

2009 Report – Volume 2

Opening statement by Fred Wendel, Provincial Auditor, for his meeting with members of the press regarding the 2009 Report – Volume 2.

Thank you for joining me this morning. With me today are Corrine Rybchuk, and Deann Dickin. Corrine audits the Government's financial statements and prepared much of the information in the Report that we are issuing today. Deann ensures that our reports are published. She also co-ordinates my activities and this meeting.

Each year, we prepare this Report to help legislators and the public to better understand the Government's financial condition. This report allows for a more informed debate on the affordability of new and existing programs and the level of taxation.

This year's report focuses on the Government's financial condition at March 31, 2009. The Report also provides an update of past recommendations we have made about the Government's financial reporting practices.

This report includes various graphs showing fifteen-year trends in the financial condition of the Government. The graphs are intended to help readers form their own conclusions about whether the Government's financial condition is strengthening or weakening.

As in prior years, our Report also includes information to help compare the condition of Saskatchewan's finances to that of other provinces. The information in these comparisons is one year behind the information in the rest of our report, although it is the most recent information available. We note that at March 31, 2008, the Government's financial condition continued to compare favourably with most other provinces.

To report on financial condition, we use indicators that measure three main areas.

- First, we measure whether the Government is living within its means. In the report, we call this sustainability.
- Second, we measure the Government's ability to meet its commitments by expanding its revenues or borrowing more money. In the report, we call this flexibility.
- Third, we measure the extent to which the Government can manage its own affairs without relying on the Federal Government to pay for provincial programs. In the report, we call this vulnerability.

Based on these indicators, we conclude that the Government's financial condition at March 31, 2009 was very strong but its future financial condition is vulnerable because of widely fluctuating non-renewable resource revenue.

Record financial results posted in 2009 for the following measures lead to our conclusion.

First, the Government spent \$3 billion less than it raised in revenue, resulting in a record annual surplus of \$3 billion. This annual surplus was about \$3.1 billion more than it expected.

Second, the Government's net debt as a percentage of provincial GDP declined to a record low of 5%. With its stronger financial condition, the Government was better able to meet its borrowing commitments.

And third, the Government's interest bite (that is, interest costs as a percentage of revenue) declined to a record low of 6%. This lower percentage meant the Government had more money available to pay for services. However, interest costs remained sizable at \$800 million. Interest costs were the Government's fourth largest expense after health, education, and social services.

Now, I want to make a comment about the need for caution because of financial risks. Even though the Government is less dependent on revenue from the Federal Government, its non-renewable resource revenue fluctuates widely because of factors outside the Government's control.

For example, The Government's annual surplus for 2009 was \$3.1 billion more than planned because of higher non-renewable resource revenue. For a second example, the Government announced last month that it expects its 2010 non-renewable resource revenue will be \$ 1 billion lower than the \$3.4 billion that it set out in the 2010 budget.

Because non-renewable resource revenue varies widely and because it is outside the Government's control, the Government must be prudent about relying on this revenue as a source of long-term revenue to pay for operations. The Government must continue to manage its debt and spending carefully.

Now, I want to talk about the second part of this report. For some years, we have asked the Government to quit focusing on the General Revenue Fund when it tells legislators and the public about its financial condition.

That information is misleading and not useful to understand and assess the Government's financial condition because the Government does not use proper accounting principles to prepare the information. Also, the information does not include all the financial affairs of the Government.

The Government should explain its financial condition using the summary financial statements and summary budget, which includes all the financial affairs of the Government and is prepared using proper accounting principles.

As I said earlier, the Government provided a first quarter update on its 2010 financial condition last month. Unfortunately, the Government again focused on the General Revenue Fund. In that update, the Government did not provide a forecast of the 2010 financial condition for the summary budget that includes the financial affairs of the entire Government.

In the 2010 Estimates, the Government's summary budget forecasted a deficit of \$25 million for 2010. The Government has not told legislators and the public what effect the \$1 billion reduction in non-renewable resource revenue will have on the Government's summary budget presented in the 2010 Estimates.

Legislators and the public need quarterly forecasts of the 2010 financial condition based on the summary budget to understand and assess the Government's performance.

Finally, I want to say Saskatchewan's financial reporting practices lag all the other provinces. All other provinces focus their reporting practices on the financial affairs of the entire Government.

That ends my opening comments. I now invite questions. If you need more information, please call me.