principle of responsible and prudent fiscal planning. They also represent a positive step in the fiscal planning process in British Columbia. This development in the

fiscal planning process followed the controversy surrounding Budget '96, specifically the revised forecast for the 1995/96 fiscal year and the budget forecast for 1996/97. (See Chapter 4, "Issues Arising from Budget '96.") In explaining the anticipated revenue shortfall for 1995/96, the government indicated that it had used economic growth assumptions which it believed were plausible, attainable, and achievable at the time. In our opinion, being plausible, attainable and achievable implies taking disproportionate risks and anticipating circumstances that are better than "most likely." To use such a basis for setting fiscal targets, we believe, is inconsistent with the principle of responsible and prudent fiscal planning.

As for revenue forecasting, assumptions are made in setting expenditure targets (for example, about program demand and usage, as well as about specific spending pressures), but again there is little information provided in the budget documents to indicate whether and how the principle of prudence is applied to expenditure budgeting. The governments in British Columbia have, however, followed the practice of setting aside some monies in the Contingencies Vote to accommodate the financial consequences of unanticipated and contingent events. In the last four budgets, the monies set aside for contingencies have ranged from \$50 million to \$75 million. Still, as discussed later under "Sound Financial Reporting Standards," the government has every year needed special warrants and/or statutory authorities to pay for program costs (see Exhibit 2.4, page 80). This need, recurring for certain programs, indicates that the demand and spending pressures for those programs are not assessed realistically by the government for fiscal planning purposes.

Many governments have found it necessary to provide a formal or statutory base to their fiscal management strategies, including the many elements of responsible and prudent fiscal planning. For example, the federal government, on the recommendation of the House of Commons Standing Committee on Finance, uses a high degree of prudence in setting the interest rate and economic growth assumptions, and also employs a large contingency reserve. The reasons given for such prudence include guarding against the effects of a less-favourable-than-anticipated economic environment, as well as promoting enhanced fiscal credibility.

We recommend that the government formally adopt the policy of prudent economic and fiscal forecasting, and establish the practice of indicating how it has applied this policy in the annual Estimates.

Financial management plan—The government’s financial management plan is another important strategy in the management of provincial finances in British Columbia. The government introduced its debt management plan, the predecessor to the current financial management plan, in Budget ’95. It was intended to be a long-term plan to control government debt, as well as a commitment by the government to repay the Province’s direct debt and to cap and reduce the overall cost of borrowing.

In Budget ’97, the government determined that its projections for debt repayment were not achievable, and it replaced the debt management plan with a new financial management plan. We have commented extensively on the reporting of provincial debt in the Auditor General’s *1997/98 Report 2: Report on the 1996/97 Public Accounts*, and excerpts from our comments are provided in Appendix F. We pointed out a number of shortcomings in the financial management plan, such as vague debt reduction goals, an unclear basis of underlying assumptions, and unstated alternate strategies for meeting the plan’s targets in the event of changed circumstances.

In Budget ’98, the government once again modified its financial management plan “to address the current period of slower economic growth,” to allow it the “flexibility for counter-cyclical capital investment planning” and to “minimize the effects of unexpected changes in provincial GDP.” The planning horizon was also reduced to three years from 20 years, and fiscal targets for revenue and operating and capital expenditure were no longer stated. These actions, we believe, are regressive in the fiscal planning process in British Columbia.

Considerably modifying the debt (or financial) management plan in two out of the last three budgets since the plan’s introduction in 1995 weakens the credibility of the plan and the government’s commitment to it. For the plan to be effective, it must not only be visible and credible, but it must carry the full commitment of government and be resistant to unwarranted change.

As indicated earlier, many governments have legislated their debt management and deficit reduction strategies, demonstrating their commitment to sound fiscal management. Nova Scotia, in its Expenditure Control Act, sets rules for balancing budgets, and requires operating surpluses or proceeds from the sale of Crown assets to go towards reduction of public debt. Similarly, Alberta has passed the Balanced Budget and Debt Retirement Act, setting rules for

prudent revenue forecasting, disallowing deficits, setting a timetable for debt retirement, determining minimum debt repayment, dedicating surplus to reduce debt, and requiring progress reports on the various aspects covered by the Act. Alberta had also introduced the Deficit Elimination Act to, as the name implies, eliminate operating deficits.

We recommend that the government bring clarity and firmness in its debt reduction goals and strategies, and provide longer-term focus to its financial management plan.

Stability of Economic Activity and the Fiscal Policy-making Process

What did we expect to find?

In preparing its budget plans, the government must use strategies that create a stable fiscal environment and so support the long-term economic stability of the province. Adopting a responsible and prudent approach to fiscal planning, as noted earlier, is one way to help reduce any destabilizing effects a budgetary imbalance may have on the economy. Other such strategies relate to the role of government in responding to new or changing economic and financial circumstances, and in adopting standards for comprehensive and long-term planning in the public sector.

The government's role in moderating the cyclical influences in economic activity through the use of fiscal measures is an important one for maintaining a stable economic environment. It normally involves using, from time to time, fiscal policy options that are stimulative, responding to downturns or adverse economic events. In this regard, the scope of government activities and spending plans is a significant factor to consider. The use of stimulative measures does not mean that the principle of prudent fiscal planning must be abandoned. However, sound fiscal management requires that the use of such options be temporary and publicly explained so that they are not potentially misused by governments for purposes other than promoting economic stability.

How effectively the government is able to carry out the stabilizer role depends largely on the flexibility it has in raising revenues or borrowing additional monies to pay for stimulative measures. And government's flexibility in effecting such measures becomes progressively constrained each time it increases taxation and user fees or incurs debt, as such actions stretch the limits of taxpayers' capacity to pay and lenders' willingness to lend money at a reasonable cost. Proper use of stabilization funds can help the government absorb fiscal

shocks, allowing it to pursue measures that promote a stable economic environment. Unfortunately, however, this tool has come into disrepute because of its misuse by governments to cloud their true financial position.

Just as a prudent approach to fiscal planning helps reinforce economic stability, so do better and comprehensive planning methods and standards. These demand greater focus on setting clear and precise objectives, using longer-term planning horizons for government activities and public finances, and integrating business and fiscal planning throughout the public sector. When applied, these methods and standards encourage government to commit to its fiscal plans, which reduces the inherent uncertainty over future fiscal management and provides a reasonable degree of predictability to the government's spending and taxing policies. The resulting stability is more likely to allow people and businesses to plan and make investments with greater confidence. A multi-year and longer-term planning discipline not only aligns naturally to the relatively long cycle of government activities, but also helps legislators and the public evaluate and understand the constraints that governments face in conducting fiscal policy options in both the short and long term.

What did we find?

As discussed in Chapter 1, the focus of the Estimates process in British Columbia is on a single budget year—the coming fiscal year. The reason for this focus is largely historical and legal, and can be found in the provisions of the Constitution Act and Financial Administration Act of British Columbia. According to the Constitution Act, the government must seek spending authority from the Legislative Assembly before it can appropriate or use any monies from the Consolidated Revenue Fund. And this it does, annually, under the Financial Administration Act which states that “the estimates of revenue and expenditures for each fiscal year must be prepared...for the presentation to the Legislative Assembly by the Minister of Finance and Corporate Relations.”

Limiting fiscal planning to one fiscal year, however, need not be the case. The governments of Canada and Alberta have formally shifted their planning approach in order to bring a long-term focus to budgeting, and to formally integrate business and fiscal planning. In the case of Alberta, it has also mandated in its Government Accountability Act the specific requirements for multi-year business and fiscal plans.

While in the Estimates for the years ended March 31, 1998 and 1999, the British Columbia government introduced a pilot project of providing limited program performance information for three to four minor programs, the Estimates process does not currently require ministries to submit business plans to Treasury Board, and is not designed to link business and fiscal planning for government programs. Also, based on our interviews with senior staff of ministries and the Treasury Board Secretariat, we noted there was inconsistent understanding as to what constituted business planning. Various planning information is assembled by ministries and the Treasury Board Secretariat but, as some senior government officials put it, the information is “all over the map.” They indicated that the information is often prepared for the purposes of supporting ministry priorities and requests for additional funding, or for identifying cost-saving opportunities and policy options, but not necessarily for formulating ministry business plans.

We recommend that the government prepare long-term fiscal and business plans for its activities and public finances, as an integral part of the Estimates process.

Fairness and Equity Between Generations

What did we expect to find?

The government, in developing its fiscal plans, must give proper regard to the financial effects of program and policy decisions on future generations. This is to ensure that intergenerational fairness and equity are maintained and enhanced.

The issue of fairness and equity between generations pertains largely to programs that are long term in nature and have significant cost implications, such as those dealing with capital, pension, retirement, environmental and demographic matters. Sound fiscal management means not only taking into account the financial effects of these programs on the current and future fiscal plans, but also regularly assessing the affordability and sustainability of the programs. These matters greatly complicate budget and program decision-making processes. Nevertheless, they must be considered at all times.

Many governments, for reasons of political and financial expediency, defer recognizing the full burden of commitments and obligations of government programs. When a government continually follows this practice, however, it is eroding the principle of intergenerational fairness and equity. Similarly, the government would be contributing to inequity between generations if it did not redress the structural imbalance in

public finances, indicated by recurring operating deficits or an excessive or rising debt burden.

Sound fiscal management involves using a fiscal planning regime that includes measures to help government maintain and enhance intergenerational fairness and equity. Examples of such measures are: giving full recognition to all obligations, using prudence in fiscal planning, extending the planning horizon, separating operating and capital budgets, and using sunset clauses and regular evaluations for statutory programs.

What did we find?

An important fiscal measure taken by the government in the 1994/95 fiscal year was to change the policy to record unfunded liabilities of the various public sector pension plans in its accounts. However, the cost of other post-retirement benefits of public sector employees is still recorded only when benefits are paid. Whether this pay-as-you-go basis of accounting (used also for other long-term programs noted above) maintains fairness and equity between generations is difficult to assess because of the absence of intergenerational reporting. Lack of such reporting may partly be due to the difficulties and uncertainties in defining and estimating government's obligations for such programs. Nonetheless, such reporting is needed to help shed some light on the intergenerational impact of the government's fiscal and program policies.

The subject of intergenerational reporting is relatively new, but vital for governments to address, as operating deficits and high debt levels in the public sector have continually raised the question of sustainability of government programs. In this connection, we noted that the government of Australia has made a formal commitment to the principle of fairness between generations, as indicated by the statutory requirement it adopted for periodic intergenerational reporting. The reporting is to include an assessment of the long-term sustainability of current government policies and an accounting for the financial implications of demographic changes. A similar commitment to intergenerational fairness is contemplated by the United Kingdom government in its Code of Fiscal Stability (see Appendix D, page 214).

As for capital projects and expenditures, British Columbia does not separate its operating and capital budgets—though, beginning in 1997/98, total capital spending by asset category has been identified in the Estimates. On the other hand, Nova Scotia and Alberta have separate operating and capital budgets

to facilitate the government in its long-term planning and budget decision-making, and to assist legislators and the public in better assessing the likely future financial consequences of government policy.

We recommend that the government consider:

- ***adopting intergenerational reporting so that it can provide an assessment of the financial effects of program and policy decisions on future generations;***
- ***segregating its operating and capital plans in the Estimates; and***
- ***using sunset clauses and regular evaluations for statutory programs.***

Openness in the Fiscal Planning Process

The government must be guided in its fiscal planning process by standards and practices that are consistent with an open and accountable approach to managing public finances. Such an approach is intended to make government operations, as well as economic and fiscal facts, clearer and more transparent to the public and legislators. This facilitates public and legislative input into, and scrutiny of, the government's budget plans. It also facilitates subsequent evaluation of how the government has followed its policies.

In the next section of this chapter, we discuss the openness issue in more detail.



open deliberative estimates process

By promoting public knowledge about economic and fiscal facts as well as about its operations and fiscal strategy, the government facilitates participation by interested publics and the Legislative Assembly in the Estimates process. An open deliberative Estimates process not only helps the participants to make useful contributions to it, but also provides them an opportunity to scrutinize the government's budget plans and conduct of its policies. This, as we noted earlier in Chapter 1, is key to building confidence in the government's budget and minimizing the risk of abuse of power or authority.

In this section of Chapter 2, we evaluate the existing Estimates process against what we believe to be an acceptable level of public participation in, and scrutiny of, the Estimates process. We also outline a number of options for improving the governance of the Estimates process.

What Do We Mean by an Open Deliberative Estimates Process?

Of the four guiding principles described in Chapter 1, the one that may appear to contradict public involvement in the Estimates process is that which states, "Government is solely responsible for the Estimates." However, as previously explained, the sole responsibility carries with it the presumptions of stewardship, fairness, honesty and—of particular note—due diligence. In an environment in which social, economic and political conditions are constantly changing, applying due diligence means not only taking steps to ascertain the present and future circumstances and the needs of the people, but also being well aware of the changes and making appropriate allowances for them when preparing the Estimates. Through an open deliberative Estimates process, due diligence can be applied objectively.

In an open deliberative Estimates process, interest groups and members of the public are afforded the opportunity to participate in the business of their government's budgeting. If done in an orderly manner, an open process can be an effective and relatively inexpensive way for government to gain public acceptance of its budgeting conduct. Nevertheless, it is still important to note that, although information becomes accessible (open) to the public and the results of public feedback (deliberation) is available to the government for its consideration in building the Estimates, Cabinet maintains executive control over the Estimates process at all times.

A core element of an open and accountable fiscal planning process is the commitment by government to share information with the public and legislators, and to work continually to improve the quality of that information. This means providing honest, up-to-date information and analysis on the state of public finances and operations, as well as on a wide range of economic and fiscal matters. Such matters relate to, among other things: short- and long-term economic and fiscal outlooks; multi-year business and fiscal planning, including government priorities, policy decisions, budget measures, and their expected impacts; fiscal targets and estimates; economic and other assumptions; sensitivity of fiscal estimates to changes in assumptions; and economic and fiscal risks facing the government.

The principle of openness in the Estimates process also requires the government to develop appropriate vehicles to provide the necessary information as noted above, and to engage in a public deliberative process. The vehicles that are commonly used, as noted in our research of fiscal and budget planning frameworks in a number of jurisdictions in Canada and abroad, include ongoing public consultation process, regular public reporting of business and fiscal plans and their progress, involvement throughout the year of standing legislative committees, and independent assessments of economic and fiscal facts. All these vehicles contribute to better fiscal planning by improving communication and understanding among different groups and bringing in different perspectives.

Whatever the vehicles used, the governments that have adopted open deliberative approaches in their budgeting emphasize the importance of the qualitative aspects of information they provide to the public. The need for sound financial reporting standards is further discussed later in this chapter, as is the need for an organizational structure that facilitates an open deliberative Estimates process.

Overall Conclusion

Based on common sense and principles of prudence and fair play, it is expected that most governments will maintain budget secrecy on matters relating to taxation and fees. However, many have begun to share with the public the information surrounding other aspects of the budget. The purpose of an open deliberative Estimates process is for Cabinet to receive, throughout the year and in an orderly manner, feedback from the public and other users on matters

that are important to them. This enables Cabinet to present a budget that is “transparent” to its users.

The existing Estimates process in British Columbia does not provide for orderly and timely pre-budget deliberation and scrutiny, by the Legislative Assembly, interest groups and users of budget information, of economic and fiscal facts and government’s fiscal plans.

Detailed Evaluation

What did we expect to find?

In describing what we meant by an open deliberative Estimates process, we referred to the need for commitment by government to share quality information (information that is complete, reliable, comparable and understandable) with the public and legislators. It is also expected that the government has established appropriate processes and mechanisms to share this information.

As noted earlier, the governments that have adopted a more open approach to their budgeting activities than British Columbia have used various innovative models suited to their environment. Clearly, there is no one approach that is necessarily ideal whatever the environment. Below, we give examples of how some jurisdictions have opened up their budget process to public participation.

In Ottawa, today’s organized pre-budget consultation through the House Finance Committee—an all-party committee of Parliament—has evolved in the last two decades. The House Finance Committee is the body that the government consults with about the budget, particularly the expenditure estimates. Before 1979, the budget cycle was only one fiscal year (as it is in British Columbia), and there was little transparency in the budget process. In the early eighties, Ottawa began to produce more public documents and to look ahead over a five-year cycle. These were mostly consultative documents. Later, the frequency of sharing information increased. The government began releasing white papers on a number of topics, including tax issues, and other documents on fiscal options (though the actual tax measures are necessarily still secret). The Minister of Finance tables a number of reports, including the annual “Economic and Fiscal Policy Update,” with the committee. The update report constitutes the base document for pre-budget consultation, and includes information on the budget’s economic and planning assumptions and the expected impact of these on the revenue side of the budget equation. Questions are put out through this committee for public hearing, with

the committee reporting the results of its activities to the Minister of Finance by December, well before the budget day in February. Another report required by law is the “Fiscal Monitor,” which provides monthly highlights of the government’s fiscal performance.

In Ontario, ministerial business plans with performance measures are required. They are produced in two parts, one of which is for public use. The government also meets with bank analysts every three months, and regularly conducts formal surveys of a large number of forecasters.

Nova Scotia’s “Government by Design” is a public document that shows how the government will achieve openness and accountability. The impetus for the reform in that province’s budgeting process has come from the political will of the government. Two aspects of the change have made the process more open to scrutiny by the public: medium-term business planning in government has been formalized; and the government, through the Auditor General Act, now seeks independent assessment on the reasonableness of the revenue estimates by the Auditor General for each annual budget. The legislative process also gives the Auditor General the right to read the budget address the night before it is tabled.

In Alberta, a number of parliamentary committees, organized by government sectors and chaired by government party backbenchers, are given the authority to meet in public, discuss matters of government policy relating to their sectors, review ministerial three-year business plans, and provide comments on these to Cabinet. Chairs of these committees also attend the Cabinet and Treasury Board meetings in a consulting role. The business planning information that is provided to these committees includes, among other things, indicators to measure program performance.

Some jurisdictions, such as Australia, have legislated certain budget requirements for both government and some senior bureaucrats, particularly prior to general elections. According to the Charter of Budget Honesty Act, the Australian government must release publicly and table in Parliament:

- its fiscal strategy statement, before the first budget
- an economic and fiscal outlook report, with each budget
- an economic and fiscal outlook report, at mid-year
- a final budget outcome report, for each fiscal year
- an intergenerational report, on a periodic basis

In addition to the above, the Act requires that, when general elections are called, two senior bureaucrats (the Secretaries to the Departments of Treasury and Finance) release publicly a pre-election fiscal and economic outlook report. The government, as well as the Opposition, may also ask these two officials to prepare a costing of any of government's publicly announced policies. That report must be released to the public.

In the United Kingdom, since 1995, the Chancery has been requesting the National Audit Office to audit certain basic assumptions that the government has used in its budgeting process, and to report directly on their reasonableness to Parliament. Also, as part of Budget '98, the Chancellor of the Exchequer included a paper that set out the Code for Fiscal Stability, which he planned to lay before Parliament for it to become law. The Code, among other things, outlines government's commitment to publish a wide range of pre-budget reports and to disclose and quantify decisions that have a material impact on the country's economic and fiscal outlook. In accordance with the principle of transparency, the Code requires that the government publish sufficient information to allow the public to scrutinize the conduct of its fiscal policy and the state of public finances.

As the above shows, in some cases openness is applied to a wide range of matters, while in others (e.g., Nova Scotia), it focuses on revenue forecasting. Some of the processes and information that must be shared and subjected to scrutiny by the public and the Legislature are increasingly being given a statutory basis. In all the examples above, the national or provincial cabinets or legislatures have been central and instrumental in bringing about a new approach to public finances. They have created a series of organized activities, often outside the public administration, that directly benefit the budgeting process. By legislating the requirements for openness and public scrutiny, they have reduced the risks associated with different governments applying different sensitivity to these activities. Also pivotal to these reforms have been politicians with the will and foresight to begin a new relationship with the citizens.

What these and other models for an open deliberative Estimates process seem to have in common is that, to a varying degree, they all:

- are governed by legislation that brings credibility to the government and minimizes risks of the process being abandoned or downplayed;

- discuss in pre-budget sessions the matters of interest to the public, such as fiscal policies, responsibility for program delivery, fiscal and program performance, assumptions used in formulating the estimates, and the nature of future risks;
- allow for adequately long periods of pre-budget consultation;
- use consultative tools, such as publishing white papers or conducting regular public meetings; and
- provide for formalized multi-year business plans, embodying performance measures.

We expected to find key aspects of the above elements in the Estimates process in British Columbia.

What did we find?

The Minister of Finance and Corporate Relations annually publishes a number of important documents about the Province's finances and economy. The "British Columbia Financial and Economic Review" and "Debt Statistics" are usually released close to the tabling of the Public Accounts. The ministry's quarterly reports (concerning the economy, fiscal situations and Crown corporations) on the other hand are released to the public, usually within 90 days of the quarterend. As well, staff of the ministry produce monthly reports, which include economic analyses. These reports are for monitoring purposes, and important documents for the attention of the Minister and Deputy Minister of Finance and Corporate Relations and Secretary to Treasury Board. The monthly reports are normally considered to be internal, although they have been available in the past under the Freedom of Information Act. However, freely available to the public is the "British Columbia Economic Review and Outlook" document, which includes extensive economic updates, produced at least twice a year.

The Province does not in all cases need to issue prospectuses when borrowing money, and the lenders seem to be satisfied with the information that is supplied to them on request or available in published documents. However, the documents mentioned above, including the quarterly and monthly reports, contain unaudited financial information and, in part, information extracted from prior audited financial statements. Information in quarterly and monthly reports is generally perceived to be based on estimates of financial performance. Certain documents, such as the Debt Statistics Report and the financial sections of the "Financial and Economic Review," are provided to the Auditor General for comment. The Auditor General, annually, provides an audit

opinion on the summary of provincial net debt, key indicators of provincial debt, and summary of key benchmarks.

Business plans, another useful source of information on government operations and priorities, are generally not a requirement of the Estimates process. As a result, there is a great deal of variation in the amount of business planning information provided to Treasury Board by ministries and Crown corporations. Also, this information has not been available to the public, except to the extent it is included in the annual reports.

The budget documents are another major source of information for the interested public and the Legislative Assembly. In these documents, including the Estimates, the Province provides a fair amount of information on, among other things, short-term economic and fiscal outlooks, government priorities, fiscal targets and estimates of revenue and expenditure, economic assumptions and underlying risks, and its financial management plan. Some of this information is specific, and some is provided in very general terms.

We have commented elsewhere in this report on the need to improve information relating to the assumptions on which revenue and expenditure estimates are computed, and relating to the risks associated with those assumptions. The next section, "Sound Financial Reporting Standards," elaborates on the issue of quality of budget information. Also important is the information on any corrective actions that might be necessary to bring the budget on course if the assumptions do not materialize. As we noted earlier, openness in the fiscal planning process is also about transparency of economic and fiscal facts. Fiscal information provided by the government about these facts is sometimes confusing and potentially biased. For example:

- Over the last few years, the government has been providing information in its budget documents on the progress it has made since 1991/92 in reducing the deficit. However, there is little explanation provided to clarify that the deficit reduction information relates only to the Consolidated Revenue Fund of the government, and does not reflect the operating results of the many entities through which the government carries out its programs. Budget '98 shows the annual deficit in the Consolidated Revenue Fund to have declined from \$2,355 million in 1991/92 to a forecast deficit of \$95 million in 1998/99. However, when one takes into account the results of government organizations and enterprises that form the government's reporting entity (as

recently being shown in aggregate amounts in the Budget Report), the decline is much smaller, from \$2,160 million in 1991/92 to a forecast deficit of \$950 million in 1998/99.

- From time to time and for various reasons, the government may reallocate the responsibility it has for particular revenue and expenditure programs from a ministry to other government organizations. When this involves transferring out of spending programs to organizations outside the scope of current Estimates, it has the effect of reducing the deficit in the Consolidated Revenue Fund but not necessarily for the government as a whole. Little information has been provided in the budget documents to indicate how much of the decline in the annual deficit of the Consolidated Revenue Fund may be attributable to program transfers.
- Similarly, more explanation and information is needed to address a recurring source of public confusion that is caused by the apparently contradictory indicators of public finances. The annual Consolidated Revenue Fund deficit has been declining since 1991/92, yet the government's total public debt has continued to grow—from \$20 billion to \$31 billion.

We recommend that the government adopt policies and establish practices to help make the presentation of the Province's fiscal conditions, as well as of economic factors and fiscal measures underlying the budget and the Estimates, more transparent.

Participation in the budgeting process by the interested public is either through public forums, where members of Cabinet visit localities and obtain feedback from attendees and formal groups, or by invitation. In the past, the government has organized planning summits with prominent members of the business community, or has simply discussed policy matters with such representatives. As well, Ministers of Finance and Corporate Relations in British Columbia have consulted with prominent economists, obtaining their views on the future of the province's economy, including their forecast of the provincial Gross Domestic Product, for the following year. More informal and adhoc contacts between politicians and experts likely also exist.

Does the above represent an open deliberative Estimates process? According to the trend in Canada and elsewhere, British Columbia's Estimates process is a fairly closed model. In comparison with the situation in jurisdictions that have adopted an open model of operation in their budgeting activities, the extent of information available to the public in this Province,

the frequency and timeliness of that information, and the role British Columbians are playing in their government's deliberation process when developing the framework for its fiscal policy are limited.

Some public administration experts believe that a government can get the information it needs about its policies by using a small number of qualitatively different instruments, such as conducting informal ballots or having direct dialogue with the people. While these adhoc tools are certainly available, governments of different political views may use them with different degrees of sensitivity, and what may seem eminently efficient to one politician may be considered objectionable by another. The alternative—an organized and orderly manner of involving the public in the Estimates process—therefore presents a more acceptable approach to deliberation.

Opening up the Estimates process to public involvement in an orderly manner increases government's credibility, reduces public criticism, and helps educate the public about government priorities. This benefits the public and the administration alike during a government's term of office, but it is particularly important when general elections are called.

We recommend that the government facilitate continuous and orderly public participation in, and scrutiny of, the Estimates process. The Estimates process should provide the public, interest groups and the Legislative Assembly with sufficient and timely pre-budget opportunities to review and discuss fiscal policies, responsibility for program delivery, fiscal and program performance, assumptions used in formulating the Estimates, and the nature of future fiscal risks.

Political tinkering in budgets is not a new phenomenon. Over a century ago, Benjamin Disraeli's 1852 budget in England was characterized by political writers as a series of unconnected improvisations rather than a rational framework of finance for the country. In more recent years, across this country and abroad, there have been many other examples of rosy budgets introduced by governments, especially before calling an election. While there is a variety of reasons why actual revenue may vary from original estimates, such as new policy or legislation, Exhibit 2.3 shows the variances that apparently support a widely-held view, that in British Columbia in the last 15 years, optimism seems to have been built into the annual revenue Estimates before general elections were held.

While the political desirability of presenting a good-news budget may have stayed unchanged, public expectations of due process in budgeting have heightened. People expect, for

example, that through their representatives they have had the opportunity to review and debate the budget because they want to know how the fiscal plans impact them and what happens when things do not turn out as planned. In March 1996, immediately after the Honourable Elizabeth Cull presented Budget '96—promising the second consecutive budgetary surplus—Premier Glen Clark called a general election and the Lieutenant Governor dissolved the Legislative Assembly. There is no legislation in British Columbia to disallow the Minister of Finance and Corporate Relations to present the government's budget immediately before the Legislative Assembly is dissolved and a general election called. Therefore, when such a situation

Exhibit 2.3

Comparing Estimated Revenue with Actual Revenue

Revenue estimates for fiscal years approaching a general election (lightly shaded) appear to present rosier picture than occurs in other years, 1983 to 1997 (\$ Millions)

Year	Estimated Revenue	Actual Revenue	Overestimated	Underestimated
1983	7,331	6,529	802	
1984	6,842	7,344		(502)
1985	7,719	7,791		(72)
1986	8,166	8,180		(14)
1987	8,768	8,549	219	
1988	9,370	10,087		(717)
1989	11,564	12,494		(930)
1990	13,007	13,547		(540)
1991	14,598	14,406	192	
1992	15,353	14,799	554	
1993	16,191	16,083	108	
1994	17,470	17,998		(528)
1995	18,742	19,547		(805)
1996	20,300	19,801	499	
1997	20,659	20,251	408	

Source: The Estimates and the Public Accounts for the years 1983 to 1997

presents itself, the budget debate and scrutiny of the supply process does not have a chance to take place in the Legislative Assembly. We believe there is merit in not permitting a government to call a general election immediately after presenting its budget, unless it has established a healthy, open deliberative Estimates process and engaged the Legislative Assembly and the public in pre-budget consultations over a reasonable period of time.

Openness in fiscal planning was lacking during the fiscal planning process underlying Budget '96. The Honourable Andrew Petter, the Minister of Finance and Corporate Relations, when asked about the budget protocols, indicated that “I have some questions too. I think we have to have a more transparent process. It hasn't served the public too well or the government.”

We recommend that the government—until such time as it changes the Estimates process to provide the Legislative Assembly sufficient opportunity for pre-budget scrutiny and deliberation of the government's fiscal plans—refrain from tabling the Estimates close to calling a general election.



sound financial reporting standards

Information in the Estimates and budget documents must be of high quality to be of value to users. In fact, most readers of these documents assume that the government has ensured the integrity of the information contained in the documents by applying sound standards for preparing and reporting on its fiscal plans.

Sound financial reporting standards help government clearly tell the Legislative Assembly, the public and other interested parties what its plans are and what it has achieved. This, in turn, gives these users the information they need to understand and assess the government's plans and performance. Without clear and credible information on government plans, priorities and performance, the proper functioning of the fundamental accountability relationship between the government (as representing the Crown) and the Legislative Assembly (as representing the public)—the very essence of our democratic governance—would be at risk.

Because the form and content of the current Estimates are basically financial in nature, the focus in this section is on that aspect of Estimates reporting. The attention that must be given to other aspects of planning and performance in government was discussed earlier in this chapter under “Comprehensive Accountability Discipline.”

What Do We Mean by Sound Financial Reporting Standards?

The challenge for government of specifying sound financial reporting standards and establishing procedures to meet those standards is significant. The government raises directly and through many of its agencies some \$23 – \$24 billion a year from hundreds of sources and spends the same on many hundreds of programs; and it manages assets of \$24 – \$25 billion and public debt of about \$30 billion.

While there are no codified reporting standards for the Estimates, the Canadian Institute of Chartered Accountants (CICA) has identified four principal characteristics of useful information in general-purpose financial statements. We believe that these characteristics are as applicable in the preparation of the annual Estimates as they would be for any other general-purpose public statement that is financial in nature. The CICA suggests that, for information to be useful, it must be relevant, reliable, comparable and understandable.

The CICA has also set standards for reporting future-oriented financial information where uncertainty is involved. The basic attributes of these standards are consistent with those that make information useful.

Over the last five years, great strides have been made in practices and standards for Estimates reporting by other jurisdictions here in Canada and abroad, most notably Canada, Alberta, Australia and New Zealand. These changes are a part of much wider reforms that have been, and are continuing to be, carried out by these jurisdictions with the objective of improving accountability of government and public administration.

Under the Financial Administration Act, the form and content of the Estimates are the responsibility of Treasury Board. While minor presentation revisions continue to be made from time to time, the form and content of the Estimates in British Columbia have remained fundamentally unchanged over the years. Below, we evaluate the existing Estimates reporting practices in British Columbia under the attributes of useful financial information, that is: relevance, reliability, comparability and understandability.

Overall Conclusion

The Estimates are being prepared in accordance with financial reporting standards established by Treasury Board. These standards could be improved by adopting all the necessary disclosure requirements of future-oriented financial information. Reporting standards established to ensure information's relevance, reliability, comparability and understandability could also be improved.

Detailed Evaluation

Relevance

What did we expect to find?

For the Estimates to serve as a useful accountability document, it must meet the information needs of the Members of the Legislative Assembly and the public. This means that the Estimates and related budget documents must collectively provide all relevant information on a timely basis. Information is relevant and pertinent when it helps users gain an appropriate understanding of the government's fiscal plan, enabling them to see the overall scope of the government's operations and evaluate how sound and achievable the plan is.

The importance of presenting the fiscal plan in terms of its basic components—that is, revenue, expenditure, surplus or deficit, and debt—is generally well accepted. Also well recognized as useful is the information underlying those basic components: namely, the general economic and specific program assumptions and their fiscal sensitivities. The predictive value of this information is enhanced when it is discussed in the context of the risks that the assumptions might turn out to be different from those planned, and in the context of the possible impact on fiscal forecasts. Furthermore, the annual estimates of expenditure are likely to be better understood when they are explained not only in terms of fiscal targets, but also in terms of what they are to achieve. The relevance of this latter information is obvious for the purposes of exacting accountability at all levels—of the government by the Legislative Assembly and the public, and of the public administration by the government.

Relevance is also achieved through information that helps users judge past, present and future events and circumstances. This means presenting information in the context of a multi-year time horizon, showing the users where the government has been, where it is now, where it is planning to go, how it intends to get there, and what the financial consequences are expected to be for the people of the Province. As well, all of this information must be reported in sufficient time to influence decisions.

We expected to see all of these characteristics of relevance present in the government's financial reporting activity.

What did we find?

Overall, we found that the information currently provided in the Estimates and other budget documents to be generally relevant, but that not all relevant information is being included for the benefit of the Legislative Assembly and public.

The Estimates, as described in Chapter 1, include the amounts and main sources of government revenue, as well as the amounts and various programs covered by the government's spending plans. They also show the surplus or deficit targets and aggregated provincial debt information. The summary and detailed revenue and expenditure information (particularly for the government's program expenditures) help the user understand government priorities.

However, while the budget report accompanying the Estimates shows the key economic assumptions underlying the fiscal forecasts, little information is provided in a consistent way about the assumption of risk related to main revenue

sources and key government programs, or about the fiscal sensitivities of these assumptions. As well, the Estimates provide basic descriptions of government programs and, as noted above, the fiscal targets, but do not explain in a measurable way what the programs are meant to achieve. One recent change in the content of the Estimates, being piloted in response to the accountability-for-performance initiative in the public sector, has been the inclusion by government of some performance information. However, that information, for the fiscal years ending March 31, 1998 and 1999, has been very brief and limited to only four minor programs.

We discussed earlier in this chapter (under “Comprehensive Accountability Discipline”) the government’s policy of preparing the Estimates only for the Consolidated Revenue Fund. This, we pointed out, excludes many significant financial activities of the Province that occur outside the fund. As a result, the Estimates lack the information that the Legislative Assembly needs to evaluate the full extent of the government’s financial activities. Alberta, we noted, has consolidated budgeting and reporting requirements at the government-wide level and for each government ministry, providing summary information that brings together the various activities of the government. We also pointed out (under “Sound Fiscal Management”) that the present focus of the Estimates on the budget year does not encourage a longer-term view of government activities and programs. Again, we noted that Canada and Alberta prepare and publish multi-year fiscal forecasts. We also discussed the need for segregating, in the annual Estimates, the operating and capital activities of government. Such segregation would also help users understand the different impacts these two separate activities have on current and future surpluses or deficits and on the provincial debt.

On the issue of timeliness of information, we noted that the annual Estimates are tabled with the budget at the beginning of the year, generally during March or April. Only at this tabling does the Legislative Assembly learn for the first time of the government’s spending plans for the next fiscal year. This gives the Assembly little opportunity to influence government’s decisions about those plans.

We recommend that, as part of Estimates and budget reporting, the government provide the Legislative Assembly and the public, on a timely basis, with all information that is relevant to communicate its fiscal plan—including information relating to fiscal sensitivities of economic and program assumptions, performance expectations, and government financial activities outside the Consolidated Revenue Fund.

Reliability

What did we expect to find?

For information to be reliable, it must be reasonably supportable and free from error and bias. This means that users must be able to depend on it to faithfully represent that which it purports to be, or that which it can reasonably be expected to represent.

To be free from error does not, in the context of the annual Estimates, imply precision or certainty of amounts, because there are many uncertainties inherent in what is being measured in the Estimates process. The fiscal forecasts of revenue, expenditure and deficit are based on many assumptions about future events and circumstances that may not necessarily unfold as anticipated, and that may reflect many value judgements by ministers and senior public service employees. Nonetheless, the fundamental importance of the values that make information reliable must be protected, and neither politics nor the shortcomings of economic and fiscal forecasting should be allowed to erode them.

To be free from bias, information must not overstate or understate estimates of revenue and expenditure simply to meet the interests of particular users of the Estimates or achieve particular economic or political objectives. Information may, however, have a deliberate and explicit bias because of consistent use of prudent or conservative judgements about fiscal forecasts or assumptions. In fact, some degree of caution is an essential principle of sound fiscal management and financial reporting under conditions of uncertainty. Still, the principle of prudence should not be advanced as a reason to support deliberate and excessive caution that brings undesirable bias in the Estimates, just as the presence of inherent uncertainties in forecasting should not be a reason to support deliberate and excessive optimism. While the former may result in a more restrictive fiscal policy than is perhaps optimal, the latter may give rise to excessive and unsustainable spending. As well, there is potential for other biases when risks in the choice of program assumptions and forecasts are not fully explained or disclosed.

And finally, reliability of revenue and expenditure estimates depends on how well these estimates are linked to the underlying economic and program-related assumptions. This does not only suggest diligent linking of the estimates to the assumptions and, most likely, to basic events or circumstances, but also a faithful and unbiased choice of those assumptions and of particular accounting principles that are adopted for reporting the estimates.

What did we find?

We looked at the Estimates of the government of British Columbia over the past several years, and noted matters that likely had adverse effects on the reliability of financial information contained in them, in some years. These included departure from cautious economic and fiscal forecasting and not fully disclosing the risks associated with revenue forecasts in those years.

We also found that the reliability of revenue estimates in the 1995/96 fiscal year was eroded partly because of an accounting policy used for certain revenue payment—considered inappropriate by the Auditor General. In that year, the government’s forecast of a surplus of \$114 million included revenue of \$250 million with respect to downstream benefits expected to arise under the Columbia River Treaty with the United States. This decision was based on opinions the government had obtained from the Comptroller General and private sector accounting professionals. The potential cash inflow, however, related to an expected up-front payment associated with the sale of anticipated future entitlements of British Columbia over a 26-year period that was to start in the 1998/99 fiscal year. The Auditor General advised the government at that time to spread the \$250 million over the life of the agreement starting in fiscal 1998/99.

Another reliability concern we found is the regular use by government of special warrants and statutory authorities to meet the annual program expenditure of the government. When the need for such measures recurs with regularity, the reliability and credibility of the amounts in the Estimates must come into question. Exhibit 2.4 summarizes the special warrants issued and statutory authorizations invoked over the five years to 1977 for additional funding for certain programs.

Additional funding may be required for many reasons, such as when new circumstances develop after the expenditure budget is set, or when anticipated or hoped-for “savings” built into the budget do not materialize. The latter situation has often arisen in relation to social and health programs. We were told that savings may sometimes be identified to meet the specific expenditure targets set by Treasury Board during the Estimates preparation, but that the required changes to operational plans do not necessarily happen because of administrative or political considerations. One senior ministry official commented that “there are generally no surprise special warrants,” suggesting there is a predisposition to underestimate spending in certain programs. Such practices undermine the reliability of those estimates.

Reliability of the expenditure estimates may also be undermined when the amounts in the annual Estimates bear little relationship to the historical trend of actual costs. This appeared to be the case for certain programs for which statutory authority has often been invoked for additional funding in the past (Exhibit 2.4). For example, the annual estimate for direct fire fighting programs for each of the 1995/96 and 1996/97 fiscal years was set at \$16.3 million, while the cost of the program over each of the preceding three years ranged from a low of \$25 million to a high of \$91 million (with an average of \$62 million). Similarly, the annual estimates for Criminal Injury Compensation Act and Crown Proceedings Act programs for the 1995/96 and 1996/97 fiscal years were set at aggregate annual amounts of \$13.5 million, when the actual cost of these programs over each of the preceding three years ranged from a low of \$44 million to a high of \$81 million, with an average of about \$51 million. Recurring need for additional funding is also noted in the exhibit for other items, pointing to estimates being set for these items with little regard to historical experience. Such budgetary practices made estimates of revenue and expenditure of those years less reliable.

We note, however, that the 1997/98 estimates for direct fire fighting programs and Criminal Injury Compensation Act and Crown Proceedings Act programs were set at \$36 million and \$35 million respectively, apparently better reflecting

Exhibit 2.4

Recurring Need for Additional Funding, 1992/93 to 1996/97

As indicated by Special Warrants and Statutory Authorizations (\$ Millions)

Program	1996/97	1995/96	1994/95	1993/94	1992/93
Income assistance	55	94	-	-	40
BC benefits (new Estimates item)	101	-	-	-	-
Health programs (various)	63	83	136	63	40
Direct fire fighting	21	22	74	2	49
Criminal Injury Compensation Act and Crown Proceeding Act	15	18	46	68	30
Criminal Justice, Community Justice, Corrections programs (various)	18	-	34	27	18
Valuation allowances	47	52	24	35	41

Source: Public Accounts

historical experience and recent past trends. This approach, we believe, enhances the reliability of the Estimates.

We recommend that the government guard the reliability of all information provided in the Estimates and budget documents by ensuring it is supportable and free from error and bias, and is based on prudent planning discipline and appropriate accounting.

Comparability

What did we expect to find?

Another important feature of sound financial reporting is that information be comparable over two or more periods of time or at different points in time, as well as between various financial accountability documents. Comparability of information helps users clearly see the fiscal trends, readily identify similarities and differences in the information being reported, and properly draw meaningful conclusions. Providing the historical context of what happened and why it happened has feedback value to users who, as a result of that information, are better able to confirm and reassess their previous evaluations and whether fiscal performance is improving or declining.

Information is comparable when events and transactions are measured according to consistent accounting conventions or principles and presented in consistent groupings and formats. Consistency helps prevent misconceptions that might result from the application of different policies in different periods and in different documents. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

What did we find?

The annual Estimates document provides the preceding year's amounts as comparative figures, and elsewhere, the budget documents provide five-year historical figures. We believe this alone is not enough to show the fiscal trends developing over the future medium term. This is so, because aside from footnotes there is little explanation about significant changes in individual revenue sources or expenditure programs, or for unusual items that may be included in the Estimates. Different readers may reach different conclusions about the changes and therefore about the following year's forecasts.

To be useful, information on plans must link to results. This we found to be generally the case between the Estimates and the Consolidated Revenue Fund Financial Statements. When any accounting policy is changed after the Estimates have been tabled, the link between plans and results is maintained through disclosure of the effects in a note to the financial statements.

The Estimates are prepared only for the Consolidated Revenue Fund. They are not comparable with the main financial statements of the government—the Summary Financial Statements. The Budget Report has, in recent years, provided a schedule reconciling in total the operating results of the Consolidated Revenue Fund to the expected aggregate operating results of Crown corporations and agencies. This limits comparability of information between the plans and results of the government operation as a whole, including those of its Crown corporations and agencies.

We recommend that the government provide in the annual Estimates detailed information and explanation that improve Estimates comparability with other accountability documents, especially the summary financial statements of the Province.

Understandability

What did we expect to find?

Finally, for information provided in the Estimates to be useful, it must be understandable to legislators, the public and other users. While this depends partly on the degree of users' understanding of government activities and accounting and their willingness to study the Estimates information with reasonable diligence, it also depends significantly on the extent and quality of disclosure in the Estimates and other budget documents. Therefore, information that is relevant, reliable and comparable must be presented and disclosed in a manner that helps users understand the government's fiscal plan.

Information in the Estimates and other budget documents must be clear and simple to be understandable. It must be concise, yet impart sufficient knowledge about the government's fiscal plan so that confusion and misinterpretation by users is avoided. Overly technical terminology and complex presentation of information should not be used. Describing the standards, methods of data collection and verification employed and noting the appropriate use of the information are important ways of enhancing the understandability of the Estimates.

What did we find?

Earlier in this section, we discussed the attributes of relevance, reliability and comparability in connection with the financial information in the Estimates, and made a number of observations and recommendations relating to it. We believe that understandability of the annual Estimates in British Columbia could be hampered because certain relevant information is often not required to be provided.

We found that understandability of the Estimates is also reduced because of practices such as not consistently showing in the Estimates the gross tax, royalty, fee and other such revenue when some of these revenues are collected and later transferred to other government organizations. For example, forests revenue and gasoline and social services taxes are shown net of the amounts to be transferred. Although how much is netted is shown as financing transactions in one of the appendices to the Estimates, we believe, that showing both the gross and planned transfer amounts in the the main summary schedule of the Estimates would properly highlight the taxing or fee-levying authorities. This would help make government's fiscal plans transparent, and comparison with the financial statements—prepared on a gross basis of accounting—more direct.

Also a concern to us is the use of special accounts, such as the Health Special Account, where funding for certain expenditures is budgeted, only to be later transferred in its entirety to offset voted program expenditures. The use of special accounts also removes certain expenditures from the scrutiny of the Legislative Assembly because they do not form part of the voted appropriations and, therefore, need not be approved annually.

We believe providing information to describe how data was compiled, reviewed and used in preparing the budget and the Estimates would enhance those documents' understandability.

We recommend that the government improve understandability of information in the annual Estimates by, for example, ensuring it is prepared on a gross basis of accounting, explaining the nature and use of special accounts, and describing how the data in the Estimates was developed, compiled and reviewed.



appropriate governance and management structure

Concepts and policies need appropriate organization and processes if they are to be implemented successfully. In previous sections of this chapter, we examined four key attributes of a well-designed Estimates process: comprehensive accountability discipline, open deliberative Estimates process, sound fiscal management, and sound financial reporting standards. These attributes provide solid foundations for the administrative policies needed to govern the Estimates process effectively. The fifth attribute, which we identified in Chapter 1, is about the necessary organizational structure within which these policies can take shape, and in which the annual budget and the Estimates are ultimately prepared.

What Do We Mean by Appropriate Governance and Management Structure?

An appropriate organizational structure for the Estimates process does the following. It creates an environment that allows: the Legislative Assembly to hold the government to account; Cabinet to fulfill its accountability responsibility to the Legislative Assembly; and public service employees to account to ministers. It facilitates open deliberative interaction between those who govern the Estimates process and those with vested interest in it—the public, businesses, investors and other groups within and outside the province. It ensures that fiscal management policies are properly implemented. And, it engages or develops people and processes to ensure sound financial reporting standards are adhered to in preparing the budget and Estimates.

Governance of the Estimates process includes making laws for and policies about all aspects of budgeting, and monitoring the implementation of those laws and policies. An appropriate governance structure, in the context of the Estimates process, therefore encompasses the Legislative Assembly (including its committees and officers), Cabinet and its committees, as well as the legislation, parliamentary proceedings, rules and administrative policies that direct the process and monitor its progress. We report on this structure below.

Management of the Estimates process includes implementing the above-mentioned administrative policies in the area of responsibility of each minister, in an adequately controlled, efficient and effective way, and accounting for these activities through the minister to Cabinet. An appropriate management structure, in the context of the Estimates process, therefore encompasses the ministers and their ministries, including agencies involved in the preparation of the budget and the Estimates—central amongst them the Treasury Board Secretariat. We discuss the management of the Estimates process and the appropriate structure for it in Chapter 3.

Overall Conclusion

The organization that serves the governance of the Estimates process is sufficiently flexible to accommodate the demands of the evolving process. However, the current governance structure, including the process that ensures accountability, openness and use of sound financial management and reporting standards is in need of reform. The government could unilaterally embark on the needed reform, but this would be better undertaken with the help of the Legislature or an independent committee of experts.

Detailed Evaluation

What did we expect to find?

For effective governance of the Estimates process, we expected to find a clear structure of coordinated functions and processes that result in directing the Estimates process and monitoring its progress in accordance with the four key attributes discussed earlier in this chapter.

What did we find?

In British Columbia, as elsewhere in Canada, the governance responsibility for the Estimates process is carried out inside the legislative and executive branches of government. Within this organization, which includes the Legislative Assembly, Cabinet, and their committees, the structure for governing the Estimates process has changed over time, both in form and substance, to reflect what the politicians of the day perceive to be the necessary process. While the governance organization itself is sufficiently flexible to accommodate the demands of an evolving process, the current governance structure is deficient because it does not provide appropriate direction. This results in a serious flaw in the Estimates process.

In the previous four sections of this chapter, we recommended significant improvements be undertaken for all key attributes of the process—improvements so significant, in fact, that we refer to them as a reform.

With respect to accountability, we found that information provided to the Legislative Assembly is not complete, measurable or independently verified. As far as sound fiscal management is concerned, we concluded that the approach is deficient in many respects and remains largely undefined. We also determined that the Estimates process does not provide for orderly open pre-budget deliberation and scrutiny of information, and that the government has not formally established appropriate reporting standards for the budget and the Estimates.

Within the governance organization, where should one be looking for the coordinated functions and processes that are necessary for such reform? We believe that, in our system of democracy in which the political party that forms the government also has the majority of votes in the Legislative Assembly, it is the government that is in the position to unilaterally reform the Estimates process. For the reform to be undertaken, however, the government must be committed to doing so, and must demonstrate that in a sufficiently forceful way.

There are a number of ways the government can express this commitment, including through legal means. Legislating the main aspects of Estimates reform would give the interested public and all Members of the Legislative Assembly an opportunity to participate in the change. Legislation can establish a framework for the reform and ensure its continuity. We think it is appropriate that the government obtain assistance of the Legislature or independent experts for this purpose.

We recommend that, at the impetus of the government, a committee of appointed experts or the House be given the responsibility to review this report and recommend to the Legislative Assembly, for its approval, matters that must be included in Estimates reform legislation, based on the guiding principles and key attributes of an appropriate Estimates process, as outlined in Chapters 1 and 2 of this report.



summary of recommendations

Recommendations made in Chapter 2 of this report are listed in the order in which they appear in the report for ease of reference. They should be regarded in the context of the report.

The Office of the Auditor General recommends that:

- *The annual Estimates include budgets or fiscal plans of all organizations and enterprises that make up the complete government reporting entity.*
- *The government be required to set performance expectations for its programs (to the extent possible), and to report these expectations in the Estimates or another budget document.*
- *The government require the Auditor General to annually comment on the accounting policies used in preparing the Estimates.*
- *The government formally adopt the policy of prudent economic and fiscal forecasting, and establish the practice of indicating how it has applied this policy in the annual Estimates.*
- *The government bring clarity and firmness in its debt reduction goals and strategies, and provide longer-term focus to its financial management plan.*
- *The government prepare long-term fiscal and business plans for its activities and public finances, as an integral part of the Estimates process.*
- *The government consider:*
 - *adopting intergenerational reporting so that it can provide an assessment of the financial effects of program and policy decisions on future generations;*
 - *segregating its operating and capital plans in the Estimates; and*
 - *using sunset clauses and regular evaluations for statutory programs.*
- *The government adopt policies and establish practices to help make the presentation of the Province's fiscal conditions, as well as of economic factors and fiscal measures underlying the budget and the Estimates, more transparent.*

- *The government facilitate continuous and orderly public participation in, and scrutiny of, the Estimates process. The Estimates process should provide the public, interest groups and the Legislative Assembly with sufficient and timely pre-budget opportunities to review and discuss fiscal policies, responsibility for program delivery, fiscal and program performance, assumptions used in formulating the Estimates, and the nature of future fiscal risks.*
- *The government—until such time as it changes the Estimates process to provide the Legislative Assembly sufficient opportunity for pre-budget scrutiny and deliberation of the government’s fiscal plans—refrain from tabling the Estimates close to calling a general election.*
- *As part of Estimates and budget reporting, the government provide the Legislative Assembly and the public, on a timely basis, with all information that is relevant to communicate its fiscal plan—including information relating to fiscal sensitivities of economic and program assumptions, performance expectations, and government financial activities outside the Consolidated Revenue Fund.*
- *The government guard the reliability of all information provided in the Estimates and budget documents by ensuring it is supportable and free from error and bias, and is based on prudent planning discipline and appropriate accounting.*
- *The government provide in the annual Estimates detailed information and explanation that improve Estimates comparability with other accountability documents, especially the summary financial statements of the Province.*
- *The government improve understandability of information in the annual Estimates by, for example, ensuring it is prepared on a gross basis of accounting, explaining the nature and use of special accounts, and describing how the data in the Estimates was developed, compiled and reviewed.*
- *At the impetus of the government, a committee of appointed experts or the House be given the responsibility to review this report and recommend to the Legislative Assembly, for its approval, matters that must be included in Estimates reform legislation, based on the guiding principles and key attributes of an appropriate Estimates process, as outlined in Chapters 1 and 2 of this report.*



chapter 3: management of the estimates process



introduction

In preparing the budget and the Estimates, Cabinet (through its committee, Treasury Board) governs the Estimates process. It meets its governance role by establishing both the budgeting policies and the management structure necessary to implement those policies. Cabinet's role also includes monitoring progress and evaluating the results of its policies. We described in, Chapter 1, Cabinet's role in governing the Estimates process and the Legislative Assembly's role in scrutinizing and approving government spending plans. We also established the key attributes of a well-designed Estimates process.

In Chapter 2, we discussed the key attributes of the Estimates process, to the extent they relate to the Cabinet's governance responsibilities for that process. We evaluated, in the context of the Estimates process, the administrative policies of Cabinet (including those of Treasury Board) regarding public accountability, openness of the process, fiscal management, financial reporting, and the organizational needs for effective governance.

In this chapter, we report on how well the existing system of managing the Estimates process is performing. We examine the tools, methods and structures with or through which the Treasury Board Secretariat and ministries manage the process. Managing of the Estimates process includes operating the present system of financial reporting, providing advice on, and preparing the budget and the Estimates in accordance with Cabinet policies.

Overall Conclusion

The tools, methods and structures currently at their disposal provide the Treasury Board Secretariat and ministries with adequate capacity to manage the Estimates process, and the Secretariat with adequate capacity to give advice to Cabinet and Treasury Board. We concluded that although the basic management controls we evaluated are, in general, being applied satisfactorily to budget—and Estimates—building processes between the Treasury Board Secretariat and ministries, several changes are needed at the Secretariat and central agencies to improve the management of the Estimates process.

Also, given that the governance of the Estimates process is in need of reform—as discussed in Chapter 2—we believe that further changes and enhancements to management tools, methods and structures will be necessary to deal with the new and different responsibilities arising from the reforms we recommended in that chapter.

Management Control Requirements of an Estimates Process

A well-drawn Estimates process must be able to balance the many expectations of those affected by it. To achieve this balance, the process must employ tools, methodologies and approaches that will coordinate the efforts of all involved in planning, preparing, reviewing and monitoring the Estimates. The process must also enable politicians and other officials to carry out their respective “governance” and “management” responsibilities sufficiently independently of each other, still allowing the necessary interaction and flexibility in the process. The result should be an iterative process, in which management advises the governing group about the effects of its policies, and the governing group makes decisions.

In an iterative process, it is sometimes difficult to neatly distinguish between what constitutes “governance” and what constitutes “management” functions. Our delineation between these two functions of the administration is to emphasize the general areas of responsibility.

Management of the Estimates process (for the purposes of this report) starts with individual ministers and devolves to senior ministry officials—chief among them, the Secretary to Treasury Board, Deputy Minister of Finance and Corporate Relations, other deputy ministers, and senior staff at the Treasury Board Secretariat and the ministries.

Both in providing advice to Treasury Board and Cabinet and in preparing the budget and the Estimates, the management challenge for each minister and ministry staff is how to maintain the capacity and integrity of their administrative structure, information systems, and control activities. In this regard, those who manage the Estimates process in British Columbia face some of the same challenges as their counterparts in most other jurisdictions in Canada and around the world.

While different management models are used by different jurisdictions for their Estimates process, our research into how such processes are being managed elsewhere confirmed the common requirements for the management of the Estimates process. These requirements, as a minimum, relate to:

- the reliability of management information provided to Cabinet for decision-making;
- the exercise of unbiased judgement by staff managing risks associated with uncertainties;
- the flexibility of procedures to enable staff to address unexpected changes; and
- the organizational effectiveness and efficiency needed to enhance confidence in the process.

Using this as a starting point, we then worked with the material we had gathered from many people who manage the annual budget and Estimates processes, and consulted the Criteria of Control publications of the Canadian Institute of Chartered Accountants (CICA). We identified seven basic management control requirements that we believe would help ensure an Estimates process meets the above requirements. They are:

- clear and measurable organizational objectives
- effective organizational structure
- documented policies and procedures
- appropriate skills and knowledge of employees
- integration of controls with systems and methods
- effective communication and coordination systems
- effective monitoring and reporting systems

These control requirements are not unique to the management of the Estimates process. In fact, they are common to many management processes and, when combined, provide a most relevant framework of controls. This framework must be applied to each of the activities that make up the Estimates process in ministries: economic forecasting, revenue estimating, expenditure budgeting, capital expenditure planning, and production of the annual budget and the Estimates.

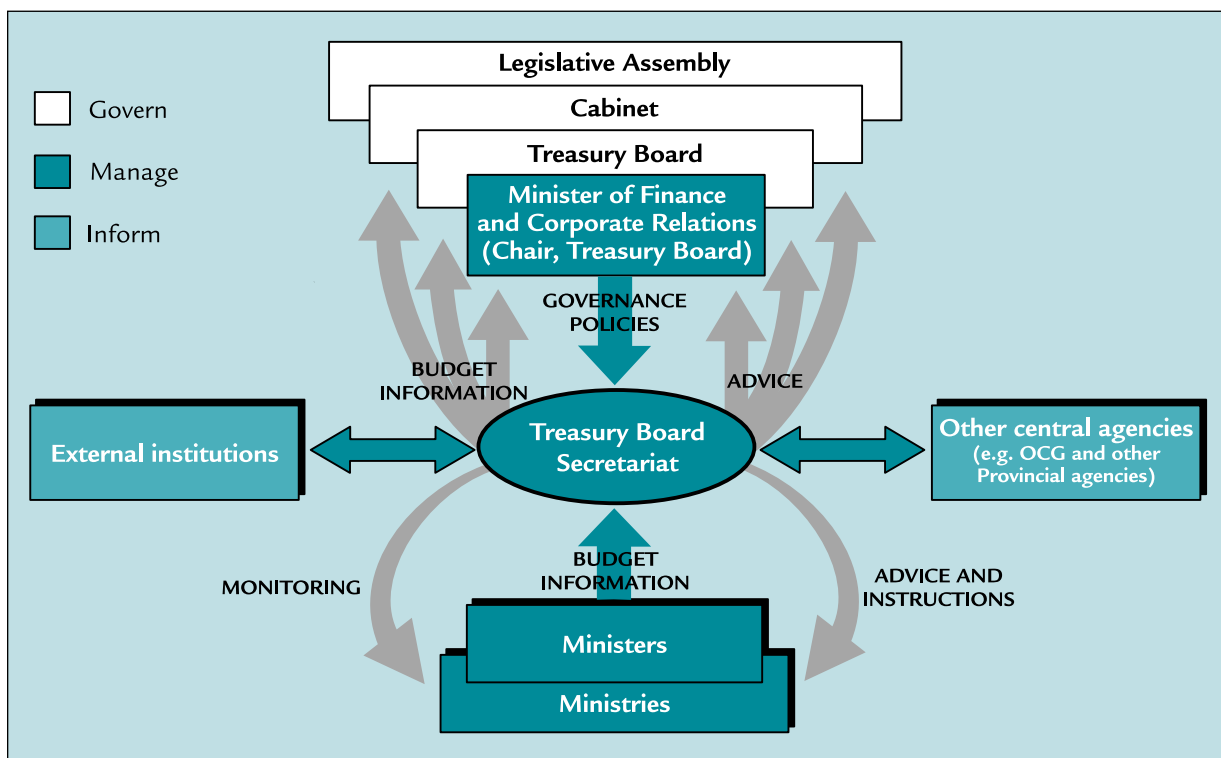
Our evaluation of the management controls was applied to all these activities collectively. However, because the success of each individual activity may depend on different tools and methods, we expanded our evaluation of the “integration of controls with systems and methods” (the fifth control listed above) to discuss each activity separately.

Exhibit 3.1 shows that, in British Columbia, the Minister of Finance and Corporate Relations—who also chairs Treasury Board—is the most senior member of the group that manages the Estimates process overall, and the Treasury Board Secretariat is the main agency that deals with what emerges from the process. In this chapter, we focus on the key management responsibilities of the Treasury Board Secretariat in preparing the budget and Estimates documents.

Exhibit 3.1

Management of the Estimates Process

Treasury Board Secretariat is the hub of the management structure in the Estimates Process



Source: Office of the Auditor General of British Columbia



clear and measurable organizational objectives

Objectives set for an organization provide common direction for its activities. As far as possible, these objectives must be clear and measurable. Clarity is necessary for those who are working in the organization, so they understand their roles in achieving the objectives. Measurability, on the other hand, helps assess the extent to which the objectives have been achieved.

Detailed Evaluation

What did we expect to find?

The Minister of Finance and Corporate Relations, in a statement published in the ministry's 1996/97 annual report, said the ministry's corporate mission was "to continuously improve its leadership, products, planning and services so that it consistently offers the public and ministry's clients sound management and advice."

The ministry has also expressed the following primary corporate objectives as they pertain to fiscal matters:

"To serve the public interest through the Minister and Treasury Board by:

- promoting prosperity and well-being through sound advice on investment, tax, budgetary, debt, financial and corporate legislation, labour management, and other public policy issues...; [and]
- supporting government programs through action and advice on financial, management and personnel matters, and through collection, analysis and dissemination of reliable financial and economic information."

We expected these stated objectives, if they were to guide the ministry in the Estimates process, to be defined in measurable terms. We further expected to find specific objectives for the ministry's branches and the central agencies involved in the Estimates process, particularly the Treasury Board Secretariat. We also expected to find evidence that the ministry is working to meet these objectives.

What did we find?

Though the stated objectives are very broad in nature, they do, to a large extent, set the tone for all the ministry's branches and central agencies. We found general awareness of these objectives amongst the staff we contacted during this review. However, because of the importance of the Treasury Board Secretariat in the Estimates process, we examined this organization in more detail.

We found that, in the same general manner the ministry's functions are described, so the Minister has described the Treasury Board Secretariat's functions as being to provide analysis and advice to Treasury Board and the Minister. The advice is expected to cover economic, fiscal and taxation matters, funding and program requests from ministries, and expenditure management and administrative policies.

Having clearly stated objectives of the particular aspect of the work of the Treasury Board Secretariat would provide direction to staff and help protect the neutrality and integrity of the organization.

We noted that although the Secretariat has a clear understanding of its core functions and the implied objectives embedded in them, it has not formally defined its own objectives in relation to the functions that support the ministry's corporate mission. This can pose a serious problem. The Treasury Board Secretariat, in an environment that requires debate on public policy, must stay clear of political bias and undue influence if its professional advice is to be valuable. At the same time, its staff function dictates that it must follow instructions from its political masters. Not surprisingly, these two requirements may sometimes conflict.

Organizational objectives should also be achieved in accordance with core values. We sensed a general awareness of these important values (emphasizing service, quality, mutual trust, integrity, dedication and innovation) amongst the many government employees we interviewed, including the staff of the Treasury Board Secretariat. At the Secretariat, we found a strong corporate culture based on professional ethics and the ministry's core values. The Secretariat is geared towards providing high-quality service to the government, ministries and the public. What we did not find are formally established ways that allow the Secretariat or others to periodically reaffirm the level of adherence to organizational values. The quality of service, for example, might be measured in terms of timeliness, client satisfaction or responsiveness to clients' needs.

We recommend that the Treasury Board Secretariat further develop the general corporate objectives set by the Ministry of Finance and Corporate Relations into specific divisional objectives within the Secretariat, to the extent possible, in measurable terms; and that it periodically measure and report on the achievement of those objectives.



effective organizational structure

The current organizational structure in place for managing the Estimates process consists of three components: the Treasury Board Secretariat, ministries (including the Ministry of Finance and Corporate Relations) and the Deputy Ministers' Council (Exhibit 3.2).

Detailed Evaluation

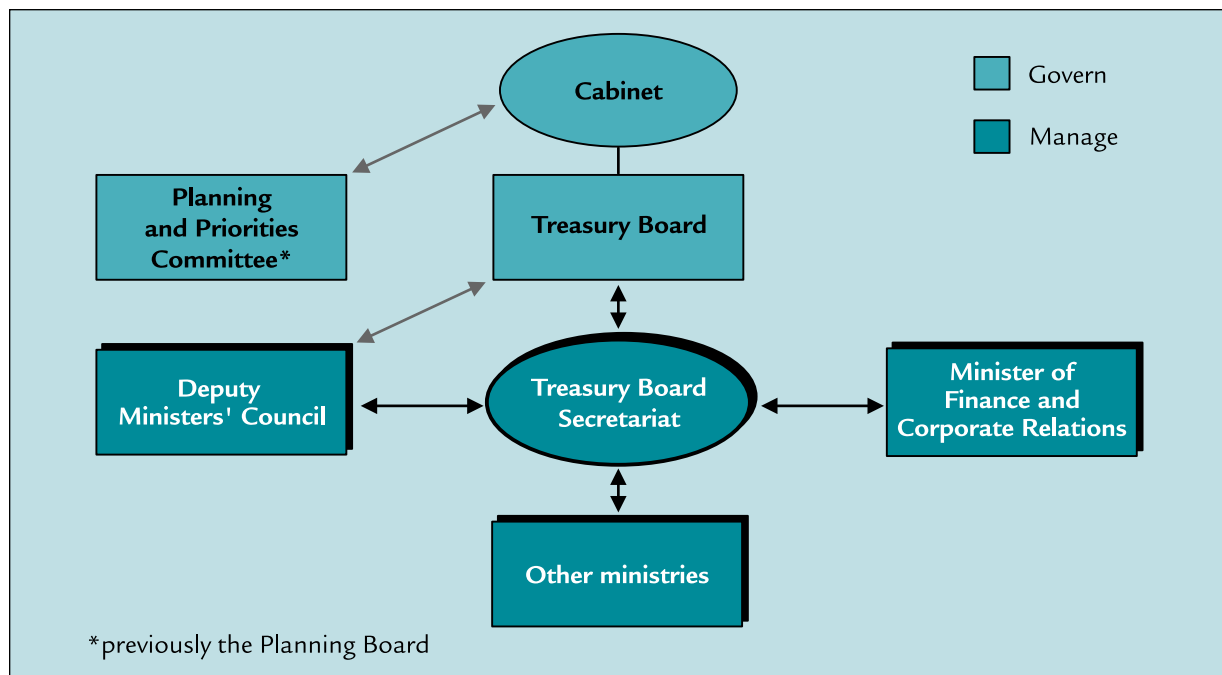
What did we expect to find?

In the context of the Estimates process, the Treasury Board Secretariat is linked to the other two components by a key purpose: to prepare and monitor the Estimates. The effectiveness of this organizational structure lies in its capacity to achieve this key purpose well, and to sustain that capacity under internal and external pressures. We therefore expected to find clear roles and responsibilities among those involved

Exhibit 3.2

Organizational Structure

Main components of the organizational structure involved in the governance and management of the Estimates process in British Columbia



Source: Office of the Auditor General of British Columbia

with preparing and monitoring the Estimates, and an environment that promotes a high degree of continuity and stability in those roles and responsibilities.

What did we find?

Preparation of the Estimates is a cross-government function involving all ministries. Because the budget preparation processes followed in ministries are similar, we reviewed the organizational aspects of budgeting only in some selected ministries. For others, we looked at the role of the Deputy Ministers' Council and its offshoot committees, as they largely represent the ministry perspectives in the process.

In the Ministry of Finance and Corporate Relations, we looked at the roles and responsibilities of the Provincial Treasury, Office of the Comptroller General (including Internal Audit), Revenue Division and, to a lesser degree, the Cabinet Policy and Communications Secretariat. The latter's role is defined more in terms of planning and public policy coordination than in terms of budgeting.

In the Treasury Board Secretariat, our review of organizational effectiveness was not limited to the Secretariat's involvement in preparing the budget and the Estimates. We also looked at its capacity to provide advice to Treasury Board, the Minister of Finance and Corporate Relations, and other ministries.

Deputy Ministers' Council

The Deputy Ministers' Council holds regular bi-weekly meetings at which its members exchange views on issues of common interest. The Deputy Minister to the Premier chairs these meetings. The annual Estimates process is a matter of continuing attention by deputy ministers. In recent years, a Deputy Minister Review Committee, consisting of a smaller group of deputy ministers, has been reviewing ministry budget submissions before they are finally presented to the Legislative Assembly. The focus of this committee and of the council is normally on expenditures. However, both these groups—and other task-oriented groups of deputy ministers—sometimes examine revenue aspects of the government's fiscal plan as well.

The work of the Deputy Ministers' Council and its sub-groups is important to the effectiveness of ministries' participation in the Estimates process. It ensures senior management involvement and provides a forum for exchange of information—both important to building a common direction.

Ministry of Finance and Corporate Relations

Provincial Treasury — Information on debt and interest costs provided by the Provincial Treasury is used in the Estimates process, as well as in the monthly monitoring and revision of figures in the current year's budget. Information on cash management provided by the Provincial Treasury assists the Treasury Board Secretariat in monitoring the current year's Estimates and recommending adjustments to them. The Provincial Treasury also provides information on debt and sinking funds to the Office of the Comptroller General. This information is used in the preparation of the Province's financial statements.

We found the division of responsibility between the Provincial Treasury and the Treasury Board Secretariat and between the Provincial Treasury and the Office of the Comptroller General to be adequately clear.

Office of the Comptroller General — Government's corporate accounting function in British Columbia is performed by the Office of the Comptroller General. This office prepares monthly financial statements as well as the annual Public Accounts. The latest available financial statements before Budget Day, referred to as "Interim Financial Statements," must be tabled in the Legislative Assembly with the Estimates, as required by the Financial Administration Act.

We expected that, in preparing its monthly financial monitoring reports and developing the "revised forecast" data it presents in the Estimates, the Treasury Board Secretariat would be able to rely fully on the accounting information provided by the Office of the Comptroller General. This, however, has not consistently been the case. The Secretariat's staff, we noted, consider it necessary to subject the accounting information they receive from the Office of the Comptroller General to a separate verification process, because they find the information from the Corporate Accounting System not always to be reliable. We also noted that, because the information has not always been available when needed, the Secretariat's staff have developed their own information-gathering systems, including informal procedures for obtaining data directly from ministries.

The above practices and circumstances—including the assumption by the Secretariat of some accounting duties—clearly show that the government's Corporate Accounting System is not effective in providing the accounting information that is important for the monitoring of the Estimates. They also

point to duplication of effort, unclear roles and responsibilities for some aspects of corporate accounting in government, and inadequacies in the systems and resources needed by the Office of the Comptroller General to receive, verify and supply complete and timely financial information and reports.

We recommend that the Office of the Comptroller General maintain government's corporate accounting capabilities such that they allow the Office to meet the needs of users, particularly the Treasury Board Secretariat, for complete, timely and detailed financial information, statements and reports.

Revenue Division — Information on tax collection is provided to the Treasury Board Secretariat by the Revenue Division of the Ministry of Finance and Corporate Relations. This division also provides the Treasury Board Secretariat with information for taxation policy analysis.

We found that the organizational relationship between the Revenue Division and the Treasury Board Secretariat is adequately and clearly defined.

Treasury Board Secretariat

In the Treasury Board Secretariat we expected to find an organization capable of:

- providing sound advice based on knowledge gained by analyzing reliable financial and economic information;
- providing direction on the financial planning of operations in ministries;
- maintaining a clear working relationship with other functional units involved in the preparation of the budget and the Estimates; and
- preparing the budget and the Estimates.

The role of the Secretary to Treasury Board is fundamental to the organizational effectiveness of the Treasury Board Secretariat. As secretary to a senior policy-making board, he or she conveys information and advice from staff to Treasury Board, and policies and instructions from Treasury Board to staff. As the Secretariat's Chief Executive Officer (CEO), the Secretary's role is to maintain the organizational strength and stability this important central agency needs to function properly. The Secretary to Treasury Board reports to the Chair of Treasury Board who, in British Columbia, is the Minister of Finance and Corporate Relations.

Over the past years, responsibilities of the Secretary to Treasury Board have varied depending on the model chosen by the government to allocate work between the Treasury Board Secretariat and other units in the Ministry of Finance and Corporate Relations. In some years, responsibilities of the Secretary and that of other functions of the ministry have been assigned to the deputy minister of the ministry. In other years, a senior public officer other than the deputy minister has been appointed to the Secretary's position. Cabinet, on the recommendation of the Minister of Finance and Corporate Relations, makes this appointment.

In our view, continuity in this position is vital to the organization's strength and stability. However, in the three years following July 1995, six different persons have served as Secretary to Treasury Board. In this situation, it would be difficult for the Secretary to Treasury Board, as would be the case for any CEO, to bring about lasting improvements in the organization.

We recommend that the government recognize the need for stability and continuity in management of the Office of the Secretary to Treasury Board.

In British Columbia, the Treasury Board Secretariat is organized as shown in Exhibit 3.3. The main functions of the organization include:

- *Fiscal and economic analysis* — prepares economic and fiscal forecasts, coordinates preparation of the provincial budget, monitors budget progress and economic development, prepares quarterly reports and the "British Columbia Financial and Economic Review," as well as monthly monitoring reports.
- *Economic development policy* — assists ministries responsible for resource development, transportation and sustainable development with preparing their estimates; also monitors those ministries' expenditures and provides advice and recommendations to Treasury Board on policy and resource allocation within those ministries and Crown corporations.
- *Social policy* — assists ministries responsible for health, social services, justice, education and universities with preparing their estimates; also monitors those ministries' expenditures and provides advice and recommendations to Treasury Board on policies and resource allocation within those ministries.
- *Tax policy* — provides analysis and advice on provincial tax policy issues.

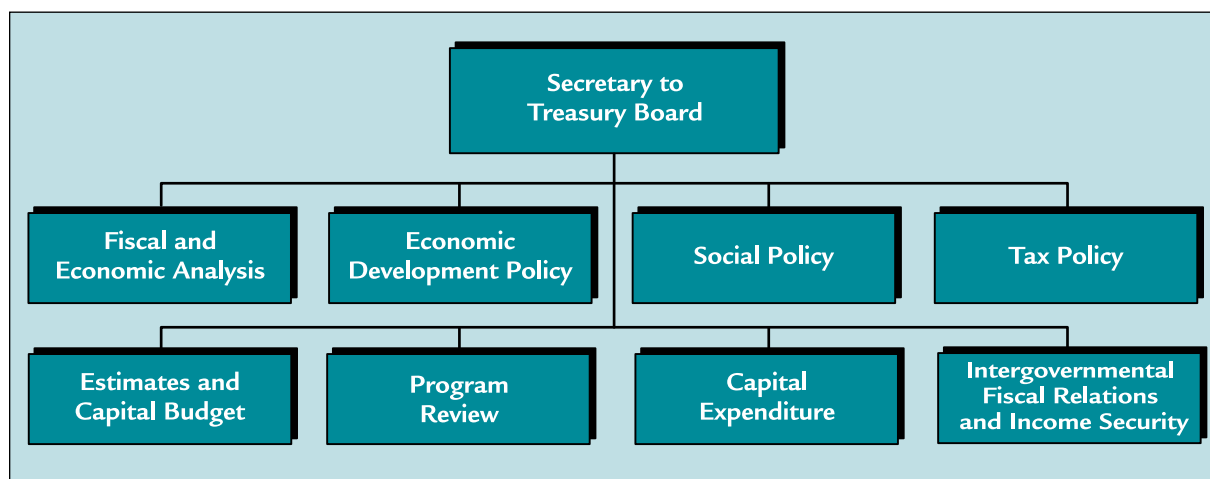
- *Estimates and capital budget* — coordinates the preparation of the annual Estimates and the financial management plan; also provides advice and recommendations to Treasury Board on accounting policies and resource allocation for certain Crown corporations and special offices.
- *Program review* — performs independent research and reviews programs, projects, functions and agencies to ensure their operations are relevant, efficient, effective and economic.
- *Capital expenditure* — coordinates and reviews all capital expenditure plans; also provides advice and recommendations to Treasury Board on short- and long-range capital needs. (Before June 1996, this was the responsibility of the Ministry of Employment and Investment.)
- *Intergovernmental fiscal relations and income security* — provides analysis and advice on federal-provincial fiscal and socio-economic matters, including financial arrangements with other governments on major transfer programs and tax collection agreements.

At the time we reviewed the organization of the Secretariat, each function was being carried out in a branch headed by a director who reported directly to the Secretary to Treasury Board. We found the responsibilities of each branch for carrying out its functions to be well defined and

Exhibit 3.3

Organization Chart of the Treasury Board Secretariat

Each function is headed by a director reporting to the Secretary to Treasury Board



Source: Government of British Columbia

the duties reasonably segregated. We also noted that in 1996 the capital expenditure function was brought back to the Treasury Board Secretariat. We believe this change will improve the flow of information linking capital expenditures and operating expenditures, and strengthen the facilities for a multi-year capital expenditure budgeting.



documented policies and procedures

Formal, well-documented policies and procedures are needed to deal with administrative and procedural matters relating to the Estimates process. Some of these matters may demand—as is the case with a large part of the work of the Treasury Board Secretariat—a high degree of technical skills and sound judgement, while other matters require routine collection and analysis of economic, financial and other statistical data. Whatever the matter, documented policies and procedures are needed to ensure consistency in how staff perform their work from one year to another and among themselves, and to maintain the quality of work on which decisions are based.

Detailed Evaluation

What did we expect to find?

In an organization that employs skilled and experienced personnel who are empowered to use their professional judgement in resolving issues, it may not be possible to formally document all administrative policies and procedures. How to deal with a minister's verbal instructions that a certain report be prepared monthly, and how to assess whether a certain piece of information might be of benefit for decision-making, are just two of the many instances when informal administrative policies may be formulated. Though informally developed, the resulting policies and procedures can still serve the same ends as those formally developed. Nonetheless, the value of documenting those policies and procedures that come into existence informally is generally well recognized.

In examining policies and procedures applied to the budgeting process, we were aware of the importance of both informal documentation and formal documentation (such as manuals). We therefore expected to find adequately documented administrative policies and procedures to govern all aspects of the Estimates process in ministries.

What did we find?

Applicable to staff of the Treasury Board Secretariat — Like all government employees, staff of the Treasury Board Secretariat are bound by government-wide administrative policies, procedures and ethical standards. The Financial Administration Operating Policy Manual sets out, among

other things, the general policies that the Secretariat and ministries are expected to follow in the development of the Estimates. Approved accounting policies are also often documented in government manuals.

We found these manuals to be sufficiently detailed and reasonably current. We also found staff of the Secretariat to be knowledgeable about the Estimates and budget-related material included in the manuals. Missing, however, is formal and specific guidance on how staff of the Secretariat should carry out their core activities, such as economic and fiscal forecasting, periodic reporting, and budget and Estimates preparation and review. Staff rely mainly on informal interactions with each other to gain and exchange experience. Under these circumstances, the effectiveness of such an arrangement depends largely, in our opinion, on the documentation habits and continuity of staff.

Through our discussions and interviews, we also noted many unwritten administrative policies and procedures governing day-to-day activities of the Secretariat's staff. For example, significant disagreement between a Treasury Board analyst and a ministry budgeting official is normally presented to Treasury Board—a process that is not formally documented but for which procedures do exist.

We also found that many routine procedures carried out by staff are embedded in working papers and electronic files developed over time. Except for the supervisory reviews of the results of these procedures, no formal quality assurance process is in place to require periodic peer review—or examination by an independent third party—of the structure and content of the files or of the methodology applied in collecting, analyzing and disseminating the information in them. Following each step taken in previous working paper files may be an efficient way of achieving results. However, given the time pressures under which staff generally operate before a budget is presented, we are concerned about the risk that errors and inaccurate conclusions might result because procedures followed in a prior year had not been sufficiently updated. A formal review procedure would likely identify any such risk.

We recommend that the Treasury Board Secretariat document, to the extent practical, specific policies and procedures to guide staff in carrying out their duties.

Applicable to ministry staff— The administrative policies and procedures developed by the Treasury Board Secretariat to assist ministries and special offices in their Estimates process are often referred to as “budget instructions.” They may change from year to year, depending on the government’s approach to budgeting and the model adopted.

We found that, in recent years, comprehensive written expenditure budgeting instructions have not always been issued to budget officials in ministries. However, to some degree, this is compensated by the ongoing consultation between ministry staff and staff of the Secretariat. The Secretariat’s staff who are assigned liaison responsibilities for individual ministries are available for further clarification and assistance.



appropriate skills and knowledge of employees

The effectiveness of an organization's activities depends on the combined knowledge and skills of its people. Managing the Estimates process is no different. It requires those responsible to have access to staff with a variety of skills and knowledge, especially in understanding public policy, finance, economics and management. It also requires them to effectively match the duties to be carried out with the staff who have the skills to undertake them.

The main know-how about the Estimates process is concentrated in the Treasury Board Secretariat. Ministers, their ministries, and central agencies look to the Secretariat for consultation and advice. Therefore, we focused only on evaluating the collective knowledge and skills of the staff of the Treasury Board Secretariat.

Detailed Evaluation

What did we expect to find?

We expected the skills and knowledge of staff to be collectively adequate to enable the Secretariat to do what is expected of it—namely, to provide advice to Treasury Board and ministries, and to play a central part in preparing the budget and the Estimates.

What did we find?

We considered the academic background of current and immediately past key personnel of the Treasury Board Secretariat, the breadth of their related work experience, and the length of time they had served in their current positions.

We found the collective knowledge and skills of the staff of the Treasury Board Secretariat to be sufficient to enable the organization to meet what is expected of it. The Secretariat also benefits from the strong organizational culture that encourages staff to consult with their peers, especially in matters that may require a combination of knowledge and different skills. Over time, this informal yet effective process has resulted in key members of staff becoming familiar with each other's work and responsibilities.

We also found that many staff in key positions have a long employment history with the Secretariat. Many have previous experience in budgeting, obtained from working in ministries or other provincial or federal agencies. With such experience and education in economics and legal and accounting fields, staff are knowledgeable about the subject matter they have to deal with.

Because our focus in assessing the knowledge and skills was on collective capabilities, we did not think a formal human resource assessment of the Secretariat was necessary for the purpose of this review. However, in examining the collective base of skills and knowledge, we did identify an important shortcoming that bears reporting here. Funding cuts in recent years have reduced the organization's staff complement. The result is that senior staff are now increasingly performing many of the tasks that should ordinarily be done by junior or trainee members of staff. While the Secretariat's senior management recognizes the short-term financial savings of this approach, it is concerned that the knowledge of key personnel will not be adequately passed along to a new generation of staff.

Also a problem, in our view, is the inadequate attention being given to continuing professional development of staff. The training of new staff is informal, carried out largely through work with supervisors and reference to prior years' working paper files or electronic worksheets. Occasionally, new staff attend courses on budgeting concepts and methodologies, but this by itself is not sufficient training for the type of work they are expected to do.

We recommend that, to ensure it maintains its capability to serve Treasury Board and ministries, the Treasury Board Secretariat secure adequate resources and an appropriate level of staffing, and formally establish a regular professional development program for its staff.



integration of controls with systems and methods

In Chapter 1, we explained that the Estimates cycle starts with staff of the Treasury Board Secretariat preparing an outline of a plan, referred to as the “fiscal framework,” which is then deliberated by the Minister of Finance and Corporate Relations, Treasury Board and Cabinet. The result of these deliberations is conveyed to the Treasury Board Secretariat to help it in formulating Cabinet’s requirements, policy options and program priorities. To assist politicians in their deliberations, staff of the Secretariat are often invited to make presentations to Treasury Board about the assumptions used in preparing the fiscal framework, and to provide answers to “what if” scenarios considered by Cabinet members. The final outcome from Cabinet is an overall fiscal strategy, which may call for a balanced budget or a surplus or deficit.

Detailed Evaluation

What did we expect to find?

In preparing the fiscal framework and developing the Estimates on the basis of the established fiscal strategy, management of the Estimates process must exercise many formal and informal controls over the technical analysis of economic and financial data.

We reviewed how well these controls have been built into the information systems used and the methods applied by the Treasury Board Secretariat in carrying out its work. Because managing each function performed by the Secretariat requires its own controls, tools and methods—which may be significantly different from those required by other functions—here we report separately on each function: economic forecasting, revenue estimating, expenditure budgeting, capital expenditure planning, and compilation of the budget and the Estimates.

In the management of each of these functions, we expected to find controls to ensure the completeness, accuracy and availability of economic and financial information. We also expected to find those controls integrated into relevant information systems and budgeting methodologies used by the Secretariat.

What did we find?

Economic forecasting — Economic forecasting is carried out by staff of the Fiscal and Economic Analysis Branch (FEAB) of the Treasury Board Secretariat. The branch is responsible for monitoring and forecasting economic conditions, analyzing the impact of economic policies and events, and maintaining systems for economic, fiscal and financial analysis.

Up to and including the Budget '96 cycle, the branch director and manager took a lead role in meeting with key ministry and private sector economists and federal representatives to exchange and gather expert views and market intelligence. Beginning in the 1997 budget cycle, this aspect of the process has continued more formally and now includes a "Minister's Economic Outlook Conference." Those attending discuss the outlook of G-7 economic growth, interest rates, exchange rates, export prices and other indicators of the economy. Using what it learns from these meetings and from what the attendees' consensus is, the Treasury Board Secretariat establishes its key economic assumptions. These, when approved by the Minister of Finance and Corporate Relations and published in the "British Columbia Economic Review and Outlook," reflect what Cabinet officially believes, at that time, to be the expected future performance of the provincial economy. And, although the economic situation is regularly monitored by the FEAB and internal working assumptions may change, for external reporting purposes, the official outlook (including assumptions therein) stays unchanged until the next publication.

The key economic assumptions include estimates of interest rates, exchange rates, Canadian Gross Domestic Product (GDP), the GDP deflator, Canadian and provincial Consumer Price Indices (CPI) and the United States CPI. Together these are referred to as exogenous variables, and are entered into the government's econometric model. The model generates another set of variables including consumption, investment, exports, imports, prices, wages, population and GDP by sectors of the economy. The model is also used to test sensitivity of the economy to various economic assumptions, and to test the outcomes—for instance, how the economy, employment or investment in British Columbia would be affected by a 1% increase in interest rates.

The econometric model is a computerized program that simulates the performance of the provincial economy. The model used in British Columbia is a typical medium-size macro-economic model. It is suitable for the purposes it

serves, and over the years it has been modified and enhanced to fit the provincial economy. It is designed primarily to make forecasts and policy simulations with a medium-term outlook. Other provinces and many United States budget offices use a similar model. Although it is often described as a forecasting model, in reality it is a tool to establish the overall validity and consistency of economic assumptions.

The Treasury Board Secretariat's economic and fiscal forecasters do not put the model's output to use automatically without questioning it. They have to exercise a great deal of professional judgement, based on views of the economy that have been gathered from many other sources, to determine whether the results are logical and reasonable, and whether they should be adjusted. In this regard, the approach of the Secretariat to economic forecasting can be said to be model-based, supplemented by judgement.

The FEAB usually establishes a base-case scenario, which it considers, of all available scenarios, the most likely way that the economy will perform. This and other scenarios are reviewed with the Minister of Finance and Corporate Relations and may be subject to further modification prior to approval by the Minister. Economic assumptions, at best, represent the view of a forecaster at a certain time. They do not necessarily always prove right. However, forecasters endeavour to produce reasonable results by analyzing relevant data.

We found the Secretariat's method of gathering and analyzing economic data to be reasonable. Staff are knowledgeable and exercise due professional care in arriving at key economic assumptions; and they maintain adequate records of past decisions to protect the integrity of the corporate memory on economic assumptions. We did not consider a technical evaluation of the Secretariat's econometric model to be necessary at this time, for the following reasons:

- The model is of a type widely used by governments.
- Continuity in the staff who use the model has been reasonably maintained over the years.
- The model is annually calibrated and adjusted.
- Persons independent of the model review its outputs.

The model is also periodically reviewed internally to assess its predictive performance. Equations are developed and selected on the basis of the quality of their statistical properties. We expect the model to stand up well to third-party scrutiny.

Nevertheless, one change that we do think the Treasury Board Secretariat could benefit from would be to publish its

econometric model annually. In the United Kingdom, H.M. Treasury does this, for example. By putting its model in the public domain, it must then consider all comments on the model's effectiveness in predicting future outcomes. We were told that most of the comments H.M. Treasury receives come from research bodies at interested organizations such as universities. This, we understood from Treasury officials, ultimately enhances the government's credibility as a forecaster.

We recommend that the Treasury Board Secretariat consider periodically placing its econometric model in the public domain and inviting interested private sector organizations to comment on its efficacy for economic and budget projections; or, that the Secretariat adopt a similarly effective way of ensuring its economic forecasting process is open and deliberative.

Revenue estimating — Provinces, unlike the federal government, have a number of tax instruments available to them. In British Columbia, the revenue sources that provide the most scope for change are the provincial income and sales taxes, forests revenue, mineral royalties and corporate capital tax. Each of these revenue streams has its unique complexity and reacts differently to changes in the economy, thus making forecasting revenue a challenging exercise.

In very simple terms, forecasting the Province's annual revenue depends on the anticipated performance of the economy. However, the process is not merely a mechanical exercise of applying a certain formula to economic assumptions. In calculating each revenue stream, revenue forecasters must use their knowledge of policies and legislation governing taxation, royalties, fees and other types of revenue, as well as their knowledge of economic assumptions. While doing this, they must keep an eye on the intricate relationships that exist between government's public policies and revenue, and subject the results to further review to determine whether they are logical.

The fiscal analysis group of the FEAB is responsible for estimating revenues based on key economic assumptions established by the economic analysis group. In addition to the assumptions for general economic variables, the FEAB considers other specific assumptions related to particular revenues. For example, personal income taxes are traditionally sensitive to general economic conditions, such as unemployment and changes from full-time to part-time employment. Forests revenue, on the other hand, depends more on factors such as harvested volumes, the price of forest products in U.S. dollars,

and currency exchange rates. Historical data are constantly collected from government and private sources. Staff maintain the information on electronic spreadsheets to update and revise specific revenue forecasts. In addition, forecasts of certain revenue sources are provided by other ministries, and after review by FEAB included in the overall forecast. The mathematical accuracy of the calculations in this task depends on the formula built into the electronic spreadsheets by staff. Hard copies of the working papers are also maintained in a revenue binder for each fiscal year, along with the documentation of appropriate assumptions and calculations. Although the results of staff's calculations are reviewed for their reasonableness, we found no evidence of electronic spreadsheets or working papers being regularly reviewed by a knowledgeable person (other than the person doing the work) to check the logic and accuracy of the formulas. Changes, accidental or purposeful, to electronic spreadsheets may occur easily.

From an internal control point of view, we think a regular peer review of electronic spreadsheets used for forecasting, done by a knowledgeable member of staff, would be helpful to ensure the mathematical accuracy of revenue forecasting calculations.

We recommend that when the Treasury Board Secretariat uses generic electronic tools such as spreadsheets to analyze revenue data, it ensure that the tools (and underlying formulas and interrelationships between variables) are routinely reviewed as part of a formal quality assurance process.

In the spring of 1997, the Treasury Board Secretariat hired a consultant to review the forecasting methodology it had used for the 1997/98 Estimates. The purpose of the review was to improve both the reporting and the revenue estimation methods. The review concluded that the systems and procedures employed by the Secretariat for estimating revenue in that year were appropriate, and that staff were diligent and dedicated professionals with good knowledge of their subject matters. Our review confirms these findings.

A strong system of revenue estimating and forecasting depends, in part, on the principles of prudence in budgeting and protection of professional independence. In Chapter 2, we recommended that Cabinet establish the needed policy to ensure prudence in forecasting.

Many of those we interviewed in Canada and abroad believe that using prudent economic assumptions in revenue

forecasting is important because it can mitigate the impact of any surprise downturn in economic conditions. When economic conditions deteriorate unexpectedly, a “cushioned” revenue forecast helps maintain the confidence of bond rating agencies and the public in the fiscal management of the Province. We found that staff of the Treasury Board Secretariat are fully aware of the importance of prudent forecasting. The consultant’s review mentioned above recommended that a prudent economic assumption should normally be in the lower to middle range of most private sector forecasts. We noted that the economic growth assumption used in the preparation of the 1997/98 fiscal year’s forecast fell within this range.

The notion that those who govern the Estimates process must respect professional staff’s independence should in no way affect Cabinet’s prerogative to make the final decisions. It only helps to keep accountability lines clear and—indirectly, at least—it may prevent any undue influence by elected officials over revenue forecasting.

Concerning the exercise of professional judgement, there are no easy answers to what constitutes undue influence. In an effort to keep management control at an effective level, some jurisdictions have resorted to restructuring their processes (e.g., establishing an independent forecasting body) or using legislation (e.g., mandating an audit requirement) to make it difficult for elected officials to politicize forecasting results. Such actions convey to the public government’s firm commitment to prudent budgeting. However, this is a matter to be decided by those who govern the Estimates process, as we discussed in Chapter 2.

At the same time, staff of the Treasury Board Secretariat must also be held accountable for what they do. In this regard, the Secretary to Treasury Board has a responsibility to ensure that the Secretariat’s forecasters provide Treasury Board and Cabinet with information and advice that is based on a range of reasonable—rather than politically desirable—assumptions. Responsibility to this effect could be documented by including in the annual budget report an appropriate statement signed by the Secretary to Treasury Board.

We recommend that the government include in the annual budget report an accountability statement, outlining the forecasting responsibility of the Treasury Board Secretariat in developing the Estimates, including the underlying economic and fiscal assumptions.

Expenditure budgeting — Expenditure budgeting in government is, at its most basic, a fund allocation exercise aimed at meeting government priorities. It starts with selecting a budgeting method, a decision that is made mainly by those with governance responsibility over the Estimates process. In other words, the politicians-of-the-day set the main direction for funding government programs. Based on this decision, and using the preferred method of budgeting, the Treasury Board Secretariat and the ministries start a dialogue that results in the annual estimates of expenditures. While this dialogue is going on, Treasury Board dedicates most of the time it sets aside for budget deliberations to hearing both the Secretariat’s recommendations of what should be allocated to each government activity, and the ministries’ comments and explanations. Cabinet is kept apprised of the budget progress and deliberations by the Minister of Finance and Corporate Relations.

Over time, a number of different budgeting methods have been used in British Columbia to allocate funds to government programs. In some years, the government has used the “status quo” expenditure budgeting method. This requires that a base budget be prepared on the assumption that the government will provide the same level of service as it did the year before. In practice, this is last year’s budget adjusted to reflect program transfers and the full cost of any new program initiated part way during that fiscal year. The result is further adjusted for the effects of any inflation and population increase.

In other years, the budgeting method involved grouping ministries, according to the nature of their business, into a number of categories referred to as “envelopes.” This was done with the view that—regardless of their size or dominance—all ministries within an envelope should receive funding equitably. As well, this approach was meant to address cross-ministry issues relating to specific programs.

More recently, the government has used a top-down method. In doing this, Treasury Board unilaterally sets an overall expenditure level for each ministry. Ministries then have to respond to the funding level by developing action plans for delivering their programs. In 1997/98, Treasury Board directed ministries to submit funding requests by ranking their activities and explaining the consequences of different funding levels on their programs. In addition, ministries were asked to prepare management plans, indicating what various funding levels would achieve.

Applying each of these methods presented a new operating challenge. The status quo method proved effective, but it was regarded by some as too time-consuming and costly. The envelope method was considered slow and not particularly effective. The top-down method, though relatively simple to govern, can be challenging for ministry management. Each time the overall budgeting method directed by Treasury Board is significantly changed, the Treasury Board Secretariat and ministries have to align their operations to meet the challenges presented by the new method.

To complete the complex and lengthy process of expenditure estimates, ministries and the Secretariat need a combination of appropriate controls, suitable technology and proven methodology. In the rest of this section, we report on how well these management elements are currently integrated into the budgeting of British Columbia's annual expenditure.

Ministries are expected to comply with the budget instructions they receive from the Treasury Board Secretariat, and to provide the Secretariat with timely, accurate, reliable and relevant information. They do this by:

- *Participating in the Deputy Ministers' Council* — Once Treasury Board's preference for an overall expenditure budgeting method is communicated to ministries by the Secretariat, the Deputy Ministers' Council includes it in its meeting agendas. Over the months leading up to Budget Day, the deputy ministers exchange program information, hear Treasury Board's decisions, identify ways to best implement them, and examine ways to eliminate duplications and unwarranted costs.
- *Developing annual business plans* — Presenting a business plan is not mandatory in the Estimates process in British Columbia, though a number of ministries have prepared some elements of business plans in recent years. In Chapter 2, we discussed the advantages of multi-year business plans in terms of government accountability and openness. The plans also have benefit as a tool for managing the preparation of expenditure estimates. If prepared properly and on time, such plans provide the basic information necessary for decisions on fund allocation. Furthermore, they give the Treasury Board Secretariat an opportunity to look into the future of a ministry's activities, and therefore gain a better grasp for its priorities and funding needs.

The absence of business plans is compensated, to a degree, by the extensive involvement of the Secretariat's staff—specifically, Treasury Board analysts—when assisting

ministries with their expenditure budgeting. The analysts meet their responsibilities by keeping themselves well informed about the business of a particular ministry and its resource needs. Their involvement is almost year-round, but is heightened during the last stages of budget preparation, usually January to March of each year.

The analysts, under supervision, are involved with forming views and making professional judgements on the resources required for a specific activity. If ministry budgeting authorities are not in agreement with their Treasury Board analyst, both may present their cases to Treasury Board.

- *Conducting program evaluations* — Integrated into the above expenditure estimate activities is the requirement for conducting program evaluations to measure the expected benefits and costs associated with new programs. Treasury Board analysts review these evaluations, for example, to ensure the reasonableness of any assumptions made and the mathematical accuracy of any financial and statistical data. They also examine the documentation supporting the relevance of the program being proposed and hear the ministry's explanations.

The results of these inquiries, examinations and analyses are usually communicated formally to ministry officials. However, this communication can sometimes be informal.

- *Maintaining records of commitments* — Ministries keep records of all their major commitments and provide this information, when requested, to the Treasury Board Secretariat. The Secretariat uses much of this information, along with that from the cheque payment system, to monitor actual and committed expenditure against budget. This information is included in an internal monthly report to the Minister and Deputy Minister of Finance and Corporate Relations, for use in expenditure management as well as in Treasury Board's deliberations on expenditure pressures.
- *Monitoring historical information for each vote against the previous year's budget* — As discussed earlier, the Corporate Accounting System, which is now widely used by ministries either directly or through intermediary programs, is not able to provide the Treasury Board Secretariat and ministries with the complete and timely information they need to make their expenditure-to-budget comparisons within a short time after the month end.

Capital expenditure planning — Government spends significant sums of money on capital assets, for use in providing and administering public services. Over the last few years, the government has spent about \$1.8 billion annually on capital assets. In the area of social programs, these assets include schools, hospitals, courthouses, colleges, universities and government office space. In the field of transportation, the assets include highways, bridges, ferries and public transit. Spending on capital assets takes place both in Crown corporations (such as BC Hydro and BC Rail) and in ministries. The purpose of these investments is largely to meet the heavy and rising demands imposed by population and business growth; to stimulate the economy and produce growth; and to update, modernize or replace worn-out assets.

A large portion of these capital expenditures is not included in the annual estimates of expenditures because they occur outside the Consolidated Revenue Fund, and also because funding for such expenditures comes mainly from borrowing.

When a government has to rely mainly on debt to finance capital investments, the decision to spend the money on any capital infrastructure is always difficult. On one hand, there is demand to keep the Province economically competitive and protect its citizens' quality of life. On the other, there is concern about the rising debt level. In the last few years, approximately 83% (\$1.5 billion) of the Province's annual capital spending has been financed through debt. Since the 1989/90 fiscal year, the total debt of the Province has grown from \$16.2 billion to \$29.3 billion as of March 31, 1997. The annual interest costs have also increased, rising in the same period, from \$1.7 billion to about \$2.4 billion. This is a sizeable amount compared with program spending in many ministries.

When capital spending escalates, it increases both the debt load and the debt servicing cost. The higher debt servicing cost means that each year in British Columbia there is about \$2.4 billion less available for spending on social programs, education, health care, and research and development. Yet, when population is growing—and at the same time aging—the increase in demand on capital structures is unavoidable. This presents a challenge.

The decisions of how much to spend on capital assets and where are policy issues, and the responsibility of Cabinet. However, it is the Treasury Board Secretariat's responsibility to develop an orderly capital budgeting plan to help politicians make capital program decisions that foster economic and social development while minimizing the effects of an increasing

financial burden. To develop such a plan, we expected staff of the Treasury Board Secretariat to be supported by centralized procedures for:

- maintaining an up-to-date capital assets inventory;
- developing clear and measurable objectives for capital projects;
- preparing a long-range capital plan outlining future needs;
- synchronizing the long-range plan with ministry business plans and the government financial management plan;
- linking the capital assets plan with the annual operating budgeting plan;
- receiving adequate review and approval by Treasury Board;
- maintaining an adequate monitoring framework; and
- providing timely reporting of progress and an evaluation of goals and objectives.

In the fall of 1996, the function of reviewing and coordinating capital expense proposals was transferred back from the Ministry of Employment and Investment to the Treasury Board Secretariat, Capital Expenditure Branch. The proximity of the Capital Expenditure Branch to Treasury Board has helped staff coordinate work on capital budgeting issues, such as determining the costs of maintaining or replacing existing capital assets and assessing their effects on the annual Estimates process.

Also in the fall of 1996, the Ministry of Finance and Corporate Relations performed an internal review of the Province's capital investments. The work was carried out by the Capital Expenditures Review Working Group, whose members were drawn from across government. The group was assigned three tasks:

1. to prepare a new four-year Consolidated Capital Plan for 1997/98 through 2000/01 that would respond to taxpayers' concerns and meet the objectives of the debt management plan;
2. to assess all provincial agency capital programs, with the objective of reducing both the demand for capital and the cost of capital projects; and
3. to review the provincial capital program as a whole, including examining possible alternative structures for managing the program.

The working group's report, released in January 1997, presented a number of key recommendations to improve the process, many of which are consistent with the expectations we outlined above. We have been told that the ministry is currently working toward implementing those recommendations. We noted that much has been done in this respect. Currently, for example, Treasury Board approves capital expenditure limits, and ministries and tax-supported Crown corporations submit five-year capital investment plans based on those approved limits. Social capital projects are forwarded to the Treasury Board Secretariat, and non-social capital projects are forwarded for review to the Secretariat and the British Columbia Buildings Corporation, as appropriate. The latter develops a long-term capital plan and submits it to Treasury Board staff (Capital Expenditure Branch) for further assessment.

Another review session is carried out between the Treasury Board Secretariat and representatives from ministries and tax-supported Crown corporations, to rationalize capital expenditure priorities and needs and to ensure consistency of their capital plans with the Financial Management Plan (formerly Debt Management Plan). The Secretary to Treasury Board, supported by the Capital Expenditure Branch, makes recommendations to Treasury Board, which may then vary the recommendations and fund allocations. A five-year Consolidated Capital Plan is prepared by Treasury Board staff to inventory assets, determine need for maintenance and new capital expenditure, and ascertain the operating cost of certain assets. The 1998/99 Estimates included a schedule outlining the capital expenditures of the Consolidated Revenue Fund. However, neither this, nor the multi-year capital information mentioned above has yet been formally integrated with the operating budget.

We encourage the government to proceed with the implementation of its capital expense budgeting process as an integral part of the Estimates process.

Compilation of the budget and the Estimates — Because the Treasury Board Secretariat has the responsibility for compiling and producing the budget and the Estimates, we expected to find an orderly process to ensure that the two documents are produced in accordance with Treasury Board's requirements.

The final stage of budget preparation is the compilation of all budget information and the production of the Estimates and budget documents. The responsibility for putting together the documents belongs to the Estimates and Capital Budget Branch and the FEAB of the Treasury Board Secretariat. During the budget process, expenditure information is entered into the

Interactive Estimates System by ministries. The expenditure budget amounts for smaller offices are entered into the system by the Estimates and Capital Budget Branch. The system, which has been in place for many years, contains expenditure information, by votes, sub-votes and object codes. When the final decision on the expenditure budget is made, the branch compares the information on the Interactive Estimates System to the approved budget information. Reviewing and confirming that the expenditure budget information is in accordance with the approved amounts is the responsibility of the Director of the Estimates and Capital Budget Branch.

As well, the Estimates and Capital Budget Branch receives revenue forecast information, as well as information on debt and interest expense, from the FEAB for inclusion in the Estimates. The FEAB is responsible for preparing the budget write-up on the provincial economy, including tax measures, debt, and so on. The budget speech is written by various parties within the Treasury Board Secretariat. In the end, it is the responsibility of the Secretary to Treasury Board to ensure that the budget documents and Estimates are compiled accurately.

We had no concerns about how the Treasury Board Secretariat manages the compilation and final production of the budget and the Estimates. Outside the scope of our review were security procedures for protecting budget secrecy during printing.



effective communication and coordination systems

Given that the activities of the Treasury Board Secretariat include seeking information, conveying budget instructions and decisions, coordinating budget activities, and advising on resource allocations, it is essential that good communication and coordination systems be in place, capable of supporting two-way, open communication of timely, relevant and reliable information.

We examined the adequacy of processes for communicating information about budget decisions to relevant parties and for obtaining, reviewing and approving the ministries' expenditure budgets. We also looked at how information on economic and fiscal forecasting is exchanged within the Treasury Board Secretariat.

Detailed Evaluation

What did we expect to find?

The Treasury Board Secretariat communicates with a number of internal and external parties: its various branches, private sector economists, its counterparts in other jurisdictions, Treasury Board and other Cabinet committees, ministry management and budget staff, individual Crown agencies (directly and through the Crown Corporation Secretariat), Provincial Treasury, and the Office of the Comptroller General. We expected to find the Secretariat to have developed formal and informal processes to coordinate the exchange of all budget- and Estimates-related information properly.

What did we find?

We found good communication and coordination systems in the Estimates process. However, given that the existing expenditure budgeting focuses on fund allocation, these systems may not be adequate if the approach to budgeting is changed to focus on performance measurement for operating and financial results.

Keeping in touch with private sector representatives and counterparts in other jurisdictions — About three times a year, the Treasury Board Secretariat holds roundtable meetings with representatives of the private sector—representatives from industry and commerce, major banks, the federal government

organizations including the Canada Mortgage and Housing Corporation, Bank of Canada and the Department of Finance, and provincial ministries that raise or collect significant revenues. The purpose of these meetings is to exchange market and economic intelligence (e.g., interest rates, exchange rates, GDP, employment) so that staff can use the information gathered to formulate economic variables and monitor changes in the economy, domestically and internationally. We believe these meetings contribute to an open deliberative approach to budgeting. We have already recommended that the government publish its econometric model and invite institutions to comment on it.

Communicating with the Minister of Finance and Corporate Relations — As a central agency within the provincial government, the Treasury Board Secretariat provides advice to Treasury Board and the Minister of Finance and Corporate Relations on fiscal and economic matters, tax issues, budget and program requests from ministries, expenditure management, and administrative policies.

The revenue forecast is the responsibility of the Minister of Finance and Corporate Relations. The Treasury Board Secretariat, through briefing notes and internal monthly economic and financial reports, updates the Minister regularly. The content and level of details of briefing notes depend on the familiarity of the Minister with fiscal and economic issues of the time. Generally, the purpose of such notes is to seek decisions from the Minister on certain issues. After reviewing a briefing note, the Minister usually documents on it whether he or she accepts or rejects the recommendation made. In some instances, the approval process is iterative and the Minister's instructions are oral and informal. Sometimes, then, there may be no clear evidence that economic assumptions used in fiscal forecasting received final approval.

We recommend that, to the extent practical, important decisions made by the Minister of Finance and Corporate Relations (for example in selecting from a range of assumptions) be formally documented.

Communicating with Treasury Board — Briefing notes are also used in communicating with Treasury Board. The Secretary to Treasury Board and senior staff frequently make oral presentations as well. Minutes of Treasury Board deliberations are kept, but are not available to outsiders. In general, Treasury Board staff receive both implicit and explicit directions. Treasury Board decisions on expenditure issues are documented in directives and policies that are available to ministry officials.

Communicating with ministries — How the Treasury Board Secretariat communicates with ministries may differ from year to year. On matters of policy, the Secretary to Treasury Board may use the Deputy Ministers' Council as a forum to communicate with ministries. On other matters, communication with ministries is direct.

- ***Budget instructions*** — Each year in early fall, the Treasury Board Secretariat issues instructions to all ministries and special offices. The instructions in some years are formal and detailed. In others, they are brief and come by way of an internal memo from the Secretary to Treasury Board, outlining the directions of Treasury Board. The instructions usually include procedures for the preparation of expenditure budget submissions and revenue plans. The process of communicating the requirements also relies heavily on the informal contact between the Treasury Board analysts and the ministries' budget personnel. The method of communication depends on the nature and significance of the issues, as well as budget timing. Major funding and allocation issues go directly to Treasury Board through the individual deputy ministers; minor issues are looked after by Treasury Board analysts on behalf of ministries.

We found indications that this informal communication process may be changing, as was the case for the 1998/99 fiscal year. We encourage the move to a more formal and orderly approach in communicating budget instructions, although we understand some ministries may feel that the less rigid format of communication has worked in the past, especially with the “target funding” approach. For the 1996/97 and 1997/98 budget years, for example, there was little by way of written instructions. Treasury Board's review centred on a few high-profile programs such as Pharmacare, and only a small group of deputy ministers and other senior officials were involved in dealing with issues and setting funding targets. We were told that they focused on target amounts rather than issues and formal procedures. Clearly, in applying such methods to budgeting expenditure—methods that are based more on negotiation than on analysis of funding necessary to deliver government programs—information may be incorporated in the Estimates without an appropriate review or the recording of what supported the funding decisions.

- *Budget review* — Once staff of the Treasury Board Secretariat have received ministry budget submissions, they review and challenge ministries' options and decisions of how funding is to be allocated among programs. How Treasury Board analysts review budget submissions varies from analyst to analyst. Their thoroughness of review depends mainly on their previous knowledge of ministries, their periodic discussions with ministries to understand the issues, previous year's documentation, and their co-workers' experience. Because of the target funding approach to budgeting now in use, Treasury Board analysts know the dollar amount each ministry has to live with. As a result, they are focused more on plans to meet that number rather than on detailed review of how the budget numbers were calculated.
- *Budget consensus* — At the end of their review, the Treasury Board analysts advise Treasury Board whether they agree or disagree with ministries' budget submissions. During the finalization of ministry budgets, there can be daily meetings between ministry budget staff and the Secretariat's analysts. These meetings are an important way of reviewing specific details of issues facing ministries. The process of reviewing and reaching consensus on budget allocations is very much iterative. It is also continuous throughout the budget cycle.
- *Budget changes* — At times, Treasury Board may make changes to the proposed budget amounts in the final hours of the budget cycle. This may happen when the proposed budget is different from the targeted bottom-line balance. It is therefore not uncommon to see a last-minute cross-government cut in certain expenditures just to meet that target. For example, in 1997/98, a 5% cut was made to professional services across the board. Ministries may not know this type of cut is coming until the budget is tabled in the Legislative Assembly. As a result, they have to determine ways to live with whatever final budget amounts appear in the Estimates.

Year-to-year changes in the mode of communicating budget instructions and reaching consensus reflects the significant flexibility desired by those who govern the Estimates process—the politicians. Too much flexibility raises the risk of inconsistency and inefficiency. This will continue to be the case unless—as we have stressed in Chapters 1 and 2—there is a serious commitment to reforming the

Estimates process in British Columbia. However, given the existing conditions, we found there to be reasonably good working relationships between the staff of the Treasury Board Secretariat and the ministries' budget personnel in coordinating the budgeting process. The latter told us that although they were not always kept informed of last-minute budget changes, budget communication overall was adequate and flexible. These same personnel, however, would like communication on budget expectations to start earlier so that all parties have more time to prepare, analyze and report on how government services would be carried out most effectively and efficiently.



effective monitoring and reporting systems

After the Estimates are tabled in the Legislative Assembly by the Minister of Finance and Corporate Relations and approved by the Assembly, the Treasury Board Secretariat and ministry management must direct their attention to implementing the new budget. A principal goal during this phase of the process is to maintain compliance with the decisions the document contains. This involves monitoring, amongst other things, the provincial economic conditions, revenues and expenditures, to identify revenue shortfalls and expenditure overruns and to deal with potential budget problems. Regular matching of budgeted with actual amounts is an important way of identifying overruns and taking timely actions. This requires not only that the budgeting and accounting systems be closely linked, but also that the two systems be on a consistent and uniform basis. It is the responsibility of the Treasury Board Secretariat to ensure that an appropriate structure and process are in place for this purpose.

Detailed Evaluation

What did we expect to find?

We expected to find a monitoring process that ensures proper:

- collection of relevant and reliable information on current and anticipated economic and financial operating status; and
- reporting of this information in a timely manner to those who have the authority to act on it.

What did we find?

The function of budget monitoring and reporting rests primarily with the FEAB of the Treasury Board Secretariat. It is helped, however, by other branches within the Secretariat and the Ministry of Finance and Corporate Relations, such as the Office of the Comptroller General and the Provincial Treasury, and other ministries and special offices.

The Treasury Board Secretariat prepares annual, quarterly and monthly economic and fiscal reports. The quarterly and annual publications are available to the public. These documents include year-to-date information on the Province's financial operations, and present the latest available information on British Columbia's economy. As well, the Estimates document

for each fiscal year includes a “revised forecast,” which represents anticipated results for the previous fiscal year based generally on 10 or 11 months of actual amounts and one or two months of estimation. The annual and quarterly reporting on the economy and financial operations is made possible by continuous monitoring and regular internal reporting by the Treasury Board Secretariat.

Internal reporting on the status of the economy and finances has been gradually evolving from informal to formal monthly reporting. In early years, internal reports consisted only of summaries comparing budget spending to actual spending. In recent years, the internal Financial and Economic Report has been a formal document, produced in about the third week of each month following the month being reported on. Its content has varied somewhat in the last several years. The level of detail is set to reflect the needs expressed by the Minister of Finance and Corporate Relations and the degree of his or her familiarity with economic and fiscal matters.

The first monthly report has traditionally been produced in mid-June of each fiscal year. Since 1997/98, however, the report is produced in May to report on April activity. In general, monthly document includes:

- an overview of the economic performance and outlook for British Columbia, Canada and North America;
- year-to-date financial results covering surplus/deficit, revenues and expenditures (actual versus budgeted amounts); and
- a revised financial forecast on revenues and expenditures, identification of budget pressures, an explanation of variances and a budget scorecard.

Ordinarily, the Financial and Economic Report is distributed to the Minister and Deputy Minister of Finance and Corporate Relations, directors of the Treasury Board Secretariat, and the Provincial Treasury. In some years, the last one or two monthly reports produced have been summaries and their distribution limited to senior officials within the Ministry of Finance and Corporate Relations, including the Minister and Treasury Board members.

We found that the nature and scope of information currently included in the monthly Financial and Economic Report is generally adequate for the purpose of monitoring the status of the economy. The report also provides adequate information on current and anticipated revenues and expenditures.

Monitoring revenue collection — Revenues, such as taxes, fees and licences, are collected by the Revenue Branch of the Ministry of Finance and Corporate Relations and other ministries. The resource revenues, mineral royalties and forest stumpage fees are collected by resource ministries. Monies collected are deposited in the Consolidated Revenue Fund bank account and electronically recorded in the Corporate Accounting System (CAS) of the Office of the Comptroller General. At the beginning of the fiscal year, forecasted revenues are “calendarized” (i.e., they are spread over 12 months). The purpose is to prepare the monthly base for tracking revenues received during the year and compare them to the forecast. The calendarization of forecasted revenues is based mostly on historical revenue patterns. For some miscellaneous revenues, the distribution is made simply by dividing by 12. Major revenue streams are tracked by ministry; miscellaneous revenue streams are covered by the FEAB. Ministries provide monthly reports to the branch and the Office of the Comptroller General on the status of revenue collection.

Before April 1, 1996, monthly revenues were reported on a modified accrual basis. Under this basis, all revenues received or revenues received but which may not yet have been reported by the ministries would be reported in the monthly report. Since then, monthly revenues have been required to be reported on a full accrual basis (i.e., revenues reported include all revenues earned, whether received or not). Ministries provide an explanation if there are any significant variances with the actual and monthly calendarized forecasts. Unlike expenditures, which are voted, different revenues are estimated based on economic expectations and fiscal policies. Assumptions of how the economy will perform in the budgeting period are established at the beginning of the fiscal year and then constantly updated and revised throughout the year as new information becomes available.

We found the current process of monitoring revenue collection to be adequate, although we think that more timely and accurate revenue reports from CAS would significantly enhance the revenue monitoring process. This point has already been discussed earlier in this chapter.

Monitoring expenditures — The FEAB is responsible for monitoring expenditures, with the help of other branches within the Secretariat. Ministries and special offices are required to submit monthly expenditure monitoring reports to the Secretariat. The report compares actual spending to

budgeted spending on a monthly and a year-to-date basis. An explanation of variances is provided for significant differences. Spending is monitored mainly to:

- ensure it does not exceed the budgeted expenditure;
- identify areas of budget pressures; and
- identify corrective measures to meet a target surplus or deficit target.

The budgeted expenditures are also spread over 12 months, just like the revenues. More significant expenditure programs are calendarized based on the expected flow of costs, while smaller spending programs are on a straight 1/12th of the yearly appropriation.

Ministries prepare their monthly expenditure monitoring reports using the information from CAS. Expenditures that are made but not recorded in the system by the cut-off date are added to the monthly report. Ministries then compare these actual amounts to the calendarized budget and identify where budget pressures may be and the reasons behind them. The monthly report is reviewed internally in each ministry and approved by the Executive Financial Officer in that ministry. The Treasury Board Secretariat's role is to review and, if necessary, question the ministries' explanations. Again, we found that the timing of monthly CAS financial reports from the Comptroller General's Office needs improvement. Accrued information in that system is often not complete. We have already recommended in this report that improving the government's CAS be given a high priority.

The Treasury Board Secretariat presents the monthly Financial and Economic Report to the Chair of Treasury Board, the Minister of Finance and Corporate Relations, for his or her information and discussion at Treasury Board meetings. The meetings usually focus on budget pressures. It is not uncommon for Treasury Board to order a freeze of certain expenditures in mid-year because of an unexpected shortfall in revenue or a need to shift resources to higher priority programs. These early and mid-course budget adjustments disrupt government programs and frustrate ministry management. We were told that the Secretariat is into "micro-management," with Treasury Board often imposing freeze on minor administrative expenditures as early as Budget Day.

While the budgeting focus on fund allocation continues to exist, Treasury Board’s micro-management is considered unavoidable, since it is Cabinet that is responsible for meeting the Province’s key financial operating performance indicator: its fiscal target. However, if a different approach is adopted—such as performance-based budgeting—in which ministries are also expected to meet program performance expectations, it would make sense to shift the full responsibility for managing the expenditures to ministries, and have them be accountable for their performance.



summary of recommendations

Recommendations made in Chapter 3 of this report are listed in the order in which they appear in the report for ease of reference. They should be regarded in the context of the report.

The Office of the Auditor General recommends that:

- *The Treasury Board Secretariat further develop the general corporate objectives set by the Ministry of Finance and Corporate Relations into specific divisional objectives within the Secretariat, to the extent possible, in measurable terms; and that it periodically measure and report on the achievement of those objectives.*
- *The Office of the Comptroller General maintain government's corporate accounting capabilities such that they allow the Office to meet the needs of users, particularly the Treasury Board Secretariat, for complete, timely and detailed financial information, statements and reports.*
- *The government recognize the need for stability and continuity in management of the Office of the Secretary to Treasury Board.*
- *The Treasury Board Secretariat document, to the extent practical, specific policies and procedures to guide staff in carrying out their duties.*
- *To ensure it maintains its capability to serve Treasury Board and ministries, the Treasury Board Secretariat secure adequate resources and an appropriate level of staffing, and formally establish a regular professional development program for its staff.*
- *The Treasury Board Secretariat consider periodically placing its econometric model in the public domain and inviting interested private sector organizations to comment on its efficacy for economic and budget projections; or, that the Secretariat adopt a similarly effective way of ensuring its economic forecasting process is open and deliberative.*
- *When the Treasury Board Secretariat uses generic electronic tools such as spreadsheets to analyze revenue data, it ensure that the tools (and underlying formulas and interrelationships between variables) are routinely reviewed as part of a formal quality assurance process.*
- *The government include in the annual budget report an accountability statement, outlining the forecasting responsibility of the Treasury Board Secretariat in developing the Estimates, including the underlying economic and fiscal assumptions.*

- *The government to proceed with the implementation of its capital expense budgeting process as an integral part of the Estimates process.*
- *To the extent practical, important decisions made by the Minister of Finance and Corporate Relations (for example in selecting from a range of assumptions) be formally documented.*



chapter 4:
issues arising from
budget '96

introduction

Budget '96 raised a number of questions in the minds of British Columbians. As is often the case with matters of public interest, specific questions about Budget '96 focused the public's attention on due process. Citizens of British Columbia not only wanted to know if Budget '96 met all legislative requirements and included all necessary information, they also wanted to know if the budgeting process could be improved to enhance the integrity of budgets in the future.

We believe that improving the overall budgeting process will have long-term benefits for British Columbia. It is a process that has needed attention for some time, whether the issues related to Budget '96 had arisen or not. For this reason, we addressed the budget and Estimates process first in this report. By so doing, we endeavoured to answer many of the basic questions posed by British Columbians about Budget '96

So far...

In Chapter 1, we provided a comprehensive explanation of roles and responsibilities of those who are involved in the Estimates process. We presented four guiding principles on budgeting that pertain to our style of democratic government, and then we determined the five key attributes that would uphold those principles. In developing the attributes, we were assisted by what we learned from the very large number of interviews we conducted with public sector officials in Canada and abroad. We supplemented those discussions with research and analysis.

The single, most compelling message that we brought home from this endeavour was that unless there is a firm commitment by a government to adopt and support those key attributes, the Estimates process will not be credible.

In Chapter 2, we evaluated British Columbia's existing Estimates process to the extent that it serves those who govern it—the politicians. We concluded that, in spite of some improvements in the last two years, the process needs reform in a major way. The current process, we noted, results in budgets, including the Estimates, that do not protect the right of citizens to know what they get for taxes they pay. The process is not designed to provide an effective framework for fiscal planning and financial management, and therefore not for good governance. It focuses narrowly on short-term fund allocations and only a portion of total government activities. It does not tell legislators and taxpayers in a meaningful way what they should expect of the government, nor does it say how those expectations will be met and the extent to which they have been met. And, in addition to all this, in a time when open government is being advocated in democratic societies, the process is not adequately transparent.

In Chapter 3, we examined the management of the Estimates process by the bureaucracy, whose "marching orders" come from their political masters. We concluded that, in general, the process includes adequate management controls to ensure that ministers, Treasury Board and Cabinet receive proper advice and timely information to assist them in decision-making. The problem, however, is that the current management process is designed to serve the current governance process—a process that is in need of major reform. Further changes and enhancements to management tools, methods and structures must be made to deal with new requirements when such reform begins.

—questions relating to governance and management of the Estimates process. Our conclusion has been that the process needs major reform, and we have made a number of recommendations about how this might be done.

In this chapter, we have addressed the remaining issues: did Budget '96 conform with legislation and other relevant authorities; and did it include complete and reliable information on its plans and forecasted surpluses for 1995/96 and 1996/97? To answer these questions we examined the process of developing Budget '96, which was tabled twice: on April 30, 1996 by the Honourable Elizabeth Cull, and again on June 26, 1996 under a newly elected government by the Honourable Andrew Petter.

On conformity, the baseline used by us in our review was defined by the authorities (including legislation) that currently govern the Estimates process in British Columbia.

When key information necessary to enable the Legislative Assembly to examine the prudence of budget decisions is missing, or is incomplete, a budget could impart a wrong impression about the fiscal plans of the government. We assessed the sufficiency of information included in budget documents on the basis of its relevance to such examination.

We present in this chapter a chronicle of important events surrounding Budget '96, followed by a detailed analysis of a number of issues we examined in arriving at our conclusions.

We have analyzed separately the issues surrounding the 1995/96 revised forecast and the 1996/97 estimates of revenue and expenditure, though many events pertaining to each occurred within the same time frame, involved many of the same people, and had the same end result: Budget '96 and the *Estimates for the Fiscal Year Ending March 31, 1997*.

In writing this part of the report, we gathered evidence through our usual audit practice of examining documents, evaluating procedures and making inquiries. As well, however, to determine the accurate meaning of information contained in several key documents, and to obtain information about certain key discussions, we also examined, under oath and on a needs basis, various people involved in the Estimates process relating to Budget '96.



overall conclusions

In this chapter, we have analyzed the issues surrounding Budget '96.

In our review, we have given consideration to circumstances that existed when Budget '96 was being developed. We believe no analysis of issues surrounding a budget is complete without a consideration of the important circumstances existing, because they could cause the government to act or make decisions, at least in part, on the basis of political imperatives. Such decisions may not necessarily be inappropriate, and many such decisions could simultaneously serve the public good and the political agenda of the government.

Although the circumstances referred to in this report could have led to decisions being made, in whole or in part, on the basis of political imperatives, we have not attempted to determine motivation, or intent, regarding any budget decisions. We believe such determination is outside the scope of our review.

The existence of circumstances such as those described in this report, however, and the possibility of their influence on budget decisions, highlight the need for the government to provide complete and reliable information to the Legislative Assembly and the public. This is necessary in order that the prudence and appropriateness of budget decisions in any given environment may be examined on an informed and knowledgeable basis. The main focus of our review, therefore, was the determination of the completeness of information provided by the government when Budget '96 was presented to the Legislative Assembly in April 1996, and again in June 1996.

In our opinion, information provided by government when these budgets were presented did not make full and fair disclosure of the extent of the business risk being assumed and the government's plan to address it. In that sense, crucial information was missing, and consequently the prudence and appropriateness of budget decisions could not be properly examined by the Legislative Assembly and the public.

Also, within the scope of our review was the determination of whether the actions taken and decisions made with respect to Budget '96 conformed with legislation and other authorities that then governed the Estimates process in British Columbia. The Financial Administration Act requires that the Minister of Finance and Corporate Relations present to the Legislative

Assembly a statement, prepared and submitted to the Minister by the Comptroller General, of revenue and expenditure of the government from the end of the last fiscal year to the most recent date practicable. This statement, often referred to as the interim financial statements, was not tabled in the House when the Minister of Finance and Corporate Relations presented the *Estimates for the Fiscal Year Ending March 31, 1997* to the Assembly on June 26, 1996. With the possible exception of this circumstance, in regard to which I am advised and am of the view that legislation is unclear, we found no action taken or decision made by senior people in government, elected or appointed, that was not permitted by such legislation and other authorities.

We believe serious inadequacies in the governance of the Estimates process, as explained in Chapter 2 of this report—specifically relating to the attributes of accountability and openness—has permitted Budget '96 to be presented with crucial information missing. This clearly demonstrates the need for the reform we are recommending in Chapter 2 of this report.

Our conclusions regarding the adequacy of information provided to the Legislative Assembly regarding the Revised Forecast for 1995/96 and Estimates for 1996/97, when Budget '96 was presented in April 1996 and again in June 1996, are outlined below.

Revised Forecast for 1995/96—Minister Cull's Budget

The Revised Forecast for 1995/96 reflected the Treasury Board Secretariat's "optimistic" projection of revenue, plus a further \$156 million over and above the optimistic revenue forecast by the Secretariat, an inclusion that was within the Minister's prerogative. At the same time, the forecast included the Secretariat's "most likely" projection of expenditure, less anticipated savings of \$41 million. Based on these amounts, the revised forecast projected a surplus for the 1995/96 fiscal year of \$16 million. If either the optimistic or most-likely projections had been used for both revenue and expenditure, and if further revenue had not been included and expenditure not reduced, the result would have been a projected deficit of up to \$256 million.

Considering the information available to her, Minister Cull's decision to include in the revised forecast a revenue projection that was \$156 million over and above the Secretariat's optimistic forecast seems inappropriate. Circumstances that may mitigate her judgement were errors in the Secretariat's reports that made the deterioration of forests revenue less noticeable to the Minister.

We concluded that the revenue and expenditure amounts reflected in the 1995/96 Revised Forecast resulted in an overstatement, in a material way, of projected operating results for that fiscal year being included in the *Estimates for the Fiscal Year Ending March 31, 1997*, tabled by Minister Cull on April 30, 1996.

Revised Forecast for 1995/96—Minister Petter’s Budget

One of the main reasons for presenting the Revised Forecast in the Estimates, and for providing the interim financial statements with the annual Estimates, is to inform the Legislative Assembly about the latest known financial results of the previous year. Given that the new government tabled its Estimates in June 1996, three months after the end of the 1995/96 fiscal year, information provided in, and with, the Estimates on the financial results of the 1995/96 year was not as complete and current as it should have been. The importance of such information being complete and current must be regarded in light of the fact that it was presented to a newly elected Assembly.

The government did not provide any interim financial statements with the Estimates tabled in June 1996. We found that legislation is unclear as to whether these statements had to be provided. The government appears to have acted in reliance on legal advice suggesting it was not necessary to do so. Consequently, information on revenue and expenditure of the government from the beginning of the 1995/96 fiscal year “to the most recent date practicable” was not made available when the Estimates were tabled on June 26, 1996.

Draft Consolidated Revenue Fund Financial Statements for the 1995/96 fiscal year, provided to the Treasury Board Secretariat on June 21, 1996, indicated that a deficit of over \$200 million was to be expected for that year. Certain senior officials of the ministry advised Minister Petter that he could not rely on the numbers in the statements until staff of the Treasury Board Secretariat had verified them. With this new information made available to Minister Petter after he announced the date for tabling his budget, we believe he had three courses of action available to him. The first was to postpone the tabling of Budget '96 for a number of days in order to establish the reliability of financial information that became available to him in the first week of his appointment as Minister of Finance and Corporate Relations. The second was to table the budget on June 26, 1996, as scheduled, but alert the Legislative Assembly of the likelihood of a deficit of around \$200 million, explaining that the financial statements

had not been finalized. The third, and the one that the Minister decided to take, was to table the budget as planned and providing information about the deficit, if any, when such information was verified. This, the Minister did on July 2, 1996, six days after tabling the budget.

Mr. Petter did not allow sufficient time to do all the things necessary to confirm whether the 1995/96 revised forecast numbers included in the *Estimates for the Fiscal Year Ending March 31, 1997* were reasonable.

Estimates for 1996/97—Minister Cull’s Budget

As explained later in this chapter, although we examined both expenditure and revenue aspects of the *Estimates for the Fiscal Year Ending March 31, 1997*, we decided to focus on the revenue estimates.

The Estimates for 1996/97 reflected revenue that was some \$450 million beyond the comfort level of the Minister of Finance and Corporate Relations. However, after considering the possible availability of other sources of revenue not reflected in the Estimates, the Minister decided to approve the figures included in the Estimates. The Minister's approval of the revenue estimates was based on her knowledge that she could tap into additional revenue sources to compensate for any expected shortfall. However, these plans were not transparent in either Ms. Cull’s Budget '96 or the *Estimates for the Fiscal Year Ending March 31, 1997*, tabled by her on April 30, 1996. We believe the Minister should have provided complete information about her plans to the Legislative Assembly.

We concluded that information necessary to enable the Legislative Assembly to examine the prudence and appropriateness of budget decisions that impacted the *Estimates for the Fiscal Year Ending March 31, 1997*, tabled by Minister Cull on April 30, 1996, was incomplete.

Estimates for 1996/97—Minister Petter’s Budget

Minister Petter was advised by the senior officials of the Ministry of Finance and Corporate Relations that introducing a new Budget '96 and tabling a new *Estimates for the Fiscal Year Ending March 31, 1997* would result in significant delays. In the Minister’s opinion, such delays could adversely affect the day-to-day operations of the government. Accordingly, congruent with the Premier’s public commitment, and his Deputy’s advice, he re-introduced the April budget.

The recommendation made to the Minister by his Deputy Minister to re-introduce the April budget was based on the Deputy's conclusion that the revenue forecast was still "plausible and attainable." This conclusion did not follow an extensive analysis of the revenue forecast. Higher forestry product prices and the economic growth assumption of 2.7% were his main considerations. By May 1996 some price improvements were noted in softwood lumber, but not in all forestry products; and the economic growth assumption used to formulate the revenue forecast was at the highest end of the range of possibilities.

We concluded that revenue estimates in Budget '96 and the *Estimates for the Fiscal Year Ending March 31, 1997*, as introduced and tabled by Minister Petter on June 26, 1996, carried with them disproportionate risks. In this regard, current information needed to examine the prudence of budget decisions was inadequate.



the environment in which the 1996/97 estimates were prepared

Background

To fully understand what occurred between October 1995 (when 1996/97 budgeting started in earnest) and June 26, 1996 (when, for the second time, the *Estimates for the Fiscal Year Ending March 31, 1997* document was tabled in the Legislative Assembly), it is necessary to have some appreciation of the political environment in which the government was operating at that time.

No informed analysis of events and decisions made during any budget cycle is complete without considering the important circumstances that existed at the time and their possible influence on those events and decisions.

In addition to all the usual uncertainties associated with budgeting revenue and trying to allocate scarce resources to demanding programs, three specific pressures were also having a significant effect on the environment in which the 1996/97 Estimates were prepared:

- the fiscal pressure, caused by the government's self-imposed performance targets built into the debt management plan;
- the need-to-restore-political-credibility pressure, caused by the Nanaimo bingo scandal that contributed to Premier Harcourt's resignation, and later the allegation that the share offering in International Power Corporation benefited insiders of government and of the British Columbia Hydro and Power Authority; and
- the economic uncertainty pressure, caused by the start of a downturn in the economy.

Before we analyze the way government handled its budgeting in preparing the *Estimates for the Fiscal Year Ending March 31, 1997*, we describe these three pressures and their effects in more detail below.

A New Decade, a New Government, and a New Plan

On October 17, 1991, British Columbians went to the polls and elected a new government for the Province—a New Democratic Party government led by the Honourable Michael Harcourt. The Social Credit Party had been in power since 1975. Over the 15 years of Social Credit administration,

the Province's accumulated deficit had risen by some \$1,960 million, from \$140 million to \$2,100 million, and the total provincial debt by \$12,700 million, from \$4,560 million to \$17,260 million.

Much of the 1991 election campaign focused on fiscal management issues.

Upon taking office, Premier Harcourt appointed the Honourable Glen Clark as Minister of Finance and Corporate Relations and Chair of Treasury Board, and Mr. Clark immediately ordered an independent review of the financial condition of the provincial government. The review was completed March 11, 1992, and reported a projected Consolidated Revenue Fund (CRF) deficit for the 1991/92 fiscal year of \$2,462 million, an increase of \$1,270 million from the \$1,192 million originally forecasted in the 1991/92 budget by the previous administration. It also reported that much of the deficit was structural in nature, and predicted larger annual deficits in the following two years if there were no changes to policies or programs and the economy grew at a median rate. The review recommended steps to reduce the deficit by implementing a fully integrated fiscal policy framework, reducing costs and increasing revenues.

In releasing the results of the review, Mr. Clark announced that “our first budget will begin to address the most immediate problems—controlling the deficit, cutting waste, protecting essential services like health and education, and setting spending priorities. It will be a fair budget and an honest one. And, under this government, the ongoing financial process will remain open for all to see and scrutinize.” This message was echoed by the government in the March 1992 budget speech.

The audited financial statements for the 1991/92 fiscal year—the year during which administrations changed—recorded a CRF deficit of \$2,355 million, an overall (“summary”) provincial deficit of \$2,163 million, and total provincial debt at March 31, 1992, was \$20,106 million. The annual CRF deficits and total provincial debt for the next three years after that are shown in Exhibit 4.1.

On September 15, 1993, the Honourable Elizabeth Cull succeeded Mr. Clark as Minister of Finance and Corporate Relations and Chair of Treasury Board, with Mr. Clark assuming the portfolio of Minister of Employment and Investment. The Estimates tabled in the spring of 1994 by Ms. Cull reflected a budgeted 1994/95 operating deficit for the CRF of \$898 million.

Exhibit 4.1

Deficit and Debt for Three Years to March 31, 1995

Consolidated Revenue Fund (CRF) deficit estimates,¹ revised forecasts,¹ and audited results for the 1992/93 to 1994/95 fiscal years, as well as the total provincial debt for the same period (\$ Millions)

Fiscal Year	CRF Estimates Deficit	CRF Revised Forecast Deficit	CRF Actual Deficit	Total Debt
1992/93	1,789	1,950	1,877	23,399
1993/94	1,535	1,284	915	26,061
1994/95	898	370	447	27,122

¹See page 22 for terms used in the Estimates

Source: Annual Estimates and Public Accounts

Every year, as required by the Financial Administration Act, the Minister of Finance and Corporate Relations must sign the audited financial statements of the Province by September 30. So, in the fall of 1994, when the government started its budgeting process for the 1995/96 fiscal year in earnest, it knew that during the 1993/94 fiscal year it had collected \$528 million more, spent \$92 million less, and ended up being \$620 million better off in financial results than estimated in the spring of 1993. The annual growth in the provincial economy, which declined from 4.9% in 1991 to 3.4% in 1992, continually improved over the next two years by an average of 1.7%. The government was expecting similar or better growth in the economy and consequently better financial results for the 1995/96 fiscal year. Despite these impressive results, however, the Province's debt continued to increase.

Once the government was in the third year of its mandate, the timing of the next election became a frequent topic of public conversation. Election speculation focused considerable attention on the incumbent government's record of financial management. In late 1994, the mid-year results of the 1994/95 operations were heralding another successful year. At that time, Ms. Cull became convinced that the establishment of a long-term fiscal and debt management plan, combined with a balanced budget for 1995/96, would answer most of the public's concern about the Province's mounting debt burden.

Over two months' time, the Minister developed a 20-year debt management plan (the Plan) for presentation by her to the Premier. Assisting in this initiative were the then Deputy Minister of Finance and Corporate Relations and Secretary to Treasury Board, Michael Costello, the Assistant Deputy Minister of Finance and Corporate Relations and Assistant Secretary to Treasury Board, Chris Trumpy, staff of the Treasury Board Secretariat, and a private sector consulting committee. According to the Minister, the Premier was comfortable with the Plan, and it was ultimately included in Budget '95, which was tabled on March 28, 1995. The Plan carried with it government's commitment to maintain and publish an annual scorecard on its progress in managing the provincial debt.

While the Debt Management Plan went a long way to reducing public concerns over the rapid accumulation of provincial debt, the debt reduction targets it set eventually became stumbling blocks in the government's subsequent budgeting efforts as economic growth started to slow down in the 1995/96 fiscal year. According to the Plan, the government was to pay off all taxpayer-supported debt—which was about \$20 billion—over the next 20 years. This the government said it would begin to do by allocating its annual operating surpluses to the repayment of taxpayer-supported debt. The Plan included the government's commitment to achieving the stated targets irrespective of economic results. This self-imposed pressure played a major part in the development of the government's next budget, Budget '96.

Transition of Power and Administrative Uncertainty

The Honourable Michael Harcourt announced his intention to resign as Premier of the Province on November 15, 1995. Mr. Clark stepped in as Premier after the NDP convention on February 22, 1996.

In the annual budgeting process, the period from November through February is the most crucial. It is a period during which many policies are formulated. It is also the time when senior bureaucrats brief the Premier, the Minister of Finance and Corporate Relations and, upon request, Cabinet, and obtain budget instructions from their political masters. During this period in 1995/96, Ms. Cull continued in office. However, Mr. Costello and the new Secretary to Treasury Board, Brenda Eaton, often had to use their own judgement as to who, other than their minister, they should brief and who they should seek to persuade or to dissuade in regard

to various operational issues. This period of uncertainty was followed by a period of hurried budget preparation activity. On February 22, 1996, the day Mr. Clark took office as the new Premier, Mr. Costello—the seasoned Deputy Minister of Finance and Corporate Relations who had held that post since 1991—was appointed interim President/CEO of the British Columbia Hydro and Power Authority. And Ms. Eaton, who had been serving as Secretary to Treasury Board since July 1995, was also appointed Acting Deputy Minister of Finance and Corporate Relations. She served in both positions until June 1996, including the two demanding months immediately prior to Budget '96 first being tabled on April 30, 1996.

The need for the incumbent government to repair its political credibility, damaged by events such as the Nanaimo bingo scandal and the B.C. Hydro controversy, brought the issue of fiscal management to the top of its political agenda. A side effect of this on the 1996/97 Estimates preparation process was to bring into question the past performance of Treasury Board Secretariat's forecasters in producing realistic forecasts. This created a major pressure on the staff at the Treasury Board Secretariat.

1996: Downturn of Economy, and Government Skepticism

The third significant pressure on the government was brought about by the downturn in British Columbia's economy, starting in late 1995. In a normal year, such a circumstance would be recognized and reflected in the Estimates process. However, as explained above, this was not a normal year. Our evidence indicates that Ms. Eaton and staff of the Treasury Board Secretariat were aware of the downturn in early 1996 and advised Minister Cull accordingly. However, despite their efforts to caution Ms. Cull, the Minister was not initially receptive to the news in those crucial months, as she was convinced that the Secretariat was overstating the negative impact of the economic downturn.

Because its revenue forecasts in the 1993/94 and 1994/95 fiscal years were significantly below the actual revenue for those years, the Secretariat's call for a continued cautious approach to budgeting was interpreted as its insistence on being unduly pessimistic. Based on a cautionary approach to budgeting that Ms. Eaton and her staff were advocating, the 1996/97 fiscal year's expenditure would have needed to be reduced to compensate for the prospects of lower revenue. However, a number of Cabinet ministers, including the Premier, believed that the Treasury Board Secretariat's revenue forecasts were "too conservative." The Treasury

Board Secretariat meanwhile realized that, in the minds of those it served, the effect of its underestimating revenue in the previous two years had overshadowed the news that the growth of the British Columbia economy was slowing down.

Forecasting: Inexact Science or Guessing Game?

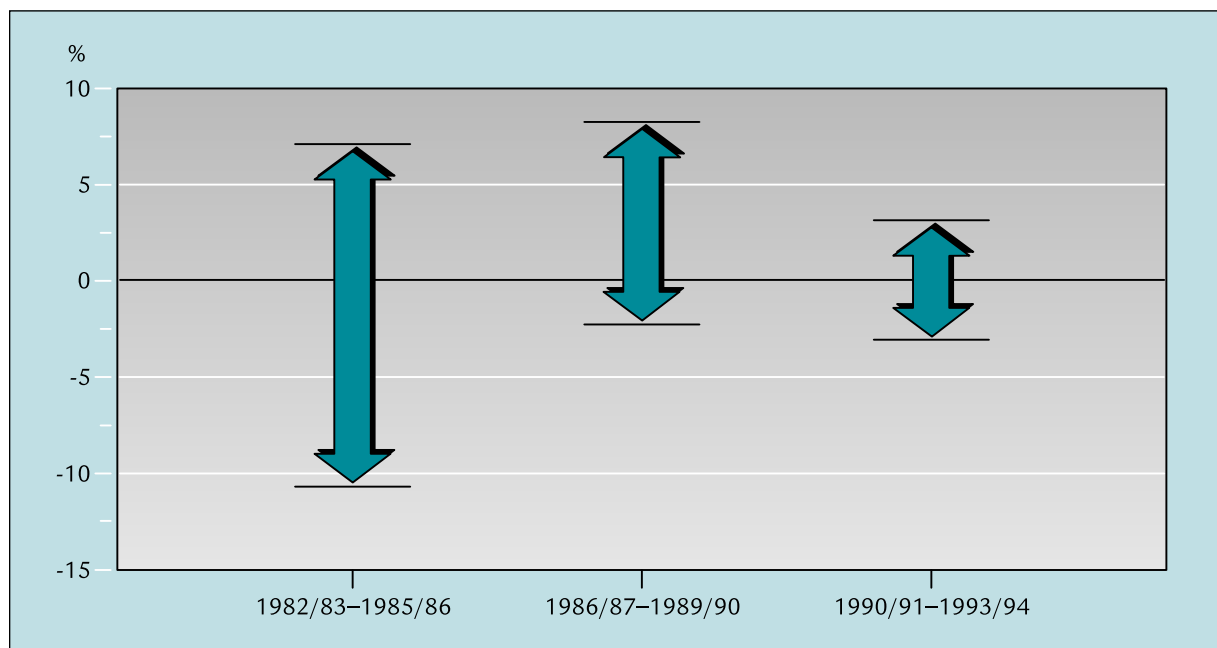
Despite the fact that, in March 1992, the independent review of the financial condition of British Columbia gave government forecasters a first-grade rating, the new government was dissatisfied with the revenue forecasts of the Treasury Board Secretariat. In the course of preparing the 1996/97 Estimates, however, the criticism was particularly sharp, and came from several members of Cabinet both before and after Mr. Clark became Premier. We believe this criticism was unwarranted for several reasons:

- At Dunsmuir Lodge in early October 1994, when work was starting in earnest on Budget '95, Mr. Costello, then Deputy Minister of Finance and Corporate Relations and Secretary to Treasury Board, made a presentation to a joint meeting of Treasury Board and Planning Board (full Cabinet). Exhibit 4.2 shows excerpts from this presentation. According

Exhibit 4.2

Historical Changes in Revenue from Budget Forecast to Yearend Actual

The track record indicated that revenue forecasting in British Columbia was getting better



Source: BC Ministry of Finance and Corporate Relations

to Ms. Cull, Mr. Costello was particularly concerned about the criticism he was receiving from some ministers about the conservatism of the revenue forecasts. “He had a point to make to some of my colleagues,” said Ms. Cull to us. The point, in Mr. Costello’s words, was that he wanted the members of Cabinet to understand “that revenue forecasting in British Columbia is difficult, that it is a very cyclical economy with a lot of lags in the impact of the economy on revenues; it’s a difficult chore but the track record was that it was getting better.”

- It is very clear from information provided to Cabinet that there has been no consistent history of optimism or pessimism in revenue forecasting over the last 12 years. This point was made on December 20, 1995, by Mr. Costello and Ms. Eaton to Mr. Clark who, at the time, was the Minister of Employment and Investment and a possible candidate for the leadership of the provincial NDP. The same briefing was given earlier to deputy ministers. A similar lack of any consistent trend of pessimism could be shown in recent years. Although in late 1995 the actual operating results relating to the *Estimates for the Fiscal Year Ending March 31, 1996* were not yet known, it was clear that the actual revenue for each of the preceding two years (i.e., fiscal 1993/94 and fiscal 1994/95) had significantly exceeded the revenue estimates (by \$528 million and \$805 million, respectively). However, in fiscal 1992/93, the government’s actual revenue was only \$52 million more than the revenue estimates. And in 1991/92, it was significantly (\$554 million) less than forecasted.
- Detailed analysis of the volatile components of revenue of the Province indicates that, while in some years total actual revenues have been higher or lower than amounts estimated for that year, there is no pattern of any revenue streams (e.g., timber sales) being underestimated. Furthermore, in some years, new or amended legislation presented during the fiscal year would have established a new source or loss of revenue which was not known to forecasters at budget preparation time (e.g., the lumber export tax introduced in January 1987), or would have raised the rates of existing taxes or fees (e.g., new stumpage policy in the 1994/95 fiscal year). These specific changes in revenue should not be attributed to inappropriate forecasting.

- Analysis of historical results over the last 15 years indicates that revenue forecasting has improved in British Columbia. In recent years, in terms of absolute revenue forecasting error, British Columbia has been ahead of most provinces and the federal government in accuracy.
- As we concluded in our evaluation of management controls in the Fiscal and Economic Analysis Branch of the Treasury Board Secretariat (Chapter 3), though there is room for improvement, existing controls are generally sufficient to ensure that reasonable forecasts of revenue are produced.
- Being part of the Ministry of Finance and Corporate Relations, the Treasury Board Secretariat is under the general management of the Minister of Finance and Corporate Relations. Ms. Cull confirmed to us that if she, as the minister ultimately accountable for those forecasts, had felt that management processes were not adequate to enable reasonable forecasts to be produced, she would have effected corrective change. She also said that:
 - she expected staff to be conservative in their forecasting so long as they were consistent in doing so; and
 - while there was usually vigorous debate within the ministry as to what numbers should be included in the Estimates, it was her responsibility to determine what were reasonable numbers based on the best information available, and she expected the information she received from staff to be unaffected by their perception of political correctness.
- The Treasury Board Secretariat has always presented a range of possibilities for each of its main economic assumptions and revenue estimates. The range includes at least three scenarios, namely “optimistic,” “most likely” and “conservative.” In all cases it has been the midpoint “most likely” scenario that staff of the Treasury Board Secretariat has recommended be used in budget forecasting.

For all these reasons, prescribing arbitrary optimism to improve the accuracy of revenue forecasting had no merit. Nevertheless, as explained below, the interest in introducing optimism into the revenue forecasting was conveyed to Ms. Eaton and her staff both directly and by inference.

Ms. Cull told us she was comfortable with building into her 1996/97 revenue estimates optimism of around 1% of total annual revenue, or \$250 million. She felt this level of optimism was justified because she had given strict instructions to the Treasury Board Secretariat to be conservative in its forecasting at all times. She also believed that this level of optimism was manageable because, if it did not materialize, she could adjust expenditure to compensate for it. This revenue comfort level was communicated directly to Ms. Eaton and, through her, to staff. At the same time, however, it seems that by criticizing Treasury Board Secretariat for its previous two successive years' forecasting, some members of Cabinet were implying that they expected a somewhat higher level of optimism in the 1996/97 revenue forecast.

There is some value in reviewing revenue forecasting performance over a long period of time. This is what the accounting firm of KPMG did in its 1992 independent review, as did both Mr. Costello and Ms. Eaton on a number of occasions for the members of Cabinet. On the other hand, making any assessments of forecasting performance based on a short period of one or two years introduces guessing into an inexact but nevertheless a rigorous process.

The uncertainties inherent in estimating revenue are many. That is why it is necessary to build into the forecasting process as many checks and balances as possible, and to subject the outcome of each stage of the process to rigorous challenges. It is important to note that the final outcome each year is what the Minister of Finance and Corporate Relations ultimately considers to be reasonable based on existing information.

In the following section, we analyze the specific documents and decisions that resulted in the two important sets of numbers that appeared in the *Estimates for the Fiscal Year Ending March 31, 1997*. Those numbers are the Revised Forecast for 1995/96 and the Estimates for 1996/97.

We have examined these two sets of numbers for both expenditure and revenue. However, our reporting in this chapter is more about the latter because we found that, in the preparation of the 1996/97 Estimates, the estimates of revenue played a much more important role than expenditure. One reason for this is that the government is able to manage to its spending targets better than its revenue projections.



budget '95: setting a fiscal foundation

We start our chronicle just before Budget '95 was tabled and work our way through the preparation of the three types of financial information that were included in the *Estimates for the Fiscal Year Ending March 31, 1997* (see “The Building Blocks of the Estimates” below).

Original 1995/96 Estimates

The political and economic climate in British Columbia in the spring of 1995 heightened more than ever the government's desire to demonstrate its ability to manage the Province's finances effectively. In late 1994, the government knew it had succeeded in substantially reducing its annual operating deficit over each of the previous three fiscal years from \$2.3 billion to less than a half-billion dollars. In recognition of this achievement, and in response to public concern about the level of debt that had been on the rise even while the deficit was being harnessed, the government brought in a balanced budget for 1995/96 and, at the same time, introduced a 20-year debt management plan.

The Building Blocks of the Estimates

The *Estimates for the Fiscal Year Ending March 31, 1997*, contain information on estimates of revenue and expenditure of the Consolidated Revenue Fund (CRF) from three distinct viewpoints at different times (Exhibit 1.4):

- *Estimates 1995/96* — the estimated revenue and expenditure for the year ending on March 31, 1996, when Budget '95 was introduced on March 28, 1995;
- *Revised Forecast 1995/96* — the government's forecast, at the time Budget '96 was introduced (first on April 30, 1996, and then again on June 26, 1996), of what the actual revenue and expenditure for the year ending on March 31, 1996 would be; and
- *Estimates 1996/97* — the coming year's revenue and expenditure as estimated by the government at the time Budget '96 was introduced, first on April 30, 1996, and then again on June 26, 1996.

Ordinarily, the Estimates 1995/96 figures would be exactly the same as those that first appeared in the *Estimates for the Fiscal Year Ending March 31, 1996*. However, the government reorganized certain programs during the year, and transferred some revenue and expenditure from CRF to the Insurance Corporation of British Columbia. The “Estimates 1995/96” figures were restated in the 1996/97 Estimates to make comparison of “last year” to “this year” possible.

Because the 1995/96 CRF accounts were not yet finalized by April 1996 (when work on preparing the 1996/97 Estimates was completed), the 1996/97 Estimates presented the government's forecast of the actual revenue and expenditure for the year then just ended. The Revised Forecast 1995/96 included at least 10 months of actual financial information, plus two months of estimation.

By tabling Budget '95 on March 28, 1995, the government of Premier Harcourt sought to provide, as Ms. Cull, the then Minister of Finance and Corporate Relations, publicly stated, “a strong fiscal foundation for British Columbia.”

According to the *Estimates for the Fiscal Year Ending March 31, 1996*, the government estimated, for the first time in many years, a surplus. An audited CRF surplus had not been achieved since the 1989/90 fiscal year. The annual revenue for 1995/96 was estimated to be \$20,300 million, expenditure to be \$20,186 million, and the resulting surplus to be \$114 million. One issue that created controversy was the government’s decision to include in its 1995/96 revenue estimates an anticipated \$250 million from the sale of Columbia River downstream benefits. This was done despite there being only a memorandum of negotiators’ agreement signed with the Bonneville Power Administration, and despite the government having received advice from the Auditor General that the \$250 million should not be included in revenue for 1995/96. However, the government’s decision was supported by opinions it received from the Comptroller General and private sector accounting professionals.



budget '96: revised forecast for 1995/96

Chronicle of Events

It was not long after the 1995/96 Estimates were tabled that the government determined the anticipated revenue from the Columbia River Treaty would not be realized. At this early stage, despite the significant reduction in anticipated revenue, the government did not adjust its surplus target, but chose to stay the course by focusing on expenditure cuts.

Throughout each fiscal year, the Treasury Board Secretariat produces comprehensive monthly reports that provide economic and financial information and projections. These reports are sent to the Minister of Finance and Corporate Relations by the Secretary to Treasury Board, after review by the Secretary and the Deputy Minister of Finance and Corporate Relations. (Refer to Chapter 3 for a full description of the monthly monitoring process.)

From November 15, 1995, when Mr. Harcourt announced his intention to resign as Premier and leader of the provincial NDP, until February 22, 1996—the date of the NDP leadership convention—a number of candidates, including Mr. Clark, confirmed their candidacy and campaigned for the party leadership.

On December 20, 1995, at the instigation of Ms. Eaton, Secretary to Treasury Board, she, Mr. Costello (the Deputy Minister of Finance and Corporate Relations) and Ms. Lois McNabb, the Director of Treasury Board Secretariat's Fiscal and Economic Analysis Branch, met with Mr. Clark, then viewed as a possible candidate to replace Mr. Harcourt. In general, the meeting was seen as an opportunity to brief Mr. Clark on the state of the Province's economy, and to discuss the criticism that staff were overly conservative in their budgeting. Ms. Eaton, Mr. Costello and Ms. McNabb presented Mr. Clark with historical variances in budget-to-actual government revenues, forecasts by the Ministry of Finance and Corporate Relations and various non-government institutions in British Columbia about the economic growth for 1995 and 1996, and historical comparisons between economic growth and government revenue elasticity. They also reviewed staff revenue forecasts for 1995/96 and 1996/97, and the 1996/97 forecasted shortfall in revenue figures from those used for the 1996/97 debt management plan.

January 1, 1996 to April 30, 1996

Staff of the Treasury Board Secretariat continued to produce comprehensive monthly reports until mid-February. Thereafter, only revised revenue was forecasted.

On February 21, staff of the Treasury Board Secretariat issued the January 1996 comprehensive monthly report containing the 1995/96 revised budget forecasts shown in Exhibit 4.3.

On February 22, Mr. Clark was voted leader of the provincial National Democratic Party and confirmed as Premier, succeeding Mr. Harcourt.

From information provided to us during our review, we believe that sometime during February, Minister Cull suggested the following working targets for the 1995/96 revised forecast, to be included in the 1996/97 Estimates:

	<u>\$ Millions</u>
Revenue	20,191
Expenditure	<u>20,175</u>
Surplus	<u><u>16</u></u>

In March 1996, the Treasury Board Secretariat, while not issuing a full monthly report for February, provided a revised revenue forecast for 1995/96 of \$19,964 million, a shortfall of \$336 million from the \$20,300 million originally budgeted for the year.

Exhibit 4.3

1995/96 Revised Budget Forecast—January 1996

(\$ Millions)

	1995/96 Estimates Tabled March 1995	Treasury Board Secretariat's Forecast Range as at end of January 1996		
		Optimistic	Most Likely	Conservative
Revenue	20,300	20,035	19,960	19,810
Expenditure	20,186	20,111	20,216	20,380
Surplus (Deficit)	114	(76)	(256)	(570)

Source: Treasury Board Secretariat, January monthly report issued February 21, 1996

In the week that followed the release of that revenue forecast, and as more information became available, staff revised the revenue forecast to \$20,035 million and the expenditure forecast to \$20,175 million. The result was a revised deficit forecast of \$140 million.

Nevertheless, the Minister of Finance and Corporate Relations, Ms. Cull, continued to strive for a 1995/96 operating surplus and to have it reflected in the 1995/96 revised forecast included in the 1996/97 Estimates. Accordingly, Ms. Eaton had staff of the Treasury Board Secretariat prepare a briefing note to the Minister on March 25, 1996, outlining the underlying economic assumptions that would be required to generate the optimism necessary to arrive at an operating surplus. The briefing note included options on a number of revenue and expenditure forecasts. The options ultimately approved by Ms. Cull for inclusion in the revised forecast resulted in a change of \$167 million in the overall forecasted result. This would adjust staff's February projected net operating deficit of \$140 million to a forecasted surplus of \$27 million.

By mid-April, however, the government reaffirmed the 1995/96 surplus target, informally established in February, of \$16 million. The target revenue and expenditure figures established in February were modestly adjusted by small, offsetting amounts. Consequently, of the above \$167 million approved by Ms. Cull, only \$156 million was needed to be applied to revenue.

On April 30, 1996, Ms. Cull tabled the 1996/97 Estimates. They indeed reflected a revised forecasted surplus for fiscal 1995/96 of \$16 million on revenues totaling \$20,130 million. She also tabled an amended debt management plan, which reflected a forecasted direct debt increase in 1995/96 of \$36 million and a direct debt decrease in 1996/97 of \$53 million. The original plan, introduced in 1995, had proposed direct debt decreases of \$414 million and \$225 million for 1995/96 and 1996/97, respectively.

Later on April 30, 1996, after the tabling of the 1996/97 Estimates, the government called a provincial election for May 28, 1996.

After April 30, 1996

On May 22, 1996, in preparation for the briefing of a new government, the Treasury Board Secretariat set out in a memorandum its expectations of a 1995/96 deficit of \$211 million, the result of shortfalls in revenue of \$169 million and increases in expenditure of \$58 million from those in the tabled forecast.

Ms. Eaton, on or about May 28, 1996, prepared a memorandum revising that of May 22, reflecting the most recent 1995/96 forecasts by staff of the Treasury Board Secretariat. This memorandum formed part of government's transition briefing documents, and showed the following figures:

	<u>\$ Millions</u>
Revised forecast surplus as shown in the Estimates tabled by Minister Cull on April 30, 1996	16
Revenue shortfalls from those forecasted:	
Forests	(106)
Personal income tax	(44)
Other	(19)
	<u>(169)</u>
Expenditure increases (net)	<u>(11)</u>
Current forecast deficit for 1995/96	<u><u>(164)</u></u>

The \$169 million revised revenue shortfall included in this memorandum closely resembled the \$167 million of optimism that Minister Cull approved in February 1996, made up of approximately the same amounts of forests, personal income tax and other revenue.

Ms. Eaton's memorandum cautioned that there were still up-side and down-side risks to the forecast, with a "good estimate" to be available in July and final numbers in September.

The May 28 election saw the NDP retain a majority of seats in the Legislative Assembly. The Honourable Andrew Petter became Minister of Finance and Corporate Relations on June 17, 1996.

In early June, Ms. Eaton was advised by the Deputy Minister to the Premier, Mr. Doug McArthur, that she could anticipate being reassigned as a deputy minister to another ministry.

The *Estimates for the Fiscal Year Ending March 31, 1997*, tabled by Ms. Cull on April 30, 1996, were not approved by the Legislature because the Assembly was dissolved when a provincial general election was called on the same day. It was therefore necessary for the new government to present Estimates to the newly elected Assembly as the basis for the new interim and final Supply Bill. In preparation for the second tabling of Estimates in 1996, the Deputy Minister to the Premier, Mr. McArthur, asked the Secretary to Treasury Board, Ms. Eaton, to determine the necessary steps to be taken in connection with that tabling.

In early June 1996, a member of staff of the Treasury Board Secretariat discussed the Financial Administration Act's requirements with the then Chief Legislative Counsel. A memorandum, written by the staff member to Ms. Eaton, refers to the advice received from the counsel to the effect that "the government could claim that it has previously met the condition of the FAA and that, therefore, no new Interim Statement is required." The memorandum continues by stating that the counsel also noted that "however, there may be a request in the House for a new interim [financial statements] since the wording in the FAA may not be as precise as it could be." The counsel did not provide his advice in writing and cannot now recall the precise substance of his advice regarding the Financial Administration Act requirements. Ms. Eaton confirms receiving the memorandum and passing the information to Mr. McArthur and Mr. Gunton.

The Financial Administration Act requires that the Comptroller General prepare and submit a statement of revenue and expenditure (often referred to as interim financial statements) to the Minister for tabling with the Estimates. It appears that the Comptroller General of the day had been verbally informed about the advice given by the counsel. Consequently, no interim financial statements were prepared or tabled.

On June 12 or 13, 1996, Ms. Eaton used her May 28, 1996, briefing memorandum to provide a financial briefing to the Premier. Also in mid-June, Ms. Eaton used the same memorandum to brief the Honourable Andrew Petter on June 18, just one day after his appointment as Minister of Finance and Corporate Relations and to brief Mr. Garry Wouters prior to his appointment on June 19, 1996, as the new Deputy Minister of Finance and Corporate Relations and Secretary to Treasury Board.

In the week that followed his appointment as the Minister of Finance and Corporate Relations, Mr. Petter received conflicting advice on the fiscal outcome for 1995/96. The advice ranged from expectations that there would be a surplus consistent with the Estimates tabled on April 30, to expectations that the Public Accounts would show a deficit in the Consolidated Revenue Fund Financial Statements. According to the then Assistant Deputy Minister, Mr. Chris Trumpy, while most staff in Treasury Board felt that a deficit was probable, they also recognized that a surplus was a possibility.

On June 21, the Comptroller General sent to the Treasury Board Secretariat draft 1995/96 CRF financial statements, which showed a deficit for the year of \$235 million.

On June 25, the day before the budget was scheduled to be tabled, Mr. Wouters, Mr. Trumpy and a senior staff of Treasury Board Secretariat briefed Minister Petter about the draft CRF Financial Statements that the Secretariat had received from the Office of the Comptroller General. The possible impact of financial information included in these draft statements on the Estimates was discussed with the Minister, and he was advised the figures could not be considered reliable until verified.

On June 26, 1996, Mr. Petter tabled in the Legislative Assembly the newly elected government's Budget '96, which remained unchanged from that tabled by Ms. Cull on April 30 of the same year, and which reflected a forecasted surplus for fiscal 1995/96 of \$16 million. Also on June 26, Mr. Wouters asked staff of Treasury Board Secretariat to review the draft financial statements. Two days later, on June 28, 1996, Mr. Petter indicated publicly that the 1995/96 CRF operating results were likely to show a \$200 million deficit.

Deputy Minister of Finance and Corporate Relations, Mr. Wouters, in a memorandum to Mr. Petter dated July 2, 1996, confirmed that:

- on June 25, he had advised Mr. Petter of having received from the Comptroller General the preliminary 1995/96 CRF financial statements, but that projections were still uncertain; and
- on June 28, he had advised Mr. Petter that, after a detailed review of the Comptroller General's draft statements, the current estimate for 1995/96 was a deficit of \$200 million.

Mr. Wouters attached to his memorandum the most recent financial forecast, reflecting a 1995/96 deficit of \$235 million, and attributed the decline from the revised forecast of a

\$16 million surplus (included in the 1996/97 Estimates) to a \$255 million decline in forests revenue.

On July 2, 1996, Minister Petter tabled in the Legislative Assembly a revised forecast showing the expected deficit for the 1995/96 fiscal year of \$235 million.

Later, at the request of Mr. Petter, Mr. Wouters reviewed the circumstances surrounding the \$255 million decline in forests revenue for 1995/96. On September 10, 1996, Mr. Wouters wrote a further memo to Mr. Petter outlining the reasons for the decline in 1995/96 forests revenue. The memo stated the main reasons, which were, in brief:

- The shortfall from the original budget was the result of less timber being harvested than expected because of changes in market conditions and adverse weather.
- The shortfall from the revised forecast was the result of:
 - an inaccurate estimate of a yearend accrual adjustment based on prior years' timber revenue, resulting in a \$146 million shortfall;
 - an accounting error of \$62 million; and
 - an underestimation by \$22 million of transfers to Forest Renewal BC.

Though the information presented in this memorandum, and its attached documents, is accurate as far as it goes, it does not provide a complete explanation of the main reasons for the significant difference between the revised forecast and actual forests revenue. It does not, for instance, account for the decision of Minister Cull to increase the revised forests revenue by \$100 million, as part of the \$167 million revenue increase she approved on March 25, 1996. Also, it does not draw a complete picture of the information which was available to Ms. Cull at the time the 1995/96 revised revenue forecast was prepared. We further discuss this matter below.

At the end of September, the Comptroller General issued the final CRF Financial Statements for the 1995/96 fiscal year, reflecting the following:

	\$ Millions
Revenue	19,801
Expenditure	20,170
Deficit	369

The increase during the year in direct debt was \$56 million, \$20 million more than anticipated in the 1996 revised debt management plan.

Analysis of the Revised Forecast for 1995/96 Included in Estimates Tabled by Minister Cull

Budget '95, as explained earlier, was a ground-breaking budget. In presenting an estimated surplus of \$114 million for the 1995/96 fiscal year, it built on three consecutive years of reduced operating deficits. It also presented a long-term fiscal plan to manage the provincial debt and repay the taxpayer-supported portion of the debt. And there was another important circumstance: the 1995/96 revenue estimates included \$250 million that the government expected to receive by December 1995 from the Province's Columbia River Treaty with the United States—monies that did not materialize.

According to the final 1995/96 CRF Financial Statements approved by Treasury Board on September 30, 1996, the actual revenue for the year was \$499 million less than budgeted. Of course, this revenue shortfall was not so clearly known in late April 1996 when the 1995/96 Revised Forecast was being finalized for the 1996/97 Estimates document. However, an internal report in April 1996 presented to Minister Cull by Ms. Eaton, Secretary to Treasury Board, indicated that, based on the Treasury Board Secretariat's analysis, a shortfall in annual revenue for 1995/96 of \$332 million was expected. Forecasting this was not unreasonable, given the loss of the expected \$250 million from Columbia River Treaty sales.

The Significance of Monthly Projected Revenue Shortfalls

The monthly reports that were prepared by staff of the Treasury Board Secretariat and distributed simultaneously to the Minister, Secretary to Treasury Board and others to inform them of the financial and economic status of the Province, showed large projected fiscal year revenue shortfalls every month from May 1995 to March 1996 (Exhibit 4.4).

It should be noted that as a fiscal year advances, more information on actual revenue becomes known, gradually decreasing forecasting uncertainty.

The revenue shortfall forecasted in the early months of the 1995/96 fiscal year did not surprise anyone because it pertained mainly to a single budget item: the Columbia River Treaty downstream benefits. The overall budget variances during those months were related to two components, the "revenue shortfall" and the "expenditure pressures," the latter being a term used in budgeting to show perceived demands over and above approved expenditure levels. Minister Cull's reaction to the expenditure pressures in the earlier months

Exhibit 4.4

Summary of Monthly Revised Forecasts Reflecting the Shortfall in 1995/96 Revenue and the Resulting Deficit at March 31, 1996

Throughout the year, staff reported the 1995/96 fiscal year's forecasted operating results as a deficit (\$ Millions)

Monthly Report	Most Likely Forecast, Fiscal Year Revenue Shortfall	Most Likely Forecast, Fiscal Year Deficit	Variation from Original Estimated Surplus of \$114
May 1995		385	- 499
June	290	288	- 402
July	328	376	- 490
August	244	300	- 414
September	178	130	- 244
October	197	147	- 261
November	228	157	- 271
December	268	207	- 321
January 1996	340	256	- 370
February (Revenue)	336	N/A	
March (Revenue)	332	N/A	

Source: BC Ministry of Finance and Corporate Relations

was simply “a need to know they exist,” for she was under no obligation to provide for those perceived demands. In mid-year, Ms. Cull was satisfied that the budget was on track. By September, the revenue shortfall had dropped below \$200 million and, based on calendarized budget information, she was convinced that, by the end of the fiscal year, a combination of tighter expenditure control and expanded revenues would largely wipe out the negative effects of the loss of forecasted income from sales of Columbia River downstream benefits.

Ms. Cull told us she would have been satisfied with such anticipated results, as it would mean that the NDP government had reached its operating surplus target in 1995/96 even without the Columbia River downstream benefits revenue. It would also suggest that the 1996/97 fiscal year (the year for which budgeting was then getting into a serious stage of preparation) would be another successful year.

As the staff's forecast of revenue shortfall for the fiscal year kept increasing for the third successive month, the November monthly staff report, issued in December, might have raised a warning flag for Ms. Cull. At that time, however,

staff of the Treasury Board Secretariat reported that expenditure pressures had significantly declined. For example, the excess expenditure requirements of the Ministry of Attorney General were offset by savings in other ministries. This reinforced the notion that, by applying tough measures on expenditures and demanding better performance on tax collections, a small yearend surplus was still a possibility.

But, by the time the December monthly report was issued in late January, it became clear to the Minister and her deputy ministers that, using Ms. Cull's words " [since] there was very little likelihood of maintaining [a surplus of] \$114 million, then the struggle was to maintain a surplus at the highest number we possibly could." At this point Minister Cull was still hoping to succeed in this struggle, because she expected forecasted expenditure to be overstated. In her view, based on her past years' experience, there was a pattern of overestimating expenditure.

1995/96 Revised Forecast: Judgement Exercised by Minister Cull

The January 1996 monthly report included information that made the prospect of achieving even a small surplus more difficult. It revealed that collections declined in corporate income tax, property transfer tax and corporate capital tax. As well, declines were experienced in the revenue earned from the Small Business Forest Enterprise Program. Time was also running short to take any corrective action through expenditure controls that would improve 1995/96 fiscal year results.

In the January report, sent to Minister Cull on February 21, 1996, staff of the Treasury Board Secretariat had revised the 1995/96 budgeted revenue of \$20,300 million to \$19,960 million, \$340 million less than originally estimated (Exhibit 4.5).

This was the last such comprehensive report issued in the 1995/96 fiscal year. Traditionally, the next monthly report would coincide with the tabling of the Estimates.

Comparing the above figures to those in the Revised Forecast for 1995/96 (later included in the *Estimates for the Fiscal Year Ending March 31, 1997*) indicates clearly that the revenue numbers in the Estimates exceeded the optimistic view held by staff of the Treasury Board Secretariat. Apparently, in finalizing the Revised Forecast for 1995/96, Minister Cull felt justified in being somewhat more optimistic than was the scenario presented by staff of the Treasury Board Secretariat. Overall, she was not convinced that 1995/96 would not be a

Exhibit 4.5

Revised Financial Forecast 1995/96 as at End of January 1996

Comparing the “most likely” scenario with “optimistic” and “conservative” scenarios, as presented in the January monthly report (\$ Millions)

	Optimistic	Most Likely	Conservative
Revenue	20,035	19,960	19,810
Expenditure	20,111	20,216	20,380
Surplus (Deficit)	(76)	(256)	(570)

Comparing the “most likely” scenario from the above range of January forecasts with the original Estimates (\$ Millions)

	Estimates 1995/96	Most Likely 1995/96	Variance
Revenue	20,300	19,960	(340)
Expenditure	20,186	20,216	30
Surplus (deficit)	114	(256)	(370)

Source: BC Ministry of Finance and Corporate Relations

repeat of 1994/95, when staff were some \$800 million too low in their revenue forecast. She decided that a quarter percent more in revenue and a quarter percent less in expenditure was feasible to provide the small surplus she was looking to achieve.

Considering the information available to her, Minister Cull’s decision to introduce optimism in the revised revenue forecast, so late in the fiscal year, seems inappropriate. The following is part of that information.

- In early December 1995, the Deputy Minister of Forests cautioned the Deputy Minister of Finance and Corporate Relations about the lower-than-expected forests revenue.
- In its December 1995 monthly report, Treasury Board Secretariat clearly indicated that, based on the federal government’s projections and lower provincial sales tax collection, it expected lower income and sales taxes. It also reported that, “weakness in lumber prices has resulted in a noticeable slowing in forest revenue over the latest quarter.”

- In its January 1996 monthly report, issued in mid-February, the Treasury Board Secretariat reported similar declines in taxation, and stated that forest prices had been weak over the last four months. It also stated that the revenue from the Small Business Forest Enterprise Program was particularly weak in January.

However, these were circumstances that mitigated the effect of information provided to the Minister about negative trends in revenue. These were inadvertent accounting errors by staff that resulted in forests revenue being significantly overstated in reports. Consequently, the deterioration of forests revenue was not as noticeable to Minister Cull as it otherwise might have been.

The search for an enhanced amount of optimism—further revenue, or expenditure savings—resulted in a briefing note that explained the underlying economic assumptions required to rationalize the forecasting of higher revenue from personal income taxes, forest stumpage, dividends from Crown corporations, and some miscellaneous sources. This briefing note was provided by staff to Minister Cull, who chose a maximum amount of \$167 million in additional revenues from the various forecasting options presented. In this regard, Ms. Eaton told us that she felt it was important that, where the Minister was using her prerogative to override staff advice, the matter be documented. Ms. Cull agreed with that notion and so, after due consideration, signed her name to selected options in the briefing note. Later, only \$156 million of the Minister's selected options was used in the Revised Revenue Forecast for 1995/96, which was included in the 1996/97 Estimates tabled in the House on April 30, 1996. Exhibit 4.6 shows the origin of figures included in the *Estimates for the Fiscal Year Ending March 31, 1997* as the Revised Forecast for 1995/96. It explains how, in arriving at the targeted \$16 million surplus, the Minister approved a revised revenue forecast of \$20,130 million—which was \$156 million over and above the optimistic projection by staff of the Treasury Board Secretariat—while adopting the most likely estimate of expenditure.

In keeping with the British Columbia Constitution Act, the Lieutenant Governor dissolves the Legislative Assembly when a provincial general election is called. By law, Cabinet continues to function, and therefore ministers (in theory) continue their administrative duties. In reality, however, because of political campaign requirements, Cabinet members are seldom found in their ministries in the period from the election call to after the election date.

Exhibit 4.6

Revised Forecast 1995/96

Changes to January monthly report figures, to arrive at the Revised Forecast for 1995/96, were made to the optimistic scenario, for revenue, and the most likely scenario, for expenditure (\$ Millions)

	Staff's January Monthly Report		Included in Estimates
	Optimistic Scenario	Most Likely Scenario	
Revenue	20,035	19,960	20,035
Increases approved by Minister:			
Forests			91
Personal income tax			32
Miscellaneous			33
Adjustment – transfer			(19)*
Adjustment – transfer			(42)*
Final Revised Revenue Forecast			20,130
Expenditure	20,111	20,216	20,216
Savings approved by Minister			(41)
Adjustment – transfer			(19)*
Adjustment – transfer			(42)*
Final Revised Expenditure Forecast			20,114
Surplus (Deficit)	(76)	(256)	16

*Transfer out of Consolidated Revenue Fund of certain revenues and equivalent expenditures

Source: BC Ministry of Finance and Corporate Relations

Once the Legislative Assembly was dissolved, there remained no forum for the Opposition to debate the tabled Estimates. It is not clear what value one can expect of unapproved Estimates. However, the tabling does provide the incumbent politicians with something to demonstrate their past fiscal management and future direction. Ms. Cull indicated that, from a political point of view, it was in government's interest to show a surplus budget.

The audited revenue for fiscal year 1995/96 ended up being \$19,801 million, or \$329 million less than the revised revenue forecast for that year as published in the 1996/97 Estimates.

Analysis of the Revised Forecast for 1995/96 Included in Estimates Tabled by Minister Petter

Ms. Cull had continued as Minister of Finance and Corporate Relations until Mr. Petter assumed the position. From May 1 to June 19, 1996 (the latter date being two days after Minister Petter took office), Ms. Eaton carried on as Acting Deputy Minister of Finance and Corporate Relations, as well as Secretary to Treasury Board. Under her direction, ministry work continued and she was regularly apprised of new financial information as it became available.

Financial information available in May about the previous fiscal year's actual operating results is typically more accurate than that available in mid-April. At that time of the year, any new piece of information adds to the accuracy of the previous year's numbers, and therefore information on revenue shortfalls and expenditure pressures are taken very seriously by staff of the Treasury Board Secretariat. While the monitoring of actual revenue and expenditure continues after the Estimates are tabled, right up until the Consolidated Revenue Fund Financial Statements are signed by the Minister at the end of September, such monitoring does not ordinarily result in any formal amendment of the previous year's Revised Forecast printed in the current Estimates.

As already stated, however, the circumstances of 1996, with the same Estimates being tabled twice, were not those of a normal year.

In that there was significantly more financial information available in June than there was in April, the second tabling of the *Estimates for the Fiscal Year Ending March 31, 1997* raises two questions:

- Was there any imperative for the new Minister of Finance and Corporate Relations to revise the Estimates tabled in April 1996? And, if there was—
- Was there enough time available to properly accomplish that revision?

To answer these questions, we must consider the timing and quality of information that became available in May and June.

Post-budget update—In the course of the four weeks prior to June 26, 1996, Ms. Eaton had briefed Premier Clark on June 12 or 13, Minister Petter on June 18, and the new Deputy Minister of Finance and Corporate Relations, Mr. Wouters, on June 19. In these sessions, she presented the information that had become available to the Treasury Board Secretariat up to May 28, 1996

—believed by her to be still valid—and provided a short briefing note containing details of revenue shortfalls and expenditure pressures. This information suggested that the 1995/96 revenue, which in April was forecasted to be \$20,130 million, would instead be \$20,003 million. Similarly, staff noted that the April expenditure forecast of \$20,114 million would be \$20,167 million, resulting in a net operating deficit of \$164 million (see page 158).

Interim financial statements—Ordinarily, financial statements of the government for the complete previous fiscal year would not be available, even in draft form, when the Estimates are presented annually to the Legislative Assembly (usually in late March). In such circumstance, the Financial Administration Act (FAA) requires the Minister of Finance and Corporate Relations to present to the Legislative Assembly a statement of revenue and expenditure of the government for the period “from the end of the last fiscal year to the most recent date practicable.” This statement, which is often referred to as the interim financial statements, must be prepared and submitted to the Minister by the Comptroller General, and presented by the Minister to the Legislative Assembly when the annual estimates of revenue and expenditure are presented.

When Minister Cull tabled Budget '96 on April 30, 1996, she presented to the Legislative Assembly the interim financial statements for the ten months to the end of January 1996. Two months later, however, when Minister Petter presented the *Estimates for the Fiscal Year Ending March 31, 1996* to the Legislative Assembly, as explained earlier, the government found it unnecessary to prepare and present interim financial statements. I am advised and of the view that legislation in this regard is unclear, and I have therefore neither accepted nor rejected the government's course of action.

While in recent years, interim financial statements presented with the Estimates have been for 10 months, we found that governments in the past considered it necessary to present to the Legislative Assembly interim financial statements for longer periods when Budget Day was after the year end. In 1979, at the time of tabling its Estimates on June 8, 1979, the new government-of-the-day in British Columbia presented interim financial statements for 14 months, 12 months to March 31, 1979 and two months to May 31, 1979. For the purpose of providing such statements, it considered the most recent date practicable to be May 31, 1979. Also, in 1990, the government in power at that time in British Columbia presented interim financial statements for 11 months to February 28, 1990 when it tabled the Estimates on April 19, 1990. In 1991, interim

financial statements for 12 months to March 31, 1991 were presented with the Estimates, on May 21, 1991.

Had interim financial statements been prepared for the June tabling of Budget '96, they would likely have had to have been to a date more recent than that of the similar statements submitted to Ms. Cull two months earlier. Such an update could have necessitated changing the 1995/96 revised forecast used in the Estimates tabled by Minister Petter. However, this opportunity did not arise.

Draft financial statements—Perhaps the most relevant financial information that became available in June was the draft Consolidated Revenue Fund financial statements. These statements were provided to the Treasury Board Secretariat on June 21, 1996, showing a 1995/96 fiscal year deficit of \$235 million.

Though briefed about the Secretariat's latest available revised forecast by Ms. Eaton, and about the most recent draft of the financial statements of the Consolidated Revenue Fund prepared by the Comptroller General—each indicating a deficit (\$164 million and \$235 million)—Mr. Petter, for the following reasons, decided not to change the 1995/96 Revised Forecast in the *Estimates for the Fiscal Year Ending March 31, 1996*.

First, he did not consider the budget to be new. In his words, “the budget that I introduced on June 26 was not a new budget; rather, it was a reintroduction of the April 30 budget. This fact was made clear to everyone at the time. The budget documents were identical to those presented in April. Thus, it was well understood that the information and projections contained within the budget documents reflected the outlook as of April 30, not June 26.”

Second, Minister Petter took the advice he received from senior officials of the ministry that the latest revised forecasts, presented to him on June 18, 1996, by Ms. Eaton were uncertain, and that better estimates would not be available until later in July.

Third, he was advised by certain senior ministry officials that he could not rely on the draft financial statements prepared by the office of the Comptroller General (government's chief accountant) until numbers were reviewed by the Treasury Board Secretariat. That, Minister Petter was told, would take a longer time than his scheduled tabling of Budget '96 would permit.

The budget that Mr. Petter introduced was certainly the same as that presented by Ms. Cull in April 1996. It was, however, the first budget of a new government, and must be

regarded as such. This means that Minister Petter must take full responsibility for it. Being responsible for a budget includes responsibility for the prudence of decisions which may at times be based on uncertainty about the future. “Uncertainty” in projections is a relative concept. Information presented to Mr. Petter and Mr. Wouters on June 18, 1996, by Ms. Eaton, was certainly not as accurate as would be found in audited financial statements. But information included in the Estimates does not require that level of accuracy and, by its nature, will never do so. We believe that both Mr. Wouters’ and Minister Petter’s expectations about certainty in Ms. Eaton’s May 28 projections were unrealistically demanding.

1995/96 Revised Forecast: Judgement Exercised by Minister Petter

At the time of tabling his budget, in addition to the interim financial statements to the end of January 1996, which the Comptroller General submitted to Ms. Cull, Minister Petter also had available to him—albeit a day before the budget was to be tabled—a set of draft financial statements for the complete twelve months to March 31, 1996, in regard to which he was advised some numbers had to be verified.

As Minister of Finance and Corporate Relations, Mr. Petter was certainly required to make a judgement as to the adequacy of the information about the 1995/96 revised forecast included in the budget he was presenting. In our opinion, he had three courses of action available to him. The first was to postpone the tabling of Budget ’96 for a number of days in order to establish the reliability of financial information that became available to him. The second was to table the budget on June 26, 1996, as scheduled, but alert the Legislative Assembly as to the likelihood of a 1995/96 deficit of around \$200 million, explaining that the financial statements had not been finalized. The third, and the one that the Minister decided to take, was to table the budget as planned and then providing information about the deficit, if any, when such information was determined to be reliable.

By adhering to the announced date of June 26 to introduce his budget and table the Estimates, Mr. Petter did not allow sufficient time to do all the things necessary to enable him to confirm whether the 1995/96 revised forecast numbers included in the *Estimates for the Fiscal Year Ending March 31, 1997* were reasonable. Mr. Petter’s decision was congruent with both his Deputy Minister’s advice and the Premier’s publicly announced direction that, unless something changed significantly for the better—for example, if the price of softwood lumber rose further—the April budget would be tabled for a second time.

On June 26, 1996, nine days after being sworn into office as the Minister of Finance and Corporate Relations, Mr. Petter tabled the same 1996/97 Estimates that Ms. Cull had tabled on April 30, 1996. In his Budget Speech to the Assembly, he said, “The Premier made a commitment that an NDP government would reintroduce the April budget and make it law.”

By reintroducing the April budget in June, with no change, Mr. Petter made good on his government’s pre-election commitment, changing no information that could materially affect the 1995/96 Revised Forecast tabled by the previous government on April 30, 1996.

Two days later, on June 28, 1996, Mr. Petter indicated publicly that the 1995/96 forests revenue was running well below what had been projected, and on July 2, 1996, he tabled a report on the 1995/96 fiscal year’s results showing a revised projected deficit of \$235 million.



budget '96: estimates for 1996/97

Chronicle of Events

As noted earlier in this report, several events occurring prior to 1996 are of relevance to the 1996/97 budget process:

- Budget '95 included the introduction of a 20-year debt management plan that reflected an intention to reduce government direct debt by \$414 million in 1995/96 and \$225 million in 1996/97.
- Premier Harcourt announced on November 15, 1995, his intention to step down as Premier of British Columbia and as Leader of the NDP. Candidates to succeed Mr. Harcourt, including the then Minister of Employment and Investment, Mr. Clark, declared their candidacies at various times over the ensuing weeks and campaigned until February 22, 1996, the date of the NDP leadership convention.
- The Secretary to Treasury Board, the Deputy Minister of Finance and Corporate Relations, and the Director of the Fiscal and Economic Analysis Branch, Treasury Board Secretariat, met in mid-December with Mr. Clark. During this meeting, Mr. Clark was briefed on economic and financial issues relating to the 1995/96 and 1996/97 fiscal years. Included in discussions was the Treasury Board Secretariat's forecasted revenue for 1996/97, an amount \$258 million less than the figure used for the debt management plan tabled in March 28, 1995. This shortfall, when added to the latest forecasted 1995/96 revenue shortfall of \$228 million, meant an overall forecasted shortfall in revenue from plan projections of \$486 million over two years.

January 1, 1996 to April 30, 1996

Soon after Mr. Harcourt announced his intention to step down as Premier, the Deputy Ministers' Council (see Chapter 3) formed a Transition Team, consisting of eight deputy ministers, to attend to a variety of administrative matters relating to the change in Premier. Among these matters was the review of the budget for the fiscal year ending March 31, 1997.

In mid-January 1996, the Treasury Board Secretariat prepared for the Transition Team an outline of four economic scenarios and their relative impacts on government revenues. These scenarios were determined in relation to a set of baseline economic assumptions. Two of the scenarios incorporated

differing exchange rates, international economic growth rates and interest assumptions. The added variable for the other two scenarios pertained to higher or lower commodity prices.

In February 1996, a small informal working group was established by the Deputy Minister to the Premier, Mr. McArthur, to monitor and provide input to the 1996/97 fiscal year budget process. It consisted of three members of the Transition Team. The Fiscal Budget Steering Committee, as this small group was sometimes referred to, consisted of Mr. McArthur (Chair), the acting Deputy Minister of Finance and Corporate Relations, Ms. Eaton and the Deputy Minister of Environment, Lands and Parks, Mr. Gunton. While the committee was in existence from January through early March 1996, seldom did all three members meet together.

A briefing note was prepared at the request of the Fiscal Budget Steering Committee (FBSC) on February 20 or 21, 1996, by staff of the Treasury Board Secretariat, calculating the impact that various large commodity price increases would have on provincial revenues. These calculations did not take into consideration the potential changes, if any, in volume of exports occurring as a result of price increases.

Ms. Eaton was then asked by Mr. Gunton to have staff prepare additional revenue estimates, based on the view that discussions then taking place around the U.S. countervail duty would result in substantially higher lumber prices.

At about the same time, a forecast of revenue (differing from the last forecast made by staff of the Treasury Board Secretariat in December 1995 on the basis of the “most likely” scenario) was established for the 1996/97 fiscal year. This forecast, referred to in some ministry documents as an “alternate forecast,” totalled \$20,785 million. It was based on the expectation of higher commodity prices in general, and increased sales, personal and corporate income taxes, as well as on revenue from other sources in 1996/97. With a subsequent small upward adjustment to forests revenue and a small downward adjustment to personal income taxes, this alternate forecast later became the basis for the 1996/97 revenue estimate totalling \$20,659 million—the amount included in the *Estimates for the Fiscal Year Ending March 31, 1997*.

On February 23, 1996, staff of the Treasury Board Secretariat prepared a schedule detailing several revenue forecasts. The following is a summary of that schedule:

Revenue forecast	\$ Millions
1995/96:	
Revised (staff forecast)	19,965
1996/97:	
Forecast (staff December 1995 forecast)	19,948
Debt management plan	20,235
Alternate Revenue Forecast	20,785

Slightly more than 50% of the \$837 million difference between the 1996/97 alternate revenue forecast and the staff December 1995 forecast relates to higher anticipated lumber prices and its effect on forests revenue and corporate income tax revenues. Both scenarios were prepared on the assumption that economic growth in 1996/97 would be 2.7%.

A similar detailed schedule (see Appendix H), except for the column regarding the staff forecast of 1996/97 revenue (\$19,948 million), was presented by Ms. Eaton to the FBSC for review, to Minister Cull, and then to Premier Clark at meetings held on February 27 and March 6, 1996. Attached to the schedule were supplementary schedules, for each main type of revenue, that presented the forecasted revenue growth for both 1995/96 and 1996/97. As well, these schedules explained the key assumptions and the five-year average growth for each main type of revenue.

The purpose of these schedules was to demonstrate the extent of optimism built into the alternate 1996/97 revenue forecast which totalled \$20,785 million.

These supplementary schedules provided information on the underlying assumptions that brought about higher income taxes, sales tax, natural resource, and other revenues. For instance, the schedules pointed out that the personal tax revenue included in the alternate revenue forecast required a growth in personal income of 8.3% in 1996 compared to 5.7% in 1995, and that as a percentage of the basic federal tax, British Columbia's share had to be 14.3% compared to 13.7% in 1995. They also indicated that certain assumptions used in estimating the corporate tax revenue were significantly higher than those assumed or forecast federally, and that despite a decline in retail sales in the second half of 1995, the sales tax revenue was based on an expectation of higher spending in 1996.

In regard to forests revenue, the schedules stated that the price of softwood lumber was based on a 30% increase from 1995/96, with a similar increase in prices for other products, whereas recent information showed a decrease in hemlock prices.

The full text of these schedules is provided in Appendix H of this report.

In the course of those February/March 1996 meetings, Ms. Cull advised the Premier that the alternate forecast was considerably above her “optimism” comfort range—the upper limit of that range being approximately \$250 million above the staff forecast. Discussions included references to different ways of raising revenue, including the possibility of there being excess monies of about \$400 million in the Forest Renewal BC account that could, if necessary, be drawn into the Consolidated Revenue Fund. The meetings concluded without agreement being reached on revenue forecasts.

On March 8, 1996, after reporting for several months about the weakening economy, staff of the Treasury Board Secretariat prepared a briefing note for Ms. Eaton, pointing out that the provincial economy had suffered a sharp decline in the fourth quarter of 1995, faring worse than both the overall Canadian and U.S. economies. As a result of this downturn, the note went on, the economy would have to grow faster than had been expected during the 1996/97 fiscal year if the 2.7% GDP growth rate projected in the December 1995 forecast was to be attained. However, it was also pointed out that several recent adverse developments were putting that growth forecast at further risk, and staff had made initial estimates of a 1% revenue decline in 1996/97, with projected commodity prices being lower than those forecasted by staff in December 1995.

The Treasury Board Secretariat’s concern about the downturn in economy, referred to above, was consistent with the fear of recession beginning in North America. This fear, as explained in the Budget ’96 Report, persisted during the period that the FBSC was active.

In response to the briefing note, Ms. Eaton wrote to staff that government had been repeatedly told of these factors, but the time had come to produce the Estimates for 1996/97.

We have presented on page 190 of this report under “Producing the 1996/97 Estimates,” a detailed account of how the alternative revenue forecast related to the 1996/97 estimates of revenue.

The Budget '96 Report pointed out that by mid-March the fear of recession appeared to have subsided. In the period mid-March to Budget Day, lumber prices continued to be strong. However, in the spring of 1996, TD Bank, BC Central, CIBC and the Conference Board lowered their forecast of GDP growth for British Columbia for 1996.

On April 30, 1996, Ms. Cull tabled the *Estimates for the Fiscal Year Ending March 31, 1997*, presenting, for fiscal 1996/97, the government's second consecutive budgeted surplus:

	\$ Millions
Revenue	20,659
Expenditure	20,572
Surplus	<u>87</u>

The Minister also tabled an amended debt management plan, which reflected a target direct debt decrease in 1996/97 of \$53 million. The original plan had reflected a direct debt decrease target of \$225 million in 1996/97 (\$639 million since the beginning of the plan in 1995).

And, as noted before, it was later on April 30, after the Estimates had been tabled, that the government called an election for May 28.

After April 30, 1996

During May 1996, staff of the Treasury Board Secretariat prepared a document comparing various 1996/97 forecasts of forests revenue (excluding logging tax) and reflecting the following totals:

	CRF	Forest Renewal BC	Total
	(\$ Millions)		
Ministry of Forests forecasts:			
December 1995 (The latest officially released forecast)	1,243.8	360.0	1,603.8
March 1996 (Medium)	1,267.7	402.0	1,669.7
March 1996 (High)	1,333.5	452.2	1,785.7
Estimates forecast	1,584.0	435.0	2,019.0

In late May, Ms. Eaton prepared, based on new information, a briefing memorandum that provided the most recent overall budget forecast for the 1996/97 fiscal year. The purpose of this

memorandum was to show that, unless corrective actions were taken immediately, the 1996/97 fiscal year could incur a deficit of as much as \$1 billion. In this memorandum she presented new information that had become available to her since the end of April 1996. Also included was information about the adverse effects of certain events that were expected to occur. As summarized below, Ms. Eaton predicted a deficit of \$533 million for 1996/97, based on new information and a “worse-case” scenario deficit of as much as \$1,038 million. The latter indicated a shortfall of \$769 million in revenue, and additional expenditure of \$356 million:

(\$ Millions)	Revenue (reductions)	Expenditure (increases)	Surplus (Deficit)
May 1996 briefing memorandum:			
Budget forecast surplus, as shown in 1996/97 Estimates tabled by Minister Cull			87
New information	(458)	(162)	(620)
Sub-total			(533)
Expected events	(311)	(194)	(505)
Total	<u>(769)</u>	<u>(356)</u>	<u>(1,038)</u>
Variances of actual results from the Estimates, for comparison with the above			
	<u>(408)</u>	<u>47</u>	<u>(368)</u>

On June 12 or 13, 1996, Ms. Eaton used her late May briefing memorandum to provide a financial briefing to the Premier. Also in mid-June, Ms. Eaton used the same memorandum to brief Mr. Garry Wouters prior to his appointment on June 19, 1996, as the new Deputy Minister of Finance and Corporate Relations and Secretary to Treasury Board, and to brief Minister Petter just after his appointment on June 17, 1996, as Minister of Finance and Corporate Relations.

The quality of revenue forecasts made in May 1996 should be judged only against information available at that time. However, a looking-back comparison to the actual revenue results that were finalized 16 months later provides additional support to the concern that the revenue estimates, as tabled in April 1996, were overstated. As shown in the

above table, an overall comparison of this forecast for the 1996/97 fiscal year indicates that the actual revenue for the year was \$408 million less than that tabled in April 1996. The shortfall occurred despite the government receiving \$46 million more than estimated from federal contributions and \$65 million more from the BC Hydro and Power Authority—amounts that were not anticipated either in the 1996/97 Estimates or in the May 28 memorandum.

Clearly, a similar comparison for expenditure would not be very meaningful, considering the extensive expenditure postponements and cuts that occurred during the 1996/97 fiscal year.

The above forecast, we understand, concerned both Minister Petter and Deputy Minister Wouters. However, shortly after his appointment as Deputy Minister of Finance and Corporate Relations and Secretary to Treasury Board, Mr. Wouters advised Minister Petter to re-table the April budget. He based his advice on:

- the information he received from ministry officials on the latest available private sector economic forecasts;
- a review of Ms. Eaton's revenue assumptions;
- increasing softwood lumber prices; and
- the indication from ministries that a contingency strategy could be put into place that would substantially reduce expenditure.

As well, as explained earlier, Mr. Petter considered the budget he presented to reflect the outlook as of April 30, 1996, when Ms. Cull presented it for the first time.

On June 26, 1996, Mr. Petter tabled in the Legislative Assembly the newly elected government's *Estimates for the Fiscal Year Ending March 31, 1997*, which remained unchanged from that tabled by Ms. Cull on April 30 of the same year.

On September 10, 1996, Mr. Wouters wrote a memo to Mr. Petter explaining the economic and revenue forecasting processes used in establishing the government's 1996/97 budget.

Analysis of the Estimates for 1996/97

In June and July 1995, when staff of the Treasury Board Secretariat were getting ready to launch into the preparation of the fiscal framework for the 1996/97 Estimates, the government was in the fourth year of its mandate. A provincial election was anticipated for late 1995 or early 1996. Clearly, tabling the 1996/97 Estimates before an election would only

have made sense if those Estimates were likely to confirm the administration's success in managing provincial finances during 1995/96 and its intention to continue managing public resources prudently in 1996/97. In other words, for the NDP government, Budget '96 was an important political document.

As outlined earlier in this chapter, the self-imposed surplus targets of the debt management plan, the Nanaimo bingo scandal, and the downturn in provincial economy were some of the factors that shaped the political environment in which Budget '96 was being prepared. This environment seemed to affect the development of the new 1996/97 Estimates more seriously than it affected the revised forecasting of the 1995/96 Estimates, especially in the fall of 1995 when the 1996/97 Estimates process was starting in earnest. At that time, the Treasury Board Secretariat was being criticized repeatedly for its pessimistic forecasting.

On December 20, 1995, Ms. Eaton arranged for herself, Mr. Costello and Ms. McNabb to meet with Mr. Clark, then Minister of Employment and Investment. The main purpose of that meeting, in Ms. Eaton's view, was to discuss her concern about the pressures on staff to be more optimistic in their forecasting of the revenue estimates for 1996/97. In her capacity as the Secretary to Treasury Board, she was aware of the desire of ministers to expand in the 1996/97 fiscal year the spending of money she thought was not going to materialize. She wished to convey that message to Mr. Clark.

The Debt Management Plan included in Budget '95 had projected a 1996/97 revenue of \$20,235 million. Documents prepared by staff on January 20, 1996, for making presentations to ministers and the Caucus regarding the 1996/97 fiscal year suggest that the revenue forecast was still in the developmental stage by the end of January, as those documents use the debt management plan's revenue projections.

In late January 1996, the Secretariat completed its status quo budget forecast for the 1996/97 fiscal year.

An Exercise in Due Diligence

The newly formed eight-member Transition Team requested information about the status quo budget forecast for 1996/97, including aspects of the revenue estimates. Ms. Eaton was requested to ask her staff to provide alternative forecasts, or alternative economic scenarios. The reason was that the status quo revenue forecast did not consider those ranges in economic growth, or in commodity prices, that members of the team felt could materialize.

In February, as outlined earlier, an informal working group was formed. While at least two of the three members of this small group—Ms. Eaton and Mr. Gunton—continued discussions, they did not formalize their meetings as a committee and kept no minutes. In those discussions, Ms. Eaton would present the Treasury Board Secretariat’s position and Mr. Gunton would scrutinize it by challenging assumptions used by the Secretariat. The prime purpose of those reviews, we were told, was to ensure that the up-side and down-side risks were adequately quantified.

On a number of occasions during the short period the working group was in existence, Ms. Eaton asked her staff to brief her as to the results of analyses they made for her based on Mr. Gunton’s questions or suggestions. She would then discuss them with Mr. Gunton.

The first document Ms. Eaton’s staff prepared (for the Transition Team) contained the four scenarios referred to earlier, each produced around a base of assumptions, including that of a 2.7% increase in the real Gross Domestic Product (GDP). It is worth noting that the debt management plan assumed a GDP growth of 3.0% for 1996/97 in its first (1995) published version, while the 1996 amended plan assumed a 2.7% growth. Over the four scenarios, GDP growth ranged from 2.1% to 3.3%. Exhibit 4.7 provides a summary of the scenarios. Ordinarily, a reference to the “base scenario” would be made when staff of

Exhibit 4.7

High/Low Forecast for 1996/97

Shows the impact of various assumptions on British Columbia’s revenue

	Base	High 1	High 2	Low 1	Low 2
Economy (% Change):					
GDP	2.7	2.9	3.3	2.2	2.1
Consumer Price Index	2.4	2.7	2.7	2.4	2.4
Revenue (\$ Millions):					
Taxation	12,957	13,181	13,528	12,714	12,644
Natural resources	2,430	2,483	2,769	2,314	2,240
Other revenue	4,935	4,961	4,981	4,907	4,889
Total Revenue	20,322	20,625	21,278	19,935	19,773

Source: BC Ministry of Finance and Corporate Relations

the Treasury Board Secretariat refer to the “status quo” at the time of computing the 1996/97 revenue. The “base” here, however, meant a starting position based on new assumptions. The base revenue of \$20,322 million is close to the revenue of \$20,235 million projected in the debt management plan.

Mr. Gunton requested that Ms. Eaton also have her staff prepare additional revenue estimates based on greater commodity price impacts than had been incorporated into these four earlier scenarios.

Again, Secretariat staff provided Ms. Eaton with the required analyses, using their econometric model which is capable of providing only a rough revenue forecast. The results, made available on February 21, indicated that lumber had the largest revenue impact. A \$50 (20%) unit price increase in the price of lumber would result in an increase in 1996/97 Province’s revenue of \$571 million. Since this would eventually produce private sector corporate profits, the report stated that the actual revenue impact could vary depending on the extent of those profits. Another document, prepared on February 22, showed the impact that various lumber price changes would have on revenue.

These analyses were performed by Ms. Eaton’s staff as requested. According to Ms. Eaton, both Mr. McArthur and Mr. Gunton were much closer to events relating to the commodity price for lumber than she was. They advised her that discussions were taking place around the U.S. countervail duty issue and that British Columbia and other provinces were devising strategies that would drive up the price, probably to \$400 per 1,000 board feet. In early 1996, the price was around \$250 per 1,000 board feet. These analyses do not appear to have taken into account any potential change in export volume or the fact that only softwood lumber was affected.

Later in February, Ms. Eaton, on Mr. Gunton’s request, asked her staff to provide another analysis, based on previous work, using higher commodity prices. The result of this further analysis was a series of “ballpark” projections. Included in these projections was one that eventually set the stage for the estimates of revenue for the 1996/97 fiscal year. This, in some ministry documents, was referred to as the “alternate revenue forecast.”

Developing scenarios to examine various “what-if” questions is a normal, acceptable procedure used by budget forecasters, though the expectation is that the basic assumptions used in each scenario will fall within a range of possibilities. In the analyses that Ms. Eaton was asked to prepare, many

assumptions were used. The main ones, however—those relating to the GDP and commodity prices—were discussed often between the two active members of the Fiscal Budget Steering Committee, Ms. Eaton and Mr. Gunton, both of whom are economists and had similar involvement in the Treasury Board Secretariat and budget preparation, at different times.

The alternate revenue forecast (Exhibit 4.8) estimated the 1996/97 revenue to be \$20,785 million. Two of the important assumptions used in arriving at this estimated revenue were that the growth in the economy in British Columbia for 1996/97 would be 2.7%, and the average softwood lumber price would be \$325 per 1,000 board feet.

The arguments presented to us in support of these assumptions and the total estimated revenue are summarized below:

- The 2.7% growth in GDP was a reasonable assumption because it was in the mid-range of available forecasts by reputable private sector forecasters (Exhibit 4.9). Furthermore, it was the Ministry of Finance’s formal

Exhibit 4.8

Summarized 1996/97 Estimate of Revenue

1996/97 revenue based on staff forecast, alternate revenue forecast, and the Estimates (\$ Millions)

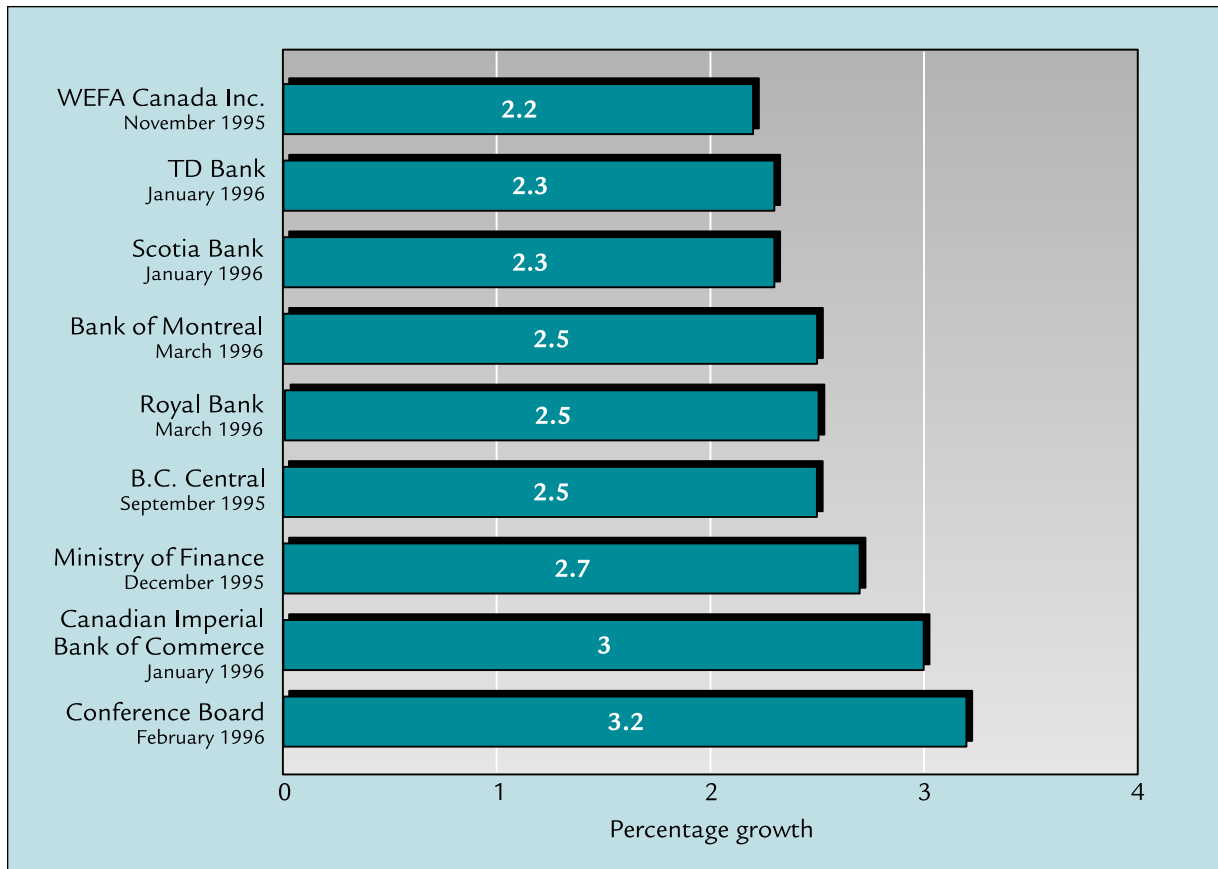
	January 1996 staff forecast	Alternate revenue forecast	Published Estimates
Taxes	13,026	13,464	13,219
Personal	5,300	5,350	5,216
Corporation	1,245	1,400	1,450
Sales	3,111	3,150	3,127
Property	288	305	305
All other	3,082	3,259	3,121
Natural resources	2,025	2,300	2,401
Forests	1,337	1,600	1,700
Oil and Gas	312	350	350
All others	376	350	351
Other revenue	1,955	2,040	2,018
Government enterprises	1,061	1,100	1,112
Government of Canada	1,881	1,881	1,909
Total Revenue	19,948	20,785	20,659

Source: BC Ministry of Finance and Corporate Relations

Exhibit 4.9

Forecasts of the Percentage Growth in British Columbia's Economy for the 1996/97 Fiscal Year

The GDP forecasts used for this chart were made on different dates, from September 1995 to March, 1996



Source: BC Ministry of Finance and Corporate Relations

position at the time, and the basis used for the staff's 1996/97 revenue estimate of \$19,948 million prepared in December 1995.

- The \$325 average softwood lumber price was also reasonable to assume, because it was within the range that was consistent with previous experience. Lumber prices averaged \$332 per 1,000 board feet in 1993, \$341 in 1994, and \$251 in 1995. In addition, a study by the Ministry of Forests, leading to the creation of Forest Renewal BC in fiscal year 1993/94, predicted an average long-term price of \$350.

- The \$20,785 million estimated total revenue was also reasonable, primarily because it was reflecting GDP growth of 2.7% and an average softwood lumber price of \$325. Also, a comparison of the alternate revenue forecast and the actual revenue ultimately realized for 1996/97 indicates that the forecast error was about 2%. This error rate is below the 4% error rate which is the 15-year average for British Columbia. The error rate is also well below the 3.9% which was the “all jurisdictions” average error rate in 1996/97. Accordingly, all scenarios developed through the sensitivity analysis—including the alternate revenue forecast—were reasonable, and the latter exceeded both historical and interjurisdictional standards of accuracy.

We have verified the information advanced in support of the above argument and agree that the assumptions—and the resulting alternate revenue forecast—have been selected from within a wide range of possible outcomes. However, considering that there would have been a number of scenarios to choose from, and that the purpose of this exercise was to advise the Minister of Finance and Corporate Relations on assumptions and bases for use in developing the revenue estimates for the 1996/97 fiscal year, the further issue is whether the underlying assumptions and resulting alternate revenue forecast were prepared with sufficient regard to all available data and the assessment of all known risks. In other words, was the suggested alternate revenue forecast free of disproportionate risks of either over- or under-estimating the revenue for 1996/97? We believe it was not.

As explained earlier, a 2.7% GDP growth was assumed in the alternate revenue forecast. Other assumptions included a 30% across-the-board increase in prices of forest products, and the expectation that the average price for softwood lumber would be \$325 for 1996/97.

Was applying 2.7% growth in GDP a responsible choice? Exhibit 4.9 shows that the Ministry of Finance and Corporation Relations’ December 1995 forecast of 2.7%—the one that was used in developing the alternate revenue forecast—was only slightly above the simple average of private sector forecasters during the period mid-January to mid-March, when the Fiscal Budget Steering Committee was active. This information was certainly available to the Treasury Board Secretariat’s forecasters. However, also available to the Secretariat was information about the fourth quarter of 1995—information that indicated a growth rate below 1%. In the same period, as later stated publicly in the background pages to Budget '96, Ms. Eaton and her staff were concerned about the downturn in economic

growth, and the fear of a recession beginning in North America. The economic forecasters of the Secretariat, who routinely obtain the views of other forecasters (published or not) and make adjustments in their own forecasts if necessary, were saying the 2.7% increase in GDP for 1996 was unlikely. Giving several reasons for taking this position, they concluded that their econometric model would not produce a forecast of more than 1.5 to 2% growth in GDP in 1996.

This conclusion was not based on a full-scale forecast by the Secretariat. To do complete economic forecasting requires significant effort. It is not done more than twice, or perhaps three times, in a year. In the interval, the Treasury Board Secretariat frequently updates the previous forecast internally, though it may not necessarily publish changes in its officially stated economic assumptions after each update. This is why, in early 1996, the Ministry of Finance and Corporate Relations was continuing to state, publicly, that its forecast for economic growth in 1996 would be 2.7% even despite the fact that the Treasury Board Secretariat's internal economic reports had cautioned Minister Cull since the summer of 1995 about a slowdown in economic growth.

Accordingly, an objective and responsible evaluation of the economic growth assumptions should have been made based on all available information. Given the circumstances, we concur with the concerns expressed by the Treasury Board Secretariat, in both its March 8 memo and its presentation to Minister Cull (see Appendix H). Applying the assumption of the 2.7% growth in the provincial economy for 1996, without making adjustments to address these concerns, carried with it a disproportionate risk of over-estimating the revenue for the 1996/97 year.

Was applying a 30% increase in the average price of softwood lumber (with a similar increase for other forest products) a responsible choice?

On December 4, 1995, the Deputy Minister of Forests, in a memorandum addressed to the Deputy Minister of Finance and Corporate Relations, cautioned the latter about the prospects of lower 1996/97 forests revenue than anticipated. The memo anticipated the forests revenue (excluding logging tax) would be \$1,248 million. The forests revenue included in the alternate revenue forecast was \$340 million above the Ministry of Forests' December figures. This difference was mostly due to an average price assumption for softwood lumber, which was approximately \$100 over the average price used by the Ministry of Forests in December.

At the time the analysis that resulted in the alternate revenue forecast was done, the softwood lumber price per 1,000 board feet stood at \$252. The Ministry of Forests and the Treasury Board Secretariat used \$285 for its forecast in March 1996. The unit price that was the basis for the alternate 1996/97 revenue forecast was \$325.

The economists in the Ministry of Finance and Corporate Relations considered it unwise to use the \$325 unit price for lumber in revenue forecasting. They argued that although achieving that price for lumber was a possibility, using it would “put us near the top end of the forecast range.” The problem with being close to the top of the forecast range is that the risks of being wrong would be largely on the downside.

Our evidence suggests that adopting the \$325 unit price as the basis for the softwood lumber was partly related to the in-progress U.S. countervail negotiations. This, too, was problematic in that the risk of the negotiations failing, as they did for the Columbia River Treaty downstream benefits, was not taken into account when the alternate revenue forecast was being developed in mid-March. However, the negotiations resulted in a contract, on April 1, 1996.

Also, as explained before, in computing forests revenue, a similar 30% increase in prices was extended to other forest products as well. As it happened, the increase in hemlock and cedar lumber prices in 1996 averaged only 20%, and there was a drastic drop in the prices of wood panels, pulp and paper. The softwood lumber price increased in due course and was in fact \$352 per 1,000 board feet in 1996.

Clearly, therefore, the issue is not whether a single assumption proved accurate or not. It is, rather, whether at the time of the 1996/97 budget preparation assumptions were chosen objectively and responsibly with due regard to the purpose of the exercise. Given the circumstances outlined above and information provided in Appendix H, we believe that the recommended assumption in mid-February 1996, of an across-the-board increase of 30% in price of all forest products, carried with it a disproportionate risk of overestimating the 1996/97 revenue.

Is the absolute forecast error for 1996/97 of around 2% (actually 2.6%) of the total revenue an adequate measure of that forecast’s “accuracy”?

While analyzing the budget-to-actual variances over a long period of time is one technique for judging the “quality” of forecasting, such analysis does not necessarily address the “accuracy” of a particular year's forecast. There are no hard and fast rules at present for evaluating the accuracy of particular forecasts. The variance between a forecast and an actual outcome may be due to many reasons, one of which could be forecasting errors. The actual outcome may closely match the forecast of a given year if forecasting errors compensate one another. Therefore, casting judgement on the accuracy of a single year's revenue forecast by looking back at the percentage of variance between that forecast and the actual amount that ensued, is not appropriate. Also, it is not a relevant measure for assessing risks associated with a forecast. Risks must be evaluated with reference to what was known, and what decisions were made, at the time. We have applied such evaluation in coming to our conclusion about the risks associated with the alternate revenue forecast.

The British Columbia government's revenue is made up of: various provincial taxes levied on the income of, and spending by, people and corporations; fees, royalties and other similar charges placed on exploitation of natural resources; dividends from government business enterprises; the Province's share of federal revenue; and money from a number of other sources. Clearly, therefore, the strength or weakness of the provincial economy would have an important effect on the government's revenue. The provincial rate of GDP growth is not, however, the sole determinant of the annual revenue of the Province. While a general economic growth assumption is key to defining the economic outlook and underlies most, if not all, revenue forecasts, other assumptions have a far more direct and significant bearing on particular revenue streams. Therefore, while a responsible determination of the provincial rate of GDP growth is essential in forecasting the annual revenue, the more important judgement about revenue estimates must be based on an analysis of many variable factors that may affect individual sources of revenue.

As indicated earlier, both Ms. Cull and her Deputy Minister, Ms. Eaton, were concerned that the underlying assumptions for most revenues included in the alternate revenue forecast carried with them excessive risks of being overstated. These assumptions included higher growth expectations than the two felt comfortable with in personal income, retail sales, corporate profits, and provincial share of the basic federal tax. In forecasting terms, neither Ms. Cull nor Ms. Eaton thought that revenue would grow to the extent portrayed in the alternate revenue forecast.

1996/97 Estimates: Judgement Exercised by Minister Cull

Of those who heard staff's concerns about the risks associated with the assumptions selected, Minister Cull was one who listened and understood. As she told us, regarding her meetings to brief the Premier in late February and again in early March of 1996, "there were numbers being discussed that were beyond my comfort level and I did go in to tell the Premier that my comfort on [the] revenue forecast was in a different place."

As explained before, Minister Cull was aware that the risk of the assumptions for growth in the provincial economy and for prices of forest products being wrong was on the downside. Nevertheless, in the final analysis, the budget is always that of the Minister of Finance and Corporate Relations. Given that the alternate revenue forecast—the genesis of the 1996/97 revenue estimates—was only a suggestion to the Minister, we think the matter comes down to two questions:

- Why did Minister Cull not reject the suggested alternate revenue numbers she and her deputy minister were uncomfortable with and, instead, decide to discuss her views with the Premier?
- What happened later that resulted in Minister Cull's decision to accept those revenue numbers for the purpose of the 1996/97 Estimates?

We believe Minister Cull did not reject the suggested alternate revenue forecast because, though she believed in her own mind that it was too optimistic, it was based on assumptions that carried with them the support of members of the FBSC, other than her own Deputy Minister, Ms. Eaton.

Ms. Eaton told us in her testimony that she was under the impression that Mr. Gunton was providing her with the views of the Premier's Office when discussing matters in the Fiscal Budget Steering Committee. Minister Cull was interested in briefing the Premier and hearing directly the Premier's own views.

Both Minister Cull and Ms. Eaton went to the Premier to let him know they were not comfortable with the suggested revenue estimates that were based on assumptions that, in their view, resulted in estimates being too optimistic and that they presumed he was familiar with. Minister Cull, at the time, felt she could live with around \$250 million of optimism because, if the revenue did not materialize, that would be the level of expenditure she could effectively manage to cut. The difference over and above her comfort level, in the suggested revenue estimates, was around \$550 million.

As for the second question, Minister Cull told us that it was the difference between the \$250 million (her comfort level) and the \$800 million (the total excess stemming from optimistic assumptions) that was problematic for both herself and Ms. Eaton. As she said under oath, “One way of looking at that would have been [for me] just to be more optimistic. I was not willing to be more optimistic, so as we got further and further into this process we began to look to alternative sources of revenue beyond what’s in this package. There were a number of alternative sources of revenue that were discussed and were possible additions to the revenue stream based on Cabinet decision. One of them was Forest Renewal, and collectively amongst this additional list there was enough additional revenue that I became comfortable enough to put in the \$20,659 million.”

So \$20,659 million of revenue it was. And, as already discussed, that is what it remained at when the 1996/97 Estimates were tabled for the second time, following the NDP’s re-election.

Producing the 1996/97 Estimates

How did the alternate revenue forecast relate to the 1996/97 revenue estimates? In the series of ballpark projections we referred to previously, the one called the alternate revenue forecast, totalling \$20,785 million, set the stage for the estimates of revenue for the 1996/97 fiscal year. Taking into account the general underlying assumptions used for the \$20,785 million revenue scenario, Ms. Eaton’s staff was expected to prepare detailed estimates of revenue from each major source, while still closely retaining the total revenue amount. This was not an easy task. Being familiar with the practical difficulties that her staff had to face, Ms. Eaton asked the Treasury Board Secretariat’s fiscal forecasters to work out, for inclusion in the 1996/97 Estimates, plausible revenue calculations, the results of which would approximate the broad numbers making up the alternate revenue forecast. Such broad numbers gave a general sense of what might be expected if certain assumptions about the economy and commodity prices were to materialize, but they were not meant to provide a basis for detailed budgeting.

The following example illustrates the difficulties Ms. Eaton’s staff were facing in developing the individual estimates of revenue so as to reach the overall revenue projection of \$20,785 million.

As shown in Exhibit 4.8, the alternate revenue forecast included forests revenue of \$1,600 million. This was the

estimated total revenue from timber sales, the Small Business Forest Enterprise Program, logging tax, and so on. Each of these forests revenue sources has its own unique character and reacts to economic changes differently, which is why each should be individually estimated. To calculate the timber sales figure, the revenue forecasters would have to estimate stumpage revenue from various types of trees (e.g., spruce, pine, fir and hemlock) for interior British Columbia and coastal areas separately. To do the reverse and first determine a total forests revenue of \$1,600 million, then allocate the total over its components, is not what the revenue forecasting process is designed to do.

The last revenue forecast carried out in accordance with the Secretariat's normal forecasting process was prepared in January 1996. At that time, the total projected revenue for 1996/97 was \$19,948 million. Exhibit 4.8 compares this with the two other forecasts of revenue: the alternate revenue forecast and the forecast ultimately published in the 1996/97 Estimates.

In determining new detailed estimates of revenue—which had to be based on assumptions used in the alternate revenue forecast—the challenge for Ms. Eaton's staff was to meet the total revenue amount while at the same time keeping the estimates of revenue from various predictable sources at realistic levels. Indeed, in regard to all components of the forecast, it was important to end up with figures that were plausible and not likely to be questioned as to their validity. For example, since a proposed Family Bonus Program had already been announced and substantial tax cuts were being contemplated by the government, any forecasted increase in personal tax revenue might have been interpreted as an intention to increase general personal tax rates.

These and similar concerns required staff to propose a \$245 million downward adjustment to the taxation revenue reflected in the alternate revenue forecast. Approximately \$100 million of that reduction was added back into the forests revenue (total \$1,700 million) and \$50 million to corporation income tax revenue, arbitrarily. After all adjustments, estimated revenue totalled \$20,659 million, an amount \$126 million below the alternate revenue forecast. This became the official 1996/97 fiscal year estimate of revenue—revenue that still enabled the budget for 1996/97 to show a small surplus.

A further issue that arose because of the high estimated forests revenue was the apportionment of stumpage revenue to Forest Renewal BC (FRBC). In keeping with the Forest Renewal Act (see Appendix C), since May 1994 a portion of the forests

revenue collected by the CRF must be dedicated and paid to FRBC. Consequently, the Estimates always show the forests revenue net of FRBC's share. As previously discussed, the forests revenue (minus the FRBC share) stood at \$1,700 million in the 1996/97 Estimates. In comments included in the budget and the Estimates, FRBC's dedicated revenue in 1996/97 was stated to be \$435 million.

Using the allocation formula described in the Act, we concluded that, if the CRF forests revenue was to be a net \$1,700 million for budget purposes, then the FRBC's share of total forests revenue would amount to \$595 million, or \$160 million more than the \$435 million noted in the budget and the Estimates. We are given to understand that both Ms. Eaton and the fiscal forecasting staff of the Treasury Board Secretariat were concerned that the FRBC share was not reported in the budget and Estimates in correct proportion to the CRF forests revenue. Nevertheless, Ms. Eaton instructed staff to leave the \$435 million figure in the budget and the Estimates as revenue of FRBC, for the following reasons:

- The FRBC revenue amount of \$435 million, which had been calculated on the basis of staff's January forests revenue forecast of \$1,337 million, had already been approved and communicated to FRBC.
- The estimate of the portion of forests revenue to be retained by the CRF was an optimistic target, one that the Treasury Board Secretariat found difficult to support. A similar difficulty would relate to an increased amount of FRBC revenue.
- A large increase in total forests revenue could invite questions from forestry companies about government's intentions regarding the raising of stumpage fees.

We believe that Ms. Eaton and staff of the Treasury Board Secretariat made adequate attempts, especially between February 22 and March 12, 1996, to air their concern about the risks associated with assuming a 2.7% growth in GDP and the \$325 average price for softwood lumber—specifically that they were both too close to the high end of the range of possibilities. Nevertheless, none of these attempts changed the fact that ultimately the alternate revenue forecast was suggested to the Minister and became the basis for the 1996/97 revenue estimates.

On March 8, 1996, the Secretariat documented its views on the declining economy, based on information currently available, and then set out to produce the 1996/97 Estimates.

1996/97 Estimates: Judgement Exercised by Minister Petter

What took place between May 1, 1996 and June 26, 1996—the date of the second tabling of the 1996/97 Estimates by Minister Petter—is outlined earlier in this chapter.

To advise Minister Petter, Mr. Wouters, the newly appointed (June 19, 1996) Deputy Minister of Finance and Corporate Relations, requested and received information from the ministry officials on the latest available private sector economic forecasts. Based on the information he received, Mr. Wouters concluded that the 2.7% GDP growth was plausible and attainable. However, our information suggests that although the concern about a recession in North America—that was looming in January and February of 1996—eased somewhat by June 1996, a number of private sector forecasters found it necessary to make downward adjustments to their previous forecasts of GDP growth in British Columbia. Consequently, in June 1996, the 2.7% GDP growth assumption that was used in developing the 1996/97 Estimates was the highest mark on a range of 1.7% to 2.7% forecasts.

Mr. Wouters requested staff of the Treasury Board Secretariat to present him with three revenue forecast scenarios for his review. Referring to the April revenue numbers as the “base,” staff concluded that other possibilities would result in significantly lower revenue for the 1996/97 fiscal year. These three forecast scenarios are summarized below.

Revenue (\$ Millions)	Base Case April 1996 Budget	Medium Case Scenario	Low Case Scenario
Taxation	13,219	12,894	12,669
Natural resources	2,401	2,251	2,101
Other revenue	2,018	1,938	1,828
Contribution from government enterprises	1,112	1,092	1,072
Contribution from federal government	1,909	1,919	1,929
Total revenue	20,659	20,094	19,599

Partly based on strong softwood lumber prices, and partly based on the belief that the 2.7% GDP growth was plausible, Mr. Wouters supported the base case scenario. It is worthy of note that in mid-June the softwood lumber unit

price was around \$325, but similar price increases did not occur for other forest products. For example, the unit price for hemlock dropped about 15% below the April 1996 price, and the pulp and paper market became substantially weaker in the April-to-June period.

The Deputy Minister also reviewed the expenditure estimates. In this regard, he concluded that some of the \$162 million expenditure pressures identified by Ms. Eaton in May 1996 would be expected to be absorbed in ministries' budgets, and the \$194 million representing the expenditure pressures due to "expected events" were only probabilities (see page 178). Mr. Wouters was also aware that a contingency strategy including program cuts, a hiring freeze and other funding decisions could be put immediately into place after the Estimates were tabled, achieving substantial expenditure reductions. He therefore recommended that the Budget '96 be presented and the *Estimates for the Fiscal Year Ending March 1997* be re-tabled with no change.

According to Mr. Petter, the decisions that he took in reference to Budget '96 were based upon, and consistent with, the advice he received from both Ms. Eaton and Mr. Wouters. Ms. Eaton could not recall giving this advice. Ms. Eaton's attempt to draw attention to the risks of the April estimates being wrong—even after having been informed that she could anticipate being reassigned to another ministry—are well documented. Mr. Petter's decision to re-introduce Budget '96 was, however, congruent with Mr. Wouters' advice. Nevertheless, it seems that the main reason behind that decision was the Minister's belief that he was not introducing a new budget.

Therefore, the 1996/97 Estimates tabled again in late June 1996 continued to carry with it a disproportionate risk of being wrong on the downside, as was its predecessor tabled in April 1996.

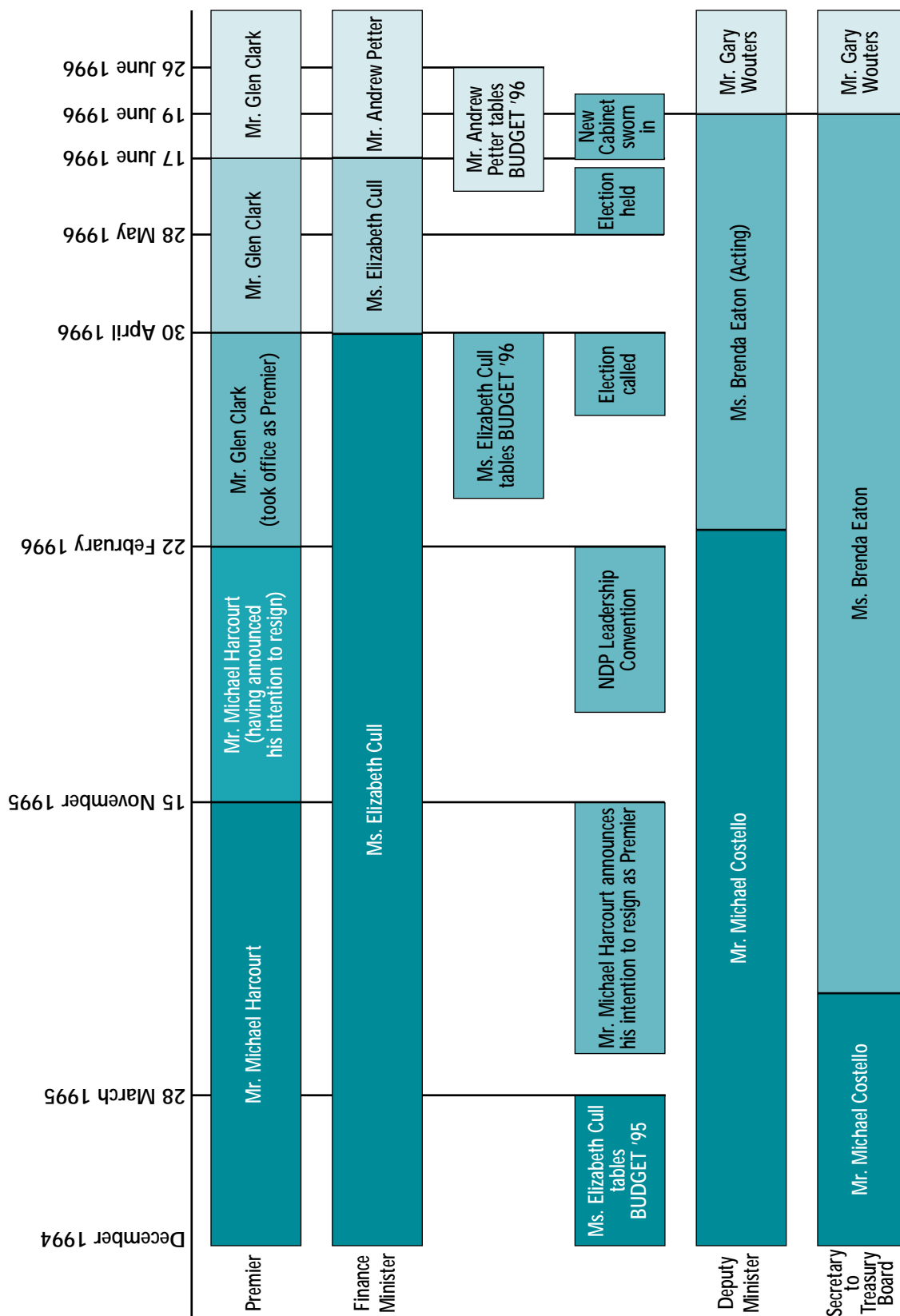


appendices



appendix a

Budget '96: Key Officials and Events, December 1994 to June 1996



appendix b

Excerpts from the Financial Administration Act (R.S.B.C. 1996)

Treasury Board

3. (1) The committee of the Executive Council called the Treasury Board is continued and consists of the Minister of Finance and Corporate Relations as chair, and other members of the Executive Council appointed by the Lieutenant Governor in Council, one of whom must be designated in the appointment as vice chair.
- (2) On the recommendations of the Minister of Finance and Corporate Relations, the Lieutenant Governor in Council may appoint a senior public officer as secretary to the Treasury Board.
- (3) Subject to this Act and the directions of the Executive Council, the Treasury Board may determine its rules and methods of procedure.

Powers, functions and duties of the Treasury Board

4. (1) The Treasury Board must act as a committee of the Executive Council in matters relating to the following:
 - (a) accounting policies and practices, including the form and content of the Public Accounts and the Estimates;
 - (b) government management practices and systems;
 - (c) government financial management and control, including expenditures and assets;
 - (d) evaluation of government programs as to economy, efficiency and effectiveness;
 - (e) government personnel management;
 - (f) other matters referred to it by the Executive Council.
- (2) The Treasury Board may make regulations or issue directives respecting the matters set out in subsection (1) (a) to (e), other than those matters referred to in section 2(a) to (i) of the Public Service Act, S.B.C. 1985, c. 15.

Ministry of Finance and Corporate Relations

5. (2) The Minister of Finance and Corporate Relations presides over the Ministry of Finance and Corporate Relations and is responsible to the Lieutenant Governor in Council for its direction.

Duties and functions of ministers

6. (1) The Minister of Finance and Corporate Relations is responsible for
 - (a) the management and administration of the consolidated revenue fund,
 - (b) supervision of the revenues and expenditures of the government, and
 - (c) matters relating to the fiscal policy of the government.
- (2) The Minister of Finance and Corporate Relations has, in addition to his or her responsibilities under subsection (1), the supervision, control and direction of all other matters relating to the financial affairs of the government that are not assigned by this or any other enactment to the Treasury Board or to any other person.
- (3) Each minister is responsible for the administration of the financial affairs of his or her ministry, under the general direction of the Minister of Finance and Corporate Relations and the Treasury Board.

Financial statements

10. The financial statements of the government for each fiscal year must be prepared in accordance with the government's accounting policies as established by the Treasury Board and must
 - (a) contain the government's accounting policies as established by the Treasury Board,
 - (b) contain statements of
 - (i) the financial position of the government as at the end of the fiscal year,
 - (ii) the revenues and expenditures of the government for that fiscal year, and
 - (iii) changes in the financial position of the government for that fiscal year,

- (c) contain statements, prepared in a form directed by the Treasury Board, of
 - (i) appropriations for the fiscal year compared to the actual expenditures and the amount unexpended for that fiscal year,
 - (ii) the debt guaranteed by the government as at the end of that fiscal year,
 - (iii) other accounts and information that are necessary to show the financial position of the government with respect to that fiscal year,
 - (iv) assets, debts and obligations written off in that fiscal year,
 - (v) debts and obligations extinguished in that fiscal year, and
 - (vi) remissions made in that fiscal year, and
- (d) be transmitted by the Comptroller General to the Treasury Board and the Auditor General by September 30 next following the end of the fiscal year.

Public accounts

- 11. (1) The public accounts for each fiscal year must be prepared in a form the Treasury Board directs and must
 - (a) contain
 - (i) the financial statements of the government required by section 10,
 - (ii) the report of the Auditor General on the financial statements of the government as required by section 10 of the *Auditor General Act*,
 - (iii) the statements required by sections 25 (2), 70 (2) and (3) and 74 (3) of this Act, and
 - (iv) supplementary schedules, financial statements of government corporations and trust funds and other information required, by the Treasury Board or by this or any other Act, to be included in the public accounts, and
 - (b) be transmitted by the Comptroller General to the Minister of Finance and Corporate Relations not later than December 31 following the end of the fiscal year and be laid before the Legislative Assembly by the Minister of Finance and Corporate Relations within

15 days of the first available sitting after the transmission.

- (2) The Comptroller General must prepare and submit to the Minister of Finance and Corporate Relations a further statement, prepared in accordance with the government's established accounting policies, of the revenue and expenditure of the government from the end of the last fiscal year to the most recent date practicable.
- (3) The Minister of Finance and Corporate Relations must present the statement referred to in subsection (2) to the Legislative Assembly when the annual estimates of revenue and expenditure are presented.

No payment out of consolidated revenue fund without authority

21. (1) Money must not be paid out of the consolidated revenue fund without the authority of an appropriation.

Estimates and votes

23. (1) The estimates of revenue and expenditure for each fiscal year must be prepared in a form directed by the Treasury Board for presentation to the Legislative Assembly by the Minister of Finance and Corporate Relations.
- (2) A sum appropriated by a *Supply Act* must not be spent for any purpose other than those described in the estimates of revenue and expenditure, or in excess of the amounts contained in the estimates of revenue and expenditure.



appendix c

Excerpts from the Forest Renewal Act (R.S.B.C. 1996)

Purpose

2. The purpose of this Act is to renew the forest economy of British Columbia, enhance the productive capacity and environmental value of forest lands, create jobs, provide training for forest workers and strengthen communities.

Mandate

4. (3) Forest Renewal BC must comply with any general or special direction, with respect to the exercise of its powers and functions, that is made by order of the Lieutenant Governor in Council.

Forest Renewal BC revenue

11. (1) The Minister of Finance and Corporate Relations must advance \$75 million to Forest Renewal BC out of the consolidated revenue fund within 30 days after June 2, 1994.
 - (2) Money advanced to Forest Renewal BC under subsection (1) must be offset, in accordance with a schedule to be determined by the Minister of Finance and Corporate Relations, against money payable to Forest Renewal BC under subsection (4).
 - (3) As soon as practicable after each quarter of the fiscal year of the government, the Minister of Finance and Corporate Relations must issue a written estimate of the amount of the portion of the government's royalty and stumpage revenue under the *Forest Act* for that quarter that is attributable to any changes made to the rates of royalty or stumpage under the *Forest Act* that take effect after April 30, 1994.
 - (4) Subject to subsections (2) and (6), as soon as practicable after each quarter of the fiscal year of the government, the Minister of Finance and Corporate Relations must pay to Forest Renewal BC out of the consolidated revenue fund an amount calculated for that quarter by deducting, from the amount estimated under subsection (3), 20% of that amount.

- (5) By way of explanation, but without affecting the operation of subsection (4), the deduction of 20% referred to in that subsection is an approximation of the reduction in the government's revenue from corporate income tax under the *Income Tax Act*, and from logging tax under the *Logging Tax Act*, that is attributable to the changes, referred to in subsection (3), to the rates of royalty or stumpage.
- (6) For the purpose of subsection (4), the amount to be paid out of the consolidated revenue fund for each fiscal year of the government is to be
 - (a) reduced by \$50 million, if the sum of the quarterly amounts calculated under subsection (4) for that fiscal year is \$50 million or more, or
 - (b) reduced to zero if the sum of those amounts is less than \$50 million.



appendix d

Examples of Legislated Accountability Requirements in Jurisdictions in Canada

Canada – Excerpts from the Financial Administration Act (1984)

Corporate Plans

122. (1) Each parent Crown corporation shall annually submit a corporate plan to the appropriate Minister for the approval of the Governor in Council on the recommendation of the appropriate Minister and, if required by the regulations, on the recommendation of the Minister of Finance.

Scope of Corporate Plan

- (2) The corporate plan of a parent Crown corporation shall encompass all the businesses and activities, including investments, of the corporation and its wholly-owned subsidiaries, if any.

Contents of Corporate Plan

- (3) The corporate plan of a parent Crown corporation shall include a statement of
- (a) the objects or purposes for which the corporation is incorporated, or the restrictions on the businesses or activities that it may carry on, as set out in its charter;
 - (b) the corporation's objectives for the period to which the plan relates and for each year in that period and the strategy the corporation intends to employ to achieve those objectives; and
 - (c) the corporation's expected performance for the year in which the plan is required by the regulations to be submitted as compared to its objectives for that year as set out in the last corporate plan or any amendment thereto approved pursuant to this section.

Operating Budgets

123. (1) Each parent Crown corporation named in Part I of Schedule III shall annually submit an operating budget for the next following financial year of the corporation to the appropriate Minister for the approval of the Treasury Board on the recommendation of the appropriate Minister.

Scope of Operating Budget

- (2) The operating budget of a parent Crown corporation shall encompass all the businesses and activities, including investments, of the corporation and its wholly-owned subsidiaries, if any.

Capital Budgets

124. (1) Each parent Crown corporation shall annually submit a capital budget for the next following financial year of the corporation to the appropriate Minister for the approval of the Treasury Board on the recommendation of the appropriate Minister.

Financial Statements

- (4) Each parent Crown corporation shall cause financial statements to be prepared annually, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with generally accepted accounting principles as supplemented or augmented by regulations made pursuant to subsection (6), if any.

Annual Report

150. (1) Each parent Crown corporation shall, as soon as possible, but in any case within three months, after the termination of each financial year submit an annual report on the operations of the corporation in that year concurrently to the appropriate Minister and the President of the Treasury Board, and the appropriate Minister shall cause a copy of the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after he receives it.
- (2) An annual report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to the businesses and activities of the corporation submitting the report.

Alberta – Excerpts from the Government Accountability Act (1995)

Public Documents

3. In this Act, if a person is required to make a document public, the person must
 - (a) lay the document before the Legislative Assembly if it is sitting at the time the document is required to be made public or, if it is not then sitting, within 15 days after the commencement of the next sitting, and
 - (b) make the document available to the general public in a reasonable manner at the time required under this Act, whether or not the document has been laid before the Legislative Assembly.

Consolidated Reports

Consolidated fiscal plan

4. (1) The Provincial Treasurer must prepare a consolidated fiscal plan for the Government for each fiscal year.
- (2) The Provincial Treasurer must make the consolidated fiscal plan public at the time the Provincial Treasurer tables the estimates for that fiscal year in the Legislative Assembly.
- (3) A consolidated fiscal plan for a fiscal year must be for a period that includes the fiscal year and at least the 2 subsequent fiscal years.

Specific contents of consolidated fiscal plan

5. (1) A consolidated fiscal plan must include estimated amounts for the Government for the fiscal year of
 - (a) the total revenue and a breakdown by sources of revenue,
 - (b) the total expenditure and a breakdown by category of expenditure,
 - (c) the consolidated net revenue or expenditure,
 - (d) the total capital investment, including a breakdown by categories of the capital investment,
 - (e) the consolidated surplus,
 - (f) the net debt and a breakdown by liabilities and financial assets,
 - (g) the borrowing requirements, and

- (h) any other information the Provincial Treasurer considers appropriate.
- (2) A consolidated fiscal plan must include targets for the Government for each of the subsequent fiscal years included in the plan for
 - (a) the total revenue from all sources,
 - (b) the total expenditure,
 - (c) the consolidated net revenue or expenditure,
 - (d) the consolidated surplus, including the net change in capital assets,
 - (e) the net debt, and
 - (f) any other information the Provincial Treasurer considers appropriate.

Major assumptions

- 6. A consolidated fiscal plan must include
 - (a) the major economic assumptions the Provincial Treasurer made in preparing the plan, including the effect changes in the assumptions may have on the finances of the Government in the fiscal years to which the plan relates, and
 - (b) the anticipated economic conditions for the fiscal years to which the plan relates.

Consolidated business plan

- 7. (1) The Provincial Treasurer must prepare a consolidated business plan for the Government as part of the consolidated fiscal plan for a fiscal year.
- (2) A consolidated business plan must be for a period that includes the fiscal year and at least the 2 subsequent fiscal years.
- (3) A consolidated business plan must include
 - (a) the goals set for each of the core businesses of the Government,
 - (b) the measures to be used in assessing the performance of the Government for each of the core businesses,
 - (c) the results desired by the Government for each of the core businesses, and
 - (d) a summary of the business plan of each ministry.

Multiple budgets

8. (1) If the Provincial Treasurer tables more than one set of estimates in the Legislative Assembly in respect of a fiscal year, the Provincial Treasurer must table with the 2nd and any subsequent set of estimates a new consolidated fiscal plan or an amendment to the consolidated fiscal plan for the fiscal year.
- (2) Subsection (1) does not apply in the case of estimates tabled in respect of interim supply.

Reports on progress

9. (1) The Provincial Treasurer must report publicly to the Lieutenant Governor in Council on the accuracy of the consolidated fiscal plan for a fiscal year,
 - (a) with respect to the first 3 months of the fiscal year, on or before August 31 in that year,
 - (b) with respect to the first 6 months of the fiscal year, on or before November 30 in that year, and
 - (c) with respect to the first 9 months of the fiscal year, on or before February 28 in that year.
- (2) The Provincial Treasurer may determine the form of a report made under this section.
- (3) If a report made by the Provincial Treasurer under this section includes all the information that is required to be given in a quarterly fiscal report under any other Act, the report under this section is deemed also to be made for the purposes of the other Act.

Consolidated annual report

10. (1) The Provincial Treasurer must prepare and make public on or before June 30 of each year a consolidated annual report for the Province of Alberta for the fiscal year ended on the preceding March 31.
- (2) The consolidated annual report must include for a fiscal year
 - (a) the consolidated financial statements of the Province of Alberta,
 - (b) a comparison of the actual performance results and the desired results included in the business plan under section 7(3),

- (c) a message from the Provincial Treasurer providing an overview of results achieved in the Government's core businesses, and
 - (d) any other information the Provincial Treasurer considers appropriate.
- (3) If the Auditor General's report under section 18 of the *Auditor General Act* in respect of a fiscal year is available when the Provincial Treasurer makes public the consolidated annual report for the fiscal year, the Provincial Treasurer must include the Auditor General's report with the consolidated annual report.

Provincial Treasurer's responsibility

11. (1) The Provincial Treasurer must include statements of responsibility with a consolidated fiscal plan and the consolidated annual report.
- (2) A statement of responsibility must include a statement to the effect that all of the Government's policy decisions with material economic or fiscal implications have been considered in the preparation of the consolidated fiscal plan or consolidated annual report.
- (3) A statement of responsibility must be made public with the consolidated fiscal plan or consolidated annual report to which the statement relates.

Non-compliance statement

12. (1) If a consolidated fiscal plan or a consolidated annual report does not include all the information required under this Act, the Provincial Treasurer must make public a written statement that explains any omission when the plan or report is made public.
- (2) If the Provincial Treasurer does not make a consolidated fiscal plan or consolidated annual report public at the time required under this Act, the Provincial Treasurer must make public a written statement that gives the reasons for the non-compliance.
- (3) A statement under subsection (2) must be made public not more than 7 days after the date on which the consolidated fiscal plan or consolidated annual report should have been made public.

*Ministry reports**Ministry business plan*

13. (1) A Minister must prepare a business plan for the ministry for each fiscal year in a form and at a time acceptable to the Treasury Board.
- (2) Ministers must make public the ministry business plans for their ministries for a fiscal year at the same time the Provincial Treasurer is required to make the consolidated fiscal plan for the fiscal year public.
- (3) A Minister must include in the ministry business plan
 - (a) the same type of information for the ministry that must be included in a consolidated business plan for the Government under section 7,
 - (b) a summary of the total revenue and expenditure targets for the ministry, and
 - (c) any other information the Treasury Board or the Minister considers appropriate.

Ministry annual report

14. (1) A Minister must prepare and make public an annual report for the ministry for the fiscal year ended on the preceding March 31 in a form and at a time acceptable to the Treasury Board.
- (2) A Minister must include in the ministry's annual report for a fiscal year
 - (a) the same type of information for the ministry that must be included in a consolidated annual report under section 10,
 - (b) the financial statements of each of the components of the ministry as supplemental information,
 - (c) a summary of expenditures under each appropriation in the ministry, and
 - (d) any other information the Treasury Board or the Minister considers appropriate.
- (3) A ministry's annual report prepared in accordance with this Act and laid before the Legislative Assembly in accordance with section 52 of the *Legislative Assembly Act* is deemed to be a general report summarizing the transactions and affairs of the department of the Minister for the purposes of section 52 of the *Legislative Assembly Act*.

- (4) If a Minister is required to lay the financial statements of a component of the ministry before the Legislative Assembly under any other Act and those financial statements are included in the ministry's annual report when it is made public under this Act, the financial statements are deemed to have been laid before the Legislative Assembly for the purposes of that other Act.

Minister's responsibility

15. (1) A Minister must include statements of responsibility with the ministry's business plan and annual report.
 - (2) A statement of responsibility must include a statement that all of the Government's and the Minister's policy decisions with material economic or fiscal implications have been considered in the preparation of the ministry's business plan or annual report.
 - (3) A statement of responsibility must be made public with the ministry's business plan or annual report to which the statement relates.

Accountable organization

16. (1) In this section,
 - (a) "accountable organization" means a Provincial agency, a Crown-controlled organization, a board under the *School Act* or a regional health authority, subsidiary health corporation, community health council or provincial health board under the *Regional Health Authorities Act*;
 - (b) "Provincial agency" includes a Provincial agency referred to in section 2(5) of the *Financial Administration Act* and The Workers' Compensation Board under the *Workers' Compensation Act*.
- (2) The governing body of an accountable organization must prepare and give to the Minister responsible for the accountable organization a business plan and annual report for each fiscal year containing the information, in the form and at a time acceptable to the Minister.
- (3) An accountable organization must give any person who requests it a copy of the business plan or annual report referred to in subsection (2) after it is given to the Minister.



appendix e

Examples of Codification of Budget and Fiscal Management Principles in Jurisdictions Outside Canada

Australia — Excerpts from the Charter of Budget Honesty Act (1998)

Part 1—Purpose and Overview

1. Purpose of Charter of Budget Honesty

The Charter of Budget Honesty provides a framework for the conduct of Government fiscal policy. The purpose of the Charter is to improve fiscal policy outcomes. The Charter provides for this by requiring fiscal strategy to be based on principles of sound fiscal management and by facilitating public scrutiny of fiscal policy and performance.

2. Overview of obligations

Principles of sound fiscal management

- (1) The Government's fiscal strategy is to be based on the principles of sound fiscal management (see Part 3).

Fiscal strategy statements

- (2) The Government's fiscal strategy is to be set out in a fiscal strategy statement publicly released and tabled by the Treasurer with each budget (see Part 4).

Regular fiscal reporting

- (3) The Treasurer is to publicly release and table regular fiscal reports as follows:
 - (a) there is to be a budget economic and fiscal outlook report with each budget (see Division 1 of Part 5);
 - (b) there is to be a mid-year economic and fiscal outlook report by the end of January in each year or within 6 months after the last budget, whichever is later (see Division 2 of Part 5);
 - (c) there is to be a final budget outcome report within 3 months of the end of each financial year (see Division 3 of Part 5).

Intergenerational reports

- (4) The Treasurer is to publicly release and table an intergenerational report at least once every 5 years (see Part 6).

General elections—pre-election report

- (5) The Secretaries to the Departments of the Treasury and Finance are to publicly release a pre-election fiscal and economic outlook report if a general election is called (see Part 7).

General elections—policy costings

- (6) The Government, or the Opposition (if the Prime Minister agrees to refer the request), may ask the Secretaries to the Departments of the Treasury and Finance to prepare a costing of any of its publicly announced policies if a general election is called. The costing will then be publicly released (see Part 8).

Part 3—Principles of Sound Fiscal Management

4. Formulation of government fiscal policy

- (1) The Government's fiscal policy is to be directed at maintaining the on-going economic prosperity and welfare of the people of Australia and is therefore to be set in a sustainable medium-term framework.
- (2) To meet this objective, the Government's fiscal strategy is to be based on the principles of sound fiscal management.

5. The principles of sound fiscal management

- (1) The principles of sound fiscal management are that the Government is to:
 - (a) manage financial risks faced by the Commonwealth prudently, having regard to economic circumstances, including by maintaining Commonwealth general government debt at prudent levels; and
 - (b) ensure that its fiscal policy contributes:
 - (i) to achieving adequate national saving; and
 - (ii) to moderating cyclical fluctuations in economic activity, as appropriate, taking account of the economic risks facing the nation and the impact of those risks on the Government's fiscal position; and
 - (c) pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden; and

- (d) maintain the integrity of the tax system; and
 - (e) ensure that its policy decisions have regard to their financial effects on future generations.
- (2) The financial risks referred to in paragraph (l)(a) include risks such as:
- (a) risks arising from excessive net debt; and
 - (b) commercial risks arising from ownership of public trading enterprises and public financial enterprises; and
 - (c) risks arising from erosion of the tax base; and
 - (d) risks arising from the management of assets and liabilities.



Great Britain—Excerpts from The Code for Fiscal Stability (1998)

Section 1—Introduction

In its Pre-Budget Report in November 1997, the Government announced its intention to implement and adopt a statutory Code for Fiscal Stability. A consultative paper on the Code was issued at the same time.

The Chancellor explained that the Code would set out clearly the Government's commitment to a common sense and accountable approach to managing the public finances in the long-term interests of Britain. Moreover, the Government believes that should any future government wish to take a different view, it should first be required to consult and persuade Parliament of the need to change.

The proposal was based on three key considerations:

- a stable economic environment is vital if growth and employment are to prosper;
- the conduct of fiscal policy has a critical influence on economic stability; and
- the framework for fiscal policy inherited by the Government had failed to deliver a stable economic environment. Indeed, fiscal policy had been an important source of instability in the economy.

This document sets out the Code for Fiscal Stability. It is designed to address past weaknesses in the fiscal policy framework. In particular, it complements the openness,

transparency and accountability that now characterizes the framework for monetary policy. It improves the quality of information given to the public, the lack of which in the past was an important factor underlying policy mistakes.

Key provisions

Under the Code, the Government will undertake the following commitments. It will:

- conduct fiscal and debt management policy in accordance with a specific set of principles;
- state explicitly its fiscal policy objectives and operating rules, and justify any changes to them;
- operate debt management policy to achieve a specific primary objective;
- disclose, and quantify where possible, all decisions and circumstances which may have a material impact on the economic and fiscal outlook;
- ensure that best-practice accounting methods are used to construct the public accounts;
- publish a Pre-Budget Report to encourage debate on the proposals under consideration for the Budget;
- publish a Financial Statement and Budget Report to discuss the key Budget decisions and the short-term economic and fiscal outlook;
- publish an Economic and Fiscal Strategy Report outlining the Government's long-term goals and strategy for the future;
- publish a specific range of information from its economic and fiscal projections, including estimates of the cyclically-adjusted fiscal position;
- invite the National Audit Office (NAO) to audit changes in the key assumptions and conventions underpinning the fiscal projections;
- produce a Debt Management Report outlining the Government's debt management plans;
- refer all reports issued under the Code to the House of Commons Treasury Committee; and
- ensure the public have full access to the reports issued under the Code.

Legislation

The Government sees great advantage in giving the Code a statutory basis. To that end, the Government is including provisions in the current Finance Bill. In particular, the Bill will:

- require the Government to lay before Parliament a Code for Fiscal Stability;
- allow governments to issue an amended Code but only with Parliamentary approval under affirmative resolution procedures; and
- specify the minimum provisions that the Code must contain. In essence, the Bill will require the Government to issue a Code for the application of five key principles of fiscal management—transparency, stability, responsibility, fairness and efficiency—to the formulation and implementation of fiscal and debt management policy.

These statutory requirements will make policy more transparent and governments readily answerable for any departure from the Code.

The Code for Fiscal Stability set out in Section 2 is that which the Government intends to lay before Parliament pursuant to the current Finance Bill. A draft of the clauses that will appear in the Finance Bill is reproduced in the Annex. It should be noted that this draft is subject to change before publication of the Bill.

Section 2—The Code for Fiscal Stability

Purpose of the Code

1. The purpose of the Code is to improve the conduct of fiscal policy by specifying the principles that shall guide the formulation and implementation of fiscal policy and by strengthening the reporting requirements incumbent on the Government.
2. In this Code, except where the contrary is stated, fiscal policy includes debt management policy.

Principles of Fiscal Management

3. The Government shall conduct its fiscal policy in accordance with the following principles:
 - (a) **transparency** in the setting of fiscal policy objectives, the implementation of fiscal policy and in the publication of the public accounts;

- (b) **stability** in the fiscal policy-making process and in the way fiscal policy impacts on the economy;
 - (c) **responsibility** in the management of the public finances;
 - (d) **fairness**, including between generations; and
 - (e) **efficiency** in the design and implementation of fiscal policy and in managing both sides of the public sector balance sheet.
4. The principle of **transparency** means that the Government shall publish sufficient information to allow the public to scrutinize the conduct of fiscal policy and the state of the public finances, and shall not withhold information except where publication of that information would:
- (a) substantially harm:
 - (i) the national security, defence or international relations of the United Kingdom;
 - (ii) the investigation, prosecution, or prevention of crime, or the conduct of civil proceedings;
 - (iii) the right to privacy;
 - (iv) the right of other parties to undertake confidential communications with the Government;
 - (v) the ability of the Government to undertake commercial activities; or
 - (b) harm the integrity of the decision-making and policy advice processes in government.
5. The principle of **stability** means that, so far as reasonably practicable, the Government shall operate fiscal policy in a way that is predictable and consistent with the central economic objective of high and stable levels of growth and employment.
6. The principle of **responsibility** means that the Government shall operate fiscal policy in a prudent way, and manage public assets, liabilities and fiscal risks with a view to ensuring that the fiscal position is sustainable over the long term.
7. The principle of **fairness** means that, so far as reasonably practicable, the Government shall seek to operate fiscal policy in a way that takes into account the financial effects on future generations, as well as its distributional impact on the current population.

8. The principle of **efficiency** means that the Government shall seek to ensure that it uses resources in ways that give value for money, that public assets are put to the best possible use and that surplus assets are disposed of. The Government shall also have regard to economic efficiency and compliance costs when forming taxation policy.



New Zealand—Excerpts from the Fiscal Responsibility Act (1994)

Principles of Responsible Fiscal Management

- (1) Subject to subsection (3) of this section, the Government shall pursue its policy objectives in accordance with the principles of responsible fiscal management specified in subsection (2) of this section.
- (2) The principles of responsible fiscal management are:
 - (a) Reducing total Crown debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total Crown debt in the future, by ensuring that, until such levels have been achieved, the total operating expenses of the Crown in each financial year are less than its total operating revenues in the same financial year; and
 - (b) Once prudent levels of total Crown debt have been achieved, maintaining these levels by ensuring that, on average, over a reasonable period of time, the total operating expenses of the Crown do not exceed its total operating revenues; and
 - (c) Achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future; and
 - (d) Managing prudently the fiscal risks facing the Crown; and
 - (e) Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.
- (3) The Government may depart from the principles of responsible fiscal management specified in subsection (2) of this section, but when the Government does so:
 - (a) Any such departure shall be temporary; and

- (b) The Minister of Finance shall, in accordance with this Act, specify:
 - (i) The reasons for the Government's departure from those principles; and
 - (ii) The approach the Government intends to take to return to those principles; and
 - (iii) The period of time that the Government expects to take to return to those principles.

5. Generally accepted accounting practice

All financial statements included in reports required under this Act shall be prepared in accordance with generally accepted accounting practice.

6. Budget policy statement

- (1) The Minister shall, not later than the 31st day of March in each year, cause to be published a budget policy statement.

7. Fiscal strategy report

- (1) The Minister shall, for each financial year, after the introduction of the first Appropriation Bill relating to that financial year, but on the day of the introduction of that Bill, lay before the House of Representatives a report on the Government's fiscal strategy.

8. Economic and fiscal update

- (1) The Minister shall for each financial year, after the introduction of the first Appropriation Bill relating to that financial year, but on the day of the introduction of that Bill, lay before the House of Representatives a report containing an economic and fiscal update prepared by the Treasury.
- (2) The update shall contain economic and fiscal forecasts relating to the financial year to which the Appropriation Bill relates and to each of the following 2 financial years.
- (3) The update shall contain a statement specifying the day on which the contents of the update were finalised, or the days on which the contents of different specified aspects of the update were finalised.

9. Economic forecasts

- (1) The economic forecasts contained in the update shall, for each of the 3 financial years to which they relate, include forecasts of movements in New Zealand's:

- (a) Gross domestic product, including the major components of gross domestic product;
 - (b) Consumer prices;
 - (c) Unemployment and employment;
 - (d) Current account position of the balance of payments.
- (2) The economic forecasts shall also include a statement of all significant assumptions underlying them.

10. Fiscal forecasts

- (1) The fiscal forecasts contained in the update shall, for each of the 3 financial years to which they relate, include forecast financial statements for the Crown.
- (2) The forecast financial statements for the Crown shall include:
- (a) A statement of the forecast financial position of the Crown at the balance date for each of those financial years;
 - (b) An operating statement reflecting the forecast revenue and expenses of the Crown for each of those financial years;
 - (c) A statement of cash flows reflecting forecast cash flows of the Crown for each of those financial years;
 - (d) A statement of borrowings reflecting the forecast borrowing activities of the Crown for each of those financial years;
 - (e) Such other statements as are necessary to fairly reflect the forecast financial operations of the Crown for each of those financial years and its forecast financial position at the end of each of those financial years.
- (3) The forecast financial statements for the Crown shall also include:
- (a) A statement of commitments of the Crown as at the day on which the forecast financial statements are finalised, (other than the commitments included in the statements prepared under subsection (2) of this section);
 - (b) A statement of specific fiscal risks of the Crown as at the day on which the forecast financial statements are finalised, being the fiscal risks in relation to:

- (i) The Government decisions and other circumstances required by section 11 of this Act to be incorporated in the economic and fiscal update; and
 - (ii) Any other contingent liabilities of the Crown, including any guarantees or indemnities given under any Act;
- (c) A statement of all significant accounting policies, including any changes from the accounting policies contained in the annual financial statements of the Crown most recently laid before the House of Representatives or published under section 31 of the Public Finance Act 1989;
- (d) In relation to each statement required by paragraphs (a) to (d) of subsection (2) of this section and, where appropriate, in relation to any statement required by paragraph (e) of that sub section:
- (i) Comparative budgeted and estimated actual figures for the financial year immediately before the first of the financial years to which the fiscal forecasts relate; and
 - (ii) Comparative actual figures for the financial year 2 years before the first of the financial years to which the fiscal forecasts relate.
- (4) The forecast financial statements for the Crown shall be for the same reporting entity as the annual financial statements for the Crown to be prepared under section 27 of the Public Finance Act 1989 for the first of the financial years to which the fiscal forecasts relate.
- (5) The fiscal forecasts shall also include a statement of all significant assumptions underlying them.

11. Disclosure of policy decisions and other matters that may influence future fiscal situation

- (1) Every economic and fiscal update prepared under section 8 (1) or section 13 (1) or section 14 (1) of this Act shall incorporate to the fullest extent possible consistent with subsection (4) of this section all Government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook.

12. Statement of responsibility

- (1) Every economic and fiscal update prepared under section 8 (1) or section 13 (1) or section 14 (1) of this Act shall be accompanied by a statement of

responsibility signed by the Minister and the Secretary and comprising...

13. Half-year economic and fiscal update

- (1) Subject to subsection (3) of this section, the Minister shall, not earlier than the 1st day of December nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Treasury.

14. Pre-election economic and fiscal update

- (1) The Minister shall, except as provided in subsection (4) of this section, cause to be published, not earlier than 42 days, nor later than 28 days, before the day appointed as polling day in relation to any general election of members of Parliament, a report containing an economic and fiscal update prepared by the Treasury.

15. Current-year fiscal update

- (1) The Minister shall, on the introduction of the first Appropriation Bill after the last day of March in each financial year, not being an Appropriation Bill that deals solely with matters relating to a previous financial year, lay before the House of Representatives a report containing a fiscal update for that financial year prepared by the Treasury.

16. Referral to select committee

- (1) There shall stand referred to any committee of the House of Representatives responsible for the overall review of financial management in government departments and other public bodies:
 - (a) Every budget policy statement published under section 6 (1) of this Act:
 - (b) Every fiscal strategy report laid before the House of Representatives under section 7 (1) of this Act:
 - (c) Every report laid before the House of Representatives under section 8 (1) of this Act:
 - (d) Every report published under section 13 (1) or section 14 of this Act:
 - (e) Every report laid before the House of Representatives under section 15 (1) of this Act.



appendix f

Excerpts from the 1997/98 Report 2 of the Auditor General: Report on the 1996/97 Public Accounts

Provincial Debt: Comments On Its Reporting

The total debt of the Province of British Columbia has increased every year since the fiscal year ending in 1989/90. In the five years leading up to March 31, 1997, debt has grown from \$20.1 billion to \$29.3 billion, an increase of 46%. And while some other provinces are currently projecting debt reductions, the government's latest Budget '97 predicts that total debt will increase during fiscal 1997/98, to \$30.4 billion.

Each year, since the 1991/92 Auditor General's report on the Public Accounts, we have commented on the government's reporting of public debt. During this time, we have stated that if information about debt were better reported, the public would be better able to understand provincial borrowing and how it affects them. We also made several recommendations as to how the reporting of debt information could be improved, including the use of 10 key measures and performance indicators to show trends in provincial debt. Exhibit 4.1 summarizes the 10 items we recommended for disclosure.

The government has reported on the 10 measures and indicators we recommended. In Budget '95, the government introduced its debt management plan and made a commitment to produce an audited annual debt management progress report. The progress report was to provide information on debt measures and performance indicators, and match the provincial debt to the benchmarks set in the debt management plan.

Exhibit 4.1

Measures and Indicators Recommended for Disclosure in the Public Accounts

- | | |
|--|-----------------------------------|
| 1. Debt to revenue | 6. Sources of borrowing |
| 2. Total provincial debt | 7. Interest bite |
| 3. Debt per capita | 8. Debt to Gross Domestic Product |
| 4. How debt changed | 9. Total cost of debt servicing |
| 5. Why debt changed, including the operating deficit | 10. Rate of interest |

The Auditor General's first audit opinion, on the base-year information as at March 31, 1995, was published in the 1994/95 Debt Management Progress Report. The second progress report, as at March 31, 1996, was published in a document titled "Debt Statistics 1995/96." In prior years, these reports on provincial debt were released by the government with the Public Accounts. We therefore expected the third audited progress report, as at March 31, 1997, to be published in a Debt Statistics 1996/97 report released along with the Public Accounts in December 1997. However, it was not released until February 1998.

In Budget '97, the government replaced its debt management plan with its financial management plan. The Minister of Finance and Corporate Relations has asked the Auditor General to provide an audit opinion on the benchmarks and other information contained in the new financial management plan starting with the 1997/98 fiscal year.

Debt Management Plan '95 and Financial Management Plan '97

The debt management plan was initiated in Budget '95. It, like its successor the financial management plan, is the responsibility of government. Our Office was not associated with the development of either plan. At the time it was developed, the government stated the debt management plan was intended to be a long-term plan to harness and control the debt, and it represented a commitment by the government to repay the Province's direct debt and to cap and reduce the overall cost of debt.

The debt management plan adopted four key goals:

1. maintain British Columbia's credit rating as the highest of any province in Canada;
2. eliminate, over 20 years, the then \$10.2 billion in debt incurred from previous budget deficits, by using budget surpluses to pay down debt;
3. reduce total taxpayer-supported debt as a share of British Columbia's Gross Domestic Product (GDP) from its 1994/95 level of 19.1% to 10.2% within 20 years; and
4. cap the interest cost of taxpayer-supported debt to ensure that this cost does not exceed 8.5% of provincial revenue in any year over the next 20 years.

The first and fourth goals were met or exceeded by the government for the fiscal year ending March 31, 1997. However, the benchmarks set in Budget '96 for operating debt, which was \$10.2 billion, and the taxpayer-supported

debt to GDP ratio, which was 18.4%, were not met. The actual results for the fiscal year were \$11.0 billion and 20.4%, respectively.

In Budget '95, the government set specific benchmarks for each of the first five fiscal years of the debt management plan, and for five-year intervals after that to the year 2015. For example, by March 31, 1997, the direct debt was to have been reduced by \$639 million, from \$10,182 million to \$9,543 million. At March 31, 1997 direct debt actually increased to \$11,031 million, a deviation from the benchmark of \$1,488 million. By the year 2000 the government was to have reduced direct debt by \$1.3 billion. Although the plan was based on certain economic growth assumptions, the government, in Budget '95, committed itself to achieving its five-year benchmarks regardless of actual future economic performance.

In Budget '96, the government reduced its forecasted direct debt repayments for the first few years of the plan. However, it maintained that it could still reduce direct debt by \$1.3 billion by March 31, 2000.

In Budget '97, the government determined that its projections for debt repayment were not achievable, and it replaced the debt management plan with a new financial management plan. The Budget '97 report explains that, in 1995, the government sought advice from a panel of business and labour representatives in the design of a debt management plan. Evidently it heard the panel's advice, but chose to adopt benchmarks that exceeded those suggested by the panel. The report further explains that the subsequent slowdown in the provincial economy demonstrated that the benchmarks adopted by the government were not sustainable. As a result, the government again consulted with the business/labour panel in February 1997. The panel repeated its earlier advice and recommended that the government adopt the benchmarks originally proposed.

According to the Budget '97 report, the financial management plan now has as its focus the achievement of the following four key goals, based on business and labour panel advice:

1. a ceiling of 20% for the ratio of taxpayer-supported debt to GDP, with the ratio falling to 15% by 2015;
2. a balanced operating budget;
3. a reduced direct debt over 20 years; and
4. a maximum taxpayer-supported interest bite (cost of debt servicing per dollar of revenue) of 9.0 cents.

The new plan benchmarks are scheduled to take effect for the fiscal year ending March 31, 1998. However, the government states in Budget '97 that it does not plan to balance the operating budget until the 1998/99 fiscal year.

With respect to the first goal, the panel also advised that if the taxpayer-supported debt to GDP ratio ever exceeds 20%, then the government should provide a three-year fiscal plan showing how the ratio is to be brought down to 20%. This ratio was 20.4% as at March 31, 1997, and is projected to be even higher as at March 31, 1998. To follow the panel's advice the government should provide in its Budget '98 a three-year fiscal plan for reducing this ratio to 20%.

Exhibit 4.2 compares the key goals of both the financial management plan and the debt management plan. It also shows the expected benchmarks of the first year of the financial management plan compared to those originally projected in the Budget '95 debt management plan.

Exhibit 4.2

Comparison of Key Goals and Benchmarks

Overall plan goals, and benchmarks for the year ended March 31, 1998

	Overall Goals		1997/98 Benchmarks	
	Per FMP ¹	per DMP ²	Per FMP ¹	per DMP ²
Credit rating relative to other provinces	N/A	highest	N/A	highest
Direct (operating) debt of the Consolidated Revenue Fund (\$Billions)	Reduce over 20 years	Eliminate over 20 years	11.6	9.5
Taxpayer-supported debt as a percent of provincial GDP	Cap at 20%. Reduce to 15% by 2015	Reduce to 10.2% by 2015	20.9	18.7
Taxpayer-supported interest expense per dollar of revenue (interest bite) (cents)	Cap at 9.0	Cap at 8.5	7.4	7.9
Operating budget – Surplus/(Deficit) (\$Millions)	Balanced	Surplus	(185)	40

¹Financial Management Plan – forecasts from Budget '97 Reports.
²Debt Management Plan – original forecasts from Budget '95 Reports.

Three key goals are similar in the financial and the debt management plans: those related to the reduction of government's direct (operating) debt, to the capping and reduction of taxpayer-supported debt as a percentage of GDP, and to the capping of taxpayer-supported debt servicing costs as a percentage of revenue.

The debt management plan's goal requiring British Columbia to have the highest credit rating of all provinces has not been included in the new financial management plan. The credit rating of the Province is, nonetheless, an important measure of debt management and should be reported publicly. We think a useful goal would be the maintenance of a certain credit rating, regardless of what happens in other jurisdictions. In May, 1997 the Province's credit rating was downgraded by two of the four major bond rating agencies.

The financial management plan has a number of shortcomings:

- The plan's goal for debt reduction is very vague. Reducing direct debt over 20 years without identifying expected milestones is difficult to monitor.
- Information on the main assumptions used in the plan is not sufficient because it does not explain how the government will deal with significant changes in forecasts if they were to occur. If the public are made more aware of what issues could affect the plan, and how the government might respond to those issues, then they will be in a better position to judge the reasonableness of the government's policies.
- The plan should include more detailed information on future spending to maintain the Province's infrastructure.
- The government has discussed in previous budget documents the possibility of obtaining revenue through the sale of Crown assets. If this is to become part of the government program to reduce debt, then we believe information on the general strategy and impact of Crown asset sales should be included in the financial management plan.
- We understand that alternative financing will play a significant role in the Province's future financial planning. However, the financial management plan does not indicate the extent to which alternative financing will be required to support infrastructure spending. In our opinion, the government should clearly identify goals for capital asset acquisitions, and provide more information to the public on the financing of this important aspect of services.



appendix g

Summary of Recommendations from the Second Report of the Select Standing Committee on Public Accounts, January 31, 1996

Of the 10 recommendations made by the Select Standing Committee on Public Accounts, with respect to enhancing accountability for performance in the British Columbia public sector: four focused on the information that government should report to the Assembly; four addressed the way in which legislative committees should hold government accountable; and the remaining two discussed Estimates as part of an accountability process.

Recommendation #1

Your Committee supports the initiatives of the Auditor General and Council of Deputy Ministers with respect to enhancing accountability and recommends that the Government of British Columbia publicly provide, on a timely basis:

- a) information about the short and long-term plans and goals of government ministries and Crown corporations, including their respective programs and past performance; and
- b) information about the results achieved, allowing comparison between the actual and planned performance of government ministries and Crown corporations.

Recommendation #2

Your Committee recommends that the Government of British Columbia consider how best to make use of emerging technologies to make accountability information accessible to the public at a reasonable cost.

Recommendation #3

Your Committee recommends that the Government of British Columbia pursue ways of providing information on a sectoral basis.

Recommendation #4

Your Committee recommends that the Government of British Columbia consider how it could best provide information to users of government programs and services with respect to the standards of service it intends to deliver.

Recommendation #5

Your Committee recommends that the number of Select Standing Committees be realigned to provide for a Committee on Public Accounts; Standing Orders, Privileges and Private Bills; and such other Committees deemed appropriate to consider government ministry and Crown corporation programs by sector.

Recommendation #6

Your Committee recommends that the new sectoral Committees of the Legislative Assembly be used consistently and with an expanded terms of reference, enabling a more thorough review of matters referred to them.

Recommendation #7

Your Committee recommends that the Select Standing Committees of the House be established for the duration of a Parliament with the ability to meet intersessionally, and that all Members of the Legislative Assembly have the opportunity to attend any meeting of any Select Standing Committee examining a ministry or Crown corporation program and, in consultation with the Chairperson, be permitted time to enter debate on the issues under discussion.

Recommendation #8

Your Committee recommends that the short and long-term plans and annual reports of government ministries and Crown Corporations, once tabled in the House, stand referred to the appropriate legislative committee.

Recommendation #9

Your Committee recommends that the Legislative Assembly review the entire Estimates process, including proposals to replace the current practice with one which is more responsive, accountable and expeditious and that incorporates multi-year budgets and single-year appropriations.

Recommendation #10

Your Committee recommends that the Standing Orders of the Legislative Assembly and relevant Statutes of British Columbia be amended to reflect the proposed new practice:

- a) Minister presents Budget for upcoming fiscal year to the Legislative Assembly and moves a motion to adopt the Budget.

- b) House debates Budget for enough days to accommodate those Members wishing to speak (House meets only in the afternoons, Monday to Thursday and Friday morning).
- c) At the conclusion of the Debate on the Budget a motion is put to adopt the Government's spending proposals.
- d) The Minister of Finance and Corporate Relations immediately introduces the Appropriation Bill for the fiscal year in question and, pursuant to the revised Standing Orders, the Bill proceeds through the House expeditiously.
- e) Pursuant to the revised Standing Orders, the Government House Leader moves a motion referring a number of government ministry and Crown corporation programs to their respective sectoral Select Standing Committee.
- f) Committees meet Tuesday to Thursday mornings while the House is in session and schedule their intersessional meetings around the resources available, to expedite their inquiry.
- g) All MLAs have the opportunity to question witnesses by reserving time on specific issues under consideration by the Committee.
- h) Committee inquiries are pursued according to established practice and precedent in the Legislative Assembly, the details of all such procedural changes to be considered first by a Legislative Committee.



appendix h

Presentation Material Used to Demonstrate the Extent of Optimism Built into the Alternative Revenue Forecast

The following schedule titled “1996/97 Revenue Forecast” compares the 1996/97 revenue forecast according to the Debt Management Plan (DMP), to the Alternative Revenue Forecast (Alt.). The schedule was presented to the Fiscal Budget Steering Committee (FBSC) by Ms. Eaton for review, and then to Minister Cull and Premier Clark at meetings held on February 27 and March 6, 1996. Attached to the schedule is information on the key assumptions and related forecasting risks that pertained to the alternate revenue forecast, which totalled \$20,785 million. These attachments are presented in the next three pages.

1996/97 Revenue Forecast				
	1995/96 Revised*	1996/97 DMP	1996/97 Alt.	% Change**
--- \$ million ---				
Taxes:	12,568	13,155	13,464	7.1***
– Personal Income	4,955	5,325	5,350	7.8
– Corporate Income	1,310	1,292	1,400	6.9
– Sales	2,964	3,140	3,150	6.3
– Property Transfer	275	300	305	10.9
Natural Resources:	2,177	2,200	2,300	5.6
– Forests	1,497	1,519	1,600	6.9
– Oil and Gas	311	325	350	12.5
Other	1,830	1,949	2,040	11.5
Government Enterprise	993	1,050	1,100	10.8
Total Provincial Source	<u>17,568</u>	<u>18,354</u>	<u>18,904</u>	7.6
Federal Source	<u>2,397</u>	<u>1,881</u>	<u>1,881</u>	-21.5
Total	<u>19,965</u>	<u>20,235</u>	<u>20,785</u>	4.1***

* Excludes Downstream Benefits.
 ** Per cent change – 1996/97 Alt. from 1995/96 Revised.
 *** 1995/96 has not been restated for family bonus tax credit. If it had been, taxes growth becomes 8.3 per cent and total revenue growth becomes 4.8 per cent.

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Personal Income Tax

<u>1995/96</u> <u>Revised</u>	<u>Growth</u>	<u>1996/97</u>	<u>Growth</u>
\$ millions	(%)	\$ millions	(%)
4,955	5.3	5,350	7.8

Key Assumptions:

- 1996/97 forecast includes B.C. family bonus tax credit of \$183 million.
- Adjusting 1995/96 revenue for impact of B.C. benefits, 1996/97 growth would be 11.1%.
- B.C. personal income growth of 8.3% in 1996, compared to 5.7% in 1995.
- Forecast implies historic high share of basic federal tax (BFT).
- B.C.'s BFT share is 14.35%, compared to 13.72% in 1995 and 13.64% in 1994.
- For the five years to 1995/96, personal income tax grew an average of 2.5% annually (excludes \$487 million of tax changes).

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Corporate Income Tax

<u>1995/96</u> <u>Revised</u>	<u>Growth</u>	<u>1996/97</u>	<u>Growth</u>
\$ millions	(%)	\$ millions	(%)
1,310	31.3	1,400	6.9

Key Assumptions:

- Excluding \$86 million in revenue related to CVD refunds in 1995/96, growth is 14.4%.
- Assumes national corporate taxable income increases 19% to \$73 billion \$9 billion higher than the current federal forecast.
- Implies 20% corporate profits growth in 1996, compared to 14% in 1995. Federal forecast is 5%.
- B.C.'s revenue collections are based on federal forecasts.
- B.C.'s CTY share is fixed at 13.12% in 1996, compared to 12.67% in 1995. Therefore, forecast assumes significantly higher federal forecasts.
- For the five years to 1995/96, corporate income tax grew an average of 9.6% annually (excludes \$175 million of tax changes).

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Sales (Social Service) Tax

<u>1995/96</u> <u>Revised</u>	<u>Growth</u>	<u>1996/97</u>	<u>Growth</u>
\$ millions	(%)	\$ millions	(%)
2,964	3.6	3,150	6.3

Key Assumptions:

- Assumes retail sales and machinery and equipment spending growth of 7.3%.
- In 1995, retail sales grew by 5.2% (compared to the budget forecast of 6%) and machinery and equipment grew 6.2%.
- Despite low interest rates, retail sales declined during the second half of 1995, and in December, were lower than in January.
- In the five years to 1995/96, social service tax grew an average of 3.1% annually (excludes \$586 million of tax changes). This is despite a significant decrease in cross-border shopping since 1990.

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Natural Resources

<u>1995/96</u> <u>Revised</u>	<u>Growth</u>	<u>1996/97</u>	<u>Growth</u>
\$ millions	(%)	\$ millions	(%)
2,177	-3.0	2,300	5.6

Key Assumptions:

- Forests - assumes SPF price of \$325, a 30% increase from 1995/96, with a similar increase for other products. Volumes flat.
- Currently SPF prices are in \$275 - \$285 range and hemlock prices have weakened.
- Oil and Gas - assumes natural gas prices increase 25% from 1995/96—the Ministry Energy, Mines and Petroleum Resources is forecasting a 9.1% increase.
- In 1995/96, natural gas prices fell 8.3%.
- For the five years to 1995/96, forests revenue grew an average of 15.2% annually (includes \$450 million of tax changes).
- For the five years to 1995/96, oil and gas revenue grew an average of 2.2% annually.

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Other Revenue			
<u>1995/96</u> <u>Revised</u>	<u>Growth</u>	<u>1996/97</u>	<u>Growth</u>
\$ millions	(%)	\$ millions	(%)
1,830	-2.5	2,040	11.5

Key Assumptions:

- MSP premiums frozen, so revenue increases 1.7% to \$840 million.
- Assumes additional \$24 million from fee and licence changes in 1996/97—in 1995/96, fee changes raised \$5 million.
- Assumes \$85 million of revenue from introduction of speed monitoring program (SMP) (\$20 million higher than forecast by the Ministry of Transportation and Highways). Excluding SMP, revenue increase is 6.8%.
- No B.C. Endowment Fund in 1996/97 (\$25 million of revenue in 1995/96).
- Assumes miscellaneous revenue grows 32%, compared to a five-year average of 0% and a three-year average of 16%.
- For the five years to 1995/96 other revenue grew an average of 4.7% annually (excluding Endowment Fund).

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Government Enterprises			
<u>1995/96</u> <u>Revised</u>	<u>Growth</u>	<u>1996/97</u>	<u>Growth</u>
\$ millions	(%)	\$ millions	(%)
993	-3.4	1,100	10.8

Key Assumptions:

- B.C. Hydro – no rate increases in 1996 and no money in rate stabilization account. Assumes additional \$20 million in dividends from cost efficiencies.
- Assumes Liquor Distribution Branch (LDB) profits increase 3.3%—LDB forecasts no growth. 1995/96 profits are unchanged from 1994/95.
- Assumes B.C. Lottery Corporation (BCLC) profits increase 7.2%; BCLC forecasts no growth. Profits increased 4.3% in 1995/96.

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appendix i

Excerpts from Acts and Court Documents Relating to Inquiry Powers

Auditor General Act

Inquiry Powers

18. The Auditor General may examine any person on oath on any matter pertaining to the person's responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

Inquiry Act

Protection of Commissioners

12. A commissioner appointed under this Part has the same protection and privileges, in case of an action brought for an act done or omitted to be done in the execution of the commissioner's duties, as are by law given to the judges of the Supreme Court.

Power to Summon Witnesses

15. (1) The commissioners acting under a commission issued under this Part, by summons, may require a person
 - (a) to attend as a witness, at a place and time mentioned in the summons, which time must be a reasonable time from the date of the summons, and
 - (b) to bring and produce before them all documents, writings, books, deeds and papers in the person's possession, custody or power touching or in any way relating to the subject matter of the inquiry.
- (2) A person named in and served with a summons must attend before the commissioners and answer on oath, unless the commissioners direct otherwise, all questions touching the subject matter of the inquiry, and produce all documents, writings, books, deeds and papers in accordance with the summons.

Power to Enforce Summons and Punish for Contempt

16. (1) The commissioners have the same powers, to be exercised in the same way, as judges of the Supreme Court, if
- (a) any person on whom a summons has been served by the delivery of it to the person, or by leaving it at the person's usual residence,
 - (i) fails to appear before the commissioners at the time and place specified in the summons, or
 - (ii) having appeared before the commissioners, refuses to be sworn, to answer questions put to the person by the commissioners, or to produce and show to the commissioners any documents, writings, books, deeds and papers in the person's possession, custody or power touching or in any way relating to the subject matter of the inquiry, or
 - (b) a person is guilty of contempt of the commissioners or their office.
- (2) All jailers, sheriffs, constables, bailiffs and all other police officers must assist the commissioners in the execution of their office.

Transcript of the Decision by the Supreme Court of Canada with Respect to the Commission of Inquiry on the Blood System in Canada (Krever Commission)

[para57] Perhaps the basic principles applicable to inquiries held pursuant to Part I of the Act may be summarized in an overly simplified manner in this way:

- (a) (i) a commission of inquiry is not a court or tribunal and has no authority to determine legal liability;
- (ii) a commission of inquiry does not necessarily follow the same laws of evidence or procedure that a court or tribunal would observe;
- (iii) it follows from (i) and (ii) above that a commissioner should endeavour to avoid setting out conclusions that are couched in the specific language of criminal culpability or civil liability. Otherwise the public perception may be that specific findings of criminal or civil liability have been made.

- (b) a commissioner has the power to make all relevant findings of fact necessary to explain or support the recommendations, even if these findings reflect adversely upon individuals;
- (c) a commissioner may make findings of misconduct based on the factual findings, provided that they are necessary to fulfill the purpose of the inquiry as it is described in the terms of reference;
- (d) a commissioner may make a finding that there has been a failure to comply with a certain standard of conduct, so long as it is clear that the standard is not a legally binding one such that the finding amounts to a conclusion of law pertaining to criminal or civil liability;
- (e) a commissioner must ensure that there is procedural fairness in the conduct of the inquiry.



appendix j

1998/99 Reports of the Auditor General Issued to Date

Report 1

Follow-up of 1996 Performance Audits/Studies

Report 2

Managing the Cost of Drug Therapies
and Fostering Appropriate Drug Use

Report 3

Collection of Overdue Accounts Receivable

Report 4

A Review of the Estimates Process in British Columbia



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