Credibility, Transparency & Accountability

Improving the B.C. Budget Process

Final Report of The Budget Process Review Panel

CREDIBILITY, TRANSPARENCY & ACCOUNTABILITY

IMPROVING THE B.C. BUDGET PROCESS

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The Budget Process Review Panel

An independent Panel
appointed to recommend improvements to the budgeting and financial management
of the Province of British Columbia

September 27, 1999

The Honourable Gretchen Mann Brewin
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia V8V 1X4

Madam:

It is my pleasure to provide you and, by copy, the Minister of Finance and Corporate Relations with the final report of the Budget Process Review Panel, entitled Credibility, Transparency & Accountability – Improving the B.C. Budget Process.

The Panel was appointed by the Minister of Finance and Corporate Relations and asked to report simultaneously to the public, the Legislative Assembly and the Government by September 30, 1999 on issues related to the budget process. The attached report covers all of the issues raised in the Panel's Terms of Reference.

Sincerely,

Douglas J. Enns, FCA
Panel Chair

cc: Honourable Paul Ramsey
Minister of Finance and Corporate Relations

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REPORT SUMMARY

What the Report Accomplishes

Immediately after the 1996/97 budget was presented in the British Columbia Legislature on April 30, 1996, an election was called. Following the election, serious public concerns arose about the reliability of that budget, and in particular the forecast balanced budget. As a result, the Auditor General conducted a broad review of the budget process and released a report in February 1999.

Based on a recommendation made by the Auditor General, the Minister of Finance and Corporate Relations established the Budget Process Review Panel in April 1999. The Panel's mandate was to review "input to the budget process, scope of the budget and information provided in the budget plan and actual results" and report concurrently to the Legislature, the public and the Minister by the end of September.

The Panel is making 26 recommendations to the Legislative Assembly and the Government that it believes will help to improve the budget process in five ways:

- Make the budget process more open and accessible.
- Reduce the chance budget forecasts will be misunderstood or misleading, and increase public confidence in the forecasts.
- Make it easier to hold the Government accountable for the actual program results it intends to achieve.
- Increase public confidence in the Province's accounting practices and financial information provided by the Government.
- Make budget and related information more useful and comprehensible.

The Panel is recommending that most of its recommendations be implemented through legislation, which will result in a major reform of the existing legislative framework if implemented. The Panel has also included specific suggestions about the timing of implementation with each recommendation, many of which the Panel believes can be implemented immediately.

The Panel believes that its mandate is limited to the budget process and has therefore not taken on policy issues outside of the budget process or unnecessarily strayed into the arena of internal government management, as that would dilute the focus on needed budget process reforms. Although several stakeholders urged us to recommend balanced budget legislation or limits on the size of the debt, for example, the Panel believes these are questions of fiscal policy rather than budget process issues.

> **The Government and the Province**
>
> Throughout the report, “the Government” is used to mean collectively Cabinet and the other members of the Legislative Assembly that form the Government of the day. “The Province” or ”the provincial public sector” is used to mean the administrative machinery of the provincial government (including ministries, Crown corporations and government agencies). While the Government changes periodically, the Province continues to exist over time, although its scope and structure changes from time to time.

What the Budget Process Should Be

The Budget Cycle

The Panel’s mandate goes beyond the specific issues arising from the 1996/97 budget to the more general question of improving the overall budget process. To the Panel, the budget process means the whole budget cycle:

- preparing the next year’s budget, beginning six to nine months prior to budget day,
- presenting the budget and Estimates and the subsequent debate and approval in the Legislature,
- reporting actual results to date throughout the fiscal year, and
- reporting and reviewing audited actual results after the year end.

Accountability

The Panel strongly believes the budget process is an accountability process. Accountability means that, when someone is responsible for doing something on behalf of someone else, they must also tell that person what they are going to do and report the results—in other words they must account for their activities.

In the case of the Government, the people have given them responsibility to collect revenues and provide public services on their behalf. The people should be able to hold the Government accountable for how it discharges that responsibility.

Financial Accountability

Traditionally, the budget is primarily focused on financial accountability—how much revenue, expense, assets and liabilities will the Province have and what will be the resulting deficit or surplus and total debt? The Panel has concluded that financial accountability requires information about:

- how revenue is raised;
- how that revenue is used; and
- what that will mean for future generations as a result of passing on either benefits (such as buildings and other things that will have future benefits) or debts and other obligations that must be repaid in the future.

Accountability for Results

The Panel supports the growing recognition that accountability for actual program results is also important to the budget process. In other words, the budget process should not only ensure Government accountability for financial activities but also for the program results it intends to achieve.

Already part of the budget process, the Estimates debate in the Legislature is an opportunity for the Opposition to question the Government about the purpose of its many programs, what results are expected and what has happened. However, full accountability for results would require more complete information about expected results in the planning part of the process (i.e., the budget itself) and more explanation of what actually happened in the reporting part of the process. The Panel also believes that the planning part of the process must take at least a medium term view and not be limited to a one-year period.

Qualities

The Panel has concluded that an effective budget process would have the following qualities:

Responsibility—the Government is responsible, through the democratic process, for establishing public policy and that responsibility should be evident through the information provided. Responsibility and accountability go hand-in-hand.

Timeliness—public information provided during the process should be available in time for it to be useful in holding the Government accountable.

Transparency—the budget process and the public information provided should be open, accessible and understandable.

Comprehensiveness—the budget process should deal with all of the areas for which the Government is responsible and thus accountable.

Consistency—public documents should be consistent in the sense that they provide information about the same things in the same form.

Comparability—it should be possible to compare public information over time and across similar organizations.

Clarity—the roles and responsibilities of the key institutions and individuals involved in the process should be clearly defined and set out.

Recommended Improvements

The following explains how the Panel believes its 26 recommendations will improve the budget process *if they are implemented*. Although the explanations are couched in terms of the effect they *will* have, the reader should be aware that these are simply recommendations and those effects will only result if the changes are implemented. The Government must decide which, if any, of the recommendations they will accept.

The Panel believes that most of the recommendations will require legislation if they are to be effective and the Panel is recommending that some be phased-in. More detail about the recommendations and their implementation is available in the Summary of Recommendations below and in the main body of the report.

A More Transparent Process

Transparency, a key principle established by the Panel, will be enhanced by having a public pre-budget consultation process conducted by a committee of the Legislature created specifically for that purpose, possibly comprised of representatives of the sector committees discussed below. To make the pre-budget consultation more useful, the Government will first publish a pre-budget discussion paper, setting the economic and financial context with up-to-date forecasts, and encouraging discussion of issues that the Government expects will be important in the coming budget.

A transparent budget process will become more measured and predictable by establishing specific dates for the pre-budget consultation (October 31 to December 31) and by requiring the budget to be presented no later than the third Tuesday in March.

The Estimates debate and review of reported results portions of the budget cycle will become more transparent by having a reformed legislative committee system, based on recommendations already made by the Public Accounts Committee.

Legislative Committees

Although British Columbia has several standing committees of the Legislature, only a few are active and standing committees are used less in British Columbia than in many other Canadian jurisdictions to conduct the business of the Legislature.

In the 2nd Report of the Select Standing Committee on Public Accounts, January 31, 1996, the Public Accounts Committee recommended a major reform of the standing committee system of the Legislature. Some of the key elements of their recommendations include:

- there should be several committees created to consider provincial public sector programs by sector with broad terms of reference to review business plans, annual reports and Estimates; and
- the committees should be established for the duration of a parliament and be able to sit intersessionally (when the House is not sitting).

While the Committee's recommendations do not specify what the sectoral committees would be, they might, for example, include a Health Committee, an Education Committee, a Justice, Children and Families, and Human Resources Committee, an Economic Development and Natural Resources Committee and a Finance and Government Services Committee. However, this is only an example; the Panel believes the number and organization of the sectoral committees should be set by the Legislature. In addition, the Panel is recommending a committee be created for the specific purpose of undertaking the public pre-budget consultation.

Special Warrants will be discouraged, and Supplementary Estimates encouraged, by requiring a report to be published explaining each Special Warrant. The Panel believes that use of Special Warrants is inconsistent with transparency.

Special Warrant means an order of the Lieutenant Governor in Council that allows the Government to spend money in addition to the spending authority approved by the Legislature.

Supplementary Estimates means a request made by the Government to the Legislature for spending authority in addition to that approved in the annual Estimates, which needs to be debated and approved by the Legislature before the authority is granted.

Reliable and Credible Budget Forecasts

The issue of reliability and credibility of budget forecasts gave rise to the Auditor General's report and to the Panel's work. Its resolution is crucial to an effective budget process because it is a key factor in the Government's credibility and because optimistic deficit forecasts have real consequences for public sector efficiency and effectiveness when they are not achieved.

Improving the reliability and credibility of the budget forecasts demands full disclosure of material assumptions and policy decisions underlying the forecasts, at least to the level done in the 1999/2000 budget. The Panel recommends that this disclosure be required by legislation and attested to by the Secretary of Treasury Board. The Panel also supports continued use of the Economic Forecasting Council.

Because of the political importance of the deficit as a measure of the Government's financial management, when it becomes clear during the course of a year that targets will not be achieved, mid-year corrections and claw-backs are made. The problem arises when this becomes standard practice because that shortens the planning horizon of public sector managers. When deficit forecasts are optimistic, there is a higher risk that mid-year corrections will be required, as has happened for the past several years.

Consistent with the principle of responsibility, the Panel believes that it is the Government's role to decide how much risk of underestimating the deficit to accept. However, the Panel believes that the Government should specifically disclose in the budget any factors included to make the deficit forecast more optimistic or pessimistic and that those factors should be the subject of debate in the Legislature. In Budget '99 specific revenue and expenditure cushions were included to reduce the risk of underestimating the budget and the Panel believes that is prudent and appropriate.

Improved Accountability for Results

The Panel believes the budget should make the Government both financially accountable and accountable for actual program results compared to what the Government intends to achieve. Planning and reporting documents that provide more information about intended and actual results will improve accountability. A strategic plan for the Province, updated annually, will set the context for business plans across the provincial public sector, including providing a medium-term financial plan. The results vis-à-vis the strategic plan will be reported in the annual report for the Province or the Public Accounts.

Each public body, including ministries, Crown corporations and others, will prepare an annual three-year business plan and will report on results annually. In addition, there will be some summary accountability for results information included in budget documents and reporting documents.

These changes will be phased-in over time, changing the emphasis from inputs such as employees and purchased goods and services to outputs and outcomes. To provide public sector managers with more flexibility to achieve expected program results, some input controls will be relaxed as accountability for results mechanisms are phased-in and shown to be effective. However, needed input controls, such as fixed expenditure budgets, will be maintained to ensure financial accountability.

Accountability for Results means publishing information about intentions and publicly reporting results on the same basis (e.g., using performance measurement) to disclose how effective the Government is at achieving public policy objectives and what action the Government is taking to increase effectiveness.

Accountability Questions

Business plans and annual reports should address three questions:

Are we doing the right thing?

Are we doing it well?

How do we know?

The Elements of A Business Plan

The key elements of a business plan focused on accountability for results should be:

Mission—What is the purpose of the organization?

Vision—Where is the organization going?

Principles—How does the organization operate?

Goals and Performance Targets—What does the organization expect to achieve?

Strategies—How will the organization achieve its goals?

Expected Results—How can the organization tell if it has been successful?

Key Performance Indicators

Accountability for results requires that goals be clearly stated and defined in terms of performance indicators, for which targets can be established and results reported.

Ideally, performance indicators should be measurable in numerical terms, but that may not always be possible. Where it is not, the Panel has recognized that more subjective (qualitative) performance indicators may be required.

The Panel has also emphasized the importance of using a balanced selection of performance indicators that ensure that there is not an inappropriate focus on one area to the detriment of other important results. For example, a sole focus on efficiency may erode quality, but a sole focus on quality may erode efficiency.

Improved Accounting

There are concerns that the Government either has manipulated or could manipulate financial results to make its results look better, for example by moving functions “off budget” thereby reducing the apparent size of the deficit. Accounting is a complex technical area but it is vital that the financial information that the Government provides, in both forecasts and results, fairly represent the substance of the Province’s financial affairs and that people trust the information. Like budget forecasts, financial information must be reliable and credible to be useful in holding the Government accountable.

Generally Accepted Accounting Principles (commonly referred to as "GAAP") means the accounting standards generally recognized by the accounting profession as the appropriate basis for calculating and presenting financial information. There are specific accounting standards for the Canadian public sector, recognizing that public sector accounting is somewhat different than private sector accounting. Public sector accounting standards are governed by the Public Sector Accounting Board, which documents Generally Accepted Accounting Principles for the public sector as they evolve over time. The Public Sector Accounting Board is an organization of accounting professionals and public sector experts that includes public sector representatives from comptroller general offices, auditor general offices, Crown corporations, ministries and municipalities across Canada, as well as private sector representatives.

To address this issue, the Panel's recommendations primarily seek to formalize the existing process for setting and interpreting accounting policies, with a few additional features. The recommended legislation will require financial information to be presented in accordance with Generally Accepted Accounting Principles with any material differences from the written guidance provided by the accounting profession explicitly disclosed. That means that the Government (Treasury Board) will set the Province's accounting policies and recognizes that Generally Accepted Accounting Principles are an evolving set of standards which first become accepted by the accounting profession and are subsequently documented in written guidance prepared by the Canadian Institute of Chartered Accountants and the Public Sector Accounting Board. The Auditor General will continue to have the right to qualify his audit opinion on the Public Accounts if not in agreement with the policies that have been adopted.

The accounting policies will apply fully to the budget as well as the Public Accounts. Thus, the budget will be more comprehensive than it currently is, immediately covering the "Summary Entity", which includes Crown corporations and other public bodies, rather than being limited to ministries and special funds and accounts, as at present. In other words, there will be only one bottom-line.

One significant outstanding issue is whether the "Summary Entity" should be expanded to include school districts, universities, colleges and health authorities. Generally Accepted Accounting Principles require that these public bodies be included if the Government is ultimately accountable and if they are owned by the Province or controlled by the Government. The Auditor General currently qualifies the Public Accounts audit opinion because the Expanded Summary Entity is not used.

The Panel has recommended that these public bodies be included to the extent required by Generally Accepted Accounting Principles so that the budget and Public Accounts both use the Expanded Summary Entity. The recommendation suggests that the change be phased-in over several years. This will make financial information better reflect the true breadth of the provincial public sector and the Government's responsibilities. The Panel also recognizes that this is an evolving area of Generally Accepted Accounting Principles for the public sector, but believes that Generally Accepted Accounting Principles should be applied as they currently stands and any changes to Generally Accepted Accounting Principles reflected as they take effect.

Impacts on the Future

Accounting for impacts in the future is often referred to as "intergenerational reporting." While this is an evolving area of accounting, public sector accounting already includes some ways of reporting on future impacts.

There are at least three ways that current activities affect the future. One is by having a surplus or deficit, which either reduces or increases the costs that will have to be paid in the future (because it reduces or increases public sector debt, which must be repaid with interest in the future).

A second way that current activities affect the future is through the purchase or construction of things (capital assets) that will be used over time to undertake public sector activities, creating future benefits. Debt may also be used to finance capital expenditure, creating a future obligation.

The third way that future benefits and obligations are generated by current activities is more general. Examples include unfunded pension liabilities and other commitments such as collective agreements with employees. This category could also include social, environmental and other future benefits and obligations.

Current accounting practice already deals relatively completely with the first two categories of future implications through accrual accounting. Some of the elements of the third category are also dealt with, such as unfunded pension liabilities that are now disclosed in British Columbia budgets and Public Accounts. However, other areas such as more complete accounting for commitments and particularly accounting for future social and environmental benefits and obligations have not yet been fully developed and are not in common use.

The Panel supports the current accounting practices in British Columbia as they apply to disclosing future impacts and supports the continued development over time of more sophisticated accounting practices as they become more fully developed.

While all public bodies that meet the criteria for inclusion set out in Generally Accepted Accounting Principles should be included in the reporting and budgeting entity, there should be due consideration given to the dual accountability of school districts and any other institutions with elected boards in the implementation process. For example, that could affect how financial information of these public bodies is consolidated or how the accountability for results requirements are applied to them.

Interpretation of the Province's accounting policy (as opposed to setting the policy) can also be an issue. It is sometimes possible to find a way to account for a transaction that is technically in accordance with Generally Accepted Accounting Principles but that does not fairly disclose the economic or financial substance of the transaction. In these cases there are other accounting treatments that also are in accordance with Generally Accepted Accounting Principles that provide better disclosure.

In the private sector, any treatment that is in accordance with Generally Accepted Accounting Principles will usually be accepted by auditors but the Panel believes the Government should be held to a higher standard. Therefore, the Panel has recommended that the Auditor General be given specific authority and responsibility to comment on whether, in the Auditor General's opinion, the accounting treatment used in the financial statements is the most appropriate basis of accounting.

The Entity

The entity refers to the set of public bodies whose financial information is consolidated to create the Province's summary financial results. There are currently two entities. The Consolidated Revenue Fund (CRF) is the focus of the budget and the "Summary Entity" is the focus of the Public Accounts. The CRF is comprised primarily of ministries and the Summary Entity includes the CRF plus Crown corporations and other provincial public sector agencies.

Using the CRF as the budget entity is problematic in that it does not represent the full scope of the Government's responsibility so the apparent size of the deficit, and of the provincial public sector can easily be arbitrarily changed. Changes can be made by moving programs into or out of ministries or altering Crown corporation dividends or subsidies. Examples of moving programs out include creation of the Transportation Financing Authority and moving the Motor Vehicle Branch to ICBC. While there may be good management reasons for such changes, they distort financial reporting on provincial public sector activities.

Using a broadly defined entity such as the Expanded Summary Entity ensures that financial information is comprehensive (one of the Panel's principles) and that transfers of programs into or out of ministries do not change the deficit.

Often revenues or expenditures are shown in the province's financial statements on a net basis. In other words, revenues may be shown after deducting the cost of collecting the revenue (e.g., sales tax commissions paid to retailers) and expenditures may be shown after deducting earmarked revenues (e.g, fees for a service are often deducted from the cost of providing the service to show net expenditure). That is usually an appropriate way to account for the activities but it does have the effect of distorting the total revenue and expense amounts, reducing their value as indicators of the size of the provincial public sector. To address this, the Panel recommends that, at least on a summary basis, total revenue and expense be adjusted to a gross basis.

Better Presentation of Information

The recommendations described above will help to improve specific types of information, such as budget forecasts, information about expected and actual outcomes and financial information. In order to instill some of the qualities listed above, such as consistency and comparability, the Panel makes several recommendations designed to generally improve the quality and presentation of information related to the budget process. For example, the Estimates and Public Accounts will follow the same format and include comparable information from previous periods. Quarterly reports will include revised forecasts, and summaries will be included in all documents to increase comprehension by providing plain language explanations of the key points.

Fixed dates by which documents must be released will improve timeliness of information, promoting accountability by ensuring the information is available while it is still current. Legislation will require that public bodies provide information to the Comptroller General in the time and form that the Comptroller General stipulates.

Improvements will also be made to the disclosure of information about capital plans and results.

The Panel is recommending that the Government and the Office of the Auditor General (OAG) both report annually on the Province's progress in reforming the budget process.

The Reformed Budget Process

Below is a graphic representation of how the process will look *if it is implemented* and the following is a description of how the reformed process will work *if the recommendations are accepted*. As noted above, the Government must decide which, if any, of the Panel's recommendations to implement.

The graphic shows how the parts of the budget process would occur throughout the year and emphasizes the fact that the overall budget process is more than two years in duration from the time development starts until the year end results are reviewed.

Pre-Budget

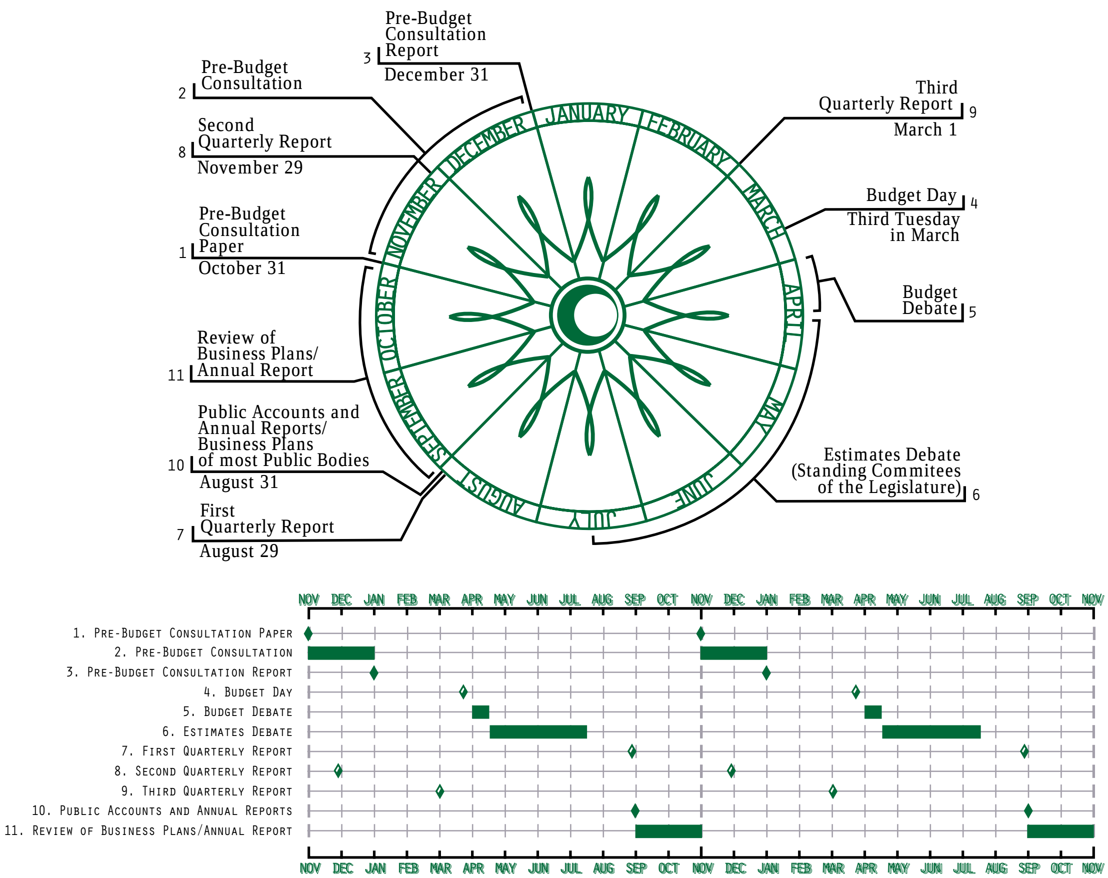
The annual budget process will start with a pre-budget consultation paper published no later than October 31 each year by the Government. In fact, internal budget preparations usually begin in the summer with budget instructions sent to ministries and with the preparation of fiscal and economic forecasts to provide context for the internal budget building process. The consultation paper would be the start of the publicly visible part of the budget cycle. The Panel's recommendations do not deal directly with the internal budget development process.

The paper will include updated economic and fiscal forecasts from the previous budget and an indication of the key issues to be addressed in the next budget from the Government's perspective. The Government could also, but will not be required to, indicate how it intends to address the issues.

A select standing committee of the Legislature established for this purpose will conduct public pre-budget consultations based on the pre-budget consultation paper. The consultations will be scheduled well in advance, held around the province and include opportunities for dialogue and genuine public input, perhaps through an internet-based large public panel. That will help make the process more transparent.

A pre-budget consultation report, summarizing the results of the consultations, will be provided by the legislative committee to the Government and made public no later than December 31.

Budget and Accountability Cycle



Budget

A long-term strategic plan focussing on accountability for results will be published before or with the budget. It will include key strategic objectives and expected results, as well as sufficient financial planning information to form the basis for the business plans being required of ministries and public bodies.

A budget, consistent with the strategic plan, will be released by the third Tuesday in March. The information in the budget will be improved as described above in Recommended Improvements. One improvement will be the requirement that a few key performance indicators for each ministry or major provincial public sector program and for some public bodies (non-commercial Crown corporations—others will have accountability addressed through their own business plans and annual reports only) be included in the Estimates or another budget document.

Post-Budget

The transparency of the budget process will be increased by having sectoral standing committees of the Legislature conduct the Estimates debate and review business plans and annual reports (in accordance with a recommendation by the Public Accounts Committee).

Release of each Quarterly Report will be required within 60 days of the end of the quarter and include a plain-language summary and revised fiscal and economic forecasts.

Every ministry and public body in the reporting entity will publish a business plan and annual report focussing on accountability for results that sets out objectives and expected/actual results.

Release of the Public Accounts will be required by August 31 of each year. The Public Accounts will either include or be accompanied by an annual report for the Province that will compare actual results with expected results set out in the Government's strategic plan, as well as report on key performance indicators included in the budget information.

This results reporting and review activity will then inform the planning process for the next budget. That is, the final results for Year A together with year-to-date results and revised forecasts in the Quarterly Reports for Year B will play a role in planning for Year C and beyond. With enhanced accountability for results, as actual results are compared with expected results in the previous plan, it will help to identify areas where change needs to be considered and areas where current programs are efficient and effective.

Conclusion

The Panel believes that the recommendations it is making represent a significant step forward in the evolution of the budget process in British Columbia. The budget process is comprised of two elements: process and information. The Panel's recommendations will improve both, enhancing the credibility of the process by encouraging honesty, increased transparency and better accountability.

While the Panel believes that the recommendations represent a significant next step intended to address the issues currently at hand, further changes will be required in future, as circumstances and issues change. The Panel recommends that there be a scheduled review of the budget process in eight to ten years. The purpose of the review would be to continue the evolution of the budget process, after several years' experience with a reformed process.

The recommendations made by the Panel address all the specific items set out in the Panel's Terms of Reference, as described in Appendix B of the Panel's report.

SUMMARY OF RECOMMENDATIONS

The following is a list of all the recommendations being made by the Panel. It has been organized, as has the Panel's report, into the five areas where the Panel believes its recommendations can make or reinforce improvements to the Budget process.

A More Transparent Process

The following recommendations are intended to make the budget process more open and accessible, since transparency is a key principle. For more discussion of the background to the recommendations and what they are intended to achieve, see Chapter II.

The Panel recommends that:

1. Legislation require that a pre-budget consultation document be publicly released by the Government no later than October 31 of each year as the basis for public pre-budget consultations (see Recommendation 2.). The document should update economic and fiscal forecasts from the previous budget and indicate the key issues that need to be addressed in the budget. **Timing**—To be implemented at least for the 2001/02 budget (fall of 2000), with consideration given to implementation for 2000/01 (fall of 1999), perhaps delayed by a month or so, as the basis for the Minister of Finance and Corporate Relations' informal pre-budget consultations.

2. Legislation establish a public pre-budget consultation process undertaken by a select standing committee of the Legislature created for this purpose, with the results reported publicly and to the Minister of Finance and Corporate Relations by December 31. The process should allow for input from interest groups and include opportunities for dialogue with interest groups and the public (round-tables) and mechanisms for public dialogue, such as through web-sites and/or large web-based public forums. **Timing**—To be implemented for the 2001/02 budget (fall of 2000).

3. Legislation require that an annual budget be introduced by the third Tuesday in March each year, unless that is during an election campaign or less than 30 days after a new Government is sworn in, in which case the budget must be introduced as soon as practicable. If the budget is not passed before an election is called, a new budget may be introduced following the election. This recommendation is not intended to preclude introduction of Supplementary Estimates or a new budget during the course of the year. **Timing**—To be implemented for the 2000/01 budget with legislation as soon as possible.

4. The legislative committee system be reformed as proposed by the Public Accounts Committee (creation of sectoral committees that may sit intersessionally) and the legislative committees used for the Estimates debate and review of accountability for results information such as business plans and annual reports. Additional resources will be required and sufficient resources should be allocated so that the committees can be effective. **Timing**—To be implemented for the 2000/01 budget (spring 2000).

5. Supplementary Estimates should be used whenever possible and practical instead of Special Warrants as a more transparent way to deal with requirements for additional expenditure approval during the year. To discourage use of Special Warrants, legislation should require a report to accompany any request for a Special Warrant and be made public when the Special Warrant is approved. The report should state when the issue arose, what options were considered, why the Special Warrant was chosen and, in the case of a Special Warrant representing more than two percent of total voted expenditure, providing revised fiscal forecasts. However, Special Warrants would still be available for use at the discretion of the Government. **Timing**—To be implemented immediately, with legislation as soon as possible.

Reliable and Credible Budget Forecasts

The following recommendations are intended to increase public confidence in budget forecasts by enhancing disclosure. This will address a key problem that led to the Auditor General's report and the Panel's creation. For more discussion of the background to the recommendations and what they are intended to achieve, see Chapter III.

The Panel recommends that:

6. The Economic Forecasting Council continue to be used as a mechanism to disclose how the budget economic forecast compares to various private sector forecasts developed at the same time. **Timing**—Legislation is already in place.

7. Legislation require that the Government provide, in the budget documents, complete disclosure of all material assumptions and policy decisions underlying the economic, revenue and expenditure forecasts, at least to the level of detail in the 1999/2000 budget. **Timing**—To be implemented immediately, with legislation as soon as possible.

8. Legislation require the Secretary to Treasury Board to attest that the completeness of disclosure required by Recommendations 7 and 9 has been achieved. The Secretary would not be required to comment on the reasonableness of the assumptions. **Timing**—To be implemented immediately, with legislation as soon as possible.

9. In addition to the disclosure required by Recommendation 7, legislation specifically require that the budget documents disclose whether any factors have been included to make fiscal forecasts different from what the Government believes is the most likely result and the amount by which forecasts have been adjusted. The legislation should also require that the disclosed information be the subject of debate and approval in the Legislature. While the Panel believes there are good public policy reasons for adjusting both revenue and expenditure forecasts in the name of prudence, it believes the Government should be responsible for deciding whether or not to do so. **Timing**—To be implemented immediately, with legislation as soon as possible.

Improved Accountability for Results

The following recommendations are intended to change the focus of the budget cycle from just accountability for financial results to add more accountability for the substantive program results of provincial public sector activities as well. For more discussion of the background to the recommendations and what they are intended to achieve, see Chapter IV.

The Panel recommends that:

10. Legislation require that the Government publish a long-term strategic plan and annually publish updates to the plan prior to or at the same time as the budget, as the basis for accountability for results for the provincial public sector. This would be a high level document, not a detailed collection of individual business plans. The legislation should require:

    - the strategic plan to set out the Government's priorities;
    - the strategic plan to specify strategic objectives and expected results;
    - the strategic plan to include expected results for standard fiscal indicators such as those recommended by the Canadian Institute of Chartered Accountants (CICA);
    - the strategic plan to include a three-year financial plan as the basis for ministry and public body business plans;
    - the budget and the business plans of ministries and public bodies to be consistent with the strategic plan; and
    - an annual report for the Province published in or accompanying the Public Accounts that compares actual results for a fiscal year with the strategic plan for that year.

Timing—To be implemented for the 2001/02 budget.

11. Legislation require that all ministries and public bodies in the reporting entity publish:

    - annual three-year business plans, consistent with the strategic plan, that focus on accountability for results by including mission, vision, strategic direction, objectives, performance indicators and expected results (performance targets); and
    - annual reports that indicate actual results for a year compared to the year's business plan.

The legislation should:

- permit the business plan for the coming year to be combined in one document with the annual report for the preceding year;
- not require disclosure of information that may affect a ministry or public body's commercial interests; and
- require performance indicators to be balanced in the sense that they cover all key objectives. Performance indicators should be quantitatively measurable to the extent possible but where not possible, may include qualitative performance indicators.

Timing—To be implemented over a five year phase-in period, with additional ministries and public bodies participating each year.

12. The Government actively encourage and participate in interjurisdictional efforts to develop standard key performance indicators for the Province as a whole and for specific program areas, and to establish benchmarks for such performance indicators. **Timing**—To be implemented immediately.

13. Legislation require that the Estimates or another budget document include summary business information (mission, vision, strategic direction, key goals and expected results for the coming year) for major programs provided by ministries and non-commercial Crown corporations (i.e., would not apply to commercial Crown corporations or SUCH sector entities). **Timing**—To be implemented over a five year phase-in period, with additional ministries and public bodies participating each year.

14. As accountability for results is phased-in and shown to be effective, input controls should be relaxed to add management flexibility to achieve results. The Government should maintain sufficient controls to ensure budgets are effective at limiting expenditure and that financial transactions are appropriate. Existing legislation requiring staffing limits to be included in the Estimates should be amended to support added flexibility and transparency because these limits are ineffective in controlling the size of the provincial public sector tax-supported staffing but do introduce inefficiencies. However, the Panel believes it is important to continue to measure the use of staff resources. Other examples of input controls that could be considered for being relaxed include transfers among expenditure categories, contract approval thresholds and travel approvals. **Timing**—By the 2001/02 budget, a plan to reduce input controls over time should be developed and published by the Government.

15. Consideration be given to the increased use of performance management techniques for the management of programs and activities throughout the Province but the Panel is not recommending the programs or activities to which performance management should apply, or a specific time frame or approach, as that would be beyond its mandate. **Timing**—At the Government's discretion.

Improved Accounting

The purpose of these recommendations is to increase public confidence that financial information presented by the Government is a fair representation of the substance of the Province's financial affairs. The recommendations apply several of the Panel's principles related to improving public information and would resolve a key problem with the budget process by improving credibility. For more discussion of the background to the recommendations and what they are intended to achieve, see Chapter V.

The Panel recommends that:

16. Legislation require that financial information provided by the Government be prepared in accordance with Generally Accepted Accounting Principles, with any material variance from the written guidance of the accounting profession (i.e., the Canadian Institute of Chartered

Accountant's Public Sector Accounting and Auditing Handbook) explicitly disclosed. The legislation would continue to require that the Province's accounting policy and practice be established by Treasury Board. That is intended to allow, for example, the continued implementation of full accrual accounting and continued definition of the deficit as the difference between revenues and expenses calculated on an accrual basis. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

17. Legislation require the summary financial statements to include a statement that reconciles the surplus or deficit with the change in debt. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

18. Legislation provide the Auditor General with enhanced authority and responsibility to influence the interpretation of accounting policy. The legislation would require that the annual report of the Auditor General must include an assessment of whether financial information provided by the Government is prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure of the economic and financial substance of provincial public sector activities. The Auditor General's annual report must also include an analysis of what the impact on the financial information would have been if the most appropriate basis of accounting, in the opinion of the Auditor General, had been used. "The most appropriate basis of accounting" in the Auditor General's opinion would have to be consistent with the requirement in Recommendation 16 that financial information be prepared in accordance with Generally Accepted Accounting Principles. However, simply having financial information prepared in accordance with Generally Accepted Accounting Principles is not sufficient if the Auditor General believes that another basis of accounting that is also in accordance with Generally Accepted Accounting Principles is more appropriate. **Timing**—To be implemented immediately, with legislation as soon as possible.

19. Legislation require that the reporting and budgeting entity must be the Expanded Summary Entity, which includes the CRF, Crown corporations and other agencies, and those SUCH sector public bodies that meet the Generally Accepted Accounting Principles criteria for inclusion in the entity. The legislation should also be clear that financial information on non-CRF entities should be included in the Estimates and Public Accounts at a summary level only and that this change does **not** mean that the Legislature is required to vote or approve non-CRF expenditures. **Timing**—The budgeting entity should be expanded to be the same as the current reporting entity (i.e., the Summary Entity) for the 2000/01 budget. Beginning with the 2001/02 budget, the budgeting and reporting entities should be expanded together to phase-in inclusion of the SUCH sector, consistent with Generally Accepted Accounting Principles, over several years. During implementation, due consideration should be given to the dual accountability of school districts and any other institutions with elected boards. Developments in public sector accounting in other Canadian jurisdictions and Generally Accepted Accounting Principles may affect the order and timing of the phase-in.

20. Legislation require that the Estimates and budget information be prepared in accordance with the Province's accounting policy, including policies on the reporting entity, consolidation and future-oriented financial information. That means, for example, that summary financial statements in budget documents must include both revenues and

expenditures of non-commercial Crown corporations and other non-commercial public bodies, such as the SUCH sector institutions (i.e., line-by-line consolidation as required by Generally Accepted Accounting Principles). This, and other recommendations, will place additional resource requirements on TBS and sufficient resources should be allocated. **Timing**—To be implemented beginning with the 2000/01 budget , with legislation as soon as possible.

21. The focus of discussion of overall financial indicators, such as surplus or deficit, total expenditure, total debt, etc. should be on the Expanded Summary Entity basis to ensure there is only one bottom line. That would mean that, except for the purpose of comparability with current budget plans only over the next two fiscal years, separate summary statements for the CRF would not be included in the Estimates, Public Accounts or accompanying documents. Also, legislation would require that any subtotal of the difference between CRF revenue and expense would be referred to by some term other than deficit or surplus, which would be reserved to describe the overall bottom-line. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

22. Legislation require summary financial information, especially in the Estimates and Public Accounts, to be presented on both a gross and net basis. That is, the summary statements must at least include an adjustment to present total revenue and total expense on a gross basis, with the form of information supporting that adjustment left to the Government's discretion. Votes would continue to have expenditure approved on a net basis. The adjustment of net revenue to total revenue is not intended to require accounting for foregone revenues and other tax expenditures, although disclosure of estimated tax expenditures in the budget documents is encouraged. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

Better Information

The purpose of these recommendations is to make all the public information provided throughout the budget cycle more useful and accessible by applying the Panel's principles of timeliness, consistency, comparability and transparency. That should increase the effectiveness of the budget process as an accountability regime. For more discussion of the background to the recommendations and what they are intended to achieve, see Chapter VI.

The Panel recommends that:

23. Legislation apply the principles of transparency, consistency and comparability by requiring that:

    - whenever expected results are disclosed in a plan, the corresponding actual results must be disclosed in a comparable way in a subsequent report, whether that is the Estimates and Public Accounts or a Crown corporation's business plan and annual report;

    - business plans and annual reports must be comparable across similar organizations;

- Quarterly Reports must provide revised fiscal forecasts; and

- that all budget process documents must be in plain language and include summaries.

Timing—To be implemented immediately, with legislation as soon as possible.

24. Legislation establish the following specific release-by dates:

Quarterly Reports	By 60 days after the end of the quarter
Public Accounts and Government Annual Report	By the August 31 following the fiscal year end
Annual Reports of Ministries and Public Bodies	By 90 days after the public body's fiscal year end
Business Plans of Ministries and Public Bodies	If separate from the previous year's Annual Report, by 30 days after the start of the fiscal year

The legislation should also provide the Comptroller General authority to require financial information from public bodies within timeframes and in the form required by the Comptroller General. Meeting these timelines, especially as the Expanded Summary Entity is phased-in, will require the allocation of appropriate resources to the Comptroller General and by public bodies. **Timing**—To be implemented beginning with the 2000/01 budget and 1999/2000 Public Accounts, with legislation as soon as possible.

25. Proposed reforms to capital budgeting should be implemented by legislation in accordance with the principles proposed by the Auditor General, including closer integration into the process of developing the operating budget and more disclosure of proposed capital projects, including amounts, objectives business cases and performance targets for individual major projects. Budget documents should provide disclosure about ongoing projects and the amount approved for new projects but need not provide details of new projects not yet announced. Disclosure for those projects should be made when they are announced. **Timing**—To be implemented at least by the 2001/02 budget.

26. Legislation should require the Government and the Auditor General to both report annually to the Legislature on the implementation of this report, until implementation is complete and should require a scheduled independent review of the budget process in eight to ten years. **Timing**—Reports required by September 30 of each year beginning in 2000.

Legislation

The specific recommendations indicate where the Panel is recommending that legislation be required. The Panel wishes to ensure that these legislative requirements do not generate litigation designed to block policy decisions of the Government on the basis that there has been a defect in the budget process.

The Panel has received legal advice that its concern can be dealt with through appropriate drafting. In particular it has been suggested that the problem can be avoided by specifying the consequence for failure to comply with the legislation. For all those recommendations that set deadlines, the Panel suggests that the consequence for failing to comply should be a requirement to report to the Legislature by the deadline the reasons for the failure.

In addition, it has been suggested that legislation limiting the ability to take action against the Province based on a defect in the process may be effective and the Panel supports the use of such legislation.

CHAPTER I—WHY, WHAT AND HOW

Purpose

The purpose of this chapter is to introduce the work of the Budget Process Review Panel by discussing:

- **why** the Panel was created,
- **what** the Panel believes the budget process should be and what principles should guide the budget process, and
- **how** the Panel has done its work.

Why the Panel Was Created

The Auditor General's Report

The Budget Process Review Panel was appointed in April, 1999 by the Minister of Finance and Corporate Relations. The purpose of the Panel was to review issues related to the budget process arising from the 1998/99: Report 4 – A Review of the Estimates Process in British Columbia of the Auditor General of British Columbia, published in February, 1999. The Terms of Reference of the Panel have been reproduced in Appendix A for convenience.

The Terms of Reference includes the following statement:

> The report by the Auditor General on the Estimates Process in British Columbia contains recommendations for a number of changes to the process used by government to create its annual budget and the way government reports on its budget performance. The government will address all of the changes recommended but wishes to seek broader views on some of the major recommendations of the Auditor General that affect input into the budget process and information presented by the government on the budget. The Auditor General agrees that seeking broad public input in these important areas would be useful.

The Auditor General's report arose from concerns that the 1996/97 provincial budget may have knowingly understated the expected deficit. The Auditor General made a number of conclusions, including the following:

> 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.
>
> Budget '96: Information on 1996/97 Revenue Was Incomplete and Inadequate
>
> 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 order to prevent this situation from reoccurring, the Auditor General went well beyond the specific problem that gave rise to his report to consider all aspects of the budget process. The various features of the process have been categorized by the Auditor General into two broad groups, governance and management.

The Panel's Terms of Reference

The Panel's Terms of Reference ask it to primarily focus on those recommendations of the Auditor General that fall in the governance category. In undertaking its task, the Panel has tried to focus its work on those areas suggested by its Terms of Reference and to avoid straying into the area of internal management of the budget process and of provincial public sector programs. For example, none of the Panel's recommendations directly affect the internal budget development process.

It should be noted, however, that the budget process is in many ways the foundation upon which provincial public sector operations are built. Because of that, there is a natural tendency when considering issues related to the budget process to be led down avenues of inquiry that could quickly lead one to virtually any issue related to the Province and how it operates.

Interesting as the various issues are and despite the interest of various stakeholders in having the Panel address some broad issues, the Panel has determined that the best way for it to make a positive contribution is to limit itself to specific issues directly related to the budget process and its Terms of Reference. The report discusses a few of the broader issues raised but the Panel's recommendations focus on the budget process. Appendix B provides a comparison of the Panel's recommendations and the Terms of Reference.

Note that the budget process seems to have a language all its own that sometimes tends to make the issues seem more complex than they actually are. Appendix C is a Glossary of Terms intended to make the budget process language more comprehensible.

What is the Budget Process and What Principles Should Apply?

What is the Budget Process?

To many, the budget process is simply the process of developing and presenting the annual budget. The annual budget is the Government's financial plan, which it is required to put before the Legislative Assembly for approval.

Ministries may only spend public money with the approval of the Legislature, so the primary focus of the budget is to request that approval.[1] In doing so, the Government also discloses what its sources of revenue are expected to be, the details of planned operating and capital costs,[2] its economic forecasts, and expected summary results such as the surplus or deficit, total debt and total revenue and expense, among other things.

The Panel considers the budget process to be more than just developing the budget. For the Panel, the budget process is the entire cycle related to the budget. It includes:

- the development of the budget,
- presentation, debate and approval of the budget,
- monitoring of actual results as they become available throughout the fiscal year,
- reporting and review of the actual results once the year is complete, and
- the integration of information available about the current and past fiscal years into the process of developing the budget for the next fiscal year.

Together these elements create an ongoing cycle, with results informing plans and debate of plans, and plans leading to results, which are then measured and reported.

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[1] Some programs have spending authority provided by statute that does not expire but most ministry expenditure is authorized by annual approvals based on the budget.

[2] Operating costs refer to the costs of providing goods and services. Capital costs refer the costs of buying or building tangible assets that can be used over several years to help provide goods or services, like buildings. Both need to be approved by the Legislature. Volume One includes a Glossary of Terms where these and other terms are defined.

Why Have a Budget Process?

There are a number of ways to address this question. One answer is that we need a budget process because it is an integral part of the democratic process, under which the Government may only act with the approval of the Legislature, and all democracies have some kind of budget process. More specifically, the *Financial Administration Act* requires that Estimates be tabled and voted on by the Legislature annually. However, this answer does not give us much insight.

Another approach is to suggest that any economic enterprise, whether it is a business, a not-for-profit enterprise, a family or a government, needs to engage in some sort of planning and reporting in order to manage its affairs. The budget process is one way that the public sector aggregates some of its planning information and undertakes part of its planning function and the subsequent reporting function. This approach is a little more helpful because it reminds us that the budget process is more than just developing the budget but also includes monitoring and reporting. It also reminds us that the financial side of the process, while important, is not an end of its own but the means for actually doing things (i.e., in the case of the Province, producing public goods and services).

The Auditor General has put this issue into a broader context. He notes that the public sector is fundamentally different from business and other economic enterprises because it has the power to tax. That is, the Province can generate revenue that has no direct link to the purposes for which it is used.

That is not to say that the Province has an unlimited ability to tax. That is not the case for a number of reasons, including competitiveness issues with other jurisdictions and taxpayer resistance to excessive taxation. The point is that in the private sector revenue is usually derived from selling a service or product. While some public sector revenue is also in the nature of a fee for service, a large proportion of public sector revenue is independent of the goods and services it is used to fund.

The people have given the power to raise revenue through taxes to their elected representatives. With that power goes also the authority and responsibility for the uses to which those revenues are put, both in terms of how they are spent and for what purposes they are spent.

Others prefer to view this from another perspective—the public sector was created as a means of providing a range of goods and services that are needed for our modern society and economy to exist. These include legal infrastructure and justice, various kinds of regulation to address failures in the marketplace, social programs in the areas of health, education and social assistance intended to efficiently and equitably provide services and to redistribute wealth, as well as myriad other public goods and services. These happen to be funded by tax and other public revenue but the focus is on the goods and services provided. From this perspective, the budget process is about the goods and services the public sector is providing as well as the financial aspects of the public sector.

Whichever way one looks at the question "Why have a budget process?" the answer comes down to the same thing—to hold the Government accountable, through the democratic process, for the activities it funds and for its financial affairs, including the implications for the future because all those activities are being carried out on behalf of the people. In other words, the budget process is an accountability regime.

What Is Accountability?

According to the first joint report of the Auditor General and the Deputy Minister's Council,

> Accountability—the obligation to account for responsibilities conferred—is a concept fundamental to our democratic system. It clearly establishes the right of the citizens to know what government intends to achieve on behalf of its citizens and how well it has met its intentions.[3]

The issue is not only how the accountability regime can be improved but to what end. When a person or organization is "held to account," that provides a powerful incentive for that person or organization to be as efficient and effective as possible in discharging its responsibilities. The value of a strong accountability regime is that it makes it more difficult to appear to be efficient and effective without actually being so.

To whom is the Government accountable? To the people, through their elected representatives, the Members of the Legislative Assembly. The media, interest groups and direct citizen participation also play a role in government accountability.

For what is Government accountable through the budget process? Two things: the Province's financial affairs and the results the Province achieves as compared to the Government's plan.

Financial Accountability

Financial accountability primarily relates to the revenues raised by the Province and how those revenues are spent. It relates to how well the Province has complied with the approvals of its annual financial plan and whether it has been a proper steward of the public revenues.

Current public sector activities also have implications for the future. One way that current activities affect the future is if current expenses are greater or less than current revenues—in other words any surplus or deficit will affect the future. A surplus reduces public sector debt and thus future financial obligations that must be repaid. A deficit adds to public sector debt and the obligations that must be covered in the future.

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[3] Enhancing Accountability for Performance in the British Columbia Public Sector, June 1995, p. 29

Another implication for the future is that assets such as buildings and computer systems that are built or purchased now can be used for several years to produce public goods and services. These capital assets provide benefits in the future as well as imposing obligations in the form of the debt used to finance them.

Government activities also can provide other benefits and obligations in the future, some of which can be relatively easily measured, such as unfunded pension liabilities and others which are inherently difficult to measure, such as social and environmental benefits and costs.

Accountability for Results

As indicated above, while financial accountability is the traditional focus of the budget process, it is becoming increasingly well recognized that the budget process is also a key way of holding the Government accountable for results. The Estimates debate has always been a mechanism for that. However, the budget process can be improved by providing more and better information about plans and results, and by making the process more transparent.

How Does the Current Budget Process Work?

The provincial budget cycle takes at least two years in total, from the start of the budget building process to the review of reported results after the year is complete. The purpose of this discussion is to provide background about what the budget cycle currently looks like and how it is currently used as an accountability regime.

Pre-Budget

The budget cycle begins in the summer of the prior year, when instructions are given to ministries for developing their budget submissions, which are usually due early in the fall. In the late summer or early fall economic and fiscal forecasts are also prepared to provide Treasury Board with a sense of the fiscal framework within which the budget decisions must be made.

Over the years, many different approaches have been used to analyze the budget requests but whatever method is used, Treasury Board makes budget decisions over the period extending from mid-fall to just before budget day.

During the fall, private and/or public consultations are also usually held with interest groups and other stakeholders. These usually at least cover tax policy issues but often also address expenditure, regulatory and other public policy issues. This part of the process is explored further in Chapter II.

Budget

On budget day, the Government presents a number of documents. The budget speech itself, read by the Minister of Finance and Corporate Relations, is akin to the first reading or introduction speech of a piece of legislation. The notational legislation is comprised of the Estimates, which is a document that sets out the Government's expenditure plans in units known as Votes and is ultimately an attachment to the *Supply Act*(s) that actually authorize(s) expenditure.

The Estimates includes all of the Consolidated Revenue Fund (CRF) expenditure, both statutory and voted appropriations. Where there is both voted and statutory authority, if the voted authority runs out, the statutory authority may be used for additional expenditure on the specific function in question without any further authorization. An example is the authority for fighting forest fires.

Following the budget speech, the Opposition has a chance to respond. There is then a set time for the "budget debate," which is debate of the budget in principle or second reading of the Estimates legislation. When the budget debate is complete, the Estimates are referred to the Committee of the Whole for the committee stage debate, which usually takes place in two separate sessions of the committee that meet simultaneously. This is what is known as the "Estimates debate" and is one of the primary mechanisms the Legislative Assembly has for holding the Government to account.

During the Estimates debate, discussion is not limited to the financial information provided in the Estimates regarding the Vote in question. Rather, ministers may be questioned about any issue related to the programs or activities funded by the Vote, including results and specific cases. For the Vote that includes funding of the minister's office, debate can include all of the minister's responsibilities, such as Crown corporations for which the minister is responsible and other responsibilities that do not directly relate to the work of the ministry. In that sense, the Estimates debate already provides a mechanism for publicly holding the Government accountable for activities within the Government's control. The effectiveness of this accountability mechanism and ways of improving the effectiveness of accountability are a major focus of this report.

On budget day, any legislation required to implement revenue measures (such as tax changes) announced in the budget is also introduced and subsequently debated in the normal course of business for the House.

Post-Budget

Following approval of the budget, information is provided on results. During the year, three Quarterly Reports are published, usually within two to three months after the end of each quarter. The next budget and the Public Accounts replace the fourth Quarterly Report. Each Quarterly Report provides summary year-to-date economic indicators and financial information for the CRF and certain Crown corporations, but does not usually provide revised fiscal forecasts.[4]

After the end of the fiscal year the Public Accounts are produced and audited by the Auditor General. The Public Accounts are produced based on the Summary Entity, a consolidation of the CRF and public bodies including all of the Crown corporations. This differs from the CRF basis used for the budget and Estimates, although the Public Accounts also include CRF financial statements. The *Financial Administration Act* requires audited Public Accounts to be publicly released by December 31, nine months after the fiscal year end. For the past few years, Public Accounts have been released in September (i.e., within six months).

The Public Accounts are referred to the Select Standing Committee on the Public Accounts, commonly referred to as the Public Accounts Committee or PAC. The PAC then completes the budget process by reviewing the Public Accounts and any reports produced by the Auditor General.

Annual reports of ministries and Crown corporations are also produced after the fiscal year end and usually tabled in the Legislature, but especially in the case of ministries, often not for one to two years after the fiscal year end.

Statement of Purpose and Principles

Given the foregoing discussion, the Panel proposes the following as a statement of the purpose and principles of the budget process to guide its specific recommendations.

Purpose of the Budget Process

The purpose of the budget process should be for the Government to annually develop a financial plan, present it to the Legislative Assembly for approval, monitor the results throughout the year and report on results after the year end. The plan and reporting should focus on:

- The activities that the Government intends to fund over the next fiscal year and the results it expects to achieve (accountability for results);
- What those activities will cost and how the costs will be paid through revenues raised and debt (financial accountability); and,
- What benefits and obligations (e.g., debt) will be passed on to the future as a result of the plan (financial accountability).

[4] The First Quarterly Report for 1999/2000 indicates the revised fiscal forecasts will be provided in the Second Quarterly Report.

Principles

Responsibility—The Government, through the democratic process, is responsible for establishing public policy, including preparing the budget and establishing what the Province's ministries and agencies should be doing and why.

Accountability—Hand-in-hand with the Government's responsibility is its accountability for what it does. For the Government to be held accountable for its budgetary decisions, the budget cycle must be an effective accountability regime.

Qualities

The qualities of an effective accountability regime are:

> **Timeliness—**public information should be provided in time for it to be useful in holding the Government accountable.
>
> **Transparency—**the accountability regime should be open, accessible and understandable in terms of both process and the public information provided.
>
> **Comprehensiveness—**the accountability regime should deal with all of the areas for which the Government is responsible.
>
> **Consistency—**public documents should be consistent in the sense that they provide information about the same things in the same form.
>
> **Comparability—**public information should be able to be compared over time and across similar organizations.
>
> **Clarity—**the roles and responsibilities of the key institutions and individuals in the processes should be clearly defined and set out.

How Has the Panel Approached its Task?

Scope

The Panel determined early in its deliberations that the scope of its work within its Terms of Reference should be to:

- test the Auditor General's recommendations for effectiveness and practicability;

- recommend the next step forward in terms of implementation of some specific measures;
- frame the Panel's recommendations so that they can be built upon as further steps are pursued;
- to the extent the Panel is unable to examine issues fully, indicate what issues need further work and how that might proceed; and
- generally concentrate on "what" needs to be accomplished and only recommend "how" it should be accomplished to the extent that is necessary to make it possible to implement the recommendations.

Approach

The Panel's approach has been to try to adhere to the principles it is proposing. The one most applicable to its work is transparency.

There are two elements to transparency that have characterized the Panel's process—inclusiveness to ensure all interested parties have an opportunity for input and openness, through ongoing disclosure of the Panel's work.

Inclusiveness

The Panel decided that public hearings would not be feasible in the time allotted. Instead, several mechanisms have been used to reach out to those interested in this issue. Appendix D provides details of the Panel's consultations.

The Panel reached out to interested parties in several ways:

- invitations to make submissions and follow-up correspondence was sent to over 60 groups in the business, professional, labour and public sectors;
- the direct public service was given the opportunity to provide input through interviews done under the promise of no attribution. About 18 interviews were held involving over 30 individuals;
- advertisements were placed in most newspapers in the province requesting submissions and directing the public to the Panel's web-site;
- two round-table discussions were held with invited participants from the business sector and from the academic and budget practitioners sector; and
- The Panel's web-site (www.reviewpanel.gov.bc.ca) included multiple mechanisms to provide input to the Panel.

Disclosure

In addition to this consultation, the Panel has tried to make its process transparent by disclosing its work as it went along. The web-site was used to make this information publicly available and interested parties were reminded periodically of the information available there.

For example, the Panel began its deliberations based on a series of eight issues papers intended to raise the issues for discussion and provide the Panel with background information. Those papers were made available on the web-site in early July and interested parties were invited to comment on them. The Panel also posted submissions received and summaries of the Panel's discussions, all of which were available for comment.

A draft set of recommendations was also released for comment and discussion in early August. This allowed the Panel to test its thinking with a wide variety of interested parties prior to making final recommendations.

Submissions and comments received through the consultations have been instrumental in helping the Panel to develop its recommendations. As a result of comments received, the Panel is confident that the recommendations are practical and will result in a better budget process.

One of the implications of the Panel's approach is that the contents of this report should not be much of a surprise to anyone. The report borrows liberally from the Issue Papers that have been public for several months. The recommendations are based on the draft recommendations released in early August. That, too, is intended to model a "no surprises" approach that the Panel believes should also be applied to the budget process. Except for specific measures that could distort markets if disclosed in advance such as sales tax rate changes, the Panel believes that budget secrecy and the focus on major budget day announcements is inconsistent with transparency in the budget process.

Research

As suggested by the Panel's Terms of Reference, the Panel has relied heavily on the wide body of work already undertaken on budget process issues. The Bibliography (Appendix E) lists the sources of information used. In addition, the Panel has relied on reviews of practices in other jurisdictions and the advice of experts in defining the issues and making its recommendations.

The Panel's Objective

The Panel's objective is to improve the budget process in five ways:

- Make processes more open and accessible, since transparency is an important principle.
- Make fiscal forecasts more reliable and more credible to the public by reducing the chance they will be misunderstood or misleading. This will address the specific issue that led to the Auditor General's report and the Panel's creation.
- Make it easier for the public to hold the Government accountable for results, a key reason for having a budget process.

- Increase public confidence in public sector accounting practices and financial information published by the Government, thus improving financial accountability.
- Make all public information that is part of the budget process more useful and accessible, consistent with the principles of consistency, comparability, comprehensiveness and transparency.

Chapters II to VI discuss in detail how the budget process can be improved in each of these areas.

The Panel's objective is not to create the perfect budget process or to solve all of the issues related to public policy and administration. The intention is to recommend changes that are practical to implement over, at most, the next five years and that will make a significant improvement in the budget process, especially as compared to the process used for the 1996/97 budget. The Panel acknowledges that the Government has already made some improvements to the process since then but believes that there are several important changes yet to be made.

The Panel also believes the results should be reviewed again after several years' experience with the reformed process, in eight to ten years from now. That will allow for the continued evolution of the budget process.

CHAPTER II—TRANSPARENT PROCESSES

Background

There has been a long tradition of budget secrecy in the Westminster model of parliamentary democracy. The motivation for budget secrecy is to prevent budget measures, especially revenue measures, from being undermined by people taking action in advance of a change taking effect. For example, if the sales tax is going to rise or fall and people know that in advance they will have an incentive to either accelerate or delay purchases to minimize tax.

Distortions in economic activity such as that are undesirable, so governments try to keep certain decisions secret until they take effect. Most (but not all) of these decisions are taken as part of the budget and announced on budget day.

While that is a valid reason for the secrecy of a few key decisions, the argument does not apply to most of the decisions made in the budget process and announced on budget day. That fact has become increasingly well recognized over the past one or two decades and the level of budget secrecy has been significantly reduced in most jurisdictions.

Budget themes and specific proposed budget measures are often announced and discussed in public well in advance of the budget release. Input is sought privately by the Government from interested parties on what budget measures they believe the Government should introduce. Some jurisdictions have gone further and proactively seek public input during the budget development process.

Processes for holding the Government accountable (primarily the Estimates debate) are, by their very nature, public processes. In fact, the Government can only be held accountable if it is done in public, since it is the public to whom the Government is ultimately accountable.

The issues are:

- Are the current mechanisms for public participation in both the budget process and the reporting process sufficient?
- If not, what type of mechanism(s) should be put in place related to the budget process?
- What type of mechanism(s) should be put in place related to the reporting process?

Two additional, more specific issues have been raised related to the openness of the process. The first relates to the common use of Special Warrants by the Government to extend spending authority provided by the Legislature. Some feel the use of Special Warrants is inconsistent with an open and transparent process.

The other issue relates to the process for developing the budgets of Officers of the Legislature, such as the Auditor General, the Ombudsman, the Chief Electoral Officer, the Information and Privacy Commissioner and others. These all are independent from the Government for a good reason. To strengthen that independence, the Officers have jointly requested a change to the way their proposed spending authority is developed. Such a change would be intended to add to the transparency of the process.

What is Currently Done in British Columbia?

Pre-Budget Process

The Minister of Finance and Corporate Relations has made a practice of holding pre-budget consultations for at least the past decade. The specific form of these consultations has varied from year to year but it has usually included a tour of the province by the Minister, accompanied by staff, with meetings held in all regions of the province. The degree to which these meetings are public has varied over time.

In addition, the major interest groups including numerous business associations, labour groups and groups representing social, environmental and other interests have been given an opportunity to provide input, at least to senior officials and often to the Minister. Depending on the issue, interest groups may provide input to the Minister of Finance and Corporate Relations or the minister responsible for their area of interest. This input is primarily provided in private. Input can also be provided in the form of correspondence from the general public and advice provided to the Government through public forums such as op-ed columns in newspapers and events like the BC Business Summit.

Post-Budget Process

The Estimates debate is the primary mechanism for public review of the budget and for applying accountability for results. In addition, the Public Accounts Committee (PAC) annually reviews the Public Accounts and all reports of the Auditor General to the Legislature are referred to the Committee for debate.

Both the Estimates debate and PAC discussions are held in public. The Estimates debate is usually conducted by a Committee of the Whole, which operates as two committees operating simultaneously. Committee A sits in a committee room and Committee B sits in the Legislature. Only Committee B is televised. In Committee B only Members of the Legislative Assembly may speak but in Committee A senior officials have sometimes also been invited to speak on technical and administrative matters.

The PAC has the ability to hear from speakers other than Members of the Legislative Assembly, if they choose. Officials from the Office of the Auditor General (OAG) and the Ministry of Finance and Corporate Relations (Office of the Comptroller General (OCG), Treasury Board Staff (TBS) and others) frequently appear, as do other invited guests. The PAC could hold public hearings if it chose.

Pre-Budget Consultations

Experience of Other Jurisdictions

There are undoubtedly many models of pre-budget consultation but two Canadian approaches are particularly relevant, Alberta and the federal government.

In Alberta, Government backbenchers tour the province and hold public pre-budget consultations. The results of these consultations are provided to the Government as input into the budget building process. In addition, a round table process has periodically been used to seek consensus on major public policy issues. Although not part of the budget process *per se*, such formal consultation mechanisms for major policy initiatives may have an impact on overall Government credibility and help to reduce the number of budget day surprises.

For the federal government, the Finance Committee, which is a standing committee of the House of Commons, holds annual pre-budget consultations. They invite interested parties to make presentations to the Committee, which then makes recommendations to the Minister of Finance. In addition, the Ministry of Finance (and other ministries) also holds private consultations with interested parties, including provincial finance ministries.

In both cases, the public pre-budget input garnered by these public consultation processes primarily comes from interest groups. The advantage, from the perspective of the interest groups is that they have a chance to put their case in a public forum and potentially gain public support for their issues. In addition, by making their presentations in public the interest groups know that someone has heard them.

Criticisms

Two criticisms are sometimes raised about this type of process. The first is that they are not very effective at getting input from the general public. That may be the case but just hearing from interest groups may not necessarily be bad. By providing a forum for influencing public opinion and raising issues in the public consciousness, the processes may play a useful role. The processes may also be useful in motivating interest groups to look beyond their own interests to the broader public interest because of the public nature of the forums.

It should be noted that, while it is difficult to get a sense of the views of disinterested members of the public (the so-called silent majority) in public forums, the Government has other mechanisms, such as polling that it can and does use to gather insight into public sentiments. Under the freedom of information legislation, this information is publicly available.

In addition, with the growing use of the Internet, it is becoming less expensive and more practical to solicit public input in a variety of ways. One way would be to publicize a web-site that provides easy ways to provide input. Another might be to establish a large, unbiased citizen forum that would agree to periodically provide input via the Internet. Britain has already tried this approach.

The other criticism is that public pre-budget consultation forums provide no guarantee that the Government will take any action based on the input. However, consistent with the Panel's responsibility principle, the Government is elected to govern and they must decide what actions to take and not to take. Inevitably, whatever the Government does or does not do will be criticized by those who would prefer something different. It is the nature of the system that input and advice will not always (or even usually) have an impact on the final result.

That is frustrating for those advocating a certain outcome. However, by placing the debate and discussion of public policy issue in a more public forum it becomes possible for the public to better understand what the issues are and how the Government's actions relate to the positions and interests of the various parties.

In other words, it may not matter to what extent the Government actually uses the input provided in these public forums in its decision-making—the very fact that the input has been made publicly contributes to transparency in Government decision-making.

Effective Consultations

Some would still be reluctant to give interest groups yet another soapbox from which to make their case when they already have several ways of getting the Government's attention. Two ideas have been suggested to improve any public pre-budget consultation.

The first is that the Government should show leadership by first tabling a proposed strategy that identifies what Government believes are the significant issues and provides some background information to focus and inform the discussion. That will not stop interested parties from bringing their own issues to the table but it will provide the committee conducting the consultations with the basis to question those giving input about the issues at hand. It will also provide the Government with a vehicle to foreshadow and test possible budget themes and initiatives, reducing the focus on budget day.

The second is that any public pre-budget consultations should be structured more as dialogues than as monologues. The idea would be to get competing interests around the table to at least demonstrate the diversity of views on an issue and the trade-offs that are part of every Government policy decision. At best, such round-table type discussions can also build support for course of action—sometimes maybe even consensus. To accomplish this, it is important that a single committee created for this specific purpose conduct the pre-budget consultations.

If a committee of the Legislature conducts pre-budget consultations, that raises the issue of who should staff that committee. One option might be to use Treasury Board Staff. However, that would put a strain on resources at a time when the internal budget process is intensive. In addition, there is an argument for keeping the pre-budget consultation process separate from the internal process so that it can provide some independent advice to the Minister of Finance and Corporate Relations. The committee undertaking pre-budget consultation would require some additional resources.

A Measured Process

One of the objectives of a public pre-budget process is to add credibility by having a process that is open and predictable, referred to here as a measured process. That requires that the key events happen at set times that are known well in advance. For example, the release of a pre-budget consultation paper, the timing of the consultations and the deadline for reporting the results should all be established well in advance. It is suggested that having a fixed budget date would also contribute to the credibility of the process.

Recommendations

Based on the foregoing discussion, the Panel recommends that:

1. Legislation require that a pre-budget consultation document be publicly released by the Government no later than October 31 of each year as the basis for public pre-budget consultations (see Recommendation 2.). The document should update economic and fiscal forecasts from the previous budget and indicate the key issues that need to be addressed in the budget. **Timing**—To be implemented at least for the 2001/02 budget (fall of 2000), with consideration given to implementation for 2000/01 (fall of 1999), perhaps delayed by a month or so, as the basis for the Minister of Finance and Corporate Relations' informal pre-budget consultations.

The purpose of this is to set the context for a public pre-budget consultation exercise.

2. Legislation establish a public pre-budget consultation process undertaken by a select standing committee of the Legislature created for this purpose, with the results reported publicly and to the Minister of Finance and Corporate Relations by December 31. The process should allow for input from interest groups and include opportunities for dialogue with interest groups and the public (round-tables) and mechanisms for public dialogue, such as through web-sites and/or large web-based public forums. **Timing**—To be implemented for the 2001/02 budget (fall of 2000).

This will ensure that pre-budget consultations are not just lobbying efforts by interest groups and are held early enough to have an impact on the Government's budget decision-making.

> 3. Legislation require that an annual budget be introduced by the third Tuesday in March each year, unless that is during an election campaign or less than 30 days after a new Government is sworn in, in which case the budget must be introduced as soon as practicable. If the budget is not passed before an election is called, a new budget may be introduced following the election. This recommendation is not intended to preclude introduction of Supplementary Estimates or a new budget during the course of the year.
> **Timing**—To be implemented for the 2000/01 budget with legislation as soon as possible.

By setting a more specific budget date, the Panel believes the process will become more routine and be seen to be more measured.

Estimates Debate and Review of Results

British Columbia is one of the only Canadian jurisdictions with a large population that does not have a well-developed legislative standing committee system for the purpose of detailed debate of legislation (including the Estimates) and for holding the Government accountable.

Appendix II-A of this chapter presents a summary of recommendations made by the Public Accounts Committee (PAC) for reform of the legislative standing committee system in British Columbia. The report also states:

> Accountability is not served simply because information is reported to the Legislative Assembly. If the Assembly is to assess the performance of government, it must inform itself about what government intends to achieve and what it actually achieves. … We would like to see, as a way of improving accountability and increasing the power of the Legislative Assembly, fundamental reforms to the way legislative committees currently operate.[5]

Recommendations #5 to #10 in Appendix II-A set out the nature of the reforms the PAC has recommended. The result of implementing these recommendations would be a system of sectoral legislative committees that would be responsible for conducting what is now the Estimates debate together with review of business plans, annual reports and other accountability documents for the public bodies within their sectors. The committees would be appointed for the entire life of the Parliament (i.e., the entire time between elections) and would be able to meet when the House is not in session. Any Member of the Legislative Assembly would have standing to appear and participate in the debates of the committees.

[5] From the Second Report of the Select Standing Committee on the Public Accounts for the Fourth Session of the Thirty-fifth Parliament of the British Columbia Legislative Assembly, January 31, 1996

These changes would result in a significant change in how the Legislative Assembly operates, consistent with the way Standing Committees are used in many other jurisdictions. It would mark a change from being a part-time Legislature, sitting as it currently does from March to July or so most years, into a Legislature that operates year-round, at least through its committees. Although the PAC recommendations do not specifically mention the use of the committees to conduct the committee stage debate of legislation, that is also a natural role for the committees that is used in most other jurisdictions that have a fully functioning committee system.

While the Committee's recommendations do not specify what the sectoral committees would be, they might, for example, include a Health Committee, an Education Committee, a Justice, Children and Families, and Human Resources Committee, an Economic Development and Natural Resources Committee and a Finance and Government Services Committee. However, this is only an example; the Panel believes the number and organization of the sectoral committees should be set by the Legislature.

As suggested above for the pre-budget consultation committee, there would be resource requirements associated with this reform of the Legislative committees. The Panel has not explored what resources would be required but the Panel believes that any reasonable additional costs would be justified by the benefits associated with improved public accountability.

The Panel recommends that:

4. The legislative committee system be reformed as proposed by the Public Accounts Committee (creation of sectoral committees that may sit intersessionally) and the legislative committees used for the Estimates debate and review of accountability for results information such as business plans and annual reports. Additional resources will be required and sufficient resources should be allocated so that the committees can be effective. **Timing**—To be implemented for the 2000/01 budget (spring 2000).

The pre-budget consultation committee could be comprised of representatives of the sectoral committees.

Special Warrants

Special Warrants are provided for in section 24 of the *Financial Administration Act* (FAA). The legislation allows an appropriation (spending authority) to be approved by an order of the Lieutenant Governor in Council, if the Legislature is not in session and if the expenditure is "urgently and immediately required for the public good." The spending may be for a new purpose or may be additional spending for a purpose already approved by the Legislature. Special Warrants are subject to debate in the Legislature since they are required to be included in the next *Supply Act* considered by the Legislature (FAA section 24(6)), which is usually after the money has actually been spent.

Special Warrants are most commonly used when the budget is not presented prior to the beginning of the fiscal year or when spending authority for a given program is used up prior to the end of the fiscal year.

For several years the Auditor General has expressed concerns about the use of Special Warrants because they are not consistent with a transparent budget process. The alternative would be to seek additional required spending authority by submitting Supplementary Estimates to the Legislative Assembly and debating the additional expenditure before it is spent rather than after the fact. Some other Canadian jurisdictions, notably Alberta, routinely use Supplementary Estimates instead of Special Warrants, although they have a Special Warrant provision in their FAA.

One concern about the use of Supplementary Estimates is that it requires the Legislative Assembly to be in session. However, since most uses of Special Warrants occur near the end or beginning of the fiscal year, that is close to the time when the House is traditionally in session and recalling the House for Supplementary Estimates is not likely to be onerous for Members of the Legislative Assembly or to incur additional costs. Changes to the legislative committee system recommended above would also have the effect of turning the current part-time Legislature into more of a full-time body.

Another concern is that it may take some time to pass the Supplementary Estimates. However, rarely is the need for additional spending authority such a surprise that sufficient time would not be available for the necessary debate between the time the need is identified and the time the appropriation must be in place. It is clear, however, that the Special Warrant power must be kept to deal with true emergencies.

One way that the Government could be encouraged to use Supplementary Estimates instead of Special Warrants would be to make the requirements associated with Special Warrants more onerous. For example, there could be a requirement for the Government to present the Lieutenant Governor in Council with a report when requesting a Special Warrant. The report would indicate when the Government knew that additional spending authority would be required, what options were considered and why the Special Warrant alternative was chosen, as well as providing revised fiscal forecasts for the year, in the case of significant amounts being requested. That report would then be published along with the Order in Council approving the Special Warrant.

The Panel recommends that:

> 5. Supplementary Estimates should be used whenever possible and practical instead of Special Warrants as a more transparent way to deal with requirements for additional expenditure approval during the year. To discourage use of Special Warrants, legislation should require a report to accompany any request for a Special Warrant and be made public when the Special Warrant is approved. The report should state when the issue arose, what options were considered, why the Special Warrant was chosen and, in the case of a Special Warrant representing more than two percent of total CRF expense, providing revised fiscal forecasts. However, Special Warrants would still be available for use at the discretion of the Government. **Timing**—To be implemented immediately, with legislation as soon as possible.

Estimates for Officers of the Legislature

Another process issue has to do with the development and approval of proposed spending authority for Officers of the Legislature. Officers of the Legislature are created by legislation and report directly to the Legislative Assembly. The current set of Officers includes:

- Auditor General
- Chief Electoral Officer
- Child, Youth and Family Advocate
- Conflict of Interest Commissioner
- Information and Privacy Commissioner
- Ombudsman

In a document titled Fundamental Operating Principles and Related Legislation, April 1998[6] the Officers have jointly recommended a number of changes to the Legislative Assembly and the Government. The report states:

> Statutory Officers of the Legislature occupy a unique and valued position founded in the tradition of the Westminster model of democratic governance. They each play an important role in the process of holding the government accountable to the Legislative Assembly and the public. They are the elected Members' representatives—in large measure their eyes and ears—in monitoring and assessing government programs, procedures, and

[6] available at www.oag.bc.ca/PUBS/1997-98/stat-off/officers.pdf

> performance. It is essential, therefore, that the roles of Legislative Officers are safeguarded and the discharge of their duties facilitated.
>
> It also is important that all those involved in the process of democratic governance—legislators, the government, public servants, the public, and the legislative Officers themselves—understand and acknowledge the fundamental principles in accordance with which the Officers are expected to carry out their legislated mandates.

One of the principles that the Officers advocate is independence, including managerial independence, which they define as follows:

> Officers of the Legislature should have the annual estimates of expenditure for their Offices reviewed and approved by a committee of the Legislative Assembly before they are presented to the Assembly for approval. It is appropriate for government officials to act in an advisory capacity only during the budget preparation and approval process.
>
> Officers of the Legislature should have sufficient independence from government administrative controls to ensure that they can organize, staff and manage their offices, and engage outside expertise, as they see fit, within their budgets and within the provisions of legislation designed to protect the rights of public servants.

The Auditor General has asked the Panel to consider this issue.

The Panel supports the need for a mechanism to ensure that having their budget set by the Government does not compromise the independence of Officers of the Legislature. However, the Panel believes it would be beyond its mandate to recommend such a detailed change to the management of the budget development process. The Panel also notes that, before a committee of the Legislature would be able to appropriately recommend budgets for Officers of the Legislature, the Officers would have to provide them with sufficient information about intentions and comparable actual performance results to hold the Officers accountable. It is noted that the Panel's recommendations on business plans and annual reports (Recommendation 11) for all public bodies is intended to also apply to the Officers.

Appendix II-A—Summary of PAC Recommendations

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 the Province 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 the Province 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 should 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 issue(s) 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 incorporating 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 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 Committees,

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 of British Columbia, the details of all such procedural changes to be considered first by a Legislative Committee.

CHAPTER III—RELIABLE AND CREDIBLE BUDGET FORECASTS

Background

One of the issues that led to the Auditor General's report was the optimistic nature of the revenue forecast in the 1996/97 budget. One of the report's significant conclusions is:[7]

> 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.

There are three specific issues:

- How to increase transparency of the economic and fiscal forecasts;
- The role of prudence in forecasts and fiscal policy; and
- How to clarify roles and maintain professionalism in staff.

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[7] Auditor General of British Columbia, 1998/99 Report 4: A Review of the Estimates Process in British Columbia, Page 5

Transparent Forecasts

Economic, Revenue and Expenditure Forecasts

There are three different types of results that are forecast for budget purposes: economic indicators, revenues and expenses. It may be useful to discuss these three types of forecast information as background to the discussion of transparent forecasts.

Economic Forecasts

Economic indicators are forecast for the current period as well as subsequent periods. That is because final economic results for indicators such as Gross Domestic Product (GDP) are not available until well after the end of the current period.

There are two reasons for forecasting economic indicators as part of the budget. One reason is that public policy, in particular fiscal policy but also regulatory and economic development policy, can have an impact on the economy. In that sense, economic indicators are outcome indicators as discussed below in Chapter IV.

The other reason is that the economy has a significant impact on the Province's fiscal results. The amount received from many revenue sources, including most forms of taxation currently in use, depends on economic activity. Therefore, forecasts of economic indicators are an important input into revenue and expenditure forecasts.

Revenue Forecasts

Public sector revenue is a complex area. It is comprised of revenue from many different sources and the amount received from each of those sources is determined by different factors. Just because GDP is expected to grow by 1.5% does not imply that public sector revenue should also be expected to grow by 1.5%.

Each major revenue source must be forecast separately with reference to the specific factors that drive that revenue source and then the results aggregated to forecast overall revenue growth. Revenue is also susceptible to change due to public policy decisions, such as changes in tax rates or tax bases.

Expenditure Forecasts

Government expenditure on the other hand is often thought to be primarily discretionary in nature. That is, in most cases the Government can decide how much it is going to spend on a given program in a given period and limit itself to that expenditure. Many programs' expenditure is indeed controllable in this way and much of the internal budget process is devoted to deciding how much spending authority should be allocated to various programs.

There are, however, programs where the expenditure is largely driven by external economic and demographic factors. Examples include welfare, forest protection (fire fighting, etc.), many aspects of health care and others. Of course, the spending in these programs can also be affected by public policy changes and can often be influenced by administrative changes. Nonetheless, there are significant programs with a large demand-driven element. Spending forecasts for these programs are equally as important to the overall budget as economic and revenue forecasts.

Transparency in Forecasting

To paraphrase the Auditor General's conclusion about revenue forecasting quoted above, it is the Government's responsibility to set the budget, including establishing the economic forecast and deciding how much risk to accept in setting that forecast. But, whatever forecast is used, the assumptions and policy decisions underlying that forecast should be clearly disclosed in the budget. The Auditor General found that was not the case for Budget '96.

In Budget '96 there were two types of information that were not disclosed. One was the "optimism factor" that was added into the economic forecast and an additional optimism factor added into the revenue forecast. The second was that information about planned policy changes underlying the fiscal forecasts was not adequately disclosed. The primary example was the assumption that some of the funds held by Forest Renewal BC would be diverted to the CRF to reduce the deficit.

Since then, several changes have been made to improve the transparency of budget forecasts and for which the Panel commends the Government.

In an effort to make the economic forecast more credible, an economic forecasting council has been established through an amendment to the *Financial Administration Act*. At an annual pre-budget forecasting conference, a variety of independent economic forecasts are presented and discussed. The results of this exercise are published, including the Government's budget forecast, so that it is clear how the Government's views compare with other private sector forecasts done at the same time.

The Panel recommends that:

6. The Economic Forecasting Council continue to be used as a mechanism to disclose how the budget economic forecast compares to various private sector forecasts developed at the same time. **Timing**—Legislation is already in place.

The official economic forecast for 1999 and 2000 in the recent budget is slightly higher than the average of the forecasts presented at the 1999 conference (real GDP growth in 1999 of 0.5% compared to the average of 0.0% and for 2000, 2.0% compared to 1.3%). An explicit reduction of $230 million has been built into the revenue forecast as a cushion against forecasting error and to increase the prudence of the forecast. The Budget Reports indicate that this cushion is equivalent to reducing the economic forecast for real GDP growth from +0.5% to –0.6%. The expenditure budget also includes a $110 million provision for contingencies and new programs. The "Contingency Vote" is a long-standing feature of the British Columbia Estimates. This issue is discussed further below under "The Role of Prudence."

The 1999 Budget Reports also provide considerable disclosure of assumptions underlying revenue and expenditure forecasts as well as disclosure of risks and sensitivities of the forecasts to the assumptions.

The Panel recommends that:

> 7. Legislation require that the Government provide, in the budget documents, complete disclosure of all material assumptions and policy decisions underlying the economic, revenue and expenditure forecasts, at least to the level of detail in the 1999/2000 budget. **Timing**—To be implemented immediately, with legislation as soon as possible.

Election Year Budget Issues

One of the reasons that the 1996/97 budget has received so much attention was that it was introduced and an election called the same day. There was thus no opportunity for debate in the Legislature and perhaps less attention than usual by expert commentators and the press. Government campaigned in part on its fiscal achievements in 1995/96 and 1996/97, both of which were forecasts in Budget '96, but did not fully disclose the assumptions and risks associated with those projections.

It is not unusual for provincial governments in Canada to call an election immediately after tabling a budget. That has happened recently in Alberta and Ontario without generating any significant comment or apparently affecting the Government's credibility.

The parliamentary model of government is predicated upon the premise that the Government governs while it has the support of the Legislature, which can choose to defeat the Government resulting in either another Government being formed within the Legislature or the Legislature being dissolved and an election held.

That generally speaks against having fixed election dates, one of the solutions that has been suggested to prevent misleading budgets from being introduced as electioneering devices. It is possible to imagine a system of fixed election dates except when the Government is defeated in the Legislative Assembly. However, such a recommendation would be well beyond the mandate of this Panel and the Panel does not believe such a fundamental change is required to deal with this issue.

The issue could also be dealt with by not allowing the Government to call an election within some specified period of having tabled its budget. The period could be the time required for the budget debate or some longer period.

That approach raises issues of whether it is appropriate to limit the Government's discretion as to when it calls an election. If this were done, care would have to be taken only to limit the Premier's discretion to call an election and not to try to limit parliamentary conventions about what happens when a Government loses the support of the Legislature or affect the powers and duties of the Lieutenant Governor, which are established by the constitution. It should also be noted that legislation such as this would be open to amendment by the Government of the day at any time. The Panel has concluded that this would not be good public policy.

The Auditor General has suggested that this problem could largely be avoided by better disclosure of assumptions and policy decisions coupled with an informed public pre-budget process and external review of budget accounting policies.

External review could be used to address the election budget issue. For example, there could be a prohibition on the Premier requesting the Lieutenant Governor to dissolve the legislature and call an election within a set time after the budget has been tabled unless it has been reviewed by the Auditor General. The Government would then know that they would have to invite the Auditor General to review the budget if there is any chance they may want to call an election close to budget day. In most cases, that would probably be sufficient to prevent election budgets from occurring.

The issues related to external review of the budget by the Auditor General are discussed in Chapter VI. For the same reasons discussed there, the Panel is not in favor of the Auditor General reviewing election budgets.

In Australia, the secretaries (i.e., deputy ministers) responsible for the equivalent of Treasury Board Staff and Minister of Finance and Corporate Relations are required to jointly publicly issue a pre-election economic and financial statement within ten days of the issue of an election writ. A concern that has been expressed about using a similar approach in British Columbia. is that it might be unfair to ask staff to comment on the appropriateness of the information, and implicitly the policy choices proposed by their political masters.

However, it has been suggested that a slightly different reporting requirement might be both appropriate and effective. That would be to require, in the case of an election budget, the Secretary to Treasury Board to report on whether all material assumptions and policy decisions upon which the budget is based have been disclosed and whether the information presented is consistent with the assumptions and policy decisions.

Another option would be to require the Secretary to Treasury Board to attest that all material assumptions and policy decisions have been disclosed for all budgets. That, in fact, would be similar to the signed statement of the Secretary to Treasury Board suggested by the Auditor General.

The Panel believes that having a generally more transparent budget process and better accountability for results will address the issues associated with election budgets. However, the Panel believes that having the Secretary to Treasury Board attest that assumptions have been fully disclosed would add to the credibility of all budgets. Therefore, the Panel recommends that:

8. Legislation require the Secretary to Treasury Board to attest that the completeness of disclosure required by Recommendations 7 and 9 has been achieved. The Secretary would not be required to comment on the reasonableness of the assumptions. **Timing**—To be implemented immediately, with legislation as soon as possible.

The Role of Prudence

As indicated above, Budget '99 makes a specific effort to demonstrate that it is prepared on a prudent basis. The Auditor General has recommended that the Government specifically adopt a policy of prudent economic and fiscal forecasting. Legislation in New Zealand and Australia require prudent fiscal policy.

What is prudence? In this context, prudence means being financially conservative. For example, a person with a fiduciary responsibility (i.e., a trustee) is required by law to act as a "reasonably prudent person" would. In the case of the budget, it means reducing the risk of a higher than expected deficit by underestimating revenues and overestimating expenditures.

Prudence is most associated with revenue forecasts because revenues are relatively volatile and in the short-term most depend on economic factors outside the Province's control. Many expenditure programs can be more easily controlled in the short-term by Government action.

Should the Government always be prudent in its forecasts and/or its fiscal policies? One argument is that, consistent with the Panel's responsibility principle, the Government is elected to govern and, so long as it discloses its decisions, assumptions and implications it should not be fettered by a requirement to be prudent, either in forecasting or fiscal policy. In other words, it is the Government's responsibility to decide how much fiscal risk to accept, so long as they disclose the degree of risk. It has also been suggested that requiring the Government to be prudent is impractical or ineffective because prudence is a very subjective term and one person's prudence may be another's pessimism or optimism.

Another view is that, without a relatively stable point of reference such as a legislated requirement for prudence, there is a tremendous temptation for the Government to be imprudent by having overly optimistic fiscal forecasts, especially near elections. Such a requirement might act to offset some political pressures by ensuring the Government's forecasting and fiscal policy performance is an accountability issue.

One way of imposing a requirement to be prudent would be through balanced budget legislation. Balanced budget legislation could require budgets to be balanced in every year, over a given number of years or over the economic cycle, defined in some way. Most American states and several Canadian jurisdictions have some form of balanced budget legislation.

Although several stakeholders have urged the Panel to recommend balanced budget legislation, the Panel believes that would go beyond the Panel's mandate of finding ways of improving the budget process into setting fiscal and economic policy. The Panel believes that whether or not to have a balanced budget is a legitimate public policy choice that should be made by the Government, within the context of the democratic process.

Nevertheless, revenues in British Columbia are volatile and difficult to forecast due to their complexity. As a result, overestimates of revenues often contribute to larger than expected deficits and to mid-year expenditure freezes and clawbacks. These mid-year adjustments, which have recently happened virtually every year, tend to give provincial public sector managers a very short planning horizon and contribute to inefficiencies and ineffectiveness.

The Panel therefore recommends that:

9. In addition to the disclosure required by Recommendation 7, legislation specifically require that the budget documents disclose whether any factor has been included to make fiscal forecasts different from what the Government believes is the most likely result and the amount by which forecasts have been adjusted. The legislation should also require that the disclosed information be the subject of debate and approval in the Legislature. While the Panel believes there are good public policy reasons for adjusting both revenue and expenditure forecasts in the name of prudence, it believes the Government should be responsible for deciding whether or not to do so. **Timing**—To be implemented immediately, with legislation as soon as possible.

One way such prudence could be implemented is through a specific negative revenue amount included in the estimated revenue in the budget, as was done in Budget '99. That would create a cushion of an amount that is clearly disclosed so that shortfalls in specific revenue sources are less likely to result in total revenue being less than the budget forecast.

The appropriate size for this revenue cushion could be calculated based on historical volatility in revenues to reduce the likelihood of the deficit being increased due to a revenue shortfall over a period of years (e.g., two years or four years).

The recommendation suggests that any amounts included in the fiscal forecasts in the name of either prudence or optimism be specifically disclosed and debated in the Legislature. This approach would be preferable to having an undisclosed negative or positive bias introduced into the fiscal forecasts, which many jurisdictions do from time to time. The problem with undisclosed adjustments for prudence or optimism is that they detract from the credibility of the forecast, since biased forecasting becomes expected. In fact, that seems to have been part of the problem with Budget '96, when the decision-makers believed that the forecasts provided by staff were overly pessimistic. Instead, the recommendation would provide for transparency through disclosure and accountability through debate.

Staff Professionalism

The Auditor General's report makes it clear that the forecasting problems associated with the 1996/97 budget did not result from biased staff economic forecasts but from political decisions to disregard staff advice and direct that specific alternative forecasts be used. While it is clear from the Auditor General's report that staff acted in a professional manner, input to the Panel from several sources indicated that a professional, apolitical public service is needed for the budget process to be effective. The issue of when direction by elected or appointed officials is legitimate public policy decision-making and when it is political interference has also been raised.

The Auditor General has suggested that this issue be addressed as it applies to forecasts by requiring that the estimates include signed statements specifying what the staff are responsible for and what the Minister is responsible for. In addition, the report recommends that ministerial decisions be documented. That would ensure that, in reviews after the fact, it will be clear what staff advised and what ministers decided.

It has also been suggested that, while there is a legitimate role for politicians in setting the economic forecast, there should be no political role in applying that economic forecast and other assumptions to revenue and expenditure forecasts. Some believe that political influence has been often applied to the revenue and expenditure forecasts to generate results that are inconsistent with the economic and demographic assumptions. Others note that forecasting is not a science and that, since the politicians are ultimately accountable, they have a legitimate role in establishing economic, revenue and expenditure forecasts. They suggest that the important thing is that the forecasts be transparent in that the assumptions and policy decisions are disclosed.

Some have suggested that a more general solution is required to return to the notion of an apolitical, professional public service that takes pride in fulfilling its duties of providing unbiased advice and of effectively implementing legitimate policy decisions. Mechanisms that have been suggested for doing that include:

- "whistleblower" legislation that protects individuals who disclose inappropriate behaviour such as political interference,
- changes to the terms and conditions of public service employment to emphasize the role of the public service,

- inclusion of provisions in deputy minister annual performance contracts or similar documents that make it clear what the appropriate role is.

Others argue that none of these mechanisms is likely to have any impact. They suggest that whistleblower legislation does not protect individuals and, in any event, public service employees already have a responsibility to report any wrongdoing. Terms and conditions of employment in British Columbia are already progressive in setting out the role and expectations of employees.

The Panel is not making any recommendations regarding this issue because it is beyond the Panel's mandate, but notes that staff professionalism is an important element in an effective budget process.

Management of the Budget Process

The Auditor General has made several recommendations regarding the management of the budget process. In consultations with public service staff, several issues have also been raised and have been discussed in the Issue Papers previously released by the Panel. The Panel believes that these issues, while important, fall outside its mandate.

Nevertheless, the Panel notes that an effective budget process must be built upon the foundation of effective internal management practices and an appropriate level of resources devoted to the budget and performance measurement.

CHAPTER IV—IMPROVED ACCOUNTABILITY FOR RESULTS

Background

As discussed in Chapter I, the budget process is an accountability regime. Traditionally, the emphasis has been on financial accountability, although the Estimates debate and documents such as the Financial and Economic Review and ministry annual reports provide some information about what the Government has accomplished.

The problem is that there is not yet sufficient information provided about intentions and results beyond financial information, although progress is being made.

The purpose of this chapter is to discuss whether and how accountability for results and management of operations can be improved by measuring performance.

Accountability for Results vs. Performance Management

The idea is that measuring (and reporting on) performance works to improve performance and encourage continuous improvement by harnessing the competitive spirit and self-interest that are part of human nature.

In this report, "performance measurement" means a system whereby goals and objectives are set, key measurable performance indicators are defined, targets are set for those indicators consistent with the goals and objectives, results are measured and corrective action is taken as required.

Performance measurement can be applied to the provincial public sector for two different but related purposes. The first, and perhaps most relevant to the Panel's mandate, is to make the Government more accountable for results by providing performance measurement information about its programs and activities. The second is to use performance measurement as the basis for managing provincial public sector operations.

Accountability for Results

To hold the Government accountable for results, the Legislature and the citizens need information about Government's intentions and actual results—in other words, performance measurement. The very fact that something is being measured creates an incentive to improve. Not only will people be better equipped to judge the Government's performance as a result, but that performance should itself be improved.

In practice, using performance measurement to enhance accountability for results would require that Government define, set targets for and report on a few key performance indicators for each program. The indicators would address issues of how successful the program or activity is in meeting its objectives and how efficiently and effectively it is undertaken. In other words, the indicators would address questions of whether the Government is doing the right thing and whether it is doing it well.

Accountability for results, as that term is used in this report, refers to holding the Government and its ministers accountable for performance at the public policy level.

Performance Management

Similar to using performance measurement to improve accountability for results, using it to manage programs would also require setting objectives and goals, defining performance indicators and reporting regularly on progress. Also, like accountability for results, performance management is about holding someone, in this case public sector managers, accountable for performance.

The difference is that the purpose of performance management is not to publicly disclose what the Government's intentions are and how successful it is. Rather, the purposes are to form the basis for performance agreements between managers and their supervisors throughout the organization and to provide the information needed to make management decisions. The specific goals of each organizational unit should be consistent with and derived from the overall organization's goals and objectives, but will be more specific and will usually be more about whether the organizational unit is doing its job well than whether the unit is doing the right job.

Which Comes First?

Having now defined two separate but related uses of performance measurement, the question is whether it is possible to have one without the other and which should be implemented first.

Many believe that it is not possible to have accountability for results without first having an extensive performance management regime in place, because the performance management regime would provide the culture and data needed to fuel the accountability for results system. That suggests that accountability for results requires performance management to be in place first.

Others believe that, while performance management is one of a myriad different approaches to management that can be effective, accountability for results requires performance measurement to be effective. That then suggests that accountability for results can be put in place independently from performance management. Some suggest that, if that is done, performance management will naturally evolve as the predominant management technique where it is practical.

The Panel believes that it is possible to use performance measurement to improve accountability for results without first implementing a full performance management system, which the Panel believes would be a monumental task. Given the statements of purpose and principles adopted by the Panel, its focus is on accountability for results. In saying that, the Panel does not in any way wish to deprecate continuing efforts to implement performance management in the British Columbia public sector. Nevertheless, providing detailed advice to the Government about performance management is beyond the scope of the Panel's mandate and expertise.

Efforts to Date in British Columbia

Progress to Date

While performance management has recently gained profile as a management methodology, there is really nothing very new or mysterious about the underlying concepts. The Province has tried several times to shift from management based on inputs to management based on outputs and outcomes over at least the past two decades. That is largely the concept underlying performance management. While the support for these initiatives at the political and deputy minister level has varied over time, there has been no lack of interest or effort devoted to the concept.

The most recent effort was the joint work of the Auditor General and the Deputy Ministers' Council, which started in 1994 and continues to the present. The objective of the work is to enhance accountability for performance in the provincial public sector by introducing both accountability for results and performance management.

Three joint reports have been issued (in 1995, 1996 and 1997) and the work has been reviewed and supported by the Public Accounts Committee, which has also issued reports on the topic. The plan initially developed by the Auditor General and the Deputy Ministers' Council was ambitious and has yet to be fully implemented for several reasons, some of which are discussed below under "Barriers to Implementation."

Nevertheless, there has been some significant progress. Most importantly, at the staff level there seems to be at least universal acceptance that there needs to be better measurement of performance at all levels. Further, many senior staff are genuine supporters of better accountability for results.

Work is underway across the provincial public sector to develop performance indicators for most programs. The 1999/2000 Estimates provides brief "Business Plans" for several programs that include definitions of performance indicators and targets for the fiscal year. The programs include the Royal British Columbia Museum (Ministry of Small Business, Tourism and Culture), Vital Statistics (Ministry of Health), Office of the Chief Investment Officer (Ministry of Finance and Corporate Relations) and Crop Insurance (Ministry of Agriculture and Food). In addition, the Ministry of Municipal Affairs and the Ministry of Finance and Corporate Relations have revamped their ministry annual reports to provide more performance measurement information and have begun to produce them on a more timely basis as accountability for results initiatives.

Crown corporations are generally ahead of the ministries in adopting performance management and trying to be accountable for results. That may not be surprising since most Crown corporations have less diversity of programs and more clear objectives than most ministries. Also, there is some variability in the progress that has been made. Nevertheless, corporations such as BC Buildings Corporation, BC Hydro, BC Rail, and the BC Securities Commission to name a few, all have annual business plans with measurable targets that are reported upon in annual reports.

Some may argue that progress to date is insufficient and that a much more comprehensive framework for accountability for results and performance management should be in place by now. However, others would suggest that there really has been significant progress and that, with the proper support, it is now possible to implement improved accountability for results and a comprehensive performance management framework over the next several years.

Changes such as this require not only operational changes but changes to the "corporate culture." There are three key elements—sufficient time to make the change, consistent support throughout the change and starting at the right time. The focus on these issues arising from the Auditor General's report coupled with the cultural changes that have already taken place may make this the ideal time to crystallize and build upon the solid foundation that has been established.

Barriers to Implementation

A number of barriers have been identified to implementing and operating a performance management regime. They include:

- lack of senior (elected officials and staff) commitment;
- resources—especially while the system is being established, there is a concern about the resources that would be required to implement accountability for results and especially performance management;
- concern about being held accountable for results beyond one's responsibility or authority;
- lack of progress in reducing central controls to give managers more flexibility to achieve results;

- concern about less than constructive use of the information by the Opposition, the media and interest groups; "Why should we provide these people with more information to beat us over the head with?"
- difficulty in defining performance indicators, especially strategic and public policy level indicators and outcome indicators.

The participation of the Auditor General may have affected the success of the implementation to date. It is clear that without the strong efforts made by the Office of the Auditor General to encourage the Government to move to more performance measurement, little would have happened. However, having the watchdog in the role of active participant in the design of the system, rather than with a more arms' length role as critic, is believed by some to have reduced the sense of public sector commitment to the initiative and thereby reduced the chance for success. Whether or not there is any validity to this analysis, it is clear that the work done from 1995 to date has had less impact than had been hoped and most believe that was due to lack of senior (minister and deputy minister) demonstrated commitment.

Issues with Performance Measurement

The following is a discussion of several issues related to performance measurement, especially as it applies to improving accountability for results. The purpose of this section is to try to describe performance measurement in concrete terms to make the idea and the issues it raises more easily understood. The issues include:

- the use of performance measurement or the focus on results to replace the more traditional focus on inputs,
- a discussion of the various levels at which accountability for results can be applied,
- a discussion of types of performance indicators,
- the need to take a balanced approach, and
- implementation issues.

Performance Measurement vs. Input Controls

One of the main benefits of improving accountability for results is that it should help to conceptually define who is accountable for what. Some feel that because the accountability regime is currently incomplete, the issue of who is accountable to whom for what becomes blurred. For example, sometimes staff are effectively held accountable for problems that are really the responsibility of ministers or cabinet. In other cases, ministers accept sole responsibility for issues that more properly are within the purview of staff.

In those cases, not only is accountability unclear, so is responsibility and authority. An implication of using performance measurement is that one should only be held accountable for performance that one has responsibility for and authority to influence.

Often in the public sector, responsibility and authority are so diffuse that it is difficult to identify anyone who can appropriately be held accountable. Diffuse authority and responsibility is often due to central control of inputs and/or policy. Input controls are often established for such legitimate purposes as preventing inappropriate activity, limiting expenditure or establishing consistency across regions. In the absence of accountability for results, more input controls are required. However, the controls remove authority from managers to take the management decisions necessary to achieve expected results.

Performance measurement will not be effective in encouraging continuous improvement unless, in exchange for agreeing to be held accountable for performance, some of the central controls are relaxed. This applies equally to the use of performance measurement to improve accountability for results and for performance management. The problem is how to get from here to there—it is difficult to relax the controls until the effectiveness of performance measurement is demonstrated, but some suggest that may be difficult until the controls have been relaxed. It is also much easier to control inputs than it is to define and agree upon objectives and measurable performance indicators.

Note also that this does not imply that all input controls should be removed. Sound financial management and honest, ethical behaviour are of high importance in the provincial public sector and adequate controls to ensure that must be in place. However, many believe that the current set of management constraints goes well beyond that standard.

For example, one of the most basic input controls, the control of the number of employees in ministries, measured in terms of Full Time Equivalents (commonly referred to as "FTEs") is not effective in achieving its objective but does create an incentive to find ways around the controls that are sometimes more expensive. Controls on Full Time Equivalents were put in place during the restraint era of the early 1980s as a tool for reducing the size of the public service. However, almost twenty years later, they have proven ineffective as an ongoing mechanism to control the size of the provincial public sector.

However, when the binding constraint is the number of Full Time Equivalents rather than the amount of money, alternatives to employees that may be more expensive must be used to get the job done. This input control has also hurt transparency because it has been a significant incentive for the transfer of functions "off-budget" (see The Entity Issue in Chapter V—Improved Accounting).

In spite of the fact that this particular control is not effective and that it causes inefficiency, it is politically difficult for the Government to remove it because that would be seen as wanting to expand the public sector. The Panel believes Full Time Equivalent controls should be adjusted to provide more flexibility and transparency and expenditure budgets used to control the size of government instead. However, the Panel believes it is important to continue to measure the use of staff resources.

Other examples of input controls that could be considered for removal or loosening as accountability for results is phased-in are restrictions on the transfer of money between Standard Objects of Expenditure, contract approval thresholds and travel approvals.

Levels of Accountability for Results

To try to better explain what accountability for results is and how it might be used, three separate levels of accountability for results have been identified, related to strategic performance, fiscal performance and ministerial public policy performance.

Strategic Performance

The highest level at which accountability for results could be used is referred to here as strategic performance since it is related to the major strategic initiatives and objectives of the Government. Traditionally, the Government uses the Speech from the Throne and the Budget Speech to set out the main elements of its agenda for the coming year. However, to the extent the agenda changes over time or the Government has not achieved its strategic goals, there is often little reporting of results associated with the specific initiatives or strategic themes set out in previous Government statements.

There could be a more rigorous and formal performance measurement framework established around the Government's strategic initiatives. It would require specific documentation of what the strategic initiatives and objectives are, definition of performance indicators, setting of targets and regular reporting of results.

These would be the things that the overall Government is accountable for. While each strategic initiative will be the responsibility of a specific minister or group of ministers, this set of initiatives would define the Government's priorities and clearly show its intentions for change.

Strategic plans must change over time to respond to changing circumstances and public values. That implies that strategic performance indicators should change too. However, changes in strategic performance indicators should not be done to avoid reporting on results based on previous plans. While plans change, there should be some continuity of indicators reported on, at least during the period to which a plan applies. It is also important that the plans also not change so frequently that the Government's credibility is affected.

This level of accountability for results would be discussed in strategic planning documents, the Speech from the Throne, the budget, quarterly reports and Public Accounts or annual report of the Province.

Fiscal Performance

Regardless of the Government's strategic direction, fiscal performance will always be an area for which the Government is held accountable. Fiscal performance is an important element of the Government's overall economic impact and efficiency, as well as providing the people with information about the financial status of the Province.

For many, one indicator, the deficit, often sums up fiscal performance. While important, these indicators provide a very limited picture of the fiscal performance of the Province. Some argue that what is needed is a set of a few, standard fiscal performance indicators that can provide a somewhat more robust picture of fiscal performance.

Some information of this type is provided in the annual Debt Statistics publication and summary debt information in the budget documents. These documents go beyond providing information about the total amount of debt, the components of the debt and changes for a given year. They also provide statistical information that can be used as performance indicators, such as per capita debt, the ratio of debt to GDP and other measures.

The general approach used for debt could be expanded to the overall fiscal plan. That would involve a high level fiscal plan over the medium to long term to define intentions and objectives. It would also require the definition of performance indicators related to those objectives that put the Province's summary fiscal information into an economic context and disclosure of targets for those indicators.

The Canadian Institute of Chartered Accountants issued a report in March 1997 titled "Indicators of Government Financial Condition." The report recommended that governments report on ten key indicators of financial condition (eight of which apply to provincial governments) in three areas:

> Sustainability: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.
>
> Flexibility: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.
>
> Vulnerability: The degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

The recommended indicators that apply to provincial governments are:

Sustainability	Debt/GDP*
	Deficit/GDP
Flexibility	Debt Service/Revenue (Interest bite)*
	Change in Physical Capital Stock
	Own Source Revenues/GDP
Vulnerability	Government Transfers/Own Source Revenues
	Foreign Held Debt/Net Government Debt

Foreign Currency Debt/Net Government Debt

Those indicators denoted with a * are currently reported in Debt Statistics. This level of accountability for results would most likely be discussed in pre-budget documents, the budget and the Public Accounts or annual report of the Province.

Ministerial Public Policy Performance

While it is the Government's strategic initiatives that tend to attract attention, there are always many provincial public sector functions undertaken to achieve important public policy objectives that are not themselves strategic priorities. In some cases, these functions contribute to one of the Government's strategic priorities and in other cases the functions operate to achieve relatively long-standing objectives that do not relate directly to any strategic initiatives.

In either case, this type of accountability for results is primarily related to the things for which ministers should be accountable—the effectiveness of public policy for which they are responsible in achieving its objectives.

It may be useful here to draw a distinction between public policy and administration. The word "policy" is often used to describe specific administrative rules and procedures. However, what we are talking about here is the higher-level policy intentions of the Government.

Ministerial accountability for results information could be discussed in the Estimates or another budget document, in the business plans and annual reports of ministries and other public bodies and in the Public Accounts or annual report of the Province.

Types of Performance Indicators

This section takes a look at performance measurement from another perspective by discussing three types of performance indicators—input indicators, output indicators and outcome indicators—and the issue of quantitative measurement.

Input Indicators

Input indicators measure the amount of resources used to undertake a function. This is the easiest of the three types of indicators to design and measure and is the main type of performance indicator that is currently widely used. Input indicators include expenditure, labour, debt and capital.

Traditionally accountability for results and the management approach used in the provincial public sector have been mostly based on measuring and controlling inputs. The budget process and the Estimates explicitly allocate and ration ministry spending and human resources, measured and controlled in terms of Full Time Equivalents.

Even in the context of a long-standing and well-developed input management system, there are challenges in measuring inputs. For example, while inputs at the Vote level are carefully tracked, it is often difficult to accurately allocate costs and other inputs to specific activities and functions within Votes.

There is concern about using only input performance indicators because they do not provide the Government or the public with information about how successful managers or the Government are at achieving intended results. Nevertheless, input indicators are and always will be an important part of any management and accountability regime. It is important to know how much is being spent and what resources are being used. It is also important to know that resources are being used appropriately, in accordance with appropriate approvals and financial controls.

Output Indicators

Output indicators are measures of the goods and services being produced. They answer questions about what the product is, how much is produced and the quality of the product. When combined with input measures such as the cost, capital and labour, output indicators can be used to show efficiency.

In many cases, there is already extensive information collected about outputs. For example number of patients treated, number of cases processed through the courts, number of students, etc. In other cases, extensive data is collected but not processed into output performance indicators, especially indicators of output quality.

Output indicators are often easy to identify and, in many cases, are already being measured or can be measured at relatively little cost. In other cases, identifying and measuring outputs can be very expensive, both in terms of resources used and managerial effort devoted to the task.

Some output indicators are primarily related to administrative performance and would be most useful in performance management. By identifying what is expected of managers and expressing that in terms of targets for input and output indicators that are measured and reported, powerful incentives are created.

Output indicators are also useful in accountability for results when public policy objectives can be defined in terms of outputs or where outputs are a useful proxy for an objective that is inherently difficult to measure directly.

The challenge is to accurately identify which outputs managers should really focus on. For example, making efficiency in terms of outputs per employee or per dollar of expenditure the priority may only reduce the quality of the product, but making quantity or quality the priority may lead to inefficiency. This issue is discussed further under “The Balanced Scorecard Approach” below.

Outcome Indicators

Outcome indicators are the most difficult to design and measure. Outcome measures answer questions about what effect the Government has had through the goods and services the Province produces under the Government’s stewardship. That is, outcome indicators address the issue of effectiveness, providing information useful in applying accountability for results.

There are at least four issues with output indicators:

- It may be difficult to define the intended outcome in measurable terms. For example, many provincial public sector services, such as revenue collection, debt management, accounting and policy support are intended to enable the Province to conduct its business and do all of the activities that generate external outcomes. However, it is difficult to define outcomes associated with these activities. Perhaps in those cases, outputs are the most appropriate indicators.
- Outcomes are often only observable over a long period so that it is difficult to determine in the space of a year whether the Government is being effective. For example, the objective of the health care system might be to improve the health and well being of the population. Health and well being can be and are measured, but much of the current level of health and well being is determined by events that took place long ago. The impact of a change in health policy over a one or two year period would be difficult to detect.
- Outcomes are often influenced by factors beyond Government control. The result is that it is difficult to disentangle the impacts of various factors and to determine what effect public policy has had, even if the outcome itself is readily measurable. This is exacerbated by a tendency for the Government to take credit for any positive change in an outcome indicator and to try to convince the public that the Government has more influence on the outcome than it actually has. An example is economic policy. The provincial economy is influenced by a large number of factors that include public policy but determining the extent that the Government is able to influence such economic indicators as gross domestic product (GDP), labour supply, unemployment, employment, retail sales, etc. is very difficult.
- Government activity can influence the reliability of the measurement so that there are sometimes contrary results. For example, the objective of community policing may be to reduce crime and property damage. However, by making police more visible and accessible in the community, the result may be that the measured crime rate and value of damaged property may actually go up because more crime is reported, even if the actual level of crime goes down. If that is anticipated when the outcome indicator is designed, then the apparent contrary result can be credibly explained. However, if the result is not anticipated, the outcome measure or the policy or both could be discredited even though both the public policy and the outcome measure are valid.

Measurability of Performance Indicators

There is a tendency among some to focus on performance indicators that can easily be measured and reduced to numerical terms. It is true that numerical indicators tend to have a significant influence on behaviour.

However, there are important public policy objectives that are not as conducive to numerical measurement, either directly or indirectly. In those cases, when performance measurement is used it is important that the goals and objectives that can not be quantified are identified and discussed in more subjective terms. The alternative of ignoring these objectives has the danger of focussing only on things that can be measured, with unintended consequences as important but immeasurable objectives are ignored.

The point then is that, while measurement of performance indicators is important, where goals and objectives are not easily stated in measurable terms they should still be identified and progress reported using more subjective or qualitative analysis. On the other hand, some believe that everything is measurable, given an appropriate amount of creativity and that allowing qualitative analysis would let the Government off the hook.

Balanced Scorecard Approach

The concept of using a "Balanced Scorecard" for performance management was suggested in a 1992 Harvard Business Review Article "The Balanced Scorecard—Measures that Drive Performance" by Kaplan and Norton. The concept they presented was that success depends on measuring more than just financial indicators. They identified four key perspectives from which performance should be measured:

- Financial Perspective
- Customer Perspective
- Internal Business Perspective
- Innovation and Learning Perspective

They advocated developing firm-specific Key Performance Indicators from each perspective.

There is considerable literature on the balanced scorecard concept and several different bases for developing a balanced scorecard have been proposed. Another suggested way of balancing perspectives is to use "internal," "external" and "future" oriented performance measures. Whatever the categories, the idea is that performance measures should examine the business of the organization from several different perspectives so that there is not undue emphasis placed on just one or two perspectives. Without balance, performance measurement will tend to distort behaviour.

In the joint work of the Auditor General and the Deputy Ministers' Council on "Enhancing Accountability for Performance" they identified three key elements of provincial public sector performance as a way of balancing perspectives:

- Organizational and program ("operational") performance—demonstrating value for money through relevant, efficient and effective programs, including developing and maintaining capacity to develop results in the future;
- Financial performance—achieving financial objectives and managing using sound financial practices;
- Legal compliance and fairness, equity and probity ("compliance") performance—complying with legislation and standards, fair and ethical behaviour.

It is important that the performance indicators used, whether for accountability for results or performance management, should provide a balance in perspectives. While effectiveness is important, with provincial public sector programs there is usually more than one dimension to effectiveness, corresponding to multiple objectives. Also, not only are the ends important, but the means by which the ends were achieved (financial and operational), the efficiency with which they were achieved and the ability to continue achieving desirable results into the future are also equally important.

Implementing Accountability for Results

Accountability for Results in the Budget Process

For illustration purposes, the following is a description of one way accountability for results could be integrated into the budget and reporting cycle.

Government could provide a pre-budget consultation paper early in the budget process (say early fall). That would include updates of economic and fiscal forecasts and raise the strategic issues that the Government expects to have to address in the budget. It would inform the budget development process, the public pre-budget consultation process recommended by the Panel and the development of accountability for results business plans by all of the affected organizations.

The strategic plan would then be formalized in the Speech from the Throne if it is read prior to the budget or be released before or with the budget if there is no Speech from the Throne. The budget documents would provide a financial plan for the coming year consistent with the strategic plan and would define strategic level performance indicators and give previous period results and set targets. In addition, the budget documents would include standard fiscal performance indicators, including those recommended by the Canadian Institute of Chartered Accountants.

Following release of the budget and spending allocations being confirmed for ministries, business plans would be quickly finalized (say within 30 days) and publicly released, providing ministerial public policy performance indicators for ministries and non-commercial Crown corporations. Some of the indicators could also be incorporated into a budget document.

Commercial Crown corporations and other public institutions (e.g., SUCH sector) would also be required to produce annual public business plans and annual reports but linked to their fiscal year end rather than the budget cycle. These would be public documents. While they would be referred to the appropriate Select Standing Committee of the Legislature for review, for organizations that have elected governance structures (such as School Districts) the business plans and annual reports would also be the basis for direct accountability to the electorate for the issues within the authority and responsibility of the governors (e.g., school trustees).

The key elements of a business plan focused on accountability for results would be:

- Mission – What is the purpose of the organization?
- Vision – Where is the organization going?
- Principles – How does the organization operate?
- Goals and Performance Targets – What does the organization expect to achieve?
- Strategies – How will the organization achieve its goals?
- Expected Results – How can the organization tell if it has been successful?

Care would have to be taken for all public bodies not to require them to disclose details of business activities that would put them at a disadvantage in the market-place. These business plans would not be detailed descriptions of business activities but directed at providing information allowing them to be held accountable for results.

During the year, Quarterly Reports would also report on the key strategic level performance indicators identified in the budget documents. The Public Accounts or an accompanying annual report for the Province would provide year-end reporting of all performance indicators consistent with the strategic plan and budget. Annual reports for ministries and other public bodies in the reporting entity would be provided within 90 days of year end and provide more detailed information on performance indicators, consistent with the organization's business plan.

The work of the Canadian Institute of Chartered Accountants on standard fiscal performance indicators referred to above is a good example of interjurisdictional cooperation in defining standard key performance indicators. More work is ongoing in several program areas. The Panel believes that these efforts should be encouraged and expanded. In the private sector, most industries have either formal or informal standard performance indicators and established industry benchmarks for those indicators. The Panel believes that the public sector should move in this direction as well.

Consequences

There is considerable debate about the role of consequences in performance measurement. In the private sector, it is generally acknowledged that rewards and penalties associated with performance measurement are strong incentives to improve results. However, the incentives also may result in selection of performance indicators that are more likely to be favourable, setting of targets that are sure to be met or manipulation of data to change the results.

The public sector differs from the private sector in a number of ways, including the degree of public scrutiny of the public sector compared to most private sector enterprises. Some believe that is all the more reason why effective consequences need to be established as part of an effective performance management regime. Others argue that public scrutiny is a highly motivating consequence in its own right and that elected officials and staff alike will be strongly incented to achieve their targets by the fact that measures of their performance will be public.

There is another perspective on the questions of consequences that leads back to the question of why one would implement performance measurement in the first place. Presumably, the reason is to make the public sector more effective and efficient on an ongoing basis. That implies that the most important thing is not actually how well the Government does in achieving any given performance target in any given period but rather how responsive the Government is to the measured results in making adjustments and improvements over time. Penalizing poor performance may not always lead to improvements in performance or in continued commitment to accountability. In other words, is important that there be a constructive element to performance measurement if it is to achieve its objective.

Government can, of course, affect how the results are interpreted. Lower than expected success can be reported as an opportunity. (i.e., This is the result, this is why we think that happened, this is what we are doing about it and this is what we expect to happen as a result.) The reaction will depend on the Government's credibility and its previous record in adjusting policies or administration to improve results.

Recommendations

Based on this discussion, the Panel recommends that:

10. Legislation require that the Government publish a long-term strategic plan and annually publish updates to the plan prior to or at the same time as the budget, as the basis for accountability for results for the provincial public sector. This would be a high level document, not a detailed collection of individual business plans. The legislation should require:

- the strategic plan to set out the Government's priorities;
- the strategic plan to specify strategic objectives and expected results;
- the strategic plan to include expected results for standard fiscal indicators such as those recommended by the Canadian Institute of Chartered Accountants (CICA);

- the strategic plan to include a three-year financial plan as the basis for ministry and
- the budget and the business plans of ministries and public bodies to be consistent with the strategic plan; and
- an annual report for the Province published in or accompanying the Public Accounts that compares actual results for a fiscal year with the strategic plan for that year.

Timing—To be implemented for the 2001/02 budget.

11. Legislation require that all ministries and public bodies in the reporting entity publish:

- annual three-year business plans, consistent with the strategic plan, that focus on accountability for results by including mission, vision, strategic direction, objectives, performance indicators and expected results (performance targets); and
- annual reports that indicate actual results for a year compared to the year's business plan.

The legislation should:

- permit the business plan for the coming year to be combined in one document with the annual report for the preceding year;
- not require disclosure of information that may affect a ministry or public body's commercial interests; and
- require performance indicators to be balanced in the sense that they cover all key objectives. Performance indicators should be quantitatively measurable to the extent possible but where not possible, may include qualitative performance indicators.

Timing—To be implemented over a five year phase-in period, with additional ministries and public bodies participating each year.

12. The Government actively encourage and participate in interjurisdictional efforts to develop standard key performance indicators for the Province as a whole and for specific program areas, and to establish benchmarks for such performance indicators. **Timing**—To be implemented immediately.

13. Legislation require that the Estimates or another budget document include summary business information (mission, vision, strategic direction, key goals and expected results for the coming year) for major programs provided by ministries and non-commercial Crown corporations (i.e., would not apply to commercial Crown corporations or SUCH sector entities). **Timing**—To be implemented over a five year phase-in period, with additional ministries and public bodies participating each year.

14. As accountability for results is phased-in and shown to be effective, input controls should be relaxed to add management flexibility to achieve results. The Government should maintain sufficient controls to ensure budgets are effective at limiting expenditure and that financial transactions are appropriate. Existing legislation requiring staffing limits to be included in the Estimates should be amended to support added flexibility and transparency because these limits are ineffective in controlling the size of the provincial public sector tax-supported staffing but do introduce inefficiencies. However, the Panel believes it is important to continue to measure the use of staff resources. Other examples of input controls that could be considered for being relaxed include, transfers among expenditure categories, contract approval thresholds and travel approvals. **Timing**—By the 2001/02 budget, a plan to reduce input controls over time should be developed and published by the Government.

15. Consideration be given to the increased use of performance management techniques for the management of programs and activities throughout the Province but the Panel is not recommending the programs or activities to which performance management should apply, or a specific time frame or approach, as that would be beyond its mandate. **Timing**—At the Government's discretion.

CHAPTER V—IMPROVED ACCOUNTING

Background

Accountants often comment that accounting is more of an art than a science. That means that there are often different accounting treatments that can be used to record and present financial information in the myriad different circumstances that exist, especially in the complex world of the provincial public sector.

The problem is that the credibility of public sector accounting practice and financial information has been called into question in many jurisdictions, including British Columbia, by arbitrary accounting changes and the artful use of accounting in ways that critics claim are intended to portray financial information in a favourable light from the Government's perspective.

Due to the importance of this issue and its technical nature, the issue is being addressed separately from the more general issue of more accessible and useful information, although accounting and financial information are really a subset of that broad issue.

This chapter first addresses the issue of how the Province's accounting policy and practices should be established and then describes some of the problems associated with accounting policy. The chapter pays particular attention to the "entity" issue, which refers to which public bodies should have their accounts consolidated into the overall financial results of the Province. One of the primary concerns about public sector accounting in Canada has been the practice of moving programs outside of the accounting entity in order to make the surplus or deficit appear more favourable.

Accounting Policy

How Are Accounting Policies Currently Set?

In British Columbia, the *Financial Administration Act* requires the Government (Treasury Board) to set accounting policies without placing any limitation on the policies that may be set and requires that financial results must be reported in accordance with the stated policies without requiring that budget information comply with the policies.

On the face of it, that implies that the Government could choose any accounting policy that it wishes. In practice, the Government's discretion is limited by the fact that the Auditor General can and does criticize the Government for accounting policies that the Auditor General believes do not represent appropriate financial disclosure.

The Government and the Auditor General have had some ongoing disputes about elements of the Province's accounting policy, not least of which is the definition of the reporting entity. Nonetheless, Treasury Board Staff (TBS), the Office of the Comptroller General (OCG) and the Office of the Auditor General (OAG) have all indicated that they enjoy a constructive working relationship within which accounting policy issues are discussed well in advance and most are resolved to the satisfaction of all parties.

In spite of the fact that most accounting policy issues are being dealt with in a mutually agreeable fashion, concern has been expressed about the fact that the Government has absolute discretion to set accounting policies and could choose to adopt policies that would not lead to appropriate financial disclosure.

The Canadian Institute of Chartered Accountants established the Public Sector Accounting Board in 1981 to set standards for public sector accounting in Canada. The objective is to improve comparability and consistency in accounting policy across the Canadian public sector.

What is the Public Sector Accounting Board?

The Auditor General, in the briefing book prepared for the British Columbia Public Accounts Committee, describes the Public Sector Accounting Board[8] as:

> The Public Sector Accounting and Auditing Board (PSAB) of the Canadian Institute of Chartered Accountants was established in 1981 to improve and harmonize public sector accounting and auditing practice. Its creation followed extensive consultation with federal and provincial governments and legislative auditors, and an in-depth study of government financial reporting.
>
> That study found wide disparities in government reporting practices. Government financial statements often reported fragmented and incomplete information, leaving out major operating units and liabilities. Furthermore, similar transactions were reported very differently from one government to another. Consequently, information contained in the financial statements was inadequate for decision-making, accountability and comparison with others. What was needed were accounting standards for financial reporting in the public sector.
>
> …Standards are developed by those people knowledgeable about and affected by them; deputy ministers, assistant deputy ministers, comptrollers, auditors

[8] Note that in October 1998 the Public Sector Auditing and Accounting Board changed its name to the Public Sector Auditing Board. The Auditor General's briefing book was prepared before that change and thus uses the previous name.

general, municipal finance officers and executives of government organizations. Two-thirds of the members of PSAB and its task forces are selected from among those responsible for government financial reporting and auditing. This helps to ensure PSAB's accounting standards are indeed appropriate for governments.

The Public Sector Accounting Handbook, often referred to as the Public Sector Accounting Board Handbook, sets out recommended accounting policies for the Canadian public sector. Both the OCG and the OAG generally agree that the Public Sector Accounting Board Handbook provides an appropriate basis for the Province's accounting policy.

Should Accounting Policies be Consistent with the Public Sector Accounting Board Handbook?

The Public Sector Accounting Board Handbook establishes a standard for most of the elements of public sector accounting.[9] The accounting policies of specific jurisdictions will always have to deal with the specific circumstances of the jurisdiction in question, as corporate accounting policies must do in the private sector. The question is "Why not limit the Government's discretion in setting the Province's accounting policy to policies that are consistent with the Public Sector Accounting Board Handbook? This would ensure comparability over time and with other similar entities, allows for change as the standards evolve and provides a basis set by disinterested professionals.

Two disadvantages have been suggested to that approach. Some suggest the Public Sector Accounting Board Handbook is not developed sufficiently to form the basis for accounting policy. There are public sector accounting issues that have not been fully addressed as yet and the Public Sector Accounting Board Handbook is quite young compared to the Handbook used by the private sector. However, to the extent that the handbook would just form the "basis" for accounting policy that may not be a serious problem.

The other disadvantage cited by some is that the Public Sector Accounting Board Handbook tends to lag improvements in accounting practice. The Public Sector Accounting Board was created because public sector accounting significantly lagged private sector accounting practice. While the Public Sector Accounting Board has consistently moved to improve those practices, it has also done so in such a way that most jurisdictions can remain in or close to compliance. The Public Sector Accounting Board has done that by allowing its standards to evolve without making radical changes in a short period of time and by not documenting changes until it is clear they have been generally accepted across Canada.

For example, the approach currently taken in British Columbia to the presentation of results related to the capitalization of assets is not supported by the Public Sector Accounting Board

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[9] As discussed below, PSAB is not a set of policies that can be adopted by every jurisdiction but a standard to guide the adoption of jurisdiction specific policies. Policies need to vary to reflect the specific structures and programs of each jurisdiction. The standard is open to interpretation, as are the policies adopted by various jurisdictions.

handbook, although it is supported by the Auditor General. The Public Sector Accounting Board Handbook allows assets to be capitalized and provides guidance about when it is appropriate to do so, how the assets values should be amortized and other related matters. However, the Public Sector Accounting Board Handbook defines the surplus/deficit as being equal to the change in net debt,[10] consistent with the Public Sector Accounting Board focus on net debt as the most appropriate fiscal indicator.

According to the Public Sector Accounting Board Handbook, the deficit must include the operating deficiency of expenditure over revenue (i.e., the deficit as reported in British Columbia) plus any changes in debt for working capital purposes and any changes in debt related to capital assets. Although revenue and expense may be reported on an accrual basis, the results of capitalizing assets must be reversed on the statement of operations for the purpose of calculating the deficit.

As indicated above, the deficit/surplus reported in British Columbia is the difference between revenue and expense. That is a measure of the amount of current costs that are being passed on to future generations and is consistent with the private sector full accrual accounting definition of deficit or surplus. Debt used to purchase capital assets is also a cost being passed on to the future, but unlike the operating costs, there are also tangible benefits associated with the capital assets that will be enjoyed in the future.

The only Canadian jurisdiction that currently refers to Generally Accepted Accounting Principles or professional accounting standards in its financial management legislation is Ontario, although Nova Scotia announced on September 3, 1999 that it will move to full compliance with Generally Accepted Accounting Principles and the federal government requires its Crown corporations to report in accordance with Generally Accepted Accounting Principles. However, it is clear from Australia and New Zealand that there is some movement in the Commonwealth countries to such legislative provisions.

That suggests that it may be appropriate to seek a balance between standardized, professionally sanctioned accounting policies that would prevent inappropriate accounting policies that do not result in full and fair financial disclosure and the need to be able to improve reporting ahead of the standard, thus helping the standard to evolve over time. The question is, can the Government be allowed to maintain some flexibility in setting the Province's accounting policy and still be prevented from setting inappropriate policies?

[10] See paragraph 1500.79 in the Public Sector Accounting recommendations published by the Canadian Institute of Chartered Accountants.

The Panel recommends that:

16. Legislation require that financial information provided by the Government be prepared in accordance with Generally Accepted Accounting Principles, with any material variance from the written guidance of the accounting profession (i.e., the Canadian Institute of Chartered Accountant's Public Sector Accounting and Auditing Handbook) explicitly disclosed. The legislation would continue to require that the Province's accounting policy and practice be established by Treasury Board. That is intended to allow, for example, the continued implementation of full accrual accounting and continued definition of the deficit as the difference between revenues and expenses calculated on an accrual basis, which is in accordance with Generally Accepted Accounting Principles but has not yet been documented in Public Sector Accounting Board guidance. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

17. Legislation require the summary financial statements to include a statement that reconciles the surplus or deficit with the change in debt. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

These recommendations are intended to impose a standard on the Province's accounting policies and to recognize the Government's responsibility, analogous to the Board of Director's responsibility in the private sector, for financial management and reporting while allowing room for improvements ahead of the written standard. The required reconciliation of the deficit to the change in debt ensures that it is clear what other uses debt is being incurred for, highlighting key intergenerational transfers.

Interpretation of Accounting Policies

Some have suggested that, even if there is additional statutory guidance to the Government about the basis for its accounting policies, there is a separate issue of how the Government's policies will be interpreted in various circumstances. There may be disputes between the OCG and the OAG about interpretation issues or political pressure for a particular interpretation in some cases.

For example, it is sometimes politically expedient to record some or all of the cash received from a non-recurring transaction, like the sale of an asset, as revenue in the period when it is received but to record associated costs as expenses over the life of the agreement.

An example of this is "sale/lease-back" arrangements whereby an asset is sold and then leased back from the new owners. This can be a legitimate way of financing a capital asset instead of using debt financing when there is a business case that shows that the benefits outweigh the costs based on reasonable assumptions. It can also be motivated by a desire to show one-time revenue with the costs spread out over the life of the lease. In that case, there is an incentive to pay costs over time that makes the overall transaction unfavorable in order to reduce the deficit in the period when the transaction takes place. This can be done if the lease is treated as an operating lease rather than a capital lease.[11] Under current guidance it is possible to structure most leases as operating leases. The Public Sector Accounting Board is expected to release draft guidance soon that will address this problem for the public sector but the Canadian Institute of Chartered Accountants has yet to address it for the private sector.

In addition to sale/lease-backs there are other non-recurring items such as the sale of assets. Depending on the specifics of the transaction, the treatment of non-recurring items can be a question of interpretation. Some suggest that, to the extent non-recurring items are included as one-time entries, they should be at least disclosed separately as extraordinary items. It should be noted that "extraordinary items" are usually not related to the core business of an organization but in the case of land, at least, government is in the business of selling Crown land. It would be difficult to distinguish between extraordinary sales and sales made in the normal course of business.

Others believe that accounting policies should require most of these transactions to be amortized over an appropriate period. The Panel has indicated that it believes that part of the purpose of the budget process is to provide information about the implications of current actions for the future. To be consistent with that principle, it would be most appropriate to match revenues and costs—in other words to amortize non-recurring revenues over an appropriate period.

One suggested approach would be to take responsibility for accounting policy and its interpretation away from the Government and give it to the Comptroller General or an independent agency. However, there is a well-established principle that management is responsible for the financial statements, including accounting policy and its interpretation. To take responsibility for setting the Province's accounting policy away from Treasury Board would not be consistent with that principle.

The OCG already has a statutory duty that arguably includes interpreting the Province's accounting policy, although that is subject to Treasury Board direction.[12] This could be

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[11] If the lease is a capital lease the revenue from the sale must be deferred and brought into revenue over the life of the lease.

12 FAA, 9. The Comptroller General must, subject to any direction of the Treasury Board, do all of the following:

(a) develop and issue policies and guidelines and establish procedures for the financial management and recording of the revenues, expenditures, assets, liabilities and equity of the government;

(b) issue directives respecting the methods by which the accounts of the government are kept;

(c) administer and maintain the central accounts of the government;

(d) provide functional control over all financial transactions entered into the central accounting system; …

changed in several ways. In most other provinces the Comptroller General has deputy minister status (as was the case in British Columbia until 1981) and the Comptroller General could be given stronger statutory independence. Alternatively, there could be an independent advisory function created for the purpose of recommending accounting policies and interpretations.

In a 1998 Private Members Bill in British Columbia,[13] it was proposed that a reporting policy committee recommend accounting policies to the Legislative Assembly, which would be responsible for setting the policies. The committee would be comprised of the Auditor General, the Comptroller General and a Chartered Accountant appointed by the Canadian Institute of Chartered Accountants.

Another approach to the advisory committee would be to establish a committee comprised of accounting professionals without any public sector representation that would provide advice to the Government through public reports. Although the advice would not be binding on the Government, independent professional advice delivered in public would be difficult to disregard. This could be a forum for the resolution of disagreements between the Auditor General and the Government on policy interpretation issues.

Based on the principle of responsibility adopted by the Panel, it is reluctant to recommend taking the interpretation of the Province's accounting policy out of the Government's hands or implementing a permanent advisory panel. However, the Panel does believe it is important that some guidelines be established for the interpretation of the Province's accounting policy and it proposes the purpose and principle statements it has adopted as the basis of that guidance. The Canadian Institute of Chartered Accountants Handbook provides a detailed discussion of the principles underlying Generally Accepted Accounting Principles, which are intended to be used to guide accounting policy interpretation.

The Panel recommends that:

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[13] Bill M202–1998 *Truth in Budgeting Act*

18. Legislation provide the Auditor General with enhanced authority and responsibility to influence the interpretation of accounting policy. The legislation would require that the annual report of the Auditor General must include an assessment of whether the financial statements are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure of the economic and financial substance of provincial public sector activities. The Auditor General's annual report would also be required to include an analysis of what the impact on the statements would have been if the most appropriate basis of accounting, in the opinion of the Auditor General, had been used. "The most appropriate basis of accounting in the Auditor General's opinion" must be consistent with the requirement in Recommendation 16 that financial information be prepared in accordance with Generally Accepted Accounting Principles. However, simply having financial information prepared in accordance with Generally Accepted Accounting Principles is not sufficient if the Auditor General believes that another basis of accounting that is also in accordance with Generally Accepted Accounting Principles is more appropriate. **Timing**—To be implemented immediately, with legislation as soon as possible.

The Entity Issue

Why the Reporting Entity Matters

The Entity

The term "entity" is an accounting construct that refers to the organizations that together comprise the thing upon which budgeting and financial reporting is done. For example, in the private sector, where a corporation has subsidiaries, it is required by Generally Accepted Accounting Principles to prepare its financial statements on a consolidated basis. That means that the financial results of the parent and the subsidiaries are combined on a line-by-line basis, adjusted as appropriate to eliminate double counting. Both the parent company and each of the subsidiaries are entities in their own right and have their own financial statements. However, the appropriate overall reporting entity is the consolidated entity.

The same situation occurs in the public sector. The provincial public sector is comprised of a wide variety of public bodies with a wide variety of corporate and other legal forms, including ministries, Crown corporations, various boards, commissions and agencies and other levels of government established by the provincial government.

The reason the reporting entity issue is key is that it defines, at least for accounting purposes, what the provincial public sector includes and thus what the Government is responsible and accountable for. Because of the influence that financial reporting has on the management of public sector programs, the definition of the entity will also have implications for program management and service delivery that go well beyond financial management issues.

History of the Entity in British Columbia

Originally, the budgeting and reporting entities were known in British Columbia as the "General Fund." This was effectively the Province's bank account and, since public sector accounting was done on a cash basis, that was appropriate. It also reflected a simpler public sector in terms of services provided, in the context of a much smaller and simpler economy.

In addition to the General Fund, a number of special funds and accounts were established by legislation. These earmarked part of the General Fund, and often specific revenue streams, for specific purposes. The result was that the financial results related to the activities operated through these special funds and accounts were removed from the General Fund results. Many of those funds and accounts were collapsed into the General Fund in the early 1980s as a result of concerns about financial control. Some of those funds continued to serve other valuable purposes though and were retained.

The accounting issue was resolved by changing the budgeting and reporting entity to the CRF, which is effectively the consolidation of the General Fund and the related special funds and accounts. Since that time, other funds and accounts have been created from time to time. While the operation of special funds and accounts has sometimes been difficult to understand, creation of these vehicles within the CRF has not served to distort financial reporting since they are included as part of the budgeting and reporting entity.

The integrity of the accountability and financial reporting regimes have been affected over the past two decades or so by the practice of removing functions and associated revenues and/or expenditures from the CRF and transferring them to various types of Crown agencies. Recent examples include the creation of Forest Renewal BC, the creation of the BC Transportation Financing Authority and the movement of the Motor Vehicle Branch to ICBC. In every case there are both management and accounting implications. The problem is that although there may be valid management reasons and objectives for the organizational changes, the changes also serve to distort accountability and financial reporting by changing the reported surplus or deficit. That calls the motivation for the changes into question and reduces the overall credibility of the Government.

It is also possible to manipulate the CRF deficit through the amount and timing of dividend payments made by Crown corporations and the amount of subsidy payments made to Crown corporations.

When dividends are received from a public body that is not consolidated, the Province treats the amount as revenue. Results can be manipulated, for example, by requiring Crown corporations to retain earnings for a period and then pay a large dividend equal to several years' net earnings all at once. If the Crown corporation were consolidated into the Province's summary financial information, the amount of the dividend in any given period would not matter because the surplus or deficit would include the corporation's net income or loss rather than the dividend paid.

For Crown corporations that require financial support, the support can be reduced as a way of reducing the reported deficit, if the Crown corporations are not consolidated. If the need for financial support has not changed, the result is that the corporation suffers a loss and its net equity (the difference between the value of its assets and liabilities) will be reduced. If the corporation's results are consolidated, the deficit will not be affected by the amount of financial support that is provided to the corporation.

To address these problems, another broad entity has been created, known as the "Summary Entity." The Summary Entity as currently defined includes the CRF, all Crown corporations and a number of other public bodies owned or controlled by the Province. The Summary Entity is, and has been for a number of years, the basis upon which the Province's financial results are reported in the Public Accounts, in the form of summary financial statements.

The creation of the Summary Entity has created another problem, however, because there are now two entities and two bottom lines. The budget is still based on the CRF while the Public Accounts provide year end financial results on the basis of the Summary Entity. The Public Accounts also includes CRF financial statements and the 1999/2000 budget includes some Summary Entity information. Nevertheless, the situation is unnecessarily confusing. Table V–1, taken from the 1997/98 Public Accounts, reconciles the CRF and Summary Entity results.

The Summary Entity is meant to encompass all the public bodies and entities for which the Government has direct responsibility. The Public Sector Accounting Board Handbook suggests that the Summary Entity be used by all provincial governments, and both the Auditor General and the Province (i.e., the Office of the Comptroller General and Treasury Board) agree that is the appropriate starting point for establishing the reporting entity.

Table V–1—Reconciliation of the Consolidated Revenue Fund and Estimates to the Summary Financial Statements[14]

	1997/98 Estimated [15]	1997/98 Actual	1996/97 Actual
		In Millions	
Consolidated Revenue Fund (CRF)	$	$	$
Revenue	20,286	20,285	20,209
Expense	(20,471)	(20,437)	(20,546)
CRF Net Operating Revenue (Expense)	**(185)**	**(152)**	**(337)**
Summary Financial Statements			
GOVERNMENT ORGANIZATIONS			
Revenue		3,195	3,126
Expense		(3,226)	(3,054)
Net Expense of Government Organizations		(31)	72
Net elimination of inter-entity transfers and other adj.:			
Revenue		45	(178)
Expense		(360)	(257)
Government Organizations Net Revenue (Expense)		(346)	(363)
GOVERNMENT ENTERPRISES			
Revenue		8,284	7,884
Expense		(6,957)	(6,809)
Net Earnings		1,327	1,075
Less: transfers and dividends included in CRF revenue		(1,260)	(1,141)
Accounting policy and other adjustments		(1)	13
Increase (decrease) in unremitted earnings of Government Enterprises		66	(53)
Government Organizations and Enterprises Net Revenue (Expense)	(701)	(280)	(416)
Summary Financial Statement Net Revenue (Expense)	**(886)**	**(432)**	**(753)**

There is one remaining problem. Although the Province and the Auditor General agree that the Public Sector Accounting Board Guideline provides an appropriate basis for defining the entity, they have been disputing for the past several years about how that guideline should be applied. The Auditor General favours inclusion of all the bodies currently included plus schools, universities, colleges and health regions (the SUCH sector) to create the Expanded Summary Entity. The government has so far maintained that the SUCH sector should be included only to the extent it is funded from the CRF.[16] This issue is discussed further below under The Public Sector Accounting Board Guideline and the SUCH Sector.

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[14] Source: 1997/98 Public Accounts of British Columbia, page A11

[15] 1997/98 Estimated figures are from page 1 of the 1997/98 Estimates and from page 25 of the Budget 97 Reports "Summary Financial Statements and Accounting Policy Changes."

[16] i.e., not consolidated. Funds appropriated in the Estimates and flowing to these bodies are reported as expenditure of the appropriate ministry but items such as assets, liabilities, own-source revenues and deficits are not consolidated into the Summary Financial Statements.

In 1995/96, as a result of a change to the Public Sector Accounting Board guidelines that would otherwise have resulted in the Auditor General issuing a qualified opinion regarding the use of fiscal agency loans[17] to public bodies such as schools, hospitals and universities, British Columbia expanded the Summary Entity to include the SUCH sector and became the first province in Canada to do so.

In 1996/97 that decision was reversed and the Summary Entity was returned to its previous basis. As a result, the Auditor General has, since 1996/97, "qualified" the Summary Financial Statements because the entity differs from the Auditor General's interpretation of the Public Sector Accounting Board guideline.

Table V–2 shows how inclusion of the SUCH sector would have affected the 1997/98 Summary Statement of Operations. It indicates that the SUCH sector has considerable own-source revenues (such as tuition fees and various fees for service in all the SUCH institutions), which support expenditures well above the amount provided for by CRF contributions.

The Public Sector Accounting Board Guideline and the SUCH Sector

The key elements of the Public Sector Accounting Board guideline on the reporting entity are:

> .07 The government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, or local government council, and are owned or controlled by the government.

[17] The issue of fiscal agency loans to public sector bodies is discussed below under "The Treatment of Capital Contributions."

Table V–2—Schedule of Impact of Change in Reporting Entity on the Statement of Operations[18]

	In Millions – 1997/98				
	Summary Statements $	S.U.C.H. $	Adjust-ments $	Total $	Net Effect $
Revenue					
Taxation	13,440	112	(1)	13,551	111
Natural resources	2,681			2,681	
Fees and licenses	2,027	852	(30)	2,849	822
Investment earnings	583	111	(480)	214	(369)
Miscellaneous	489	703	(51)	1,141	652
Contrib. from prov. govt./govt. enterprises	1,260	9,599	(9,599)	1,260	
Contrib. from federal government	1,931	134		2,065	134
Recoveries	1,114		(19)	1,095	(19)
Total Revenue	23,525	11,511	(10,180)	24,856	1,331
Expense					
Health	7,364	4,743	(4,287)	7,820	456
Social service	3,181			3,181	
Education	5,787	6,172	(5,433)	6,526	739
Protection of persons and property	950			950	
Transportation	1,699			1,699	
Natural resources and econ. development	1,566			1,566	
Other	921			921	
General government	357			357	
Debt servicing	2,198	493	(507)	2,184	(14)
Total operating expense	24,023	11,408	(10,227)	25,204	1,181
Net operating expense for the year	(498)	103	47	(348)	150
Non-Operating Transactions					
Increase (decrease in unremitted earnings of government enterprises	66			66	
Consolidated Net (Expense)	**(432)**	**103**	**47**	**(282)**	**150**

.11 A government owns an organization when it has created or acquired the organization and, directly or indirectly, holds title to:

(a) a majority of the organization's shares carrying the right to appoint at least a majority of the members of the board of directors; or

(b) the organization's net assets such that the government has an ongoing right to access them.

.14 A government controls an organization when, without requiring the consent of others or changing existing legislative provisions, it has the authority to determine the financial and operating policies of that organization. The authority of a government to determine the financial and operating policies of an organization allows it to establish the fundamental basis for the

[18] Source: 1997/98 Public Accounts of British Columbia, page A70

> conduct of the organization's financial affairs, as well as the deployment of its resources.

It should be noted that under this guideline, even though the Government has some residual power to control local governments,[19] they do not usually pass the test for inclusion in the entity. Legally, local governments are creatures of the Province, created by provincial legislation. The argument for not including them in the entity is that they are primarily supported by their own-source revenues and are directly accountable to the people for the revenue they raise and uses to which it is put. The Government is generally considered to neither be accountable for local governments nor to control them.

In the 1997/98 Public Accounts the accounting policy on the reporting entity states:

> (a) REPORTING ENTITY
>
> These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. *Accountability to a minister or directly to the Legislature, for purposes of the reporting entity, does not include those entities that are part of a province–wide program yet are locally based and have an initial accountability to a local board.* A list of organizations included in these consolidated financial statements may be found on A51–A52. Trusts administered by the government or a government organization are excluded from the government reporting entity.[20] *(Emphasis added)*

The sentence in italics represents the policy under which the SUCH sector is excluded from the reporting entity in British Columbia.

The Government takes the view that its accounting policies should be based on the Public Sector Accounting Board guidelines but that the Government has the authority to adopt policies that vary from the guidelines where there is a reason. They have characterized this as one of those cases. The Government believes that consolidation of the SUCH sector would affect the degree of autonomy of the public bodies in the sector so they have chosen to adopt the policy outlined above, with the full knowledge that it is different from the Public Sector Accounting Board guideline.

The dispute between the Government and the Auditor General about the reporting entity is primarily a dispute about whether this, or any reason, is a valid reason for not complying with the Public Sector Accounting Board guideline.

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[19] i.e., municipalities, regional districts, etc.

[20] Source: 1997/98 Public Accounts of British Columbia, page A26

Comparison of Reporting Entities in Canadian Jurisdictions

Table V–3 reproduces a chart complied by the Office of the Comptroller General comparing the treatment of the reporting entity in other Canadian jurisdictions as of March 1999.

Table V–3—Comparison of Current Provincial/Territorial Reporting Entities As at March 1999

Province	Reported As Following PSAB	Includes Schools	Includes Colleges	Includes Univ.	Includes Health Auth.	Audit Qualified for Entity	Anticipated Trend
British Columbia	no	no	no	no	no	yes 1996/97	no change contemplated
Alberta	yes	no	no	no	no	yes[21]	no change contemplated
Saskatchewan	yes	no	yes	no	3 of 32	no	possibly more health authorities
Manitoba	yes	no	yes	2 of 4	no	no	health auth. to be included in 1999/00
Ontario	yes	no	no	no	no	no	possibly schools
Quebec	yes	no	no	no	no	no	no change contemplated
New Brunswick	yes	yes	yes	no	no	no	possibly health authorities
Prince Edward Island	yes	yes	no	no	yes	no	no change contemplated
Nova Scotia	no	no	no	no	no	no	possible change 1999/00[22]
Newfoundland	yes	yes	yes	no	yes	no	possibly universities
Northwest Territories	yes	no	yes	N/A	no	no	possibly health authorities
Yukon Territory	yes	yes	no	N/A	no	no	no change contemplated

It is interesting to note that, although no other Canadian province or territory fully consolidates the SUCH sector in their reporting entity, British Columbia is the only

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[21] at the Ministry level, but not the Summary level

[22] Nova Scotia announced on September 3, 1999 that it will move to full compliance with GAAP, including requirements for consolidation. It is believed that will include consolidation of school districts, colleges and health authorities. (see www.gov.ns.ca/news)

jurisdiction that has received a qualified audit opinion on its summary financial statements.[23] The British Columbia Auditor General seems to have been more strict because the entity was expanded for one year and then the decision reversed. Note that application of the Generally Accepted Accounting Principles criteria may result in different types of institutions being required to be included in different jurisdictions and may explain some of the differences on the table.

It is also notable that, because all of the public bodies in the sector are prohibited from running a deficit except in certain exceptional circumstances, the sector as a whole actually runs a surplus. Table V–2 shows that in 1997/98, the effect of including the sector is to reduce the reported deficit by $150 million, from $432 million to $282 million.

Recommendations Related to the Entity

The Panel is concerned about the fact that expansion of the budget and reporting entity to include some or all of the SUCH sector could lead to further restrictions and input controls being placed on public bodies in the sector. That concern also applies to moving from the CRF to the Summary Entity as the budgeting entity, where the focus may be on Crown corporations and other provincial agencies in the Summary Entity. Nevertheless, the Panel believes strongly that the budgeting entity and the reporting entity must be the same and must represent a comprehensive compilation of provincial public sector, taxpayer funded activities.

The Panel therefore recommends:

19. Legislation require that the reporting and budgeting entity must be the Expanded Summary Entity, which includes the CRF, Crown corporations and other agencies, and those SUCH sector public bodies that meet the Generally Accepted Accounting Principles criteria for inclusion in the entity. The legislation should also be clear that financial information on non-CRF entities should be included in the Estimates and Public Accounts at a summary level only and that this change does **not** mean that the Legislature is required to vote or approve non-CRF expenditures. **Timing**—The budgeting entity should be expanded to be the same as the current reporting entity (i.e., the Summary Entity) for the 2000/01 budget. Beginning with the 2001/02 budget, the budgeting and reporting entities should be expanded together to phase-in inclusion of the SUCH sector, consistent with Generally Accepted Accounting Principles, over several years. During implementation, due consideration should be given to the dual accountability of school districts and any other institutions with elected boards. Developments in public sector accounting in other Canadian jurisdictions and Generally Accepted Accounting Principles may affect the order and timing of the phase-in.

[23] The Alberta Auditor General has issued a qualified opinion because of the entity question for the financial statements of some ministries but has not carried the qualification forward to the summary financial statements.

The Panel recognizes that school districts and other public bodies, with elected boards but also a high level of Government control, have a dual accountability structure. The Government is accountable and so is the board. The Panel has recommended that, in the Estimates, financial projections for these sectors should only be included at a summary level of aggregation—that is, not at the level of specific institutions but for the total of all school districts, for example.

In addition, the Panel is recommending that there be no business information on these institutions in the Estimates. While each school district and other institution would be required to prepare an annual public three-year business plan and produce an annual report, it would be intended to satisfy both the Government's accountability requirements and the accountability requirements of the board of each institution. It would, for example, have a release-by date set in relation to the institution's fiscal year end, not the Government's. This information would serve to augment the summary information in the Estimates, which is required because some SUCH sector institutions, notably universities, each represent significant amounts of public expenditure.

To ensure that the financial information in the Estimates and budget documents is consistent with the Panel's principles, particularly the principles of consistency and comparability, the Panel recommends that:

20. Legislation require that the Estimates and budget information be prepared in accordance with the Province's accounting policy, including policies on the reporting entity, consolidation and future-oriented financial information. That means, for example, that summary financial statements in budget documents must include both revenues and expenditures of non-commercial Crown corporations and other non-commercial public bodies, such as the SUCH sector institutions (i.e, line-by-line consolidation as required by Generally Accepted Accounting Principles). This, and other recommendations, will place additional resource requirements on TBS and sufficient resources should be allocated.
Timing—To be implemented beginning with the 2000/01 budget , with legislation as soon as possible.

Is the CRF Still Relevant?

Since the Panel has recommended that the budgeting entity should be the same as the reporting entity and should therefore be the Summary Entity, that leaves a question of whether the CRF is any longer relevant as an accounting construct.

On one hand, the CRF is the aggregate of the spending authorities that are placed each year before the Legislative Assembly for approval and it is a legal body. That implies that it will have its own financial statements.

The question is whether it is important for the public to know what the CRF results are distinct from the Summary Entity results. The reason for having separate CRF statements would be to disclose what is happening in direct government from an aggregate financial perspective. The arguments against are that:

- if CRF results continue to be publicly reported, there will continue to be an incentive to change the organization of programs or to adjust deficits and subsidies to change the reported CRF "deficit;"
- the confusion over whether to focus on the CRF or the Summary Entity would continue; and
- the Summary Entity is the best indicator of the overall financial status of government.

The issue is not really whether CRF statements should be produced but whether they should be published in the primary information sources associated with the budget process: the Estimates, the Quarterly Reports and the Public Accounts. If they are included, won't the Government continue to focus their communications on CRF results, if that makes them look better and have a continued incentive to manipulate the CRF results to ensure they do look better?

If CRF statements are to no longer be published in the Estimates and other documents, there may a valid reason to continue reporting on both the CRF basis and the Summary Entity basis for a transitional period. One of the principles adopted by the Panel is comparability. That means that results should be comparable over time. The 1999/2000 budget sets fiscal targets on a CRF basis and comparability means that the results should be reported on the same basis. Also, the Summary Entity deficit is significantly different from the CRF deficit. It seems to make sense to continue to publish CRF statements for a transitional period so that people can understand how the new basis compares to the old basis. A two-year transition period should be sufficient. During that period, it would still be important that the focus of information on the fiscal situation be presented on the Summary Entity basis.

The Panel recommends that:

21. The focus of discussion of overall financial indicators, such as surplus or deficit, total expenditure, total debt, etc. should be on the Expanded Summary Entity basis to ensure there is only one bottom line. That would mean that, except for the purpose of comparability with current budget plans only over the next two fiscal years, separate summary statements for the CRF would not be included in the Estimates, Public Accounts or accompanying documents. Also, legislation would require that any subtotal of the difference between CRF revenue and expense would be referred to by some term other than deficit or surplus, which would be reserved to describe the overall bottom-line.
Timing—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

Net vs. Gross Accounting

Net accounting refers to netting revenue against expenditure for a particular program or netting expenditure against revenue for a revenue source (e.g., commissions and tax expenditures[24]). An example is the Product Sales and Services sub-vote in the Ministry of Finance and Corporate Relations Estimates, which recovers all of its costs from the value of products and services sold.

There are good and valid reasons for netting. It is appropriate to manage certain government functions on a business-like basis to ensure that, for example, the expansion of appropriate and profitable activities is not prevented by a sole focus on expenditure control. It may also be appropriate to dedicate a new revenue source to a new government program, if they are directly related or the revenue source was specifically created to fund the expenditure.

However, netting also tends to make total revenue and expenditure look smaller than they actually are, although it has no impact on the deficit. This makes total revenue and expense poor indicators of the overall size of the provincial public sector. It can also, if practiced too aggressively, severely limit government's flexibility to reallocate expenditure.

It has been suggested that this problem be resolved by showing expenditure and revenue on both a gross and a net basis. The Alberta Estimates uses that approach. The Ministry of Finance and Corporate Relations reporting committee[25] is working on principles for netting and appropriate disclosure.

In practice that means that, on a line-by-line basis, revenue and expense would be shown on a net basis. However, on the summary statements, an adjustment would be made to show total expense and revenue on a gross basis, with appropriate disclosure of the details of the adjustment on a supporting schedule and appropriate adjustments to ensure there is not double counting of amounts paid and received within the accounting entity. At present, spending authority is voted on a net basis and that would not change. This only intended to capture actual revenues and expenses and not to try to estimate foregone revenues and tax expenditures. However, those should continue to be disclosed in the budget documents.

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[24] Tax expenditures are tax policy provisions that use the tax system to deliver public sector programs through foregone revenues. For example, there are a number of provincial sales tax exemptions for specific users such as bona fide farmers. Tax expenditures are estimated in the Budget reports but not accounted for in the Estimates or Public Accounts because of the difficulty in accurately determining the amount in most cases.

[25] The reporting committee is a committee comprised of the Deputy Minister of Finance and Corporate Relations and representatives of the OCG and TBS.

The Panel recommends that:

22. Legislation require summary financial information, especially in the Estimates and Public Accounts, to be presented on both a gross and net basis. That is, the summary statements must at least include an adjustment to present total revenue and total expense on a gross basis, with the form of information supporting that adjustment left to the Government's discretion. Votes would continue to have expenditure approved on a net basis. The adjustment of net revenue to total revenue is not intended to require accounting for foregone revenues and other tax expenditures, although disclosure of estimated tax expenditures in the budget documents is encouraged. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

Intergenerational Accounting

In the statement of the purpose of the budget process put forward by the Panel there is a reference to providing information about the implications of current government activities for the future. That is sometimes known as intergenerational accounting.

Intergenerational accounting refers to disclosing the impact that government's current activities will have on future generations. There are several ways that current activities can affect the future. One is that the costs of current operations may be more or less than the revenues available to support the operations, resulting in either a surplus or deficit. A deficit must be repaid in the future, while a surplus may reduce the obligations being passed on to the future.

Another way that current actions affect the future is through the provision of physical assets, like roads and buildings, that will be used to provide public goods and services in the future. This is known as capital expenditure. The cost of such assets is paid now but the benefits are enjoyed over their useful life, often a long period of time. For some assets, such as land acquired to make park, the benefits will be enjoyed indefinitely.

Modern accrual accounting helps to sort out these intergenerational impacts. It allows assets that will provide benefits over time to be "capitalized" and the costs allocated over time, consistent with the useful life of the asset. In other words, the costs are accounted for as the benefits are realized. By accounting in that way, the difference between accounting revenue and expense is a reasonable measure of the surplus or deficit generated by current government operations, including how much government used up existing assets in the period.

Future commitments entered into in the present represent another way in which current activities affect the future. Two types of future commitment about which there is currently comprehensive reporting are debt and unfunded pension liabilities. Often other future commitments are somewhat uncertain, with the financial impact dependent upon conditions that will exist in the future. The complexity and uncertainty around future commitments is one of the reasons that there is not comprehensive disclosure of such commitments.

There are many technical difficulties associated with reporting on future commitments. For example, it requires that the future amounts be "discounted" to reflect their "present value."[26] Choosing the appropriate discount rate can be an issue and can make a large difference in the expected overall financial impact.

In spite of the technical difficulties and the fact that this is an emerging area for accounting, it should be possible to begin to identify such commitments and report on them, at least periodically. Some other jurisdictions, notably Australia, are required by legislation to do so.

There have also been suggestions that the concept of intergenerational accounting should be extended to fully account for the social, environmental and other costs and benefits of government over time. For example, should expenditure on education not be treated as an investment in the future? While that idea is very attractive, the concepts and practices to put it into practical use have yet to be developed and it is generally accepted that such an approach is not feasible at present.

The Panel believes that the recommendations it has made on the Province's accounting policy and information about capital expenditure adequately deal with the question of intergenerational impacts at present. As advances are made in intergenerational accounting, the Panel would encourage the Government to consider ways to improve the reporting of intergenerational implications.

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[26]Money to be received or paid in the future has a lower value than money available or paid in the present due to risk, uncertainty and inflation, and the fact that money in hand can be used immediately. This is recognized by applying a "discount rate" to convert the "future value" of the money to its "present value."

CHAPTER VI—BETTER INFORMATION

Background

The fuel that makes the budget process run is public information. It already includes several familiar sources of public information including the Estimates, Quarterly Reports, Public Accounts, Debt Statistics, the Financial and Economic Review and ministry and Crown corporation annual reports. The Panel is recommending that some additional sources of information be added, including a Government strategic plan, ministry and public body business plans, business information in the Estimates, an annual report for the Province and an annual pre-budget consultation document.

Many of the recommendations that have been set out above are directed toward improving some specific types or sources of information, consistent with the principles set out by the Panel as the foundation for the budget process. However, those recommendations do not fully implement the Panel's principles as they apply to public budget process information generally. In addition, there are issues related to capital expenditure information, external review of budget information and information about "intergenerational" implications. This chapter is intended to complete the Panel's work by addressing these issues.

Form and Content Principles

Many have commented on the difficulty of using the various documents produced by the budget process.

One complaint is that, although the documents contain a wealth of information, it is often difficult to find the specific information one is seeking in the volume of information provided. Another related concern is that one must look at several different pieces of information to piece together an understanding of what the information means or implies.

A different sort of complaint is that important information is often missing, including results or projections that are likely to indicate government has not been fully successful. However, it is difficult to determine what information is missing.

Some of these concerns will be addressed, for example, by requiring full disclosure of policy decisions and assumptions underlying the budget (Recommendation 7).

Others might be addressed by applying the principles adopted by the Panel, in particular the principles of consistency, comparability and transparency.

Consistency would require all budgetary and accountability information sources to present the same information in the same form. That does not mean that every information source needs to provide information on everything or that the information in one source needs to be at the same level of detail as another source. However, where two information sources provide information about the same thing, that information should look the same, use the same terminology and have appropriate cross-references.

For example, why should the Public Accounts have a different format than the Estimates when they are or should be providing information about the same things, except that one is a plan and one is the actual result? Quarterly Reports and Interim Financial Statements may provide the same information in less detail than the Estimates and Public Accounts, but the form of the information should still be recognizable.

Comparability means that information should be able to be tracked over time and across similar public bodies. That is already common practice for some financial information, with the Estimates showing last year's Estimates as well as this year's. However, the Estimates do not include revised forecasts for the previous year's actual revenue or expenditure, nor do Quarterly Reports or Interim Financial Statements. As another example, the Public Accounts compare only actual expenditure with the forecasts in the Estimates and do not include the previous year's actual results. In addition to providing comparable financial information, comparability would also require plans and reporting documents to provide comparable accountability for results information.

An example of how consistency and comparability might be applied would be to have Quarterly Reports and Interim Financial Statements include both year-to-date results and revised forecasts, including disclosure of public policy decisions and assumptions underlying those forecasts, consistent and comparable with information disclosed in budget documents. That does not mean the same level of detail need be reported or that information previously disclosed need be repeated. However, material changes in policy decisions and assumptions would have to be reported.

It should be noted though that at least some of the difficulty people have in understanding and navigating the budget and accountability information sources arises from the complexity of the provincial public sector and the diversity of interests of the documents' users. If the information were presented in a way that satisfied the needs of one user it might make it more difficult for another user to find the information they require. If the information were simplified and reduced in volume, that also would not likely satisfy the needs of most users. However, through more standardization of the way information is provided, at least in summary information sources, the situation might be improved.

There are also more specific information sources such as business plans and annual reports. This type of document has to be flexible enough to deal with the diversity of public bodies that will have to prepare such documents. However, there is an argument for some basic format standards being established as well as some content standards, based on the principles of consistency and comparability. That would make it easier for the casual user who is familiar with the format to find the information they require.

The principle of transparency would require information to be provided in a way that is easily accessible and understandable to the public. There will always be some information disclosed in the budget and other documents that is complex or technical and may not be understandable to the general public, no matter how it is drafted. However, much of the information currently presented already meets the plain language test. What seems to be missing are more citizen oriented, high-level explanations that could be included in summary form in various documents.

Along the same lines, it has also been suggested that the Public Accounts or a companion document could benefit from being more of an annual report of the Province than the current version, which is strictly a financial report.

The Panel recommends that:

23. Legislation apply the principles of transparency, consistency and comparability by requiring that:

- whenever expected results are disclosed in a plan, the corresponding actual results must be disclosed in a comparable way in a subsequent report, whether that is the Estimates and Public Accounts or a Crown corporation's business plan and annual report;
- business plans and annual reports must be comparable across similar organizations;
- Quarterly Reports must provide revised fiscal forecasts; and
- that all budget process documents must be in plain language and include summaries.

Timing—To be implemented immediately, with legislation as soon as possible.

Timeliness of Financial Information

Another concern about financial information is that it is not always timely. For example:

- Although recently the Public Accounts have been released within six months of the year end, the Public Accounts have frequently taken considerably longer to be released. The *Financial Administration Act* (FAA) requires the Public Accounts to be released by December 31. It has been suggested that a six to nine-month delay is unacceptable compared to the 90-day standard with which the private sector must comply.

- Quarterly Reports are often released well after the end of the quarter, especially if the reports suggest that the fiscal plan is unlikely to be met or the information may be controversial or embarrassing for the government.
- Ministry annual reports are often not released for two or more years after the end of the fiscal year. Crown corporation annual reports tend to be more timely but even then there have been cases where reports have been significantly delayed.

The lack of timely financial disclosure can have the same sort of impact on government's financial credibility as questionable accounting policies. To be useful as part of the accountability regime, information about results must be available in time for its review to make a difference by providing an incentive to improve.

The obvious solution to this issue is to establish fixed release dates for significant financial and accountability reporting documents. That can be done in legislation. However, it already is done for some of the documents, including many ministry annual reports and the requirements are ignored with impunity.

Nevertheless, the Panel believes that it would be useful to introduce specific release dates for all the relevant documents. The following recommendation is intended to set the dates so that it is practically possible to comply and to be generally consistent with similar requirements applied to public companies. The Panel recommends that:

24. Legislation establish the following specific release-by dates:

Quarterly Reports	By 60 days after the end of the quarter
Public Accounts and Government Annual Report	By the August 31 following the fiscal year end
Annual Reports of Ministries or Public Bodies	By 90 days after the public body's fiscal year end
Business Plans of Ministries or Public Bodies	If separate from the previous year's Annual Report, by 30 days after the start of the fiscal year.

The legislation should also provide the Comptroller General authority to require financial information from public bodies within timeframes and in the form required by the Comptroller General. Meeting these timelines, especially as the Expanded Summary Entity is phased-in, will require the allocation of appropriate resources to the Comptroller General and by public bodies. **Timing**—To be implemented beginning with the 2000/01 budget and 1999/2000 Public Accounts, with legislation as soon as possible.

Another timeliness issue raised by the Auditor General's report was the question of interim financial statements[27] that are released at the time of the budget. The FAA requires that

[27] Interim financial statements are unaudited financial statements of activity up to a specified, and in the case of the budget, recent date.

interim financial statements be produced and tabled with the budget.[28] However, the requirement is sufficiently vague that when the 1996/97 budget was reintroduced in June 1996 following the election, government decided not to produce new interim financial statements. Had they done so, it would have revealed that the expected results for 1995/96 were worse than had been expected, possibly calling the 1996/97 projections into question.

This issue has already been dealt with by legislation introduced and passed in the 1999 legislative session.

Capital Expenditure

In this report, special attention has been paid to two particular types of information: budget forecasts and financial information (accounting policies). There is another specific type of information that the Panel believes also needs to be addressed—information about capital expenditure.

Capital Budgeting Issues

Capital expenditure is, by its very nature, current expenditure undertaken to provide the means for production of future goods and services. Capital expenditure therefore always has long-term implications.

The current accounting treatment of capital, which allows for it to be capitalized,[29] appropriately distributes the costs over time in accordance with the benefits that will be received. As a result, construction or purchase of a capital asset now has no immediate effect on the deficit although it will affect the deficit over the whole life of the asset.

The alternative treatment used before capitalization of assets was adopted was to treat the cost of capital assets as an expense in the period when the cost was incurred. That had the

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[28] FAA 11 (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.

[29] Note that capital owned by the Province is directly capitalized. Where the Province makes a capital contribution to a public body, such as a school district, to purchase a capital asset such as a school, that is also effectively capitalized by treating the contribution as a Prepaid Capital Advance, which is written-down and expensed over the life of the asset.

effect of increasing the deficit in the year in which the capital expenditure was made and decreasing it in future years, compared with capitalization. As a result of the impact on the deficit and the importance of the deficit as an indicator of government's financial position, that encouraged capital expenditure to be deferred as a deficit reduction measure.

Capital expenditure is necessary to keep up with population growth and to replace worn-out capital over time. While deferring a few projects once in a while for a year or two is unlikely to have much real effect, the practice of continually deferring needed projects quickly has the result of causing operating inefficiencies because of the deterioration of the capital stock. In other words, when capital is expensed, governments have an incentive to "eat" their capital.

While capitalizing resolves this problem, it can result in the opposite problem. Because capital expenditure does not affect the deficit immediately, there is not the same incentive to limit capital expenditure as there is to limit operating expenditure—it is seen as being free. That provides an incentive to use capital expenditure as an economic development lever and as a way of currying favour with voters, which can lead to overbuilding of the capital stock.

Current Capital Approval Process

To bring rigor to the capital allocation process and try to prevent inappropriate or unnecessary capital expenditure, there is an extensive formal capital budgeting process. Chapter 3 of the Auditor General's report outlines the current capital approval process. It suggests, among other things, that the capital planning process should include:

- 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.

The Auditor General's Report points out that work is underway to implement the recommendations of a government working group that would make the current process more consistent with the expectations outlined in the Auditor General's report.

Already there is a five-year Consolidated Capital Plan and the Estimates provide information about CRF capital expenditure. However, the concern is that capital budgeting and operating budgeting continue to be treated as separate and unlinked activities.

Some of the Panel's other recommendations should work to improve capital budgeting. For example:

- Expansion of the budgeting entity from the CRF to the Summary entity will expand the scope of capital expenditure information reported in the Estimates;
- The strategic plan requirement will provide a better opportunity for linking a long-term capital plan with a long-term fiscal plan;

- A move to more accountability for results will provide a framework for requiring that objectives be identified for at least major capital projects and performance be measured; and
- Use of business plans throughout the public sector will provide a vehicle for integrating capital planning with operating budget planning.

In addition, the Panel recommends that:

> 25. Proposed reforms to capital budgeting should be implemented by legislation in accordance with the principles proposed by the Auditor General, including closer integration into the process of developing the operating budget and more disclosure of proposed capital projects, including amounts, objectives business cases and performance targets for individual major projects. Budget documents should provide disclosure about ongoing projects and the amount approved for new projects but need not provide details of new projects not yet announced. Disclosure for those projects should be made when they are announced. **Timing**—To be implemented at least by the 2001/02 budget.

External Review of Budget Information

The Auditor General has recommended that, to improve the credibility of the budget, the Auditor General should be annually required to comment on the **accounting policies** used in the preparation of the Estimates. There are a number of types of external review of the Estimates and budget information that could be implemented. For example, there could be:

- a review of key assumptions used in preparing the Estimates, as is done in the United Kingdom;[30]
- a review of the methodology used to forecast revenue and/or expenditure;
- more extensive audit of the revenue Estimates to review the methodology, assumptions and information as is done in Nova Scotia;
- an independent council established to advise government on the economic forecast, as has already been done in British Columbia;
- a review of the accounting policies used, including the policies related to future-oriented financial information and both the revenue and expenditure sides of the budget;
- a review of the budget and Estimates development systems;

[30] In the U.K., the Government refers specific assumptions to the Auditor General for review each year so that, over time the bases for all the key assumptions are reviewed. There is not an annual review of the basis for each assumption.

- a review of the information contained in the Estimates.

There are two principal arguments against some level of external review of budget information. The first argument is that review by the Auditor General or some other external party would overshadow the budget development and decision-making process. One of the principles adopted by the Panel is that government must be responsible for establishing public policy within the democratic process, including for developing expenditure proposals for approval by the Legislature. The Panel believes that having an external review during the actual budget building exercise would be inconsistent with that principle. The concern is that, regardless of how the Auditor General's duty is circumscribed, for example by limiting it to review of accounting policies, the requirement for any review by the Auditor General would confer on the Auditor General a real or perceived ability to comment on the appropriateness of government's decisions.

The second argument against an external review of budget information before the budget is presented is that it would add time and resource requirements to an already very onerous annual exercise. That seems especially to be a concern as it applies to decisions that are made late in the budget process. It seems unlikely that last-minute budget decisions can be avoided since the difficult decisions associated with reconciling the aggregate of many individual revenue and expenditure decisions with an overall fiscal plan must, by their nature, be taken at the end of the process. It should be noted that that is true regardless of the financial circumstances. It is often just as difficult to decide how to allocate a surplus as it is to reduce a deficit.

However, the Panel believes the Auditor General has a legitimate role in reviewing the Government's implementation of budget process reforms. The Panel also believes that implementation will be more effective if the Government is required to annually report its progress and that the budget process should be subject to a scheduled periodic independent review to continue its evolution.

Therefore, the Panel recommends that:

26. Legislation should require the Government and the Auditor General to both report annually to the Legislature on the implementation of this report, until implementation is complete and should require a scheduled independent review of the budget process in eight to ten years. **Timing**—Reports required by September 30 of each year beginning in 2000.

APPENDIX A—PANEL TERMS OF REFERENCE

The report by the Auditor General on the Estimates Process in British Columbia contains recommendations for a number of changes to the process used by government to create its annual budget and the way government reports on its budget performance. The government will address all of the changes recommended but wishes to seek broader views on some of the major recommendations of the Auditor General that affect input into the budget process and information presented by the government on the budget. The Auditor General agrees that seeking broad public input in these important areas would be useful.

Accordingly, the Government of British Columbia will convene a panel to engage in discussions on these matters and ask them to bring forward recommendations to government and the Legislative Assembly.

The Auditor General has made a number of recommendations which focus on input to the budget process, scope of the budget, and information provided on the budget plan and actual results. These are the areas the panel is expected to focus on. Specifically the panel will be asked for advice on:

A. Which public sector bodies should be included in government's annual budget plan and reports and what information should be provided on these bodies in the budget plan and reports.

B. Means and opportunities for members of the public and the Legislative Assembly to provide input into the budget process.

C. Means and opportunities for members of the public and the Legislative Assembly to review the actual results flowing from budgets.

D. Any changes to government budgeting and reporting to reflect long run implications of budget decisions.

E. Any changes in the form or content of information provided by government in its annual planning and its reports on results to improve clarity and usefulness to readers.

F. The timing and content of any information released during the year related to the budget, taking into account any differences required during an election year.

G. Any legislative changes to implement the committee's recommendations.

It is expected that the panel will review what is happening in other jurisdictions, and consult with agencies within the province who might be affected by any changes. Experts in these areas will also be consulted by the panel in reaching its recommendations. The panel's conclusions will be made public at the same time they are presented to government and the Legislative Assembly.

The panel will report to government and the Legislative Assembly by September 30, 1999 so that it will be possible to make changes for the 2000/01 fiscal year budget and draft any legislation required.

Appendix B—Comparison of Recommendations with the Terms of Reference

The following describes how the Panel's recommendations will address the specific issues raised in the Panel's Terms of Reference.

A. Which public sector bodies should be included in government's annual budget plan and reports and what information should be provided on these bodies in the budget plan and reports.

Recommendation 19 specifies that the budgeting and reporting entity should be the Expanded Summary Entity, with the specific public bodies that should be included in that entity established by applying Generally Accepted Accounting Principles. Given the current Generally Accepted Accounting Principles and the current organization of government, that would include all of the public bodies currently included in the financial statements presented in the Public Accounts plus school districts, colleges, universities and health authorities. The recommendation specifies that the budgeting entity should be made consistent with the reporting entity immediately and both expanded over several years.

Recommendation 19 also specifies that financial information for the non-CRF public bodies in the budget and Public Accounts need only be at an aggregate level, although it must reflect the appropriate consolidation methodology as required by Generally Accepted Accounting Principles. Recommendation 13 requires budget and reporting documents to include summary business information for major programs provided by ministry and non-commercial Crown corporations. Recommendation 11 requires all ministries and public bodies to publish three-year business plans.

Recommendations 16, 17 and 18 deal with the more general issues of setting and interpreting the Province's accounting policy, requiring adherence to Generally Accepted Accounting Principles and the inclusion of a specific statement reconciling the surplus or deficit to the change in debt.

Recommendations 20 and 21 clarify that the Province's accounting policy must be followed in preparing the budget as well as the Public Accounts and that there must be only one bottom line, ultimately being the Expanded Summary Entity surplus or deficit.

Recommendation 22 requires that total revenue and expense be made better indicators of the overall size of the Province by requiring that they be adjusted to a gross basis of accounting.

B. Means and opportunities for members of the public and the Legislative Assembly to provide input into the budget process.

The Panel is recommending a public pre-budget consultation process to deal with this item (Recommendations 1 and 2). Pre-budget review of information by the Auditor General is another possible mechanism that could be used. The Panel is not recommending such a review (Recommendation 26).

C. Means and opportunities for members of the public and the Legislative Assembly to review the actual results flowing from budgets.

The Panel is recommending that a reform of the legislative committee system proposed by the Public Accounts Committee be adopted and used as the vehicle for the Estimates debate as well as review of business plans and annual reports (Recommendation 4).

D. Any changes to government budgeting and reporting to reflect long run implications of budget decisions.

The Panel is recommending that the government have a long-term strategic plan, an update of which would be published before or with the budget (Recommendation 10). The strategic plan would include a medium-term financial plan as the basis for ministry and public body business plans. An annual report for the Province that compares results with the strategic plan would be required in or accompanying the Public Accounts

Recommendation 11 requires that every ministry and public body have a three-year business plan and corresponding annual report.

The budget and the business plans would all have to be consistent with the strategic plan. The strategic plan, business plans and annual reports would be focused on accountability for results, with the plan indicating performance targets and the report providing comparable actual results. Recommendation 12 encourages the Government to participate in developing national performance indicators and performance benchmarks.

The Panel also supports using performance management to manage parts of the public sector but believes specific recommendations on that would be beyond its mandate (Recommendation 15).

To try to reduce the number of mid-year adjustments, which reflect a short planning horizon, the Panel is recommending that forecasts be required to be prudent (Recommendation 9).

Better disclosure of the long-term implications of major capital projects and integration of the capital budget with the operating budget, as required by Recommendation 25 should also help to bring a longer term view to capital budgeting.

E. Any changes in the form or content of information provided by government in its annual planning and its reports on results to improve clarity and usefulness to readers.

The Panel is recommending that all documents adhere to principles of consistency and comparability, transparency, and comprehensiveness (Recommendation 23).

F. The timing and content of any information released during the year related to the budget, taking into account any differences required during an election year.

Several recommendations fall under this category, including:

- having a pre-budget consultation document (Recommendation 1),
- more certain timing of budget day (Recommendation 3),
- encouraging the use of Supplementary Estimates (Recommendation 5),
- full disclosure of material assumptions and decisions and requiring the Secretary of Treasury Board to attest to the disclosure (Recommendations 7 and 8),
- continued use of the Economic Forecasting Council (Recommendation 6),
- inclusion of expected results in the Estimates or an accompanying document (Recommendation 13),
- reduction in input controls (Recommendation 14), and
- fixed release-by dates for all documents (Recommendation 24).

However, the Panel is not recommending any special requirements in election years, relying instead on improved budget practices in every year to deal with the election budget issue.

G. Any legislative changes to implement the committee's recommendations.

The specific recommendations indicate where the Panel believes legislation should be used. Most of the recommendations require legislation.

The Panel has also acknowledged that care must be taken in putting such provisions in legislation to avoid legal challenges to legitimate public policy decisions based on some defect in the budget process. The panel supports the inclusion of specified remedies in the legislation for failure to comply with process requirements, such as requiring a report to be Tabled in the Legislature explaining the failure. The Panel also supports the inclusion of provisions in the Legislation specifying that failure to comply with these process requirements does not provide the basis for legal challenges to policy decisions.

APPENDIX C—GLOSSARY OF TERMS

Accountability for results means publishing information about intentions and publicly reporting results on the same basis (e.g., using performance measurement) to disclose how effective the Government is at achieving public policy objectives and what action the Government is taking to increase effectiveness.

Accountability means the responsibility of a person acting on behalf of another person to report on what that person intends to do and what the results are. For example, the Government acts on behalf of the people, to whom it is accountable.

Annual report means a report prepared after the end of the fiscal year that provides information about the public body publishing the report has done over the course of the year, including both financial results and results related to the public body's purpose.

Business plan means a plan indicating what a public body's purpose or mission is, what its direction or vision is, what its objectives are and the strategies it will use to achieve those objectives and how it will know if it has been successful (performance indicators and targets).

Capital expenditure means the purchase or creation of tangible assets that will be used over time to support government operations, including buildings, computer systems, ferries, buses, roads, etc.

Consolidated Revenue Fund (CRF) is an accounting entity comprised of the consolidated results of ministries and special funds and accounts. This is the basis currently used for the annual budget Estimates or "Blue Book".

Entity, in the context of public sector accounting policy, is an accounting construct that means the aggregate of all the public bodies that are included for reporting summary financial results at the level of the entire government. The Summary Entity, Expanded Summary Entity and CRF are examples of entities.

Estimates or "Blue Book" means the document tabled in the Legislature after the reading of the Budget Speech, which details the Government's expected revenues, expenses and other expenditures for the fiscal year.

Expanded Summary Entity means the Summary Entity plus the public bodies in the SUCH sector that are required by Generally Accepted Accounting Principles to be included in a provincial government reporting entity. Given the current Generally Accepted Accounting Principles requirements and the structure of the SUCH sector it includes most SUCH sector public bodies.

Expenditure refers to the cash basis of accounting where disbursements (payments) are recognized when the cash is paid out.

Expense is an accounting construct that means the cost of goods and services used or consumed in a period. This is the full accrual accounting concept of costs incurred in a period. It includes the use of capital assets purchased or created in a previous period (depreciation or amortization), as well as attributing other costs to the period in which they are incurred, regardless of when or how those costs are paid for.

Full Time Equivalent (FTE) means employment of individuals that aggregates to the employment of one person on a full time basis. It is used as a way of counting public sector staff and as a control on the number of people employed so as not to discriminate between full-time and part-time employment.

Future Oriented Financial Information (FOFI) means forecasts and projections of financial information.

Generally Accepted Accounting Principles (GAAP) means the accounting standards generally recognized by the accounting profession as the appropriate basis for calculating and presenting financial information. There are specific accounting standards for the public sector that recognize that public sector accounting is different in some cases from private sector accounting, which are established and documented by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB).

Government, when capitalized, means collectively Cabinet and the members of the Legislative Assembly that form the Government of the day.

Gross Domestic Product (GDP) is an economic indicator that measures the size of the provincial economy.

Intergenerational reporting means disclosure of the expected fiscal implications of current decisions and activities on the future.

Office of the Comptroller General (OCG) means the Division of the Ministry of Finance and Corporate Relations responsible for corporate accounting, financial policy and procedures, internal audit and financial systems in the provincial government.

Operating expense means the cost of goods or services that are used up in a given period, such as the services of employees and office supplies.

Performance management means, throughout an organization, using performance measurement as a way of providing information upon which to base management decisions.

Performance measurement means setting objectives, defining measurable key performance indicators related to those objectives, setting performance targets and measuring results.

Province, when capitalized, means the administrative machinery of the provincial government (including ministries, Crown corporations and government agencies).

Public Accounts means the published audited financial statements and other information of the provincial government released annually.

Public body means an organization that is created by provincial statute or owned or controlled by the provincial government for the purpose of providing goods or services on behalf of the provincial government.

Public Sector Accounting Board (PSAB) is an organization created by the Canadian Institute of Chartered Accountants to recommend accounting standards for the Canadian public sector, including federal, provincial and local governments. The written guidance of the accounting profession about public sector accounting practice in the Public Sector Accounting and Auditing Handbook is sometimes also loosely referred to as "PSAB."

Special Warrant means an order of the Lieutenant Governor in Council that allows the Government to spend money up to a specified amount that is urgently and immediately required for the public good prior to having the spending approved by the Legislature.

Standard Object of Expenditure (STOB) means a category of expense created by government for the purpose of defining what was acquired with expended funds (e.g., Salaries, grants, etc.).

SUCH sector means the sector comprised of <u>s</u>chool districts, <u>u</u>niversities, <u>c</u>olleges and <u>h</u>ealth authorities.

Summary Entity means the aggregate accounting entity comprised of the consolidation of public bodies in accordance with the Province's accounting policy. It includes Crown corporations, agencies and the Consolidated Revenue Fund and is one of the two bases upon which financial information is provided in the Public Accounts. The other basis is the Consolidated Revenue Fund basis. See also "Expanded Summary Entity."

Supplementary Estimates means a request made by the Government to the Legislature for spending authority in addition to that approved in the annual Estimates, which needs to be debated and approved by the Legislature before the authority is granted.

Treasury Board means the committee of Cabinet that has responsibility for overall financial management in the Province, including the budget. It also has responsibilities in terms of personnel policies.

Treasury Board Staff or Secretariat (TBS) means the part of the Ministry of Finance and Corporate Relations that provides staff support for the financial management function of Treasury Board, particularly development and monitoring of the budget.

APPENDIX D—PANEL CONSULTATIONS

External Stakeholders

The following organizations were invited to make submissions to the Panel:

Business Sector

Automobile Dealers Assn. of B.C.
B.C. Chamber of Commerce
B.C. Construction Assn.
B.C. Real Estate Assn.
B.C. Roadbuilders and Heavy Construction Assn.
Business Council of B.C.
Canadian Bankers Assn.
Canadian Bond Rating Service
Canadian Federation of Business
Canadian Federation of Independent Business
Canadian Homebuilders Assn. of B.C.
Canadian Restaurant and Food Service Assn.
Council of Forest Industries of B.C.
Credit Union Central of B.C.
Dominion Bond Rating Service Limited
Economic Development Assn. of B.C.
Insurance Bureau Assn. Canada
Investment Dealers Assn. of Canada
Mining Assn. of B.C.
Moody's Canada Inc.
Retail Council of Canada
Retail Merchants Assn. of B.C.
Standard & Poor's Corporation
Technology Industries Assn.
Vancouver Board of Trade

Labour

B.C. Federation of Labour
B.C. Government and Service Employees Union
B.C. Nurses Union
B.C. Teachers Federation
Canadian Union of Public Employees
College Institute Educators Assn.
Confederation of University Faculty Assn's of B.C.
Health Sciences Assn.
Hospital Employees Union
Office and Professional Employees, Local 378

Professional Associations and Other

Assn. of Professional Economists of B.C.
B.C. Legislative Press Gallery
B.C. Medical Assn.
B.C. Pharmacy Assn.
Canadian Bar Assn.
Canadian Federation of Students
Canadian Taxpayers Federation
Certified General Accountants Assn. of B.C.
Certified Management Accountants Society of B.C.
Institute of Chartered Accountants of B.C.
IPAC Victoria Regional Group
Registered Nurses Assn. of B.C.

Public Sector

Advanced Education Council of B.C.
Bank of Canada
B.C. School District Secretary-Treasurers Assn.
B.C. School Superintendents Assn.
B.C. School Trustees Assn.
B.C.R Group of Companies
B.C. Ferry Corporation
BC Hydro and Power Authority
Community Social Services Employers Assn.
Health Assn. of B.C.
Insurance Corporation of B.C.
Northern Interior Regional Health Board
Thompson Health Region
Union of B.C. Municipalities
University Presidents Council of B.C.

Immediate Public Sector

The following Individuals were interviewed, following an offer made to all deputy ministers and CEO's of Crown corporations close to the provincial government to interview them or members of their staff.

Dennis Truss	British Columbia Buildings Corporation
Sharon Halkett	British Columbia Buildings Corporation
Brenda Eaton	Capital Health Region
Don Avison	Crown Corporations Secretariat
Ron Faust	Fisheries Renewal BC
Philip Halkett	Liquor Distribution Branch
Gerry Armstrong	Ministry of Advanced Education and Technology
Charles Kang	Ministry of Employment and Investment
Arn Van Iersel	Ministry of Finance and Corporate Relations
Bob de Faye	Ministry of Finance and Corporate Relations
Chris Trumpy	Ministry of Finance and Corporate Relations
Cleveland Molsberry	Ministry of Finance and Corporate Relations
David Fairbottom	Ministry of Finance and Corporate Relations
David Morhart	Ministry of Finance and Corporate Relations
Kit Chapman	Ministry of Finance and Corporate Relations
Lori Wanamaker	Ministry of Municipal Affairs
Ann Ratel	Ministry of the Attorney General
Barb Kaiway	Ministry of the Attorney General
Jim O'Hare	Ministry of the Attorney General
Linda Martin	Ministry of Women's Equality
Val Mitchell	Ministry of Women's Equality

Errol Price	Office of the Auditor General
Frank Barr	Office of the Auditor General
George Morfitt	Office of the Auditor General
Keyvan Ahamdi	Office of the Auditor General
Al Sakalaskus	Treasury Board Staff
Andy Robinson	Treasury Board Staff
Gord MacLean	Treasury Board Staff
Nick Paul	Treasury Board Staff
Rob Fraser	Treasury Board Staff
Tom Vincent	Treasury Board Staff
Tony Stark	Treasury Board Staff

The following interview questions were used:

1. Entity

1(a) What is the appropriate reporting entity?
1(b) What is the appropriate budgeting entity?
1(c) What are the implications for the budget process?

2. Performance Measurement/Management

2(a) What is performance measurement/management?
2(b) What is the appropriate role, if any, for performance measurement in the budget and accountability processes?
2(c) What are the issues with implementing performance measurement/management?

3. Process

3(a) Should the process (budgeting and results review) be more open? If so, how? If not, why not?
3(b) What are the issues with the current process and how should they be resolved? (e.g., timing, content, decision-making, capital vs. operating, accounting policies, independent review, others)
3(c) Should there be any changes to the process in election years?

4. Forecasting

4(a) What are the issues with economic, revenue and expenditure forecasting and how should they be resolved?

5. Form & Content

5(a) How can the information conveyed by the budget and accountability processes be improved? (e.g., budget, estimates, public accounts, debt management plan, business plans, fiscal plan, etc.)

6. Long-term Implications

6(a) How should the long-term implications be recognized in the budget process?

7. Legislation

7(a) What changes, if any, should be legislated?

8. Other Issues?

Roundtable Discussions

The Panel held two roundtable discussions. The first was held on July 15, 1999 with members of the Business Community, organized by the Business Council of B.C. The second was held on July 23, 1999 with academics and budget practitioners. The participants in those sessions were:

Business Roundtable

Larry Blain
Vice President & Director
RBC Dominion Securities

John Dawson
Partner
PricewaterhouseCoopers

Jock Finlayson
Vice President – Policy and Analysis
Business Council of British Columbia

Lorne Grasley
Director of Finance
Mining Association of B.C.

Csaba Hajdu
Director of Research
Forest Industrial Relations

Mike Johnson
President and Chief Executive Officer
Vancouver Stock Exchange

Jerry Lampert
President and Chief Executive Officer
Business Council of British Columbia

Ron MacDonald
President and Chief Executive Officer
Council of Forest Industries

Gary Moser
President and Chief Executive Officer
Health Employers Association of B.C.

Ian Reid
Executive Vice President
Sierra Systems Consultants

Jim Stevens
B.C./Yukon Director
Investment Dealers Association

Tony Toth
President
B.C. Road Builders and Heavy Construction Assn.

Art Willms
President and Chief Operating Officer
Westcoast Energy

Andrew Wynn Williams
Manager of Policy Development
B.C. Chamber of Commerce

Academic Roundtable

Keyvan Ahmadi
Principal
Financial Auditing
Office of the Auditor General
Government of British Columbia

Professor Paul Boothe
Institute for Public Economics
Department of Economics
University of Alberta

Professor Rod Dobell
School of Public Administration
Faculty of Human and Social Development
University of Victoria

Mr. J. Richard E. Goodkey
Performance Measurement
Office of Budget and Management
Alberta Treasury

Professor Michael Howlett
Department of Political Science
Simon Fraser University

Professor Evert Lindquist
Director
School of Public Administration
University of Victoria

Professor Jim McDavid
School of Public Administration
University of Victoria

Professor Michael Prince
Associate Dean
Faculty of Human and Social Development
University of Victoria

Dr. Donald Rowlatt
Vice President
Finance and Operations
University of Victoria

Mr. Wayne Strelioff
Provincial Auditor
Office of the Provincial Auditor
Government of Saskatchewan

Thea Vakil
Assistant Deputy Minister
Ministry of Attorney General
Government of British Columbia

Arn Van Iersel
Comptroller General
Ministry of Finance and Corporate Relations
Government of British Columbia

Professor Aidan Vining
Faculty of Business Administration
Simon Fraser University

Submissions Received

The following is a list of the submissions received:

Auditor General of Saskatchewan - Wayne Strelioff
B.C. Building Corporation – Dennis F. Truss
B.C. Medical Association – Dr. Mark D. Schonfeld
B.C. Pharmacy Association
Business Council of B.C. – Jerry L. Lampert
Canadian Centre for Policy Alternatives—B.C. – Marc Lee
Canadian Bankers Assoc. – Paul J. Griffin, APR
Canadian Federation of Independent Business – Suromitra Sanatani
Certified General Accountants Association of B.C. – R.W. Caulfield, BA, FCIS, P. Adm.
Chartered Accountants of B.C. – J.S. (Woody) Hayes, FCA
Chartered Accountants of B.C. – Richard Rees, CA
City of Port Alberni – Gilliam Trumper, Mayor
College Institute Educators' Assoc. of B.C. – Ed Lavalle
Confederation of University Faculty Associations of B.C. – Jim Gaskell
Health Association of B.C.
Individual – Blain, Kerry
Individual – Bolin, R.
Individual – Grant, Penny
Individual – LeBlanc, Mark
Individual – Lesson, Mr.
Individual – McDowall, Ann
Individual – Miller, B.
Individual – Spink, Chester
Individual - van Iersel, Arn
Insurance Bureau of Canada – Dennis Prouse
Legislative Press Gallery – Michael Smyth
Ministry of Attorney General – Thea Vakil
MLA—Dr. April Sanders, MLA
MLA—Gordon Campbell, MLA
Office of the Auditor General of B.C. – George Morfitt
Office of the Auditor General of B.C. – Keyvan Ahmadi
Treasury Board Staff – Lawrie McFarlane
University of Victoria – Michael Prince
Village of Pemberton
Workers' Compensation Board – Sidney O. Fattedad

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