



BACKGROUNDER

December 12, 2006

Monitoring Government's Finances, December 2006

Why do we publish this report?

This report is published to help legislators and the public better assess the financial position and performance of government. The report makes note of the important trends and events that help explain government's finances – or that answer the simple question of “how are we doing?”

How is our report prepared?

The trend in financial accountability disclosure for governments and public corporations has been to disclose more information, consistent with professional guidance. Part of our report was based on the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board guidance on Financial Statement Discussion and Analysis, as well as the research report issued by the CICA entitled: Indicators of Government Financial Condition.

Highlights

In this year's report we acknowledge the improvement in government's expanded Financial Statement Discussion and Analysis (FSD&A) at the front of the 2006 Public Accounts, and the additional financial discussion and analysis in the Ministry of Finance's Financial and Economic Review report.

We continued to include detailed financial summaries in our report, including ones which summarize ten year trends in assets, liabilities, revenues and expenses, based on the audited Summary Financial Statements of government. We also include a number of financial measures, indicators and trends over a ten year period, as well as a comparison of BC to several provinces and Canada overall.

This year we altered our reporting model to exclude expanded financial information on government business enterprises (e.g. those that are self-supporting, such as BC Hydro). This was done to make the report more readily comparable to the Summary Financial Statements, and easier to read. However, to aid in comparing this year's report with prior years, we continued to provide information on government business enterprises in a separate section.

Report Recommendations

In this year's report, one key recommendation was that government include all key CICA Indicators of Financial Condition in one document -- the Financial Statement Discussion and Analysis section in the Public Accounts, and show them for the past ten years. This would provide readers with a more useful historical context of the past and current condition of government's finances.

List of Recommendations:

1. Government present a long-term trend analysis in the FSD&A, so that it can provide more context for discussing government's financial performance.
2. Government expand its FSD&A discussion of material financial risks and uncertainties and the challenges involved in their ongoing management.
3. Government include all relevant indicators of financial condition in its FSD&A, shown over an extended period, to supplement the existing discussion and analysis.
4. Government adopt the use of the CICA recommended measure of "government-to-government transfers to own-source revenue" for use in the FSD&A.

CICA Key Indicators of Financial Condition

Sustainability indicators:

1. Net liabilities to gross domestic product
2. Change in net liabilities to gross domestic product

Flexibility indicators:

3. Public debt charges to revenue
4. Changes in physical capital stock
5. Own-source revenue to GDP

Vulnerability indicators:

6. Government-to-government transfers to own-source revenue
7. Foreign currency debt to total government debt