

Treasury Board and Finance—The Budget for Financial Reporting Purposes

The Government of Alberta prepares its financial statements in accordance with Canadian public sector accounting standards. We audit those financial statements. The government does not have to follow accounting standards in preparing its budget. However, the accounting standards require that financial statements contain a comparison of the results for the year with those originally planned¹.

With Budget 2013, government changed how its budget information is presented. The new *Fiscal Management Act* sets out the form and content of the fiscal plan and requires the presentation of an operational plan, a savings plan and a capital plan.

Because of the changes within Budget 2013 and our audit of the province's financial statements, we undertook a review to identify the differences between results reported in financial statements and planned results reported in both Budget 2013 and Budget 2012. We focused our work on the items that impact the determination of the annual surplus/deficit.

The province's financial statements report the full extent of the province's financial results, determined in accordance with Canadian public sector accounting standards. For accountability purposes, the comparison of actual and budgeted financial results is important to hold a government accountable for its financial management.

In Appendix A, we have detailed the differences between the computations of the surplus/deficit in Budget 2013, Budget 2012 and the province's financial statements. The largest difference is that capital grants to municipalities are expenses under accounting standards but are not included as operational expenses in Budget 2013's operational plan; rather they are included as part of the capital plan. If the province's Budget 2013 had been prepared on the same basis as the province's Budget 2012, the calculated deficit would be \$1.975 billion for fiscal 2013–2014. This is a calculation to illustrate differences; it is not a revision of Budget 2013.

The main differences between Budget 2013's operational plan surplus/deficit and Budget 2012's surplus/deficit are:

- Some capital grants are not included in expenses in the government's operational plan surplus/deficit, but are included in expenses under accounting standards. For example, grants under the Municipal Sustainability Initiative are included in Budget 2013 as part of the capital plan. While these grants may fund capital assets, these capital assets are not owned by the province. Therefore, accounting standards require these grants be treated as expenses in the calculation of surplus/deficit. They would not be an expense if the province owned the assets.

¹ Canadian Public Sector Accounting Standards, Section 1200 Financial Statement Presentation (PS 1200.119–1200.125)

- Capital and savings related items:
 - Alberta Heritage Savings Trust Fund’s retained income is included in total revenue, but then deducted from total revenue as part of the calculation of operational revenue. Under accounting standards, this retained income would be included in income.
 - Revenue for capital purposes is included in total revenue, but is then deducted from total revenue as part of the calculation of operational revenue. Under accounting standards, revenue received for capital purposes would also be excluded from surplus/deficit, but would become part of surplus/deficit over time as those assets are used to provide services.
 - Operational revenue excludes an amount “Allocation for debt servicing costs” and general debt servicing costs in operational expense excludes capital debt servicing costs. Accounting standards do not have a similar reduction from revenues. Instead, these amounts would be included as debt servicing costs in determining surplus/deficit, so debt servicing costs would be higher. The net impact on surplus/deficit is nil.

Consistent with prior years, Budget 2013 contains scope differences between the budget and the province’s financial statements because revenues and expenses of SUCH sector² organizations and Alberta Innovates corporations, and changes in pension liabilities are excluded from the budget.

Because the fiscal approach and scope of activities used in Budget 2013 is different from the accounting standards that will be used to prepare the province’s 2013–2014 financial statements, a comparison will be difficult to explain and understand as complicated adjustments and modifications will be required.

The Department of Treasury Board and Finance has informed us that it intends to construct a budget for financial reporting purposes that will be included in the province’s 2013–2014 financial statements. This constructed budget will:

- be prepared using the same accounting standards and scope of activities that are used to report actual results in the province’s financial statements
- be included on the statement of operations and on the statement of change in net financial assets
- include a reconciliation of the constructed budget for financial reporting purposes with the fiscal plan’s budget presented as required by the *Fiscal Management Act*

² SUCH is an acronym for schools, universities, colleges and health entities

Fiscal year	(\$ millions)		
	Actual 2011–2012	Budget 2012–2013	Budget 2013–2014
Operational surplus/(deficit) in Budget 2013	\$2,568³	\$1,826	(\$451)
<i>Fiscal Management Act</i> adjustments:			
Capital grant expense	(3,678)	(3,526)	(2,343) ⁴
Capital Plan debt servicing costs	(114)	(139)	(238)
Capital and savings related items:			
Revenue for capital purposes	633	508	522
Investment income retained by the Alberta Heritage Savings Trust Fund	454	306	297
Allocation for Capital Plan debt servicing costs	114	139	238
Calculated deficit on Budget 2012 basis	(23)	(886)	(1,975)⁵
Scope adjustments:			
Annual surplus of SUCH sector and Alberta Innovates corporations	526		
Pension provisions	(617)		
Deficit in the province's financial statements	(\$114)		

³ Budget 2011 tabled February 24, 2011 had a deficit of \$3,405 (page 67 of Budget 2011 Fiscal Plan). This was the budgeted deficit that was compared to actual financial results for year ended March 31, 2012. In Budget 2013, tabled March 7, 2013, actual results for the year ended March 31, 2012 were restated and reported as \$2,568 (page 127 of Budget 2013 Fiscal Plan).

⁴ Calculated from the fiscal plan as difference between Capital Plan spending of \$5,209 (page 128 of Budget 2013 Fiscal Plan), less capital asset additions of \$3,351 (page 141 of Budget 2013 Fiscal Plan), net of \$485 opening net asset adjustment for the capital assets of the SUCH sector commencing April 1, 2013, based on data provided by the Department of Treasury Board and Finance.

⁵ This figure is not required under the *Fiscal Management Act* nor under Canadian public sector accounting standards; we have calculated it for comparison purposes with the previous years.

