Office *of the* Budget
MINISTRY *of* FINANCE

C.D. Howe Institute
"2017 Fiscal Accountability Rankings" Draft Report
March 9, 2017

ISSUE

- The C.D. Howe Institute has shared with the Ministry of Finance (MOF) a draft copy of its "2017 Fiscal Accountability Rankings" report for review.
- This note presents a brief overview of the findings of the report that refer to Ontario's ranking and suggests comments on the report that could be shared with the C.D. Howe Institute.

SUMMARY

C.D. Howe conducted an analysis of the fiscal documents and financial reporting practices of Canada's senior governments (i.e., the federal government and provincial and territorial governments).

The dimensions analyzed include:

- Consistency, clarity and prominence of presentation of revenue and expense figures in a government's principal financial documents;
- Timeliness of government financial reports; and
- An absence or presence of any reservations on the part of a jurisdiction's legislative auditor.

Based on its analysis, C.D. Howe assigns letter grades to governments.

- Ontario's fiscal accountability ranking for 2017 was "B"; a decline from "A-" in 2016 and "A" in 2015 (see: Appendix A for rankings for all jurisdictions over the past three years).

While the study repeatedly notes the positive trend in the quality of financial reporting by Canadian senior governments, the study expresses concern that Canada's senior governments have tended to overshoot their budget targets for revenue and expense over the past fifteen years.

Ontario generally ranked well on C.D. Howe's measures of the level of bias (i.e., tendency to over- or under-shoot budget targets) and accuracy (i.e., how close government actuals were to their forecasted amounts) of government spending and revenue forecasting:

- Ontario's spending forecasting ranked 2nd on both its low level of bias and high degree of accuracy.
- Ontario was acknowledged as the only jurisdiction to under-predict revenue over the past fifteen years, and did so only marginally, ranking Ontario's revenue forecasting 1st for its low level of bias, unchanged since 2015.
- Ontario scored 7th in revenue forecasting accuracy over the fifteen year period, also unchanged since 2015. However, Ontario's accuracy has been improving, ranking 3rd on average, over the most recent five year period.
- Ontario ranked 10th out of 13 jurisdictions when assessing correlations between "surprises" in revenue and spending forecasts (i.e., when forecasts differed from actuals).

- C.D. Howe notes that most governments (including Ontario) have a positive correlation between their revenue and spending "surprises" (i.e., governments reporting higher-than-projected revenues in a given year also tended to report higher-than-expected spending in the same year, with larger revenue surprises tending to coincide with larger spending surprises). C.D. Howe indicates this could suggest problematic reporting practices among most governments.

Based on C.D. Howe's criteria, the main factor which contributed to Ontario's lower grade ranking in 2017 appears to be:

- **Auditor Reservations:** C.D. Howe noted that Ontario "dropped a notch" after receiving one qualified opinion from the Auditor General of Ontario (AG) due to the accounting for net pension assets.

Other factors identified by the authors that impacted Ontario's ranking include:

- **Estimates:** Ontario received lower marks because C.D. Howe contend the province's estimates are not consistent with the presentation of its 2015-16 Budget and the figures between the two reports cannot be reconciled.
- **Public Accounts Release:** C.D. Howe graded jurisdictions relative to their ability to release Public Accounts no later than June 30th. Ontario received lower marks because it released its Public Accounts for the 2015-16 Budget on October 6th.
  - Ontario releases Public Accounts in adherence to the statutory deadline in the *Financial Administration Act, 1990* (i.e., September 30).
  - In 2015-16, an exception was granted in relation to the AG's disagreement on the accounting of the government's pension assets, which caused the delay of release of Public Accounts until October 6, 2016.
  - In developing its rankings, C.D. Howe penalizes any jurisdiction that does not release Public Accounts by what it considers to be the acceptable deadline of June 30.
  - The Office of the Provincial Controller, Treasury Board Secretariat, has a project underway to transform the delivery of the Province's Public Accounts. New technology will be implemented as part of the project which will help facilitate more timely year-end reporting.

COMMENTS FOR CONSIDERATION

Auditor Reservations:

Comments to C.D. Howe:

- **C.D. Howe should acknowledge the findings of the Pension Assets Expert Advisory Panel and provide an alternative/additional ranking for Ontario that excludes the AG's opinion.**

- Ontario's lower ranking in 2017 appears to be in large part due to the qualified opinion Ontario received from the AG on its 2015-16 Public Accounts in relation to accounting for net pension assets.
  - The government had recognized pension assets in its financial statements since 2001 without the AG expressing reservations.
- In disagreement with the AG's opinion, the Pension Asset Expert Advisory Panel concluded that, in accordance with public sector accounting standards, Ontario's share of the net pension assets should be recognized as an asset in the province's financial statements.
- C.D. Howe does not acknowledge the findings of the Pension Asset Expert Advisory Panel supporting the Ontario government's approach to accounting for pension assets.

Comments to C.D. Howe:

- **As was the case in past rankings reports, C.D. Howe should track auditor reservations over a ten-year period, rather than count the number of reservations in just the most recent year, in order to maintain comparable data, and better reflect a jurisdiction's consistency in maintaining clean audit opinions, over multiple years.**

- The 2017 analysis may be particularly disadvantageous to Ontario in part because C.D. Howe changed how it scores the reservations of legislative auditors.
    - In a footnote on page 8 of the report, the authors indicate that more emphasis was placed in the 2017 analysis on a government getting a clean audit opinion in the most recent year. In past rankings reports, C.D. Howe considered how many auditor reservations jurisdictions had received in the past decade;
    - "Number of Auditor Reservations in the most recent year" is the most heavily weighted factor in the C.D. Howe evaluation grid according to Table 1 on page 21;
- The report does not explain why C.D. Howe changed its approach to "auditor reservations" for the 2017 analysis or how the change affected the rankings for the 2017 report, which makes it difficult to reconcile the impact of auditor reservations on the rankings as well as trends in annual rankings from year to year (see: Appendix B for further details).

Estimates:

Comments to C.D. Howe:

- **Ontario did not change the way estimates are presented between Budget 2015 and Budget 2016. In both documents, Ontario's estimates and budget are reconcilable.**
- **The authors should explain their 2017 criteria and how they are applied relative to the 2016 criteria and explain why their conclusions differ from one year to the next.**

- The 2017 report states that Ontario's estimates are not consistent with the budget presentation and cannot be reconciled.
- It is difficult to reconcile C.D. Howe's conclusions about Ontario's budget presentation in their 2016 rankings report with those in the 2017 report:
    - In its 2016 report, C.D. Howe states that Ontario's estimates can be reconciled, and states that "top presentation marks go to Alberta and Saskatchewan, with Ontario not far behind."
    - In its 2017 report, C.D. Howe states that Ontario's estimates cannot be reconciled, and in regard to presentation, Ontario is grouped into a category of jurisdictions where a "reader would likely struggle to find and compare PSAB-consistent figures …"

Data Sources:

Comments to C.D. Howe:

- **Specify the sources of the data used to calculate changes in jurisdictions' projected and actual revenue and spending year to year during the study's time period; and**
- **Include a clear demonstration of how the calculations are completed.**

- This will help readers reconcile the calculations presented in the report.

Acknowledge Jurisdictional Strengths:

Comments to C.D. Howe:
• **Consider adding a section that acknowledges jurisdictions for new or promising practices, and incorporate those into the scoring**.

- For example, beginning in 2014-15, through its Open Government initiative, Ontario posts a web-based interactive visualization of the annual Public Accounts which shows spending broken down by ministry and area.
- The Public Accounts visualization allows the public to view government spending in an easy-to-understand and accessible way.

Other Comments:

- In its assessment of Ontario's rankings with respect to revenue forecasting accuracy and bias, C.D. Howe states that "Ontario's revenue accuracy score is middle-of-the-pack, suggesting some luck in its good bias score."

Comment to C.D. Howe:
• **Ontario's good bias score is not related to luck (a random outcome) because C.D. Howe data itself shows that over the last five years, Ontario over-predicted revenue while over the first ten years, it under-predicted revenue.** • **Consider revising the characterization of "luck" for Ontario's good bias score as it is an independent measure from accuracy (i.e., a lower accuracy ranking does not mean a good bias score is due to luck).**

See Appendix C for information on why Ontario's ranking declined from "A" in 2015 to "A-" in 2016, from C.D. Howe's 2016 ranking report.

APPENDIX A

Jurisdiction Grades since 2015

	2017	2016	2015
Federal	A-	B+	A-
Nfld. & Labrador	B-	E	D
Prince Edward Island	D+	E	D-
Nova Scotia	B+	C-	B-
New Brunswick	A+	B+	A
Quebec	C	C+	D+
Ontario	B	A-	A
Manitoba	B-	B	C+
Saskatchewan	B-	A+	A
Alberta	A+	A+	C
British Columbia	A-	B+	B-
Northwest Territories	D+	E	D+
Yukon	B	C+	C+
Nunavut	C-	E	E

APPENDIX B

Impact of Auditor Reservations

It is difficult to reconcile the influence of auditor reservations in C.D. Howe's rankings. For example:

- British Columbia:
  - In the 2016 rankings report, C.D. Howe noted that BC has had 21 auditor reservations in the past decade. In the 2017 report, BC has two auditor reservations in the current year.
  - BC's ranking improved from B+ in 2016 to A- in 2017.
- Ontario:
  - In the 2016 report, Ontario had zero auditor reservations in the past decade. The 2017 report notes one auditor reservation in the current year.
  - Ontario's ranking declined from A- in 2016 to B in 2017.

Changes in Evaluation Methodology

Readers should be advised that changes in C.D. Howe's evaluation methodology from one year's report to the next mean that trends in the annual rankings are not reliable observations.

- For example, Table 2 in the report presents Governments' Scores Since 2015, implying that a reader could assess jurisdictions' improvement or decline in the rankings over time, which may be misleading without a clear notation advising that scoring methodology has changed from one year to the next.

APPENDIX C

Why Ontario's Ranking Declined from 2015 to 2016

C.D. Howe's ranking of Ontario fiscal accountability declined from "A" in 2015 to "A-" in 2016.

In the 2016 ranking report, C.D. Howe expanded its criteria to include a measure of the location of key revenue and expense figures within each publication and the timelines of tabling both the Budget and Public Accounts.

Ontario's score appears to be lower in 2016 than in 2015 mainly as a result of the new criteria. The 2016 rankings report notes:

- The first instance of revenue and expense figures appears later than one-quarter of the way into Ontario's Budget.
- Estimates are not consistent with the budget presentation due a number of factors (e.g., presentation of one-time expense items in the Budget, classification of interest on debt expense and savings targets). Although the presentation does not perfectly align across the Budget and Estimates, the study does recognize that it is possible to reconcile the amounts.
- Ontario's Public Accounts are released relatively late following fiscal year-end.