

Report of the Budget Process Review Panel

September 2009

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Letter to the Minister

The Honourable Colin Hansen MLA
Minister of Finance
c/o The Legislative Buildings
Victoria, British Columbia

September 15, 2009

Dear Minister Hansen,

The attached report has been developed through a series of meetings of the Budget Process Review Panel members that you appointed in April, 2009.

The Panel met regularly, completed background research and interviewed a number of parties.

The Panel has fulfilled the terms of reference supplied by your Ministry. In accordance with those terms of reference, the Panel recognizes that it is government's responsibility to govern and hence to make decisions. This report is not about the content of such decisions but rather it is about the transparency and accountability of Province of British Columbia's budgeting processes.

It is our pleasure to have been of service and we thank you for the support we have received from Ministry staff.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Douglas Enns', with a stylized flourish at the end.

Douglas Enns, FCA
Panel Chair

Budget Review Process Panel

Membership

Douglas Enns, FCA (Chair)

President, Douglas J. Enns and Associates
Chair, 1999 Budget Process Review Panel

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Economist, Urban Futures Institute
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Executive Summary

Background

The Budget Process Review Panel of 2009 (the Review Panel) was appointed on April 29, 2009 by the Minister of Finance in accordance with section 21 of the *Budget Transparency and Accountability Act* to assess the current condition of the Province of British Columbia's budgeting and reporting processes.

The Review Panel is the second such panel that has been constituted. The first Panel, established in 1999, (the 1999 Panel) was asked to consider the condition of budgeting and reporting pursuant to a report on this subject tabled by the Auditor General (A Review of the Estimates Process in British Columbia, February 1999), who had made several observations and recommendations on this subject.

The 1999 Panel provided 26 recommendations in its report, *Credibility, Transparency and Accountability – Improving the BC Budget Process* (the 1999 Report).

The Minister of Finance asked the Review Panel to consider the following questions:

1. Has the government followed through on each of the 1999 Panel's recommendations?
2. If it has not, is this because the recommendation is no longer relevant or some other reason?
3. Given what government has achieved to date, are there specific areas where the government can strive for improvement?

The Review Panel's scope of evaluation was specific with respect to the 1999 Panel's 26 recommendations and general in terms of the spirit of those recommendations and the 1999 Panel's objective of enhanced budget transparency and accountability.

The following report fulfills the terms of reference established by the Minister and its recommendations will further improve the BC government's budget and reporting processes.

Principal Findings

It is the Review Panel's view that society is best served when government clearly outlines its intentions, documents them in a comprehensible and complete set of strategic and operating plans supported by a fully articulated budget and reports on its progress at regular intervals.

The Review Panel has concluded that the government of British Columbia has made substantial progress on the implementation of recommendations contained in the 1999 Panel's report and that the level of transparency and accountability in the budget process has improved significantly over the past 10 years.

The Budget Transparency and Accountability Act (BTAA) is the regulatory basis on which government meets its obligations to provide for transparency and accountability in its budget and reporting processes. In a single, broad stroke, government set the majority of the recommendations contained in the 1999 Panel's report into action by the passage of the BTAA in 2000. In 2002 the government amended the BTAA to implement additional recommendations by including schools,

universities, colleges and hospitals (SUCH sector) in the Summary Reporting Entity and by adopting Generally Accepted Accounting Principles (GAAP) as established by the Public Sector Accounting Board (PSAB).

The Review Panel commends government for these actions. Adherence to the provisions of the BTAA has ensured substantial progress. In its deliberations, the Review Panel found that the government was given high marks for progress achieved in:

- consulting prior to the preparation of the budget;
- providing clear reporting;
- providing usable background information;
- establishing support for assumptions; and
- reporting on the status of initiatives.

Government decided to either alter or dispense with a small number of the recommendations proposed in the 1999 Report and these are each discussed in detail in the body of the report.

The theme of this report is that, having made substantial progress improving transparency and accountability, this is a good time to take the next steps in what must be an ongoing process of evolution and continuous improvement. In answer to the question “are there specific areas where the government can strive for improvement?” the Review Panel has made recommendations for further improvements including:

- Fully apply all of the aspects of the budget process to the SUCH sector by removing existing exemptions.
- Improve the budget process in election years by ensuring the budget debate can be completed and the Supply Act passed before the election call and that the pre-budget consultation process for the next year’s budget can be completed after the election.
- Continue to use GAAP and continue to encourage the Auditor General and Comptroller General to discuss the interpretation and implementation of those standards.
- Require that the budget include an assessment of the risk associated with the budget and a discussion of how risk has influenced the government’s choice of whether or not to include a forecast allowance, the level of the forecast allowance and the budget economic growth assumption.
- Improve the standard of transparency and accountability that apply to long-term capital planning, budgeting and reporting by applying the same principles, rigour and discipline as are now applied to services and operations.
- Continue to improve performance management.
- Continue to improve the pre-budget consultation process.
- Implement the 1999 Panel’s recommendation that Estimates and service plans and reports be debated by Select Standing Committees of the legislature.
- Develop a road map to move from the current state of planning, monitoring and reporting to a future state that fully links the organizational units within the reporting entity and ensures that all of the various documents produced can be compared with each other and over time.

RECOMMENDATIONS

Recommendations Contained in Chapters 3 to 9

The Review Panel recommends that:

1. Government continue to follow GAAP as set by the Public Sector Accounting Board, with consultation with other jurisdictions, professionals, and accounting standards bodies as needed.
2. Government continue to encourage the discussion of material differences in opinion between the Auditor General and the Comptroller General in order to advance the standard of public accounting in the province. Towards that end, it is recommended that there be a formal structured conference between the Auditor General, the Deputy Minister of Finance and the Comptroller General within 45 days after the Public Accounts have been made public. For 2009 the conference should take place as soon as practicable.
3. The BTAA be amended to require that the budget documents include an assessment of the overall risk associated with the budget and a discussion of how that risk assessment has affected the choice of the forecast allowance and the difference between the budget GDP growth forecast and average of the Economic Forecast Council's GDP growth forecasts.
4. Government disclose capital planning information for agencies that have a total portfolio of capital projects valued at greater than \$50 million.
5. Government articulate, within the next two years, standards for long-term capital planning, budgeting and reporting that are consistent with the principles of transparency and accountability and are fully integrated with service planning and operating expenditure budgeting and reporting. The Review Panel recommends that once articulated, these standards be implemented by legislation and without sectoral exemptions.
6. Recommendation 4 of the 1999 Panel regarding the use of Select Standing Committees for debate of the Estimates, service plan and service reports be implemented.
7. Government reaffirm its commitment to the planning and reporting standards specified in the BTAA, and to the improvement in the practices that are followed by reporting organizations. The Panel encourages the government to build on the success it has achieved and to give greater emphasis to the planning and reporting activities of government organizations and to the understanding of the underlying objectives and principles of performance management throughout the BC public sector.
8. All organizations in the summary entity (including the SUCH sector) should comply with the standards set out in the BC Reporting Principles. Entities that are falling short of that standard should be given central agency direction as to how to improve their performance measurement and reporting.
9. Each service plan be signed off by the relevant Minister and the subsequent annual service plan report be signed off by the Deputy Minister of the relevant Ministry.

10. All of the exemptions for the SUCH sector in the BTAA be removed. The Review Panel recognizes that in certain circumstances confidentiality must be observed, but this should be the only exemption, and should only be granted on an individual entity basis as needed. However, the Review Panel notes that for service delivery organizations where very small amounts of funding are involved and where the organization is a small entity, reduced reporting requirements, appropriate to the scale involved, should be developed.
11. Government make whatever changes are necessary to the budget calendar, Estimates debate schedule and the fixed election date so that there is time in an election year to complete the budget debate and pass the Supply Act before the legislature is dissolved and time after the election to have an appropriate pre-budget process and prepare a budget for the next year that fully complies with the BTAA.
12. Government maintain the current legislative restrictions on access to Special Warrants. However, legislation should require that any request for a Special Warrant be accompanied by a report that states when the expense requirement 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 expenses, provides a revised fiscal forecast. This report should be made public when the Special Warrant is approved.
13. The Pre-Budget Consultation Report of the Select Standing Committee on Finance and Government Services be made available to the legislature and the Minister of Finance no later than November 15th.
14. All public submissions, made during the pre-budget consultation process including those presented at consultation meetings, those mailed in and those submitted digitally, and the results of surveys, be made available to the Minister of Finance within one week of the last public meeting.
15. The pre-budget consultation process continue to be refined to encourage input from interest groups and interested individuals, and include enhanced opportunities for public input, such as through web-sites and/or large web-based public forums.
16. Government prepare and publish a report setting out a vision of the ideal state of planning, budgeting, reporting and performance management, comparing it to current practice and outlining a change management plan with appropriate deadlines to ensure its budget and reporting processes continues to improve.

Recommendations from Chapter 2 - Progress to Date¹

17. The BTAA be amended to reduce the minimum number of Economic Forecast Council members to 10 persons, recognizing that it may be difficult to find 12 qualified individuals who are available to take part in Council deliberations.
18. The standard of disclosure in the Secretary to Treasury Board's budget attestation continue to be refined and advanced.

¹ Does not include recommendations that are repeated or set out in more detail in Chapters 3 to 9.

19. Government implement the recommendations in the Auditor General report *Governance good practice principles: How are we doing?: The public reporting of performance measures in British Columbia*, December 2008.
20. The SUCH sector organizations develop standard key performance indicators for their specific sectors and program areas and establish benchmarks for these performance indicators.
21. Performance management be the preferred practice for the management of services and expenditures, rather than input controls.
22. Government ensure that the reconciliation of debt and deficit provided in the budget, quarterly reports and Public Accounts use a consistent and comparable presentation.
23. Government not take any action to re-implement those parts of the 1999 Panel's Recommendation 18 that have been removed from the *Auditor General Act*.
24. The BTAA be amended to require:
 - a. regular reviews by the Auditor General until the Auditor General is satisfied that every recommendation of the Review Panel has either been substantially implemented or government has made a specific decision not to implement the recommendation; and,
 - b. the Minister of Finance to appoint a new review panel every 8 to 10 years.

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Chapter 1: Introduction

The British Columbia government's budget process has changed considerably since the mid-1990s, evolving into an open and credible process for reporting on government's plans and results. The significant improvement to the budget process was spurred by public concerns about the credibility and reliability of the 1996/97 Budget. These concerns led to a wide-ranging review of the budget process by the Auditor General of British Columbia. The Auditor General's report, *A Review of the Estimates Process*, was released in February 1999. Among the numerous recommendations made in that report was a call for the provincial finance minister to appoint a committee to review the Auditor's report and recommend legislation to reform the budget process.

The 1999 Budget Process Review Panel

In April 1999, the finance minister appointed the Budget Process Review Panel (the 1999 Panel) with a mandate to review the "input to the budget process, scope of the budget and information provided in the budget plan and actual results." Given this mandate, the 1999 Panel, chaired by Douglas Enns, FCA, set out to make recommendations to improve the budget process by:

- making the process more open and accessible;
- making fiscal forecasts more credible;
- making it easier for the public to hold the government accountable for results;
- increasing confidence in public sector accounting practices and the financial information published by the government; and
- making all public information that is part of the budget process more useful and accessible.

The 1999 Panel sought submissions from a wide variety of individuals and groups with an interest in the provincial budget, conducting interviews and round table discussions. The 1999 Panel's deliberations resulted in a series of 26 recommendations, bundled into five categories:

- A More Transparent Process;
- Reliable and Credible Budget Forecasts;
- Improved Accountability for Results;
- Improved Accounting; and
- Better Information.

These recommendations were laid out along with supporting material in the 1999 Panel's report *Credibility, Transparency and Accountability: Improving the B.C. Budget Process*, released in September 1999.

The Original Budget Transparency and Accountability Act

Many of the 1999 Panel's recommendations were accepted by the government of the day. As a result, new legislation incorporating many of the recommendations, entitled the *Budget Transparency and Accountability Act* (BTAA), was tabled in the Legislative Assembly along with the 2000/01 Budget.

A key recommendation from the 1999 Panel was for an annual review by the Auditor General of the implementation of the proposed reforms, as well as a “scheduled independent review of the budget process in eight to ten years.”

The original BTAA tabled in 2000 included a requirement for annual reports on the implementation of the 1999 Panel. As a result, the Auditor General reported on the implementation of the 1999 Panel’s recommendations in September 2000. In that report, the Auditor General found that the government had made “reasonable progress” in implementing the recommendations. However, he also noted that “a lot of work must still be carried out...” in order to fulfill the substance of the panel’s recommendations. Subsequent amendments to the BTAA removed the requirement for annual reporting on implementation of the 1999 Panel’s recommendations.

On May 16, 2001 a new provincial government was elected in British Columbia. The new government’s *Economic and Fiscal Update*, released in July 2001, included amendments to the BTAA that adopted many of the 1999 Panel’s recommendations not incorporated in the original version of the *Act* and also enhanced other provisions that in some instances went beyond the minimum requirements recommended by the 1999 Panel.

Recent Developments

The provincial government has made further refinements to the BTAA in recent years though there have been no major changes. As it stands, the BTAA has become the backbone to the provincial government’s budget process, establishing firm expectations about the content, timing and communication of budget material.

The recommendation for an independent review of the budget process was imbedded in section 21 of the BTAA, which requires the Minister of Finance to appoint a review panel by April 30, 2009 with its report released to the public by September 30, 2009.

The Minister of Finance has asked the Review Panel to consider the following questions:

1. Has the government followed through on each of the 1999 Panel’s recommendations?
2. If it has not, is this because the recommendation is no longer relevant or some other reason?
3. Given what government has achieved to date, are there specific areas where the government can strive for improvement?

This report meets the requirements of section 21 of the BTAA and answers those questions.

Organization of the Report

Chapter 2 reviews each of the 26 recommendations delivered to government in 1999 in terms of:

- Whether the recommendation was dealt with through the passage of legislation;
- The evidence that the legislation has been put into practice;
- The Review Panel’s view on the degree to which the incorporation of the recommendation has been effective in improving budget transparency and accountability; and
- Further action which the Review Panel recommends.

In a number of cases, the Review Panel's recommendations require detailed explanation, which is provided in Chapters 3 through 9 of the report covering:

- Improved Budgeting and Accounting
- Accountability for Capital Planning
- Accountability for Results
- SUCH Sector Issues
- Budget Calendar Issues
- Pre-Budget Consultations
- Toward a New Budget and Reporting Paradigm

Chapter 2: Progress To Date

While the establishment of the 1999 Panel was precipitated by specific events, its discussions and recommendations reflect a fundamental principle of representative democracy—the accountability of government to the society it represents. In this context, governments are entrusted to act on behalf of society in certain matters; they are therefore responsible for providing a full, fair and truthful disclosure of what they plan to do, how they plan to accomplish these goals, and an accounting of how successful they were in the pursuit of those goals. This accountability is not about the content of the plans or the means chosen to pursue them, as these fall within a government’s political mandate. Rather, it is about how government accounts for its actions.

In the financial context, accountability requires that the government’s budget fully discloses how the government plans to generate the revenue it requires to achieve its goals, how it intends to spend that money to achieve its goals, and how effective it is at achieving those goals. Such financial accountability extends as far as the funds that government collects from society and spends on its behalf. If the government endows another agency with public finances that should not reduce the government’s responsibility for disclosure and accountability with respect to those funds to the people it represents.

The following is an overview of each of the 26 recommendations presented by the 1999 Panel, together with the Review Panel’s assessment of the degree to which each recommendation has been implemented, as well as recommendations for further action. The extent of implementation was determined by a review of the current BTAA as well as consideration of other available information. A summary table outlining the status of each of the 1999 Panel’s recommendations appears at the end of the chapter.

A More Transparent Process

A major focus of the 1999 Panel was the transparency of the budget process. The 1999 Panel believed that the budget process would be more transparent as a result of changes such as a more structured and timely pre-budget consultation process conducted by a select standing committee. In addition, transparency would be enhanced through the adoption of fixed budget dates and through reforms to the legislative committee system to facilitate improved Estimates debates. The 1999 Panel also expressed concern about the use of Special Warrants (cabinet orders that authorize spending). The panel suggested encouraging the use of Supplementary Estimates by making the requirement associated with special warrants “more onerous.”

Recommendation Number 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."

Implementation Status:

1. Legislation

The Budget Transparency and Accountability Act, section 2 requires the release of a budget consultation paper no later than September 15th in each year.

2. Evidence that legislation has been put into practice

The Ministry of Finance has published a budget consultation paper by September 15th of each year since the legislation was passed.

3. Effectiveness on improving budget transparency and accountability

The Review Panel determined that the budget consultation paper is generally perceived to be an effective addition to the process.

4. Further action recommended by the Review Panel

The Review Panel has no further recommendations on this specific issue. The pre-budget consultation process is discussed further in Chapter 7.

Recommendation Number 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)."*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 3 requires the consultation paper to be referred to an appropriate select standing committee of the Legislative Assembly. That committee must conduct consultations and report the results no later than November 15th.

2. Evidence that legislation has been put into practice

The current practice is for the Legislative Assembly's Select Standing Committee on Finance and Government Services to conduct consultations as required by the legislation. The November 15th deadline for the committee's report is two weeks prior to the recommended deadline.

3. Effectiveness on improving budget transparency and accountability

The process is a success from the point of view of allowing for communication between government and the public. However, government still faces challenges using consultation results in budget decisions due to time constraints.

4. Further action recommended by the Review Panel

See Chapter 7, where it is recommended that the Ministry of Finance receive results of public input to the pre-budget consultation process much earlier in the process.

Recommendation Number 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.”*

Implementation Status:

1. Legislation:

The *Budget Transparency and Accountability Act*, section 6 requires the Estimates to be presented to the Legislative Assembly on the third Tuesday in February, with provisions provided to accommodate those years when a General Election takes place.

2. Evidence that legislation has been put into practice

The Budget and the associated Estimates have been presented to the Legislative Assembly on the third Tuesday in February since February 19, 2002.

3. Effectiveness on improving budget transparency and accountability

The Review Panel recognizes the benefits of the earlier-than-recommended fixed budget date. The panel notes that in 2005 and 2009 the Estimates were not fully debated and the Final Supply Bill was not passed before the Legislative Assembly was dissolved for the election, limiting budget transparency and accountability in these election years. A possible reason may be the relatively short period between the fixed budget date and province’s fixed election date of the second Tuesday in May of every fourth year.

4. Further action recommended by the Review Panel

See Chapter 7, where it is recommended that fixed budget and election dates be adjusted to enable the budget preceding an election to be debated and passed before the election call and to allow the annual budget after the election to meet all the requirements of the BTAA, including pre-budget consultation.

Recommendation Number 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).”*

Implementation Status:

1. Legislation

Not implemented.

2. Evidence that legislation has been put into practice

N/A

3. Effectiveness on improving budget transparency and accountability

N/A

4. Further action recommended by the Review Panel

See Chapter 5, where it is recommended that government implement Recommendation 4 of the 1999 Panel.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act* (introduced in 2000) included a consequential amendment to the *Financial Administration Act* that required reporting on details concerning the unexpected expenditure.

Following the election of a new government in May 2001, legislative amendments rescinded this reporting requirement and introduced restrictions on when a special warrant could be obtained. These restrictions limited special warrants to the period during, or immediately after, a general election or when a natural disaster has occurred but removed the reporting requirement.

2. Evidence that legislation has been put into practice

No Special Warrants have been used since the 2000/2001 fiscal year.

3. Effectiveness on improving budget transparency and accountability

Legislation has been effective in moving government towards the use of Supplementary Estimates, and away from the use of Special Warrants. The government’s use of

Supplementary Estimates rather than Special Warrants in recent years has allowed the Legislative Assembly to debate and approve additional spending.

4. Further action recommended by the Review Panel

See Chapter 7, where it is recommended that the current restrictions on the use of Special Warrants be strengthened to include a provision that requires a report explaining:

- when a minister became aware that the expenditure would be required;
- what options were considered by the minister in relation to the matter; and
- why the option of special warrants was chosen.

Reliable and Credible Budget Forecasts

The 1999 Panel considered the reliability and credibility of a budget's forecasts as crucial for the overall effectiveness of the budget process. The panel recognized a need for the government to seek out and report independent economic forecasts to provide credibility to the economic projections that underlie the budget's fiscal forecasts. In addition, the 1999 Panel recommended full disclosure of the material assumptions and policy decisions that are the basis for the budget's forecasts. This concern was underlined by the 1999 Panel's suggestion that the Secretary of Treasury Board attest to the degree of disclosure of required information in the Budget document.

Recommendation Number 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."*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 4 continues the Economic Forecast Council, with the Council to be composed of at least 12 qualified persons. Section 7 (1) (c) of the *Act* requires disclosure of the advice received from the Economic Forecast Council including the range of economic forecasts for the calendar year in which the Estimates are presented.

2. Evidence that legislation has been put into practice

The Economic Forecast Council has met with the Minister of Finance in December of each year since 2001. A discussion of the meeting, including details on the range of economic forecasts tabled by members, has appeared in all subsequent budgets.

3. Effectiveness on improving budget transparency and accountability

The process has allowed the public to compare the ministry's economic forecast to the benchmark provided by the Economic Forecast Council members. This comparison serves to inform the public as to how optimistic or pessimistic the ministry forecast is relative to the current private sector view.

4. Further action recommended by the Review Panel

The Review Panel recommends that the BTAA be amended to reduce the minimum number of Economic Forecast Council members to 10 persons, recognizing that it may be difficult to find 12 qualified individuals who are available to take part in Council deliberations.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 7 (1) (b) requires a statement of all material assumptions and policy decisions underlying economic and fiscal forecasts.

2. Evidence that legislation has been put into practice

Disclosure of material assumptions and policy decisions has occurred for most of the reporting entity except the SUCH sector.

3. Effectiveness on improving budget transparency and accountability

While transparency has improved for some of the reporting entity, a significant set of exemptions exist for some service delivery agencies. To the extent that this has occurred, transparency and accountability in financial reporting is incomplete.

4. Further action recommended by the Review Panel

See Chapter 6, where it is recommended that all exemptions in the BTAA for SUCH sector entities be removed so that they are subject to the same accountability regime as the rest of the summary reporting entity.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 7 (1) (d) requires a statement signed by the Secretary to Treasury Board attesting that the Act’s disclosure requirements contained in sections 7 (1) (a)-(c) have been met.

2. Evidence that legislation has been put into practice

Attestations by the Secretary to Treasury Board have been included in the budget documents for every budget since *Budget 2000*.

3. Effectiveness on improving budget transparency and accountability

The attestation statement tends to be one of the more important documents available to the news media and stakeholders on Budget day. Analysts use the statement in their examinations of the overall budget, and as a guide as to assessing the transparency and accountability of the Budget report. The Review Panel has noticed a progression in terms of the details disclosed in the attestations. For example, the detail contained in the attestation for the February 2009/2010 Budget was far greater than that of the 2000/2001 Budget.

4. Further action recommended by the Review Panel

The Review Panel recommends that the standard of disclosure in the Secretary to Treasury Board's budget attestation continue to be refined and advanced.

Recommendation Number 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."*

Implementation Status:

1. Legislation:

The *Budget Transparency and Accountability Act*, section 7 (1) (e) requires a statement of adjustments that result in the fiscal forecast being different than what the Minister of Finance believes to be the most likely fiscal result. The adjustments that result in the fiscal forecast being different than what the Minister of Finance believes to be the most likely result are commonly called the forecast allowances.

2. Evidence that legislation has been put into practice

The attestation of the Secretary to Treasury Board has disclosed the forecast allowance in each budget from 2001/02 to 2008/2009. Budget 2009/2010 did not include a forecast allowance.

3. Effectiveness on improving budget transparency and accountability

Forecast allowances help to guard against revenue risks arising from worse-than-expected economic events, unexpected costs such as natural disasters, unexpected declines in key commodity prices or future funding pressures.

While the government has in general followed the practice of including a forecast allowance, for Budget 2009/2010 the government chose to set the forecast allowance at zero and to use a GDP forecast that was 0.9% less than the average of the forecasts provided by the Economic Forecast Council. Both the zero forecast allowance and the lower GDP forecast were fully disclosed as required by the BTAA.

4. Further action recommended by the Review Panel

See Chapter 3, where it is recommended that the BTAA be amended to require that the budget include an assessment of the overall risk associated with the budget and a discussion of the forecast allowance and GDP growth forecasts used in the budget relative to the assessment of risk.

Improved Accountability for Results

The 1999 Panel provided various recommendations for changes that would increase the government's accountability for actual program results. For the government to be held to account for results, the legislature and citizens require information about what the government intends to do together with measures of its actual performance. The 1999 Panel's recommendations included the requirement for high level strategic planning and reporting documents as well similar material for each ministry and government organization.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 12 requires the release of a strategic plan document that includes the government's priorities, specific objectives and expected results. In addition, the section requires the strategic plan to include a three year fiscal plan for

the government reporting entity. In addition, section 15 of the *Budget Transparency and Accountability Act* requires an annual report that compares actual results for a given fiscal year to the expected results set out in the strategic plan prior to the fiscal year.

2. Evidence that legislation has been put into practice

Government publishes both strategic plans that meet the requirements of the Act and year-end reports that compare actual to expected results for various performance indicators.

3. Effectiveness on improving budget transparency and accountability

The Review Panel recognizes that some progress has been made in this area of government reporting. However, while the information is available publicly, clarification on the linkages between published documents could be improved with the development of a schematic. In addition, this process will not be complete until the SUCH sector is included.

4. Further action recommended by the Review Panel

See Chapter 5, where it is recommended that the government reaffirm its commitment to the planning and reporting standards specified in the BTAA, and to improvement in the practices that are followed by reporting organizations

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 13 (1) requires ministries and government organizations to release annual service plans. However, the section excludes SUCH sector organizations from the definition of government organizations (though these organizations remain a part of the summary reporting entity).

In addition, section 16 (1) of the *Budget Transparency and Accountability Act* requires ministries and government organizations, as specified in section 13 (1), to release annual service plan reports.

2. Evidence that legislation has been put into practice

Service plans and service plan reports are published annually for ministries and non-exempted service delivery agencies.

3. Effectiveness on improving budget transparency and accountability

The Review Panel recognizes that much progress has been made regarding service plans and service plan reports in recent years. However, the Review Panel also recognizes that service plans as they are now produced are designed to serve an information role with regard to the public, and are not necessarily designed or used to fulfill an internal performance management role.

4. Further action recommended by the Review Panel

See Chapter 6, where it is recommended that all exemptions in the BTAA for SUCH sector entities be removed so that they are subject to the same accountability regime as the rest of the summary reporting entity.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

This recommendation did not require legislation to be implemented.

2. Evidence that legislation has been put into practice

The government has established guidelines covering the preparation of service plans by ministry, commercial Crown corporations and taxpayer-supported Crown corporations and agencies. The government has implemented performance indicators for the province and for specific program areas and has established benchmarks for these indicators.

3. Effectiveness on improving budget transparency and accountability

Parts 2 and 3 of the BTAA (specifically sections 12 to 16) responded to the recommendations of the 1999 Report, legislating a planning and reporting process that, according to the Auditor General, has lead not only to significant progress in this area but also to making the province a leader in the field. However, the Review Panel has determined that there is substantial room for more progress in this regard, something that is understandable given the nature of performance evaluation.

The Review Panel notes that the British Columbia Auditor General has recommended that the government encourage its agencies to keep the number of performance measures they disclose to a minimum. Further, the Auditor General has recommended that the government focus on a few critical results about which the intended audience of the report would be concerned.

The Auditor General also recommended that agencies increase the number of efficiency measures they disclose in their annual performance report and that they "report on the accuracy and/or timeliness of their operations".²

4. Further action recommended by the Review Panel

The Review Panel recommends that government implement the recommendations in the Auditor General report *Governance good practice principles: How are we doing?: The public reporting of performance measures in British Columbia*, December 2008. See Chapter 5 for additional recommendations concerning performance management and the integration of planning and reporting documents.

Recommendation Number 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."*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 13 requires ministries and government organizations (excluding the SUCH sector) to include summary business information, including a statement of goals and the identification of specific objectives and performance measures.

2. Evidence that legislation has been put into practice

Service plans and service plan reports for each ministry, Commercial Crown corporations, and taxpayer-supported Crown corporations and agencies have been provided regularly since the legislation was introduced. The service plans are presented to the Legislature along with the Estimates and the Budget and Fiscal Plan.

3. Effectiveness on improving budget transparency and accountability

This recommendation is related to recommendations 11 and 12 above and, as noted there has been substantial progress that can built upon through continuous improvement.

² British Columbia. Office of the Auditor General. *Governance good practice principles: How are we doing?: The public reporting of performance measures in British Columbia*, December 2008, p. 45.

4. Further action recommended by the Review Panel

See Chapter 5, where it is recommended that any and all exemptions be removed (unless disclosure would be harmful) in order to achieve a greater degree of transparency and accountability.

The Review Panel recommends that the SUCH sector organizations develop standard key performance indicators for their specific sectors and program areas and establish benchmarks for these performance indicators.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

No legislation required.

2. Evidence that legislation has been put into practice

Government has made an effort to allow for greater flexibility by reducing input controls since the 1999 Panel made its recommendation. However, the Review Panel notes that centralized control of program finances has been recently increased.

3. Effectiveness on improving budget transparency and accountability

As discussed in Chapter 5, the 1999 Panel and the 2009 Panel both support the increased use of performance management instead of input controls to manage services and expenditures.

4. Further action recommended by the Review Panel

The Review Panel recommends that performance management be the preferred practice for the management of services and expenditures, rather than input controls. See Chapter 5 for further discussion of performance management.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

No legislation required.

2. Evidence that legislation has been put into practice

The government has been adopting performance management techniques for the broader public sector.

3. Effectiveness on improving budget transparency and accountability

The Auditor General has recently noted that:

“Many public sector entities appear to view the preparation of their annual report as merely a compliance exercise—creating and publishing a report to meet a legislated requirement or public expectation each year, rather than a clear document describing what was planned, what the organization achieved and what this means.”³

The Auditor General also notes that many public sector organizations are not required to follow the BC Reporting Principles (2003). Government has made significant progress in performance management, but there is much room for improvement, as discussed in Chapter 5.

4. Further action recommended by the Review Panel

See Chapter 5, where it is recommended that all public entities be required to use the BC Reporting Principles.

Improved Accounting

The 1999 Panel expressed concern that government could manipulate financial results by changing its “complex” accounting policies. The 1999 Panel noted that “... financial information must be reliable and credible to be useful in holding the government accountable.” Key to the 1999 Panel’s recommendations was the suggestion that the government adopt independently-set accounting standards.

³ British Columbia. Office of the Auditor General. *Governance good practice principles: How are we doing?: The public reporting of performance measures in British Columbia*, December 2008, p. 1.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 23(1) requires that all BTAA-mandated documents be prepared in accordance with GAAP.

2. Evidence that legislation has been put into practice

The attestation of the Secretary to Treasury Board indicates that the accounting policies followed in the budget and fiscal plan comply with GAAP.

3. Effectiveness on improving budget transparency and accountability

The government became compliant with GAAP with the inclusion of the SUCH Sector entities in the 2004/05 *Budget and Fiscal Plan*. As discussed in Chapter 3, the Review Panel is aware that the Auditor General provided a qualified opinion of the government’s 2007/08 and 2008/09 Public Accounts. These qualifications reflect disagreements between the government and the Auditor General about the best way to account for certain transactions under GAAP, not on whether GAAP should or should not be used.

4. Further action recommended by the Review Panel

See Chapter 3, where it is recommended that government continue to use GAAP as set by the Public Sector Accounting Board.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 5(2)(b)(ii) requires the Estimates to contain a schedule of a reconciliation of the surplus or deficit with forecast change in debt.

2. Evidence that legislation has been put into practice

The recommended reconciliation table has been introduced into the Estimates documentation.

3. Effectiveness on improving budget transparency and accountability

While the recommended reconciliation table has been introduced into the budget documentation, there continue to be concerns about the usefulness of this material for budget stakeholders and the wider public.

4. Further action recommended by the Review Panel

The Review Panel recommends that government ensure that the reconciliation of debt and deficit provided in the budget, quarterly reports and Public Accounts use a consistent and comparable presentation.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 9 (2) (h) requires that the Public Accounts include the Report of the Auditor General on the Summary Financial Statements pursuant to section 11 of the *Auditor General Act*. A consequential amendment to the BTAA passed in 2000 fully implemented the recommendation by providing the Auditor General with enhanced authority and responsibility in the *Auditor General Act* to influence the interpretation of accounting policy and with a requirement to annually assess whether “the most appropriate basis of accounting” was used. That provision was eliminated in 2003 when the *Auditor General Act* was repealed and replaced.

2. Evidence that legislation has been put into practice

The Report of the Auditor General on the Summary Financial Statements is included with the Public Accounts.

3. Effectiveness on improving budget transparency and accountability

The Auditor General comments on the appropriateness of government's accounting policy every year as part of expressing an audit opinion on the Summary Financial Statements. That includes expressing audit qualifications if the Auditor General believes there is a better way to disclose financial information in accordance with GAAP. When this recommendation was originally made government could choose whatever accounting policies it wished but that is no longer the case as the BTAA mandates GAAP. However, since GAAP is a principles-based standard, there is scope for disagreement among professionals about what the best financial disclosure is under GAAP in a given set of circumstances.

The parts of the recommendation that are no longer included in legislation were made redundant by the legislative requirement to apply GAAP. The Auditor General clearly has the authority to question whether government's accounting practices are the best financial disclosure under GAAP and there is no need for any "enhanced authority and responsibility to influence the interpretation of accounting policy."

4. Further action recommended by the Review Panel

See Chapter 3, where it is recommended that government continue to follow GAAP and that the Auditor General and Comptroller General discuss differences of opinion, including a requirement that they have an annual conference within 45 days after the Public Accounts have been made public. The Review Panel recommends that government not take any action to re-implement those parts of the 1999 Panel's Recommendation 18 that have been removed from the *Auditor General Act*.

Better Information

A common thread throughout the 1999 budget process review was the 1999 Panel's desire for the government to provide the public with better information on the budget process. While a need for more useful budget information pervades the main body of recommendations, the 1999 Panel identified specific issues regarding the quality and presentation of budget information for more detailed attention.

Recommendation Number 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.”

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 23.1 requires that all accounting policies and practices applicable to BTAA-mandated documents conform to GAAP.

2. Evidence that legislation has been put into practice

The attestation of the Secretary to Treasury Board each year states that all documents related to the Budget and Fiscal Plan conform to GAAP. In addition, the Comptroller General’s opening remarks in the Public Accounts attests to conformity to GAAP.

3. Effectiveness on improving budget transparency and accountability

The Review Panel once again notes that financial accountability extends as far as the funds that government collects from society and spends on its behalf. The reporting and budgeting entity is the Expanded Summary Entity, including the CRF, Crown corporations and other agencies, and the SUCH sector. Government has determined that the SUCH sector entities meet GAAP criteria for inclusion in the entity. Consistency between the reporting entity and the budgeting entity are important as they define what the provincial public sector includes and thus what government is responsible and accountable for. The SUCH sector reports under GAAP for not-for-profit organizations. There are some differences between GAAP for not-for-profit organizations and GAAP for public sector entities which are adjusted for on consolidation to report the SUCH sector entities’ financial results in the Public Accounts under GAAP for public sector entities.

4. Further action recommended by the Review Panel

See Chapter 6, where it is recommended that all exemptions in the BTAA for SUCH sector entities be removed so that they are subject to the same accountability regime as the rest of the summary reporting entity.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 5(1) requires the Estimates to be prepared in accordance with the accounting policies established by Treasury Board.

2. Evidence that legislation has been put into practice

Examination of documents shows that the Estimates and Budget documents are being prepared in accordance with the accounting policies established by Treasury Board.

3. Effectiveness on improving budget transparency and accountability

The financial statements of government are more representative of the true scope of government by compliance with GAAP and inclusion of the SUCH sector.

4. Further action recommended by the Review Panel

See Chapter 6, where it is recommended that all exemptions in the BTAA for SUCH sector entities be removed so that they are subject to the same accountability regime as the rest of the summary reporting entity.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 5 (1) requires the Estimates to be prepared in accordance with the accounting policies established by Treasury Board.

In addition, the *Budget Transparency and Accountability Act*, section 19 (4) requires that the terms “surplus” and “deficit” must not be used in reference to the Consolidated Revenue Fund.

2. Evidence that legislation has been put into practice

Examination of documents shows that the requirements of recommendation 21 have been met.

3. Effectiveness on improving budget transparency and accountability

Financial indicators are based on the reporting entity results which are the best indicator of the overall financial status of government. The focus should continue to be on the full reporting entity.

4. Further action recommended by the Review Panel

The Review Panel has no further recommendations on this specific issue. See Chapter 3 for a discussion of the inclusion of the SUCH sector under GAAP.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 5 requires that the government’s main Estimates include schedules of forecast total revenues and total expenses, before netting of revenues against expenses or expenses against revenues (i.e., on a gross basis).

2. Evidence that legislation has been put into practice

Expenditures are presented to the Legislative Assembly on both a Consolidated Revenue Fund basis and a Summary Accounts basis to allow reconciliation between the Estimates (which is the basis for voted appropriations) and the total spending within the broader summary reporting entity.

3. Effectiveness on improving budget transparency and accountability

While this issue has been largely resolved by the government’s adherence to GAAP, it is not always clear whether a reduction to revenue is in the nature of a cost or is a genuine part of the design of the levy or other revenue generator. For example, one of the Auditor General’s reservations regarding the 2007/08 public accounts relates to whether the most appropriate presentation of oil and natural gas producers’ royalty credits is as a cost or as reduction to revenue (i.e. on a gross or net basis). This seems to be an issue that can be left to be resolved in a case-by-case basis through the continued application of GAAP.

4. Further action recommended by the Review Panel

The Review Panel has no further recommendations on this specific issue. See Chapter 3 for a discussion of audit qualifications, some of which are related to this issue.

Recommendation Number 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.

Implementation Status:

1. Legislation

The BTAA section 5 (1) requires that the Estimates must be prepared in accordance with the accounting policies as established by Treasury Board.

BTAA section 9 (1) requires that the annual public accounts must be prepared in accordance with the accounting policies as established by Treasury Board.

BTAA section 10 (1) requires that all quarterly reports must be prepared in accordance with the accounting policies as established by Treasury Board.

BTAA section 19 requires a reasonable effort to present information in a form and language that is as precise and as readily understandable as practicable and that the information in service plans and reports must be comparable.

2. Evidence that legislation has been put into practice

Examination of appropriate documents shows that the recommendation has been largely implemented. However, it is still difficult to compare the various documents with each other and to be able to see consistent presentation of numbers that allow for comparison and analysis. See Chapter 9.

3. Effectiveness on improving budget transparency and accountability

Having the various financial documents and strategic or service plans be comparable to their subsequent reports as well as across the entity is crucial to maintaining transparency and accountability. Any deviation from this weakens the usefulness of these documents considerably.

Quarterly reports do provide revised fiscal forecasts, which is especially important given the recent volatility in world economic activity.

4. Further action recommended by the Review Panel

See Chapter 3 for a discussion of budgeting and accounting as they relate to transparency and accountability and related recommendations.

Recommendation Number 24:

“Legislation establish the following specific release dates:

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

*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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, section 9(3) requires the release of the Public Accounts by August 31st of each year.

Section 10(3) establishes Quarterly Report release dates: the first Quarterly Report (with respect to the first three months of the fiscal year) must be made public on or before September 15th; the second quarterly report must be made public on or before November 30th; and the third Quarterly Report must be made public on or before February 28th. Also, if the Estimates are not presented to the Legislative Assembly by May 31st, a quarterly report in respect of the previous fiscal year must be made public by that date.

The *Budget Transparency and Accountability Act*, sections 13, 15 and 16 set out release date deadlines for service plans and strategic plans and their associated reports.

2. Evidence that legislation has been put into practice

Examination of release schedules and dates has shown the recommended schedule has been adhered to.

3. Effectiveness on improving budget transparency and accountability

Set release dates have been received very well by the public.

4. Further action recommended by the Review Panel

The Review Panel has no further recommendations on this specific issue.

Recommendation Number 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.”*

Implementation Status:

1. Legislation

The *Budget Transparency and Accountability Act*, sections 8 and 14 require disclosure of objectives, costs and risks for major capital projects with a total cost exceeding \$50 million (with exemptions if the disclosure would be harmful). section 8(4) exempts education and health sector capital projects. Government has, by policy, included education and health sector projects.(evidenced by disclosures in the “Capital Expenditure Projects Greater than \$50 million” table).

Section 13 (4) requires ministry and government organizations service plans to include similar information on major capital projects as required in section 14 (noted above).

A three-year capital plan is set out in the *Budget and Fiscal Plan* and updated in quarterly reports.

2. Evidence that legislation has been put into practice

Examination of documents shows that these requirements are being met. For example, each budget report of the last several years contains a table titled ‘Capital Expenditure Projects Greater Than \$50 Million’, which contains the relevant information.

3. Effectiveness on improving budget transparency and accountability

Despite the fact that there have been changes to the legislation, the Review Panel continues to have significant concerns about capital planning, budgeting and reporting not being subject to the same rigour and discipline as the planning, budgeting and reporting process that apply to government’s operations.

4. Further action recommended by the Review Panel

See Chapter 4, where it is recommended that government disclose capital planning information for agencies that have a total portfolio of capital projects valued at greater than \$50 million and articulate, within the next two years, standards for the long-term capital planning, budgeting and reporting that are consistent with the principles of transparency and accountability and are fully integrated with service planning and operating expenditure budgeting and reporting.

Recommendation Number 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.”

Implementation Status:

1. Legislation

Section 21 of the original *Budget Transparency and Accountability Act*, tabled in the legislature on March 27, 2000, required both the Minister of Finance and the Auditor General to annually report on the implementation of the 1999 Panel recommendations. This reporting was to end when the Minister considers all recommendations have been implemented or the Minister reports that the recommendation will not be implemented.

Section 21 of the BTAA also required the Minister of Finance to appoint a panel to review the budget process, the scope of the budget and the information provided in the budget plan. A report is to be made public by September 30, 2009.

An amendment to the BTAA tabled on July 30, 2001 removed the requirement for annual reporting on the implementation of recommendations but retained the requirement for a new panel review by September 30, 2009.

2. Evidence that legislation has been put into practice

The Ministry of Finance and the Auditor General each made only one report on the implementation of the 1999 Report, in September, 2000. The requirement for annual reports was repealed in 2001 prior to any further reports being released, despite the fact that, while several recommendations had been implemented or were in process, there were recommendations that were neither being implemented nor had government reported that they were not going to implement the recommendation.

This Review Panel Report is the result of the requirement for a second review panel to report by September 30, 2009.

3. Effectiveness on improving budget transparency and accountability

British Columbia has made progress in both financial and performance reporting since the 1996/97 Budget. However, further improvements are possible, and indeed necessary in order to further the transparency and accountability of the budget process in the province. The Review Panel has made a number of important recommendations in that regard.

4. Further action recommended by the Review Panel

The Review Panel recommends that the BTAA be amended to require:

- a. regular reviews by the Auditor General until the Auditor General is satisfied that every recommendation of the Review Panel has either been substantially implemented or government has made a specific decision not to implement the recommendation; and,
- b. the Minister of Finance to appoint a new review panel every 8 to 10 years.

Summary of 2009 Budget Process Review Panel Findings

1999 Panel Recommendation	Implemented?	Further Recommendations?	Page Reference
<i>A More Transparent Process</i>			
1: Timing of pre-budget document	Yes	No	16
2: Select standing committee for pre-budget consultation	Yes	Yes	17
3: Fixed annual budget date	Yes	Yes	18
4: Sectoral legislative committees to review Estimates	No	Yes	18
5: Supplementary Estimates in place of Special Warrants	Yes	Yes	19
<i>Reliable and Credible Budget Forecasts</i>			
6: Continuation of the Economic Forecast Council	Yes	Yes	20
7: Disclosure of material assumptions and policy decisions	Yes	Yes	21
8: Secretary to Treasury Board attestation of complete disclosure	Yes	No	21
9: Disclosure of factors that make fiscal forecast differ from likely result	Yes	Yes	22
<i>Improved Accountability for Results</i>			
10: High level strategic plan published with budget	Yes	No	23
11: Ministry / public body three-year business plans and reports	Partial	Yes	24
12: Development of standardized performance indicators	Yes	Yes	25
13: Summary business information incorporated into the Estimates/Budget	Yes	Yes	26
14: Reduce input controls	Yes	No	27
15: Increase use of performance management techniques	Yes	Yes	28
<i>Improved Accounting</i>			
16: Conformity to GAAP	Yes	Yes	29
17: Statement reconciling surplus or deficit with change in debt	Yes	Yes	29
18: Provide Auditor General enhanced authority regarding accounting policies	Yes	Yes	30
19: Expansion of government reporting entity	Yes	Yes	31
20: Estimates and budget prepared according to province's accounting policies	Yes	Yes	32
21: Focus on Expanded Reporting Entity, not consolidated revenue fund	Yes	No	33
22: Financial information presented on gross and net basis	Partial	No	34
<i>Better Information</i>			
23: Application of principles of transparency, consistency and comparability	Yes	Yes	35
24: Document release-by dates	Yes	No	36
25: Reform of capital budgeting	Yes	Yes	37
26: Annual reports to legislature on implementation of panel recommendations	Partial	Yes	38

Chapter 3: Improved Budgeting and Accounting

In the 1999 *Final Report of The Budget Process Review Panel*, the 1999 Panel expressed concern that financial plans and results could be manipulated by arbitrary changes in “complex” accounting practices, something that would prevent the achievement of transparency and accountability. The 1999 Panel noted that “financial information must be reliable and credible to be useful in holding the government accountable”. In this regard the 1999 Panel made a number of recommendations relating to accounting policy, treatment and presentation, with a specific emphasis on the adoption of independently set accounting standards.

The BTAA reflects the 1999 Panel’s recommendations with the adoption of GAAP, and confirms that this is essential to achieving the goal of budget transparency and accountability. Such independently set accounting standards evolve and may be subject to interpretation. Within the general framework of a discussion of accountability issues related to budgeting and accounting, there are four specific topics that warrant detailed consideration at this time:

- Audit qualifications;
- Debt versus deficit;
- Inclusion of the SUCH sector; and,
- The forecast allowance.

1999 Panel Recommendations

Recommendation 16 in the 1999 Report states that:

*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.*

Recommendation 17 in the 1999 Report states that:

*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.*

Recommendation 18 in the 1999 Report states that:

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 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 is not sufficient if the Auditor General believes 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.*

Recommendation 22 in the 1999 Report states that:

*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 revenues and other tax expenditures is not intended to require accounting for foregone revenues and other tax expenditures, although disclosure of estimated tax expenditures in the budget document is encouraged. **Timing** – To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.*

Implementation

The core recommendation of the 1999 Report with respect to improved accounting required government to prepare financial information in accordance with GAAP as established by the Canadian Institute of Chartered Accountant's Public Sector Accounting and Auditing Handbook. The recommendation was made to impose independent, standard, professionally sanctioned accounting policies on the Province in order to avoid the perception that inappropriate or arbitrary accounting policies could be adopted to portray financial information in a favourable light. The Province adopted the 1999 Panel's recommendation that it follow the accounting standards established by the Canadian Institute of Chartered Accountant's Public Sector Accounting and Auditing Handbook.

This recommendation was implemented in section 23.1 of the *Budget Transparency and Accountability Act* (BTAA) which came into force April 1, 2004 requiring that "all accounting policies and practices applicable to documents required to be made public under this Act for the government reporting entity must conform to generally accepted accounting principles." The Treasury Board is responsible for determining how accounting policies and practices are applied to the Public Accounts as per the *Financial Administration Act*, section 4(1). Any Treasury Board regulation or directive with respect to accounting policies and practices for the government reporting entity must be consistent with section 23.1 of the BTAA.

The 1999 Report recommended that a reconciliation of surplus (deficit) to the change in debt be prepared. The BTAA was amended in February 2004 to mandate that the main estimates for a fiscal year must include a schedule reporting a reconciliation of surplus or deficit with the forecast change in debt. The Estimates began reporting a reconciliation of surplus (deficit) to change in taxpayer-supported debt in 2004/05 which was refined to a reconciliation of surplus (deficit) to change in provincial debt in 2009/10. *Budget 2006* included a reconciliation of surplus (deficit) to change in debt, a practice that has continued every year thereafter. This reconciliation is included in the

Estimates, the budget document, and the Provincial Debt Summary. The Public Accounts discloses a Consolidated Statement of Changes in Net Liabilities that reconciles surplus (deficit) to net liabilities.

The 1999 Panel recommended that the Auditor General be given enhanced legislative authority and responsibility to influence the interpretation of accounting policy. That enhanced authority has not been put into legislation. However, the Auditor General comments on the appropriateness of government's accounting policy every year as part of expressing an audit opinion on the Summary Financial Statements. That includes expressing audit qualifications if the Auditor General believes there is a better way to disclose financial information in accordance with GAAP. When this recommendation was originally made government could choose whatever accounting policies it wished but that is no longer the case as the BTAA mandates GAAP. However, since GAAP is a principles-based standard, there is scope for disagreement among professionals about what the best financial disclosure is under GAAP in a given set of circumstances.

The 1999 Report also recommended that revenues and expenses be reported in the summary financial statements on the gross basis. While there are valid reasons for netting some transactions in the Votes reported in the Estimates—for example, when the substance of the transaction favours netting (such as flow throughs)—government reports summary financial information on a gross basis in the Summary Financial Statements, budget documents and summary information contained in the Estimates.

The application of these legislative changes was first reflected in the Public Accounts for 2004/05 which reported consolidated financial information that included the SUCH sector and was free of any audit qualifications. These Public Accounts also indicated that the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants sets the accounting standards that the province must follow. Since then there have not been audit qualifications related to the inclusion of the SUCH sector.

Review

With respect to the adoption of independently set accounting standards, the Review Panel notes that these standards have been adopted and that their use must continue. The importance of complying with GAAP extends beyond transparency and accountability as it also ensures comparability of financial information with other governments (federal, provincial and local), allows for change as standards evolve and provides a set of principles determined by impartial professionals. Where the Public Sector Accounting Board Handbook does not provide guidance, there is an established hierarchy of accounting standards, both private sector and international standards, which provides guidance in making a determination of the appropriate accounting treatment and presentation.

The Review Panel also notes that the application of GAAP requires the use of professional judgement. Canadian GAAP is principles-based which is very different from the rules-based approach used by the Financial Accounting Standards Board (FASB) of the United States. There are many other jurisdictions that use the principles-based approach, just as there are other jurisdictions that take a rules-based approach.

A principles-based approach provides guidance to professional accountants in determining the appropriate accounting treatment and presentation rather than dictating the accounting treatment. As a result, there is considerable scope for differences in professional opinion. Such debate and disagreement can be healthy in ensuring a rigorous review of accounting treatment.

The Comptroller General, subject to any directive of Treasury Board, must develop and issue policies and guidelines and establish procedures for appropriate financial management and recording of financial transactions of the government. This authority is established under the Financial Administration Act, section 9. Responsibility for the preparation of the government's financial statements in accordance with GAAP resides with the Office of the Comptroller General. The Auditor General performs an audit of the Summary Financial Statements and issues an opinion, based on his interpretation of GAAP.

Audit Qualifications

The Province's accounts received a qualified audit opinion for 2007/2008 and again for 2008/2009.

It is not the mandate of the Review Panel to arbitrate on the validity of the Auditor General's opinion nor provide guidance on the interpretation of GAAP chosen by the Comptroller General. The Review Panel notes that audit qualifications are highly unusual in the context of reporting of Provincial accounts in other jurisdictions.

There are a number of questions which arise from the issuance of the audit qualifications.

- Does an audit qualification materially affect the credibility of the Provincial accounts when viewed by citizens, capital markets and other analysts?
- The sum of the unrecorded differences between the Auditor General and government in these two instances was in the \$60 to \$70 million range. Is this a material difference?
- Why could agreement not have been reached on the application of GAAP in time to forestall audit qualification?
- Would it be more appropriate to ask the Minister of Finance rather than the Deputy Minister of Finance and the Comptroller General to make the decision about whether to accept an audit qualification or to change to the presentation as suggested by the Auditor General?

There were seven audit qualifications in 2007/2008 dealing with, in the Auditor General's opinion, a scope limitation regarding resource roads, inadequate disclosure of liabilities regarding capital assets, failing to account for land used for highways, the netting of oil and natural gas royalties, the failure to adequately provide for deep well credits, inadequate disclosure of First Nation loan guarantees and the failure to adequately account for First Nations settlements.

In 2008/2009 there were three qualifications, including continuation of the disagreement about the accounting for oil and natural gas and deep well credits and a new concern regarding the consolidation of the Transportation Investment Corporation.

The Review Panel notes that two possible conclusions can be reached. It is possible to conclude that the emergence of a qualified audit opinion is simply confirmation of a robust and healthy system.

Two viewpoints have emerged with respect to the interpretation of GAAP:

- One viewpoint is that the Comptroller General has made a careful consideration of the options available for a fair presentation of the accounts and consulted a number of sources to help her to decide the preferred approach. The Auditor General does not agree with her conclusion and

has so stated. The qualification has been duly disclosed and the degree of difference articulated.

- The second viewpoint is that the emergence of an audit qualification is indicative of deeper issues or at least an opportunity to consider areas for improvement.

In response to the questions raised earlier in this section, the Review Panel has concluded:

- The audit qualification does not appear to have materially affected the credibility of the Public Accounts. Although there has been some media coverage, there does not appear to have been any other effects. It is important to note that an audit qualification, issued under different circumstances such as time when there is public concern about the credibility of the government with respect to transparency in reporting could perhaps have greater impact.
- While emphasizing that the reporting of the government's accounts should not be subject to any form of political influence, the Review Panel believes serious consideration should be given to putting the final decision about whether or not to change the presentation of the Public Accounts to avoid an audit qualification to the Minister of Finance, better aligning responsibility and accountability.

Debt versus Deficit

Presenting clear definitions of deficit vs. debt to the public is important because any increase in the debt now will have a substantial impact on taxpayers in the future. Subsequent generations will not only have to deal with paying the interest on these borrowed funds, but also may be required to adjust to lower levels of public services and to face a greater tax burden in the future in order to service the debt and maintain the assets. It is not always clear to lay readers that there is a difference between the annual deficit (the difference between revenue and expenditure) and the debt (accumulated borrowing). It is important that the budget, quarterly reports and the Public Accounts provide the reader with clear and understandable information about how these two concepts are related.

With respect to the 1999 Report Recommendation 17 that the summary financial statements include a statement that reconciles the surplus or deficit with the change in debt, the Review Panel finds that the Consolidated Statement of Changes in Net Liabilities in the Summary Financial statements also reconciles surplus (deficit) to changes in net liabilities. The Provincial Debt Summary, which is published as part of the Public Accounts, also contains a reconciliation of summary financial statements' surplus to change in taxpayer-supported debt and total debt. The remaining issue is that in the various documents, different presentations are used to describe the same information, leading to lack of consistency and comparability.

Inclusion of SUCH Sector

Both the 1999 and 2009 Review Panels have give careful consideration to the need to include the SUCH sector in the reporting entity and reporting requirements to achieve transparency and accountability. The Review Panel's discussion of this topic is primarily contained in Chapter 6 – Provincial Government Accountability and the SUCH Sector—but given the requirements of GAAP, it is important to also discuss the SUCH sector in this Chapter. GAAP requires the full consolidation of the SUCH sector entities since the provincial government exercises control over the entities. The

financial statements from 1996/97 to 2003/04 were qualified, as the Auditor General concluded that GAAP was not being complied with because the SUCH sector was not fully included in the reporting and budgeting entity.

In 2004/2005 the legislation was changed to incorporate the SUCH sector. The provincial government determined that it did indeed exercise control over all SUCH sector entities and thus that the entities should be fully consolidated in the Summary Reporting Entity. The *2004/05 Public Accounts* reflect government's amended accounting policies and fully consolidated the actual results of the SUCH sector. The previous audit qualification on the Summary Financial Statements related to this issue was removed.

Having noted this compliance with GAAP, the Review Panel also notes that there are numerous exemptions in the legislation with respect to the planning and reporting requirements of the SUCH sector. As discussed in Chapter 6, these exemptions do not advance either the transparency or accountability of the government budget and reporting process.

Forecast Allowance

The 1999 Panel, in its Recommendation 9, recommended that any prudence or optimism included in budget forecasts be specifically identified in the budget documents and debated in the legislature but that the decision about whether and how to include prudence or optimism be the responsibility of the government. There are several ways to include these, but the two most prevalent ways are through the economic assumptions used to underlie the forecast and through a "forecast allowance." The forecast allowance was introduced in response to the 1996 budget and has been a standard feature of budgeting ever since, as shown on the table presented later in this section

The table shows that since 1999, the forecast allowance has varied from 0% of total revenue in Budget 2009 to 3.4% in Budget 2002. The 2002 budget was based on forecast economic growth of only 0.6%, a relatively risky time as compared to the many years of forecast GDP growth of more than 2%. However, in 2009, a particularly risky time and the only year during the period shown on the table when growth was forecast to be negative, the forecast allowance chosen by government was zero. In that same budget, the economic growth forecast underlying the budget was almost a full one percent lower than the average of the forecasts provided by the Economic Forecast Council.

	Total Revenue	Forecast Allowance	FA as a % of	Real Change in GDP forecast		
	TR (\$millions)	FA (\$millions)	TR %	Min. Finance	EFC	Difference
1999	20,155	230	1.1%	0.5	0.0	0.5
2000	21,500	300	1.4%	2.2	2.2	0.0
2001	24,585	300	1.2%	2.4	2.4	0.0
2001 update	22,737	500	2.2%	2.2	2.1	0.1
2002	22,038	750	3.4%	0.6	0.7	-0.1
2003	26,000	500	1.9%	2.4	2.7	-0.3
2004	30,429	100	0.3%	2.8	2.9	-0.1
2005	33,076	400	1.2%	3.1	3.3	-0.2
2005 update	34,476	300	0.9%	3.4	3.6	-0.2
2006	35,364	850	2.4%	3.3	3.6	-0.3
2007	37,390	750	2.0%	3.1	3.4	-0.3
2008	38,490	750	1.9%	2.4	2.8	-0.4
2009	38,812	0	0.0%	-0.9	0.0	-0.9
2009 update	37,608	250	0.7%	-2.9	-2.3	-0.6

The purpose of the forecast allowance is to provide a cushion against all manner of risks, including global economic risks but also risks associated with natural calamities, specific commodity prices and other events beyond government's control. It is government's responsibility to determine the amount of risk associated with the budget, to decide whether to include a forecast allowance and how large to it should be and whether, and by how much, the GDP growth assumption should differ from the average of the Economic Forecast Council's GDP growth forecasts. However, at present there is no legislative requirement to provide an assessment of the risks associated with the budget (although risks are routinely discussed in the budget documents) and there is no legislative requirement to discuss how that risk assessment has affected the choice of the forecast allowance and difference between the budget GDP forecast and average of the Economic Forecast Council's GDP growth forecasts.

Recommendations

The Review Panel recommends that government continue to follow GAAP as set by the Public Sector Accounting Board, with consultation with other jurisdictions, professionals, and accounting standards bodies as needed.

The Review Panel recommends that the government continue to encourage the discussion of material differences in opinion between the auditor general and the comptroller general in order to advance the standard of public accounting in the province. Towards that end, it is recommended that there be a formal structured conference between the Auditor General, the Deputy Minister of Finance and the Comptroller General within 45 days after the Public Accounts have been made public. For 2009 the conference should take place as soon as practicable.

The Review Panel recommends that the BTAA be amended to require that the budget documents include an assessment of the overall risk associated with the budget and a discussion of how that risk assessment has affected the choice of the forecast allowance and the difference between the budget GDP growth forecast and average of the Economic Forecast Council's GDP growth forecasts.

Chapter 4: Accountability for Capital Planning

The focus of much of the discussion of government spending, and hence transparency and accountability, is on the provision of public services by the government, its ministries and service delivery organizations. This focus often ignores the physical assets and facilities that government and its agencies own and use in the provision of public services. As a result, rarely is the same level of rigour and clarity in budgeting, planning and reporting processes applied to capital spending as are applied to operations spending. Budget transparency and accountability require that both be treated with consistent, comparable, and complete budgeting, planning and reporting standards.

1999 Panel Recommendations

The 1999 Review Panel addressed the need for standard and integrated capital planning in its Recommendation Number 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.”*

Implementation

The Budget Transparency and Accountability Act, sections 8 and 14 require disclosure of objectives, costs and risks for major capital projects with a total cost exceeding \$50 million (with exemptions if the disclosure would be harmful). section 8(4) exempts education and health sector capital projects. Government has, by policy, included education and health sector projects. (evidenced by disclosures in the “Capital Expenditure Projects Greater than \$50 million” table). Section 13 (4) requires ministry and government organizations service plans to include similar information on major capital projects as required in section 14 (noted above). A three-year capital plan is set out in the Budget and Fiscal Plan and updated in quarterly reports.

Examination of documents shows that these requirements are being met. For example, each budget report of the last several years contains a table titled ‘Capital Expenditure Projects Greater Than \$50 Million’, which contains the relevant information. The Review Panel notes that some service delivery agencies may have no single project worth more than \$50 million, but several projects that, when added together, exceed \$50 million.

The recommendation has only be partially implemented, as legislation exempts the SUCH sector and there have been no legislated requirements to address the integration of capital and operating budgets nor the application of rigours such as objectives, business cases and performance targets and consistent standards for the budgeting, planning and reporting on capital spending.

Review

The provincial government, its ministries and service delivery organizations own and use a large number of valuable physical assets and facilities to deliver services to the public. These capital assets include such things as buildings, roads, bridges, equipment and a variety of other assets with ownership spread throughout the summary reporting entity. Under GAAP, these facilities are accounted for as assets on the Statement of Financial Position, with the cost of the assets recognized over their life through annual amortization. The cost of building new capital assets is generally financed either with cash generated by operations (e.g. a surplus or the sale of other assets) or by borrowing. A large proportion of the current government debt is the result of borrowing to finance capital assets.

The defining characteristic of capital assets is that they have a relatively long life, which leads to the need for the stock of capital assets to be managed in a long-term planning context.

The cost of building new facilities is referred to as the capital budget. There is a distinction between the capital budget and the operating budget because operating costs have an immediate impact on the annual surplus/deficit while the capital cost impacts the surplus/deficit over the life of the asset. While the two budgets are distinct they are also fundamentally inter-related. New and replacement capital assets affect annual operating budgets through both amortization and the annual costs of operating the facility (staff, furnishings, heat, and light) and maintaining the facilities (maintenance and cleaning to keep the facility habitable and more fundamental capital maintenance to keep the facility in good repair and maximize its useful life). Decisions about what services are provided and where and how those services are provided (i.e. operating budget decisions) affect the capital budget because those decisions may generate the need for new facilities or result in existing facilities no longer being required. Conversely decisions about what facilities are built will impact what services are provided and the operating budget.

It is crucial to the ability to deliver services that the service delivery programs and their operating budgets be effectively managed. It is just as crucial that the capital assets needed for service delivery be effectively managed. In the context of transparency and accountability, it is critical that the management of both be fully accounted for in budgets, plans, and reports.

The key features of an effective long term capital management regime are:

- knowing what the current capital stock is (i.e. what capital assets are there) and what the current capacity, remaining useful life and the physical state of those assets is;
- knowing what the annual amortization and operating costs of the capital stock is;
- knowing what assets are needed to provide existing services throughout the summary reporting entity and how that compares to the existing capital stock;
- knowing what the future capital needs are to provide currently planned services;
- having a long-term plan that matches the capital stock over time to the current and future needs of programs and services in the context of how new capital assets will be financed, the impact of that on government debt, the annual amortization and operating costs of the capital stock and the implications of that for the surplus/deficit;

- having a planning regime that integrates decisions about programs and services with capital planning decisions so that over time the right capital assets are available in the right places at the right time to enable government programs and services to be delivered.

As a result of the provisions of the BTAA, there is now more disclosure about proposed capital projects and better integration of capital and operating budgeting. However, during both its review and its interviews the Review Panel was apprised of ongoing concerns regarding capital and operating budgets. The primary concerns raised were:

- There may be a capital deficit in the sense that as capital assets such as buildings or bridges come to the end of their useful life they may not be replaced. The issue is that there is at present no measurement of future needs to replace capital assets currently used to provide services and no accountability for those future obligations; and
- Capital and operating budgets are not fully integrated in the sense that the future operating costs of capital projects are not always taken into account and addressed as part of the capital planning and budgeting process, especially where the funding of the capital costs and the operating costs are from different sources.

The concern about the potential capital deficit arises from a perception that often capital projects that provide facilities for a new program or service are preferred over replacement of existing facilities. Clearly, a large part of the provincially funded capital budget each year is directed to the upgrade and replacement of existing capital assets. The concern is that there is not an overall planning and reporting context within which one can determine whether there is now a capital deficit and what the future capital replacement obligations are likely to be. Those obligations will change with changes to population location, decisions about programs and services and the level of capital maintenance and upgrade activity, all of which should be taken into account by the long term capital planning and reporting regime.

The concern about the integration of operating and capital budgets arises from the often experienced result that a new building or other facility seems to have unanticipated and unintended consequences for programs and services. Sometimes a new facility diverts operating funding from existing service delivery to support the new operating costs imposed by the new capital asset. Other times, a facility may remain unoccupied because there is not sufficient operating funding available to put the facility into use.

This situation seems to occur more often when capital and operating funding come from different sources. For example, some public sector entities such as health authorities and post-secondary institutions receive a portion of their capital funding from the federal government or philanthropic sources while their operating funding is largely from the provincial government. New capital can put pressure on operating funding in those cases where operating and capital planning are not fully integrated. In other cases, the provincial government provides partial capital funding along with other partners such as the federal government to independent agencies outside the summary entity and the result is pressure on those agencies' own source revenues, such as fees-for-service or taxes.

Budget transparency and accountability require that both the initial capital cost and the expected future expenditures related to the capital asset for amortization, operating costs of the asset and the costs of maintaining it to a reasonable standard be disclosed and taken into account in the initial capital expenditure decision. This means that capital and operating budget planning must be

fully integrated, even if the funding sources are different, in order to avoid the issue of capital spending resulting in ,unexpected or at least unfunded operating cost requirements.

In summary, transparency and accountability require that there be a long term capital plan that is integrated with service planning and management and that is subject to the same level of rigour and discipline in planning, budgeting and reporting as is now applied to service planning and the operating budget. That means that capital planning should be:

- comprehensive in the sense that it should integrate all capital projects and assets that are within or funded by the summary reporting entity;
- consistent in the sense that it is applied equally across the whole summary reporting entity; and
- comparable so that capital plan of different organizations can be compared and that the overall capital plan for the summary reporting entity can be compared over time.

There are three primary reasons why currently there is not the same transparency and accountability for capital spending as there is for operational spending. One is that capital budgets are not debated in the legislature in the same way that operating budgets are debated. While capital spending is included in each vote in the Estimates and thus debated and approved by the Legislature, there is not an overall capital plan that is the subject of separate debate and approval in the Legislature.

A second reason for the low level of accountability for capital spending is the exemption of the SUCH sector from the requirements and standards of the BTAA. The Review Panel has concluded that in order to attain budget transparency and accountability in British Columbia, all exemptions for the SUCH sector, including the exemption from provisions related to capital, must be eliminated

The third reason is that the requirement for full transparency and accountability with respect to capital has not been legislated. The current legislation does not go far enough.

Recommendations

The Review Panel recommends that government disclose capital planning information for agencies that have a total portfolio of capital projects valued at greater than \$50 million.

The Review Panel recommends that government articulate, within the next two years, standards for long-term capital planning, budgeting and reporting that are consistent with the principles of transparency and accountability and are fully integrated with service planning and operating expenditure budgeting and reporting. The Review Panel recommends that once articulated, these standards be implemented by legislation and without sectoral exemptions.

Chapter 5: Improved Accountability for Results

The previous Chapter dealt with accountability in a very specific sense, that of budgeting and accounting; this chapter looks at accountability in a broader context. To reiterate from the first chapter, accountability requires that the government fully discloses how it plans to generate the revenue it requires to achieve its goals, how it intends to spend the money to achieve its goals, and how well it achieves them. This approach was established by the 1999 Report, which saw the government as being accountable for actual program results, not just fiscal performance. For the government to be accountable for results, the legislature and the public require information about what the government intends to do (plans) and how well it does it (reports). In this regard the 1999 Panel recommendations may be characterized as thematically emphasising performance measurement in the context of strategic planning.

Parts 2 and 3 of the BTAA (specifically sections 12 to 16) responded to the recommendations of the 1999 Report, legislating a planning and reporting process that, according to the Auditor General, has led not only to significant progress in this area but also to making the province a leader in the field. However, the Review Panel has determined that there is substantial room for more progress in this regard, something that is understandable given the nature of performance evaluation.

1999 Panel Recommendations

Following is a condensed version of the 6 recommendations made by 1999 Panel with respect to Performance Measurement:

Recommendation 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).*

Recommendation 10: *Legislation should require government to publish a high-level, long-term strategic plan and annually publish updates prior to or at the same time as the budget, as a basis for accountability in the provincial public sector. The plan should set out government's priorities, specify strategic objectives and expected results, including expected results for standard fiscal indicators, establish a strategic plan, including a three-year financial plan, and ensure the budget and business plans of ministries and public bodies are consistent with the strategic plan. An annual report should also be submitted with the Public Accounts comparing results to the strategic plan for that year.*

Recommendation 11: *Legislation should require all ministries and public bodies in the reporting entity to publish annual three-year business plans and reports. Performance indicators should be established in the business plans and compared with results from subsequent reports for each fiscal year. This recommendation should be implemented over a five year period.*

Recommendation 12: *Government should 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 indicators.*

Recommendation 13: *Legislation should require that Estimates or another budget document include summary business information for major programs provided by ministries and non-commercial Crown corporations (i.e. would not apply to Commercial Crowns corporations or education and health sector organizations).*

Recommendation 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. Government should maintain sufficient controls to ensure budgets are effective at limiting expenditures. Measuring use of staff resources should continue.*

Recommendation 15: *Consideration should be given to the increased use of performance measurement techniques for the management of programs and activities throughout the province.*

Implementation

British Columbia's legislature uses the Committee of Supply to review the estimates of ministries. This is in contrast to referring Estimates to select standing committees, as some legislatures in Canada do.

The 1999 Panel recommended select standing committees (similar to the Public Accounts committee) to debate Estimates on a policy area basis. This has not been implemented in British Columbia.

The requirements for government organizations and government as a whole to produce strategic plans, business plans and annual reports was dealt with in 2000 with the introduction of the *Budget Transparency and Accountability Act* (BTAA). Section 12 requires a provincial strategic plan document including priorities, objectives and results, and a three year fiscal forecast be made public on or before the date when Estimates are presented, with section 13 requiring corresponding annual service plans for ministries and government organizations (except the SUCH sector). Section 14 requires reporting on major capital projects by the non-exempt entities at the time of commitment to the project. Section 15 requires that a minister must make public an annual report on the provincial strategic plan, including a comparison of actual and expected results by August 31st of each year, with section 16 specifying the same reporting for ministries and non-exempt organizations.

Review

Select Standing Committees

This is the only recommendation of the 1999 Panel for which there have been no discernable attempts at implementation. It is noted that in 2001 election the Opposition held only two seats in the legislature and a committee system in those circumstances would probably have been impractical, but the recommendation was not adopted either before or after that time when there were adequate members of two parties in the legislature to create the committees.

It has been argued that the formation of a select standing committee for the purpose of the Estimates debate when the governing party has a limited majority would create major logistical challenges of always ensuring a majority is on hand in the event of a vote in the Legislature. That concern could be addressed by setting the schedule for the House so that committees are generally not meeting when the Legislature is in session. Effectively, the standing committees would replace the committees of supply where Vote by Vote debate of the Estimates now occurs and which accounts for a large proportion of the sitting time of the House following the annual budget. It is noted that other jurisdictions have been able to deal with such logistical considerations.

The 1999 Panel recommended the use of select standing committees as the basis for the Estimates debate to enhance accountability for performance results by enabling less formal debate, including the ability of committees to question senior government staff directly as well as Ministers and the removal of some of the heat of the debate by having it away from the glare of television. In addition, it is expected that over time the committee members would gain a broader understanding of their topic area, leading to more informed debate involving a greater number of members for a given Ministry or topic area. This would contribute significantly to transparency and accountability.

Performance Management

The evolution of accountability through performance measurement within the BC public sector is credible, but progress has been uneven and setbacks have occurred in certain areas. The assessment of the success of these documents often depends on the perspective of the assessor, as evidenced by the range of comments the panel heard during interviews. In particular, concerns were raised about the lack of consistency between Service Plans and Annual Reports, the lack of integration of the two types of documents and the perception that often development of these documents seems to be done merely to meet requirements rather than as a fundamental part of the management process.

Performance reporting is not simply a management style – it is fundamental to transparency and accountability. Responsible government must tell society what it is going to do with the money it collects, explain its strategies to achieve these goals and report on its performance in achieving its goals using the strategies. This in turn means that performance reporting must be the basis for funding of government programs, whether they are delivered by the government ministries or by service delivery agencies and organizations.

In this context, it is important that government, its ministries, service delivery agencies, as well as the public and the media, develop a wider understanding of the use of performance evaluation and management based on performance measures. The purpose of evaluation of performance is to improve how things are done, to find better ways to achieve goals when resources are not unlimited. Thus when there is a failure to achieve a goal, performance management seeks to find out why, to see what can be learned from it, and how it can change strategies, and perhaps, goals.

In the Review Panel's interviews, it was noted that legislators make little use of service plans, and even less use of service reports. In part this may be a result of the cultural differences between those focusing on accountability and those focusing on policy, that is, on the difference between the administrative and the political. It was pointed out that the service plans and reports are not specifically prepared for members of the legislature, but rather are seen as being addressed to the public at large; this means that they contain much more and different information than that which might be specifically required by legislators. The BTAA has resulted in a basic standard for all

reporting organizations, with people generally knowing where to go to get ministry information. Some organizations find performance hard to measure, and are struggling to get both good and effective measures – evidence of an evolving process with improvements coming as organizations become used to requirements.

One of the drawbacks seen as limiting the discussion and evaluation of the contents of service reports is their timing, as they are released to accompany the Public Accounts, which means a mid-summer release date. As they report for a fiscal year, and as they require time to be compiled, such a situation is inevitable. Having noted this, it is important to also note that ministry service plans are reviewed by the Deputy Ministers Policy Secretariat, where the results are discussed; and when targets are not met ministries are asked what they are going to do to adjust targets or change strategies (this review is not legislated but is established by policy). The Review Panel acknowledges the progress made to date and the need for continuous improvement in these processes.

The Review Panel notes that it is difficult for users of the many government reporting documents to cross-reference performance measures established with results achieved. Budgets and Quarterly Reports, service plans and reports produced by government ministries and organizations, the Public Accounts, the Financial and Economic Review and the government's strategic plan do not fit together in a meaningful fashion—one that would allow readers to easily determine if government was meeting its established goals each year. In addition, the Review Panel has noted through witness interviews as well as various publications that many entities are exempted from following the 2003 BC Reporting Principles, and of those that comply, expected standards are not always being met.

Overall, the Review Panel's assessment is that progress has been made regarding service plans and service plan reports in recent years but the work is not yet completed. The panel recognizes that service plans as they are now produced are designed to serve an accountability role with regard to the public, and are not necessarily presently designed or used to fulfill an internal performance management role. The panel suggests that government build on the excellent foundation provided by the BTAA and move the process to a higher standard in order to make the service plans and service plan reports more effective and useable by politicians as well as the public and as a performance management tool. In particular, service plans presently provide little in the way of context by using the previous plans and results as a basis for explaining what has been learned from the experience and how that has influenced plans for the future.

Having noted this, the Review Panel also notes that a major remaining impediment to attaining the accountability, transparency, consistency and comparability that were the focus of the 1999 Report recommendations lies with those organizations that are exempt from reporting. As discussed in the next chapter, these exemptions should be removed.

Recommendations

The Review Panel recommends that Recommendation 4 of the 1999 Panel regarding the use of Select Standing Committees for debate of the Estimates, service plan and service reports be implemented.

The Review Panel recommends that the government reaffirm its commitment to the planning and reporting standards specified in the BTAA, and to the improvement in the practices that are followed by reporting organizations. The Panel encourages the government to build on the success it has achieved and to give greater emphasis to the planning and reporting activities of government

organizations and to the understanding of the underlying objectives and principles of performance management throughout the BC public sector.

The Review Panel recommends that all organizations in the summary entity (including the SUCH sector) should comply with the standards set out in the BC Reporting Principles. Entities that are falling short of that standard should be given central agency direction as to how to improve their performance measurement and reporting.

The Review Panel recommends that each service plan be signed off by the relevant Minister and the subsequent annual service plan report be signed off by the Deputy Minister of the relevant Ministry.

Chapter 6: SUCH Sector Exemptions from BTAA Reporting Requirements

Numerous times in the preceding chapters, reference has been made to the importance of including the SUCH sector, which is controlled by the government, in the budget process. The 1999 Report recommended the implementation of legislation requiring that the reporting and budgeting entity be expanded to include the CRF, Crown corporations and those SUCH sector entities that are controlled by the provincial government, as determined in accordance with the principles of GAAP. The expressed rationale behind this recommendation was to require the budgeting entity and the reporting entity to be the same in order to present a comprehensive compilation of provincial public sector, taxpayer funded activities.

The 2004 amendment of section 1 of the *Budget Transparency and Accountability Act* (“BTAA”), legislatively implemented the 1999 Panel’s recommendation by defining the government reporting entity to include: (a) the government as reported through the consolidated revenue fund, (b) government corporations other than those that are government corporations solely by reason of being under an Act agents of the government and (c) education and health sector organizations.

While the SUCH sector is consolidated for accounting purposes, there are significant exemptions with respect to the planning and reporting requirements for the SUCH sector entities themselves, and hence, the transparency and accountability sought by the BTAA is not being fully achieved.

1999 Panel Recommendations

Recommendation 19 in the 1999 Report states that:

*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.*

Implementation

At the time of the 1999 Report, the reporting entity (i.e. the set of agencies and organizations that is included in the annual budget and the subsequent Public Accounts) was defined as being the Consolidated Revenue Fund (“CRF”)⁴, all Crown corporations and a number of other public bodies

⁴ The CRF is essentially the aggregation of all of the direct functions of government undertaken by Ministries.

owned or controlled by the government. The reporting entity excluded the SUCH sector and certain other public bodies controlled by the government.

The financial statements from 1996/97 to 2003/04 were qualified, as the Auditor General concluded that GAAP required the full consolidation of the SUCH sector entities since the provincial government exercised control over the entities.

In *Budget 2000/01* (page 23), the government stated that its budgeting and reporting focus “has shifted to a summary accounts basis. The summary accounts combine the financial results of the government with all of its Crown corporations and agencies.” The *1999/00 Budget Estimate* and *Third Quarterly Report Forecast* information was restated to reflect the government’s new policy.

Section 1 of the *Budget Transparency and Accountability Act* (“BTAA”) was amended in April of 2004, defining the government reporting entity to include: (a) the government as reported through the consolidated revenue fund, (b) government corporations other than those that are government corporations solely by reason of being under an Act agents of the government and (c) education and health sector organizations.

In *Budget 2004/05* (page 2) government included the SUCH sector in its budget reporting by stating that the “three-year fiscal plan conforms to the standards set by the accounting profession for senior governments in Canada referred to as Generally Accepted Accounting Principles. The main change required to fully comply with GAAP in 2004/05 has been to integrate the financial forecasts of the SUCH sector into government’s revenue, spending and balance sheet projections.” The provincial government determined that it did indeed exercise control over all SUCH sector entities and that, therefore, these entities should be consolidated. The *2004/05 Public Accounts* reflects government’s amended accounting policies and fully consolidated the actual results of the SUCH sector. The previous audit qualification on the Summary Financial Statements related to this issue was removed.

In 2004, the Vice President of Standards for the Canadian Institute of Chartered Accountants praised the provincial government for its leadership in financial reporting, stating that “by implementing GAAP and fully consolidating controlled entities, the BC government leads provincial governments in providing improved information for decision-making and accountability and a more comprehensive picture of government finances.”

This noted, the amendments to the BTAA included a number of reporting exemptions for the SUCH sector that impact the level of disclosure and the accountability of the entities. The exemptions were introduced in a BTAA amendment in February 2004 to coincide with the inclusion of the SUCH sector in the Budget and Fiscal Plan.

Review

While acknowledging that the SUCH sector has been effectively included in the Summary Reporting Entity used for the budget and the Public Accounts, the Review Panel notes that this is a necessary, but not sufficient, step in ensuring transparency and accountability in provincial finances.

To first consider the step that has been taken, consolidating the SUCH sector provides users of the Estimates, budget, and public accounts documents a more complete picture of how the provincial government’s financial resources are used and managed. However, since these organizations are not subject to the same standard or completeness of reporting there is not the same level of

transparency and accountability for these organizations as there is for Ministries, Crown corporations and other agencies to which the BTAA fully applies.

Historically, the SUCH sector has expressed a number of concerns over the disclosure requirements in the BTAA. For example, concerns were expressed that the timing of the government's budget date would mean that some of the disclosures being requested would predate the normal budget approval processes used by SUCH sector organizations for informing their boards; especially if the published financial projections for particular SUCH sector organizations would reflect government proposals for funding adjustments. The SUCH sector also pointed out that the individual acts governing their respective operations – i.e. the *School Act*, the various university and college/institutes acts, and the *Health Authorities Act* – already contained substantial reporting requirements that are similar to the intent of the BTAA.

The 1999 Panel recognized that certain SUCH sector entities have a dual accountability structure. School districts, for example, have elected boards as well as a high degree of government control, and therefore the government and the boards are both accountable for the dollars spent in this area. As a result, the 1999 Panel recommended that, in the Estimates, “the financial projections for these sectors should only be included at a summary level of aggregation”. The 1999 Panel also recommended “that there be no business information on these institutions in the Estimates.” The government recognized this dual accountability and retained the option of reporting the SUCH sector by groups of entities, as it had in the past, and reporting on individual projects where government provided a substantial amount of the funding.

As a result there is no disclosure of the individual entity revenue and expenses, although government does disclose the aggregate revenue and expenses of the SUCH sector. Over time, government has, on a policy basis, chosen to disclose institution-specific information. For example, major capital projects undertaken by universities or health authorities are disclosed in the Capital Expenditure Projects Greater than \$50 million table (*Budget 2009*, page 39), despite the exemption in the BTAA .

The Review Panel notes that while letters of expectations between the government and members of the SUCH sector contain accountability wording of the form of “this is an agreement on the accountabilities, roles and responsibilities of both parties with respect to ... planning, administration, delivery, and monitoring” and “articulates performance expectations and strategic priorities, and is the basis for ... service planning and performance reporting to the government”, these same letters state that they “do not create any legal or binding obligations on the part of ... (either party) but rather ... (they are) intended to define and promote a positive and co-operative working relationship”. Such a relationship may be desirable, but without obligations to ensure accountability and transparency, neither can be achieved.

Given the significance of the SUCH sector in terms of the share and growth rate of provincial spending it receives, government needs to revisit these exemptions and should require that the SUCH sector provide service plans and annual reports that are comparable to and consistent with those prepared by and required of other government controlled and funded agencies. The enhanced transparency and accountability achieved by obtaining this reporting will be beneficial to government and the public. The normal budget process of the SUCH sector entities should not be an impediment to achieving this goal and government and the entities need to work to synchronize their planning cycles.

It is somewhat surprising that there is so much debate over the inclusion of the SUCH sector in provincial government budget transparency and accountability paradigms. In part, the roots of the debate lie with a narrow focus on governance rather than the wider focus of transparency and accountability. The accounting concept of “control” for inclusion in the government reporting entity does not necessarily fully reflect the complexity of the relationship between ministries and the SUCH sector. In general, there is considerable resistance from the SUCH sector to the perspective that they are part of government. The Review Panel respectfully submits that the fundamental issue is accountability regardless of governance or control. The intent of the Recommendations of the 1999 Panel, of the BTAA, and of the recommendations of the Review Panel, are to ensure that the provincial government is transparent in and accountable for its budgetary decisions. To recap the statement of principle presented in Chapter 1, in a representative democracy, governments are entrusted to act on behalf of society in certain matters; they are therefore responsible for providing a full, fair and truthful disclosure of what they plan to do, how they plan to accomplish these goals, and an accounting of how successful they were in the pursuit of those goals. Accountability requires that the government’s budget fully disclose how the government plans to generate the revenue it requires to achieve its goals, how it intends to spend the money to achieve its goals, and how well it achieves them. Such financial accountability extends as far as the funds that government collects from society and spends on its behalf; if the government endows another agency with public finances it cannot diminish the government’s responsibility for disclosure and accountability to the people it represents.

The government cannot avoid transparency and accountability by contracting for the delivery of services or the collection of revenues with a crown corporation (for example, a utility) or a service delivery organization (such as a school district). Regardless of the governance of these entities, the government remains accountable for the funds it provides to them and the services they deliver. This in turn requires that these entities are, with respect to the funds they receive from the provincial government, responsible for providing to the government a full, fair and truthful disclosure of what they plan to do, how they plan to accomplish these goals, and an accounting of how successful they were in the pursuit of those goals so that the government in turn may be accountable for its activities.

Budget transparency and accountability of the government will only be achieved when the principles of transparency and accountability are applied to all of its expenditures, be they direct expenditures of ministries or contracted expenditures with government service delivery agencies such as health authorities, with institutions such as universities, or with locally elected entities such as school boards. It is the responsibility of the government to be transparent and accountable, and to do so it must ensure that, to the extent that it funds ministries, agencies and organizations, that they too are transparent and accountable.

Recommendation

The Review Panel recommends that all of the exemptions for the SUCH sector in the BTAA be removed. The Review Panel recognizes that in certain circumstances confidentiality must be observed, but this should be the only exemption, and should only be granted on an individual entity basis as needed. However, the Review Panel notes that for service delivery organizations where very small amounts of funding are involved and where the organization is a small entity, reduced reporting requirements, appropriate to the scale involved, should be developed.

Chapter 7: Budget Calendar Issues

In the *1999 Budget Process Review Panel Final Report*, the 1999 Panel concluded that by setting a specific date on which the budget must be presented each year, the budget process would become more routine and seen to be more measured, contributing to the overall goals of improving transparency and accountability in the budget process. Based on the logic of the budget cycle wheel presented on the next page, the 1999 Panel recommended a date of the third Tuesday of March of each year. The intent of this recommendation was legislated in section 6 of the BTAA; however the date was specified to be the third Tuesday in February.

The Review Panel notes that the fixed budget date has been successful at increasing the predictability of the budget process. However it also notes that the fixed election date of the second Tuesday in May every four years, was set after the fixed budget date was introduced and that the 2005 and 2009 election year budget debates were limited. This is unfortunate, as a full and robust debate of the budget is essential to both transparency and accountability. In this vein, The Review Panel also considered government spending not included in budgets, specifically special warrants.

Fixed Budget Dates

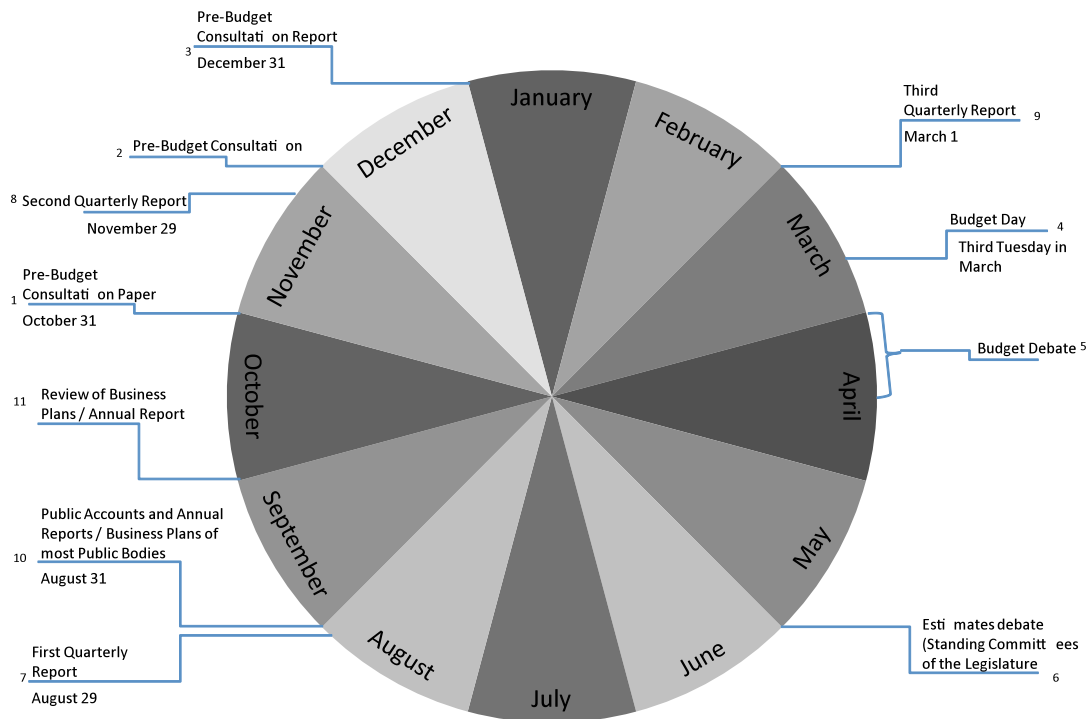
1999 Panel Recommendations

The 1999 Report recommended the implementation of legislated budget dates on the third Tuesday of every March (just before the end of each fiscal year). The expressed rationale behind this recommendation was to make the budget process more routine and predictable each year and to contribute to the credibility of the overall budget process:

*“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 predictable. 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.”*

The 1999 Panel intended that the budget process follow defined timelines that placed the consultations within the annual budget cycle, as shown in the following diagram reprinted from the 1999 Report:

Budget and Accountability Cycle - 1999



Implementation

Prior to 2002, the government was able to present its budget at the time of its choosing. The 1996/97 budget garnered a significant amount of attention because an election was called on the same day the budget was introduced in the legislature. Therefore, there was no opportunity for any debate of the contents of that budget, and no time for media and other commentators to scrutinize it in detail.

In *Budget 2000/2001*, the government stated its agreement in principle with the 1999 Panel recommendation, that “the annual budget should be introduced with sufficient time prior to the end of the fiscal year for it to be given due consideration”. Rather than using a specific date, as proposed in the 1999 Report, the government decided to link the deadline to the six days required under the British Columbia Standing Orders time required for the budget debate. This provision ensured that the budget would be tabled by March 31 each year (the end of the fiscal year). The timing of the budget was included in section 6 of the BTAA, with provisions for changing the date should a general election be underway or recently completed, a new Premier being sworn in after February 15, and a federal budget being presented after February 15 that materially changes the fiscal forecast for British Columbia.

This section of the BTAA was subsequently amended in August 2001, legislating a fixed budget date for the third Tuesday in February. The amendment also called for a new budget to be produced 90 days after the post-election appointment of the Executive Council, if an election occurs during the third Tuesday of February or if there is an election prior to the passage of the final Supply Act. The

government pursuant to the legislation has presented a budget on the third Tuesday of every February since 2002.

The fixed third Tuesday in February deadline ensures that the government will produce a budget before each fiscal year begins. Further, although it was not the expressed rationale behind Recommendation 3 of the 1999 Report, having a fixed budget date removes the government's ability to produce a budget when the political climate is favourable.

Review

In 2001, British Columbia became the first province in Canada to adopt legislation fixing provincial election dates, using an amendment to the *Constitution Act* to do so. Other provinces have since adopted similar measures, including Ontario, New Brunswick, Prince Edward Island, Saskatchewan and Newfoundland.

Fixed elections in BC occur on the second Tuesday in May every four years. The rationale behind using fixed dates is usually to prevent the government from calling an election when the political climate suits it, thus making the government more accountable to the electorate.

The timing of British Columbia's legislated budget and election dates have created a number of situations that may limit transparency and accountability. Specifically, the proximity of these two dates in the legislative calendar can limit the thoroughness of the budget debate every four years, when the budget cycle overlaps with a provincial election campaign. Election year budget issues were raised in the 1999 Report (page 28), as the 1999 Panel was concerned over budgets being introduced but never debated before an election might be announced. However, fixed election dates in BC were not introduced until 2001 (with the first fixed election not occurring until 2005), so potential problems stemming from the two fixed dates were not addressed in the 1999 Report.

Another consequence of the timing of these two dates arises with the Public Accounts and Service Plan Reports required under the BTAA being published during the summer, after the end of the fiscal year and, every four years, after the election. As a result, every four years they are released after the government responsible for them has effectively been replaced by a new one by virtue of the election, thereby diminishing ministerial accountability.

To explore the complexity of the interaction between these two fixed dates, it is necessary to delve into the detail involved in both. The election is called every four years 28 days before the second Tuesday in May; so effectively the Legislature must be dissolved on or before the second Tuesday in April. As required by the BTAA, the government must table a budget on the third Tuesday of February each year. Immediately following the tabling of the budget is a maximum of six days for debate on the budget document (required under the British Columbia Standing Orders). Standing Orders are not legislation, but procedures of the Legislative Assembly. The debate over the budget does not contain the same line-by-line scrutiny that occurs during Estimates debate. During these six days of debate, the broader concepts and policies presented in the budget are debated in the house but the debate does not result in the passage of any legislation.

The Estimates debate usually begins immediately after the six days of budget debate are concluded, and a motion is passed to move to debate on the Estimates. However, on occasion, the committee of supply may not sit for a number of days as a result of a Minister and their officials not being ready and available. The length of the Estimates debate is determined by the legislature. Normally, this is

prescribed by the length of the legislative session, set by the government House Leader after negotiation/consultation with the opposition House Leader.

The Estimates debate generally takes more than two months to complete, since this process allows the opposition to investigate and criticize the government's spending plans in significant detail. The following list presents the dates of passage of the final Supply Act (marking the end of the Estimates debate) over the past several years (note that in election years the debate on the budget has not been completed, nor have the Estimates been passed, by the time the legislature is dismissed):

2002 – **April 29**

2003 – **May 28**

2004 – **May 20**

2005 – not passed due to election call

2006 – **May 18**

2007 – **May 31**

2008 – **May 29**

2009 – not passed due to election call

In election years budget legislation, including the Supply Act, may not be passed, and a subsequent budget (which may be different from the February budget) is then tabled within 90 days of the appointment of the Executive Council after the election. This situation occurred in 2005 and again in 2009, when the legislature was dismissed prior to the completion of the Estimates debate and the passage of the budget. In order to ensure a flow of funds to Ministries and other government entities, the government can pass an interim supply bill (as it did in 2005 and 2009) to meet its spending commitments until it tables another budget.

The completion of the Estimates debate, following the presentation of the budget each February, is a critical component in each year's budget cycle for several reasons:

- Debate over the government's spending intentions, as well as its economic and fiscal projections, is crucial to ensuring transparency and accountability in the budget process, and is a fundamental component of the legislative process in a democratic society.
- The Estimates debate forces the government to publicly defend its policies and priorities in the legislature, and allows the opposition to critique the government's spending plans.
- The budget that is tabled in February cannot gain royal assent without completion of the Estimates debate.
- Since the budget cannot be fully debated and subsequently approved, the government must pass an interim supply bill to ensure that funding continues to flow to government entities. These interim supply bills are not debated with nearly the same line-by-line rigour as occurs in the Estimates debate, but can grant a substantial amount of funding.

Given what happened in the 2005 and 2009 election years a trend is developing that once every four years, the government's annual budget is not fully debated. The intent of fixed budget dates recommended by the 1999 Panel and supported by the Review Panel is to provide for full debate of every budget in order to ensure budget transparency and accountability, something that has not occurred in the 2005 and 2009 election years.

Given the budgetary cycle and the importance of public consultation, moving the budget date earlier in the year is not a practical solution to ensuring sufficient time for the budget debate. There

is however, the option of moving the election date to later in the year. Moving the legislated election date to the fall (perhaps September or October) would allow for a complete Estimates debate and passage of the budget in an election year. British Columbia and Prince Edward Island are the only provinces of those with fixed election dates to hold their elections during the spring every four years. Ontario, Newfoundland and Labrador, the Northwest Territories, and Saskatchewan all have legislated election dates scheduled for October or November every four years. The federal government also has a legislated election date in October every four years, although the most recent election did not occur on the legislated date.

If neither the budget nor the election dates are changed, the only mechanism to ensure full debate of the budget is to schedule legislative sessions and debates within the time frame provided by these two dates, between the third Tuesday of February and the second Tuesday of April. It is important to note that since 2002 the budget debates have never been completed within this time frame, and hence it would be the legislature's (not merely the government's) responsibility to ensure efficient and meaningful debate and passage of the Supply Act between the date the budget is presented to the house and its dissolution. This would require that the government defend in the legislature the policies it introduces in an election-year budget, prior to running an election campaign based on these policies. It would also ensure that the opposition will have a sufficient opportunity to scrutinize the government's spending plans with the same degree of scrutiny as in a non-election year. It would require that both the government and the opposition do so in a responsible and timely fashion.

The Review Panel also notes that the fixed budget date in British Columbia raises issues with respect to the timing of federal budgets. The date for federal budgets is not fixed which causes difficulties for the provincial budget process. For example, federal budgets are sometimes released quite close to the fixed provincial date each February. This occurred in 2009, as the federal budget was released in late January, making it far too late into the provincial budget preparation process to include any previously unannounced federal spending changes into provincial fiscal and economic projections. Alternatively, the federal budget could be presented after the third Tuesday in February, making it impossible to include any changes to federal spending in the provincial budget. Having noted this, given the importance of British Columbia's fixed budget dates in ensuring budget transparency and accountability, the difficulties cause by the unpredictability of federal budgets and elections will remain.

Special Warrants

Special warrants are an order in council that allows the government to spend public monies without the approval of the legislative assembly. Ordinarily, government's must appropriate funds through passage of a supply bill, in the form of interim supply (to allow spending during budget debates), final supply (when the Estimates have been approved) or supplementary supply (for unexpected spending not included in final supply) , all of which require legislative debate and approval.

Special warrants have been available to Canadian governments since Confederation. In British Columbia, historical legislation such as the *Audit Act* and the *Financial Control Act* allowed for government access to special warrants and provisions for special warrants have been carried forward into modern financial legislation.

The *Financial Administration Act* (FAA), as enacted in 1981, allowed the government to use a special warrant when the legislative assembly was not in session and expenditure was urgently and

immediately required for the public good. However, the Auditor General and other commentators expressed concerns about the frequent use of special warrants to authorize sometimes very large government outlays during the 1980s and 1990s. These concerns mainly focused on the impact of regular use of special warrants on the transparency of the province's financial management process.

The 1999 Panel amplified these concerns and suggested that supplementary estimates may be a more appropriate mechanism than special warrants for dealing with unexpected spending. The panel noted that "... 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."

While the 1999 Report recognized that the government must continue to be able to access special warrants for "true emergencies" the 1999 Panel recommended that government be encouraged to use Supplementary Estimates, and hence ensure that the spending authority is debated and approved by the legislature, by making access to special warrants a more onerous process.

1999 Panel Recommendation

Recommendation 5 in the 1999 Report states that:

*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.*

Implementation

This recommendation was implemented with a consequential amendment in the original Budget Transparency and Accountability Act in 2000. Section 2.1 of the BTAA reads:

If a special warrant is issued for an expenditure that is additional to amounts already appropriated for the current fiscal year, within 2 days after the special warrant is issued the appropriate minister must make public in accordance with the Budget Transparency and Accountability Act a report that

- (a) indicates when the minister became aware that the expenditure would be required,*
- (b) identifies the options that were considered by the minister in relation to the matter, and*
- (c) why the option of a special warrant was chosen.*

Despite these added requirements for access to a special warrant, an Order in Council providing a special warrant for \$80,000,000 was approved on March 9, 2001.

On July 30, 2001, the new government tabled legislation that specified that the government could only use a special warrant when the legislature is not in session, either when a general election is in progress (or had recently taken place) or a natural disaster has generated spending pressures that cannot be accommodated by existing appropriations. The legislation also rescinded the FAA's section 2.1 reporting requirement.

Review

The following table outlines the value of expenditures authorized by special warrants since 1985/86. As can be seen, special warrants have not been utilized by the government since 2000/01. Instead, the government has been tabling Supplementary Estimates that are debated and approved in the legislature to authorize expenditures not anticipated in the main Estimates.

British Columbia Special Warrants and Supplementary Estimates (\$ million)		
Fiscal Year	Special Warrants	Supplementary Estimates
1992/93	103.6	-
1993/94	107.6	-
1994/95	199.6	-
1995/96	179.5	-
1996/97	5,714.6	-
1997/98	67.2	-
1998/99	169.5	-
1999/00	374.1	-
2000/01(1)	80.0	980.7
2001/02(2)	-	665.0
2002/03	-	292.0
2003/04	-	418.7
2004/05	-	1,152.2
2005/06	-	1,000.0
2006/07	-	290.0
2007/08	-	1,045.0
2008/09	-	802.0
(1) FAA amended July 6, 2000, requiring reporting on special warrants. (2) FAA amended August 13, 2001, rescinding reporting requirement and adding restrictions on use of special warrants. (3) Source: Historical Supply Bills to 1992/93		

While the Review Panel commends the government for the avoiding the use of special warrants in recent fiscal years, the Review Panel has concerns about the lack of a reporting requirement in the current version of section 24 of the Financial Administration Act. The removal of this requirement in 2001 hinders public scrutiny of special warrants issues and therefore can reduce the transparency of the overall budget process.

Recommendations

The Review Panel recommends that government make whatever changes are necessary to the budget calendar, Estimates debate schedule and the fixed election date so that there is time in an election year to complete the budget debate and pass the Supply Act before the legislature is dissolved and time after the election to have an appropriate pre-budget process and prepare a budget for the next year that fully complies with the BTAA.

The Review Panel recommends that government maintain the current legislative restrictions on access to Special Warrants. However, legislation should require that any request for a Special Warrant be accompanied by a report that states when the expense requirement 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 expenses, provides a revised fiscal forecast. This report should be made public when the Special Warrant is approved.

Chapter 8: Pre-Budget Consultations

In the 1999 *Budget Process Review Panel Final Report*, the 1999 Panel observed that budget transparency and accountability could be increased by creating opportunities for public participation in pre-budget consultation. Sections 2 and 3 of the *BTAA* substantially implemented the 1999 Panel's recommendations, legislating both the publication of a pre-budget consultation document and a process of public consultation during the process of budget consultation.

By all accounts the pre-budget consultation process has been effective in attracting public participation and is viewed positively by the public, the media and the government. Aided by the introduction of an on-line questionnaire and easy-to-read flyer disseminated in advance of public meetings, the number of submissions has increased to a high of over 10,000 responses in 2007 from fewer than 500 in 2001. While the majority of public responses now come from on-line and mail-in submissions, attendance at public consultation hearings has been consistently high, requiring many sessions to be extended to accommodate demand. There are, however, concerns about the degree to which these consultations can be meaningfully considered in the budget process.

1999 Panel Recommendations

The 1999 Panel made two specific recommendations with respect to the pre-budget consultation process:

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).*

Implementation

In April 2000 *The Budget Transparency and Accountability Act (BTAA)* section 2 established the requirement that the Minister of Finance publicly release a pre-budget consultation paper by September 15. Section 3 of the Act established the requirement that a select standing committee of the legislature conduct consultations and publish a report by November 15. Sections 2 and 3 of the *BTAA* substantially implement the 1999 Panel's recommendations, although the legislation amended the dates specified by the 1999 Panel and did not include the requirement that the select standing committee of the legislature report on consultation results to the Minister of Finance.

The changes in dates from October 31 to September 15 for the consultation paper and December 31 to November 15 for the consultation report help align the consultation process with the legislative calendar and budget process timelines by a) linking the release of the budget consultation paper to the First Quarterly Report and Economic Update (also September 15); b) providing adequate time for the Select Standing Committee to hold public consultations throughout the province and table a report to the Legislature within the constraints of the legislative calendar (typically the legislative session is adjourned in late November); and, c) allowing the consultation results to be available to the Minister of Finance in time to be considered in budget decisions that occur in early December. The legislated consultation timeline preserves the intent of the 1999 Panel's recommendations and provides an opportunity for the government to integrate the results of consultation in budget decision-making.

The process commences with a notice that the Finance Committee will be holding hearings generally in the first week of September, with meetings held from the middle of September to the middle of October. The Clerk of Committees requires one month from the conclusion of public hearings to allow sufficient time to prepare the Finance and Government Services Committee's consultation report. The Report is presented to the Legislature on November 15th and subsequently made available to those involved in budget preparation by approximately November 18th.

Review

While the process of pre-budget consultation appears to be working effectively, it also appears that the opportunity for the government to integrate the results of consultation in budget decision-making is not being fully realized. By the time the Select Standing Committee's report is transmitted to appropriate ministry staff, it leaves little time in the budget preparation process for there to be any meaningful integration of consultation feedback contained in the Report into decision-making. Further, select standing committee protocol does not permit submissions made in the public meetings to be shared with those preparing the budget prior to the Committee's report to the Legislature. Thus both the Committee's report and the public's contributions may not be effectively considered during the budget preparation process.

In assessing this situation, the Review Panel returned to the 1999 Panel's emphasis on the voices of the public being listened to during the budget process. In this context, the Review Panel considered the Select Standing Committee's report and the public contributions to the budget preparation process as two individual components of an information sharing process.

In part this separation of the Committee's report and public contributions is dictated by the Committee's terms of reference which only in part refer to public consultation, as they also charge the Committee with examining, inquiring into and making recommendations with respect to the pre-budget report, and considering and making recommendations on the annual reports, rolling three year service plans and budgets of various statutory officers. Thus the Committee's report is not the public's report nor is it merely a summary of public consultation.

In the case of the Committee's Report, it needs to be received earlier in the budget process to be effectively considered; at the least, it should be received by the Minister of Finance when it is tabled in the legislature. More effectively, a two-week period from the end of consultations until submission of the Committee's report would allow for more effective consideration by the Ministry of the Committee's findings.

Currently protocol delays conveyance of the public's contributions to the budget preparation process for up to two months. There is no need for this to occur, as these contributions are, in every sense of the word, public. The meetings during the consultation process are open and on the record, with the media in attendance, and sessions have been webcast and audio has been made available on the legislative web site. To allow time for public input to be considered in the budgetary process, all that would be required is to convey public submissions, tabulations of on-line survey results, and mail in submissions to the Minister of Finance within one week of the completion of the public meetings. The purpose of conveying all of the submissions at once is to ensure that no one region or interest group is favoured; the reason for the one week lag is to provide time for the tabulation of results to be completed.

The Review Panel also noted that while there is a high degree of public attendance and participation in the pre-budget consultation process, there are a number of refinements to the consultation process that might be made, particularly with respect to the use of digital technology.

Recommendations

The Review Panel recommends that the pre-Budget Consultation Report of the Select Standing Committee on Finance and Government Services be made available to the legislature and the Minister of Finance no later than November 15th.

The Review Panel recommends that all public submissions, made during the pre-budget consultation process including those presented at consultation meetings, those mailed in and those submitted digitally, and the results of surveys, be made available to the Minister of Finance within one week of the last public meeting.

The Review Panel recommends that the pre-budget consultation process continue to be refined to encourage input from interest groups and interested individuals, and include enhanced opportunities for public input, such as through web-sites and/or large web-based public forums.

Chapter 9: Toward a New Budget and Reporting Paradigm

The Review Panel's terms of reference included considering areas where the government can strive for improvement. In addition to the preceding specific recommendations, there is a general recommendation that could further improve the Province's budgeting and reporting processes.

Recommendation 23 in the 1999 Report recommends that the principles of transparency, consistency and comparability be fully implemented. This would require, among other things, that all of the budget and accountability documents be consistent and comparable, so that the numbers presented in each would be linked together and could be followed by the reader through all the budget and reporting documents. This would require the use of consistent presentation that would apply across the summary level documents such as the budget, Estimates, quarterly reports and Public Accounts. It would also apply to the service plans and annual reports of the various entities within the reporting entity, which would be comparable and consistent with each other and which would be linked through to the aggregate numbers presented in the summary documents.

This would result in important synergies that would accrue to government by integrating performance management and financial accountability to improve overall management and by providing better information to decision-makers, thereby improving the transparency and accountability of government.

A sampling of comments taken from the Review Panel's interviews highlights areas in which improvement can be sought:

- The Public Accounts Committee is not spending adequate time reviewing the accounts
- It is nearly impossible to link budget and reporting information as outlined in the service plans, through to operational plans, Estimates, the budget and the Public Accounts
- The Public Accounts don't provide an adequate format to measure results achieved against those intended
- Greater transparency could be achieved if the budget and Public Accounts compared budget and actual results against a suite of standardized fiscal indicators
- GAAP as defined by PSAB should be embraced by all components of the summary entity
- Estimates debates are highly politicized and fail to address a sufficient number of areas in adequate detail.

As is noted in various sections of the report, government has made significant strides in improving the transparency and efficacy of its budget and reporting systems but the foregoing comments indicate that further improvements can be made.

One approach would be to define how an ideal budget and reporting process would function when fully achieved with some additional emphasis on defining the content and utility of the information to be produced. The Review Panel suggests that this might come about through a series of discussions involving knowledgeable people chosen by the Deputy Minister of Finance.

Against the description of their recommended ideal state, a comparison could be made to current practices and outcomes. This comparison would highlight specific areas where changes would need to occur and could allow government to establish a timeframe to guide their development.

There are certain principles, some in place already, that should be borne in mind:

1. Government budgeting and reporting should be complete in the sense that all reportable components that comprise the Summary Entity should be included and each such entity required to provide budget and reporting data in a consistent and timely manner.
2. Budget and reporting information should be sufficiently descriptive in the sense that they should:
 - Allow the reader to discern how budget and accounting information links to the strategic plan
 - Allow the reader to gain a reasonable sense of the impact of key decisions and the rationale behind them
 - Ensure summary information can be fully understood by lay readers
 - Include various Key Performance Indicators of the government's choosing designed to improve the usability of the reports and an additional suite of standard fiscal indicators to allow comparison with other jurisdictions
3. All budget and reporting documents should be consistent in that the documents should be based on GAAP as prescribed by PSAB and applied to all components of the Summary Entity.
4. Budget and reporting documents should also be consistent in the sense that they should allow users to be able to compare financial and operating information as it appears in the service plans to that which appears in operational plans for each Ministry and service provider. Summary documents should also be consistent in this sense.

Information from the service and operating plans should be specifically linked to the information presented in the Estimates package in a way that allows users to understand at a glance how service and operating plans inform the Estimates and how financial information from both sources has been rolled forward and linked to line items in the Estimates.

The information in the Estimates should be linked specifically to the Budget and cross referenced in a way that allows the user to understand how the two documents are related. Ideally, a user with each of the Estimates and Budget in hand should see at a glance how specific financial information has been rolled forward from the Estimates to the Budget.

The Public Accounts should be prepared in a way that allows ready comparison at a number of levels with the budget.

Similar to the internal reporting of private sector companies, it would be useful to provide a line by line comparison in the Public Accounts which shows how government has performed against its budget (budget variances). Information which allows users to understand performance over the last few years and against other jurisdictions could be provided in tandem with the information on budget variances.

5. Financial information comprising the budget and Public Accounts should be linked across all of the various documents prepared in the budget and reporting process. The information should be linked so that it is clear how the forecasts or results for various organizations are aggregated to generated summary level results. It should also be linked so the forecasts and results for various organizations can be compared with each other.

A key to budget and reporting transparency rests in the ability of users to understand at a glance, make comparisons and facilitate further analysis. It would be useful to provide in each of the service and operating plans, Estimates, Budget and Public Accounts, a schematic which explains to the reader how each document relates to all others and to the strategic plan. The schematic should also be sufficiently explanatory as to guide users in tracing information from service plans through to the Budget and Public Accounts.

Eventually, information drawn from each of the documents noted in the foregoing comments should be contained in a searchable database so as to allow users to complete in-depth analysis.

Recommendation

The Review Panel recommends that government prepare and publish a report setting out a vision of the ideal state of planning, budgeting, reporting and performance management, comparing it to current practice and outlining a change management plan with appropriate deadlines to ensure its budget and reporting processes continues to improve.

Chapter 10: Conclusion

The Minister of Finance posed three questions to the Review Panel. In summary, based on the work outlined in this report, the answers to those questions are as follows:

1. Has the government followed through on each of the 1999 Panel's recommendations?

As indicated in Chapter 2, most of the recommendations have been implemented, at least partially. Areas where recommendations have not been fully implemented were:

- the use of sectoral legislative committees to review the Estimates,
- the use of three year business plans and reports due to exemptions of some organizations,
- provision of information on both a gross and net basis, and
- annual reports to the Legislature on implementation of the recommendations.

2. If it has not, is this because the recommendation is no longer relevant or some other reason?

For those recommendations not fully implemented, relevance was not the reason. The Review Panel's review indicated that all of the original recommendations except part of Recommendation 18 are still relevant and that efforts should be made to complete implementation of the 1999 Panel recommendations, in accordance with the recommendations in this Report.

3. Given what government has achieved to date, are there specific areas where the government can strive for improvement?

The Review Panel has determined that there are several areas where the government can strive for improvement and has made 24 recommendations for improvements in the areas of budgeting, accounting, capital planning, accountability for results, integration of the SUCH sector into the overall transparency and accountability regime, fixed budget dates, special warrants, pre-budget consultations and moving to the next level of transparency and accountability.

Having noted these answers to the specific questions posed to it, the overall conclusion of the Review Panel is that since the 1999 Panel's report, transparency and accountability have improved substantially. There is now an entirely different culture in the government and awareness by the public about this issue. Budget documents are now easier to read and contain more information, presented with more credibility. The whole budget cycle has improved, from pre-budget consultation to final reporting after the end of the year.

The theme of this report is that, having made substantial progress, this is a good time to take the next steps in what must be an ongoing process of evolution of and continuous improvement to government's transparency and accountability. The Review Panel is recommending improvements in many areas, as noted above. For the most part, these are logical next steps in what is meant to be a constantly evolving and adapting regime. The spirit of our recommendations is that government should continue to learn from its experience and continue to strive for improved transparency and accountability based on that experience.

Appendix I

List of Those Interviewed

Keith Baldrey, Global TV

Chuck Chandler, Chair, Accounting Policy Advisory Committee

Gary Collins, former Minister of Finance and Chair of Treasury Board, Government of BC

John Doyle, Auditor General of BC

Honourable Colin Hansen, Minister of Finance and Chair of Treasury Board, Government of BC

Chris Johnson, A/Chief Executive Officer, Crown Agencies Secretariat, Government of BC

Cameron Muir, Chief Economist, BC Real Estate Association

Vaughn Palmer, Vancouver Sun

Dan Perrin, Perrin, Thorau and Associates Ltd.

Paul Ramsey, former Minister of Finance and Chair of Treasury Board, Government of BC

Chris Trumpy, former Deputy Minister of Finance, Government of BC

Denise Walker, Executive Director, Performance Management, Cabinet Operations, Government of BC

Cheryl Wenezenki-Yolland, Comptroller General, Government of BC

Graham Whitmarsh, Deputy Minister of Finance, Government of BC

