

June 2015



## BUDGET PROCESS EXAMINATION PHASE 1: REVENUE

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**Auditor General**  
of British Columbia

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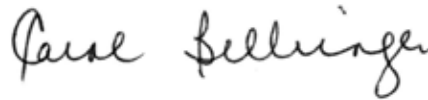
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The Honourable Linda Reid  
Speaker of the Legislative Assembly  
Province of British Columbia  
Parliament Buildings  
Victoria, British Columbia  
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Dear Madame Speaker:

I have the honour to transmit to the Legislative Assembly of British Columbia, *Budget Process Examination Phase 1: Revenue*.

We conducted this examination under the authority of section 11 (8) of the *Auditor General Act* and in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook – Assurance and Value-for-Money Auditing in the Public Sector.



Carol Bellringer, CPA, FCA  
Auditor General  
Victoria, British Columbia  
June 2015

# AUDITOR GENERAL'S COMMENTS

**CREATING A BUDGET AND FISCAL PLAN** for the entire province is a complex and enormous undertaking. Government's annual budget process involves more than 150 government organizations and is coordinated by the Ministry of Finance's Treasury Board Staff. Each Crown agency is responsible for the preparation of its annual budget using planning assumptions provided by the Ministry of Finance. Ministry expenditure budgets are prepared using a Treasury Board approval process. The Ministry of Finance is responsible for compiling all the budgets into government's consolidated budget. The end product is government's main Estimates and [Budget and Fiscal Plan](#), which are tabled in the Legislative Assembly. Two statutes establish certain requirements for the annual budgets: *The Budget Transparency and Accountability Act (BTAA)* and the *Balanced Budget and Ministerial Accountability Act (BBMAA)*.



CAROL BELLRINGER, CPA, FCA  
*Auditor General*

Forecasts in the budget rely on assumptions of future economic activity. The Ministry of Finance's Economic Forecasting and Analysis Branch develops economic forecasts that support significant components of the budget revenues. One of the requirements of the *BTAA* is the establishment of an Economic Forecast Council to advise the Minister of Finance on economic growth forecasts. A report on the advice received from the Council is also included in the annual Budget and Fiscal Plan report.

We carried out an examination of the economic and revenue assumptions, and the forecasting processes in the Budget and Fiscal Plan 2014/15-2016/17 to determine whether the:

1. key assumptions developed by government are suitably supported, consistent with government's plans, and provide a reasonable basis for the forecast
2. forecasts fairly reflect the above assumptions

## AUDITOR GENERAL'S COMMENTS

3. presentation and disclosure of the Budget and Fiscal Plan is consistent with the general principles established in the Canadian accounting standards for future-oriented financial information
4. budgeting and Estimates requirements of the *BTAA* and *BBMAA* have been met

We concluded that the key assumptions used in Budget and Fiscal Plan 2014/15 – 2016/17 are suitably supported, reflect expected economic conditions, are consistent with government's plans, and provide a reasonable basis for the forecast. We also found that the forecasts accurately reflect the key assumptions. To reach this conclusion, we examined the key assumptions and tested the calculations, compilation, and consolidation of the revenue forecasts.

Regarding the presentation of the Budget and Fiscal Plan, we concluded that it allows for comparison with the actual results in the Summary Financial Statements. We identified a few areas where government could improve the clarification of disclosure between the Budget and Fiscal Plan and the Summary Financial Statements. We discussed these instances with the Ministry for consideration in preparing its 2016/17 budget.

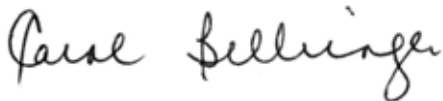
Overall, the current level of disclosure provides a good foundation for readers to assess the risks associated with the revenue forecasts. Many of the disclosures set out in the CPA Canada standards are included within the Budget and Fiscal Plan. However, we did not find a clear statement of the risks associated with future-oriented financial information, as envisioned by the disclosure standards, which would remind readers, at the outset, of the inherent limitations of relying on any future-oriented financial information.

As well, we found that the Budget and Fiscal Plan provides good discussion on the risks to economic growth. Further, Appendix Table A5 in the Budget and Fiscal Plan provides detailed information on the key economic assumptions for significant revenue sources. That said, we recommended a few areas where government could enhance the disclosures.

## AUDITOR GENERAL'S COMMENTS

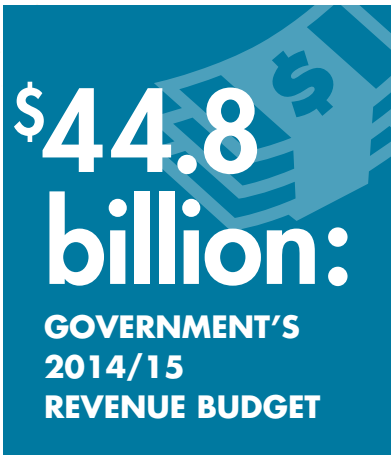
Finally, we examined all the requirements of the legislation as they relate to the economic and revenue forecasting for the Budget and Fiscal Plan. For instance, the *BBMAA* prohibits government from forecasting a deficit, provides the basis for calculating a surplus or deficit, and sets out the terms of salary holdbacks for ministers. The *BTAA* includes requirements for budget consultations and the Economic Forecast Council. We did not identify any significant instances of non-compliance.

Looking ahead, in the summer of 2015, we will develop a plan for examining the expenditure budget processes and related forecasts in the Budget and Fiscal Plan 2015/16 – 2017/18, building on the work that we completed in this examination. We will continue to work with Treasury Board Staff to further build our knowledge about government's budget process. Special thanks to them for their commitment to working with us through this process.



Carol Bellringer, CPA, FCA  
Auditor General  
Victoria, BC  
June 2015

# REPORT HIGHLIGHTS



**\$44.8 billion:**  
GOVERNMENT'S  
2014/15  
REVENUE BUDGET

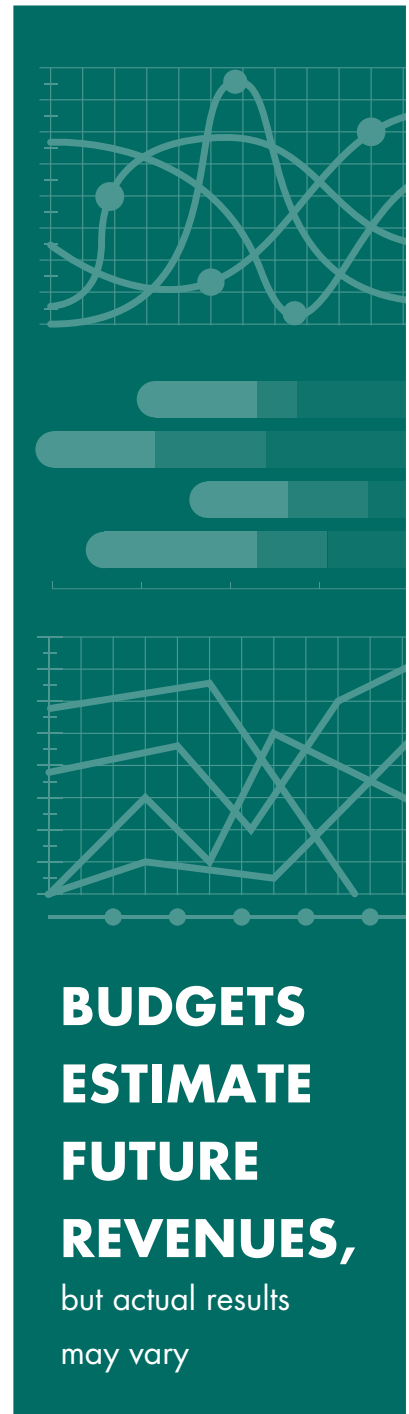
**150+**  
government  
organizations  
included in annual  
budget process



Ministry of Finance's  
**TREASURY  
BOARD  
STAFF**  
coordinates  
budget process



**REVENUE  
BUDGET  
PROCESS  
IS SOUND**



**BUDGETS  
ESTIMATE  
FUTURE  
REVENUES,**  
but actual results  
may vary

# SUMMARY OF RECOMMENDATIONS

## WE RECOMMEND THAT THE MINISTRY OF FINANCE:

- 1** clearly disclose in its Budget and Fiscal Plan the inherent limitations associated with future-oriented financial information, in line with the disclosure standards established by CPA Canada.
- 2** enhance its sensitivity disclosures in appendix Table A5 of the Budget and Fiscal Plan, explaining why the selected economic variables are used, and disclosing and discussing the likely range of historical data volatility.
- 3** provide additional information on the risks supporting the annual forecast allowance.

# RESPONSE FROM THE MINISTRY OF FINANCE

**GOVERNMENT WOULD LIKE** to thank the Auditor General and her staff for the budget assurance report on the examination of the economic and revenue processes and forecasts. The examination was conducted in a professional, courteous and collaborative manner and government staff will continue to work with the Office of the Auditor General in its upcoming plan for examining the expenditure processes and forecasts.

Government accepts all three of the recommendations in the report and will provide further information in the budget document about risks, and more explanation pertaining to the material assumptions underlying the revenue forecast. Government also agrees to provide a more extensive discussion of the forecast allowance allocation in context with other prudent assumptions adopted in the budget plan, including the underlying economic forecast, the Contingency Vote, and the natural gas price forecast.

Although government agrees that estimating the historical volatility of the material assumptions disclosed is a useful and worthwhile endeavour, it believes that the release of this type of historical information is more suited to a stand-alone document or the annual Financial and Economic Review. At the suggestion of the staff of the Office of the Auditor General, a reference to where this information is published will be included in the budget document.



# BACKGROUND

**BUDGETS ARE FORWARD LOOKING DOCUMENTS** that provide an estimate of economic and fiscal forecasts based on a series of assumptions.

The budget process is coordinated by Treasury Board Staff in the Ministry of Finance who are responsible for compiling the budgets for more than 150 organizations in the B.C. public sector. The end product is government's main Estimates, and the Budget and Fiscal Plan, which the Minister of Finance tables in the Legislative Assembly on the third Tuesday of February.

*The Budget Transparency and Accountability Act (BTAA)* and the *Balanced Budget and Ministerial Accountability Act (BBMAA)* establish certain requirements that must be included in preparing the Budget and Fiscal Plan.

performance at the end of each fiscal year as presented in government's independently audited financial statements.

## ESTIMATES

The main Estimates are government documents that provide a detailed breakdown of expected government spending for the upcoming fiscal year. For core government, the main Estimates also form the basis for the annual appropriations approved by the Legislative Assembly.

The Budget and Fiscal Plan is the key document government uses to present its fiscal plans for the next three years. It includes government's assessment of expected economic conditions, forecasted revenues, expenses, capital spending and debt.

Besides Members of the Legislative Assembly, many stakeholders and organizations rely on the annual budget – including bond rating agencies, the business community and the general public. The budget also provides a benchmark to measure against actual financial

## OUR PLANNED APPROACH TO EXAMINE THE BUDGET AND FISCAL PLAN

We have developed a phased approach to examine government's budget process. In this first report, we examined the economic and revenue forecast processes in the [Budget and Fiscal Plan 2014/15 – 2016/17](#), which was tabled in the Legislature on February 18, 2014.

Next year, we will expand our examination to include the expenditure budget processes and related forecasts in the Budget and Fiscal Plan 2015/16 – 2017/18 (tabled February 17, 2015).

Although legislated in Nova Scotia and Ontario (see information box on page 10), in British Columbia the *Auditor General Act* does not include an explicit mandate for the Auditor General to review or provide an opinion on the Province's budget process.

# BACKGROUND

## BUDGET REVIEWS IN OTHER PROVINCES

Auditors General in Nova Scotia and Ontario have a legislated mandate to provide assurance on their provincial budgets. In Nova Scotia, the *Auditor General Act* requires the Auditor General to provide an annual opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget.

In Ontario, the *Fiscal Transparency and Accountability Act* requires the Auditor General to review and report on the reasonableness of government's pre-election report on the province's finances (three-year consolidated statement of estimated revenues, expenses and reserve).

The Auditor General of Quebec conducted an analysis of government's *November 2013 Economic and Fiscal Update*. Although not explicit in the Auditor General's mandate, the National Assembly of Quebec initiated the work. The February 2014 report looked at the preparation process for the update, the reasonableness of forecasts, and an assessment of the information disclosed in the update.

## HISTORY OF BUDGET ASSURANCE IN B.C.

In our 1999 report, [A review of the Estimates Process in British Columbia](#), we looked at how government prepares and reports its annual budget and the Estimates.<sup>1</sup> We made a number of recommendations calling for major reforms in the governance and management of the Estimates process.

<sup>1</sup> The report also examined the development of "Budget '96" which was an election year budget.

In response to the 1999 review, government established the Budget Process Review Panel. The Panel published a report (known as the Enns Report) in September 1999, and made 26 recommendations. Government addressed a number of the recommendations through the implementation of the *Budget Transparency and Accountability Act (BTAA)* in 2000. Our Office then issued the [Report on the Implementation of the Recommendations of the Budget Process Review Panel](#) in September 2000.

One of the requirements of the BTAA was for the Minister of Finance to appoint a panel to review the budget process, scope of the budget and information provided in the budget plan, and report publicly by September 30, 2009 (in effect, a 10-year follow up). In 2009, the panel reported on the status of the 1999 recommendations, as well as areas where government can strive for improvements.

In February 2013, Dr. Tim O'Neill conducted the most recent examination of the budget process. The Ministry of Finance initiated this review to assess the economic and revenue forecasts that government would use in Budget 2013. Dr. O'Neill's report concluded "...that economic and revenue expectations are generally well founded". One recommendation was that the natural gas price used in revenue forecasts should be lowered to reflect added caution. Government adopted this recommendation beginning with Budget 2013.

## BACKGROUND

### THE BUDGET PROCESS IN B.C.

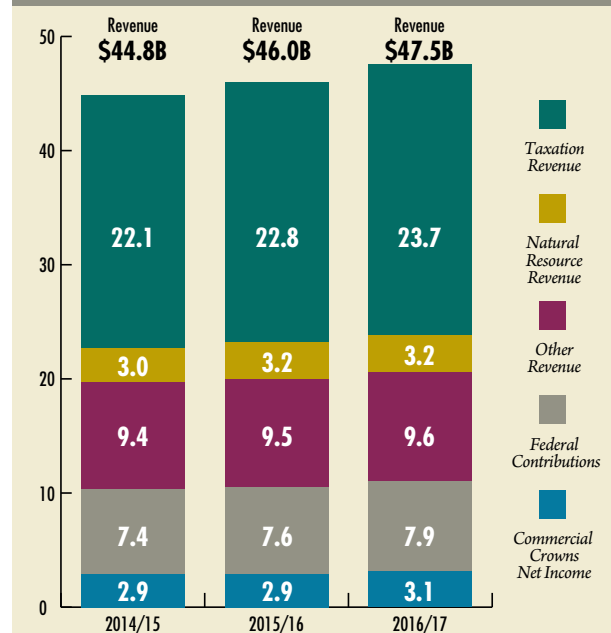
While not providing a detailed description of the budgeting process, this section highlights some of the key components related to economic and revenue forecasting. We have also included a summary timeline for the budget process in [Appendix A](#) to this report. Exhibit 1 shows B.C.'s revenue forecasts by source.

The budget process is coordinated by Treasury Board Staff in the Ministry of Finance. Each Crown agency is responsible for the preparation of its annual budget using planning assumptions provided by the Ministry of Finance. Ministry expenditure budgets are prepared using a Treasury Board approval process. The Ministry of Finance is responsible for compiling all the budgets into government's consolidated budget. The end product is government's main Estimates and Budget and Fiscal Plan, which are tabled in the Legislative Assembly.

Forecasts in the budget rely on assumptions of future economic activity. The Ministry of Finance, Economic Forecasting and Analysis Branch, is responsible for developing economic forecasts that support significant components of the budget revenues.

One of the requirements of the *BTAA* is the establishment of an Economic Forecast Council to advise the Minister of Finance on economic growth forecasts. The Minister selects council members based on their expertise in economic analysis and forecasting, and they are surveyed annually on their forecasts of key economic measures. A report on the

Exhibit 1: Revenue forecasts by source (in \$ billions)



Source: Budget and Fiscal Plan – 2014/15 to 2016/17 (page 8)

advice received from the Economic Forecast Council is also included in the annual Budget and Fiscal Plan report ([pages 87-90 for 2014/15](#)).

Government uses four main methods to help manage forecasting risks in its fiscal plans:

Two methods apply conservatism to the economic assumptions in the revenue forecasts:

1. By practice, the Ministry of Finance forecast for B.C. real Gross Domestic Product (GDP) growth (a comprehensive measure of inflation adjusted provincial economic activity) is generally below the average of the Economic

## BACKGROUND

Forecast Council for all three years of the Budget and Fiscal Plan. Lower growth forecasts result in lower revenue forecasts for sources tied to economic activity.

2. Natural gas revenue is a volatile and difficult revenue source to predict. Based on a recommendation from Dr. Tim O’Neill, government adopts a prudent natural gas price forecast compared to the average of a number of industry specific private sector forecasts. The Ministry has used the lowest (20th) percentile of these private sector forecasts.

Two methods use reserves as protection against unforeseen financial risks during the fiscal year:

3. The Minister of Finance assigns an annual forecast allowance figure, not related to a specific revenue stream, for each of the three years of the Budget and Fiscal Plan.
4. A contingency budget is a voted appropriation focused on the expenditure side of the budget and is used for the “unknown unknowns”, such as unexpected funding increases to ministry programs (for example the Ministry of Social Development and Social Innovation for Community Living B.C. caseload costs in 2013/14).

# OBJECTIVES AND SCOPE

**WE CARRIED OUT** an examination of the economic and revenue assumptions and forecasting processes in the [Budget and Fiscal Plan 2014/15 – 2016/17](#) to determine whether the:

1. key assumptions developed by government are suitably supported, consistent with government's plans, and provide a reasonable basis for the forecast
2. forecasts fairly reflect these material assumptions
3. presentation and disclosure of the Budget and Fiscal Plan is consistent with the general principles established in the Canadian accounting standards for future-oriented financial information
4. budgeting and Estimates requirements of the *Budget Transparency and Accountability Act (BTAA)* and *Balanced Budget and Ministerial Accountability Act (BBMAA)* have been met

Our examination criteria were developed using assurance standards for future-oriented financial information issued by CPA Canada, supplemented by guidance provided by the American Institute of Certified Public Accountants, and by reviewing similar assurance work conducted in other jurisdictions. The criteria also include applicable requirements of British Columbia legislation.

## **FUTURE-ORIENTED FINANCIAL INFORMATION**

Financial information about probable results, based on expectations about future economic circumstances and strategies (or courses of action).

The annual budget is a policy document that reflects the financial implications of government's priorities. Our examination did not include an assessment of the merits of government policy decisions reflected in the Budget and Fiscal Plan as this is beyond our mandate (see Section 11(9) of the *Auditor General Act*).

As the economic and revenue forecasts are based on future conditions and events, actual results will vary, and the variances may be significant. Therefore, our examination cannot provide assurance on whether government will achieve the economic, revenue or surplus forecasts.

Our examination focused on the systems, methodologies and processes the Ministry of Finance uses to prepare the economic and revenue forecasts in the Budget and Fiscal Plan. Our examination procedures included enquiry, analytical procedures, and discussions related to the criteria.

We selected higher risk revenue sources for more detailed analysis, based on their dollar value and historical results (both year over year changes and actual results compared to budgets). For the higher risk revenue sources, we looked at the Ministry's processes for generating the forecasts, and examined the accuracy of its calculations. We also documented the processes used by the Ministry of Finance to

## OBJECTIVES AND SCOPE

generate its economic forecast. Finally, for each selected revenue source, we examined the presentation and disclosure of the underlying economic assumptions and risks included in the Budget and Fiscal Plan.

Although we did not examine the detailed budgeting processes at all individual government organizations, we met with senior staff from the Ministry of Finance and select government organizations to understand how their budgeting processes feed into the Budget and Fiscal Plan.

We also engaged an independent expert in macroeconomic forecasting to assist us in examining certain aspects of the forecasting process.

We did not examine the expenditure, capital spending, or debt forecasts in the Budget and Fiscal Plan.

The [Auditor General's audit opinion](#) on the March 31, 2014 Summary Financial Statements includes an audit qualification that has a significant impact on government's reported revenues. This qualification is the result of differing interpretations between the Auditor General and government on Public Sector Accounting Standards related to the timing of recording revenues on government transfers and restricted assets. The revenue forecasts in the Budget and Fiscal Plan have not been adjusted for the impacts of the qualification.

# CONCLUSIONS

**THE KEY ECONOMIC ASSUMPTIONS** government used for the [Budget and Fiscal Plan 2014/15 – 2016/17](#) are suitably supported, consistent with government's plans, and provide a reasonable basis for the economic and revenue forecasts.

Government has met the economic and revenue forecasting requirements of the *Budget Transparency and Accountability Act (BTAA)* and *Balanced Budget and Ministerial Accountability Act (BBMAA)*.

We have three recommendations for government to improve the presentation and disclosures in its annual Budget and Fiscal Plan, so that readers can better understand the risks and sensitivities underlying the

forecasts. None of these recommendations impact the completeness or accuracy of the economic and revenue forecasts in the Budget and Fiscal Plan.

We also provided a management letter to the Ministry of Finance that outlines less significant recommendations to further improve its budgeting processes and disclosures.

# KEY FINDINGS AND RECOMMENDATIONS

## REASONABLENESS OF THE ECONOMIC AND REVENUE FORECASTS (MEASUREMENT)

### Economic forecasts

Based on our examination, we concluded that the key economic assumptions used in Budget 2014/15 – 2016/17:

- ◆ are suitably supported
- ◆ reflect expected economic conditions appropriately
- ◆ are consistent with government's plans
- ◆ provide a reasonable basis for the forecast

We also found that the forecasts accurately reflect the underlying assumptions.

The Economic Forecasting and Analysis Branch at the Ministry of Finance compiles the key economic assumptions used in the preparation of revenue forecasts in the [Budget and Fiscal Plan 2014/15 – 2016/17](#). These economic assumptions are derived from a number of sources including the [British Columbia Macroeconomic Model](#) (the Model), and forecasts from a number of external forecasting agencies. The Model is a sophisticated statistical tool (comprised of a set of interrelated equations) that the Ministry of Finance uses to generate forecasts of key economic variables for the B.C. economy. Although the Model does not produce the estimates of annual revenue used for budgeting purposes (e.g., personal income taxation estimates), it does produce economic projections that are an integral component of revenue

forecasting for a number of key revenue programs. The output of the model, along with other external assumptions (e.g., commodity prices, exchange and interest rates, and economic growth in other jurisdictions) are used to prepare the various revenue forecasts. [Table A5](#) in the appendix to the Budget and Fiscal Plan discloses key economic assumptions for individual revenue sources.

The Ministry uses several methods to evaluate the results of its economic forecasting. The most visible is the comparison of key economic assumptions to a survey of economic forecasts from the Economic Forecast Council (EFC) or Consensus Economics. An example of a key economic assumption is B.C. real GDP which is a measure of inflation adjusted



## KEY FINDINGS AND RECOMMENDATIONS

provincial economic activity. As noted in Exhibit 2, the Ministry of Finance forecast for B.C. real GDP growth is below the EFC average for all three years of the Budget and Fiscal Plan. The EFC survey results for a number of the significant economic assumptions are reported in detail in the [Budget and Fiscal Plan \(pages 87-90\)](#).

Exhibit 2: B.C. real GDP (annual % change)			
	2014	2015	2016
Economic Forecast Council (average)	2.3%	2.7%	2.7%
Ministry of Finance forecast	2.0%	2.3%	2.5%

Source: Budget and Fiscal Plan 2014/15 – 2016/17 (page 2).

### Revenue forecasts

The relationship between the economic assumptions and the preparation of revenue forecasts for each revenue program varies depending on the revenue source. Certain revenue forecasts (e.g., personal income tax) have a strong forecast correlation with economic assumptions. Some forecasts rely on limited economic assumptions, such as population estimates (e.g., Canada Health and Social Transfers). Other revenue forecasts are discretionary and have no direct relationship with economic assumptions (e.g., some federal government contributions are set in agreements).

We examined the assumptions used in government's revenue forecasting and concluded that the assumptions:

- ◆ reflect the expected conditions, or planned courses of action, of government

- ◆ were internally consistent with each other, or across the Budget and Fiscal Plan
- ◆ were supported by objective evidence (for example, past performance), and where applicable, we also verified assumptions against external information (for example, natural gas pricing)

We examined the calculation of revenue forecasts for a sample of revenue sources. We did not identify any instances where these calculations did not accurately reflect the underlying assumptions.

We compared the significant accounting policies used in preparing the revenue forecasts to those used in the preparation of the government's Summary Financial Statements and did not identify any differences. As identified earlier in our report, we have qualified our March 31, 2014 audit opinion on the Summary Financial Statements. We did not quantify the impact of the qualification on the revenue forecasts in the Budget and Fiscal Plan.

Finally, we examined the Ministry of Finance's revenue compilation and consolidation process, and we did not note any discrepancies. We found that budgets for Crown corporations and ministries have several levels of review prior to submission to the Ministry of Finance. This is an added level of control over the forecasting process.

In summary, we concluded that government prepared the economic and revenue forecasts in the [Budget and Fiscal Plan 2014/15 – 2016/17](#) based on sound processes, supported by external forecasts where appropriate, and were compiled accurately. We did not have any recommendations for the Ministry of Finance related to this measurement criteria.

# KEY FINDINGS AND RECOMMENDATIONS

## PRESENTATION AND DISCLOSURE OF THE BUDGET AND FISCAL PLAN

For the presentation and disclosure in the Budget and Fiscal Plan, we assessed whether:

- ◆ the presentation format allows for a comparison with government's Summary Financial Statements
- ◆ government has met the general disclosure requirements set out in the CPA Canada standards
- ◆ government disclosed significant assumptions, including associated risks and sensitivities

### Comparison with the Summary Financial Statements

The Budget and Fiscal Plan is government's annual assessment of expected economic conditions, forecasted revenues, expenses, capital spending and debt. During each fiscal year the Ministry of Finance also provides quarterly updates on the forecasts against the original Budget and Fiscal Plan. About three months after the end of the fiscal year, the Public Accounts, which includes the independently audited Summary Financial Statements, reports on the actual results for the fiscal year, with comparisons to budget and the prior year.

Consistency in reporting between the Budget and Fiscal Plan and the Summary Financial Statements allows readers to compare government's planned and actual financial performance.

Shortly after the release of the Public Accounts, government also releases the Financial and Economic Review, providing more detailed comparative analysis between actual results and budgeted amounts.

In our examination, we concluded that the presentation of the Budget and Fiscal Plan allows for comparison with the actual results in the Summary Financial Statements. We identified a few areas where government could improve the clarification of disclosure between the Budget and Fiscal Plan and the Summary Financial Statements. These instances were brought to the attention of the Ministry in a management letter for consideration in preparing its 2016/17 budget.

### General disclosure requirements

Budgets are forward looking documents that provide an estimate of economic and fiscal forecasts based on a series of assumptions. The CPA Canada standards provide direction on expected disclosures for future-oriented financial information. These disclosures also explain the inherent limitations of future-oriented financial information so that readers clearly understand the implications and risks before making their own assessments based on the documents.

Our examination found that many of the disclosures set out in the CPA Canada standards are included within the Budget and Fiscal Plan. However, we did not find a clear statement of the risks associated with future-oriented financial information, as envisioned by the disclosure standards, which would remind readers, at the outset, of the inherent limitations of relying on any future-oriented financial information. The standards require an acknowledgement that actual

## KEY FINDINGS AND RECOMMENDATION

results will vary from the budget and the amounts may be material. They also require including disclosures on how and when the forecast information will be updated.

The [Nova Scotia Budget Assumptions and Schedules 2014/15](#) is a good example of the disclosures envisioned by the standard.

**RECOMMENDATION 1:** *We recommend that the Ministry of Finance clearly disclose in its Budget and Fiscal Plan the inherent limitations associated with future-oriented financial information, in line with the disclosure standards established by CPA Canada.*

### Disclosure of significant assumptions

Our objective in examining the disclosure of significant assumptions was to determine if the information presented allows readers to understand the risks associated with the forecast and the potential impacts on the forecast results.

Overall, we found that the Budget and Fiscal Plan provides good qualitative discussion on the risks to economic growth. Further, Appendix [Table A5](#) provides detailed information on the key economic assumptions for significant revenue sources.

The current level of disclosure provides a good foundation for readers to assess the risks associated with the revenue forecasts. However, we have noted a few areas where government could enhance the disclosures.

Four years of data are shown for significant revenue sources in the material revenue assumptions appendix ([Table A5](#)). There is also a sensitivity analysis column for the 2014/15 forecasts. Disclosing these sensitivities informs readers of estimated changes in forecast revenue resulting from changes in key economic assumptions.

### SENSITIVITY ANALYSIS

*A technique used to measure the impact on an estimate from a change in one or more key assumptions.*

The disclosures in Table A5 are useful for those interested in a detailed analysis of the forecasts. However, the disclosures could be enhanced by including a discussion of why each economic variable was selected in the sensitivity analysis, and by including some indication of the likely range of variation in the variables, based on historical data volatility. This would assist readers in drawing more informed conclusions on the inherent risks in the forecasts for specific revenue sources.

**RECOMMENDATION 2:** *We recommend that the Ministry of Finance enhance its sensitivity disclosures in appendix Table A5 of the Budget and Fiscal Plan, explaining why the selected economic variables are used, and disclosing and discussing the likely range of historical data volatility.*

## KEY FINDINGS AND RECOMMENDATIONS

As discussed previously, the forecast allowance is one mechanism to manage forecast risks. The forecast allowance is a means of further guarding against revenue volatility. The Budget and Fiscal Plan included an annual forecast allowance of \$200 million in 2014/15, increasing to \$225 million in 2015/16 and \$325 million in 2016/17.

Our expectation was that the forecast allowance was determined based on perceived risks and the need for added prudence in the revenue forecasts, over and above those built into the economic forecasts. The disclosure associated with the forecast allowance is limited to a brief explanation in the Attestation by the Secretary to Treasury Board at the beginning of the Budget and Fiscal Plan. The Attestation explains why forecast allowances increased for years 2 and 3, but does not include an explanation of how the initial \$200 million balance was determined, in the context of prudence already allowed for, in the revenue forecasts.

Government could better support the decision to use a revenue forecast allowance by explaining the expected risks (or volatilities) and how these risks translate into the specific dollar value established for the forecast allowance. This disclosure would provide more transparency to the budget documents.

**RECOMMENDATION 3:** *We recommend that the Ministry of Finance provide additional information on the risks supporting the annual forecast allowance.*

## COMPLIANCE WITH LEGISLATION

The *Budget Transparency and Accountability Act (BTAA)* and the *Balanced Budget and Ministerial Accountability Act (BBMAA)* establish certain requirements that must be included in preparing the annual Budget and Fiscal Plan. The *BBMAA* prohibits government from forecasting a deficit, provides the basis for calculating a surplus or deficit, and sets out the terms of salary holdbacks for ministers. The *BTAA* includes requirements for budget consultations and the Economic Forecast Council. The Act also establishes government's reporting requirements through all phases of financial accountability, from the budget through to quarterly updates, and finally the annual Public Accounts.

We examined all the requirements of the legislation as they relate to the economic and revenue forecasting for the Budget and Fiscal Plan. We did not identify any significant instances of non-compliance.

# APPENDIX A:

## BUDGET AND FISCAL PLAN PREPARATION

### Key milestones in the budget cycle for the Budget and Fiscal Plan 2014/15 – 2016/17

September 2013	Budget consultation paper released (by September 15)
November 2013	Select Standing Committee reports on public consultations
December 2013	Economic Forecast Council surveyed B.C. Macroeconomic modelling initiated
January 2013	Economic Forecast Council re-surveyed B.C. Macroeconomic modelling completed Revenue forecasts completed Budget and Fiscal Plan prepared
February 2014	Budget and Fiscal Plan completed Budget and Fiscal Plan tabled in the Legislature (February 18, 2014)

### Accountability reporting after the release of the Budget and Fiscal Plan

September 2014	Q1 Update
November 2014	Q2 Update
February 2015	Q3 Update (component of the next year Budget and Fiscal Plan)
July 2015	Summary Financial Statements (actual results)
July – August 2015	Financial and Economic Review

Source: Compiled by the Office of the Auditor General of British Columbia



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