Office *of the* Budget
MINISTRY *of* FINANCE

C.D. Howe Institute
"2017 Fiscal Accountability Rankings" Draft Report
March 7, 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).

The study repeatedly notes the positive trend in the quality of financial reporting by Canadian senior governments. As a result of this overall improvement, C.D. Howe expanded the evaluation criteria in this year's study, effectively raising the bar for fiscal reporting in Canada.

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. Although, 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 in terms of bias.
- But Ontario scored 7th in revenue forecasting accuracy, which led C.D. Howe to suggest that Ontario's high bias ranking, may in part be a product of "luck".] [OEP]

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

- **[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.] [OPCD]

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

- **[Estimates:** Ontario received lower marks because C.D. Howe contended 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.] [TBS]
- **[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.] [OPCD]

COMMENTS

Auditor Reservations:

- [Ontario's lower ranking in 2017 is 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.
- The 2017 analysis may be particularly disadvantageous to Ontario in part because C.D. Howe changed its methodology for incorporating the reservations of legislative auditors into its rankings.
    - 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 current year;
    - "Auditor reservations" 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.
    - It appears as though the authors applied the "auditor reservation" test on a yes/no basis – there is no acknowledgement of the findings of the Pension Asset Expert Advisory Panel supporting the government's approach to accounting for pension assets.
- C.D. Howe may wish to acknowledge the difference of opinion in the report. The authors may wish to indicate what Ontario's ranking would be if the AG were to accept the findings of the Expert Panel (TBD).] [OPCD]

Estimates:

- [The authors do not provide details on why, in their 2017 assessment, Ontario's estimates are seen to be inconsistent with its budget presentation and cannot be reconciled.
- Between Budget 2015 and Budget 2016, Ontario did not change the way estimates are presented.
    - In its 2016 rankings report, C.D. Howe states that Ontario's estimates are reconciled, and states that "top presentation marks go to Alberta and Saskatchewan, with Ontario not far behind."
    - In its 2017 rankings 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 …"

- The authors may wish to consider adding more detail about their 2017 criteria and how they are applied relative to the 2016 criteria to explain why the conclusions are different.] [TBS]

Public Accounts:

- [Section 1.0.26(5) of Ontario's *Financial Adminstration Act, 1990*, states that except in extraordinary circumstances, the Minister of Finance shall submit the Public Accounts on or before the 180th day after the end of the fiscal year (i.e., September 30).
- Ontario works towards releasing Public Accounts in adherence to this statutory deadline.
    - The exception of 2015-16, during which the extraordinary circumstance of the Auditor General's evolving opinion on the accounting of the government's pension assets caused the delay of release of Public Accounts until October 6, 2016.
- However, 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.] [OPCD]

See Appendix B for a summary of the report's other findings regarding Ontario's fiscal accountability.

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

Other 2017 Report Findings

C.D. Howe also assessed each jurisdiction's track record in terms of how close their budget results matched their budgetary forecasts.

- Ontario ranked 10^{th} out of 13 jurisdictions when assessing correlations between "surprises" in revenue and spending forecasts (i.e., when forecasts differed from actuals).
- Ontario's revenue and spending "surprises" were found to have a positive correlation, which C.D. Howe indicates could suggest problematic reporting practices.
    - C.D. Howe notes that traditional fiscal stabilization policy would suggest that revenue and spending "surprises" should be negatively correlated, meaning that if revenue is higher than projected, then spending should be lower than projected and vice versa.
    - In contrast, positive correlations could suggest problematic practices such as purposefully under-forecasting revenue to enable increased in-year program spending or worse, that numbers are being manipulated in order to achieve a predetermined bottom line (e.g., a balanced budget).
- The study notes that, predictably, the natural-resource-dependent jurisdictions that are more affected by commodity price swings had poor accuracy scores.

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.