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FINANCIAL PLANNING AND BUDGETING - CENTRAL GOVERNMENT AND DEPARTMENTS

BACKGROUND

3.1 This Chapter describes the results of our government-wide audit of the financial planning and budgeting processes for 2001-02. It includes commentary on the roles of central government (i.e., Finance, Treasury and Policy Board, Executive Council) and major departments (i.e., Health, Education and Community Services).

3.2 Annual business planning and budgeting by government provides the basis and a fundamental cornerstone for control over the use or stewardship of public money and property. Once debated and approved, the annual Appropriations Act (supported by the *Estimates* and other planning and budget information tabled in the House of Assembly) provides the foundation upon which the government can be held to account.

3.3 Estimating future financial results is a challenge as there is always uncertainty associated with predicting the future. However, a well-designed budget process, including features such as due diligence and quality control, can reduce the impact of variances between budget and actual, and the risk of overexpenditure.

3.4 The Province of Nova Scotia's history of annual deficits over the past two decades has been the major contributing factor to the Province's poor financial position. Of the Province's net debt of \$11.3 billion as at March 31, 2001, \$8.7 billion is due to accumulated deficits while the remainder relates to the purchase of tangible capital assets. The government's fiscal plan calls for a balanced budget by 2002-03, and beyond. To achieve the government's fiscal plan, a strong financial planning and budgeting process must be in place. Otherwise, achievement of the fiscal plan will be at risk.

3.5 The Minister of Finance had overall responsibility for the preparation and presentation of government's plans and budget to the House of Assembly for the 2001-02 fiscal year, including a plan for the four-year fiscal period commencing April 1, 2001. The preparation, review and publication of government's business plan and budget involves significant resources centrally from the Department of Finance and the Treasury and Policy Board, as well as from all departments and agencies.

3.6 For the 2001-02 fiscal year, government budgeted, for the Consolidated Fund, ordinary revenue of \$5.1 billion, and net expenses of \$5.2 billion. The Province's budgeted deficit, after adjustment for \$8.0 million of income from government business enterprises, is \$90.7 million. This is consistent with the government's fiscal plan. In addition, the budget includes \$186.9 million in planned capital purchases, of which \$172.0 million relates to the Departments of Education and Transportation and Public Works.

Audit Approach

3.7 Due to the critical nature of the financial planning and budgeting process, we undertook a government-wide audit of this important area during 2001. We last performed an audit of this area in 1993.

3.8 The mandate for this audit is found in Section 8 of the Auditor General Act which gives the Auditor General the authority to determine whether:

- controls are adequate to safeguard government resources; and
- funds are expended with due regard for economy and efficiency.

3.9 We did not audit all aspects of the budget process, in all organizations and departments. Rather, we focussed on the processes present in central government, and in the departments with the most significant expenditures. The departmental aspects of our audit were focussed on the Departments of Community Services, Education and Health, as well as the Department of Finance's budgeting of debt service costs. Together, the areas audited represented 85% of the net expenses included in the 2001-02 Estimates. We also audited the Capital District Health Authority's budgeting processes because the Department of Health's grant to the Authority represents 23% of the Department's operating expenditures (see Chapter 5 of this Report). Finally, we audited the government's processes for prioritization of capital expenditures (see Chapter 4 of this Report).

Approaches to Budgeting

3.10 The basic purpose of annual budgeting in government is to establish a plan for allocation of resources to accomplish stated goals and objectives over a designated time period. There are a range of possible approaches to preparation of a budget which may be appropriate in different circumstances. For example:

- *Zero-based* budgeting requires basic re-evaluation of an organization's priorities, programs and expenditures on an annual basis. Each department would be required to justify the entire budget in detail, and to provide reasons why any funds should be spent on a given program. The basic assumption is that *zero dollars* will be spent on any given activity, and all amounts above that level must be justified. Obviously, in a government where there are many diverse programs and the expenditure budget is more than \$5 billion, such an approach would require an enormous commitment of time and effort. In addition, many of government's expenditures are statutory and cannot be reduced unless legislation is changed.
- *Line-item* budgeting is the most rudimentary form of budgeting and was the approach first used by modern governments. The process involves the listing of individual expenditure categories (e.g., salaries, supplies) and the focus is on inputs used rather than outputs achieved. With this method, there would be no long-range planning.
- *Incremental* budgeting emphasizes justification of only those amounts above the prior year's budget. Under this approach, the prior year's budget would be identified as the base budget for the current year, and any requests for increments above that level would be reviewed individually in more detail.
- *Status quo* budgeting emphasizes the future cost to deliver the current level of service. Under a status quo approach, the cost to deliver current services during the upcoming year would be quantified. In preparing a status quo budget, forecasted changes in the costs of wages and other inputs as well as demographics would be factored into the budget. If the cost was greater than the available funding, then recommendations to change the status quo would be made. These recommendations could include enhancing revenues, cutting programs, or reducing the level of services provided.

- *Target-driven* budgeting requires centralized decision making, early in the budget process, regarding targeted expenditure levels for departments, agencies, and programs. Budget preparers are then required to fit budgets to the targeted expenditure level. If the targeted expenditure level cannot be met, then specific pressures would be identified for further decision and approval.
- *Performance* budgeting has an output orientation. It establishes a relationship between inputs employed and outputs achieved. The budget is produced by determining the unit cost of providing services and establishing the quantity of services to be provided. This leads to an estimate of the cost of meeting specific service levels. This approach provides the information required to establish new services or to make changes to existing service levels.
- *Program* budgeting involves the setting of specific government objectives, developing budgetary proposals in terms of programs for meeting the objectives, and multi-year planning. The process is longer range and focuses on programs rather than inputs and outputs. This approach would provide information on the estimated full future cost of programs.

3.11 There are many factors which could lead to selection of a particular method of budgeting. For example:

- *Impact on human behaviour* - Does the method motivate people to achieve the organization's goals?
- *Types of expenditures* - Are the expenditures statutory or discretionary or the result of a government commitment?
- *Government organization* - Is the government's basic management structure and approach centralized or decentralized? Is there strong control at the central level or are important fiscal decisions and responsibilities delegated to the departments?
- *Fiscal situation* - Is the government in a strong financial situation and are funds being directed to new programs? If so, one would expect that the budget process would focus on justification and approval of new programs and increased spending. Is government in a weak financial situation and is the objective to meet only the most critical needs at the least possible cost? If so, one would expect that the budget process would focus on ensuring that all programs or service levels are necessary and delivered at the least possible cost.
- *Extent of required change in programs* - Is government satisfied with the status quo or is extensive modification and reallocation required?
- *Economic outlook* - Is the economy of the Province expected to have a major impact on government services and costs during the next year?
- *Government's goals and priorities* - Are the priorities and goals well defined, understood and fully supported within the government's reporting entity?
- *Performance measurement* - Does the government have sophisticated performance measurement systems which provide decision makers with information on the outcomes of government policies and programs?

3.12 The Nova Scotia government's current budgeting process has elements of several of the approaches to budgeting described in paragraph 3.10 above. Due to the Province's fiscal situation, and the importance placed on meeting the government's fiscal plan, the 2001-02 process was primarily *target-driven*. Many times during our audit, we were told that "*there is no more money*" and that basic premise appears to have been the major driving force towards selection of a target-driven approach. Central government sets targets, based on the second-year projection included in budgets approved in the prior year, and communicates these to the departments. However, in drafting budgets to meet the targets, departments are directed to emphasize status quo service delivery and to identify cost pressures and revenue opportunities for review and approval by central government. The directions received by the departments therefore also include elements of *status quo* and *incremental* budgeting processes.

3.13 Within departments, targets are set for various programs, cost centres and funded agencies. Again, the process appears to be primarily *target-driven*. In the Fall of 1999, the government undertook a detailed review of its program spending. This review included a Fiscal Task Force, Program Analysis and Options Exercise, a review of programs by sub-committees of Cabinet and the development of a two-year budget. Management indicated that the targets for 2001-02 were based on the second year of the budgets developed as a result of these processes.

3.14 Budgeting processes are, by nature, iterative and based on negotiation. The processes are also complex. Many stakeholders including the House of Assembly, Executive Council, central government, departments, agencies, transfer payment recipients, special interest groups and others are involved. There are more than 70 departments and other Provincial public sector entities involved in the process.

3.15 In Nova Scotia, central government sets funding targets for the departments. Departments compare funding targets with estimated requirements and identify cost pressures and opportunities for discussion with central government and Executive Council. Over several months, the cost pressures are discussed and negotiated and, ultimately, a final budget is accepted by Executive Council. The Minister of Finance then presents the *Budget Address* along with the annual Estimates and other supporting documents to the House of Assembly to commence the formal parliamentary review and approval process. Although central government sets the departmental targets, individual departments are responsible for meeting the targets. Departments are responsible for assessment of the impact of targets, preparation of operational plans and implementation.

3.16 The amount and type of documentation required to support such a process is decided by central government. Policies, forms, templates and other guidance set out these decisions for the participants. In the past, government's budgeting policies were included in the government's Management Manual 200. The Manual has not been updated since 1994 and is not current.

Professional Guidance

3.17 Budgeting is essentially a planning and control tool for governing bodies and managers. Selecting and implementing an appropriate budgeting system are critical for government. There is no single professional standard to indicate how this should be done.

3.18 Related professional guidance is, however, available from several sources including:

- CCAF-FCVI Inc.'s *Governance Information - Strategies for Success* and *Information: The Currency of Corporate Governance*
- Canadian Institute of Chartered Accountants' Handbook - Section 4250 - Future-oriented Financial Information

- Canadian Institute of Chartered Accountants' Public Sector Accounting Board Handbook
- Office of the Auditor General of Canada's *Financial Management Capability Model and Application Guide*
- Auditor General of British Columbia's *A Review of the Estimates Process in British Columbia*, February 1999

3.19 We reviewed these and other professional reference sources and used the standards included therein as criteria to frame our audit of the budget process.

Government Organization

3.20 The Provincial Finance Act provides statutory requirements which were in effect for government's 2001-02 planning and budgeting processes (see extracts in Exhibit 3.1 on page 64 of this Chapter). That Act requires the Minister of Finance to prepare a consolidated fiscal plan for the government each year. The plan must include fiscal projections for the next four years, the major economic assumptions made in preparing the plan and a summary of the government's business plan for the next year.

3.21 Restructuring initiatives implemented during 2001-02 transferred certain of Finance's budget-related positions to Treasury and Policy Board along with responsibility for planning, budgeting and monitoring expenses. Finance staff will continue to have responsibility for budgeting activities associated with government's economic assumptions, revenues and treasury components.

RESULTS IN BRIEF

3.22 The following are the principal observations from this audit.

- We found that government had established a reasonable approach for preparation of the 2001-02 Estimates. The approach was driven by targets established as part of the government's four-year fiscal plan. We made recommendations for improvement to certain aspects of the Estimates process.
- The March 29, 2001 Budget Address was the first time since March 23, 1984 (i.e., for the 1984-85 fiscal year) that a Nova Scotia government's budget was presented to the House prior to the start of the fiscal year to which it applied. The Appropriations Act passed Third Reading in the House on April 20, 2001. Further, March 27, 1975 (i.e., for the 1975-76 fiscal year) was the last time an annual Appropriations Act received Royal Assent prior to the start of the fiscal year to which it applied. Government should strive to ensure annual plans and budgets are finalized and approved prior to the start of the fiscal year to which they apply.
- Information on program performance is not integrated with the budget process. Performance information should be a major consideration during budget decisions. The information provided to the House along with the Budget Address should completely identify the nature and extent of significant program changes or adjustments made as a result of decisions during the budget process. Financial budget information should be clearly linked and cross-referenced to program service or program delivery plans, including information provided on planned outcomes or targets.

- The budget targets for 2001-02 were communicated to the departments by the Department of Finance and were generally based on the prior year's budget adjusted for certain "funded" cost pressures. In some cases, where funded amounts were less than the initially identified cost pressures, departments did not have operational plans in place to meet the targets. The lack of an operational plan in certain programs increases the risk of overspending the budget target, and we recommend that government ensure annual operational plans, linked to the budget targets, are prepared for all major government programs and entities.
- The roles and responsibilities of central government and departmental staff in the 2001-02 process appear to have been well-defined and understood by those involved, most of whom had previous business planning and budgeting experience in government.
- Additional planning information and budget guidelines should be provided to departments and agencies included in the government's reporting entity. These guidelines should include economic and other general overall assumptions or operational parameters that should be considered and, where appropriate, integrated into the individual entity's planning and budgeting processes.
- Departments need to improve processes for communicating program-specific assumptions implicit in departmental budget requests. This information is required so that decision makers can assess the reasonableness of the budget requests submitted. We expected that departments would provide written guidelines and instructions to agencies and transfer payment recipients to use in preparing budgets, including common assumptions to be used. These would help to ensure budgets are consistently prepared and that potential funding issues are identified. This was generally not the case. Instructions from departments usually included very high level directions such as *produce a balanced budget* or *assume existing service levels*.
- The Government's estimated revenues and related economic assumptions are supported by a variety of formal and less formal systems and models. The assumptions and risks used in determining the estimated revenues are well documented.
- There are extensive supporting information and models for the budgeting of net debt servicing costs. In the formal budget documents released along with the Minister's Budget Address, the debt-related treasury aspects of government's plans and budget are well covered.

In order to improve control, borrowing authorities should have a defined life span and carry-forward borrowing authority amounts should be included in the information provided to the House of Assembly when additional borrowing authority is requested.

- The House does not have or receive sufficient, appropriate information on the components of the restructuring costs appropriation in order to support effective review, debate and approval by MLAs. We did not have full unencumbered access to the information supporting the amounts budgeted for 2001-02 restructuring costs. The information not available to us related to the government's labor relations strategy which supports the wage settlement allocation in the restructuring costs appropriation. Finance had previously obtained a legal assessment on restricting access to such budget supporting information. We recognize the difficulty of balancing the need to protect the government's negotiating position, as an employer, with the need for transparency.

- The budget submission of the Department of Health included insufficient detail on cost pressures. The Province hired consultants to complete a joint review of the Department of Health's budget process with the goal of suggesting improvements for future years. The consultants indicated that Health had developed a clear vision and direction for the health system. However, information systems for certain major programs with a history of overexpenditure (such as home care and long-term care) were deficient. The consultants also noted deficiencies in the information systems for acute care, mental health and other programs delivered by District Health Authorities. Due to health system restructuring concurrent with the budget process, we believe that the 2001-02 budget preparation process was not typical for the Department of Health.
- Department of Health management was aware of the problems with the 2001-02 budget process and is addressing the deficiencies. There were initiatives in progress to improve available information in various health sectors.

AUDIT SCOPE

3.23 The objective of this audit was to determine if government is:

- establishing mechanisms and making commitments to afford the House of Assembly and public the opportunity of examining the government's fiscal plans and assessing its fiscal and program performance;
- developing the form and content of the Estimates to meet the needs of the public, House of Assembly, government and management;
- making a commitment to responsible stewardship;
- ensuring the quality and integrity of information for decision making;
- monitoring and evaluating the conduct of the Estimates process;
- establishing an organizational and procedural environment that promotes communication and respect for the roles of agencies and persons involved;
- promoting public awareness and understanding of fiscal conditions, decisions and risks; and
- ensuring the capacity of the House of Assembly to carry out its oversight role.

3.24 The audit focused on systems and procedures to support the preparation of the 2001-02 Estimates and related information, and did not include the formation of an opinion on the reasonableness of the amounts included in the Estimates document. Consequently, we express no opinion on reasonableness of the Estimates, or whether all assumptions are suitably supported, consistent with the plans of the government, provide a reasonable basis for the Estimates, and are fairly reflected in the Estimates.

3.25 Our audit focussed on the Estimates-preparation processes present in central government, and in the departments with the most significant expenditures. The departmental aspects of our audit were focussed on the Departments of Community Services, Education and Health, as well as debt servicing costs managed by the Department of Finance. We also audited the Capital District Health

Authority's budgeting processes because the Department of Health's grant to the Authority represents 23% of the Department's operating expenditures (see Chapter 5 of this Report). Finally, we audited the government's processes for prioritization of capital expenditures (see Chapter 4 of this Report).

3.26 During the planning for the audit, we researched best practices and identified six key elements of a sound planning and budgeting process:

- Comprehensive accountability discipline
- Sound fiscal management
- Open deliberative Estimates process
- Sound financial reporting standards
- Appropriate governance and management structure
- Sound monitoring process

3.27 We established audit criteria to use as standards for assessment of government systems and practices. The same audit criteria were used in all of the departments and entities audited. The audit criteria were taken from recognized sources referred to in paragraph 3.18 above. The criteria were organized under the six key elements of a sound planning and budgeting process referred to above and discussed with senior management at the departments audited and the Capital District Health Authority.

3.28 Our audit approach consisted of interviews with management and budget staff, and examination of reports, documents and correspondence.

3.29 Our audit plan indicated that we intended to engage the House of Assembly or the Public Accounts Committee in a survey or discussion process in order to identify their information needs. However, due to scheduling and resource challenges, we were unable to complete that dialogue for this Report. We will consider completion of that aspect of the audit in future years.

PRINCIPAL FINDINGS

3.30 The findings of our audit are presented in this Chapter under the following headings:

- Statutory and Policy Framework
- Accountability to MLAs
- Approach to Annual Business Planning
- Approach to Annual Budgeting
- Quality of Information Relating to Expense Estimates
- Central Challenge and Review
- Role of Operational Plans
- Timeliness
- Estimate of Revenue
- Debt Service Costs and Other Treasury Items
- Restructuring Costs
- Relationship with Funded Organizations
- Additional Appropriations
- Forecasting and Monitoring

3.31 The information and findings provided in this Chapter should be considered in conjunction with the contents of Chapters 4 and 5 of this Report which deal with certain other aspects of government's planning and budgeting processes.

Statutory and Policy Framework

3.32 Annual business planning and budgeting by government provides a fundamental cornerstone for control over the use and stewardship of public money. Once debated and approved, the annual Appropriations Act (supported by the Estimates and other planning and budget information) provides the foundation upon which the government can be held to account.

3.33 The Provincial Finance Act provides various statutory directions or requirements that were in effect for the 2001-02 planning and budgeting processes. Exhibit 3.1 on page 64 of this Chapter includes extracts from the Provincial Finance Act.

3.34 The Provincial Finance Act requires the Minister of Finance to prepare a consolidated fiscal plan for the government each year. This plan must include fiscal projections for the next four years, the major economic assumptions made in preparing the plan and a summary of the government's business plan for the next year.

3.35 Under Section 83 of the Provincial Finance Act, the Minister must also provide the House of Assembly with a report, by December 31, on outcomes against the government's business plans for the prior fiscal year. The initial reporting under this requirement was released December 20, 2001 for the 2000-01 fiscal year. Unless appropriate outcome measures and targets are established, it is difficult to allocate resources and determine the adequacy of the allocation. We are aware that outcome measures are being developed centrally and at the departmental level. We recommend that such performance information be fully integrated into the budget process, which we understand is government's intention.

3.36 We found that the three departments audited had established outcome measures, but that, in some cases, they were not fully developed yet and targets had not been established for many programs. We also found that performance information had not been fully integrated into the budget process. Better integration of budgets and performance information would assist decision makers in assessing the adequacy of the resources allocated to departments and programs.

Accountability to MLAs

3.37 The House of Assembly has ultimate authority for the Province's budget. In order to exercise that authority with due diligence, the Members of the House need good information. According to CCAF-FCVI Inc. (*Governance Information - Strategies for Success*, CCAF-FCVI Inc., 1996), good information for governance has the following characteristics.

- *Explains options* - Information should identify and explain the options considered and the consequences of each.
- *Compares intentions with results* - Information should facilitate the comparison of actual to intended performance and outcomes.
- *Forward looking* - Information should be forward looking and contribute to future policy or strategic planning decisions. It should help determine if performance can be sustained or improved in the future, not just explain past actions.

- *Illuminates policy and administration* - Relevant information will shed light on both the established policy and how that policy is administered.
- *Recognize appropriate time frames* - Information needs to relate to what is actually being done within the time frame it is being done.
- *Facilitates comparisons* - While recognizing the unique characteristics of each organization, relevant information about organizations in similar lines of business should be provided for comparison purposes.
- *Promotes understanding without simplifying* - Information should balance the need for understanding and simplicity with the complexity of the programs, services or organizations involved.

3.38 Information presented with or supporting the Estimates should be verifiable and free from material error or bias. Users of the information should be able to depend upon it to faithfully represent what it purports to represent and the information should be linked to and consistent with economic and program-related assumptions.

3.39 Government's budget is not presented on the same basis as the government's annual summary consolidated financial statements included in Volume I of the Public Accounts. The annual budget still has a primary or predominant focus on the Consolidated Fund and does not include the budgets of all Government Service Organizations (GSOs) and Government Business Enterprises (GBEs) in the same manner as their results are reported in the government's financial statements. Although we recommend a change in how government includes GSOs and GBEs in the budget, we acknowledge that the budgeted annual surplus or deficit, under the government's current method, ultimately encompasses the government's reporting entity. Aside from the method of including GSOs and GBEs, the budget was prepared in accordance with generally accepted accounting principles. Any other exceptions we encountered were insignificant.

3.40 As noted in the March 31, 2001 financial statements, the net deficit from GSOs was \$278.6 million and the net income from GBEs was \$297.0 million. The House of Assembly's involvement in the budget process does not formally extend to the business plans or budgets of significant GSOs (other than government departments) and GBEs. Some significant GSOs and GBEs entities are reflected at "net" rather than gross revenues and expenditures. Accounting for these on a net basis impairs the transparency of the presentation in the Estimates document. These entities collect and spend significant amounts of public funds each year. Observations and recommendations with respect to the planning and budgeting processes for GSOs and GBEs are noted in paragraphs 3.105 to 3.112.

3.41 The information provided to the House along with the Budget Address could more completely identify the nature and extent of program changes or adjustments made as a result of decisions in the budget process. Financial budget information should be clearly linked and cross-referenced to program plans, including information provided on outcomes or targets.

3.42 We believe it is imperative for readers of the business plans and budget information to be able to clearly identify significant changes that result in the plans and budget being presented on a basis different than prior years. Government has an obligation to ensure sufficient, appropriate supporting information is available to MLAs, as a matter of course, to support the substance of budget debate in the House.

3.43 However, it is not possible for the Auditor General or government to anticipate all significant information needs of MLAs. In this regard, one option to consider could be an all-party committee of MLAs to identify basic requirements.

Approach to Annual Business Planning

3.44 Business plans serve as the foundation for the budgeting process. The preparation, review and publication of government's business plan and budget involve significant resources centrally from Finance and Treasury and Policy Board (TPB), as well as from all departments and agencies. The format and templates used to prepare the business plans were developed by an interdepartmental Policy Advisory Council. Departments were required to prepare business plans for 2001-02 as in prior fiscal years. Key information included in each department's business plan includes a mission statement, core business functions, goals, priorities, and outcome measures. Information contained in these business plans was incorporated into the Government Business Plan.

3.45 In the three departments audited, we found that senior management was appropriately involved in the business planning process. In certain cases, we recommended that the linkage between government priorities and the departmental business plans be more clearly stated. We also were interested in whether the priorities and strategies developed in the departmental business planning processes would be clearly identified in the annual budget documents. In some cases, we recommended that the linkage between the business plans and the budget be clarified.

Approach to Annual Budgeting

3.46 Government's 2001-02 planning and budgeting processes began in summer 2000 and culminated in the tabling of the Minister of Finance's Budget Address and related supporting information on March 29, 2001. The Estimates were subsequently approved on April 20, 2001 by the House of Assembly.

3.47 In August 2000, senior management of the Premier's Office, Finance, and Treasury and Policy Board met to discuss the time line and organization of the process. Three key dates were identified - before the end of December 2000 a meeting with Cabinet to discuss policy directives, consultations with Cabinet in January to February 2001 and budget by the end of March 2001.

3.48 Central government developed and maintained a detailed project management and task schedule throughout the process leading up to the release of the Government's business plans and budget for 2001-02. The schedule explicitly noted the roles and responsibilities of central government staff, most of whom had previous business planning and budgeting experience in government. There were over 200 tasks identified on the plan, including presentations to or consultations with Cabinet during the ongoing process. The tasks were categorized on the schedule under the following headings:

- Cabinet review process;
- budget alignment (finance);
- departmental planning process;
- communications strategy; and
- budget logistics.

3.49 For purposes of the 2001-02 expense budgeting process, the departments were basically viewed as three groups: Education, Health, and all other departments. This facilitated the centralized review process. Due dates for completing certain tasks were communicated to departments in various memos as the budget process continued. We suggest that a complete timetable for preparation of the business plans and budget be communicated at the outset of the process.

3.50 Economic assumptions and the estimates of revenue were the responsibility of Finance's Fiscal and Economic Policy Branch. The debt service costs and other treasury-related planning and budgeting considerations were prepared through Finance's Investment, Pension and Treasury Services Branch.

3.51 Finance publishes certain statistical projections (e.g., economic indicators and interest rate assumptions) in the Budget Address. Finance did not develop and communicate overall assumptions to be used by departments in preparing budgets.

3.52 Instructions and general guidelines for the 2001-02 business planning and budgeting processes were sent to departments and public service agencies in October 2000. The preliminary budget targets were also communicated to the departments at that time. For other GSOs (e.g., Regional School Boards, District Health Authorities) and GBEs, the responsible Ministers were to provide instructions to these entities.

3.53 Some departmental targets, published in the previous year's budget documents as part of a two-year budgeting exercise, were adjusted as a result of government restructuring, program changes, and results to date during fiscal 2000-01.

3.54 In November 2000, all departments participated in a day long environmental scan session. During this session each department made a short presentation on its 2001-02 preliminary budget target, cost pressures that would impact achievement of the target, internal and external opportunities for cost savings, and any issues or cost pressures not specifically related to one department. Because of time constraints, each department's presentation was limited to 15 minutes.

3.55 In December, the Department of Finance required departments to submit a 2000-01 Budget-Variance Report, and a Pressures, Opportunities and Proposed Actions to Meet the Fiscal Targets document. Throughout December 2000 and January 2001, these documents, as well as information presented at the environmental scan session, were used by the Department of Finance to perform a preliminary review of the budget targets of departments and the cost pressures experienced.

3.56 As the Departments of Education and Health were experiencing the more significant cost pressures, they were required to make formal presentations to Executive Council.

3.57 The responsibility for developing plans to deal with unfunded pressures and risks rested with the individual departments. As part of the central government's departmental review process, the risks related to unfunded pressures were discussed. The departments were to plan how they would deal with pressures that remained unfunded.

3.58 Our audit of central government's role and the three departments indicated that budget-related responsibilities were generally well understood, although there was a need to improve the written documentation of policies and responsibilities. Departments had processes in place to meet the time lines set out by the Department of Finance. Generally, the processes involved program managers and financial staff throughout the Departments, as well as communication at regularly scheduled meetings of deputy ministers and senior financial executives.

Quality of Information Relating to Expense Estimates

3.59 We audited the quality of information relating to the expense estimates in the Departments of Community Services, Education and Health. Our findings are presented below.

3.60 *Documentation and support* - We selected a sample of program areas in the Estimates from each Department and examined the supporting documentation, verified calculations and assessed the adequacy of supporting analysis for the items.

3.61 In a good budgeting system, all items included in the budget would be reviewed for reasonableness to ensure they were properly supported. Reasonableness checks, including comparisons against historical data, would be performed and formally documented. Anomalies, if any, would be followed up.

3.62 Our findings at the individual departments are summarized as follows.

Department of Community Services

- Regional office budgets were well supported, but head office budgets were less well documented, particularly in the area of underlying assumptions.
- Senior management and planning staff were involved in the budget process and performed quality reviews.
- The expense budget did not include cost increases for certain programs with expected caseload increases.
- There was no documented plan to address \$14 million of unfunded cost pressures. To some extent, this was offset by the fact that the Income Assistance budget may have been greater than required because the impact of declining caseloads was not recognized.

Department of Education

- Budgets for Regional School Boards and the Nova Scotia Community College were based on the prior year's budget, adjusted for funded cost pressures. There were some instances where the assumptions supporting the calculations of the cost pressures were not documented.
- There is no requirement for Regional School Boards or the Nova Scotia Community College to provide the Department with operational plans to meet funding targets.

Department of Health

- We were unable to verify calculations and supporting documentation for some of the items tested, primarily because of deficiencies in health information systems.
- The Department exceeded its budget appropriation for 2000-01 by \$61.2 million or approximately 4%. This related mainly to deficits of District Health Authorities, Home Care and Long-term Care. There are deficiencies in the information systems in those sectors.
- Changes from the original budget to the final approved version were not well documented.
- There was no requirement to prepare revised operating plans to support the final Estimates figures in those cases where the funded amount was less than the original request.

3.63 The Department of Finance required departments to prepare a Pressures, Opportunities and Proposed Actions to Meet the Fiscal Targets document as described in paragraph 3.55 above. These were completed by the departments we audited.

3.64 The Department of Health (DOH) completed the required documents in a much more highly summarized manner than the other departments. Pressures were classified by major program with only a description of a few words each. For example, the Department's submission identified Revenue Opportunities of \$32.8 million. Of this amount, \$15.5 million was described only as "Volume/Price/Revenue Initiatives" with no further detail. Department management indicated this estimate was submitted by the District Health Authorities and that the Department had access to the detailed calculations. The amount of detail submitted to central government was insufficient for government and the House of Assembly to use in making important resource allocation decisions.

3.65 During the period when the 2001-02 Estimates were being prepared, the health care system in Nova Scotia was being restructured. Nine District Health Authorities (DHAs) were established effective January 1, 2001 while the prior system of Regional Health Boards and Non-designated Organizations was being disbanded. This major change introduced new complexities to the budget preparation process at the Department of Health. For example, not all information systems, including financial systems, reflected the new structure. Concurrently with their budgeting responsibilities, financial staff were dealing with important issues related to restructuring and allocation of assets, liabilities and budgets among the new entities. These changes suggest that the 2001-02 budget preparation process was not typical for the Department of Health.

3.66 Central government recognized the shortcomings in the information DOH submitted and believed that the Department of Health's human resources needed to be supplemented in order to obtain the necessary information in the required time frame. The Province hired three consultants, all of whom had previous experience with DOH, to complete a joint review of the Department's budget process with the goal of suggesting improvements for future years. The consultants' major comments and recommendations are summarized below.

- DOH demonstrated to the consultants that the department had developed a clear vision and direction for the health system.
- The consultants believed that information systems for certain major programs, such as services provided under the home care program and financial and operational performance of long-term care facilities, were deficient.
- The consultants also noted deficiencies relating to information about the acute care, mental health and other programs offered by the DHAs and attribute this to a move away from line-by-line budgeting to 'global funding' in the early 1990's.
- The Department of Health should expand its planning and forecasting processes to include multi-year projections to coincide with the time frame for many of its strategic initiatives.
- Central government should provide the Department of Health with more opportunities to explain its budget, fiscal options, and policy implications.

3.67 Department of Health management was aware of these deficiencies and has been working to correct them. There were initiatives in progress to improve available information in various health sectors.

3.68 *Assumptions* - The key assumptions underlying a budget should be known to the users of budget information. Departments should define certain basic assumptions regarding expectations for the upcoming year. The assumptions should be reasonable and supportable - obtained from past performance or from predictions of future economic conditions. The quality of the budget of government and its departments is largely dependent on the completeness and reasonableness of the

assumptions. These assumptions should be communicated to decision makers so that they can understand the reasonableness of the amounts presented to them.

3.69 To be reasonable, assumptions need to be consistent with the business plans of the departments and reflect the expected economic effects of anticipated strategies, programs and actions, including those being planned in response to expected economic conditions. To be supportable, assumptions need to be based on the past performance of the departments, studies or other sources that provide objective corroboration of the assumptions used. The process used to develop assumptions should be based on relevant information that is reasonably available at the time the budget is prepared.

3.70 There are two types of assumptions which are relevant to the Estimates process. The first are assumptions related to government-wide factors such as population growth, income levels, Gross Domestic Product, and costs of major inputs such as fuel and wages. The second are department and program-specific assumptions related to costs of inputs and service levels. For example, a relevant assumption in the provision of public education would be pupil/teacher ratios.

3.71 Departments were not required to document program or other assumptions in budget submissions to the Department of Finance. Based on the initial review of departmental budget submissions, Finance requested additional information or investigation of certain large expenditure items.

3.72 We found, through our work in the departments, that assumptions were generally not well documented. Department management indicated, in several cases, that assumptions were discussed internally, and discussed with the Department of Finance as part of the central review process.

3.73 The assumptions accepted and approved by central government were not always clear. For example, the amount of funding approved for the Department of Health's Home Care program was apparently based on the assumption that light housekeeping would be eliminated for the 2001-02 fiscal year - a cost reduction of \$3.5 million. As at November 2001, light housekeeping had not been eliminated and Health seemed unclear about whether the Department had actually been directed by government to eliminate the program. Central government should be providing formal, written direction to the departments regarding assumptions which underlie the approved funding, and specific approvals to undertake certain initiatives. Formal approval would also enable central government to better monitor whether approved initiatives had been undertaken by the departments.

3.74 There may be options available to reduce costs, such as changes to the level of services provided. These options are often raised during the year when a forecast shows that expenditures are likely to exceed budget. A preferable approach would be to raise these options for discussion and decision during the budget preparation process.

Central Challenge and Review

3.75 Finance and Treasury and Policy Board staff were assigned as lead for the central government review and challenge of departmental budget submissions. Those invited from departments included financial, operations, policy and communications staff. The process was iterative. Decisions regarding departmental budget pressures and risks were made as part of the individual departmental review process. Discussions with departmental and central government staff resulted in agreed upon pressures going forward for consideration by Executive Council.

3.76 There is documentation to support certain processes and decisions by central government. However, there is room for improvement in the documentation related to the decisions made as part of the review of individual departmental targets and challenges identified. We understand many of

these decisions result from a consultative process with departments. We have also been told that adjustments to initial targets may have resulted from discussions between and among senior management of various departments.

3.77 We acknowledge that documentation requirements or standards for business planning and budgeting are not as well defined or generally accepted as those for financial statement accounting. That notwithstanding, we believe it is imperative that government - centrally and for specific entities - has sufficient, appropriate support for the due process and due diligence associated with the annual planning and budgeting activities and resource allocation decisions. Consideration should be given to establishing a documentation standard with appropriate guidance for the annual business planning and budgeting activities. This will become increasingly relevant once the required reporting on outcomes becomes an integral consideration in government's accountability to the House. That is, there needs to be sufficient, appropriate evidence to support the contents of reports and representations, and for the control processes used to prepare them.

3.78 Central government did not initially request or always receive supporting information documenting the nature or extent of the changes to existing programs and levels of services which were factored into budget submissions by departments in order to meet the targets provided to them. Central government needs to ensure that departments and agencies prepare and retain information or support for their plans and budget submissions to satisfy the needs of central government and the House as those entities discharge responsibilities related to resource allocation.

3.79 Budget-related presentations were made to Executive Council at various times by Finance and selected other departments during the 2001-02 budget process. There are differing views across government as to how much of Executive Council's time should be devoted to receiving presentations on the budgets of line departments. The allotted time should be representative of the program complexities and relationship of departmental funding to total government funding.

3.80 Presentations to Executive Council included key pressures and risks identified by each department, and communications considerations resulting from decisions or recommendations of central government staff. As the Departments of Education and Health were experiencing the more significant cost pressures, they were required to make separate formal presentations to Executive Council. Executive Council decisions resulting from presentations were then conveyed back to departments through revised target letters.

3.81 We reviewed the documentation provided to central government by departments to support budget submissions. For the most part, the information provided met the requirements laid out by Finance and TPB. Central government management staff indicated they were in regular contact with the management of those departments where additional information or explanations were required. Requests for additional information and the related issues were not always documented.

3.82 We were informed that the central review and challenge process focused on the bottom line target for most departments. Finance and TPB management and staff indicated that this approach encourages departments to assume ownership of their respective budgets. Central government believes this also places the onus on departments to explain variances as the budget year unfolds. The review and challenge of pressures presented by the Departments of Health and Education were more detailed, including reviews of certain specific programs.

Role of Operational Plans

3.83 When cost pressures are not funded, it is important for management to have an operational plan in place including approved strategies for meeting the budget target. We found that, throughout government, managers with budgetary responsibilities are expected to ensure they meet the financial

targets contained in the Estimates. Management indicated that there are not always specific operational plans to address situations where the target is less than the required amount, therefore there is a potential for ‘gaps’ between existing expenditure levels and budgetary targets. If there are no operational plans to address such gaps, then there is more risk that expenditures will exceed approved budgets.

3.84 We recommend that government require and approve operational plans to meet budget targets. This would help to ensure that a strategy to meet the target is developed, and that initiatives to achieve targets are specifically reviewed by Department and/or central government senior management. Without approved operational plans, there is greater risk that budgetary targets will not be met for certain programs.

3.85 The preparation and approval of operational plans is especially important in a *target-driven* budgeting system like the Nova Scotia one. Although Nova Scotia has a comprehensive business planning process in place, the plans relate to the overall department and often include little detail on specific programs. The need for enhanced, annual operational plans is especially acute at the program level.

3.86 Department management should ensure operational planning is linked to the budget. Operational plans should be revisited during the year, based on forecasts prepared during the monthly monitoring process.

Timeliness

3.87 The Minister of Finance’s March 29, 2001 Budget Address was the first time in recent years that a Nova Scotia government’s budget was presented to the House prior to the start of the fiscal year to which it applied. The last time this occurred was March 23, 1984. The Appropriations Act, 2001 passed Third Reading in the House on April 20, 2001. Further, March 27, 1975 was the last time an annual Appropriations Act (which establishes the spending authority limits for the expenditure/expense budget) received Royal Assent prior to the start of the fiscal year to which it applied. See Exhibit 3.2 on page 68 for historical information on the timing of the Province’s budgets.

3.88 Government should strive to ensure annual plans and budgets are finalized and approved prior to the start of the fiscal year to which they apply. The same goal should apply to all government GSOs and GBEs. However, many GSOs (e.g., Regional School Boards, District Health Authorities) cannot complete annual plans or budgets until government funding levels are confirmed. Accordingly, government’s plans and budget need to be available to the House for debate earlier than has been the norm.

3.89 We acknowledge that one of the significant considerations in finalizing the government’s annual budget is the impact of the Federal government’s budget, which is often not available until February. Further, Finance usually receives updates of economic and other relevant information from Federal government agencies (e.g., Statistics Canada) in January or February.

Estimate of Revenue

3.90 Under the mandate of Section 9 of the Auditor General Act, the Office of the Auditor General annually reviews for reasonableness the government’s economic assumptions used in the preparation of its revenue estimates. This mandate (initially included in the Provincial Finance Act) was put in place in the fall of 1993, and first exercised in the spring of 1994 on the government’s 1994-95 revenue estimates. It is unique in Canada.

3.91 The Auditor General's review and report on the revenue estimates does not encompass the estimates of expenditures, sinking fund earnings or recoveries, user fees or other income netted against expenditures for appropriation purposes. See Exhibit 2.4 on page 27 of this Report for the report on the 2001-02 revenue estimates. In addition, paragraphs 2.16 through 2.19, starting on page 17 of Chapter 2 of this Report, provide additional information on the mandate and reporting.

3.92 The government's estimated revenues and related economic assumptions are supported by a variety of formal and less formal systems and models. The assumptions and risks in determining the estimated revenues are well documented. There is a specific review and challenge process within Finance prior to review by Executive Council. Supporting information on the assumptions and revenue estimates is presented in the Budget Address documents.

3.93 Exhibit 3.3 on page 69 shows a multi-year comparison of total estimated versus actual revenue. Based on this analysis, one should not conclude that government has tended to be too cautious in setting economic assumptions or revenue estimates in recent years. The supporting information and rationale provided to us during the annual review have supported our conclusions on the reasonableness of the assumptions used and the revenue estimates. In this regard, the uncertainties associated with larger revenue streams over which the government has limited direct influence must be acknowledged.

Debt Service Costs and Other Treasury Items

3.94 Debt servicing costs (DSC) were estimated at \$1.043 billion, or 19.9%, of the 2002 budget. The most significant portion of DSC is interest on outstanding long-term debt. This was estimated to be \$966.0 million. Other components of the DSC include non-cash amounts such as interest calculated on the net outstanding pension and other post-retirement obligations. The estimate included in the 2001-02 budget for this amount was \$26.0 million. An analysis of total debt servicing costs is provided on pages A27 and A54 of the Budget Address. Debt servicing costs are offset by certain amounts, the most significant of which are earnings on public debt retirement funds and sinking funds.

3.95 The Province's borrowing program was authorized at \$1.5 billion for the 2001-02 fiscal year. This appropriation anticipates borrowing to replace debt maturing during the year, or which may be called or redeemed.

3.96 The borrowing program also provides for new borrowing. New borrowing is required to finance the budgeted deficit, to purchase capital assets, and to provide for capital advances made through the government's lending agencies.

3.97 We are aware that any unused portion of the borrowing authority may be carried forward to subsequent years until utilized. In order to improve control, borrowing authorities should have a defined term and any unused portion of the borrowing authority should be included in the information provided to the House of Assembly when additional borrowing authority is requested.

3.98 We noted the following with respect to the planning and budgeting of debt servicing costs.

- Extensive supporting information and models are used to determine borrowing requirements and debt servicing costs. These models are maintained at the staff level but are subject to review by senior management during the year. The models are reconciled to the accounting records on an annual basis at year end. Reasonableness tests are performed during the year to ensure variations between months are explained.

- The Province's accounting policies related to debt are incorporated into the models. For example, foreign exchange translation gains and losses are amortized over the remaining term of the related debt. This calculation has been built into the models.
- Economic assumptions used to prepare the estimate for debt servicing costs are consistent with those used in other areas of the budget process.
- There is considerable information on debt management, including debt servicing costs, in the Budget Address or released with it. This information is clearly presented, and includes a sensitivity analysis indicating the impact of changes in certain assumptions on total debt servicing costs. We suggest that the date of these assumptions be noted in the sensitivity analysis.

In addition, we noted that formal documents released along with the Budget Address include information on the government's plans and budget with respect to debt-related treasury functions. The information and analysis provided appear adequate to assess these functions and to serve as the basis for relevant enquiries.

- The Minister of Finance is responsible for all non-debt related treasury elements such as investment income, pension costs, and long-term financial obligations or commitments. Executive Council does not receive specific information on these elements during the budget process. We recommend that summary information supporting these amounts be provided to Executive Council and included in information provided to the House.

Restructuring Costs

3.99 Total budgeted net program expenses for 2001-02 were allocated to departments except for \$53.6 million which was described as restructuring costs. According to budget documents, this amount includes estimates for contract negotiations, workforce adjustment and re-engineering or business processing costs (e.g., costs associated with creating new departments, such as office renovation).

3.100 The budget for restructuring costs is determined by senior management at the Department of Finance and Treasury and Policy Board. Although the appropriation includes the three components noted above, criteria for determining what may be considered restructuring costs have not been developed and we recommend this be done. In addition, the process for determining the restructuring costs budget should be documented.

3.101 Restructuring costs in total are larger than the appropriation for many departments. The House of Assembly does not receive sufficient, appropriate information on the components of restructuring costs to support effective review, debate and approval by MLAs. Further, certain costs included in the restructuring costs appropriation (e.g., compensation adjustments) represent expenses of individual departments. As a result, the budgeted costs presented for certain departments may be understated.

3.102 Finding an effective and practical solution to this issue, that also provides appropriate protection to the public purse, is a significant challenge.

3.103 During the course of this audit, we did not have full unencumbered access to the information supporting the public service contract negotiation portion of the 2001-02 restructuring costs budget. Management was not willing to disclose this information to us as these negotiations were ongoing. In this regard, Finance previously obtained a legal assessment from the Department of Justice on the issue of restricting access to such budget-supporting information (see Exhibit 3.4 on page 70).

3.104 In such circumstances, the difficulty of balancing the need to “protect” the government’s (as an employer’s) negotiating position with the need for transparency becomes apparent.

Relationship with Funded Organizations

3.105 The accountability for Government Business Enterprises and Government Service Organizations lies with the Ministers responsible.

3.106 There are various ways of funding GSOs (other than the departments) and other entities which receive funding from government. For example, universities are funded by a formula developed in 1998 based on the audited average enrollments from 1994-95 to 1996-97. School Boards are allocated funds based on a number of different formulas. School Boards participate in the determination of the allocation through the Education Funding Committee, and the approved funding is not targeted or restricted to particular line items but can be allocated by the Boards. Funding to the District Health Authorities is not based on a formula, but rather on DHA business plans, targeted funding, efficiency information in the Clinical Services Master Plan, and historical negotiations. DHA funding is generally portable (i.e., transferable) between programs and capital, but there are some non-portable program budgets.

3.107 The Department of Community Services funds family and children’s services agencies (children’s aid societies) which provide child welfare services in various areas of the Province. Grants provided to these agencies consist of two components - an operating grant to fund the administrative costs of agencies, and reimbursement of actual costs incurred in providing child welfare services. Salary and administrative costs are funded based upon budgets submitted by the agencies, and child welfare services are funded based upon the actual costs incurred.

3.108 We expected that departments would provide written guidelines and instructions to agencies and transfer payment recipients to use in preparing budgets, including common assumptions to be used. These would help to ensure budgets are consistently prepared and that potential funding issues are identified. This was generally not the case. Instructions from departments usually included very high level directions such as *produce a balanced budget* or *assume existing service levels*. All of these entities have their own planning and budgeting processes and may use their own assumptions and parameters in developing budgets. Government departments provide these entities with deadlines for submitting final business plans and budgets, but no other information is provided concerning the assumptions or parameters that should be integrated into budget submissions to be consistent with core government and we recommend that this be done.

3.109 The Minister responsible included revenue and expenditure for the GSOs for which he/she is responsible through the particular department’s business planning and budget processes. Other than departments, Executive Council did not allocate time to individual GSOs or GBEs. For GBEs, Finance reviewed revenue assumptions and budgets, which were reflected in revenue estimates provided to and approved by Executive Council.

3.110 Finance and TPB received budget and business plan submissions via the Ministers responsible for government business enterprises and government service organizations. This information was accepted without detailed review by Finance and TPB. The assumptions used by GBEs and GSOs were not submitted to central government or centrally reviewed.

3.111 Through other audit or review work over the past year we have noted instances where entities had budgeted for compensation increases which were inconsistent with the plans of government.

3.112 Agencies and transfer payment recipients were generally notified of tentative budget targets prior to the beginning of the fiscal year, but final notification of approved funding was not received, in some cases, until June 2001 - part way through the fiscal year.

Additional Appropriations

3.113 When regular overspending occurs, the reliability of the amounts budgeted in the Estimates should be questioned. In the Nova Scotia government, overexpenditure of appropriations requires Executive Council approval in the form of an additional appropriation under Section 28 of the Provincial Finance Act.

3.114 In December 1996, the Public Accounts Committee (PAC) submitted a report to the House of Assembly which included a number of recommendations flowing from the efforts of a PAC Sub-committee on the Public Accounts. Chapter 2 of this Report includes Exhibit 2.8 (see page 31) which provides a list of all of the PAC Sub-committee recommendations as well as a summary of the Office of the Auditor General's understanding of the status of action taken or planned. Not all of the recommendations have been fully implemented.

3.115 That report, under the heading 'Estimates and Budgeting', included the following recommendation.

Additional appropriations and special warrants need to be reviewed by the House of Assembly on a more timely and effective basis. Where a department or agency has been allocated an additional appropriation the appropriation should be tabled in the House of Assembly or if the House is not sitting it shall be deemed tabled with the clerk of the House. The amount of the appropriation must also be included.

3.116 Additional appropriations have been required every year in recent times, and additional spending authority has not been put in place on a timely basis, as statutory requirements appear to require. See Chapter 15 of this Report for more information on additional appropriations for fiscal 2000-01. Exhibit 3.6 on page 71 provides information on the total additional appropriations required by departments in the past five fiscal years. However, it should be noted that the totals for the last three fiscal years include the impact of accounting policy changes associated with moving to generally accepted accounting principles for financial statement reporting purposes.

Forecasting and Monitoring

3.117 Quarterly financial reporting is required as per Section 8B of the Provincial Finance Act. Staff, centrally and at departments, prepare monthly financial reports and forecasts, and provide explanations for significant variances. We are not aware of the existence of formal criteria to identify when a variance is to be considered significant. Some departments have developed internal procedures concerning monthly financial reporting.

3.118 Treasury and Policy Board now requires departments to provide detailed explanations for expense variances, but it had not identified the criteria to be used to identify the variances to be explained nor had it specified the action departments are to take if their overall budget is forecasted to be overspent. We suggest that expanded and enhanced guidance on monthly and quarterly forecasting requirements be considered.

3.119 Departments inform Treasury and Policy Board of the status of their budget targets through the submission of monthly forecasts. Departmental staff were informed that a formal request for an additional appropriation should only be made at the end of the fiscal year, when the final expenditures of the Department have been determined. In our view, incurring expenditures before the necessary additional spending authority is in place is contrary to the Provincial Finance Act.

CONCLUDING REMARKS

3.120 Annual business planning and budgeting by government provides a fundamental cornerstone for control over the use or stewardship of public money and property. Once debated and approved, the annual Appropriations Act (supported by the Estimates and other planning and budget information tabled) provides the foundation upon which the government can be held to account.

3.121 Preparation of the annual Estimates is arguably one of the most important functions of government administration, and approval of the Estimates is a key governance responsibility of the House of Assembly. The approved Estimates or annual fiscal plan provide a framework for government to set out its financial and program priorities for the upcoming year. The Estimates also serve as a tool for the House to hold the government and managers accountable for achievement of planned results. Appropriate fiscal planning ensures that services funded and/or provided by government are sustainable for the future.

3.122 Government's business planning and budgeting processes need effective central leadership, with a clear definition of roles, responsibilities and authorities. Central government requires strong support, commitment and participation by the management of all departments, agencies and other organizations within the Provincial public sector.

3.123 We found that government had established a reasonable approach for preparation of the 2001-02 Estimates. We made recommendations for improvements to certain aspects of the process.

3.124 The House of Assembly, to fulfill its responsibility for governance of the Province, needs good information on which to base its decisions. This information should include appropriate disclosure of the assumptions underlying budget requests, and we have recommended additional disclosures in this area. There is also a need to better incorporate operational planning and performance information into the budget process.

3.125 Achievement of fiscal targets depends on appropriate monitoring of planned and actual results which should begin early in the year. The ability to achieve this goal depends on timeliness of the House of Assembly's approval of the Estimates which took place earlier in 2001 than in previous years. Although there are practical difficulties associated with finalizing approval of the Estimates prior to the beginning of the fiscal year, we believe that this should be a goal for government.

3.126 It is imperative that readers of the business plans and budget information be able to clearly identify significant changes or adjustments that result in the plans and budget being presented or prepared on a basis different than prior years. Government has an obligation to ensure sufficient appropriate supporting information is available to MLAs, as a matter of course, to support the substance of budget debate in the House.

*Exhibit 3.1***EXTRACTS FROM PROVINCIAL FINANCE ACT**

- 7A (1) *The Minister shall examine, advise upon and compile the annual estimates of prospective revenues and expenditures.*
- (2) *The estimates referred to in subsection (1) shall contain*
- (a) *the proposed supply votes that are to be voted on by the House of Assembly; and*
- (b) *any other amounts permitted or required to be paid out of the Consolidated Fund pursuant to this or any other Act that are not required to be voted on by the House of Assembly.*
- (3) *The estimates referred to in subsection (1) shall be prepared under the direction of the Deputy Minister. 1994, c.29, s.3.*
- 7B (1) *The Minister has responsibility for the financial management of the Consolidated Fund and related activities including*
- (a) *establishment of expenditure targets and borrowing requirements as deemed necessary for the Province's financial planning;*
- (b) *monitoring of departmental appropriations, expenditures, commitments and prospective expenditures and revenues of departments throughout the fiscal year to ascertain whether departments are properly managing and accounting for Consolidated Fund transactions;*
- (c) *establishment of financial plans, procedures and policies for use in financial administration by departments;*
- (d) *monitoring of financial management systems of departments to ensure they are consistent with government financial-management processes;*
- (e) *development and implementation of financial management systems for departments, where necessary; and*
- (f) *investigation of any matter relating to the receipt and disbursement of public money by departments.*
- (4) *The Minister shall determine accountability rules and establish financial performance measurements that shall be reported upon by the departments as deemed necessary by the Minister and used to assess the on-going financial management of departments. 1994, c. 29, s. 3.*
- 8B (1) *The Minister shall submit to the House of Assembly*
- (a) *quarterly financial reports on the state of the public finances before the end of the next quarter; and*
- (b) *such other financial or economic reports as the Minister determines.*

- 54 (5) *Within twenty days after the commencement of every session of the House of Assembly, the Minister shall lay before the House a report setting out particulars of all acts done by him under the authority of this Section since the date of his last report under this subsection. R.S., C. 365, s. 54; 1994, c.29, s. 18.*
- 59D (1) *Subject to subsection (2), where a department proposes to implement a program or service that the department has not provided in a previous year or for which no appropriation has been made in a previous year, the department shall not implement the program or service unless the department is able to implement the program or service from the total of the funds appropriated for the department for the fiscal year in which the program or service is to be implemented.*
- (2) *The Governor in Council may approve the implementation of the program or service referred to in subsection (1) where*
- (a) *the program or service can be provided within the limits of the total appropriations for the Government for the fiscal year in which the program or service is to be implemented; or*
- (b) *the program or service is required as a result of a natural disaster or other disaster as provided by this Act.*
- 73 *Commencing April 1, 1997, a crown corporation shall annually*
- (a) *submit to the House of Assembly for approval during consideration of the Estimates its business plan and any proposed public financing; and*
- (b) *table in the House of Assembly audited financial statements for the preceding fiscal year. 1996, c.5, s. 23.*
- 74 *In this Act,*
- (a) *“deficit” means the amount in a fiscal year by which the total of*
- (i) *net program expenses and net debt servicing costs for the fiscal year as defined in the budgetary summary of the annual Estimates of the Province for that fiscal year,*
- (ii) *consolidation adjustments for government service organizations in that fiscal year, and*
- (iii) *net income or losses for government business enterprises in that fiscal year, exceed ordinary revenue for the fiscal year as defined in the budgetary summary of the annual Estimates of the Province for that fiscal year;*
- (b) *“fiscal period” means a period of four consecutive fiscal years, with the first four-year fiscal period commencing on April 1, 2000, and each successive four-year fiscal period commencing on April 1st next following the first year of the previous fiscal period;*
- (c) *“government business enterprise” and “government service organization” means those entities listed in the Schedule to this Act and any additional entities designated pursuant to Section 80;*
- (d) *“Minister” means the Minister of Finance;*
- (e) *“surplus” means the amount by which revenues in a fiscal year exceed the total of*

- (i) net program expenses and net debt servicing costs for the fiscal year,
- (ii) consolidation adjustments for government services organizations in that fiscal year, and
- (iii) net income or losses for government business enterprises in that fiscal year.

- 75 Where an amount is expended in excess of an appropriation referred to in the Appropriations Act, the Minister responsible for expenditures made pursuant to the appropriation shall table in the House of Assembly or, if the House is not sitting, file with the Clerk of the House of Assembly a report setting out the amount of the over-spending and the reasons the expenses were required to be made.
- 76 In each fiscal year of the Province, commencing with the 2002-2003 fiscal year, the Minister shall not table a budget in the House of Assembly that estimates a deficit for the Province for the fiscal year to which the budget relates.
- 77 Where the Minister determines that a deficit has occurred, the Minister shall
- (a) table, in the House of Assembly or, if the House is not sitting, file with the Clerk of the House of Assembly a report setting out the amount of the deficit and the reasons why it occurred; and
 - (b) introduce a resolution in the House of Assembly respecting the deficit.
- 78 (1) Subject to subsection (2), a deficit in a fiscal year shall be recovered no later than the end of the fiscal year next following the year in which the deficit occurred.
- (2) Where a deficit occurs in a fiscal year as a result of
- (a) an expenditure required in the fiscal year because of a natural or other disaster in the Province that could not have been anticipated and that affects the Province or a region of the Province in a manner that is of urgent public concern;
 - (b) losses associated with a sale, dissolution, closure or other restructuring of a government service organization or government business enterprise that are not anticipated to have a similar financial impact on future fiscal years; or
 - (c) an expense incurred with respect to debt servicing costs that exceeds the amount budgeted for debt servicing costs for the fiscal year, the deficit is not required to be recovered.
- 79 Notwithstanding any enactment, power or authority, a government service organization or a government business enterprise shall not exceed the net results as set out in its budget without first obtaining the written authorization of the Minister responsible for the government service organization or government business enterprise.
- 81 (1) The Government shall pursue its policy objectives in accordance with the principles of responsible fiscal management specified in subsection (2).
- (2) The principles of responsible fiscal management include

(a) achieving and maintaining Crown debt at prudent levels so as to provide a buffer against factors that may impact adversely on the level of total Crown debt in the future;

(b) achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future;

(c) managing prudently the fiscal risks facing the Crown;

(d) pursuing policies that are consistent with achieving a reasonable degree of predictability about the level and stability of tax rates, programs and services for future years; and

(e) adopting and implementing a fiscal decision-making system that is rational, fair, efficient, credible, transparent and accountable.

82 *(1) The Minister shall prepare a consolidated fiscal plan for the Government for each fiscal period.*

(2) The Minister shall table a consolidated fiscal plan at the time the Minister tables the estimates for a fiscal year in the House of Assembly.

(3) A consolidated fiscal plan shall include

(a) fiscal projections for the four-year period referred to in the consolidated fiscal plan;

(b) the major economic assumptions the Minister made in preparing the plan, including the effect changes in the assumptions may have on the finances of the Government in the fiscal period to which the plan relates;

(c) a summary of the Government's business plan for the first year of the fiscal period, as well as such portions of the business plans for the first year of the fiscal period of a department, government business enterprise or government service organization as the Minister considers appropriate; and

(d) such other information as the Minister considers appropriate.

83 *(1) The Minister shall prepare a report for each fiscal year in a form and at the time determined by the Minister.*

(2) A report prepared pursuant to subsection (1) shall include

(a) information that shows outcomes against the business plan information for that fiscal year; and

(b) any other information the Minister considers appropriate.

(3) Reports prepared pursuant to subsection (1) shall be submitted to the House of Assembly not later than December 31st next following the end of the fiscal year reported on and, if the House is not sitting, the Minister shall file the report with the Clerk of the House.

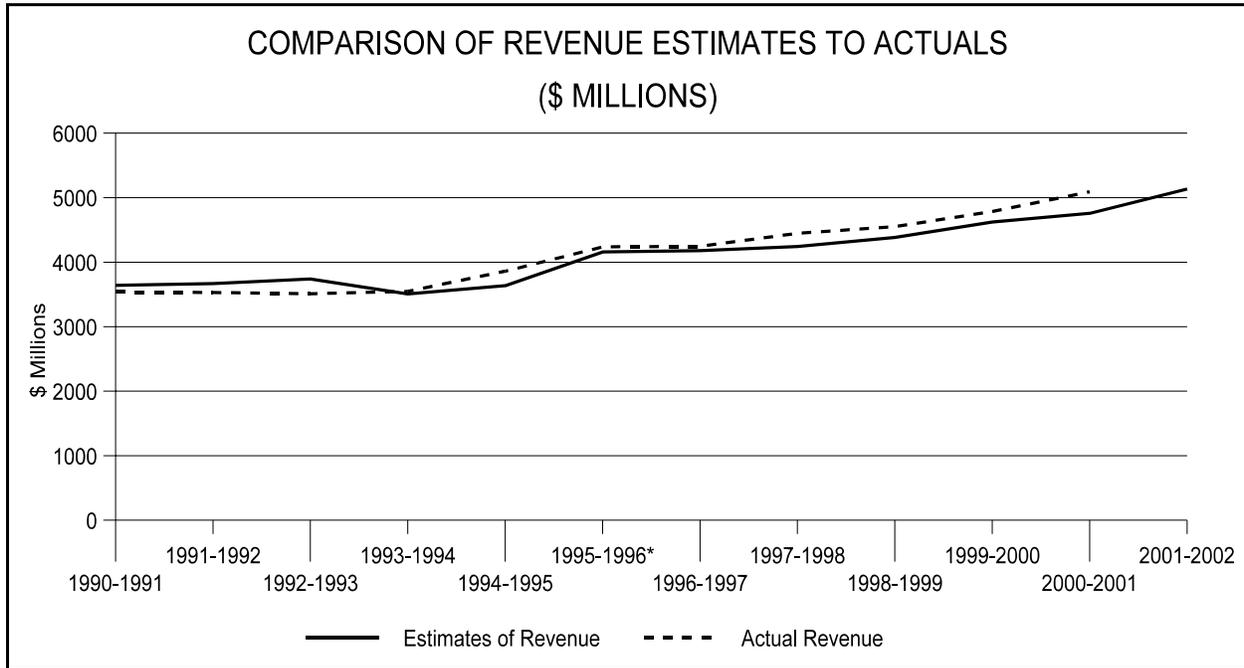
Exhibit 3.2

PROVINCE OF NOVA SCOTIA CHRONOLOGY OF BUDGET DATES				
Fiscal Period	Fiscal Year End	Date of Budget Address	Date of Royal Assent	Date of General Election
2001-2002 (Note 1)	March 31, 2002	March 29, 2001	June 1, 2001	
2000-2001	March 31, 2001	April 11, 2000	June 8, 2000	
1999-2000	March 31, 2000	October 14, 1999	November 23, 1999	
1999-2000 (Note 2)	March 31, 2000	June 1, 1999	N/A	July 27, 1999
1998-1999	March 31, 1999	June 4, 1998	June 29, 1998	March 24, 1998
1997-1998	March 31, 1998	April 17, 1997	May 9, 1997	
1996-1997	March 31, 1997	April 25, 1996	May 17, 1996	
1995-1996	March 31, 1996	April 11, 1995	May 19, 1995	
1994-1995	March 31, 1995	May 2, 1994	June 30, 1994	
1993-1994	March 31, 1994	September 30, 1993	November 25, 1993	May 25, 1993
1992-1993	March 31, 1993	April 24, 1992	June 30, 1992	
1991-1992	March 31, 1992	May 14, 1991	June 13, 1991	
1990-1991	March 31, 1991	April 27, 1990	June 19, 1990	
1989-1990	March 31, 1990	May 5, 1989	June 15, 1989	
1988-1989	March 31, 1989	April 15, 1988	May 25, 1988	September 6, 1988
1987-1988	March 31, 1988	April 10, 1987	May 29, 1987	
1986-1987	March 31, 1987	April 18, 1986	May 26, 1986	
1985-1986	March 31, 1986	April 19, 1985	May 17, 1985	
1984-1985	March 31, 1985	March 23, 1984	June 11, 1984	November 6, 1984
1983-1984	March 31, 1984	April 18, 1983	June 1, 1983	
1982-1983	March 31, 1983	April 30, 1982	June 26, 1982	
1981-1982	March 31, 1982	April 10, 1981	June 24, 1981	October 6, 1981
1980-1981	March 31, 1981	April 2, 1980	June 5, 1980	
1979-1980	March 31, 1980	April 6, 1979	May 15, 1979	
1978-1979	March 31, 1979	March 3, 1978	May 5, 1978	September 19, 1978
1977-1978	March 31, 1978	March 29, 1977	May 19, 1977	
1976-1977	March 31, 1977	March 19, 1976	May 20, 1976	
1975-1976	March 31, 1976	March 4, 1975	March 27, 1975	
1974-1975	March 31, 1975	June 14, 1974	June 28, 1974	April 2, 1974

Note 1 - Appropriations Act, 2001 - House voted on and passed April 20, 2001

Note 2 - Budget defeated June 17, 1999

Exhibit 3.3



**Federal CHST program implemented*

Exhibit 3.4**FREEDOM OF INFORMATION AND PROTECTION OF PRIVACY ACT**

Do Statutory Provisions Justify Withholding Budget Information?

(Extracted from April 15, 1997 Memorandum - Justice Deputy to Finance Deputy)

You have asked me whether statutory provisions justify withholding budget information such as information which could benefit unions during collective bargaining (to the detriment of the Province).

Subsection 17(1) of the Freedom of Information and Protection of Privacy Act provides, in part,:

“The head of a public body may refuse to disclose ... information the disclosure of which could be reasonably expected to harm the financial ... interests of ... the Government of Nova Scotia ...”.

Clause 17(1) (e) contains a specific right to refuse “information about negotiations carried on by or for a public body or the Government of Nova Scotia”. I believe information respecting money allocated for the purpose of salary increases is covered by both the general prohibition and the specific one.

The Government may determine whether the release of the information could or would not reasonably be expected to harm the financial interests of the Government. That will depend upon the collective bargaining strategy.

It follows that, if asked about details respecting the estimates which would disclose money available for salary increases yet to be negotiated, the Minister of Finance may respond:

“Release of this information could reasonably be expected to harm the financial interests of the Government of Nova Scotia during the collective bargaining process and therefore the information will not be disclosed.”

Exhibit 3.5

DEPARTMENTAL BUDGET REQUESTS AND FINAL ESTIMATES 2001-02 (\$ thousands)			
Departments	Community Services	Education (Including University Assistance)	Health
Base Budget, 2001-02	\$ 575,989	\$ 1,060,064	\$ 1,686,140
Funding for Program Pressures	21,600		
Other Adjustments	23,636	11,165	13,860
Revised Base Budget	621,225	1,071,229	1,700,000
Funding for Program Pressures	1,500	6,400	126,884
Other Adjustments	3,783	12,040	(7,853)
Estimate, 2001-02	\$ 626,508	\$ 1,089,669	\$ 1,819,031
Department Initial Request	\$ 635,225	\$ 1,117,855	\$ 1,988,013

Exhibit 3.6

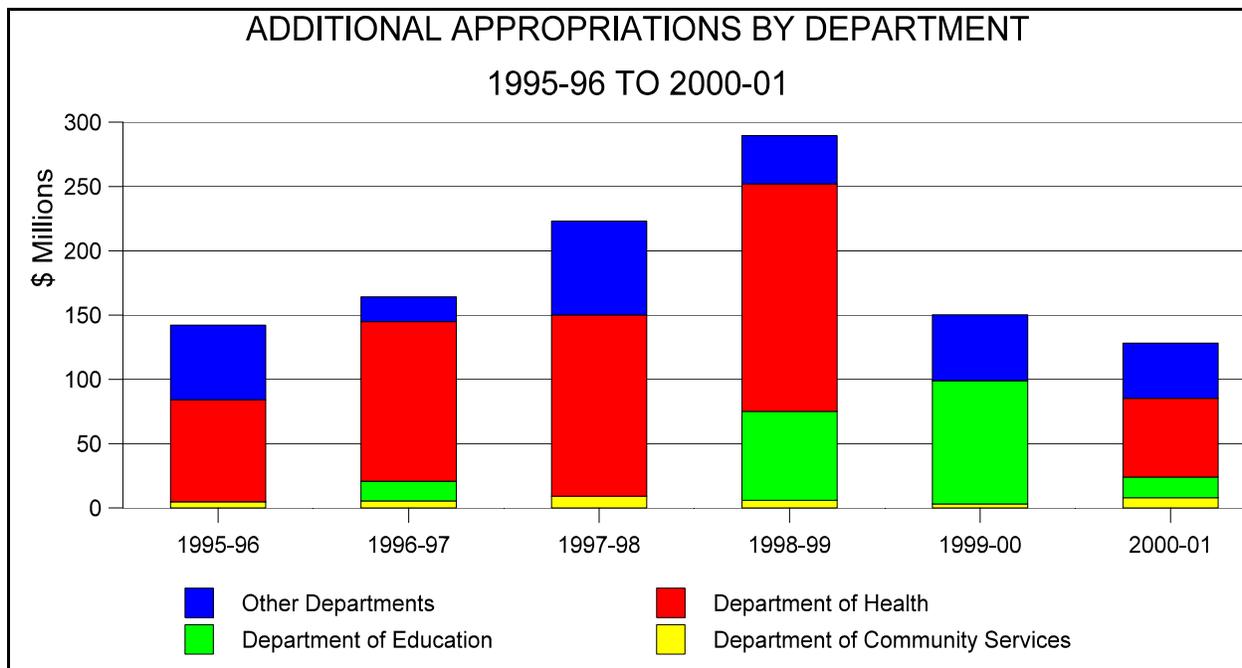
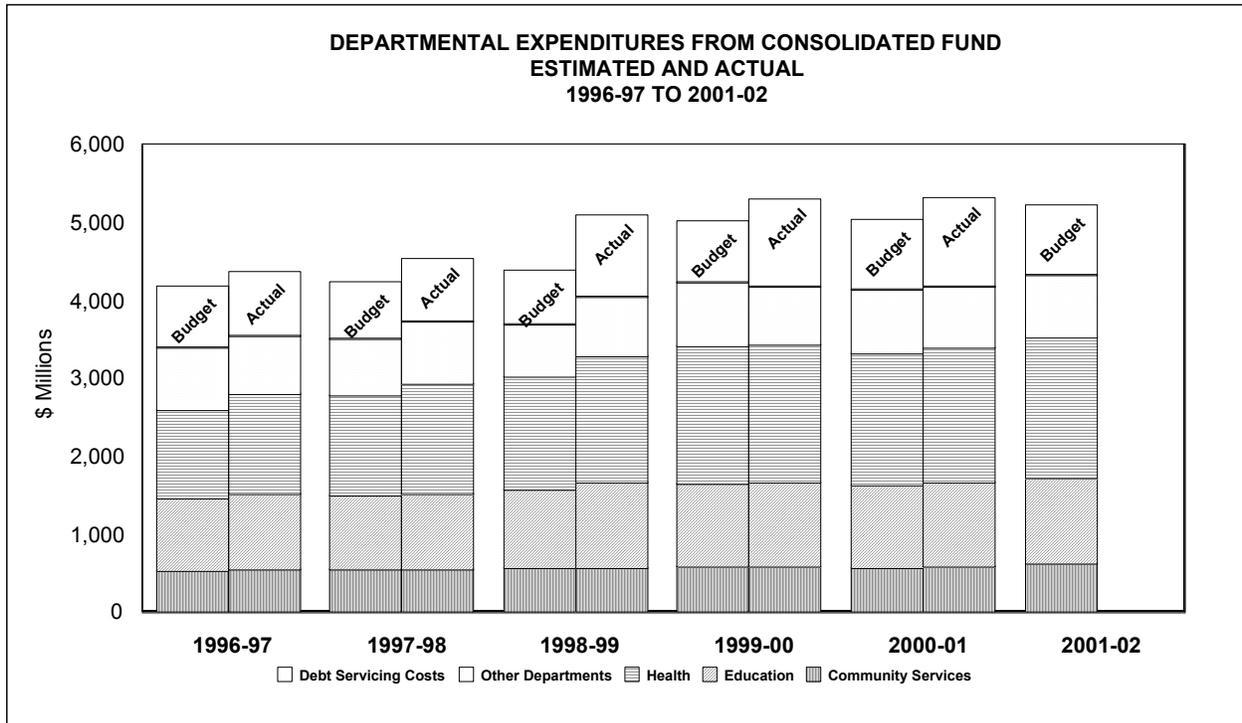


Exhibit 3.7



Note - These figures represent expenditures from the Consolidated Fund only and may not be the same as those in the Consolidated Summary Financial Statements.