

2024
**Report of the Auditor General
to the Nova Scotia
House of Assembly**

**Value for Money of Over-Budget
Spending**



Performance Audit
Independence • Integrity • Impact

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March 5, 2024

Honourable Karla MacFarlane
Speaker
House of Assembly
Province of Nova Scotia

Dear Madam Speaker:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the *Auditor General Act*, to be laid before the House in accordance with Section 18(4) of the *Auditor General Act*.

Respectfully,



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Value for Money of Over-Budget Spending

Department of Finance and Treasury Board/ Province-wide

Key Messages

- Over-budget spending does not adequately consider value for money or safeguard public funds.
- In 100% of transactions tested, the Province prematurely spent \$432.7 million, forgoing millions in interest revenue.
- The over-budget spending process is not accountable or transparent through the legislature and follows an expedited approval process.
- The Auditor General is recommending changes to the *Finance Act* to provide accountability and transparency over the spending of all public funds.

Why We Did This Audit

- In fiscal years 2021-22 and 2022-23, Government approved \$2.6 billion in over-budget spending.
- The Minister of Finance and Treasury Board refused to implement an Auditor General recommendation addressing over-budget spending from our December 2023 Financial Report.
- Recent increases in over-budget spending coincide with higher-than-expected revenue.

Over-Budget Spending

- The Cabinet approved spending which is over and above the original budget, which results in an additional appropriation.
- Annual budgets introduced by the Government must be debated and voted on by the legislature. But over-budget spending is approved by Cabinet alone.
- Although Nova Scotia is following the *Finance Act*, the Act is not in line with the other provinces and federal government as it does not require the legislature to review, vote on, or approve over-budget spending.
- Over-budget spending was a record high in 2022-23 of \$1.7 billion.

Eleven grant and subsidy expenditures selected for detailed testing

- Eleven grant and subsidy expenditures approved by Executive Council as additional appropriations in fiscal 2021-22 and 2022-23 totaling \$432.7 million selected for testing
- Public funds examined include:
 - \$140 million to EfficiencyOne for off-oil efficiency programs
 - \$65 million in deferred maintenance funding to four rural universities
 - \$58.9 million to Cape Breton University for a medical school campus
 - \$50 million to EfficiencyOne to address energy poverty and equity
 - \$37.4 million to St. Francis Xavier University for health infrastructure
 - \$25 million to Saint Mary's University for health programs
 - \$15 million to Screen Nova Scotia for the Content Creator Fund
 - \$15 million to Horticulture Nova Scotia for recovery from the polar vortex
 - \$13 million to the Halifax International Airport Authority for the Air Access Fund
 - \$7 million to Oxford Community Centre Association for a community centre
 - \$6.4 million to Municipality of the County of Inverness for a coastal hiking trail

In all items tested, the Province prematurely spent a total of \$432.7 million

- Inadequate justification for the timing of disbursement of funds to recipients
- No immediate spending need for any of the \$432.7 million tested
- \$109.7 million for infrastructure projects funded upfront
- Fiscal capacity alone is poor rationale to distribute public funds in advance of need
- \$233 million front-end funded multi-year agreements
- \$371.6 million (86%) of \$432.7 million in over-budget spending remains unspent by recipients
- Funding recipients benefit from millions of dollars in interest revenue

Spending proposals missing key elements to ensure public funds spent as intended

- All \$432.7 million in over-budget spending followed a process for approval
- Value for money considerations not evident in any of the decision documents
- All \$432.7 million in spending proposals went through expedited approval process
 - Staff assessments not completed
- Funding purpose unclear in proposals totaling \$55 million
- \$280.4 million in spending proposals not supported by detailed cost estimates
 - Province provided \$140 million to EfficiencyOne despite the Corporation having \$102 million in unspent provincial funding
 - \$62.4 million in healthcare grants for universities approved without cost estimates
 - \$15 million polar vortex funding approved before extent of damage was known
 - \$13 million top up funding to Airport Authority despite \$17.6 million in unused funds

Agreements do not adequately protect public funds

- Signed agreements or funding letters for all grant and subsidy expenditures tested, however weaknesses found
- Key terms and conditions missing in most agreements, including conflict of interest declarations, interest revenue beneficiaries, direction for unused funds, and audit clauses
 - Terms and conditions do not specify how interest earned on contributions should be spent
 - Unused spending may never return to the Province
- Agreements worth \$170.4 million do not contain measurable performance targets
- Agreements allow grant administrators to claim administrative costs without limits

Reference Guide – Key Findings and Observations

Paragraph	Key Findings and Observations
<i>Why We Did This Audit</i>	
1.4	Auditor General has twice recommended improved accountability and transparency related to over-budget spending
<i>2022-23 Over-Budget Spending Highest on Record</i>	
1.9	Nova Scotia's over-budget spending process lacks accountability and transparency
1.16	Successive governments have approved over-budget spending since the <i>Finance Act</i> passed in 2010
1.18	\$2.6 billion in over-budget spending approved in 2021-22 and 2022-23
1.20	Recent increases in over-budget spending coincide with higher-than-expected revenue
<i>In Tested Grants and Subsidies, the Province Prematurely Spent a Total of \$432.7 Million</i>	
1.22	Spending did not include justification for timing of premature disbursement of funds to recipients
1.24	No immediate spending need for any (11 of 11) of the \$432.7 million tested
1.25	\$109.7 million for infrastructure projects funded upfront
1.26	Fiscal capacity alone is poor rationale to distribute public funds in advance of need
1.28	5 of 11 grant and subsidy expenditures tested (\$233 million) front-end funded multi-year agreements
1.33	As much as \$371.6 million of \$432.7 million (86%) in over-budget spending unspent as of December 2023
1.35	Funding recipients benefit from millions of dollars in interest revenue
<i>Spending Proposals Missing Key Elements to Ensure Public Funds Spent as Intended</i>	
1.36	Requests for over-budget spending submitted by the Minister of Finance and Treasury Board
1.42	Most spending proposals included a clear purpose
1.44	\$30 million in spending proposals administered by service providers lacked program design
1.47	\$280.4 million of \$432.7 million (6 of 11) in spending proposals not supported by cost estimates
1.49	Province provided \$140 million to EfficiencyOne despite the Corporation having \$102 million in unspent provincial funding
1.51	\$62.4 million in healthcare grants for universities approved without cost estimates
1.52	\$15 million polar vortex funding approved before extent of damage was known
1.53	\$13 million top up funding to Airport Authority despite \$17.6 million in unused funds
1.54	\$221.3 million (8 of 11) in spending approved without a risk assessment
1.58	Grants policy introduced by the Province requires a risk assessment
1.61	Staff assessments required by policy to provide advice to decision makers
1.64	Staff assessments not completed due to expedited review
1.67	None of the 11 spending proposals adequately considered value for money
<i>Agreements Do Not Adequately Protect Public Funds</i>	
1.70	All 11 grant and subsidy expenditures included a signed agreement or funding letter with funding recipients, but agreements include weaknesses
1.72	Most agreements missing key terms and conditions to protect public funds
1.73	Terms and conditions varied by department
1.77	Terms and conditions do not specify how interest earned on funding should be spent
1.80	Unused spending may never return to the Province







Reference Guide – Key Findings and Observations (continued)

Paragraph	Key Findings and Observations
<i>Agreements Do Not Adequately Protect Public Funds, Continued</i>	
1.84	Agreements worth \$170.4 million (6 of 11) do not contain measurable performance targets
1.86	\$190 million in EfficiencyOne grants include performance targets and KPIs
1.87	\$15 million for Content Creator Fund given four months to develop details on use of funds
1.88	Agreements allow service providers to claim administrative costs without limits
<i>Over-Budget Spending in 2023-24 Already Fourth Highest on Record as of December 2023</i>	
1.91	Government approved \$778 million in over-budget spending in September and December 2023
<i>Recommendations</i>	
1.96	For a third time the Auditor General recommends improved accountability and transparency related to over-budget spending

Recommendations and Responses

Recommendation	Department Response	
<p>Recommendation 1.1 We recommend the Minister of Finance and Treasury Board amend the <i>Finance Act</i> to align the additional appropriations process with legislated practices elsewhere in Canada and provide accountability and transparency over the spending of all public funds.</p> <p style="text-align: right;">See paragraph 1.98</p>	<p>The Department of Finance and Treasury Board's position remains unchanged.</p> <p>The Minister of Finance appreciates the work of the Auditor General on this matter. The Minister is satisfied that the current parameters of the <i>Finance Act</i> ensure accountability and transparency over the spending of all public funds.</p>	<p> Department Disagrees</p> <p> Target Date for Implementation: N/A</p>
<p>Recommendation 1.2 We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, strengthen the approval process where government priorities are being advanced and require additional appropriations. We recommend related submissions to Executive Council and its committees include consideration of:</p> <ul style="list-style-type: none"> • the timing of the disbursement of funds to grant and subsidy recipients; and • options to fund grants and subsidies over time based on funding recipients' demonstrated need. <p style="text-align: right;">See paragraph 1.99</p>	<p>The approval process is the purview of elected government. The Department of Finance and Treasury Board and Executive Council Office work within the legislated framework of the Province to support government. Where submissions to Executive Council and its committees provide opportunity for documented support, the Department of Finance and Treasury Board commits to working with Executive Council Office to ensure consideration of these matters is included.</p> <p>A review of the Grants Management Framework Policy will be undertaken to determine if further guidance is necessary.</p>	<p> Department Disagrees</p> <p> Target Date for Implementation: N/A</p>
<p>Recommendation 1.3 We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, strengthen the approval process where government priorities are being advanced and require additional appropriations. We recommend related submissions to Executive Council and its committees include:</p> <ul style="list-style-type: none"> • the nature of the funding; • plans for the use of funds; • program requirements for third-party grant administration; • detailed cost estimates for the funding amount requested; • assessment of risk; • recipient reporting requirements to the Province detailing the use of funds and whether intended objectives are met; and • Provincial public reporting requirements detailing use of funds and whether intended objectives are met. <p style="text-align: right;">See paragraph 1.99</p>	<p>The approval process is the purview of elected government. The Department of Finance and Treasury Board and Executive Council Office work within the legislated framework of the Province to support government. Where submissions to Executive Council and its committees provide opportunity for documented support, the Department of Finance and Treasury Board commits to working with Executive Council Office to ensure consideration of these matters is included.</p> <p>A review of the Grants Management Framework Policy will be undertaken to determine if further guidance is necessary.</p>	<p> Department Disagrees</p> <p> Target Date for Implementation: N/A</p>

Recommendations and Responses

Recommendation	Department Response	
<p>Recommendation 1.4 We recommend the Department of Finance and Treasury Board and the Executive Council Office complete staff assessments for grant and subsidy submissions made to Executive Council and its committees and provide the assessment to decision makers.</p> <p style="text-align: right;">See paragraph 1.99</p>	<p>Department of Finance and Treasury Board: The department agrees with the position put forward by Executive Council Office and will work with ECO in reviewing the practices to ensure staff assessments are completed for grant and subsidy submissions where appropriate.</p> <p>Executive Council Office: As recently as February 2024, the Supreme Court of Canada recognized the tremendous flexibility available to the Executive Council, and its committees, in its decision-making process.</p> <p>The audit criteria acknowledge that government decisions are made within a highly contextualized environment. This necessitates a flexible process that, at times, varies from established guidelines.</p> <p>The Executive Council Office (ECO) endeavours to ensure complete and accurate information is provided to the Executive Council to support fully-informed decision-making. Staff assessments are one of several methods employed and not always required to facilitate the decision-making of the Executive Council.</p> <p>ECO will work with the Department of Finance and Treasury Board in reviewing its practices to ensure staff assessments are completed for grant and subsidy submissions where appropriate.</p>	<p> Department Disagrees</p> <p> Target Date for Implementation: N/A</p> <p> Executive Council Office Disagrees</p> <p> Target Date for Implementation: N/A</p>
<p>Recommendation 1.5 We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, develop guidance for departments on preparation of grant and subsidy agreements to protect public funds. We recommend such agreements include terms and conditions to address:</p> <ul style="list-style-type: none"> • measurable performance targets; • conflict of interest; • the ability to audit; • the assignment of interest earned on funds; • the return of unused funds to the Province; and • limits on administration costs. <p style="text-align: right;">See paragraph 1.99</p>	<p>The Department of Finance and Treasury Board will work with Executive Council Office to review the newly implemented Grants Management Framework Policy and incorporate further guidance on addressing these matters where appropriate.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: March 31, 2025</p>



Questions Nova Scotians May Want to Ask

1. What is the downside to Government changing the *Finance Act* to put Nova Scotia in line with the rest of the country?
2. What alternatives did the Province consider for the \$1.3 billion and \$1.9 billion higher-than-expected revenues in 2022 and 2023, respectively?
3. Will the Province amend agreements with funding recipients to ensure terms and conditions protect public funds?
4. What additional process controls and reporting requirements should be added to grant and subsidy over-budget spending to ensure accountability and transparency?

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1 Value for Money of Over-Budget Spending

Why We Did This Audit

- 1.1 In 2021-22 and 2022-23, Government approved \$2.6 billion in additional appropriations, or over-budget spending, with no legislative scrutiny. In our 2022 and 2023 Annual Financial Reports, we reported the over-budget spending process is not accountable or transparent. However, as of the public release of this audit, the Minister of Finance and Treasury Board has refused to implement Auditor General recommendations addressing over-budget spending.
- 1.2 We completed this audit at the Department of Finance and Treasury Board in the Winter of 2024 (see Appendix I – Reasonable Assurance Engagement Description and Conclusions). The purpose of the audit was to determine whether over-budget spending considered value for money and safeguarded public funds. Recognizing that Government spending decisions are made within a highly contextualized environment, the criteria used for this audit were:
 - Over-budget spending should fully convey the nature of the funding, plans for the use of funds, and program requirements;
 - Over-budget spending should be supported by detailed cost estimates;
 - Agreements with funding recipients should include terms and conditions to protect public funds; and
 - The timing of the disbursement of over-budget spending should be justified.
- 1.3 We examined 11 grant and subsidy expenditures made across five departments in 2021-22 and 2022-23: Advanced Education; Agriculture; Communities, Culture, Tourism and Heritage; Economic Development; and Natural Resources and Renewables. The total cost to the Province of this over-budget spending in March 2022 and 2023 was \$432.7 million. This amount represents 17 per cent of the \$2.6 billion in over-budget spending in the last two years.













Auditor General has twice recommended improved accountability and transparency related to over-budget spending

- 1.4 We recognize it is not unusual for Governments to increase spending to address unanticipated needs from time to time. However, it is an issue of concern for Nova Scotians as there is no official opportunity for legislators to debate the reasons behind spending billions of dollars of public funds.
- 1.5 In the last two years, the Auditor General has made recommendations to add accountability and transparency relating to over-budget spending particularly given the magnitude of over-budget spending in recent years.
- 1.6 In our 2022 Financial Report, we reported government lacked accountability and transparency in approving over-budget spending. We recommended amendments to the *Finance Act* to bring it in line with the rest of the Canadian provinces. The Department of Finance and Treasury

Board did make minor changes, including posting over-budget spending by department with the publicly available Orders-in-Council, and brief explanations on how the money was spent on the Department's website (see Appendix II – Where Did the Money Go). The Auditor General's 2023 Financial Report noted considerable work was still required to improve accountability and transparency after an additional \$1.7 billion in extra spending in 2022-23 alone. We reiterated our support for additional review and approval for over-budget spending and recommended changes to the *Finance Act*. As of the public release of this audit, no changes have been made to the *Finance Act* to require over-budget spending go before the legislature for debate and approval.

- 1.7 As a result, this performance audit assesses value for money of over-budget spending, approved as additional appropriations. Our focus was on 11 grant and subsidy expenditures made in 2021-22 and 2022-23 totaling \$432.7 million, including:

A Guide to the Charts on Pages 21 to 33

										
'23 EfficiencyOne 2023	Acadia CBU Sainte-Anne St. FX Acadia University, Cape Breton University, Universite Sainte-Anne, St. Francis Xavier University	Cape Breton University	'22 EfficiencyOne 2022	St. Francis Xavier University	Saint Mary's University	Screen Nova Scotia	Horticulture Nova Scotia	Halifax International Airport Authority	Oxford Community Centre Association	Municipality of the County of Inverness

- \$140 million to EfficiencyOne for off-oil efficiency programs
- \$65 million in deferred maintenance funding to four rural universities
- \$58.9 million to Cape Breton University for a medical school campus
- \$50 million to EfficiencyOne to address energy poverty and equity
- \$37.4 million to St. Francis Xavier University for health infrastructure
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- \$15 million to Screen Nova Scotia for the Content Creator Fund
- \$15 million to Horticulture Nova Scotia for recovery from the polar vortex
- \$13 million to Halifax International Airport Authority for the Air Access Fund
- \$7 million to Oxford Community Centre Association for a community centre
- \$6.4 million to Municipality of the County of Inverness for a coastal hiking trail

2022-23 Over-Budget Spending Highest on Record

- 1.8 The *Finance Act* of Nova Scotia requires the Government to prepare an annual budget, or estimates, for each department for the coming fiscal year. Budgets reflect key government priorities and outline detailed choices about where to spend money and how to raise the revenue required to support the spending decisions. The budget is tabled, debated, and voted on by members of the House of Assembly. Once the budget is passed, the resulting *Appropriations Act* specifies the amounts and purposes for which funds can be spent by departments. These annual budget appropriations function as the House of Assembly's control on government spending. This process allows Nova Scotians to have input on government spending through their elected officials before spending occurs.

Definitions

Additional Appropriation: The appropriation necessary when it is anticipated expenses will exceed the budgeted appropriation.

Budget Appropriation: The authorization by the Legislature under an *Appropriations Act* for an expenditure of money or incurrence of an expense.

Estimates: The prospective revenues, expenses, and capital expenditures for a fiscal year submitted to the House of Assembly for approval; also known as the budget. If approved, the estimates become the *Appropriations Act*.

Finance and Treasury Board: The department responsible for corporate budget preparations, oversight of spending and revenue of the Province, and the administration of the *Finance Act*.

Forecast Update Process: The three-times annual legislated process when the Department of Finance and Treasury Board reports on the state of public finances for a fiscal year to the House of Assembly.

Government: The decision-making authority of the executive branch of government consisting of the representatives elected to the House of Assembly and chosen by the Premier as members of Executive Council.

Governor in Council: The Lieutenant Governor, acting by and with the advice of Executive Council.

Province: The collective departments responsible for the day-to-day operations of the executive branch of government which deliver the programs and services for Nova Scotians.

Source: Office of the Auditor General of Nova Scotia



Nova Scotia's over-budget spending process lacks accountability and transparency

- 1.9 The Province is required to update the public regularly throughout the year on the state of the public finances through budget forecast updates¹, occurring in September, December, and March. The forecast process, led by the Department of Finance and Treasury Board, provides updates on the Province's projected revenue and expenses, and whether adjustments need to be made.

¹The *Finance Act* 2010, Section 57 (1) The Minister shall submit financial reports on the state of the public finances for a fiscal year to the House of Assembly in accordance with the following schedule:

(a) on or before September 30th of the fiscal year to which the report relates;

(b) on or before December 31st of the fiscal year to which the report relates;

(c) as part of the Estimates tabled in the House of Assembly for the following fiscal year; and

(d) as part of the Public Accounts prepared respecting the fiscal year.

- 1.10 During the year, if a department determines it cannot stay within its budget appropriation, additional appropriations must be obtained. Additional appropriations are communicated as part of the three forecast updates; under the *Finance Act*, additional funding is approved by the Governor in Council rather than the House of Assembly.
- 1.11 The Governor in Council is the Lieutenant Governor of Nova Scotia acting by and with the advice of Executive Council. The Executive Council, or Cabinet, is the decision-making authority for the Government. Executive Council members, known as Ministers, are chosen by the Premier who serves as its President, meaning requests for over-budget spending are submitted to the decision-making members of Government and are not voted on by all members of the House of Assembly.
- 1.12 Our 2022 and 2023 Annual Financial Reports found the over-budget spending process in Nova Scotia lacks accountability through the legislature. Unlike other jurisdictions, the *Finance Act* has no requirement for the legislature to review, vote on, or approve these additional spends. While there are nuances in legislation, in almost all other jurisdictions in Canada (including the remaining nine provinces and the federal government), there is a requirement for over-budget spending to return to the legislature for debate and approval through a supplementary estimate or other process. In some jurisdictions, if the legislature is not in session, over-budget spending may be approved temporarily by Governor in Council through special warrants, but there is still a requirement in most cases for over-budget spending to be approved by the legislature once the next session convenes.

Jurisdictional Comparison of Finance Acts for Over-Budget Spending

Jurisdiction	Over-Budget Spending Required to be Tabled in the Legislature (Legislature in Session)	Special Warrants Required to be Tabled in the Legislature (Legislature not in Session)
Nova Scotia	No	No
Newfoundland and Labrador	Yes	Yes
New Brunswick	Yes	Yes
Prince Edward Island	Yes	Yes
Quebec	Yes	Yes
Ontario	Yes	Yes
Manitoba	Yes	No
Saskatchewan	Yes	Yes
Alberta	Yes	No
British Columbia	Yes	Yes
Canada	Yes	Yes

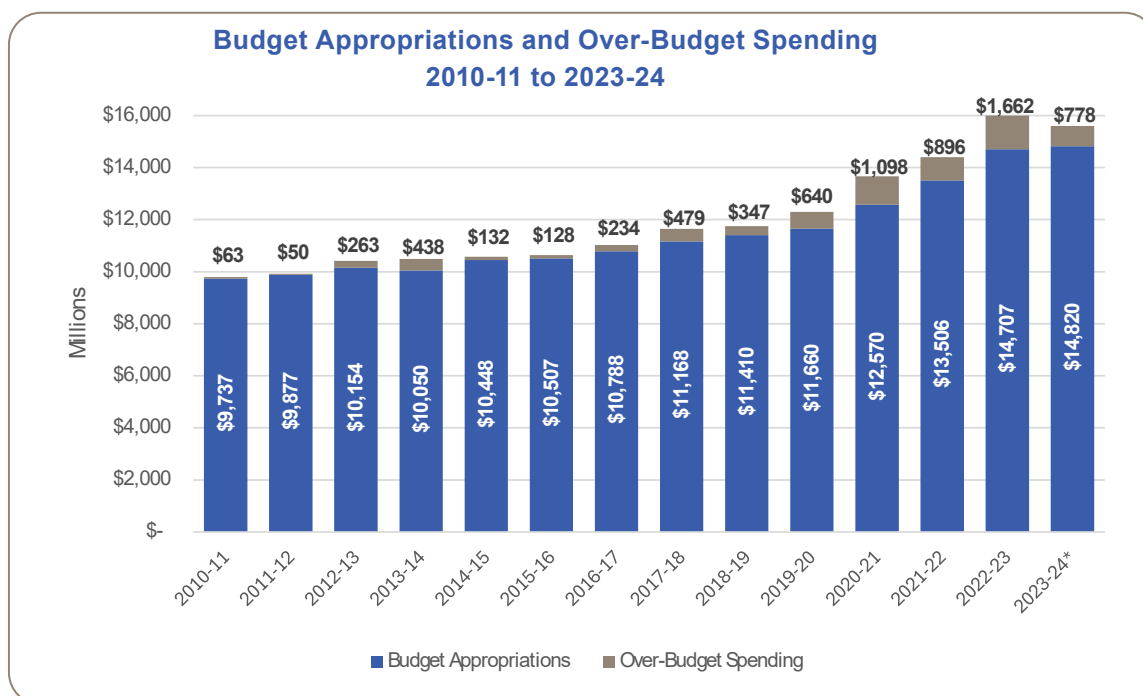
Source: *Provincial and Federal Acts*

- 1.13 While the Province is correctly following the requirements as set out in Nova Scotia's *Finance Act* for over-budget spending, unlike other provinces, there is no requirement that it be brought to the House of Assembly for debate and approval. This means the legislature, and therefore, Nova Scotians, have limited ability to hold the government accountable for this spending.
- 1.14 The process is also less transparent than processes used in other provinces. Unlike other jurisdictions, where over-budget spending is reviewed and approved by the Legislative Assembly, the details may not be subject to open public discussion through the legislature in Nova Scotia.
- 1.15 While the Province updates the public regularly through the budget forecast process, as well as through the annual Public Accounts, any information provided on over-budget spending comes

in summary form, long after approval has been obtained by Executive Council and spending has already occurred.

Successive governments have approved over-budget spending since the *Finance Act* passed in 2010

1.16 The sum total of over-budget spending has grown in recent years, increasing to \$896 million in 2021-22 and to \$1.7 billion in 2022-23, up sharply from \$63 million in 2010-11 when the *Finance Act* was passed. In this 13-year period, a total of \$6.4 billion in over-budget spending has been approved by the Governor in Council, without debate in the House of Assembly. A further \$778 million was announced in the September and December 2023 forecast updates for 2023-24.



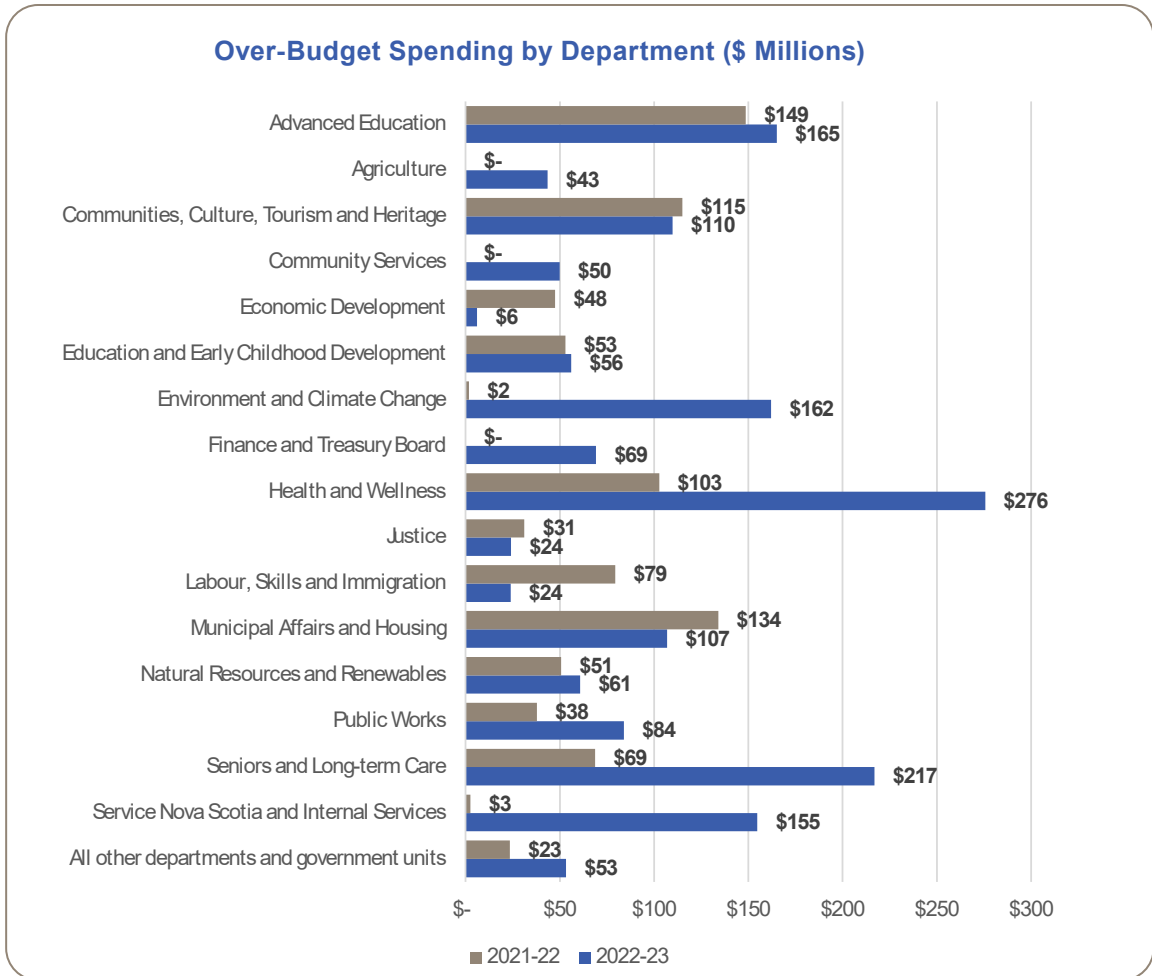
Source: Office of the Auditor General of Nova Scotia; 2010-11 through 2022-23 Public Accounts
 *2023-24 budget forecast and the September and December 2023 forecast updates; as of December 31, 2023

1.17 In the 13 years since the *Finance Act* was passed, successive governments – led by all three major political parties in Nova Scotia – have approved over-budget spending. However, in recent years, the sum of over-budget spending has increased substantially. The \$1.7 billion in 2022-23 is the largest amount approved since the *Finance Act* was introduced in 2010.

\$2.6 billion in over-budget spending approved in 2021-22 and 2022-23

1.18 Over-budget spending is approved for departments as required. For example, a program may cost more than expected, or the delivery of a service may require additional staff. Over-budget spending may also arise when departments submit proposals for new spending, for instance to respond to a natural disaster or to advance government priorities.

1.19 The over-budget spending totaled in the chart below were passed through Orders in Council in September, December, and March in each of the last two fiscal years, as well as a final appropriation approved after the tabling of the Public Accounts in September.



Source: Office of the Auditor General of Nova Scotia; 2021-22 and 2022-23 Public Accounts



Recent increases in over-budget spending coincide with higher-than-expected revenue

- 1.20 Revenue is comprised of three components: provincial source revenue, consisting primarily of personal income tax, harmonized sales tax, and corporate income tax; federal equalization payments; and other federal transfers. Overall, revenue was \$1.3 billion higher than expected in 2021-22, and \$1.9 billion higher than expected in 2022-23.
- 1.21 The Province has indicated recent higher-than-anticipated revenue has impacted spending and led to increases in the use of over-budget spending in recent years. Higher-than-anticipated revenues provide more short-term certainty and allow Government to reconsider how its priorities can be advanced and expenditures increased. This additional revenue was mainly a result of the Provincial economy rebounding stronger than anticipated from the COVID-19 pandemic.

In Tested Grants and Subsidies, the Province Prematurely Spent a Total of \$432.7 Million

➔ Spending did not include justification for timing of premature disbursement of funds to recipients

- 1.22 Submission documents requesting over-budget spending did not include justification for the timing of the disbursement of funds. We found it curious that funding was paid to grant and subsidy recipients in March of 2022 and 2023, just as the fiscal year was ending.
- 1.23 We note it is not unusual for organizations, provincial or otherwise, to have an increase in the number of transactions recorded near the end of the fiscal year. However, these transactions often represent accruals (an expense incurred in one accounting period but not paid until a future accounting period), estimates or adjustments to estimates, reallocations between departments, and other expenses for which a final figure is only available at year end and is processed in the normal course of business. The grant and subsidy expenditures we examined were all additional new spending.

➔ No immediate spending need for any (11 of 11) of the \$432.7 million tested

- 1.24 We expected to find details in submission documents justifying why \$432.7 million in over-budget spending was required in March 2022 and March 2023, as certain projects were multi-year commitments or infrastructure projects with no timeline for the start of construction. Our review of the 11 grant and subsidy expenditures found no instances where spending was required immediately.

Auditor General Assessment – Immediate Need for Spending (Millions)

Deferred maintenance for four universities	Cape Breton University	e1 2022	St. Francis Xavier University	SCREEN NOVA SCOTIA	HORTICULTURE NOVA SCOTIA	Oxford Community Centre Association	MUSICAL COAST	Total			
✘	✘	✘	✘	✘	✘	✘	✘				
\$140M	\$65M	\$58.9M	\$50M	\$37.4M	\$25M	\$15M	\$15M	\$13M	\$7M	\$6.4M	\$432.7M

➔ \$109.7 million for infrastructure projects funded upfront

- 1.25 For example, four grant and subsidy expenditures, totaling \$109.7 million, were for infrastructure-related projects. This includes \$58.9 million to Cape Breton University for a medical school campus, \$37.4 million to St. Francis Xavier University for health infrastructure, \$7 million to the Oxford Community Centre Association for a community centre, and \$6.4 million to the Municipality of the County of Inverness for a coastal hiking trail. We found no evidence these projects needed upfront funding. We report the spending to date on these projects below.

➔ Fiscal capacity alone is poor rationale to distribute public funds in advance of need

- 1.26 Paying upfront or in advance is not a traditional payment arrangement for the Province. We would expect to see an arrangement where the Province pays only when costs are incurred, as is the case when the Province builds a hospital or school or makes improvements to infrastructure

like roads and trails. For instance, Cape Breton University could submit progress billings to the Department of Advanced Education, or the Department could pay the medical school contractor directly as work is completed. We question why the approach of upfront funding was used for these four infrastructure projects. The Province's fiscal capacity alone should not be the basis to advance funding.

- 1.27 By providing funds up front, the Province has transferred the interest revenue benefit to be earned on the funds. As discussed below, the large balances in recipients' bank accounts highlight the importance of providing funding only as needed.



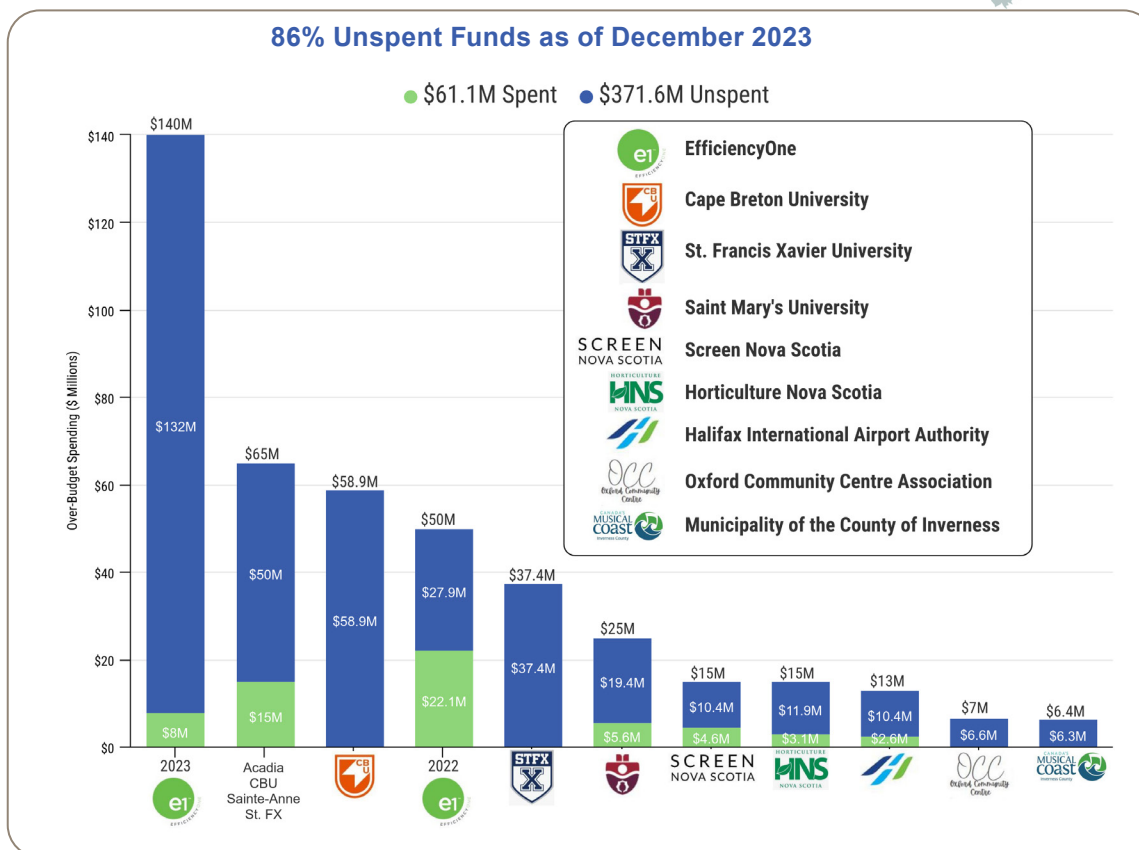
5 of 11 grant and subsidy expenditures tested (\$233 million) front-end funded multi-year agreements

- 1.28 Of the 11 grant and subsidy expenditures we examined, five were multi-year agreements, meaning portions of the funding will not be required until years into the future. However, in each case, recipients received the full funding upfront, at the start of the agreement.
- 1.29 The agreements between the Department of Natural Resources and Renewables and EfficiencyOne, for \$140 million and \$50 million respectively, run for a period of three to five years. Likewise, the agreement for \$15 million between the Department of Communities, Culture, Tourism and Heritage and Screen Nova Scotia for the Content Creator Fund has a five-year term. The agreement for \$15 million between the Department of Agriculture and Horticulture Nova Scotia has a three-year term.
- 1.30 In the case of the \$13 million to the Halifax International Airport Authority, the Department of Economic Development provided funding for the full nine-year program upfront. We question why the Province is disbursing millions in funding before it is needed.
- 1.31 We heard from several departments that advancing multi-year funding benefits recipients by creating financial security for planning and strategic purposes and reduces the administrative burden of an annual application process. And the Department of Economic Development noted funding recipients often work on timelines which are faster than the Government submission and decision-making processes allow, creating challenges. However, it also creates additional risk for the Province.
- 1.32 An alternate approach would involve the Province committing to fund programs at the time of approval from Executive Council or its committees, but only paying grant and subsidy recipients over time as needed, rather than upfront or all at once.



As much as \$371.6 million of \$432.7 million (86%) in over-budget spending unspent as of December 2023

- 1.33 In December 2023, we enquired with the five departments responsible for the \$432.7 million in over-budget spending to determine how much funding had been spent to date. Only a few departments were readily able to provide this information, even though hundreds of millions had been paid out by the Province in March 2022 and March 2023.



Source: Office of the Auditor General of Nova Scotia

1.34 Of the \$432.7 million issued, departments could account for \$61.1 million, or 14 per cent of the total, spent to date. It is important to note not only was this funding disbursed by the Province prematurely, but this funding is also generating interest revenue in grant and subsidy recipients' bank accounts. We note, of the \$143 million in grant and subsidy expenditures from March 2022, \$99 million remains unspent as of December 2023; and of the \$290 million in grant and subsidy expenditures from March 2023, \$273 million remains unspent as of December 2023.

Funding recipients benefit from millions of dollars in interest revenue

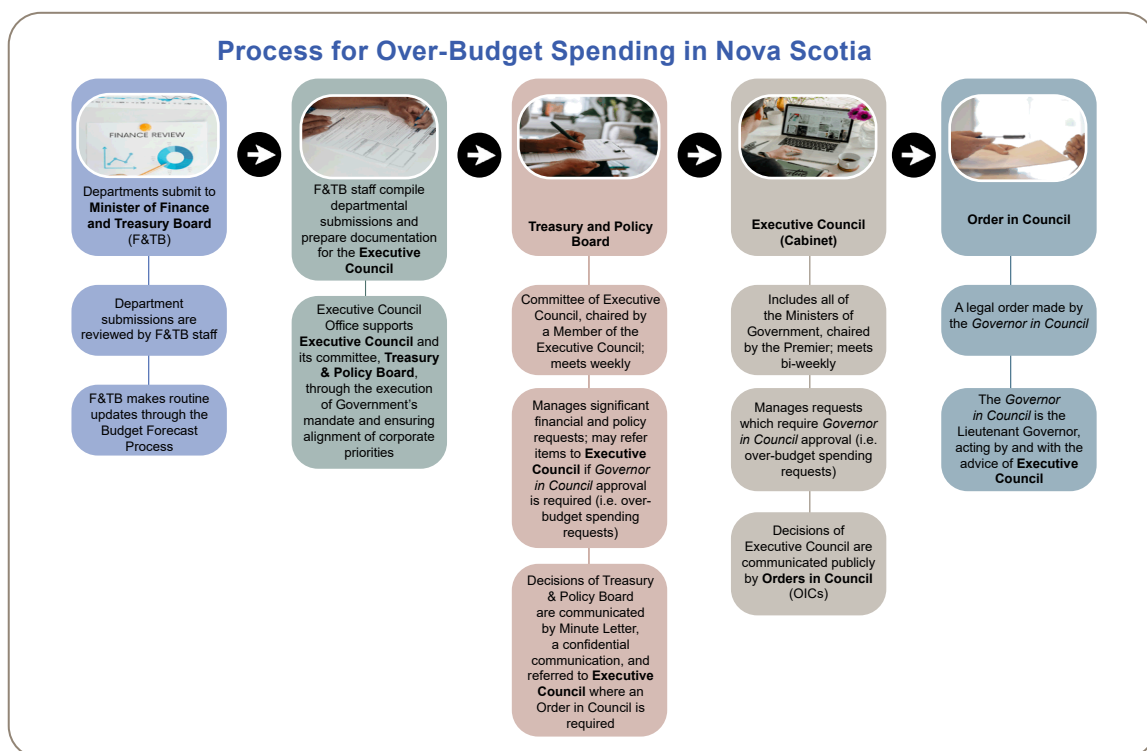
1.35 We calculated the monthly interest revenue the Province could be earning had the public funds been disbursed to recipients when needed. Assuming a five per cent interest rate, the \$371.6 million unspent portion would earn \$1.6 million monthly, or \$19 million per year, using a simple interest calculation.

Spending Proposals Missing Key Elements to Ensure Public Funds Spent as Intended

Requests for over-budget spending submitted by the Minister of Finance and Treasury Board

1.36 Requests for over-budget spending are made by way of submission through Executive Council Office, the office which supports Executive Council and its committee, Treasury and Policy Board. Treasury and Policy Board is the committee of the Executive Council charged with approving requests which deal with significant financial and policy matters. Should the request require

Governor in Council approval, for example when a department seeks an additional appropriation, approval is also required from Executive Council.



Source: Office of the Auditor General of Nova Scotia

- 1.37 All 11 spending proposals were submitted to Executive Council Office by the Department of Finance and Treasury Board. The Department routinely updates Treasury and Policy Board through the budget forecast update process. The Department identified significant revenue gains and increased fiscal capacity in most of the 11 spending proposals, creating the opportunity for Government to advance additional priorities within the fiscal year.
- 1.38 Submission documents to Treasury and Policy Board confirm the over-budget spending approved was in key government priority areas, including the environment, healthcare, tourism, as well as industry support to respond to a natural disaster emergency. These decisions are recorded by *Minute Letter*, considered confidential, and thus not available to the public. Approval from Treasury and Policy Board is the first of a two-step process; it next goes before Executive Council for an additional appropriation.
- 1.39 As previously mentioned, when additional spending results in a department exceeding their original budget appropriation, an additional appropriation is required. The over-budget spending process requires the department exceeding its budget appropriation to initiate a request for an additional appropriation through a report to the Minister of Finance and Treasury Board. The department must include sufficient explanation and justification for its request and provide an estimate for the additional amount required to carry out the program or activity.
- 1.40 Reports are reviewed by the Department of Finance and Treasury Board where staff prepare a submission to Executive Council Office to comply with the two-step process. Only one submission, signed by the Minister of Finance and Treasury Board on behalf of all requesting departments, is made to Executive Council for all additional appropriations for the Province.

1.41 The additional appropriations for all 11 grant and subsidy expenditures were approved as required by Governor in Council and communicated publicly by an Order in Council.

Most spending proposals included a clear purpose

1.42 Spending proposals should fully convey the nature of the funding, lay out the plans for the use of funds, and set down the program requirements. Through our testing, we found the goals and objectives of the grants and subsidies appeared to be easily understood and tied to government priorities for most spending proposals.

Auditor General Assessment – Clear Purpose (Millions)

Deferred maintenance for four universities					SCREEN NOVA SCOTIA	HORTICULTURE HNS NOVA SCOTIA				Total	
\$140M	\$65M	\$58.9M	\$50M	\$37.4M	\$25M	\$15M	\$15M	\$13M	\$7M	\$6.4M	\$25M

1.43 We did note there was no plan in place for the \$25 million proposal for Saint Mary’s University for health programming requested by the Department of Advanced Education. We reviewed the program proposal submitted by the university, but there was no detail as to how the funding would be spent.

\$30 million in spending proposals administered by service providers lacked program design

1.44 In four of the spending proposals we examined, the Province contracted service providers to administer a grant or subsidy program. Usually when grant programs are created and designed, there are documented frameworks which outline program goals, define program success, and guide grant administration. This level of analysis to support program design decisions was not available for two of the four grants we reviewed as described below.

Auditor General Assessment – Grant and Subsidy Program Design (Millions)

Deferred maintenance for four universities					SCREEN NOVA SCOTIA	HORTICULTURE HNS NOVA SCOTIA				Total	
\$140M	\$65M	\$58.9M	\$50M	\$37.4M	\$25M	\$15M	\$15M	\$13M	\$7M	\$6.4M	\$30M

1.45 The Department of Communities, Culture, Tourism and Heritage requested \$15 million for Screen Nova Scotia’s Content Creator Fund to benefit local film and television productions. The fund earmarks \$3 million annually over five years for eligible Nova Scotia-led productions, to support local directors, writers, actors, and performers. This spending proposal was approved prior to Screen Nova Scotia developing a project plan to outline the project framework, including program objectives, eligibility criteria for applicants, and program timelines.

1.46 The Department of Agriculture requested \$15 million for fruit growers to aid with the impacts of the polar vortex in February 2023 via a program administered by Horticulture Nova Scotia. The submission notes up to 100% of crops such as grapes, raspberries, peaches, cherries, and plums could be lost because of the cold damage to trees. The funding was intended to help with losses not covered by business risk management programs like crop insurance and was also meant to support replant programs and climate change mitigation projects to protect against future adverse events. However, we note this spending proposal was approved prior to Horticulture Nova Scotia completing an adequate plan for the use of funds and money was disbursed before the extent of damage was known.

\$280.4 million of \$432.7 million (6 of 11) in spending proposals not supported by cost estimates

1.47 Submissions to Executive Council Office should include a cost estimate for each grant and subsidy. A cost estimate should be based on the best information available to determine how much funding is needed to achieve the desired objective in the most cost-effective manner. We found some proposals had detailed cost estimates while others did not.

Auditor General Assessment – Cost Estimates (Millions)


	Deferred maintenance for four universities					SCREEN NOVA SCOTIA					Total
\$140M	\$65M	\$58.9M	\$50M	\$37.4M	\$25M	\$15M	\$15M	\$13M	\$7M	\$6.4M	\$280.4M

1.48 Our review found submission documents included the total funding request, but in most cases no additional information was included. We were unable to determine if further details were shared or discussed with decision makers outside of the submission documents we obtained because the deliberations of Executive Council and its committees are confidential.

Province provided \$140 million to EfficiencyOne despite the Corporation having \$102 million in unspent provincial funding

1.49 The Department of Natural Resources and Renewables funded two spending proposals in March 2022 and 2023 to EfficiencyOne for \$50 million and \$140 million, respectively. EfficiencyOne is an independent, non-profit organization with the exclusive right to use the provincially-owned Efficiency Nova Scotia brand in administering both electric and non-electric energy efficiency programs. The Department had an established relationship with EfficiencyOne prior to the funding contributions made in March 2022 and 2023.

1.50 Our review found neither the \$50 million in March 2022, nor the \$140 million in March 2023 were supported by adequate cost estimates. A review of EfficiencyOne’s December 2022 audited financial statements showed the Corporation had \$102.4 million in deferred revenue received from the Province, including \$48.9 million of the \$50 million awarded a year earlier. Deferred revenue is unearned and, in this case, refers to advance payments the Corporation has received from the Province for programming to be delivered in the future. We question whether the \$190 million requested over two years was actually required at the time it was funded by the Province.

 **\$62.4 million in healthcare grants for universities approved without cost estimates**

1.51 The Department of Advanced Education had two spending proposals: \$37.4 million for St. Francis Xavier University for health infrastructure and \$25 million for Saint Mary's University for health programming, neither of which was supported by adequate cost estimates. Department management were not able to provide any additional detail to support the amount of funding requested and approved. The request for health infrastructure at St. Francis Xavier University was awarded to construct a new 80,000 square foot facility to house several health-related departments and programs. We expected to find support which detailed the cost to design, build, and manage project construction for the exterior, interior, and mechanical and electrical systems as well as to maintain these buildings long-term within existing budgets. However, none of this information was available. Likewise, the \$25 million request for new health programming at Saint Mary's University had no details to explain how the funding amount was determined, how it would be used to educate students, and how many students the University expected to enroll in the new programs.

 **\$15 million polar vortex funding approved before extent of damage was known**

1.52 We had similar concerns with the Department of Agriculture request for \$15 million for Horticulture Nova Scotia. We determined there were not sufficient details to support the cost for the proposal which is intended to support grape and other fruit growers whose crops were affected by the polar vortex in February 2023. We note the grant was requested and provided to Horticulture Nova Scotia before the full impacts of the damage were known.

 **\$13 million top up funding to Airport Authority despite \$17.6 million in unused funds**






















1.53 Lastly, the Department of Economic Development requested \$13 million for the Halifax International Airport Authority's Air Access Fund. The fund is intended to be used by the airport authority to re-establish an air service network, return service to the region, and attract tourism. The Air Access Fund was established in 2018 with \$11.1 million in Provincial funding to increase international routes and received an additional \$10 million in 2020. There was still \$17.6 million remaining in the fund when the additional \$13 million to attract domestic routes was requested. We were not able to determine how the cost of the proposal was determined through submission documents or enquiry with the Department.

 **\$221.3 million (8 of 11) in spending approved without a risk assessment**

1.54 Risk assessments detect potential hazards and identify the relevant controls and processes needed to manage them. Examples of risks include the risk of fraud or the risk funding is not used as intended by recipients.

1.55 We found only three risk assessments completed by the Province, relating to the \$140 million for EfficiencyOne for off-oil efficiency programs, the \$65 million deferred maintenance funding to four rural universities, and the \$6.4 million to the Municipality of the County of Inverness for a coastal hiking trail. The rest of the \$221.3 million in public funds were issued without the Province assessing risk, including identifying risk and how to appropriately respond.

Auditor General Assessment – Risk Assessment (Millions)

 2023	Deferred maintenance for four universities		 2022			SCREEN NOVA SCOTIA					Total
											
\$140M	\$65M	\$58.9M	\$50M	\$37.4M	\$25M	\$15M	\$15M	\$13M	\$7M	\$6.4M	\$221.3M

- 1.56 Moreover, the submission template to Executive Council Office includes a section where consideration of risks is suggested. Submitters are encouraged to discuss how the grant and subsidy design and delivery model is best suited to achieving the intended results.
- 1.57 While a completed risk assessment will not protect from all risk, it creates awareness and identifies areas where additional levels of control can be added. Monitoring requirements could also be incorporated into funding agreements to further protect public funds.



Grants policy introduced by the Province requires a risk assessment

- 1.58 In March 2023, the Province released a Grants Management Policy (the Policy). The Policy was implemented in response to recommendations our Office made in two audits: 2018 Grant Programs and 2021 Value for Money of Early COVID-19 Relief Programs for Individuals and Small Businesses.
- 1.59 The Policy states grant programs are to have a clear purpose, support departmental initiatives, and connect to the achievement of a public policy objective. The design should include a comprehensive risk analysis, which includes potential risk to the Province. The process should be documented and should include an assessment of the risks and mitigations to support the program accomplishing its goals and objectives. It is best practice to design grants to achieve value for money.
- 1.60 We note the Policy was not in effect at the time we examined the 11 items for this report. While we have not assessed the Grants Management Policy with this audit, we do note the policy assigns the responsibility for grant design, administration, and monitoring of compliance to the departments. However, the Policy does not provide any guidance around the adequacy of cost estimates to support the funding amount determined, a key component in the consideration of value for money.



Staff assessments required by policy to provide advice to decision makers

- 1.61 Treasury and Policy Board typically meets weekly while Executive Council meets bi-weekly. The Executive Council Office Submission Policy states submissions should be submitted three weeks in advance to process and approve requests. This allows staff sufficient time for analysis, briefings, and preparation. Members of Executive Council and Treasury and Policy Board also require time to review proposals prior to meetings. Submissions are scheduled by Executive Council Office on the first available agenda, provided all necessary analysis and administration is complete. There may be extenuating circumstances which require the review to be expedited, and priority items may take precedence for agenda time and be scheduled more quickly.

1.62 Staff at Executive Council Office and the Department of Finance and Treasury Board work together to provide advice to Executive Council through a staff assessment process. Staff assessments provide independent, objective, and confidential advice to members of Executive Council and Treasury and Policy Board. Staff assess proposals against a series of criteria, including:

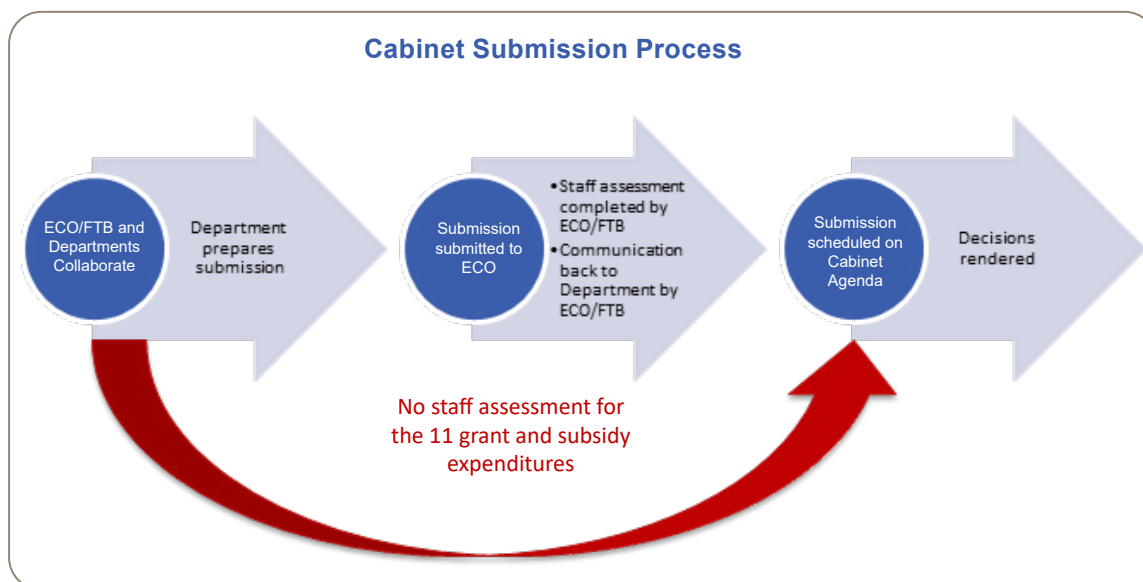
- the effectiveness of the proposal in addressing a problem and opportunity;
- cost and benefit;
- financial and budgetary implications;
- legal implications;
- implementation issues and timing; and
- consideration of other options.

1.63 The staff assessment concludes with a recommendation. The submitting department is notified whether staff recommend approval as proposed, changes to the proposal, or do not recommend a proposal. The proposal and staff assessment are then forwarded to Executive Council or its committee for review and approval.



Staff assessments not completed due to expedited review

1.64 Our examination found there were no staff assessments completed for any of the 11 grant and subsidy expenditures. One proposal, the \$140 million for EfficiencyOne, included a note to Executive Council which considered many of the criteria found in a staff assessment; however, the timing of the disbursement of funds and the consideration of other options were not discussed.



Source: Executive Council Office; ECO/FTB: Executive Council Office/Finance and Treasury Board

- 1.65 Management at Executive Council Office indicated a staff assessment is just one means of assessing a submission as Government decisions are made within a highly contextualized environment. This necessitates a flexible process that, at times, deviates from policy. Management further explained that a staff assessment may not always be appropriate, such as if a decision must be made quickly, or if spending is in areas of high priority to Government when submissions are often made in collaboration with members of Executive Council and the Premier's Office. However, senior officials are available to brief Government on the nature of the spending proposals and attend meetings of Executive Council and its committees to provide support to decision makers.
- 1.66 We are concerned this key control was not followed in any of the transactions we reviewed. The staff assessment process considers value for money and helps inform decision makers. Over-budget spending totaled \$2.6 billion during the last two years, accounting for six per cent of all spending in 2021-22 and 10 per cent of spending in 2022-23. The established process used to provide context around spending, assess the completeness of a submission, and highlight potential risks should be followed for over-budget spending.



None of the 11 spending proposals adequately considered value for money

- 1.67 The Executive Council Office Submission Policy states the length of each proposal is dependent on the complexity of the program or activity. Proposals should provide enough information to clearly describe the request to Executive Council to allow for an informed decision.
- 1.68 We expect members of Executive Council and Treasury and Policy Board would rely on the departments to succinctly articulate the key elements of spending proposals and provide clear recommendations in a manner quickly understood by decision makers. However, the financial value and one-time nature of these grant and subsidy expenditures present additional risk. Unlike existing programs which can be evaluated on their established track record and data, the 11 grant and subsidy expenditures we examined were proposals for new programming.
- 1.69 Our review of grant and subsidy expenditures found most submission documents put before decision makers offered only a high-level overview. Over-budget spending of \$432.7 million in public funds represents a significant investment by the Province. With this level of spending, we would expect submission proposals to consider value for money so public funds are spent in accordance with the principles of effectiveness, economy, and efficiency.

Agreements Do Not Adequately Protect Public Funds



All 11 grant and subsidy expenditures included a signed agreement or funding letter with funding recipients, but agreements include weaknesses

- 1.70 Agreements should have a set of basic terms and conditions to protect public funds and require funding to be used for the purpose intended. While terms and conditions may vary significantly between agreements, the reasoning should be straight forward and easy to understand.
- 1.71 All 11 grant and subsidy expenditures we examined had agreements or funding letters signed by the issuing department and the funding recipients. Agreements and funding letters were signed prior to the disbursement of funds, a key internal control. We did, however, find weaknesses with the terms and conditions which we explain in the paragraphs which follow.

Most agreements missing key terms and conditions to protect public funds

1.72 Our examination found key terms and conditions were missing in most agreements and funding letters where conflict of interest, audit, assignment of interest earned, and return of unused funds clauses were not included.

Auditor General Assessment – Agreement Terms and Conditions (Millions)

Agreement	2023*	Deferred maintenance for four universities		2022*			SCREEN NOVA SCOTIA	HORTICULTURE HNS NOVA SCOTIA		OCC Oxford Community Centre	MUSICAL COAST
Conflict of Interest clause											
Audit clause											
Assignment of interest earned clause											
Return of unused funds clause											
Amount	\$140M	\$65M	\$58.9M	\$50M	\$37.4M	\$25M	\$15M	\$15M	\$13M	\$7M	\$6.4M

*see paragraph 1.82

Terms and conditions varied by department

1.73 As shown in the chart above we found signed agreements with varying terms and conditions across the departments. This variation impacts the level of risk associated with each grant and subsidy and the degree to which public funds are safeguarded.

1.74 The Department of Advanced Education entered into seven agreements with universities, totaling \$186.3 million in March 2022 and March 2023. The agreements included:

- \$65 million to four rural universities to address deferred maintenance, comprised of four identical agreements:
 - \$23.4 million to St. Francis Xavier University;
 - \$22 million to Acadia University;
 - \$14 million to Cape Breton University; and
 - \$5.6 million to Université Sainte-Anne.
- \$58.9 million to Cape Breton University for a medical school campus

- \$37.4 million to St. Francis Xavier University for health infrastructure
- \$25 million to Saint Mary's University for health programs

1.75 Of these seven agreements, our examination found there was no conflict of interest clause, no clause to account for interest earned on the contribution, and no clause requiring any unused funds be returned to the Province. The four agreements with rural universities to address deferred maintenance included an audit clause, while the other three agreements did not.

1.76 Conflict of interest and audit clauses are standard terms and conditions which should be included in any agreement. These clauses confirm parties are aware of their responsibilities and allow departments to effectively monitor agreements to verify funding is used as intended.



Terms and conditions do not specify how interest earned on funding should be spent

1.77 The Department of Advanced Education disbursed \$186.3 million in funding to universities without establishing conditions for any interest earned on the funds.

1.78 By providing funding up front, the Province has given up any interest earned on the funds. Should universities not use the entire funding immediately, any unspent balance will sit in their bank account, collecting interest.

1.79 Agreements between the Department of Economic Development and the Halifax International Airport Authority (\$13 million Air Access Fund), and the Department of Communities, Culture, Tourism and Heritage with both the Oxford Community Centre Association (\$7 million community centre) and the Municipality of the County of Inverness (\$6.4 million coastal hiking trail) also did not include terms and conditions addressing interest earned.



Unused spending may never return to the Province

1.80 Several agreements with grant and subsidy recipients lack direction for any remaining unused funds at the completion of the agreement. This leaves the Province open to the risk any potential unspent funds would not be used as intended.

1.81 We are concerned \$186.3 million in funding agreements between the Department of Advanced Education and universities do not offer any protection to the Province if funds go unused. For example, should the cost of the medical school campus at Cape Breton University be less than the \$58.9 million funding, the Province has no recourse to recover the unused funds.

1.82 For comparison purposes, the agreements between the Department of Natural Resources and Renewables and EfficiencyOne, for \$140 million and \$50 million respectively, include clauses placing any unused funds at the expiration of the agreement into a trust. The clause indicates the Province will determine how to spend these trust funds, including reallocating to similar programs which reduce greenhouse gas emissions.

1.83 We are concerned public funds, spent before the Province knew how much was needed, may never return to the Province. As a result, it is important the Province consider options and have clear and documented direction to address these potentially significant amounts of unused funds.

Agreements worth \$170.4 million (6 of 11) do not contain measurable performance targets

1.84 Our review found six of the 11 agreements, accounting for \$170.4 million in funding, did not contain measurable performance targets.

Auditor General Assessment – Performance Targets (Millions)

e1 2023	Deferred maintenance for four universities	CBU	e1 2022	STFX	UNO	SCREEN NOVA SCOTIA	HNS NOVA SCOTIA	HORTICULTURE NOVA SCOTIA	OCC Orléans Community Centre	MUSICAL COAST	Total	
\$140M	\$65M	\$58.9M	\$50M	\$37.4M	\$25M	\$15M	\$15M	\$13M	\$7M	\$6.4M	\$170.4M	

1.85 Establishing performance targets is an important step in creating any grant and subsidy program. Performance targets help define success, providing metrics to help determine if an overall goal is met.

\$190 million in EfficiencyOne grants include performance targets and KPIs

1.86 A good example of these metrics are the two agreements signed between the Department of Natural Resources and Renewables and EfficiencyOne (\$50 million in March 2022, and \$140 million in March 2023, respectively). These agreements are intended to achieve greenhouse gas emission reductions and energy bill savings for Nova Scotians through several off-oil efficiency programs. The agreements include performance targets and key performance indicators, including the expected number of participants, and the associated savings to provincial energy and customer bills derived from increased energy efficient sources.

\$15 million for Content Creator Fund given four months to develop details on use of funds

1.87 On the other hand, the Department of Communities, Culture, Tourism and Heritage provided \$15 million to Screen Nova Scotia for the Content Creator Fund without establishing any measurable goals for the funding. The funding letter states the funds are to be used towards the development, delivery, and administration of the Content Creator Fund and it gave four months (120 days) to Screen Nova Scotia to develop the specifics of the fund, including program objectives.

Agreements allow service providers to claim administrative costs without limits

1.88 When the Province contracts a service provider to administer a grant and subsidy program, agreements incorporate administrative costs. Administrative costs include but are not limited to expenses such as rent, information technology, and administrative staff salaries, and should be clearly defined in an agreement. Costs are generally claimed against the initial contribution.

1.89 The agreement between the Department of Communities, Culture, Tourism and Heritage and Screen Nova Scotia for \$15 million allows the service provider to determine what administrative costs qualify. We find it concerning the Department is asking the service provider to determine what constitutes an administrative cost, with no annual limits.

- 1.90 Likewise, the agreements between EfficiencyOne and the Department of Natural Resources and Renewables, for \$140 million and \$50 million respectively, have no limits on administrative costs which can be charged against the contribution. The lack of cost threshold could result in service providers claiming inappropriate fees, and less money going to address the original government priority.

Over-Budget Spending in 2023-24 Already Fourth Highest on Record as of December 2023



Government approved \$778 million in over-budget spending in September and December 2023

- 1.91 It's important to note that this audit examines over-budget spending from 2021-22 and 2022-23 and makes several recommendations for improvement based on the results. Given the audit findings, the Auditor General is concerned that the Government is on track in 2023-24 for another year of considerable over-budget spending. Already this year, Government approved over-budget spending totaling \$623.2 million in September 2023, and \$154.3 million in December 2023.
- 1.92 The Department of Health and Wellness obtained additional appropriations in the amount of \$363.7 million. This is mostly attributable to the settlement of the Nursing Union Agreement, the Physician Agreement, new contracts for hospital administrative staff, as well as increased operational expenses at Nova Scotia Health mainly due to nursing expenses, overtime, and staffing.
- 1.93 The Department of Service Nova Scotia obtained additional appropriations in the amount of \$82.6 million. This was mostly attributable to the enhanced Heating Assistance Rebate Program.
- 1.94 The Department of Municipal Affairs and Housing obtained additional appropriations in the amount of \$73.2 million. This was mostly attributable to funding for disaster assistance, specifically the costs for wildfires and floods.
- 1.95 Over-budget spending in other departments was largely attributable to increased costs to support Employment Support and Income Assistance for homelessness initiatives, wage settlements with the regional centres for education, travel nurse expenses for long-term care, expansion of the Home First Program, and increases to the Labour Market Federal Transfer Agreement. Lastly, \$28.3 million was needed to fund increased debt servicing costs due to higher-than-anticipated interest rates.

Recommendations



For a third time the Auditor General recommends improved accountability and transparency related to over-budget spending

- 1.96 We completed this audit after Government approved \$2.6 billion in over-budget spending in 2021-22 and 2022-23, and the Minister of Finance and Treasury Board refused to implement a December 2023 Auditor General recommendation related to over-budget spending.
- 1.97 This audit found over-budget spending does not adequately consider value for money or safeguard public funds. In 100 per cent of transactions tested, we found the Province prematurely disbursed \$432.7 million, forgoing millions in interest revenue.

- 1.98 The over-budget spending process is not accountable or transparent through the legislature and follows an expedited approval process. Considering the findings in this report, the Auditor General continues to recommend improved accountability and transparency related to over-budget spending.

Recommendation 1.1

We recommend the Minister of Finance and Treasury Board amend the *Finance Act* to align the additional appropriations process with legislated practices elsewhere in Canada and provide accountability and transparency over the spending of all public funds.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board's position remains unchanged.

The Minister of Finance appreciates the work of the Auditor General on this matter. The Minister is satisfied that the current parameters of the *Finance Act* ensure accountability and transparency over the spending of all public funds. Target Date: N/A

- 1.99 In the absence of an amendment to the *Finance Act*, the following recommendations will add accountability and transparency to the over-budget spending process.

Recommendation 1.2

We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, strengthen the approval process where government priorities are being advanced and require additional appropriations. We recommend related submissions to Executive Council and its committees include consideration of:

- the timing of the disbursement of funds to grant and subsidy recipients; and
- options to fund grants and subsidies over time based on funding recipients' demonstrated need.

Department of Finance and Treasury Board Response: The approval process is the purview of elected government. The Department of Finance and Treasury Board and Executive Council Office work within the legislated framework of the Province to support government. Where submissions to Executive Council and its committees provide opportunity for documented support, the Department of Finance and Treasury Board commits to working with Executive Council Office to ensure consideration of these matters is included.

A review of the Grants Management Framework Policy will be undertaken to determine if further guidance is necessary. Target Date: N/A

Recommendation 1.3

We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, strengthen the approval process where government priorities are being advanced and require additional appropriations. We recommend related submissions to Executive Council and its committees include:

- the nature of the funding;
- plans for the use of funds;
- program requirements for third-party grant administration;
- detailed cost estimates for the funding amount requested;
- assessment of risk;
- recipient reporting requirements to the Province detailing the use of funds and whether intended objectives are met; and
- Provincial public reporting requirements detailing use of funds and whether intended objectives are met.

Department of Finance and Treasury Board Response: The approval process is the purview of elected government. The Department of Finance and Treasury Board and Executive Council Office work within the legislated framework of the Province to support government. Where submissions to Executive Council and its committees provide opportunity for documented support, the Department of Finance and Treasury Board commits to working with Executive Council Office to ensure consideration of these matters is included.

A review of the Grants Management Framework Policy will be undertaken to determine if further guidance is necessary. Target Date: N/A

Recommendation 1.4

We recommend the Department of Finance and Treasury Board and the Executive Council Office complete staff assessments for grant and subsidy submissions made to Executive Council and its committees and provide the assessment to decision makers.

Department of Finance and Treasury Board Response: The department agrees with the position put forward by Executive Council Office and will work with ECO in reviewing the practices to ensure staff assessments are completed for grant and subsidy submissions where appropriate. Target Date: N/A

Executive Council Office Response: As recently as February 2024, the Supreme Court of Canada recognized the tremendous flexibility available to the Executive Council, and its committees, in its decision-making process.

The audit criteria acknowledge that government decisions are made within a highly contextualized environment. This necessitates a flexible process that, at times, varies from established guidelines.

The Executive Council Office (ECO) endeavours to ensure complete and accurate information is provided to the Executive Council to support fully-informed decision-making. Staff assessments are one of several methods employed and not always required to facilitate the decision-making of the Executive Council.

ECO will work with the Department of Finance and Treasury Board in reviewing its practices to ensure staff assessments are completed for grant and subsidy submissions where appropriate. Target Date: N/A

Recommendation 1.5:

We recommend the Department of Finance and Treasury Board, in consultation with the Executive Council Office, develop guidance for departments on preparation of grant and subsidy agreements to protect public funds. We recommend such agreements include terms and conditions to address:

- measurable performance targets;
- conflict of interest;
- the ability to audit;
- the assignment of interest earned on funds;
- the return of unused funds to the Province; and
- limits on administration costs.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board will work with Executive Council Office to review the newly implemented Grants Management Framework Policy and incorporate further guidance on addressing these matters where appropriate. Target Date: March 31, 2025.

Reasonable Assurance Engagement Description and Conclusions

In Winter 2024, we completed an independent assurance report of Value for Money of Over-Budget Spending at the Department of Finance and Treasury Board, Executive Council Office, and the Departments of Advanced Education; Agriculture; Communities, Culture, Tourism and Heritage; Economic Development; and Natural Resources and Renewables. The purpose of this performance audit was to determine whether over-budget spending considered value for money and safeguarded public funds.

It is our role to independently express a conclusion about whether over-budget spending complies in all significant respects with the applicable criteria. Management at the Department of Finance and Treasury Board has acknowledged its responsibility for the over-budget spending process.

This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements set out by the Chartered Professional Accountants of Canada; and sections 18 and 21 of the *Auditor General Act*.

We apply the Canadian Standard on Quality Management 1, which requires the Office to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Code of Professional Conduct of Chartered Professional Accountants of Nova Scotia as well as those outlined in Nova Scotia's Code of Conduct for public servants.

The objectives and criteria used in the audit are below:

Objective:

To determine whether spending outside of the budget process considered value for money and safeguarded public funds.

Criteria: Recognizing that Government spending decisions are made within a highly contextualized environment

1. Spending outside of the budget process should fully convey the nature of the funding, plans for the use of funds, and program requirements.
2. Spending outside of the budget process should be supported by detailed cost estimates.
3. Agreements with funding recipients should include terms and conditions to protect public funds.
4. The timing of the disbursement of funds outside of the budget process should be justified.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by senior management at the Department of Finance and Treasury Board.

Our audit approach consisted of interviews with management and staff of the Department of Finance and Treasury Board, Executive Council Office, and individual departments responsible for over-budget spending. We reviewed relevant legislation, policies, and procedures. We examined submissions made to Executive Council Office along with spending proposal documents including the case for funding, goals and objectives, costing estimates, and program evaluations. We assessed contracts and agreements between the Province and funding recipients for appropriate terms and conditions to protect public funds. We assessed the level of documentation and justification for spending. Our audit period covered April 1, 2021 to March 31, 2023. We examined documentation outside of that period as necessary.

We obtained sufficient and appropriate audit evidence on which to base our conclusions on February 22, 2024, in Halifax, Nova Scotia.

Based on the reasonable assurance procedures performed and evidence obtained we have formed the following conclusions:

- Over-budget spending did not adequately consider value for money or safeguard public funds.
 - Spending proposals are missing key elements to ensure public funds are prudently spent for the purposes intended;
 - Funding agreements are missing key terms and conditions and do not adequately protect public funds; and
 - In 100 per cent of grant and subsidy transactions tested, the Province prematurely spent \$432.7 million, forgoing millions in interest revenue, without justification for the timing of the spending.

Appendix II

Where Did the Money Go

Additional Appropriations approved in 2021-22 and 2022-23 (over \$5 million); Highlighted spending were selected for detailed testing.

2021-22			
Department	Spending	Spending Amount	Total Additional Appropriation
Advanced Education	Deferred maintenance infrastructure funding to four rural universities (Acadia, Cape Breton, Sainte-Anne, and St. Francis Xavier)	\$65 million	\$149 million
	Cape Breton University Centre for Discovery and Innovation	\$35 million	
	Research Nova Scotia Opportunities Fund	\$25 million	
	Cape Breton University Strategic Health Initiative	\$5 million	
Communities, Culture, Tourism and Heritage	Community support and recreation grants for infrastructure projects	\$26 million	\$115 million
	Nova Scotia Film and Television Production Incentive Fund	\$23.6 million	
	Screen Nova Scotia for the Content Creator Fund	\$15 million	
	Tourism Marketing Assistance Program for reopening initiatives and marketing investments	\$12 million	
	Screen Nova Scotia for a sound stage	\$8 million	
Economic Development	Halifax International Airport Authority for the Air Access Fund	\$13 million	\$48 million
	Contribution to the Internet Trust for a satellite hardware program	\$8.5 million	
	Contributions to the Sydney Airport to attract airlines	\$6.3 million	
Education and Early Childhood Development	Early learning and childcare initiatives	\$33 million	\$53 million
	Canada-NS Early Learning Agreement	\$10.9 million	
Elections Nova Scotia	Provincial general election	\$13 million	\$13 million
Health and Wellness	COVID-19 response expenses, including rapid test kits, PPE usage, testing, and immunization costs	\$52.2 million	\$103 million
	Nova Scotia Council of Health-Care Unions collective agreement	\$10.8 million	
	CAR-T cell therapy	\$9 million	
	Physician Services increases in the Academic Funding Plan and Alternative Payment Plan	\$8.1 million	
Justice	RCMP contract operating costs mainly from wage increases	\$14.3 million	\$31 million

2021-22			
Department	Spending	Spending Amount	Total Additional Appropriation
Labour, Skills and Immigration	Workers' Compensation Board contribution to enhance cancer and heart attack presumptive workplace injury benefits	\$67.4 million	\$79 million
Municipal Affairs and Housing	Canada Community Building Fund (Federal Gas Tax) transfer to municipalities	\$55 million	\$134 million
	Investments in affordable housing – including rent supplements	\$23.7 million	
	Investing in Canada Infrastructure Program	\$7.3 million	
	To address recommendations made by the Affordable Housing Commission	\$6.4 million	
Natural Resources and Renewables	Energy efficiency programing to support homeowners and small business; including: <ul style="list-style-type: none"> • EfficiencyOne to address energy poverty and equity 	\$57 million	\$51 million
Public Works	Rural Impact Mitigation Program	\$9 million	\$38 million
Seniors and Long-term Care	COVID-19 response expenses, including long-term care nurses and assistants due to continuing care shortages, travel nursing, and PPE	\$34.6 million	\$69 million
	Seniors Care Grant	\$32 million	
	Continuing care workforce initiatives such as the Expanded Home First and Direct Funding Programs	\$11 million	
	Capital projects	\$6.2 million	
All other departments			\$15 million
Total		\$703 million*	\$896 million

Source: Department of Finance and Treasury Board (unaudited)

* Only spending of \$5 million or greater are included in the table. Additionally, the total department additional appropriation is offset by savings in other spending areas from the original budget appropriation. This accounts for the variance between \$703 million in spending and the \$896 million in additional appropriations approved by Government.

2022-23			
Department	Spending	Spending Amount	Total Additional Appropriation
Advanced Education	Cape Breton University medical school campus	\$58.9 million	\$165 million
	St. Francis Xavier University health infrastructure	\$37.4 million	
	Saint Mary's University health programs	\$25 million	
	Research Nova Scotia Opportunities Fund	\$25 million	
	Tartan Downs affordable housing for Cape Breton University	\$5 million	
Agriculture	Hurricane Fiona relief programs (Farm Emergency Response Grant Program and Agricultural Response Program)	\$19 million	\$43 million
	Horticulture Nova Scotia for recovery from the polar vortex	\$15 million	
	Industry support to extend growing seasons and production capacity	\$7.9 million	
Communities, Culture, Tourism and Heritage	Various community grants, including: <ul style="list-style-type: none"> • Oxford Community Centre Association for a community centre • Municipality of the County of Inverness for a coastal hiking trail 	\$63 million	\$110 million
	Investing in Canada Infrastructure Program	\$16.2 million	
	Community Generator Program and rink repair	\$6.5 million	
	Green and Inclusive Community Buildings program projects	\$6 million	
Community Services	Healthcare worker retention and incentive program	\$32.8 million	\$50 million
	Nova Scotia Advisory Council on the Status of Women transition houses and women's centres	\$8 million	
	Income Assistance payments	\$6.2 million	
Economic Development	Global marine technology funding to the Centre for Ocean Ventures and Entrepreneurship	\$8.5 million	\$6 million
	Small Business Hurricane Relief Program	\$5 million	
Education and Early Childhood Development	Contributions to the regional centres for education and Conseil Scolaire Acadian Provincial for inflation pressures	\$27.5 million	\$56 million
	Canada Wide Learning and Childcare Agreement	\$10.6 million	
	Teachers' Pension Plan and Nova Scotia Teachers Union medical and dental premiums	\$5 million	

2022-23			
Department	Spending	Spending Amount	Total Additional Appropriation
Environment and Climate Change	EfficiencyOne for off-oil efficiency programs <i>(funded by Environment and Climate Change, however, the program is administered by Natural Resources and Renewables)</i>	\$140 million	\$162 million
	Nova Scotia Crown Share Land Legacy Trust	\$20 million	
Finance and Treasury Board	Asset retirement obligations under PS 3280 for Nova Scotia Health, IWK Health Centre, Chignecto Central Regional Centre for Education, Build Nova Scotia, and Annapolis Valley Regional Centre for Education	\$68 million	\$69 million
Health and Wellness	Healthcare worker retention and incentive program	\$200 million	\$276 million
	Nova Scotia Health for inflationary pressures	\$49.6 million	
	Healthcare capital projects	\$19.6 million	
	Pharmacare programs for the increase in growth	\$8.4 million	
Justice	Operating expenses for the Mass Casualty Commission Public Inquiry	\$10.4 million	\$24 million
Labour, Skills and Immigration	Nova Scotia Apprenticeship Agency and Employment and Social Development Canada agreement	\$15.1 million	\$24 million
Municipal Affairs and Housing	Housing initiatives including the Modular Housing and Community Housing	\$55.5 million	\$107 million
	Hurricane Fiona disaster assistance	\$50 million	
	Housing initiatives	\$12 million	
Natural Resources and Renewables	Remediation costs associated with abandoned mine sites	\$47.4 million	\$61 million
	Hurricane Fiona woodlot owner relief program	\$5.8 million	
Public Works	Boat Harbour remediation liability	\$38.5 million	\$84 million
	Funding to municipal transit operators to offset pandemic losses	\$10.9 million	
	Hurricane Fiona storm damage	\$10.4 million	
	Healthcare redevelopment intellectual property	\$7 million	
	Snow clearing and ice removal expenses	\$5.7 million	

2022-23			
Department	Spending	Spending Amount	Total Additional Appropriation
Seniors and Long-term Care	Healthcare worker retention and incentive program	\$98.5 million	\$217 million
	Travel nursing expenses for long-term care facilities	\$39.6 million	
	Home First Program expansion for home care	\$20.6 million	
	Long-term care assistants hired to address staffing issues	\$8.1 million	
	Continuing care sector investments	\$6.8 million	
Service Nova Scotia and Internal Services	Heating Assistance Rebate Program	\$123.5 million	\$155 million
	Hurricane Fiona food cost reimbursement program	\$17 million	
	Trunked Mobile Radio replacement	\$16.8 million	
All other departments			\$53 million
Total		\$1.494 billion*	\$1.662 billion

Source: Department of Finance and Treasury Board (unaudited)

* Only spending of \$5 million or greater are included in the table. Additionally, the total department additional appropriation is offset by savings in other spending areas from the original budget appropriation. This accounts for the variance between \$1.5 billion in spending and the \$1.7 billion in additional appropriations approved by Government.

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