



Province of Nova Scotia
Financial Review
Phase 2 Report

November 2009

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1. Introduction

This document is the final report to the Government of Nova Scotia as part of the financial review (the “Review”) work undertaken by Deloitte & Touche LLP (“Deloitte”).

1.1 Background

The people of Nova Scotia elected a new Government on 9th June 2009, and the newly appointed Executive Council was sworn in on 19th June 2009. During the election campaign the new Government committed to an immediate review of the Province’s finances upon entering office.

Deloitte has been contracted to assist the new Government of Nova Scotia with an independent review and analysis of the Province of Nova Scotia’s current and future financial position. The review will provide financial information for Government to use in making decisions about the overall management of Government programs. This will assist the Government in meeting its program and fiscal objectives.

This report contains the findings of Phase 2 of the Review. Phase 1 was completed in August of 2009. Phase 2 covers additional topics to Phase 1; it does not further the analysis provided in Phase 1.

1.2 Objectives

The objectives of Phase 2 are to review, analyze and make recommendations on four specific items, as well as any other relevant financial matters which came to the attention of Deloitte while undertaking the Review. The specific items, as found in the Government’s ‘Request for Proposal’ for this Financial Review, are:

- *the feasibility of separating the budgeting process for capital and operating;*
- *the appropriate accounting treatment, according to PSAB, for any operating grants or other funding to recipients external to the government reporting entity (such as universities) which are flowed in advance of the fiscal year in which the funding will be used by the recipient;*
- *an approach to resolving the Auditor General’s qualification and scope limitation related to Third Party Revenues which is annually included in his Report on the Estimates of Revenue for the Fiscal Year;*
- *improvements in the timeliness and process for approvals of grants and business plans for District Health Authorities and Regional School Boards; and*
- *any other relevant financial matters which come to the attention of the reviewer. We have chosen this to be expenditure management.*

1.3 Disclaimer

Consistent with expectations of the Government under Phase 1 of this Review, Deloitte conducted a review, not an audit, of certain specified aspects of the Province of Nova Scotia’s financial situation. The Auditor General of Nova Scotia is responsible for auditing the financial statements of the Province of Nova Scotia and the review of the revenue estimates in the budget.

1.4 Approach

Our review procedures have consisted primarily of interviews, discussions, review of documents, and analysis.

Deloitte relied on officials within the Government of Nova Scotia to establish a view on the Province's current processes and accounting treatments. We have reviewed and analyzed information asked of, and provided to us by, provincial officials, looking at multiple sources, where possible, in order to ensure consistency and completeness. We have not conducted a verification process on information provided to us with respect to timescales, processes, and related financial information for individual Departments and Programs.

2. Feasibility of a separate budgeting process for Capital Expenses

2.1 Introduction

While there are distinct differences between capital and operating budgets, there are many linkages between the two. Decisions on capital projects impact the final operating budget, not only through amortization and debt servicing costs, but also due to the ongoing maintenance and servicing expenses that usually accompany capital spending.

In addition, the operating budget deals with a twelve month period whereas the capital budget includes capital projects that often impact the Province's financial position for more than one year; i.e. during construction and often for decades to come due to amortization expenses. Capital spending also has an immediate and significant effect on Net Direct Debt at the time of acquisition.

The scope of Phase 2 of the Province of Nova Scotia Financial Review calls for an examination of:

‘the feasibility of separating the budgeting processes for capital and operating’

2.2 Background – Current process

Nova Scotia undertakes its capital budgeting process along similar timelines as its operating budget.

The annual capital budgeting process in Nova Scotia typically begins in June when departments are asked to prepare and submit capital project requests. The Treasury Board leads a Capital Prioritization Committee (the “Committee”) with representation from the Controller's Office, Transportation and Infrastructure Renewal, the Finance function, Chief Information Officer's office, and a policy resource person. IT (Information Technology) projects are examined as a peer review by the IT Directors Forum. The results of their review are evaluated by the Business Technology Advisory Committee (BTAC). Recommendations from BTAC are forwarded to the Capital Prioritization Committee for inclusion with all other capital projects.

Through the summer and early fall, the Committee receives, reviews and analyzes requests from departments. Presentations are often made to the Committee by departments where projects are challenged and analyzed. Operating costs associated with acquisition of the asset and its ongoing operating costs is reviewed. The total amount of funding available for capital projects is provided by the Department of Finance based on debt management plans and by examining the anticipated impact on Net Direct Debt.

Recommendations from the Committee are presented to either Cabinet or Treasury Board Ministers as part of the overall budget process.

The Province's annual budget (the “Estimates”) includes a schedule of Tangible Assets; or Capital Purchase Requirements. Once authorized by the *Appropriations Act*, departments then have the authority to spend the capital and operating amounts as outlined in the Estimates. A portion of these acquisition costs is charged as an amortization expense to the Province each year over the useful life of the asset. The estimated amortization expense is also presented in the annual Estimates.

2.3 Background – Other provinces

Most Canadian provinces include capital budgets with operating budgets. Newfoundland and Labrador maintains a Capital Account within its Estimates. Two provinces, Prince Edward Island and New Brunswick, have separate capital budgets. Both provinces presented their capital budgets to their legislatures in the fall with approval in December 2008 for the 2009-10 fiscal year. Their capital budgets consist of estimated capital expenditures. Amortization related to the capital spending was included in the operating budget.

Prince Edward Island prepared and tabled a five year capital budget. The 2009-10 capital spending component was authorized by the legislature in the “*Appropriations Act (Capital Expenditures) 2009*”. No specific timing was identified for tabling a capital budget; however they have been published in November and December in the last three years.

New Brunswick has specific legislation requiring the preparation and submission of capital budgets (*Fiscal Responsibility and Balanced Budget Act*). This legislation requires a capital budget to be presented by December 31 each year.

2.4 Analysis of the capital budgeting process

We have assessed the feasibility of separating the budget process for capital and operating expenditures against the following key considerations:

1. *Transparency: The degree to which the budgeting process provides the public with transparency surrounding capital projects.*

A single public listing of all government capital projects, planned and underway, in the Province is not available. The general practice for deciding and announcing capital plans and projects in the Province of Nova Scotia appears somewhat unsystematic. Single projects, as well as comprehensive capital project packages, tend to be announced when the decision to proceed with a project is made. These announcements made through the fiscal year do not always have accompanying detail with respect to capital costs, operating costs and timing. Since a record of current capital projects is not publically available, government announcements can confuse the public and cause uncertainty as to whether the government has actually approved the project announced, or whether it is simply in the assessment stage.

Conclusion: A separate capital budget would consolidate all capital projects, planned and underway, and provide a summary of the anticipated financial implications of said projects.

2. *Prioritization: The degree to which the budgeting process can enhance the government’s ability to prioritize capital projects.*

Determining the budgetary impacts of capital commitments is part of the Province’s annual budget process and usually takes place concurrently with the development of the operating budget. Often Cabinet’s attention during this period is focused on the operating budget and the projected surplus or deficit for the forthcoming year.

In addition, given that capital project announcements can be made over the course of the fiscal year, it can be difficult, and often too late, for Cabinet to assess the merits of one capital project against another or to prioritize the timing of capital projects for the upcoming fiscal year and future years.

Conclusion: A separate budget process for capital expenditures, particularly if it occurs prior to the operating budget process, may allow Cabinet to focus more clearly on prioritizing and selecting capital projects, as well as allocating resources for the coming fiscal year.

3. *Project planning and execution: The degree to which the budgeting process assists in more effective tender planning.*

The successful execution of capital projects can be greatly assisted by effective tender planning. Timely tender calls, which would maximize opportunities to take advantage of the short construction season in the Province, are often difficult given the timing of the Province's approval of its capital budget. Taking advantage of the short construction season is critical for many departments, and others, such as Education, have difficulty executing projects outside the summer months, while students are attending school. In addition, projects that are executed during periods of inclement weather are often subject to longer timeframes, higher costs and scheduling delays, thus potentially creating cost over-runs.

Conclusion: Provincial departments would be better able to allocate staff resources to the preparation of tender documents, and thus execute more timely and potentially more cost effective capital projects, if the capital budgeting and approval process preceded the remainder of the budget process.

4. *Impact on Net Debt: The degree to which the budgeting process is best able to assess the impact on Net Direct Debt.*

The level of capital spending can often have a greater impact on Net Debt than the operating budget (results) for the year. When determining the amount of resources that could be allocated to capital, the impact on Net Debt would be a primary consideration, along with amortization. A process dedicated to consideration of capital spending should include a determination of resources available for capital spending through analysis of projections of Net Debt.

The State of Maryland has a Capital Debt Affordability Committee which analyzes the State's debt status to determine the maximum amount of new debt that should be authorized during the upcoming legislative session. A similar function, focused on Net Debt, performed by Cabinet, could be enhanced by a separate capital budget process.

Conclusion: A separate budget process for capital expenditures may afford Cabinet more time to assess the impact of capital projects on Net Debt.

5. *Impact on operating budget: Degree to which the impact of capital projects can be accurately planned for in the operating budget.*

Generally, capital budgeting processes are mindful of the impact the completed capital projects will have on operating costs. However, when the capital and operating process are separated, there is a risk that operating costs related to capital projects may not be adequately considered.

One factor in setting capital spending is the ability of the operating budget to cover new operating costs plus amortization costs. If the capital budget process is completed prior to the operating budget, there is a risk that the capital spending amount was set based on incomplete information.

Conclusion: The above risk is mitigated somewhat by the timing of capital projects. The annual expenses related to new capital is based to a large extent on previous years' capital spending, so the impact of the current year's operating budget is able to be planned for.

6. *Agility: The degree to which the budgeting process can react to changing economic or other circumstances.*

A separate capital budget process is likely to be carried out before the operating budget is finalized. Between the time the capital budget is approved and the operating budget completed, economic circumstances may have changed in a way that either increases or decreases the amount of resources available for capital spending.

Conclusion: Joined up processes for establishing the Province's capital and operating budgets would enable the government to respond more effectively to changing circumstances.

7. Legislative impact: The degree to which the legislative agenda is impacted.

The impact on a government’s legislative agenda depends on the method used to separate the capital budget process.

If legislative appropriations for capital spending are separated from the operating appropriations, there is likely to be a requirement for a legislative session in the fall of each year to approve a capital budget, regardless of whether there is other legislative business. Prince Edward Island and New Brunswick, which have moved to separate budgeting processes, require such sessions.

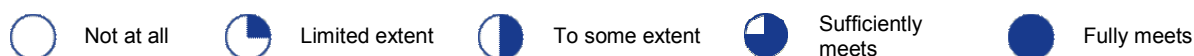
If the capital budgeting process resulted in the tabling of a Capital Plan, the Plan can be tabled whether the House is in session or not.

Conclusion: A Capital Plan would provide transparency without requiring a legislative session if there was no other legislative business.

The below table provides an assessment on the merits of a separate capital budgeting process using the key considerations identified above.

Table 1: Assessment of the current budgeting process versus a separate capital budgeting process

Consideration	The degree to which...	Current Process	Separate Capital Budgeting Process
1	...the budgeting process provides public transparency surrounding capital projects		
2	...the budgeting process can enhance the government’s ability to prioritize capital projects		
3	...the budgeting process assists in more effective tender planning		
4	... the budgeting process is best able to assess the impact on Net Direct Debt		
5	...the impact of capital projects can be accurately planned for in the operating budget		
6	...the budgeting process can react to changing economic or other circumstances, such as stimulus spending		
7	...the legislative agenda is impacted		
On-balance		4.0	5.0



2.5 Recommendations

In the past year, there has been an increased emphasis and discussion of government spending on capital projects, largely as a measure to stimulate the economy. Although the importance of capital spending is acknowledged, even when not used to stimulate the economy, only two provinces in Canada have a legislated, separate capital budget process. Most, if not all, other provinces have internal processes to prioritize and approve capital projects. The outcome of these processes is included in their annual budgets, where the major focus is operating estimates.

The Province’s current capital budgeting process appears adequate and appropriate. However, the process could be enhanced if time was allocated specifically for the development of a Capital Plan.

We believe that the Province could achieve many of the advantages of a separate capital budget process, while mitigating some of the potential disadvantages by producing a Capital Plan by December of each year. A Capital Plan would provide increased transparency, encourage greater focus on capital decision making, and although a Capital Plan would not provide spending authority until a capital spending appropriation was approved, it would allow for earlier tender planning and preparation.

We believe that it is feasible to establish a Capital Plan for capital expenditures and recommend the following next steps for the Province towards this end:

1. Determine the additional internal resources, if any, that may be necessary to manage a Capital Plan;
2. Determine whether requirements for an annual Capital Plan should be instituted by way of policy or legislation;
3. Establish the format for an annual Capital Plan including the specific information that will be presented; and
4. Determine an appropriate implementation plan with time frames for the first Capital Plan.

2.6 Elements of a Capital Plan

Key items that should be considered in developing a separate Capital Plan which achieves this balance include:

- A policy or change to legislation to require the annual publication of a capital plan for the Province prior to December 31 each year.
- The capital plan should include details of the capital projects, estimated costs, fiscal year the expenditures are expected to be made and expected completion date.
- Details of capital expenditure estimates should be provided for the upcoming fiscal year and two additional years into the future for approved capital projects and recurring capital needs.
- A calculation of how the capital plan is expected to affect Net Debt.
- The anticipated amortization costs of the capital plan.
- An outline of changes in operating costs expected as a result of the capital projects.
- Consideration of a contingency for changes to the plan in the fiscal year and for urgent capital needs that arise during the year.
- Consideration of a description of the quality or expected accuracy of the estimate being provided. A variation of the classification system often used for describing project cost estimates, consisting of Class A, B, C, or D estimates, or actually tender bid could be considered. The classification ranges from a Class D estimate which is strictly an indication (rough order of magnitude) of the final project cost based on a statement of requirements and Class A estimates which are based on complete working drawings and specifications.

3. Transfers to recipients external to the government reporting entity

The terms of reference for Phase 2 of the Financial Review asked for a review, analysis and recommendations on:

“the appropriate accounting treatment, according to PSAB, for any operating grants or other funding to recipients external to the government reporting entity which are flowed in advance of the fiscal year in which the funding will be used by the recipient.”

3.1 Background

The payment of operating grants by governments can be categorized by the type of recipient in the following way:

1. **Grants to entities** (agencies, boards and commissions) over which the government has control.
2. **Government transfers** are grants to organizations that the province does not control.
3. **Payment of funds to a Trust**, administered by an external body. The government may establish internal “trust accounts” however; payments to these internal trust accounts are not considered expenses, rather the reallocation of existing financial assets.

The conditions attached to grants and the type of recipient will determine which accounting standards apply and how the transaction should be accounted for.

3.2 Assessment of appropriate accounting treatments

3.2.1 Grants to entities that are part of the government reporting entity

Generally, organizations that are part of the government reporting entity are established, or payments to them are authorized, by legislation. To be considered part of the reporting entity, there has to be a determination that the Province controls the entity. That determination is arrived at through an assessment of the criteria of control contained in the PS 1300. The specific indicators of control are presented in Appendix A.

The Province consolidates the financial transactions and balances of organizations that are part of the reporting entity in its' Public Accounts. The consolidation process includes the financial results from these entities as if the Province had made the expenditure itself. How and when the organization actually expends the funds determines how and when it is accounted for by the Province. The Province cannot flow funds to these organization in advance of when it is used by the recipient because the expense is recorded when the recipient spends the funds.

Consistent with the terms and conditions of the ‘Request for Proposal’ for this Review, no further consideration is required for the accounting of grants to entities that are part of the government reporting entity (a complete list of the organizations that are included in the government reporting entity is presented as a schedule to the Province’s financial statements each year, and included in Appendix B, as Table 4).

3.2.2 Government transfers

Government transfers are made to achieve a government's policy objectives. Unlike government expenditures for goods and services or expenditures in a corporate setting, the timing and amount of the payment is set at the discretion of government. This distinction is a key difference that necessitated specific PSAB accounting standards.

Government transfers can generally be defined as transfers of money from a government to an individual, an organization, or another government for which the government making the transfer does not:

- a) Receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
- b) Expect to be repaid in the future, as would be expected in a loan; or
- c) Expect a direct financial return, as would be expected in an investment.

The accounting standards governing transfers of money or grants from government are contained in the Public Sector Accounting Board's Handbook, Section 3410. This PSAB standard for government transfers was proposed for re-examination in 2001. Since then, PSAB has issued three Exposure Drafts (draft statement of the accounting standard issued for discussion and comment). PSAB issued the most recent Re-exposure Draft in April 2009. A formal revision to Section 3410 is expected in November 2009.

Our comments are based on the current accounting standard, although we provide reference to the proposed changes. Although the accounting standard is under review, most of the debate and discussion has concerned the accounting standards for recipients of government transfers.

The proposed standard, which is similar to the existing standard, for accounting for transfers by the transferring government is:

A government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized...and eligibility criteria, if any, have been met by the recipient.

To determine the accounting for a transfer, the authorization for the transfer and eligibility of the recipient must be considered. The specific wording of the guidance on these issues in the Re-exposure Draft is presented in Appendix A.

A transfer is considered authorized when there is evidence that:

- The enabling authority, such as legislation or regulations, to provide a transfer is in place;
- A decision has been made under the enabling authority to make a transfer; and
- In rare cases, full authorization may not be in place by the end of the fiscal year but a transfer can be recorded as an expense if there is a preponderance of evidence that the government is demonstrably committed to approving the authority for the transfer and providing the transfer.

Eligibility criteria describe who a recipient must be or what it must do in order to be able to get a government transfer. If a term must be met before the transfer is provided, it is an eligibility criterion.

3.2.3 Payments to a trust administered by an external entity

In some instances, governments may make transfers to a Trust. Usually these Trusts are established for a specific purpose and the Trust moneys may be drawn down over a period of years. The Trust Agreement sets out the purposes for which the funds can be used and decision making responsibility for withdrawals from the Trust.

If the Trust is administered by a body external to and outside of the control of the government, the expense to the transferring government is recorded as at the date the funds are paid to the Trust.

3.2.4 Summary

There is no fundamental accounting principle requiring “symmetrical accounting” by the government making the transfer and the recipient of the transfer. Symmetrical accounting means that both the transferor and the recipient record the transaction in the same manner or in the same fiscal year.

We thereby conclude that payments to entities external to the government should continue to be recorded as an expense at the time the grant is made providing authority exists for the payment and the recipient of the funds are eligible to receive them. The payment is recorded in the fiscal year it is made regardless of whether the recipient will use the funds in the same fiscal year or in future years.

3.3 Financial management practices

Separate from the accounting standards governing the recording and disclosing of government transfers, the financial management decision to make a transfer to an external entity when it is expected that the funds will be used in years subsequent to the fiscal year in which the transfer is made, is generally not prudent.

Government transfers that are recurring for ongoing programs should be matched with the expected spending by the external entity delivering the program. Advance or pre-payments should be avoided. Once the pattern of regular budgeting and payment of recurring grants is broken, new financial planning is required to resume the recurring expenditure. The rationale for avoiding one time or advance payments, and matching grants to the year in which expenses are incurred are to:

- Simplify the government’s budgeting process in this area and avoid volatility in grant payments;
- Improve year over year expense comparisons; and
- Prevent potential cash flow/expense management issues for recipient institutions of receiving large sums of money in one lump sum payment.

Government transfers made in one fiscal year to entities for use in future fiscal years may be useful for non-recurring expenditures provided the following conditions apply:

1. Surplus or other funds are available in the year the transfer is made, especially if the funds result from a unique, not expected to recur revenue source;
2. The transfer is for a specific purpose and that purpose has an end or completion date; and
3. The entity receiving the funds has the demonstrated capacity to manage the funds and deliver the program.

Transfers in these situations provide a limit or cap on the government’s financial responsibility. It also can be administrative efficient for both the government and the entity receiving the transfer.

3.4 Recommendations

We provide the following recommendations on accounting for government transfers and financial management policies governing government transfers.

3.4.1 Accounting for government transfers

We recommend:

The Province should continue to monitor pronouncements by PSAB on government transfers to ensure future transfers are in accordance with Generally Accepted Accounting Principles for governments.

3.4.2 Financial management policies for government transfers

We recommend:

The Province establish an internal policy governing how transfers can be made when it is expected that the recipient will not disburse funds in the fiscal period within which it is paid. Development of the policy should consider items such as:

- Whether an operating surplus, or other funds are available in the year the transfer is made, and if the funds result from a unique, not expected to recur revenue source;
- Whether the transfer is a recurring annual transfer;
- The purpose for which the transfer is being made and whether that purpose has an end or completion date; and
- Whether the entity receiving the funds has the demonstrated previous capacity to manage the funds and deliver the program.

4. Third Party Revenues

As a result of changes to the *Auditor General Act* passed in 1998, the Auditor General's opinion on revenues has been included in the budget documents presented to the House since 1999.

This section will explore the below item which formed part of Phase 2 requirements under the RFP for the Province of Nova Scotia Financial Review:

“an approach to resolving the Auditor General's qualification and scope limitation related to Third Party Revenues which is annually included in his Report on the Estimates of Revenue for the Fiscal Year.”

This concerns third party revenues of governmental units that are part of the government reporting entity but not the Consolidated Fund.

4.1 Past reports of the Auditor General on the estimates of revenues

The reports of the Auditor General on estimates of revenues have included comments on the exclusion of third party revenues since the legislation requiring a review was instituted in 1998. While most of these items have been previously addressed, the more complex issue of third party revenues of governmental units remains unresolved.

For reference, a summary of key variations in the Auditor General's comments since 1999 can be found in Appendix B.

Relevant portions of the Auditor General's latest report on estimates of revenue are presented, as italicized text, below:

“Third party revenues of certain governmental units are excluded from the 2009-2010 revenue estimates. These revenues are included elsewhere in the budget as offsets against expenditures of the respective governmental units rather than as part of the revenue estimates.”

The above passage refers to the fact that the Province presents the budget for governmental units on a net basis, meaning a figure that is the net of expenses less revenues (i.e. this figure has been offset by revenues). As a result, the budget documents often report only one line item for certain governmental units.

The Auditor General continues, by stating:

“...the revenue estimates are not presented on a basis consistent with the consolidated financial statements, a requirement of generally accepted accounting principles in such circumstances. To the extent of these exclusions, the 2009-10 revenue estimates are not presented in accordance with generally accepted principles. In addition, management was unable to provide support for these third party revenues and therefore I was unable to complete my review of them or determine the amount of these revenues.”

4.2 Explanation of Third Party Revenues

The Province's reporting entity comprises:

- Consolidated Fund (1 entity);
- Governmental Units (104 entities);
- Government Business Enterprises (6 Enterprises); and
- Government Partnership Arrangements (4 Partnership Arrangements).

4.2.1 Consolidated Fund

The Consolidated Fund is comprised of all departments and public service units of the Nova Scotia provincial government, but excludes other governmental units and government business enterprises owned or controlled by the Province.

4.2.2 Governmental Units, Government Business Enterprises and Partnership Arrangements

Third party revenues are revenues from sources outside of those provided by the government, and are generated by governmental units outside the Consolidated Fund. A complete listing of governmental units, as reported in the most recently published Public Accounts (March 31, 2008), is provided within Table 4 of Appendix B.

During the preparation of the financial statements for the Province, a number of consolidation adjustments are made. One of the adjustments is inclusion of third party revenues with other government revenues presented in the estimates. There are 104 governmental units; hence there is the potential for 104 governmental units to have revenues from sources other than the Province. A listing of actual third party revenue amounts for the year ended March 31, 2008 can be found in Table 2.

The estimates of revenue for Government Business Enterprises and the Consolidated Fund are disclosed and available for examination by the auditor. The Partnership Arrangements have some third party revenues but the Province's share in these arrangements ranges from 8% to 55%. These revenues are not expected to be significant.

In 2007-08 as an example, more than 70 governmental units would have third party revenues totalling 9% of the Province's annual revenues.

Table 2: Third Party Revenues in 2007-08

Third Party Revenues 2007-08				
Source: Nova Scotia Department of Finance				
	#	\$		%
Total Revenues		8,908,383,068		100.0%
Consolidated Fund Revenue per Finance		<u>(8,119,139,933)</u>		<u>91.1%</u>
Third Party Revenues from Governmental Units		<u>789,243,135</u>		<u>8.9%</u>
Major Categories				
Regional School Boards & NS Community College	9	<u>342,421,914</u>		<u>3.8%</u>
District Health Authorities & Other Health Organizations	12	<u>224,899,664</u>		<u>2.5%</u>
Governmental Units with Third Party Revenues > \$2,500,000				
Nova Scotia Housing Development Corporation	8	55,158,838		0.6%
Resource Recovery Fund Board Incorporated	1	45,951,689		0.5%
Nova Scotia Municipal Finance Corporation	1	34,773,022		0.4%
Nova Scotia Pension Agency	1	19,035,572		0.2%
Nova Scotia Nominee Program Fund	1	15,561,384		0.2%
Nova Scotia Business Incorporated	1	10,741,000		0.1%
Trade Centre Limited	1	9,985,963		0.1%
Nova Scotia E911 Cost Recovery Fund	1	7,474,545		0.1%
Waterfront Development Corporation Limited	1	<u>5,561,333</u>		0.1%
		<u>204,243,346</u>		2.3%
Sub-total	37	<u>771,564,924</u>		<u>8.7%</u>
Governmental Units with Third Party Revenues <\$2,500,000 (Average per Unit = \$520,000)	34	<u>17,678,211</u>		<u>0.2%</u>
Total	71	<u>789,243,135</u>		<u>8.9%</u>

4.3 Considerations when assessing alternate approaches

We have identified the following considerations when assessing the proposed alternatives to resolving the Auditor General's qualification and scope limitation surrounding third party revenues. Some of the key considerations used to assess the alternatives described above are:

1. **Administrative capacity:** Resources may be required, depending on the alternative selected, to manage and administer the change in budgeting and presentation.

- Accounting staff at the Department of Finance manage the complex process of consolidation for financial statement purposes but similar resources have not been necessary for the budget. In addition, government currently reviews the accuracy of governmental units' revenue budgets when determining the level of funding, if any, the units require. A more rigorous review process would be required should additional detail on revenues and expenses be presented.
 - The administrative capacity at the governmental unit level may also be a consideration. Although staff prepare budgets currently, there is likely to be additional time and training required.
2. **Monthly/Quarterly forecasts:** If governmental unit revenues are presented with other revenues in the budget, monthly and quarterly forecast updates would be expected to include details of governmental unit revenue forecasts. This information is indirectly accounted for now, however, only on a net basis (revenues less expenses). Reporting protocols would be required to ensure forecasts by governmental units are timely and accurate.
 3. **Accountability:** If additional detail is provided regarding the revenues of governmental units, there is the presumption that Ministers have greater accountability for the individual line items. Ministers have general accountability now but the boards of the governmental units have responsibility for allocating resources and delivering the service.
 4. **Timing of the budgeting processes of individual governmental units:** In some cases, governmental units may have to meet more stringent time frames for their budgeting process in order to meet the Province's budget timelines. In many cases, this will not be a serious issue. In others, additional support may be required.
 5. **Presentation method:** Including governmental unit revenue estimates with other government revenues complicates the presentation of expense estimates for the governmental units. For most governmental units, their expense is presented on a net basis, i.e. their revenues are netted against expenses and the net amount is usually a grant from a department.

While the above items present some challenges, at least one province, British Columbia, has been doing line-by-line consolidation of revenues and expenses in their budget since 2003-04. Other provinces follow practices generally similar to Nova Scotia for their budgets

4.4 Alternatives to resolving OAG's outstanding issues

Alternative approaches to resolving the outstanding issues in the Auditor General's report on estimates of revenues are presented below, in no particular order, with specific considerations addressed within.

A) Include governmental unit revenues and "single line" expenses

Estimated revenues for governmental units could be presented as a single additional line in the estimates of revenues examined by the Auditor General and elsewhere in the budget documents. Under this alternative, the revenue and expense estimates could be presented as single lines in the budget documents but with sufficient detailed back up information to support the estimates made. The key challenges with this alternative are:

- Ensuring timely and accurate governmental unit revenue estimates; and
- Selecting a presentation method for the expenses of governmental units once revenues have been separated.

Ensuring timely and accurate governmental unit revenue estimates: As discussed previously, most, if not all governmental units, have their own budget processes and follow direction from government and departments on timing of preparing budgets. More aggressive time lines may be needed in order to validate their revenue estimates and for consideration during the government's budget process.

Presentation method: Including governmental unit revenue estimates with other government revenues complicates the presentation of expense estimates for the governmental units. Most governmental units present their expenses on a net basis, i.e. their revenues are netted against expenses with the remaining amount usually a grant from a government department.

In some cases, an expense may not have appeared previously because the revenues are designed to equal expenses, e.g. Nova Scotia E911 Cost Recovery Fund. In these cases, new expense lines will be required along with explanations of the governance and accountability arrangements. Under this alternative, the revenue and expense estimates could be presented as single lines in the budget documents but with sufficient detailed back up information to support the estimates made.

B) Full line by line consolidation of both revenues and expenses

This alternative is similar to Alternative A except that expenses would be presented in the estimates on a line by line consolidated basis, similar to the financial statements. This is the approach followed by British Columbia.

This alternative is the most costly, time intensive, and complex to implement and manage on an ongoing basis. All of the considerations listed in Section 4.4 would have to be addressed, and some, particularly quarterly forecasting, would be onerous until staff become accustomed to the practice. Accountability for decisions on the allocation of resources could easily be clouded depending on the extent of the line by line detail.

Government budget staff anticipates that up to three full time equivalent staff would be required to implement this alternative, and a lesser number for Alternative A. This staffing would be responsible for reviewing third party revenue estimates, verifying the corresponding expense amount for a consolidated budget, and the monthly monitoring of forecasts and changes in third party revenues and expenses. These resources would be maintained centrally but would have to be in continuous contact with the governmental units and departments.

C) Separate revenue estimate schedule

A schedule of all revenues (Consolidated Fund and Governmental Units) could be prepared for inclusion in the budget documents and examination by the Auditor General. The revenue estimates used elsewhere in the budget documents would continue to exclude governmental unit revenues and the revenues would be netted against expenses as is the current practice. Appropriate narrative descriptions of the presentation and reconciliations would be required.

There is precedence for this approach. Each year, the Province's "*Financial Statement Discussion and Analysis*" document includes a "*Reconciliation to Consolidated Financial Statements Format*". This reconciliation adjusts the revenues and expenses as presented in the Estimates to the consolidated financial statement format. The majority of the adjustments are for the third party revenues of governmental units. A similar reconciliation statement could be used to link a statement of all estimated government revenues on a consolidated basis to the format and basis used in the Estimates and elsewhere in the budget documents.

This alternative is least disruptive to current government processes. The current format for the Estimates and Forecast Updates could continue unchanged. Governmental effort would be required to ensure there was sufficient evidence to support the third party revenue estimates and to prepare the reconciliation.

The Auditor General would have to be satisfied that the statement of estimated revenues and the reconciliation to the Estimates format is consistent with his responsibilities under the *Act* and generally accepted auditing and accounting principles.

D) Amendments to the Auditor General Act

Section 9B of the *Auditor General Act* refers to the "*estimates of revenue used in the preparation of the annual budget.*" The revenue to be examined could be specified with the effect of excluding governmental unit revenue.

The government could direct governmental units to obtain individual opinions on their estimates of revenue. This approach would ensure reasonable revenue estimates and maintain accountability with the governmental units. However, it would be more costly than an overall examination by the Auditor General and the differences in presentation between the Estimates and financial statements would continue.

While amending the *Auditor General Act* is an alternative, it would require coordination with other legislative practices. Traditionally, changes to this *Act* have been made in consultation with the Auditor General and other parties in the legislature. These practices reflect the importance of maintaining the independence of the audit office. If the *Act* were amended to exclude governmental unit revenues from examination, the Auditor General still has the discretion to examine and comment on their presentation in his separate reports to the House.

Below we use the key considerations presented in Section 4.4 as criteria to assess the four alternatives presented.

Table 3: Alternatives to resolving Auditor General's outstanding issues

Consideration	The degree to which...	Relative Score Alternative A (Single Line)	Relative Score Alternative B (Line by Line)	Relative Score Alternative C (Separate Schedule)	Relative Score Alternative D (Amendments to the Act)
1	...the option requires added administrative capacity	M	H	L	N/A
2	...additional effort is required to perform monthly/quarterly forecasts	M	H	L	N/A
3	...the option may result in unclear accountability	L	H	L	H
4	...the option conflicts with the current budgeting process of individual governmental units	M	H	L	N/A
5	...the option complicates the presentation of expense estimates for governmental units	M	H	L	N/A
Relative level of effort required to implement		M	H	L	H
H: High M: Medium L: Low					

4.4.1 Summary

Alternative C could be implemented with the least amount of additional resource required while causing minimal disruption to current government processes.

Alternative B would be the most costly, time intensive, and complex to implement and manage on an ongoing basis. Alternative A would necessitate many of the same requirements as Alternative B, however on a smaller scale.

Alternative D has the potential of being perceived as impacting the independence of the Auditor General.

4.5 Recommendations

We provide recommendations on how the Government might proceed in resolving the Auditor General's qualification and scope limitation related to third party revenues.

- 1) Based on our assessment of the alternatives presented in this report, we recommend the Government consider Alternative C, specifically:
 - a) Move to a schedule of all revenues (Consolidated Fund and Governmental Units) to be prepared for inclusion in the budget documents and examination by the Auditor General. The revenue estimates used elsewhere in the budget documents would continue to exclude governmental unit revenues and the revenues would be netted against expenses as is the current practice. Appropriate narrative descriptions of the presentation and reconciliations would be required.

- 2) Prior to adopting an alternative for further study or implementation, the Auditor General should be consulted to ensure that the general approach contemplated would lead to resolving the qualification and scope limitation referenced in his Report on Estimates of Revenue.

4.6 Concluding comments

The Public Sector Accounting Board has stated that it is currently considering the transitional provisions of the accounting standards regarding line by line consolidation of governmental units. Their considerations should continue to be monitored although it is unclear whether any changes would impact the presentation of governmental unit revenue estimates.

5. Business Plans for District Health Authorities and Regional School Boards

Business plans have been in common use in the private sector for many years. Governments have adopted a similar process and format to set out their goals, their plans to achieve the goals, and financial and other information that impacts their operations. While government departments and agencies may have prepared and followed business plans internally, in Nova Scotia the move to requiring publicly available business plans began in 2000.

Generally, the requirements and timing for Business Plans are contained in legislation and annual directions provided by departments. For example, the requirements and timing for the business plan process for District Health Authorities (DHAs) is set out in the *Health Authorities Act*; the *Education Act* establishes the development of a business plan as a duty of each Regional School Board (RSB).

The terms of reference for Phase 2 of the Province of Nova Scotia Financial Review asked for a review, analysis, and recommendations on:

“improvements in the timeliness and process for approvals of grants and business plans for District Health Authorities and Regional School Boards.”

5.1 Approach

Our approach to determining actions to improve the timeliness and process for approving grants and business plans consisted of inquiry and discussion through a series of interviews. We interviewed senior management at the departments of Education and Health. In addition, interviews were conducted with the Izaak Walton Killiam (“IWK”) Health Centre, Capital District Health Authority, and Pictou County Health Authority as well as with the Annapolis Valley Regional School Board and Halifax Regional School Board.

5.2 Current requirements

The process for the approval of business plans is similar for both RSBs and DHAs. The timing requirements and actual approval of budgets differs.

The Department of Education requires RSBs to submit draft business plans by the end of February. Once the *Appropriations Act* is passed by the Legislature, the Department provides RSBs with formal approval of their budget through detailed “Profile Sheets”. Regional school boards are required to submit final budgets and business plans within ninety (90) days of receipt of the “Profile Sheets”.

The process and timing for approval of DHA budgets and business plans is set out in the *Health Authorities Act*. The Minister of Health sets the initial submission date for the draft budget and business plan. From that date (mid-December for the 2009-2010 Budget) the *Act* sets out the following timelines:

- Comments from the Minister on the budget and plan are to be forwarded to DHAs within thirty days;
- DHAs required to submit a final plan within thirty days of receiving the Minister’s comments;

- The Minister may recommend to Executive Council that the plan be approved; approved with amendments; or not approved; and
- The Minister shall inform the DHAs if their plan has been approved; approved with amendments; or not approved.

Despite the detailed timelines for approvals, all parties interviewed acknowledged that final budgets and business plans tended to be approved sometime between May and November.

5.3 RSB and DHA comments regarding the current process

5.3.1 Regional School Boards

The Regional School Boards interviewed provided comments on the areas where they believed the business plan and budget approval processes could be improved.

Feedback on their business plans: Both of the Regional School Boards interviewed reported that they found the business plan process enhanced the effectiveness of their Board. When the business plan requirement was introduced, there was concern that it would add an unnecessary layer of reporting and paperwork. Over time, Boards adopted the business plan process as an integral part of their goal setting, planning, monitoring, and accountability responsibilities. While the process has grown to be an effective tool for the Boards, they question the usefulness of the business plans to the Department.

System-wide priorities: Both Boards believed their planning could be improved if there were more details provided on system-wide educational goals. The Learning for Life initiatives were helpful in that regard, but more improvement in this area is needed.

Earlier budget targets: Both Boards reported that they receive a high level indication of the annual budget situation for all Boards as a whole but no specific targets for individual Boards. While they can make estimates, they would like to receive ranges or budget scenarios for more effective budgeting.

Boards require some estimate of their level of funding by April at the latest. A substantial majority of each Board's annual budget is teacher salaries. All local collective agreements require the Boards to give early notice (usually during the month of May) of teacher staffing levels. If a Board sets its teacher staffing complement too high, it has to find economies elsewhere in the remaining budget to compensate. Similarly, a teacher complement that is too low compromises their ability to recruit sufficient teachers.

Multi-year planning and funding: Boards believe their planning would be more effective if there was multi-year funding. The Boards recognize the difficulty for government to make future funding commitments; however, even advance notice of budget plans and funding ranges would enable them to improve their financial and operational planning. School Boards have a unique need for well developed business plans due to the differences between the school year, which determines their costs, and the fiscal year, on which their budget funding is based.

5.3.2 District Health Authorities

The major comments from District Health Authorities on how the timeliness and process might be improved centered around the following three topics:

Stream line decision making: All District Health Boards reported that they believed their business plans were micro managed by the Department. The Authorities interviewed believed the process could be improved by making the decision making process leaner and faster and replacing detail-oriented management with accountability by the Authorities for their activities.

The District Health Authorities reported that the feedback they received on their business plans was insufficient on substantive issues. They thought the process could be improved by granting boards more freedom to plan and act, but with enhanced accountability measures.

Earlier notice of budget targets: Earlier notice of budget targets would improve the Authorities' ability to plan mitigation measures to handle cost pressures. Conversely, there have been instances where the Authorities have been asked for spending plans when additional funding has been announced, usually from federal sources, so late in the fiscal year as to make effective planning difficult. Multi-year budget targets would be ideal. However, earlier and more specific information on budget targets would be welcomed.

Improved transparency in how funding allocations are determined: In the absence of a formula for determining funding, Authorities would like more detail on the guidelines used for determining funding levels and allocating resources across the province. Understanding how funding allocation decisions are made could allow Authorities to estimate or predict funding levels if more specific and earlier budget targets are not possible.

The Department of Health provides adequate and specific funding for salary and benefit costs of existing, approved staffing levels. Authorities have information, but await confirmation, of the level of funding for non-salary costs and any new staffing initiatives until the Province's budget is approved. They sometimes have an indication of general budget directions and have in the past been given guidelines on expected budget funding increases for non-salary costs.

Authorities understand that providing early notification of specific funding levels is difficult for governments. However, advance notice of even anticipated budget ranges or planning scenarios would improve their budgeting and business planning processes.

5.4 Improving the timing and process for budgets and business plan approvals for both DHAs and RSBs

The *Health Authorities Act* requires that the business plans of District Health Authorities be recommended by the Minister of Health for approval by the Executive Council. This Order in Council (OIC) approval requirement does not appear to be required for any other sector of government. The logistics of obtaining an OIC could add two weeks or more to the approval process for uncomplicated plans. Business plans that contain difficult actions or are complex could require more deliberations.

In addition, the Department of Health tends to submit the business plans of all DHAs to Executive Council as a group. While this practice may be helpful to Ministers as they can examine all of the plans as a whole, it results in the submission being delayed until all District Health Authorities business plan have been received and analyzed. District Health Authorities that have complete, uncomplicated business plans or have worked to meet all of the Departments questions may have to wait for formal approval because of another DHA which has more complex issues.

5.5 Other matters arising from the interviews

During the interview process other matters arose in discussions that we believe are worthy of consideration by government.

5.5.1 Complex Case Management Committee

One of the DHAs interviewed suggested the need for interagency collaboration and planning to manage the treatment and care of individuals with complex and expensive issues that from time to time will cross the responsibility of different department and agencies of government. The DHA related that, in their experience, there may be a few hundred individuals with complex, high cost issues. The treatment of these individuals might be more effective and less expensive if the departments and agencies that might likely be expected to provide services were to coordinate their planning for these individuals.

For example, a committee of empowered representatives from areas such as Health, District Health Authorities, Regional School Boards, Community Services, and Department of Justice could identify high need individual early in their cases and plan a coordinated treatment plan with separate budget oversight.

5.5.2 Capital

A regional school board interviewed identified that late approvals of capital renovation projects were an impediment to effective planning and execution of major capital renovations. It is essential for school boards to have plans in place and tendered contracts approved well in advance of the summer months which are the prime and most practical period for renovations to limit disruptions to classes and risks to students. Approvals for major capital renovations are needed by early January at the latest to allow time for project design, specification, planning, tendering and award prior to the summer months. If contracts cannot be awarded in time for summer renovation work, classes will be disrupted; students may have to be moved to other schools; or other measures taken to allow for the work to be undertaken safely. In extreme cases the work may not be able to be started in the fiscal year it was approved.

Both school boards and the Department of Education acknowledge that these challenges exist, particularly in the first year of a capital renovation project. Once projects are approved and started, the approved amount of funding has always been provided even though formal notification of budgetary approval may not occur until the first quarter of the fiscal year. Traditionally, the only costs that are subject to review once a project is underway are costs in excess of the original approved funding.

5.5.3 Capital Equipment

The DHAs all identified access to funding for capital equipment as an important issue, not only for improving patient care, but also as a means to reduce or eliminate costs. Often DHAs produce plans where the cost of equipment can be repaid by cost savings over relatively few fiscal periods. However, the traditional capital grant allocation is not sufficient to allow them to take advantage of some of the more attractive investment possibilities when payback spans multiple fiscal periods.

Virtually all capital equipment financing options have the same impact on the Province's budget and debt position as a traditional capital grant. The only exception may be a radical lease opportunity that would likely be so expensive as to negate most of the hoped for savings. There may be an opportunity for the Government to set aside an internal capital allocation that could be available to DHAs on the condition that the funding is repaid over a minimum number of fiscal years. The government would still have to address the impact the increased capital spending would have on the budget and debt but, it would impose a discipline on DHAs to demonstrate that they can achieve savings that exceeds the cost of the capital equipment.

The government may want to evaluate this suggestion through a series of pilot programs on innovative investment to determine its effectiveness in overall cost management.

5.6 Conclusions

5.6.1 Regional School Boards

The timing of the formal approval of Regional School Board budgets and business plans is not unreasonable and respects the legislative process. Improvements are needed in the timeliness of the informal, advance notice of anticipated operating and capital funding and the Province's overall education goals.

Regional School Boards would likely be willing to accept a reasonable level of uncertainty in advance, informal notifications of budget funding in exchange for the improved quality that should result in their financial and business planning. Advance budget targets would be useful if there was reasonable assurance that they would not deviate by more than one or two per cent from the final approved amount. While there can be no guarantees of funding until the legislative process is complete, the Department should provide advance budget funding scenarios as soon as they are in a reasonable position to do so.

The RSBs business planning process could also be improved if they were provided with planning assumptions that were integrated with the Government's educational goals. In addition, the RSBs should receive a formal response and feedback to their business plans.

5.6.2 District Health Authorities

Similar to RSBs, DHAs do not receive alternative funding scenarios for operating and capital expenditure in sufficient detail or in a timely manner. While DHAs have assurances that existing salary and benefit costs and increases will be funded, there is still uncertainty regarding non-salary costs and the costs of additional staff. Advance budget targets would be useful if similar to education budgets described above.

Approval of DHA business plans could be timelier if only substantive issues were followed up on by the Department. The DHAs and the Department may benefit from discussions as to the appropriate level of detail that the business plans contain and the issues pursued by the Department. DHAs would benefit from a shift in Government input from detail review to strategic insights on innovative investments to contain costs.

Reviewing and amending legislation should not be undertaken lightly; however, and the Government should review whether OIC approval of DHA business plans is essential.

5.7 Recommendations

To improve the timeliness and process for approving grants and business plans for District Health Authorities and Regional School Boards, we recommend:

1. Best practices from each department should be shared to ensure more consistent, meaningful and focused business plan reviews occur across Government.
2. The departments of Health and Education should provide embargoed budget funding planning scenarios to District Health Authorities and Regional School Boards as soon as the departments have reasonable assurance that the final grants approved would not deviate from the budget funding planning scenarios by more than approximately one to two percent.
3. Regional School Boards should be provided with planning assumptions related to the Province's overall educational goals.
4. Regional School Boards should receive a formal response and feedback to their business plans.
5. The departments of Health and Education should discuss with Treasury Board what funding ranges, if any, they might be able to provide to District Health Authorities and Regional School Boards for at least one fiscal year in the future.
6. District Health Authorities and the Department should discuss the appropriate level of detail that the business plans should contain and the issues that warrant follow up the Department to truly improve business plans.
7. The Government should consider reviewing whether OIC approval of DHA business plans is essential.
8. A central agency of government (perhaps Policy and Priorities Committee) should review the concept of a complex case management committee.
9. The concept of approved innovative investments that span multiple periods, yet enable cost containment, should be explored.
10. The Government should consider whether there is any merit to an internal capital allocation for equipment that could be available to DHAs on the condition that the funding is repaid over a minimum number of fiscal years.

6. Other relevant financial matters

The terms of reference for Phase 2 of the Financial Review includes scope to make recommendations regarding *“any other financial matters which come to the attention of the reviewer.”*

Phase 1 of the Financial Review quantified the potential financial challenges facing the provincial government under status quo circumstances. Addressing those challenges transcends simple cost management. The situation will require innovative and creative thinking as well as determined discipline during execution. The Department of Health is estimated to make up more than 42% of total departmental spending in 2009-10, with projections for an increasing proportion in future years. Innovation in the health care sector to strategically manage costs while improving service levels and quality is a crucial part of meeting our financial challenges.

To assist the Government in developing creative processes to identify innovative ideas and approaches to solving the financial challenges, Deloitte facilitated a workshop entitled *“Cost Drivers of Health Care Workshop”*.

Deloitte moderated the day long workshop, in cooperation with Treasury Board and the Department of Health, and provided international health care sector experts to discuss successful strategies from other jurisdictions.

We found the workshop with the health care sector delivered stimulating ideas and a desire for more follow up sessions. An approach similar to this may be effective in other sectors. The effectiveness of these types of sessions will be judged on the willingness to assess the ideas and to act on those that are determined to have the most potential.

Discussion at this workshop centred around spending challenges and opportunities that exist to bring in physicians, patients, and more private sector influence to problem solve. There is amazing talent and energy in the system to forward the agenda of government and there is surprising synergy from all parties. Harnessing this energy, intelligence, and innovation rests in the hand of government leadership.

7. Recommendations

This section provides a summary of all recommendations and concluding comments on the five specific items reviewed under Phase 2 of the Financial Review for the Province of Nova Scotia.

Feasibility of a separate budgeting process for Capital Expenses

In the past year, there has been an increased emphasis and discussion of government spending on capital projects, largely as a measure to stimulate the economy. Although the importance of capital spending is acknowledged, even when not used to stimulate the economy, only two provinces in Canada have a legislated, separate capital budget process. Most, if not all, other provinces have internal processes to prioritize and approve capital projects. The outcome of these processes is included in their annual budgets, where the major focus is operating estimates.

The Province's current capital budgeting process appears adequate and appropriate. However, the process could be enhanced if time was allocated specifically for the development of a Capital Plan.

We believe that the Province could achieve many of the advantages of a separate capital budget process, while mitigating some of the potential disadvantages by producing a Capital Plan by December of each year. A Capital Plan would provide increased transparency, encourage greater focus on capital decision making, and although a Capital Plan would not provide spending authority until a capital spending appropriation was approved, it would allow for earlier tender planning and preparation.

We believe that it is feasible to establish a Capital Plan for capital expenditures and recommend the following next steps for the Province towards this end:

1. Determine the additional internal resources, if any, that may be necessary to manage a Capital Plan;
2. Determine whether requirements for an annual Capital Plan would be instituted by way of policy or legislation;
3. Establish the format for an annual Capital Plan including the specific information that will be presented; and
4. Determine an appropriate implementation plan with time frames for the first Capital Plan.

Transfers to recipients external to the government reporting entity

Accounting for government transfers

We recommend:

The Province should continue to monitor pronouncements by PSAB on government transfers to ensure future transfers are in accordance with Generally Accepted Accounting Principles for governments.

Financial management policies for government transfers

We recommend:

The Province establish an internal policy governing how transfers can be made when it is expected that the recipient will not disburse funds in the fiscal period within which it is paid. Development of the policy should consider items such as:

- Whether an operating surplus, or other funds are available in the year the transfer is made, and if the funds result from a unique, not expected to recur revenue source;
- Whether the transfer is a recurring annual transfer;
- The purpose for which the transfer is being made and whether that purpose has an end or completion date; and
- Whether the entity receiving the funds has the demonstrated previous capacity to manage the funds and deliver the program.

Third Party Revenues

We provide recommendations on how the government might proceed in resolving the Auditor General's qualification and scope limitation related to third party revenues.

- 1) Based on our assessment of the alternatives presented in this report, we recommend the government consider Alternative C, specifically:
 - a) Move to a schedule of all revenues (Consolidated Fund and Governmental Units) to be prepared for inclusion in the budget documents and examination by the Auditor General. The revenue estimates used elsewhere in the budget documents would continue to exclude governmental unit revenues and the revenues would be netted against expenses as is the current practice. Appropriate narrative descriptions of the presentation and reconciliations would be required.
- 2) Prior to adopting an alternative for further study or implementation, the Auditor General should be consulted to ensure that the general approach contemplated would lead to resolving the qualification and scope limitation referenced in his Report on Estimates of Revenue.

Concluding comments

The Public Sector Accounting Board has stated that it is currently considering the transitional provisions of the accounting standards regarding line by line consolidation of governmental units. Their considerations should continue to be monitored although it is unclear whether any changes would impact the presentation of governmental unit revenue estimates.

Business Plans for District Health Authorities and Regional School Boards

To improve the timeliness and process for approving grants and business plans for District Health Authorities and Regional School Boards, we recommend:

1. Best practices from each department should be shared to ensure more consistent, meaningful and focused Business Plan reviews occur across Government.
2. The departments of Health and Education should provide embargoed budget funding planning scenarios to District Health Authorities and Regional School Boards as soon as the departments have reasonable assurance that the final grants approved would not deviate from the budget funding planning scenarios by more than approximately one to two percent.
3. Regional School Boards should be provided with planning assumptions related to the Province's overall educational goals.
4. Regional School Boards should receive a formal response and feedback to their business plans.
5. The departments of Health and Education should discuss with Treasury Board what funding ranges, if any, they might be able to provide to District Health Authorities and Regional School Boards for at least one fiscal year in the future.
6. District Health Authorities and the Department should discuss the appropriate level of detail that the business plans should contain and the issues that warrant follow up the Department to truly improve business plans.

7. The Government should consider reviewing whether OIC approval of DHA business plans is essential.
8. A central agency of government (perhaps Policy and Priorities Committee) should review the concept of a complex case management committee.
9. The concept of approved innovative investments that span multiple periods, yet enable cost containment, should be explored.
10. The Government should consider whether there is any merit to an internal capital allocation for equipment that could be available to DHAs on the condition that the funding is repaid over a minimum number of fiscal years.

Other relevant financial matters

See concluding comments in Section 6 related to expenditure management.

Appendix A – PSAB excerpts relevant to Section 3

This appendix contains relevant excerpts from PSAB pronouncements and the April 2009 Re-exposure Draft.

PSAB Handbook SECTION PS 3410 Government Transfers

.03 For purposes of this Section, **government transfers** are transfers of money from a government to an individual, an organization or another government for which the government making the transfer does not:

- (a) receive any goods or services directly in return, as would occur in a purchase / sale transaction;
- (b) expect to be repaid in the future, as would be expected in a loan; or
- (c) expect a financial return, as would be expected in an investment.

.07 *Government transfers should be recognized in a government's financial statements as expenditures or revenues in the period that the events giving rise to the transfer occurred, as long as:*

- (a) *the transfer is authorized;*
- (a) *eligibility criteria, if any, have been met by the recipient; and*
- (a) *a reasonable estimate of the amount can be made.*

The basis for determining the amount recognized for any particular transfer should be applied consistently from year to year. Judgment will be required to account for transfers in a manner that best reflects the substance of the underlying events rather than the form or funding pattern. [NOV. 1990]

PSAB Proposed Accounting Standards – Re-exposure Draft, April 2009 Government Transfers

.08 Eligibility criteria describe who a recipient must be or what it must do in order to be able to get a government transfer. Stipulations describe how a recipient must use transferred resources or the actions it must perform in order to keep the transfer. No matter how a transfer term is identified in legislation, regulations, by-laws or a transfer agreement (i.e., as an eligibility criterion or a stipulation), the crucial characteristic that distinguishes the substance of these two types of transfer terms is when they are required to be, or are met by recipient(s). If a term is met before the transfer is provided, it is an eligibility criterion. If a transfer term is met after the transfer is provided, it is a stipulation. Transfer stipulations do not affect the timing of recognition of a transfer in expenses by a transferring government. Stipulations

may affect the timing of recognition of a transfer in revenue by a recipient government. Examples of eligibility criteria and stipulations are set out in the glossary.

.09 This Section does not require symmetrical accounting by the transferor and recipient of a government transfer. Symmetrical accounting by the parties to a transaction is not a fundamental principle of accounting theory. In some cases, when it reflects the substance of the transaction for all parties to a transfer, symmetrical accounting will result. In others, the evidence available to support recognition or the ability to estimate the transfer may vary between the transferor and recipient and symmetrical accounting will not occur.

Transferring government

.11 *A government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized as described in paragraph PS 3410.27 and eligibility criteria, if any, have been met by the recipient.*

Authorization

Transferring government

.27 *A determination that a transfer is authorized for a transferring government requires evidence at the financial statement date that:*

- (a) the enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of the transferring government, and a decision has been made by the transferring government under that legislation, regulations or by-laws such that it has lost its discretion by the financial statement date to avoid proceeding with a specific transfer or transfers; or*
- (b) a decision has been made by the transferring government such that it has lost its discretion by the financial statement date to avoid proceeding with a transfer and the government is demonstrably committed to approving the enabling legislation, regulations or by-laws for the transfer and providing the transfer.*

SECTION PS 1300

Government Reporting Entity

Indicators of control

.18 There are certain indicators that provide more persuasive evidence of control:

- (a) government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;
- (b) government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;
- (c) government holds the majority of the voting shares or a "golden share" ¹ that confers the power to govern the financial and operating policies of the organization; and
- (d) government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations.

.19 Other indicators that may provide evidence of control exist when the government has the power to:

- (a) provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members;
- (b) appoint or remove the CEO or other key personnel;
- (c) establish or amend the mission or mandate of the organization;
- (d) approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis;
- (e) establish borrowing or investment limits or restrict the organization's investments;
- (f) restrict the revenue-generating capacity of the organization, notably the sources of revenue; and
- (g) establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources.

.20 For each indicator that applies in a particular circumstance, the degree of government influence would determine its importance as evidence of control. In weighing the evidence, it would be necessary to consider the indicators collectively as well as individually. For example, where an organization is governed by a publicly elected board, this is not necessarily, in and of itself, sufficient evidence to conclude that the government does not control the organization. Similarly, where a government appoints a majority of the members of the governing body of an organization, this is not necessarily, in and of itself, sufficient evidence that the government controls the organization.

Appendix B – Items related to Third Party Revenues

Table 4: Governmental Units as at March 31, 2008

1 Acadia Coal Company Limited Fund	30 Chignecto-Central Regional School Board
2 Nova Scotia E911 Cost Recovery Fund	31 Coal Research Agreement Fund
3 AgraPoint International Inc.	32 Colchester East Hants Health Authority
4 Nova Scotia Environmental Trust	33 Conserve Nova Scotia
5 AgriTECH Park Inc.	34 Conseil Scolaire Acadien Provincial
6 Nova Scotia Farm Loan Board	35 CorFor Capital Repairs & Replacements Fund
7 Annapolis Valley District Health Authority	36 Consolidated Fund (1- Includes all departments and public service units of the Nova Scotia Provincial Government)
8 Nova Scotia Film Development Corporation	37 Crown Land Mine Remediation Fund
9 Annapolis Valley Regional School Board	38 Nova Scotia Innovation Corporation
10 Nova Scotia Fisheries and Aquaculture Loan Board	39 1402998 Nova Scotia Limited
11 Art Gallery of Nova Scotia	40 3039255 Nova Scotia Limited
12 Nova Scotia Gaming Foundation	41 3087532 Nova Scotia Limited
13 Bioscience Enterprise Centre Incorporated	42 Crown Land Silviculture Fund
14 Nova Scotia Government Acadian Bursary Fund	43 Cumberland Health Authority
15 Cape Breton District Health Authority	44 Democracy 250
16 Nova Scotia Government Fund Limited	45 Gaming Addiction Treatment
17 Cape Breton Victoria Regional School Board	46 Trust Fund Nova Scotia Lands Inc.
18 Nova Scotia Harness Racing Incorporated	47 Guysborough Antigonish-Strait Health Authority
19 Capital District Health Authority	48 Nova Scotia Legal Aid Commission
20 Nova Scotia Health Research Foundation	49 Habitat Conservation Fund
21 Check Inns Limited (inactive)	50 Nova Scotia Market Development Initiative Fund
22 Nova Scotia Housing Development Corporation	51 Halifax Regional School Board
23 Annapolis Valley Housing Authority	52 Nova Scotia Municipal Finance Corporation
24 Cape Breton Island Housing Authority	53 Harbourside Commercial Park Inc.
25 Cobequid Housing Authority	54 Nova Scotia Nominee Program Fund
26 Eastern Mainland Housing Authority	55 Industrial Expansion Fund
27 Metropolitan Regional Housing Authority	56 Nova Scotia Pension Agency
28 South Shore Housing Authority	57 Izaak Walton Killam Health Centre
29 Tri-County Housing Authority	58 Nova Scotia Power Finance Corporation

59	Law Reform Commission	93	Sustainable Forestry Fund
60	Nova Scotia Primary Forest Products Marketing Board	94	Sydney Environmental Resources Limited
61	Mainstream 1992 Fund	95	Sydney Steel Corporation
62	Nova Scotia School Boards Association (2 - partnership controlled by the eight school boards)	96	Sydney Tar Ponds Agency
63	Muggah Creek Remediation Fund	97	Sydney Utilities Limited
64	Nova Scotia School Insurance Exchange (3 - partnership controlled by eight school boards and the Community College)	98	Sysco Decommissioning Fund
65	Nova Scotia Arts Council (inactive)	99	Trade Centre Limited
66	Nova Scotia School Insurance Program Association (3 - partnership controlled by the eight school boards and the Community College)	100	Maritime Fall Fair Association
67	Nova Scotia Blueberry Institute Fund	101	Tri-County Regional School Board
68	Nova Scotia Sport Fish Habitat Fund	102	Upper Clements Family Theme Park Limited
69	Nova Scotia Business Incorporated	103	Waterfront Development Corporation Limited
70	Nova Scotia Strategic Opportunities Fund Incorporated	104	3052155 Nova Scotia Limited
71	Nova Scotia Community College	105	3104102 Nova Scotia Limited
72	Nova Scotia Community College Foundation	106	Halifax-Dartmouth Bridge Commission
73	Nova Scotia Utility and Review Board	107	Highway 104 Western Alignment Corporation
74	Off-Highway Vehicle Infrastructure Fund	108	Nova Scotia Gaming Corporation
75	Nova Scotia Coordinate Referencing System Trust Fund	109	Atlantic Lottery Corporation (25% ownership)
76	P3 Schools Capital & Technology Refresh Fund (4 - includes all refresh funds related to P3 schools)	110	Interprovincial Lottery Corporation (10% ownership)
77	Nova Scotia Crop and Livestock Insurance Commission	111	Nova Scotia Liquor Corporation
79	Pictou County Health Authority		Government Partnership Arrangements (Proportionate Consolidation Method)
80	Provincial Drug Distribution Program	112	Atlantic Provinces Special Education Authority (approximately 55% share)
81	Public Archives of Nova Scotia	113	Canada-Nova Scotia Offshore Petroleum Board (50% share)
82	Public Debt Management Fund	114	Canadian Sports Centre Atlantic (approximately 8% share)
83	Resource Recovery Fund Board Incorporated	115	Council of Atlantic Premiers (approximately 45% share)
84	Rockingham Terminal Incorporated (inactive)		
85	Scotia Benefit Fund		
	Government Business Enterprises (Modified Equity Method)		
86	Scotia Learning Technology Refresh Fund		
87	Sherbrooke Restoration Commission		
88	South Shore District Health Authority		
89	South Shore Regional School Board		
90	South West Nova District Health Authority		
91	Species-at-risk Conservation Fund		
92	Strait Regional School Board		

Source: Page 15 of Public Accounts, Volume 1, Consolidated Financial Statements, for the fiscal year ended March 31, 2008.

Summary of the key variations in the Auditor General's comments regarding revenue since 1999

The first report by the Auditor General following the above amendments was October 8, 1999 and covered estimates of revenues for the year ending March 31, 2000. This first report noted that *"My opinion does not cover the Budget Speech itself, the 1998-1999 forecast, the 1999-2000 expenditure estimates, sinking fund earnings, nor the recoveries, user fees or other income netted against expenditures for appropriation purposes."*

2000-2001 to 2005-2006: The report notes the Government implemented consolidated financial statement reporting for the year ended March 31, 1999. As a result, third party revenues were included in the financial statements but not presented separately in the Budget. The reports contained the following statement:

"As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2000-2001 revenue estimate or total ordinary revenue, but included elsewhere in the 2000-2001 estimates and have not been included in my examination."

Except for the effect of adjustments, if any, which might have been necessary as a result of the matter discussed in the preceding paragraph, in my opinion: ..."

2006-2007: The opinion was expanded to note at least three separate but related issues.

- Sufficient appropriate information was not available to complete a review of recoveries, user fees and revenues of certain governmental units so the auditor was unable to form an opinion on these revenue estimates.
- Sinking fund earnings and revenues of certain governmental units are excluded from revenue estimates but are included elsewhere in the estimates. Therefore the report concludes that the revenue estimates were not presented on the same accounting basis as the Province's financial statements.
- Certain recoveries and user fees are netted against expenses and not presented as part of the revenues estimates whereas the financial statements include these items as revenues.

2007-2008 to 2009-2010: In 2007-08, sinking fund earnings, recoveries and user fees were included and presented as revenue rather than offsetting related expenses elsewhere in the estimates. This change apparently enabled the auditor to obtain sufficient appropriate information to form an opinion on these revenue items. As well, the presentation of these items in the estimates conforms to the financial statement presentation.

The outstanding matter is third party revenues of governmental units that are part of the government reporting entity but not the Consolidated Fund. These revenues offset the expenses of these governmental units and the grants by government for the estimated difference are presented as an expense in the estimates. In addition, the auditor was not able to obtain sufficient appropriate information to support an opinion on these third party revenues that offset the estimated expenses.

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