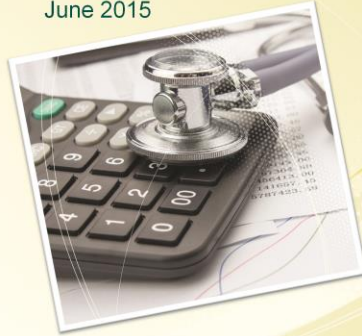


Monitoring Fiscal Sustainability

June 2015



OFFICE OF THE
Auditor General
of British Columbia

This report is part of an ongoing theme to improve financial literacy and awareness.

In recent years, we have published guides on how to prepare and understand public sector financial statements.

We have also evaluated financial management areas like cash flow management where the story was, in part, already there to see in the financial reporting of government.

About our Office

- The Auditor General is the independent auditor of the Legislative Assembly of British Columbia
- Reports to the Legislative Assembly, not to the government of the day
- Conducts both financial audits and performance (or “value for money”) audits



As the non-partisan, independent auditor of the legislative assembly, the Auditor General audits the government reporting entity.

This consists of ministries, Crown corporations, and other government organizations, such as universities, colleges, school districts, health authorities, and similar organizations that are controlled by, or accountable to, the provincial government.

The Office of the Auditor General serves the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.

Under the *Auditor General Act*, the Auditor General conducts and reports on both financial audits and performance (or “value for money”) audits.

Purpose of the report

To inform legislators and the public of:

- Importance of fiscal sustainability
- Key principles to report on and manage fiscal sustainability risks
- Risks to B.C.'s fiscal sustainability
- Reporting guidance and practices elsewhere
- How B.C. reports on fiscal sustainability



We prepared this report to inform legislators and the public of:

- The importance of fiscal sustainability
- Key principles to effectively report on and manage risks to fiscal sustainability
- Risks to B.C.'s fiscal sustainability
- Reporting guidance and practices in other jurisdictions
- How B.C. currently reports on fiscal sustainability risks and mitigation strategies

We did not audit the completeness or accuracy of the government reports we reviewed, and we did not assess internal monitoring and risk management processes related to fiscal sustainability.

Why is fiscal sustainability important?

- Long-term outlook helps government deal with fiscal pressures gradually
- Globally, more governments recognizing importance of planning for long-term fiscal sustainability, but still in its infancy



Fiscal Sustainability means government can provide services and meet its financial commitments – both now and in the future.

Monitoring long-term fiscal sustainability and adopting a long-term outlook helps government respond to long-term pressures and risks in a gradual manner, instead of being forced to adopt sudden and disruptive policy changes.

Globally, more governments are recognizing the importance of planning for long-term fiscal sustainability. However, long-term reporting is still in its infancy in many jurisdictions.

Population aging

- Common risk to advanced economies globally including B.C.
- By 2040, 50% more seniors in B.C. than today
- Less people working reduces economic growth and government revenue
- Cost of delivering services, like healthcare, pressured by aging population
- Revenue will trend down and expenses up

50% more seniors
in B.C. by 2040

65+

LESS WORKERS
= less economic growth

AGING POPULATION
= greater costs for health care/services

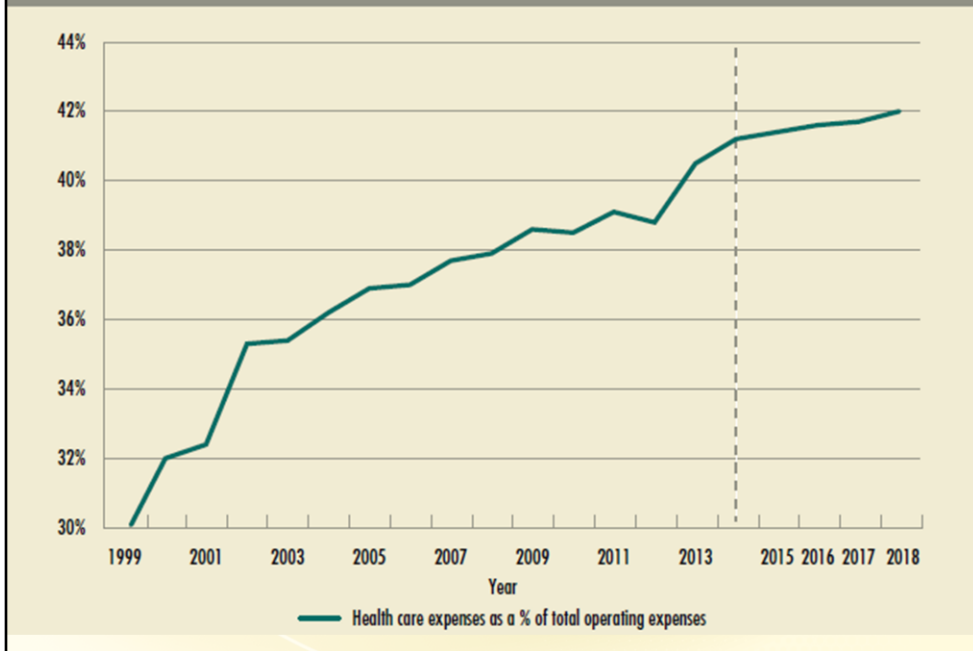
OFFICE OF THE Auditor General of British Columbia

An aging population is a common risk to advanced economies globally, including British Columbia.

Population aging will:

- reduce economic growth and government's ability to generate revenues
- increase the overall cost of government programs, and
- increase the fiscal pressure on the delivery of health care

Exhibit 3: Health care expenses as a percentage of total operating expenses by fiscal year ended March 31st (actual to 2014 and planned to 2018)



In fact, and as you can see in Exhibit 3 from the report, health care expenses have already been growing faster than government's overall budget.

In 1999, health expenses made up 30% of B.C. government expenses, and by 2014, they had grown to 41%.

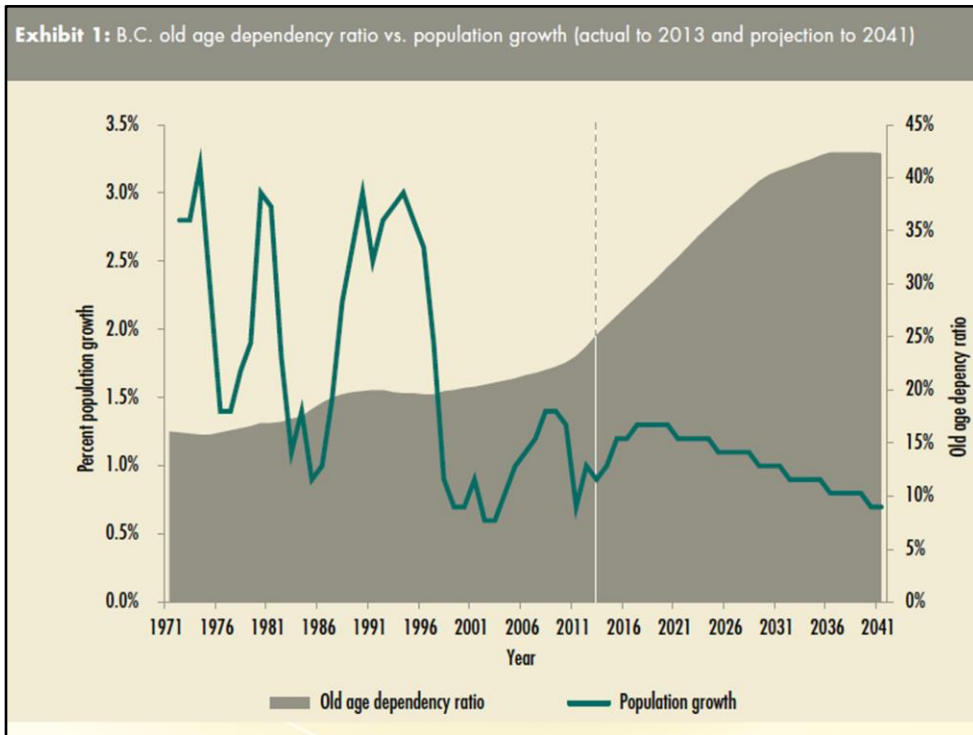


Exhibit one from the report shows the actual and projected change in population growth, and the old age dependency ratio.

The old age dependency ratio is the number of dependents (or those over 65 years of age) divided by the working age population (those 18-64).

The ratio of senior citizens relative to the working age population is expected to increase significantly in the coming decades. This means the fiscal pressure resulting from population aging will intensify.

Our report also discusses other risks to fiscal sustainability such as climate change, and maintenance and renewal of large infrastructure like bridges and buildings.

How does B.C. report on risks?

Government does not report on its overall long-term fiscal sustainability, but does report on:

- Its present-day financial health, which compares well against the other provinces
- Aspects of long-term fiscal sustainability (e.g., risks and strategies for growing the economy and achieving health care sustainability)



Looking at how government reports on risks, we found that government reports on most aspects of its present-day financial health, which compares well against other provinces.

Government also reports on certain aspects of long-term fiscal sustainability such as risks and strategies for growing the economy and achieving healthcare sustainability.

Because government plans on a 3-year cycle, it cannot demonstrate how decisions made today will result in a sustainable government in the future.

Recommendation

We recommend that government:

- Report publically on its assessment of the province's long-term fiscal sustainability, including the reporting of relevant targets and results.
- This assessment should inform the annual budget process.



As such, our report includes the following single recommendation:

That government report publically on its assessment of the province's long-term fiscal sustainability, including the reporting of relevant targets and results. This assessment should inform the annual budget process.

Further resources

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That concludes this overview.

Our thanks to the Ministry of Finance staff for their cooperation with this project.

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