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September 10, 2009

The Honourable D. Toth
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2009 Report - Volume 2*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act.*

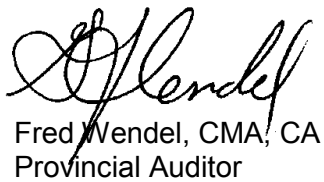
Respectfully yours,

Fred Wendel, CMA, CA
Provincial Auditor

/dd

Foreword

I am pleased to present my *2009 Report – Volume 2* to the Legislative Assembly. This Report focuses on understanding the Government's finances. Later this year, I will present Volume 3. Volume 3 will include the results of our work at government organizations with a fiscal year end of March 31, 2009.



Regina, Saskatchewan
September 10, 2009

Fred Wendel, CMA, CA
Provincial Auditor

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Executive summary

The Government's financial condition at March 31, 2009, determined using financial indicators supported by The Canadian Institute of Chartered Accountants, was very strong but remains vulnerable.

Two years of record annual surpluses, resulting from a strong provincial economy and non-renewable resource sector, helped to strengthen the Government's financial condition. In 2008-09, the Government used its annual surplus of $3 billion to reduce its net debt dramatically.

The public's debt burden decreased in 2008-09 as shown by the continued decline of the Government's net debt as a percentage of provincial gross domestic product. A greater proportion of the Government's revenue was spent providing services instead of paying interest costs. Demand placed on the provincial economy remained unchanged in that the Government's own-source revenue continued to grow at the same rate as the provincial economy. Dependency on federal government money to pay for provincial programs lessened. Furthermore, for most key indicators, Saskatchewan fared well when compared to other provinces at March 31, 2008.

The Government is vulnerable to significant fluctuations in non-renewable resource revenue. This revenue fluctuates because of factors outside of its control. Over one-quarter of the Government's own-source revenue came from non-renewable resources. In 2008-09, a significant unexpected increase in this revenue caused the $3.1 billion difference between the Government's planned deficit of $123 million and its actual surplus. I note that, for 2009-10, the Government has based its planned deficit of $25 million on estimated non-renewable resource revenue of $3.4 billion. In August 2009, it reduced this estimate significantly to $2.4 billion.

The Government provided, in 2008-09, much better financial discussion and analysis of its overall financial condition. Unfortunately, the Government continued to focus on the financial activities of only a portion of the Government – the General Revenue Fund (GRF). GRF information is not useful to understand and assess the Government's true financial condition. While the Government has made some improvements, the reporting of its financial plans and interim results at the summary level lag behind those of other provinces. I encourage the Government to further improve those reporting practices.

Summary of key financial and economic indicators for Saskatchewan

(derived from the Government's summary financial statements)

(in millions of dollars)

	Key	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Annual surplus (deficit)	1	141	563	545	326	69	406	461	-483	-654	-100	844	679	574	1,873	**2,968**
Annual (deficit) - budgeted	2, 4	----------	----------	----------	----------	N/A	----------	----------	----------	----------	----------	-284	-173	-113	-701	**-123**
Net Debt	1	10,758	10,183	9,636	9,308	9,241	8,833	8,377	8,859	9,425	9,435	8,603	7,875	7,431	5,873	**3,524**
Net Debt - budgeted	2, 4	----------	----------	----------	----------	N/A	----------	----------	----------	----------	----------	9,917	8,945	8,271	8,751	**-6,833**
Gross Domestic Product (GDP)	3	24,716	26,791	29,238	29,377	29,550	30,929	33,765	33,222	34,498	36,821	40,462	42,640	45,822	50,961	**64,316**

(in percentages)

	Key	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Debt as a % of GDP	1,3	44%	38%	33%	32%	31%	29%	25%	27%	27%	26%	21%	18%	16%	12%	5%
Own-source revenue as a % of GDP	1,3	19%	20%	18%	19%	18%	18%	18%	16%	18%	17%	18%	19%	18%	19%	19%
Interest Costs as a % of revenue	1	22%	20%	20%	19%	18%	14%	13%	13%	12%	12%	10%	9%	8%	7%	6%
Net book value of tangible capital assets as a % of cost of tangible capital assets	1,4	----------	----------	N/A	----------	----------	----------	58%	56%	56%	55%	54%	53%	53%	52%	52%
Federal Government transfers as a % of own-source revenue	1	33%	19%	16%	12%	21%	27%	17%	28%	23%	20%	28%	18%	19%	18%	16%

Key:

1. Information derived from the Government's summary financial statements for the fiscal year ending March 31. Prior year amounts for own-source revenue, interest costs, and tangible capital assets have been restated because of 2008-09 change in accounting and adjustment to net debt as explained in the notes to the 2008-09 financial statements.
2. Information from Government of Saskatchewan Budget and Performance Plan Summary for the fiscal year ending March 31.
3. For the current year, GDP statistics reflect the most recent calendar year as published by Saskatchewan Bureau of Statistics (www.stats.gov.sk.ca). Statistics are not available for twelve-month periods ending March 31. Comparatives are those produced in previous reports. The GDP statistics are not adjusted for inflation (commonly referred to as nominal GDP).
4. N/A means data is not available.

Introduction

Our Office recognizes the value of governments providing legislators and the public with strong public reporting. Through strong public reports, governments can make their operations clear and understandable. Strong public reports help legislators and the public hold governments accountable.

This report focuses solely on the Government's Summary Financial Statements (SFS)[1]. It provides information and analysis to help the legislators and public understand the SFS and the Government's financial condition. This report provides more detailed information and analysis than the Government provides in the *Public Accounts 2008-09: Volume 1: Main Financial Statements* (Volume 1).

This report explains the Government's financial condition for the year ending March 31, 2009 and provides fifteen-year trends of key information. To provide context in how Saskatchewan is positioned relative to other provinces, it includes interprovincial comparisons where possible.

Also, this report provides the legislators and public with the status of our past recommendations about the Government's financial reporting practices.

The composition of the Government

To understand the SFS, it is important to understand what financial results they include. The SFS report on the financial performance of the entire Government. They include the financial results of all of the agencies that the Government controls. Schedule 21 of the 2008-2009 SFS (Volume 1, pp. 118-119) provides a summarized listing of the agencies included.[2]

At March 31, 2009, the SFS included about 20 ministries, and over 200 other agencies (e.g., Crown corporations like SaskPower) and special purpose funds (e.g., General Revenue Fund).

[1] Each year, the Government publishes the audited Summary Financial Statements in the Public Accounts: Volume 1: Main Financial Statements.
[2] Appendix 2 of our 2009 Report – Volume 1 provides a more detailed listing.

Key indicators of the Government's 2008-09 financial condition

A government's financial condition reflects its financial health. Information about a government's financial condition provides insight into a government's management of its financial affairs and its performance.

This section describes the Government's financial condition using the Canadian Institute of Chartered Accountants' three categories of sustainability, flexibility, and vulnerability.[3] It describes each category and its related indicators (in colour).

For each indicator, this section highlights key trends, and, for selected indicators, compares information for Saskatchewan to that of other provinces (where information is available).

The SFS provide the basis for the financial information used in this report.[4] Also, this report uses key financial information from summary financial statements of other provincial governments. As current year data is not available from all provinces at the time of writing this report, the report uses prior year data when making interprovincial comparisons.

Appendix 1 provides a glossary of key terms used in this report. Appendix 2 sets out additional financial information and analyses in the form of questions and answers. Appendix 3 details the sources of the information, the methods used to collect and present the information, and the limitations of the information presented in this report. Appendix 4 details revenue and expenses from 1991 to 2009.

Sustainability

Sustainability measures the ability of a government to meet its existing program commitments and creditor requirements without increasing its net debt.

[3] Canadian Institute of Chartered Accountants. (2009). Statement of Recommended Practice – SORP 4: *Indicators of Financial Condition.* This statement is available from the CICA website at www.cica.ca. (21 Aug. 2009).

[4] Prior year amounts have been restated changes in accounting policies and presentation. During 2008-09, the Government changed its accounting for long-term debt not borrowed specifically on behalf of Government Business Enterprises. This change increased the amounts reported for interest costs, own-source revenue, long-term debt, and loans receivable. During 2008-09, the Government determined it was more appropriate to classify land held for sale as tangible capital assets. This change increased the amounts reported for net debt and tangible capital assets.

Looking at trends for the following indicators provides useful insight into the sustainability of a government's revenue-raising and spending practices:

- a government's annual surplus or deficit
- a government's spending
- a government's net debt
- a province's gross domestic product (GDP)

A government must manage its revenue-raising and spending practices in the context of its provincial economy. Looking at GDP and debt provides insights into these practices. GDP is a measure of the value of the goods and services produced during a given year. GDP indicates the size of the provincial economy.

Annual surplus or deficit

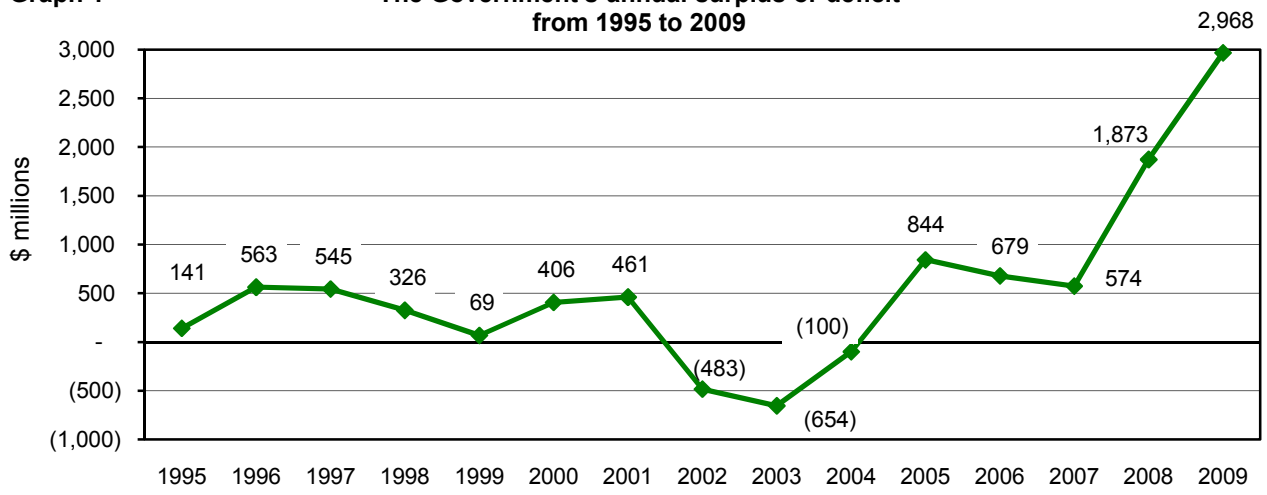
The **annual surplus or deficit** shows the extent to which a government spends less or more than it raises in revenue in one fiscal year. It shows whether a government is living within its means. An annual surplus indicates a government has lived within its means, whereas an annual deficit indicates it has not.

The annual surplus for the year ending March 31, 2009 was $2,968 million. Graph 1 shows the Government's annual surpluses or deficits for the last fifteen years. The Government has lived within its means for twelve of those fifteen years (that is, the Government raised more revenue than it spent).

Continued annual surpluses have helped the Government provide services while giving it the opportunity to reduce its borrowing and increase the amount of money it has set aside in investments for the future repayment of its debt (i.e., increase its investments in sinking funds).

Graph 1

The Government's annual surplus or deficit from 1995 to 2009



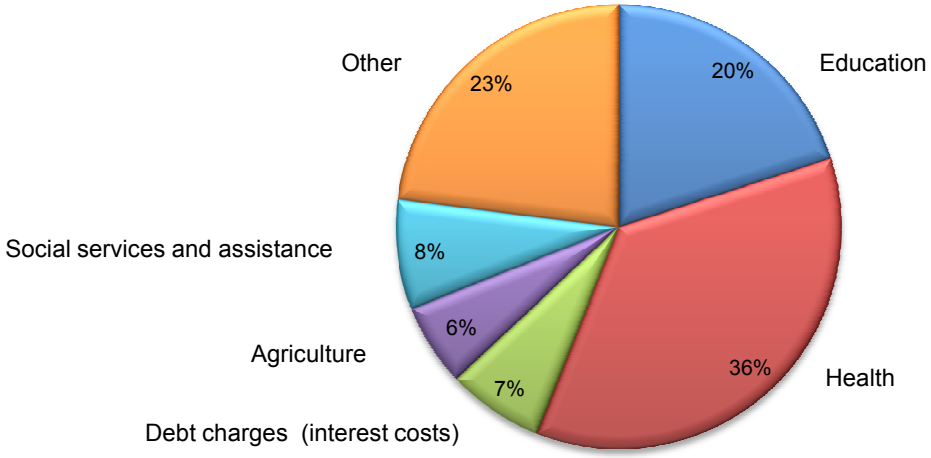
Also, the 2009 annual surplus is almost $1.1 billion more than the prior year and reflects the highest surplus ever recorded in the SFS. Consistent with 2008, the growth in the 2009 annual surplus was primarily because of increases in non-renewable resources revenue offset by decreases in net income from government business enterprises (e.g., Workers Compensation Board, SaskPower, and SaskEnergy), and increases in spending.

Total spending

Graph 2 shows that in 2009 the Government spent almost 77% of its total spending of $11.3 billion in the following five areas: health (36%), education (20%), social services and assistance (8%), interest (7%), and agriculture (6%).[5] Spending in the remaining areas accounted for 23% of the Government's total spending. Appendix 2 – graphs I to L and Appendix 4 set out spending trends.

[5] For information on 5-year comparison on spending by area, see the Government of Saskatchewan. (2009). Public Accounts 2008-09: Volume 1: Main Financial Statements, Regina. p. 30. (www.gov.sk.ca/finance/paccts/paccts09/volume1-2008-09.pdf). (21 Aug. 2009).

Graph 2 **The Government's total spending by type as at March 31, 2009**



Net Debt

Net debt is the amount that current and past generations of citizens leave to future generations of citizens to pay or finance. It is the difference between total liabilities and total financial assets.

Annual surpluses in recent years have helped the Government reduce its net debt.

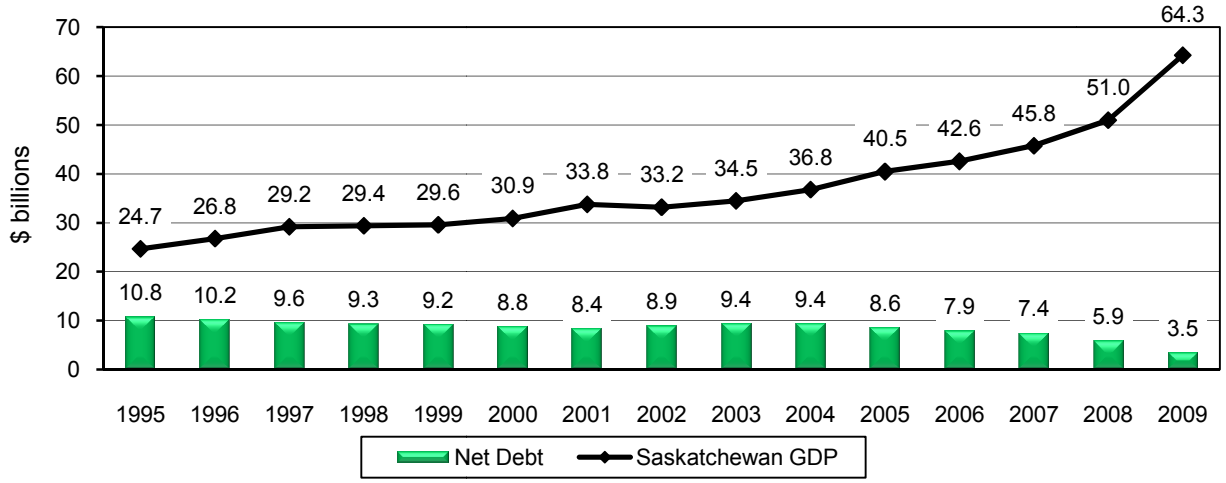
Graph 3 shows that, over the last fifteen years the Government's net debt declined from a high of $10.8 billion in 1995 to $3.5 billion in 2009. Over this period, the net debt burden on Saskatchewan taxpayers has decreased by almost 68% from $10,623 per capita in 1995 to $3,431 per capita in 2009.

Saskatchewan's GDP is significantly impacted by commodities. Graph 3 also shows Saskatchewan's provincial economy has experienced strong growth in the last six years (i.e., increases of more than $2 billion over the prior year in each of these years).[6] Over the last fifteen years, the provincial economy, as measured by Saskatchewan's GDP, grew steadily from $24.7 billion in 1995 to a new record high of $64.3 billion in 2009.

[6] Saskatchewan Bureau of Statistics for GDP at December 31. GDP statistics reflect the previous calendar year since statistics are not available for twelve-month periods ending March 31. GDP is not adjusted for inflation (i.e., nominal GDP).

This represents 160% growth in the provincial economy. During the same fifteen-year period, the consumer price index increased by 37%.[7]

Graph 3 **Saskatchewan's GDP and the Government's net debt from 1995 to 2009**



Also in 2009, the Government, for the first time since it began preparing summary financial statements in 1991, recorded an accumulated surplus of $1.4 billion.

Net debt as a percentage of provincial GDP

Net debt as a percentage of provincial GDP measures the level of financial demands placed on the economy by a government's spending and revenue-raising practices. It provides a measure of how much debt a government can afford to carry. The larger the economy, the more debt a government can afford to carry.

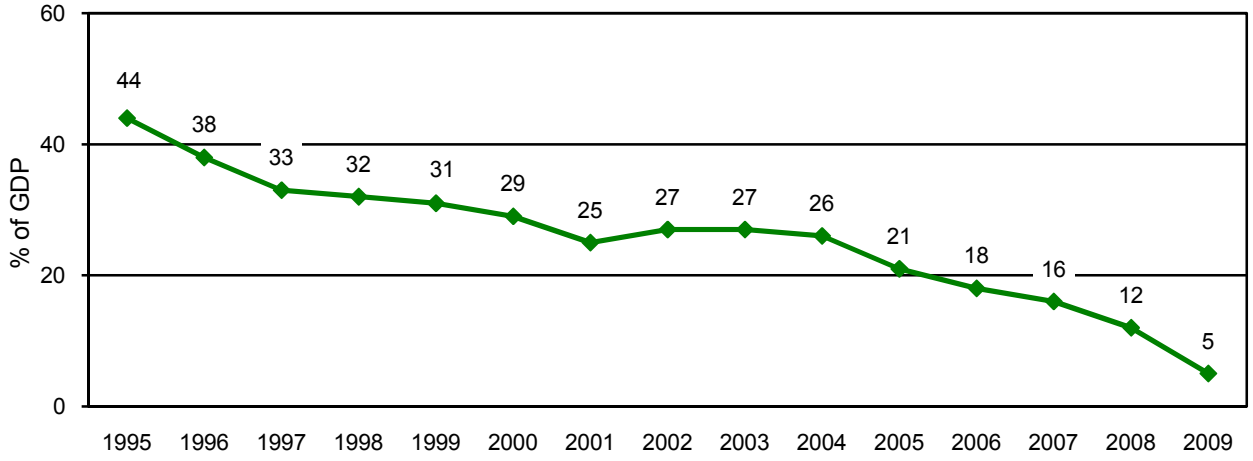
Higher percentages mean a government is placing a growing debt burden on taxpayers and it will need more future revenue to repay the debt. Higher percentages can adversely impact the interest rate at which a government can borrow (i.e., because of lower credit ratings)—lower or decreasing percentages are better.

The steady downward trend of net debt as a percentage of provincial GDP reflected in Graph 4 suggests the Saskatchewan economy can better sustain demands that the Government places on it. Consistent with recent years, the decrease from the prior year resulted from a record

[7] Consumer Price Index by Province, Statistics Canada, http://www40.statcan.ca/index. (21 Aug. 2009). See Appendix 2 – Graph A.

annual surplus in 2009 along with strong growth in the provincial economy.

Graph 4 **The Government's net debt as % of provincial GDP from 1995 to 2009**



Reduced net debt has contributed to better credit ratings for the Government over the fifteen-year period ending March 31, 2009. The Government's credit rating of AA (low) from Dominion Bond Rating Service remained unchanged since 2006 but is much improved from its rating of BBB (high) in 1995.[8] In November 2008, Standard & Poor, another credit rating agency, upgraded the Government's credit rating. Better credit ratings mean the Government has more sources for borrowing and can borrow at lower interest rates. Appendix 2 – graph N provides a fifteen-year trend of the Government's credit ratings and Appendix 2 – graphs O to Q provides comparisons with other provinces.

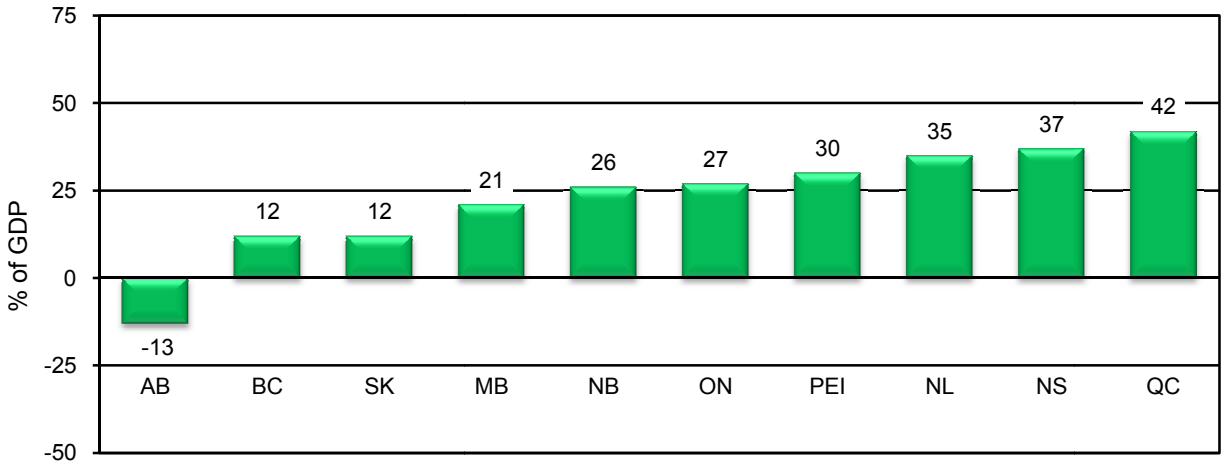
Net debt as a percentage of its provincial GDP – by province

Based on net debt as a percentage of GDP at March 31, 2008, Saskatchewan continues to perform well when compared to its counterparts.

Graph 5 shows that Saskatchewan is tied with British Columbia with the second lowest net debt to GDP ratio of 12 at March 31, 2008, following Alberta.

[8] Reflects Dominion Bond Rating Service (DBRS) rating for Province of Saskatchewan long-term debt (i.e., bonds and debentures). The DBRS® long-term debt rating scale from AAA to D gives an indication of the risk that a borrower will not fulfill its full obligations in a timely manner. DBRS ratings are publicly available at www.dbrs.com. (21 Aug. 2009).

Graph 5 **Net debt as % of GDP as at March 31, 2008 by province**



Flexibility

Flexibility measures the degree to which a government can increase financial resources to respond to rising commitments either by expanding its revenue or by increasing its net debt.

Looking at trends for the following indicators provides insight into a government's flexibility:

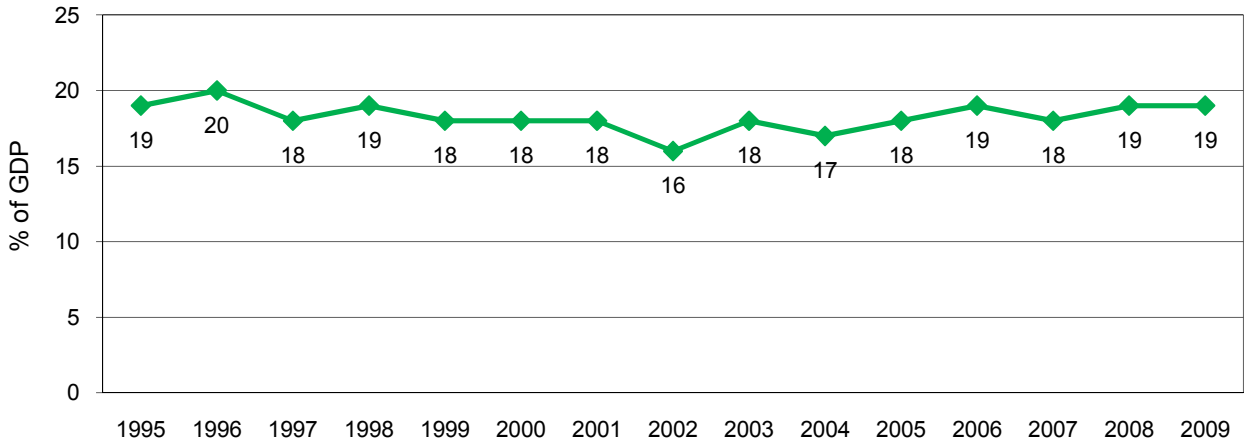
- a government's own-source revenue
- a government's investment in tangible capital assets
- a government's interest costs

Own-source revenue as a percentage of provincial GDP

A government's **own-source revenue as a percentage of provincial GDP** shows how much revenue from the provincial economy a government raises through taxation and user fees. High percentages or increases in percentages mean a government is placing higher demands on its provincial economy—its demands are outpacing growth in the economy. This can make future increases in taxes or user fees difficult.

Graph 6 shows that own-source revenue as a percentage of provincial GDP has remained fairly constant over the last fifteen years. In general, the pace of increases in the Government's own-source revenue (i.e., revenue raised from within the Province) has continued to match increases in the size of the provincial economy. The Government has not significantly changed its demands on the provincial economy over this time.

Graph 6 **The Government's own-source revenue as % of GDP from 1995 to 2009**



As shown in Appendix 4, Saskatchewan's own-source revenue has grown steadily. Over the last fifteen years, it increased from $5.4 billion in 1995 to $12.3 billion in 2009.[9] $3.9 billion of the increase relates to increased revenue from non-renewable resources, with revenue from taxes and other own-source revenue both contributing about $1.7 billion to the increase over this period. In 1995, non-renewable resources contributed 16% to total own-source revenue; whereas in 2009, it contributed 37%. The price of commodities, such as non-renewable resources, is beyond the Government's control. Reliance on non-renewable resources as a significant source of long-term revenue to finance its operations may reduce the Government's flexibility.

Own-source revenue as a percentage of its GDP – by province

At March 31, 2008, Graph 7 shows that Saskatchewan, along with Nova Scotia and Quebec, has the highest own-source revenue as a percentage of provincial GDP. In 2007, Saskatchewan was tied with Nova Scotia and Prince Edward Island as second highest.

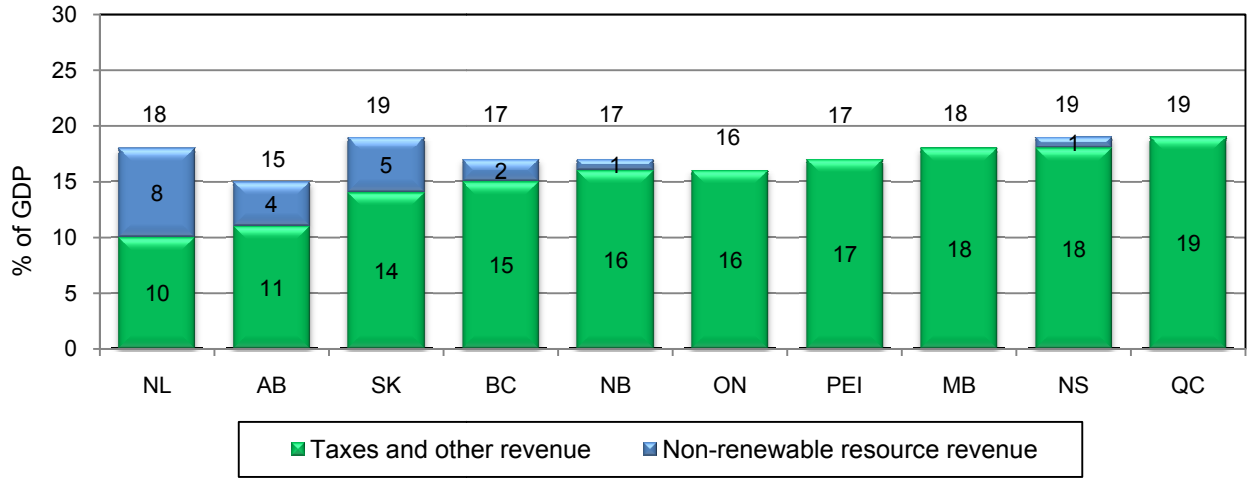
However, at the same time, Saskatchewan continued to have the third lowest "taxes and other revenue" as a percentage of provincial GDP. Saskatchewan, in common with other provinces, continues to rely primarily on taxes and other revenue as its primary source of own-source revenue.

[9] Own-source revenue is total revenue less federal government transfers.

For some provinces, the impact of non-renewable resources is evident. Graph 7 shows six provinces (i.e., British Columbia, Alberta, Saskatchewan, New Brunswick, Nova Scotia, and Newfoundland and Labrador) have non-renewable resources revenue. In 2008, for Alberta, Saskatchewan, Newfoundland and Labrador, non-renewable resources revenue made up a significant portion of their total own-source revenue (i.e., 26% of the total own-source revenue for Alberta and Saskatchewan and about 40% for Newfoundland and Labrador). Non-renewable resources revenue tends to fluctuate more than other sources of revenue because of the impact of economic factors beyond the control of the governments.

Graph 7

Own-source revenue as % of GDP as at March 31, 2008 by province



Net book value of tangible capital assets as a percentage of cost

Governments use tangible capital assets such as buildings, equipment, roads, and dams to deliver government services and provide infrastructure that supports economic activity.

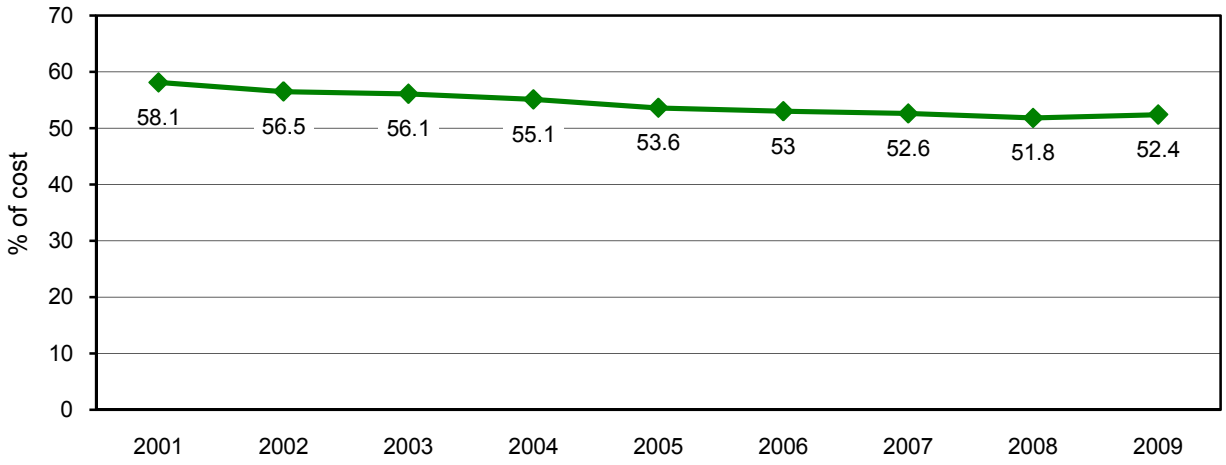
The **net book value of tangible capital assets as a percentage of cost of tangible capital assets** measures the extent to which a government is maintaining or failing to maintain the tangible capital assets it needs to deliver services. Increases in ratios means a government is enhancing or improving its tangible capital asset base. Decreases in ratios means a government is delaying the replenishment of its essential tangible capital assets. Delays in investing in tangible capital assets may improve financial results in the short term but lead to increased financial burden on future taxpayers because of higher costs for maintenance or asset

replacement. Also, tangible capital assets in poor condition may diminish service delivery.

At March 31, 2009, the Government had tangible capital assets with a net book value of $4.8 billion. During 2008-09, it bought $626 million of tangible capital assets, and decreased the value of existing tangible capital assets by $323 million to recognize the cost of their usage (i.e., amortized or depreciated).

Graph 8 shows that on average the Government's tangible capital assets are about halfway through their useful lives. The overall downward trend shows the Government's tangible capital assets have aged slightly faster than they were replaced.

Graph 8 **Net book value of tangible capital assets as a % of cost of tangible capital assets from 2001 to 2009**



Comparisons by province are not provided because complete information on tangible capital assets is not available for all provinces.

Interest costs as a percentage of total revenue

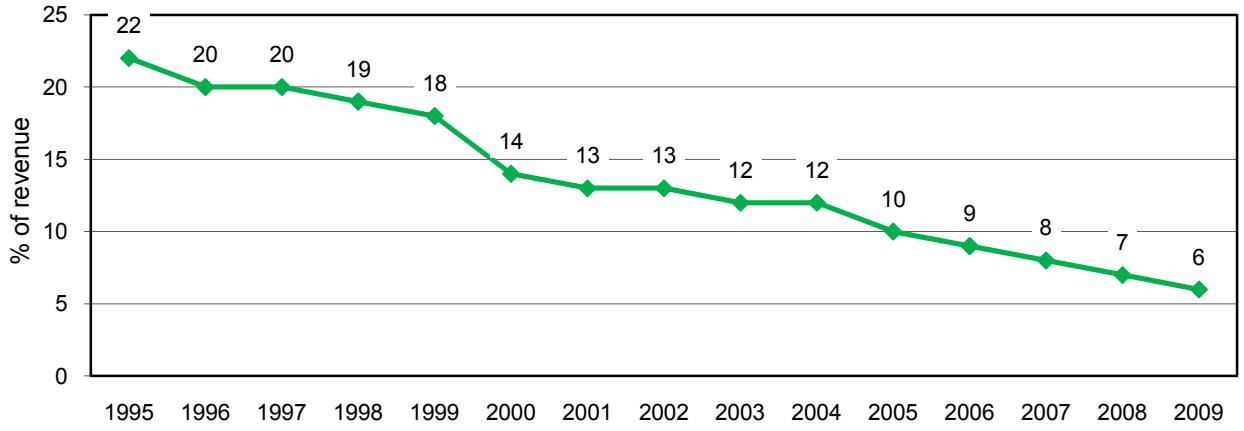
The amount of **interest costs** (debt charges) **as a percentage of total revenue** (sometimes called the "interest bite") shows the extent to which a government must use revenue to pay for interest costs rather than pay for services. The more money a government pays for interest costs, the less money it has to pay for services. For the interest bite, a lower ratio or decreasing trend means the government has more money available to pay for services.

Graph 9 shows a positive trend in that interest costs as a percentage of revenue declined significantly over the last fifteen years. This decrease in the interest bite resulted primarily from increased revenue and decreased interest costs. Over the last fifteen years, the Government's revenue increased $8.2 billion (i.e., 135%) from $6.1 billion in 1995 to $14.3 billion in 2009; its interest costs have decreased $534 million (i.e., 40%) from $1,338 million in 1995 to $804 million in 2009.[10]

In 1995, the Government used 22 cents of every dollar of its revenue to pay interest. In 2009, it used six cents of every dollar of revenue. These reductions in interest costs have given the Government more resources to provide services without having to increase its revenue.

Graph 9

The Government's interest costs as % of total revenue from 1995 to 2009



Interest costs as a percentage of total revenue – by province

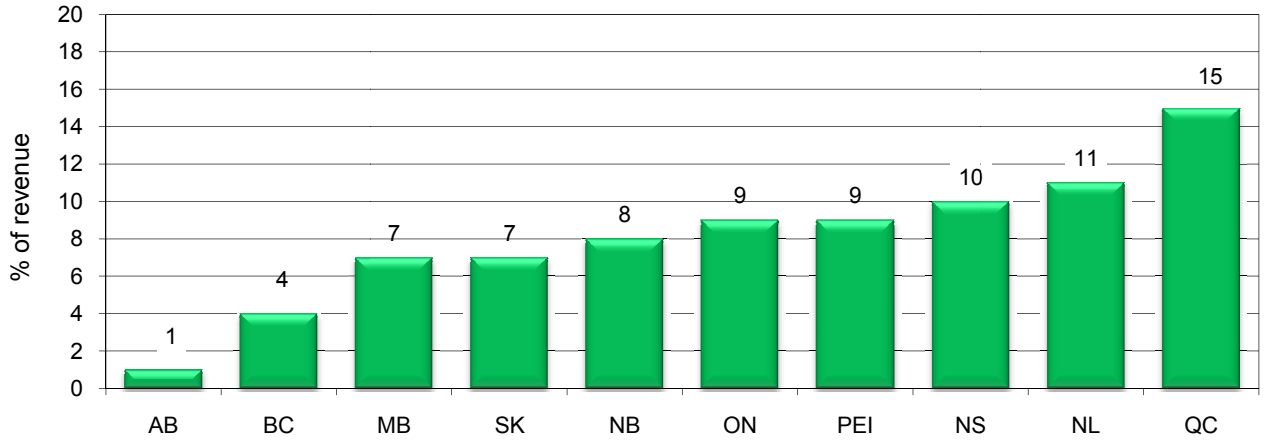
At March 31, 2008, Saskatchewan's interest costs as a percentage of total revenue continued to rank in the mid-range when compared to its counterparts.

Graph 10 shows that Saskatchewan, at March 31, 2008, tied with Manitoba for third lowest at 7%. Consistently, Alberta has been the lowest and British Columbia the second lowest.

[10] Interest costs are net of interest reimbursed from government business enterprises for debt borrowed by the General Revenue Fund specifically on their behalf. In 2008-09, government business enterprises reimbursements of interest were $229 million (2007-08: $251 million). In total, interest costs were $1,022 million (2007-08: $1,064 million).

Graph 10

Interest costs as % of revenue as at March 31, 2008 by province



Vulnerability

Vulnerability is the degree to which a government is dependent upon, and thus, vulnerable to sources of revenue outside of its control or influence or is exposed to risks that could impair its ability to meet its existing obligations. This indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

Looking for trends in Federal Government transfers provides insight into a government's dependency on outside revenue.

Revenue from Federal Government transfers

Federal Government transfers are a significant source of revenue for provincial governments including Saskatchewan.

Provincial governments have no control over the amount of federal transfers they get each year.[11] Provincial governments can be at risk if they place too much reliance on this source of revenue to pay for their services. Governments typically find it difficult to reduce or eliminate established services. Unexpected reductions in federal government transfers could impair a provincial government's ability to deliver its

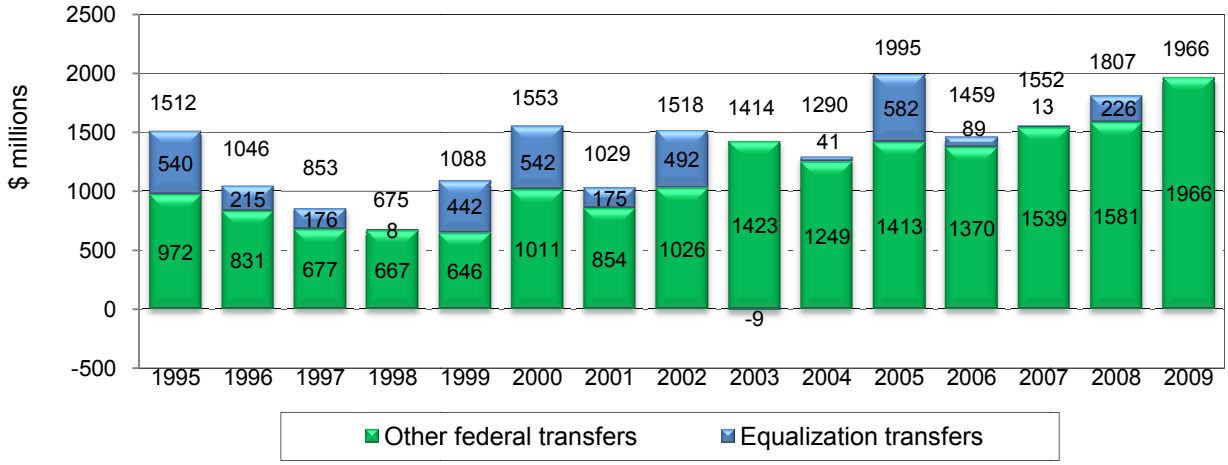
[11] For example, the Federal Government calculates the amount of equalization transfers by comparing the ability of provincial governments to raise revenue. Its calculation takes into account the performance of provincial economies relative to each other. The size of the provincial economy in any given year relative to other provinces significantly affects the annual amount of the equalization transfer.

services. Significant shifts in federal transfers make it more challenging for the Government to make long-term decisions about service delivery.

Graph 11 shows over the last fifteen years Federal Government transfers to Saskatchewan increased from $1.5 billion in 1995 to $2.0 billion in 2009. The amount of transfers (both equalization and other federal transfers) fluctuated significantly during this period from a low of $675 million in 1998 to a high of $1,995 billion in 2005.[12]

Graph 11

Revenue from Federal Government transfers from 1995 to 2009



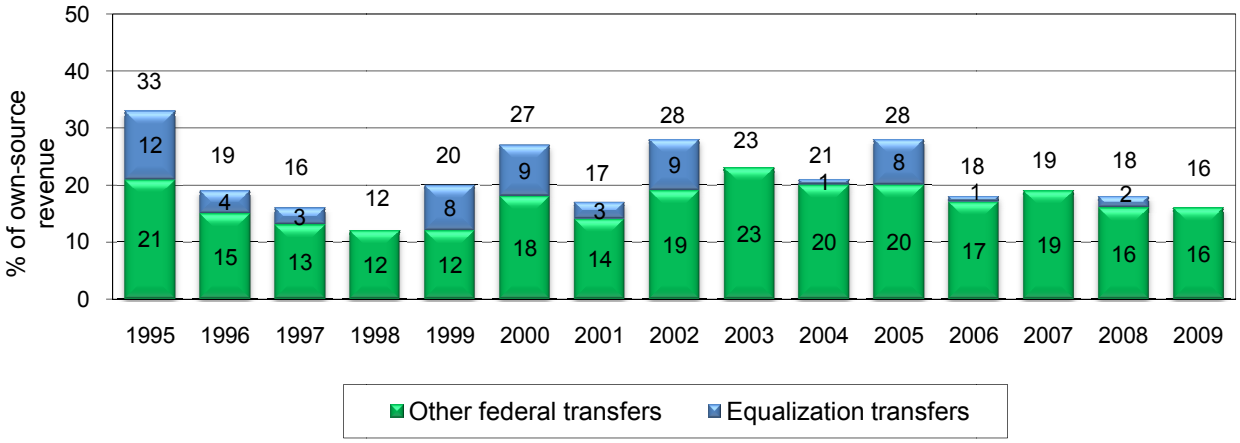
Federal Government transfers as a percentage of own-source revenue

Federal Government transfers as a percentage of own-source revenue shows the extent to which a government is dependent on money from the Federal Government to operate. A decreasing ratio indicates that a government is becoming less dependent on federal money to operate.

Graph 12 shows that, over the last fifteen years, Federal Government transfers as a percentage of Saskatchewan's own-source revenue have generally decreased by about one-half (that is, from 33% in 1995 to 16% in 2009). The significant increase in the Government's own-source revenue has helped the Government become less dependent on money from the Federal Government.

[12] Other federal transfers are intended to help pay for the costs of services such as health, education, and agriculture.

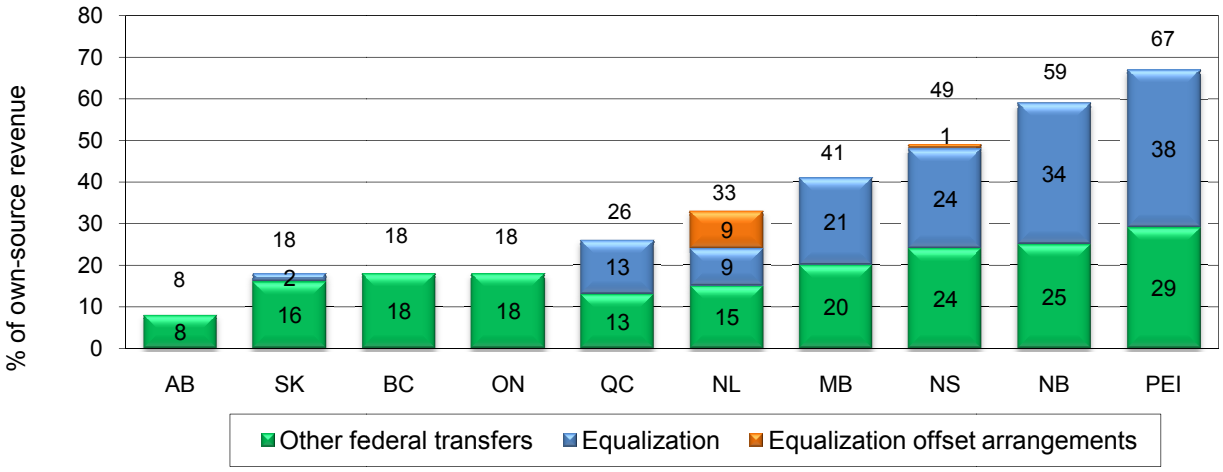
Graph 12 **Federal Government transfers as % of Saskatchewan Government own-source revenue from 1995 to 2009**



Federal Government transfers as a percentage of own-source revenue - by province

Based on Federal Government transfers as a percentage of own-source revenue at March 31, 2008, graph 13 shows that Saskatchewan is less dependent on Federal Government transfers than most other provinces. Saskatchewan, British Columbia, and Ontario have the second lowest percentage following Alberta.

Graph 13 **Federal Government transfers as % of own-source revenue as at March 31, 2008 by province**



As previously shown in Graph 7, Alberta, British Columbia, Saskatchewan, and Newfoundland and Labrador have significant non-renewable resources revenue. Graph 13 shows that Alberta, British Columbia, and Saskatchewan receive no or low federal equalization

transfers. For these provinces, increases in oil and gas revenue result in decreases in federal equalization transfer revenue.

The situation differs for two other provinces with non-renewable resources revenue (i.e., Newfoundland and Labrador and Nova Scotia). These provinces receive payments from the Federal Government to compensate them for decreases equalization payments (referred to as equalization-offset payments in this Report).[13] For these two provinces, increases in their own-source offshore petroleum revenue have not resulted in decreases in Federal Government transfers.

[13] Under various agreements, the Federal Government compensates Newfoundland and Labrador and Nova Scotia for lost equalization payments resulting from higher offshore oil revenue.

Status of previous recommendations on summary-level financial reporting practices

Our Office has published "Understanding the Finances of the Government" as a separate report since 1997. In these reports, we have discussed the need for legislators and the public to receive timely and understandable financial information on the entire government to assess and debate the Government's performance. We have continually reminded legislators that only the Summary Financial Statements (SFS) provide the full financial picture of the Government.

We have also made numerous suggestions and recommendations to encourage the Government to improve its financial reporting practices. Since 1997, the Government has taken many positive steps. However, more work remains.

In this section, we provide an update on the status of four recommendations that were outstanding from our previous reports. At July 31, 2009, the Government made little to no progress on implementing three of the four recommendations and has implemented one recommendation.

Below, we describe each recommendation, set out the Government's progress since our last report towards their implementation, and explain why the recommendation remains important.

Primary basis for reporting financial plans and results

In our 2008 Report – Volume 2, we recommended the Government use the summary reporting entity as the primary basis for reporting its financial plans and results. As reported in its First Report of the 26th Legislature (dated March 25, 2009), the Standing Committee on Public Accounts (PAC) did not agree with this recommendation.

The Government's primary focus for reporting on its financial results remains the financial plans and activities of the General Revenue Fund (GRF). The following examples show this focus.

The Government consistently places the GRF's financial results before those of the entire government (SFS) in its key publications and publishes more analysis and detail on the GRF than the SFS (i.e., Public Accounts 2008-09: Volume 1: Main Financial Statements, Saskatchewan Provincial

Budget 2009-10 Saskatchewan: Strong and Steady, and June 25, 2009 news release[14]). Some financial publications focus solely on the GRF such as the Government's first and third quarter financial reports. Comments of Government members to media such as "Saskatchewan ...still hopes to post an overall budget surplus"[15] and "There'll be some things (where) we have to find some efficiencies."[16] refer to the GRF budget and changes in the activities of Government agencies who are funded from the GRF (e.g., ministries).

For 2009-10, the Government has planned deficit of $24.8 million for the entire Government and a planned surplus of $424.5 million for the GRF.[17] The Government can manage the financial results of the GRF by deciding the amount and timing of transfers to and from other government agencies. For example, the Government reduced the GRF's 2008-09 financial results by deciding not to transfer its planned special dividend from Crown Investments Corporation of Saskatchewan of $185 million[18] and improved those results by transferring $419 million from the Growth and Financial Security Fund.[19]

As noted in our 2008 Report – Volume 2, the Government's focus on the GRF is inconsistent with the practices of other provincial governments who focus primarily on the results of the entire Government. Also, the continued focus on the GRF financial results causes confusion and misunderstanding about the true financial picture of the Government.

Content of summary financial plan (budget)

In our 2008 Report – Volume 2, we recommended the Government include a statement of operations with estimated revenue and expenses in its financial budget. As reported in its First Report of the 26th Legislature (dated March 25, 2009), PAC did not concur (agree) with this recommendation.

In 2008-09, the Government published its 2009-10 Summary Financial Budget Details as part of the *Saskatchewan Provincial Budget: 09-10:*

[14] Government of Saskatchewan. June 25, 2009 News Release. *2008-09 Public Accounts show stellar year for Saskatchewan.*
[15] Saskatchewan hurt by recession but still expects surplus, *The Globe and Mail*, August 14, 2009.
[16] Drop in revenues will affect budget, *The Star Phoenix*, August 13, 2009, p. A1.
[17] Government of Saskatchewan. (March 2009). *Saskatchewan Provincial Budget 2009-10 Saskatchewan: Strong and Steady, Budget Summary,* Regina. (pp. 45, 83).
[18] *Public Accounts 2008-09: Volume 1: Main Financial Statements.* (p. 70).
[19] Ibid. (pp. 10, 50).

Saskatchewan: Strong and Steady: Budget Summary. Unlike the summary financial plans of every other provincial government, this Summary Financial Budget does not include any detail on the Government's planned revenue and expenses. The summary-level budgets of all other provinces set out expected revenue by type and expenses by program category.

Because the summary budget does not provide this level of information, it does not set out where and how the Government plans to collect and spend public money.

Providing detail on revenue and expenses would assist legislators and the public in understanding the services the Government plans to deliver and how the Government plans to pay for those services.

Content and timing of interim reporting of financial information

In our 2007 Report – Volume 2, we recommended the Government publish actual and forecasted results compared to its financial plan for the entire Government in each quarter.

In 2008-09, consistent with prior years, Saskatchewan published its Mid-Year Report including summary statements of surplus and debt. The content of summary financial information in this Report remained virtually unchanged from the prior year's report. While this Report includes forecasted results for the year, it does not contain actual financial results to date.

As reported in its First Report of the 26th Legislature (dated March 25, 2009), PAC did not agree with the above recommendation and made its own recommendation that focused on the GRF.[20] At the November 26, 2008 PAC meeting, Ministry of Finance officials noted its plans to include, in the 2009-10 Mid-Year Report, actual financial results of the GRF for the first six months in addition to forecast for the year. Inclusion of actual GRF financial results could be a first step towards providing similar information for SFS in future years.

[20] The Standing Committee on the Public Accounts recommended that the Ministry of Finance be directed to review the implications of reporting actual results with the projected results for the General Revenue Fund on a quarterly basis.

Publishing periodic comparisons of actual to forecasted results would help legislators and the public assess the Government's progress in achieving its summary financial budget.

Financial statement discussion and analysis

In our 2006 Report – Volume 2, we recommended the Government publish financial statement discussion and analysis along with its audited Summary Financial Statements. As reported in its First Report of the 26th Legislature (dated March 25, 2009), PAC agreed with this recommendation.

For the second year in a row, Public Accounts 2008-09: Volume 1 includes financial statement discussion and analysis based on the audited Summary Financial Statements. The Government has significantly improved the content of the analysis included in this report. Improvements include a 10-year trend of interest costs (debt charges), five-year trends on key financial statement items, useful discussion of risks and uncertainties, and all but one of the key indicators of the financial condition of the Government (i.e., net debt to gross domestic product). We encourage the Government to include this indicator in future reports. Other areas it may wish to include in future reports are in-depth analysis of trends and financial indicators, longer trends (e.g., ten to fifteen years), and interprovincial comparisons.

As noted in our past report, budget to actual variance analysis at the summary level is limited because of the brevity of the information, the Government includes in its summary financial budget.

Appendix 1 – Glossary of key terms

Annual surplus (deficit) – is the difference between revenue and expenses in one year.

Accumulated surplus (deficit) – is the sum of all annual deficits and surpluses to date. The accumulated surplus (deficit) is the difference between the total liabilities and the total assets.

Amortization – is the amount a tangible capital asset is reduced each year to reflect its loss of value through age and use, sometimes referred to as depreciation.

Commodity – is a good exchanged in trade. Usually refers to raw materials and agricultural products traded principally based on price.

Consumer Price Index (CPI) – is a measure of the change in cost of living for consumers by looking at the general price of goods and services used by the average consumer. Goods and services include energy, food and beverages, housing, apparel, transportation, medical care, and entertainment.

Financial assets – are cash and other assets convertible to cash and not intended for use in the normal course of operations, but which could provide resources to pay liabilities or finance future operations. Examples of financial assets include investments in government business enterprises, marketable securities, and inventories for resale.

Financial condition – describes an organization's financial health in the context of the overall economic and financial environment.

Government business enterprises – are self-sufficient Crown corporations that have the financial and operating authority to sell goods and services to individuals outside of a government and to non-governmental organizations as their principal activity. Examples include SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority.

Government service organizations – are organizations controlled by a government that are not government business enterprises.

Gross domestic product (GDP) – is a measure of the value of the goods and services produced in a jurisdiction in one year.

Interest bite – measures interest costs as a percentage of revenue and is an indicator of the state of a government's finances. The indicator shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

Liabilities – are amounts owed. Liabilities include bonds and debentures, unfunded pension liabilities/obligations, and a variety of other payables and claims.

Net assets – is when total financial assets exceed total liabilities.

Net book value – the amount of net assets recorded in the books of accounts or financial statements. For example, the net book value of tangible capital assets is the recorded value of the assets less the total accumulated amortization related to those assets.

Net debt – is when the total liabilities exceed total financial assets.

Non-financial assets – are assets not readily convertible to cash. Examples include tangible capital assets, inventories for consumption, and prepaid expenses.

Own-source revenue – is the revenue raised by a provincial government from sources within the province and, thus, excludes Federal Government transfers.

Ratio – a comparison between two numbers. For example, the ratio of net debt per capita is the amount of net debt divided by the population. Any fraction, quotient, proportion, or percentage is a ratio.

Sinking funds – money set aside in investments for the repayment of debt.

Summary financial budget– is a report of the combined planned financial results of all organizations that a government controls and uses to provide goods and services to the public. Government organizations included in the statements include ministries, Crown corporations, agencies, boards, and commissions.

Summary financial statements – is a report of the combined actual financial results of all organizations that a government controls and uses to provide goods and services to the public. Government organizations included in the statements include ministries, Crown corporations, agencies, boards, and commissions.

Tangible capital assets – identifiable long-term assets that are acquired, constructed or developed, and held for use rather than for sale. Examples include land, highways, buildings, automobiles, computer hardware and software, but exclude inventories, crown land, and capital assets held by government business enterprises. Tangible capital assets are a key component in the delivery of government services and provide on-going value to the public.

Appendix 2 – Additional financial information and analyses

This appendix sets out additional financial information and analyses in the form of questions and answers. This information is intended to assist legislators, government officials, and the public to understand the Government's finances.

1. Which items significantly affected the Summary Financial Statements' current year results compared to prior year results?

In 2009, the Government's revenue increased by $2.5 billion and its expenses increased by $1.4 billion resulting in the annual surplus increasing by a record amount of $1.1 billion from last year.[21] Appendix 4 provides further detail on revenue and expenses.

In comparison to the prior year, the following items significantly contributed to the overall increase of $2.5 billion in revenue:

- Non-renewable resources revenue increased $2 billion because of a $0.9 billion increase in potash revenue because of higher prices, a $0.5 billion increase in Crown land sales resulting from record Crown land sales, and a $0.4 billion increase in oil revenue because of higher prices.

- Other own-source revenue increased $655 million because of a $430 million increase in gain on the sale of investments, and an $89 million increase in insurance revenue.

- Transfers from the Federal Government increased $159 million because of a $385 million combined increase in all types of federal transfers other than equalization, and a $226 million decrease in equalization transfers.

[21] *Public Accounts 2008-09: Volume 1: Main Financial Statements*. (pp. 26, 84, 112).

- Taxation revenue increased $13 million primarily because of higher revenue from provincial sales tax related to strong economic activity offset by decreased individual income and corporate income taxes resulting from the impact of tax cuts.

- Income for government business enterprises decreased $258 million primarily because Workers Compensation Board's net income decreased $119 million due to higher claim costs, SaskPower's net income decreased $75 million due to increased costs to generate power, and SaskEnergy's net income decreased $59 million due to increased cost of natural gas.

In comparison to the prior year, the following items contributed to the overall increase of $1.4 billion in expenses:

- Education expenses increased $481 million because of increases in transfers primarily to school divisions and for the Education Property Tax relief program.

- Health expenses increased $378 million primarily because of increases in salaries and benefits of $213 million and in operating costs and transfers of $151 million.

- Community development expenses increased $227 million mainly because of increased operating and infrastructure grants to municipalities.

- Agriculture expenses increased $207 million because of increased crop insurance costs resulting from additional reinsurance premiums and increased livestock grants.

- Transportation expenses increased $156 million mainly because of spending on road and bridge infrastructure.

2. How did the Government's actual results compare against its planned results for 2009?

Each year, the Government publishes its Summary Financial Budget (i.e., the summarized budget for the entire Government). Consistent with the past three years, the Government's actual

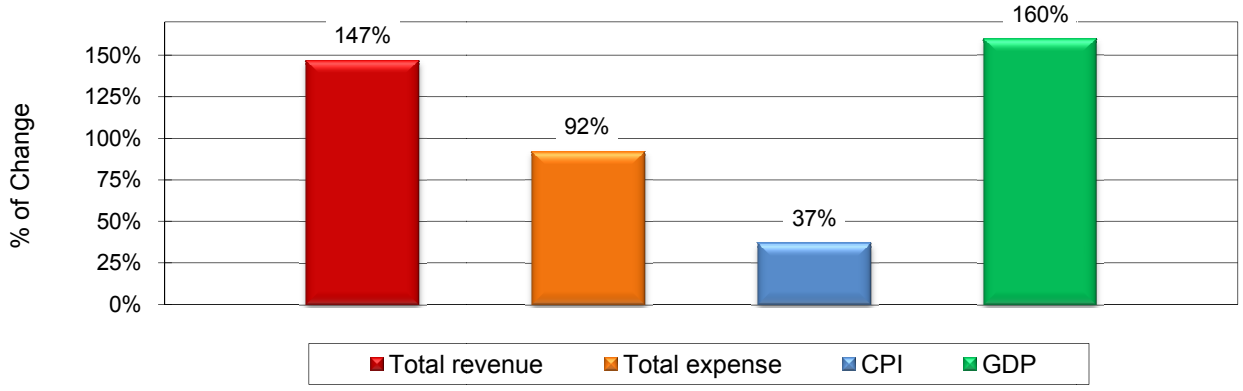
results for 2009 were considerably better than planned. It had estimated an annual deficit of $123 million for 2009.[22] It recorded an annual surplus of $2,968 million resulting in a difference between planned and actual of $3,091 million. Most of the difference resulted from higher than budgeted non-renewable resources revenue, taxation revenue, and federal government transfers.[23]

3. How did the Government's revenue raising and spending compare with changes in inflation?

Graph A compares, over a fifteen-year period ending in 2009, the percentage changes of the following: total revenue, total expenses, Saskatchewan's consumer price index (CPI), and gross domestic product (GDP). The report does not adjust the revenue, expenses, or GDP statistics for inflation.

Graph A shows that over this period "change in revenue" is lower than "change in GDP", and "change in expenses" exceeds "change in CPI". This is consistent with the prior years.

Graph A **Percentage of change from 1995 to 2009 of revenue, expense, CPI, & GDP**



[22] Government of Saskatchewan. (March 2008). *Saskatchewan Provincial Budget 2008-09 Ready for Growth, Budget Summary*, Regina. (p. 81).
[23] *Public Accounts 2008-09: Volume 1: Main Financial Statements*. (p. 10).

4. How did the Government's net debt per capita compare with other provinces?

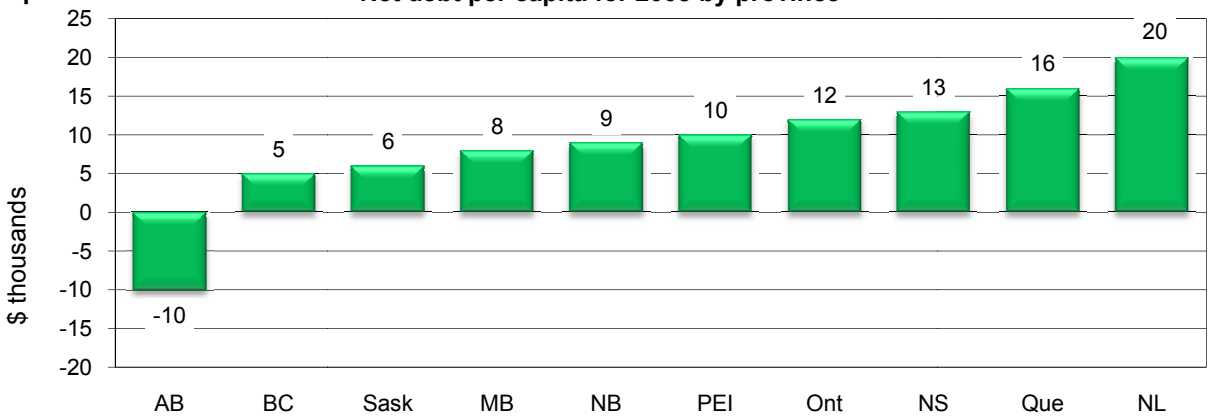
Graph B shows each provincial government's net debt as at March 31, 2008 divided by that province's population as of July 1, 2008.[24] A lower ratio is desirable.

Saskatchewan had the third lowest net debt per capita of the provinces at March 31, 2008. Only Alberta and BC had a better net debt per capita. This is consistent with recent years.

For the year ending March 31, 2009, Saskatchewan's net debt per capita was $3,431 per person. Information for most other provinces was not available at the time of writing this report.

Graph B

Net debt per capita for 2008 by province



5. What has been the annual percentage change in Saskatchewan's GDP over the last fifteen years?

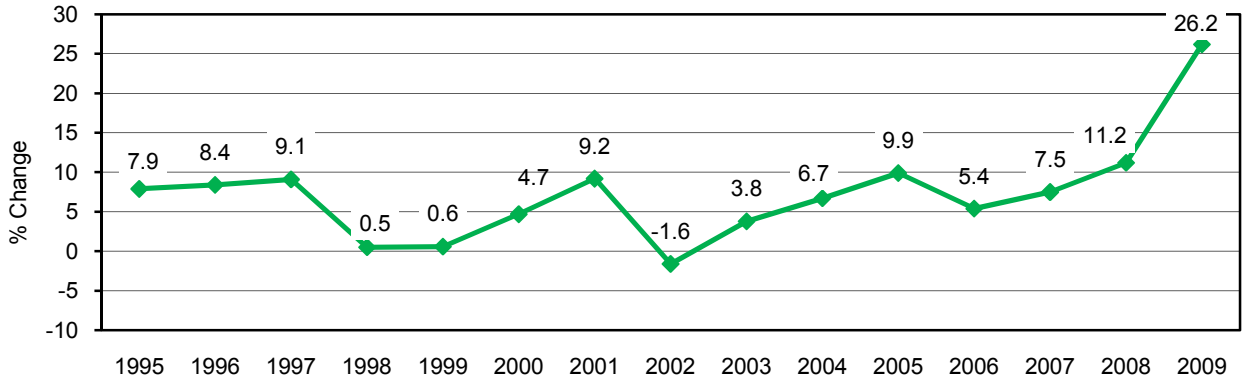
Graph C shows the annual percentage change in the Saskatchewan economy as measured by the change in GDP (unadjusted for inflation).[25] Saskatchewan's economy fluctuated significantly over the last fifteen years with strong growth since 2006.

[24] Statistics Canada http://www40.statcan.gc.ca/l01/cst01/demo02a-eng.htm (21 Aug. 2009).
[25] Saskatchewan Bureau of Statistics for GDP at December 31. GDP statistics reflect the previous calendar year since statistics are not available for twelve-month periods ending March 31. GDP is not adjusted for inflation.

Saskatchewan is a major exporter of goods and services; it exports about 70% of what it produces.[26] Key factors affecting the Saskatchewan economy that are beyond the Government's control include:

- the state of international economic conditions (primarily the United States because it consumes about 64% of Saskatchewan's international exports) [27]
- the value of the Canadian dollar (primarily in comparison to the United States dollar)
- the price of commodities (e.g., non-renewable resources such as oil, potash, and natural gas; and agriculture commodities such as crops and livestock)
- the Canadian interest rates[28]

Graph C **Annual % change in Saskatchewan's GDP, 1995 to 2009**



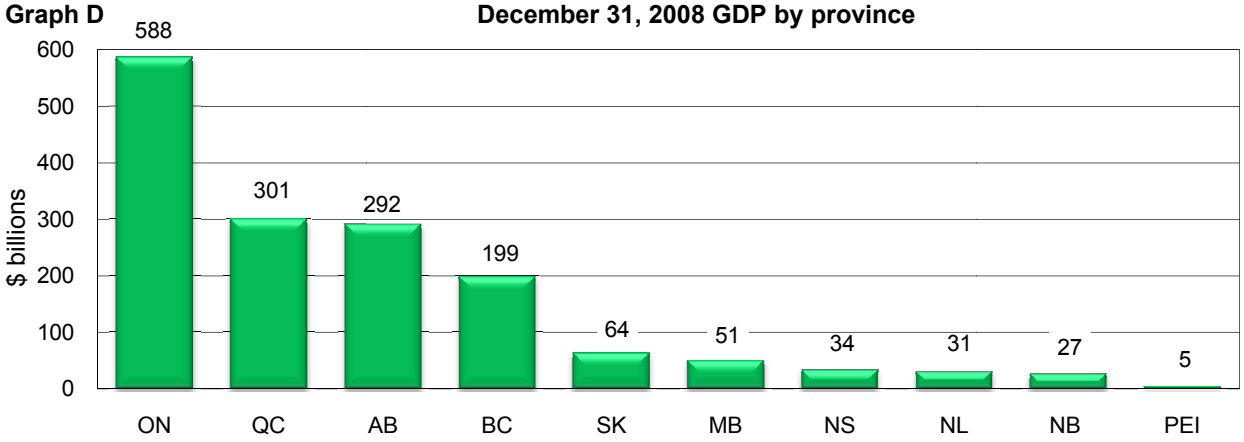
6. How did the size of Saskatchewan's GDP compare with other provinces?

Graph D shows that Saskatchewan's GDP at December 31, 2008 was the fifth largest. It was significantly lower than that of Ontario, Quebec, Alberta, and British Columbia, similar to Manitoba, and

[26] Government of Saskatchewan. (March 2009). *Saskatchewan Provincial Budget 2009-10 Saskatchewan: Strong and Steady, Budget Summary,* Regina. (p. 27).
[27] Ibid. (p. 27).
[28] Ibid. (pp. 27 -30).

higher than the Maritime provinces.[29] This is consistent with the prior year.

Graph D **December 31, 2008 GDP by province**

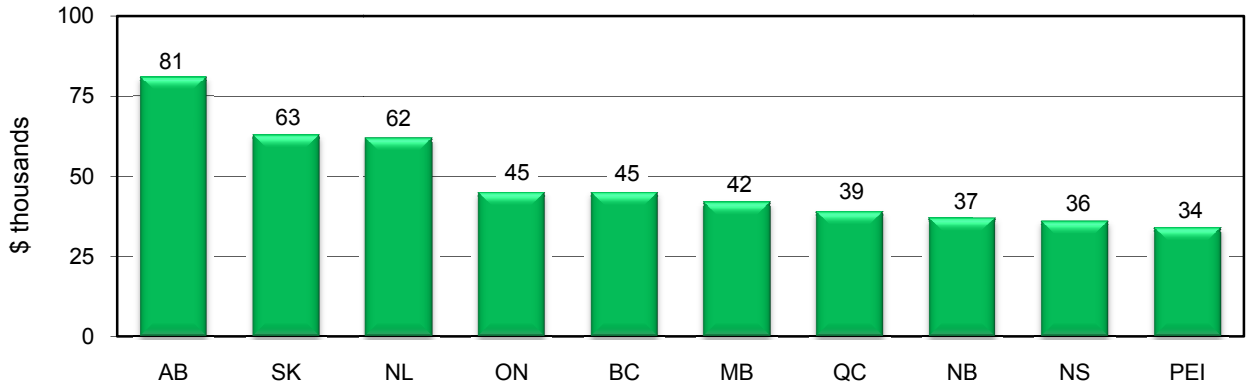


7. How did Saskatchewan's GDP per capita compare with that of other provinces?

Graph E shows GDP per capita using the provincial GDP at December 31, 2008 divided by the population of the province at July 1, 2008.[30] A high ratio is desirable.

Graph E shows that Saskatchewan had the second largest GDP per capita of the provinces. This reflects an improvement from third largest in the prior years. Saskatchewan had the second largest in 2005 and the third largest from 2001 to 2004.

Graph E **December 31, 2008 GDP per capita by Province**



[29] Statistics Canada, http://www40.statcan.ca/l01/cst01/econ15.htm. (21 Aug. 2009).
[30] Statistics Canada, http://www40.statcan.ca/l01/cst01/demo02a.htm. (21 Aug. 2009).

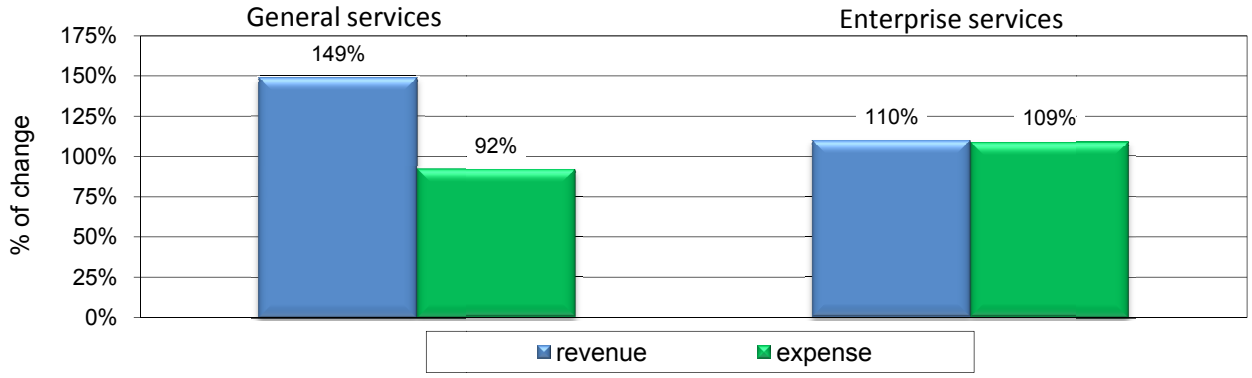
8. Has the Government changed the extent of activity it carries out through its government business enterprises?

Enterprise services reflect the financial activities of certain Crown corporations referred to as government business enterprises.[31] Graph F shows that from 1995 to 2009, enterprise services revenue increased 110% (1994 to 2008 – 121%) and related expenses increased 109% (1994 to 2008 – 110%).

General services include the financial activities of the rest of the Government. Over the same fifteen-year period, general services revenue increased 149% (1994 to 2008 – 105%) and general services expenses increased 92% (1994 to 2008 – 69%).

Graph F

Percentage of change of revenue & expense from 1995 to 2009



The above amounts are not adjusted for inflation. For further detailed information on trends in the Government's revenue and expenses, see Appendix 4.

9. To what extent have the sales of large investments affected the Government's financial results?

Periodically, the Government sells large investments or recognizes losses in the value of its investments. When sales occur, the Government record gains or losses in the year. For example, the Government recorded:

[31] The Government's business enterprises financial results are included in the *Public Accounts 2008-2009 Volume 1: Main Financial Statements*. (pp. 100-102).

- a $679.8 million gain on sale of shares in Saskferco Products Inc. in 2009
- a $250.1 million gain on sale of shares of NewGrade Energy Inc. in 2008
- a $48.5 million loss as a result of a write down of its interest in Meadow Lake Pulp Partnership Limited in 2006
- a $112 million gain from the sale of its remaining shares in Cameco in 2002
- a $69 million gain from the sale of its interests in Saturn Communications Limited and the Saskfor MacMillan Limited Partnership in 2000
- a $175 million gain from the sale of shares in Wascana Energy Inc. and the sale of the Bi-Provincial Upgrader in 1998
- a $615 million gain from the sale of shares of Cameco, LCL Cable, and ISM in 1996
- a $189 million loss from the sale of shares in Cameco in 1992

10. What impact has oil revenue had on the Government's revenue?

Saskatchewan oil trades on the world market. Oil prices and production fluctuate according to world supply and demand and are beyond the control of the Government.

Since 2001, the world price of crude oil has generally increased substantially.[32] Increased prices and production have resulted in considerable increases in the Government's related revenue. Oil revenue is part of own-source (non-renewable resources) revenue.

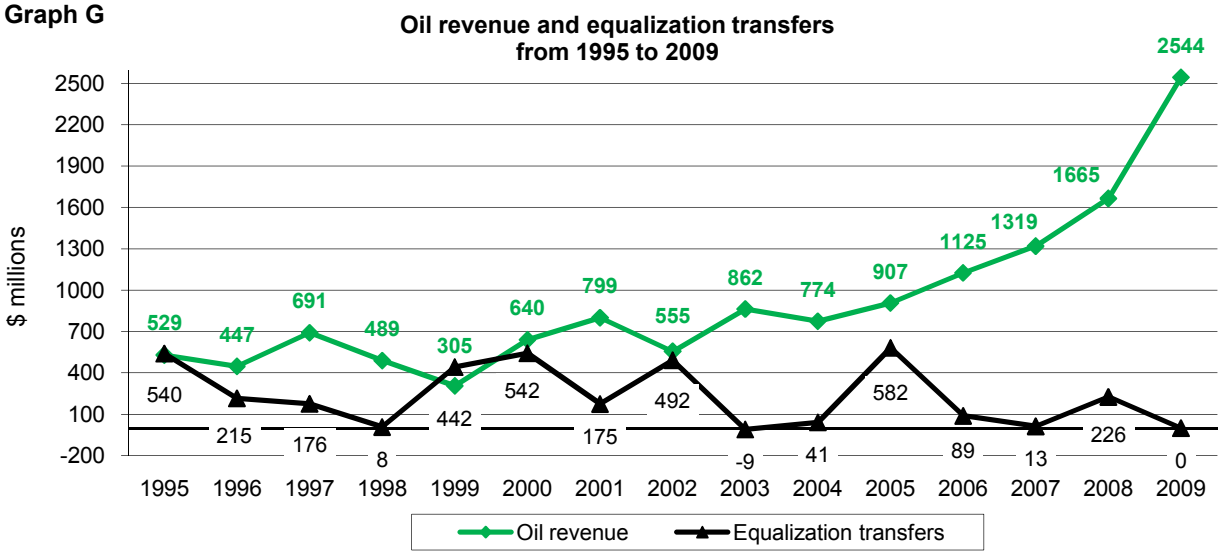
[32] Government of Canada. *Analysis in Brief - Boom Times: Canada's Crude Petroleum Industry,* Statistics Canada, Ministry of Industry (2006). (p. 6).

Graph G shows substantial growth in oil revenue since 2004 with significant year-to-year fluctuations from 1995 to 2004.

Changes in Saskatchewan's oil revenue[33] result in offsetting changes in revenue from federal equalization transfers because of the formula that the Federal Government uses to calculate equalization transfers.[34] For provinces with significant oil and gas revenue, increases in this revenue are almost completely offset by decreases in equalization transfers.[35,36]

Graph G shows that the increases in Saskatchewan's oil revenue have decreased the amount of federal equalization transfers it has received.[37] For inter-provincial comparisons, see Graph 13.

Graph G

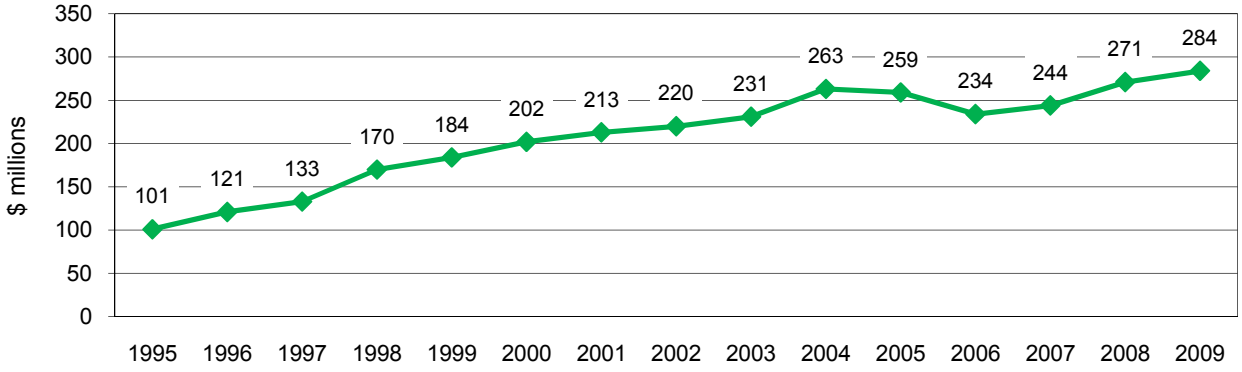


[33] Oil revenue includes revenue from Crown land sales.
[34] The Federal Government includes 33 revenue sources to calculate a province's revenue-generating capacity. About one-third of these sources directly relate to oil and gas revenue.
[35] *Equalization: Implications of Recent Changes*, Michael Holden, Parliamentary Information and Research Service, January 2006.
[36] As previously noted, Newfoundland and Labrador and Nova Scotia receive compensation for lost equalization payments resulting from higher offshore oil revenue.
[37] In 2005 and 2008, the Government received one-time equalization transfers of $582 million and $226 million, respectively.

11. What impact have gaming operations had on the Government's finances?

Graph H shows that since 1995, the Government has earned an increasing amount of income from gaming.[38] Over the last fifteen years, gaming income increased from $101 million in 1995 to $284 million in 2009.

Graph H **Income from gaming from 1995 to 2009**



12. What are the trends in the government's spending (by key sector)?

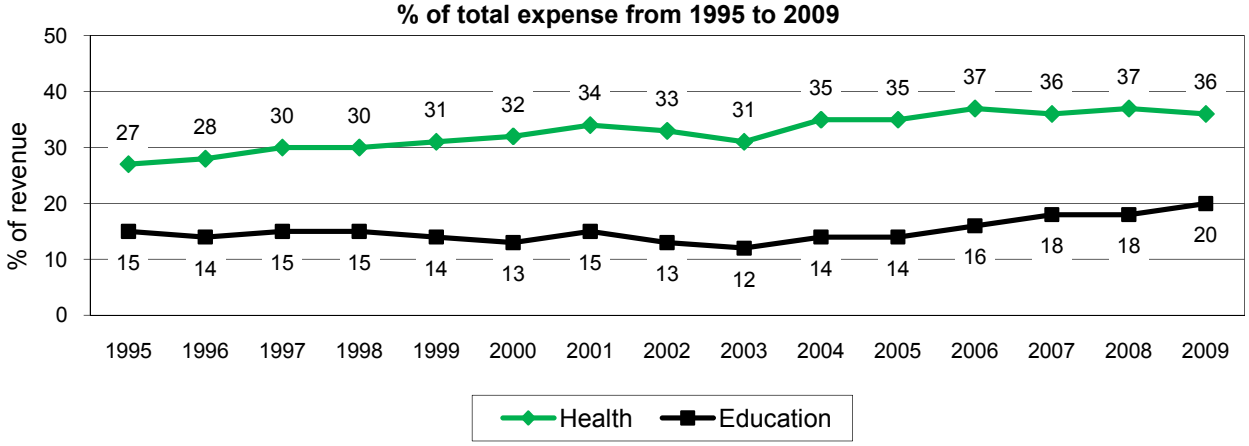
Graphs I to L look at fifteen-year spending trends for the Government's major services—health, education, social services and assistance, agriculture, and other. Graphs J and K show, over the last fifteen years, health costs increased faster than all other costs. Health costs remained between 35% to 37% of total expenses for the last six years, and education costs increased from 15% to 20% of total expenses over the same period. Graph L shows agriculture costs fluctuated significantly from 1995 to 2009 and remained between 5% and 6% of total expenses over the last four years. Question 13 explains why agriculture expenses fluctuate.

Also, the Government's 2008-09 expenses do not reflect the full cost of education. At March 31, 2009, the relationship between Saskatchewan school divisions and universities and the Government differed from other provinces. Unlike most provinces,

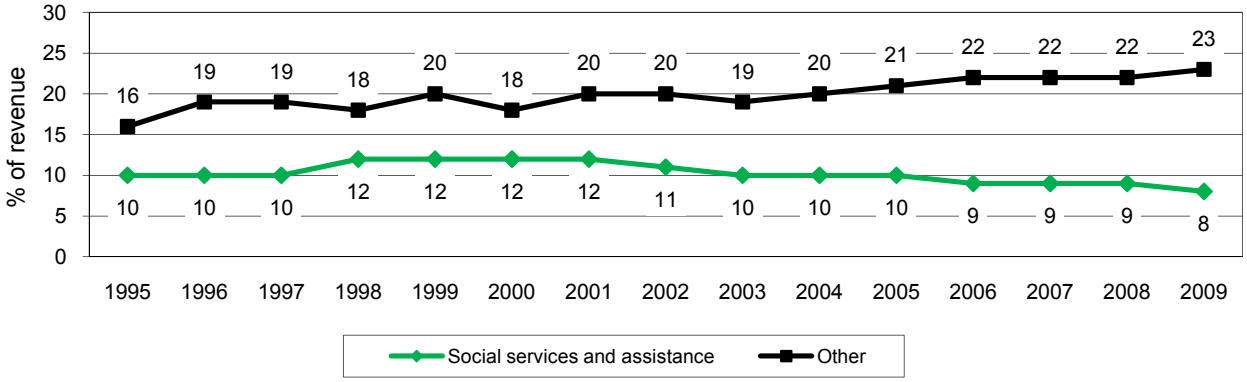
[38] The income from gaming is the gaming revenue (from the Liquor and Gaming Authority and the Saskatchewan Gaming Corporation) after deducting expenses for gaming operations.

Saskatchewan school boards and universities were not part of the Government's summary-level financial reports. As a result, the Government's education costs represented only the money that the Government provided to the education sector for the year.[39]

Graph I **The Government's health and education costs as % of total expense from 1995 to 2009**

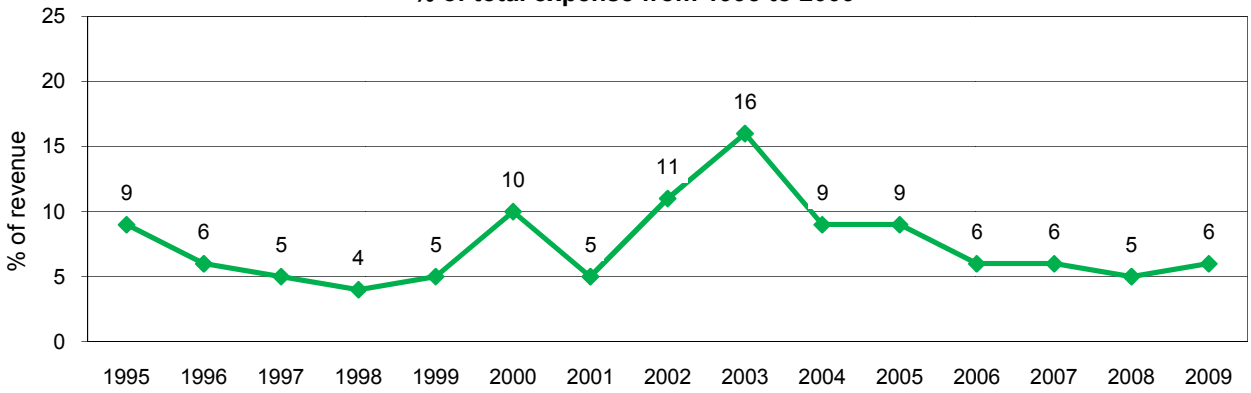


Graph J **The Government's social services & assistance and other costs as % of total expense from 1995 to 2009**



[39] The May 2009 amendment to *The Education Act* (Bill 89) changes the Government's relationship to the school divisions.

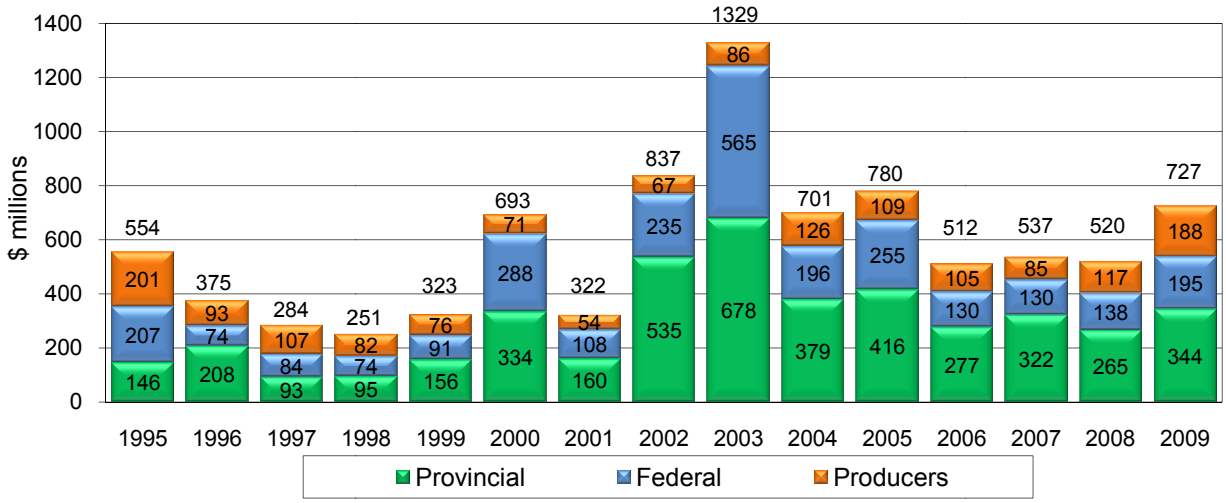
Graph K The Government's agriculture costs as % of total expense from 1995 to 2009



13. Why do agriculture expenses fluctuate so much?

Graph L shows fluctuations in the Government's agricultural expenses from 1995 to 2009. The graph also shows that producers (through premiums) and the Federal Government (through transfers) help pay for these expenses.

Graph L Agriculture expenses from 1995 to 2009



Agriculture expenses fluctuate for two main reasons.

First, the Government's key agricultural program, crop insurance, is designed in such a way that the Government's annual spending will fluctuate based on producers' eligibility in that year. Eligibility criteria are typically based on levels and quality of production and price of the commodity. Weather affects production levels and

quality. Commodity world prices reflect world supply and demand as well as trading subsidies paid by foreign governments.

Second, for agricultural services cost-shared with the Federal Government, what the Government records as revenue and expenses is based on which government is responsible to administer the program. Either the Federal Government or the Saskatchewan Government can administer cost-shared services.[40]

For example, if Saskatchewan administers the service, as with crop insurance, the Government's Summary Financial Statements include the total cost of the program. That is, the statements include money from the Federal Government and producers as revenue and all costs to deliver the program as expenses.

As such, the Government's agriculture expenses include the full cost of crop insurance (i.e., 2009: $-9 million, 2008: $25 million, 2007: $70 million, 2006: $-74 million, 2005: $143 million, 2004: $157 million, 2003: $488 million, 2002: $214 million, 2001 and 2000: combined cost $15 million).

If on the other hand, the Federal Government administers the service, as with the Canadian Agricultural Income Stabilization Program, the Saskatchewan Government's agriculture expenses include only the Government's share of the cost of the program.

14. How much are the Government's total liabilities including liabilities of government business enterprises?

Graph M provides a breakdown of the Government's total liabilities including liabilities of government business enterprises (this total is called gross liabilities) from 1995 to 2009. The Government's liabilities include bonds and debentures, unfunded pension liabilities, and other liabilities. Other liabilities include accounts payable, accrued interest, and unpaid claims for government insurance services.

[40] Per officials from the Ministry of Agriculture, the governments decide which level of government administers a service based on which level can administer the program more efficiently (e.g., can administer at a lower cost, or has experience in administering similar services).

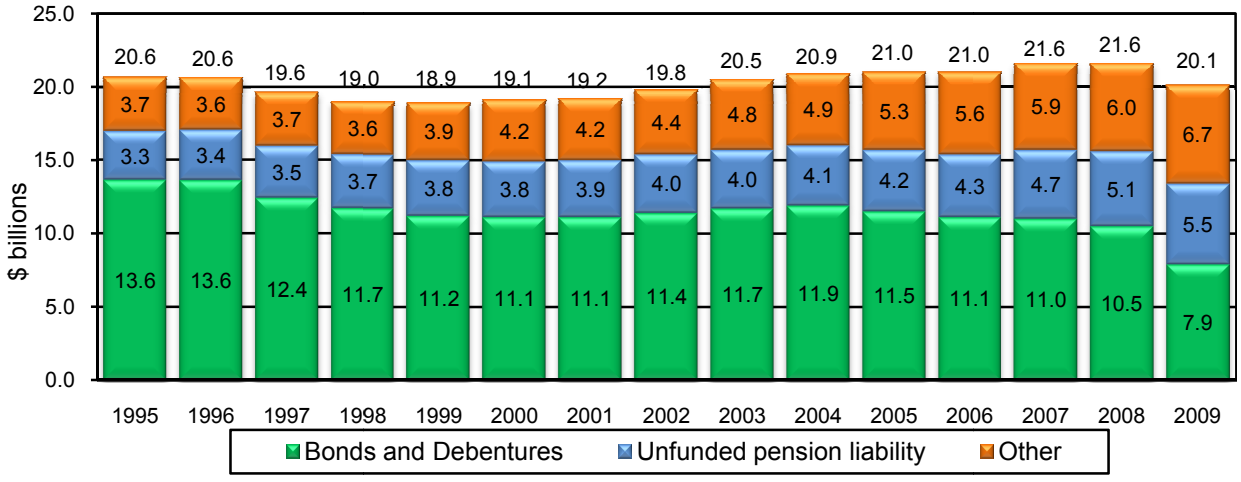
Graph M shows that amounts owed for bonds and debentures decreased from $13.6 billion in 1995 to $7.9 billion in 2009. These amounts are net of the Government's investments in sinking funds. The Government's investments in sinking funds increased from $0.4 million in 1995 to $3.4 billion in 2009. In 2009, the Government repaid about $766 million of bonds and debentures, borrowed an additional $37 million, and increased its sinking fund investments by $1,944 million.

Graph M shows other liabilities gradually increased over the last fifteen years. Other liabilities increased from $3.7 billion in 1995 to $6.7 billion in 2009.

Similar to other liabilities, graph M shows the unfunded pension liability has gradually increased since 1995. Amounts owed for unfunded pension liability increased from $3.3 billion in 1995 to $5.5 billion in 2009. As Chapter 13 of our 2006 Report - Volume 3 states, the Government plans to pay retirement benefits to pensioners when due rather than setting aside money beforehand.

On an overall basis, gross liabilities for 2009 decreased slightly from the prior year and over the last fifteen years.

Graph M **The Government's liabilities as at March 31 from 1995 to 2009 (including liabilities of Government business enterprises)**



15. How has Saskatchewan's credit rating changed over the last fifteen years?

Three major bond-rating services routinely rate the Saskatchewan Government's creditworthiness. They are Dominion Bond Rating

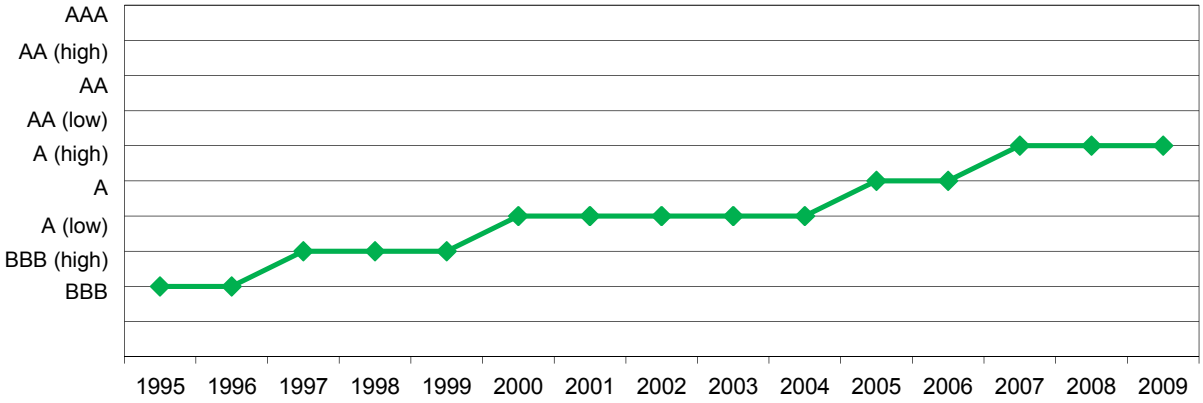
Service, Moody's Investors Service, and Standards & Poor's. Each has slightly different rating categories and criteria.[41]

Each of these services has given the Government improved credit ratings in recent years. Graph N shows the Government received better credit ratings from Dominion Bond Rating Service in various years and most recently in November 2006. Its rating improved from BBB in 1996 to the current high AA (low) in 2007. It remained unchanged in 2009.

Standards & Poor's last upgraded the Government's credit rating in November 2008 and Moody's Investors Service did so in November 2006. A higher credit rating means the Government can borrow at a lower cost and have more sources of borrowing.

Graph N

Dominion Bond Rating Service - credit ratings from 1995 to 2009 for Saskatchewan



16. How did the Saskatchewan Government's credit rating compare to the credit ratings of the other provincial governments?

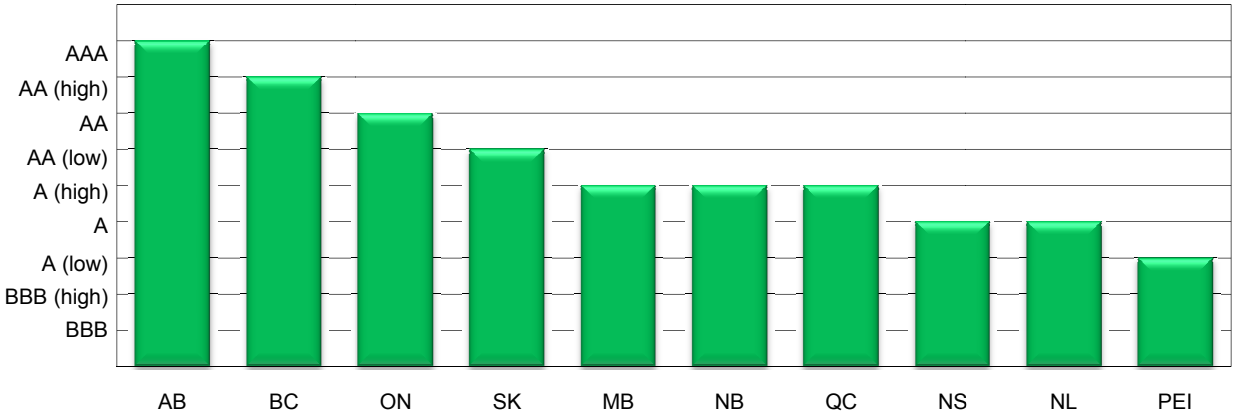
Graphs O to Q compare Saskatchewan's credit rating for long-term debt (i.e., bonds and debentures) to that of other provincial governments for each of the three credit rating services. The information in the graphs is based on the most recent credit rating available at the time of writing this report.

[41] Dominion Bond Rating Services, www.dbrs.com; Moody's Investor Service, www.moodys.com; and Standards & Poor's, www2.standardandpoors.com. (21 Aug. 2009). The rankings reflected in the graphs are for long-term debt (i.e., bonds and debentures).

These graphs also show that Saskatchewan's credit rating was lower than those of Alberta and British Columbia and similar to Ontario and Manitoba. For all three credit rating services, Saskatchewan surpasses the credit ratings of the remaining provinces. Saskatchewan's ranking relative to its counterparts has improved in recent years.

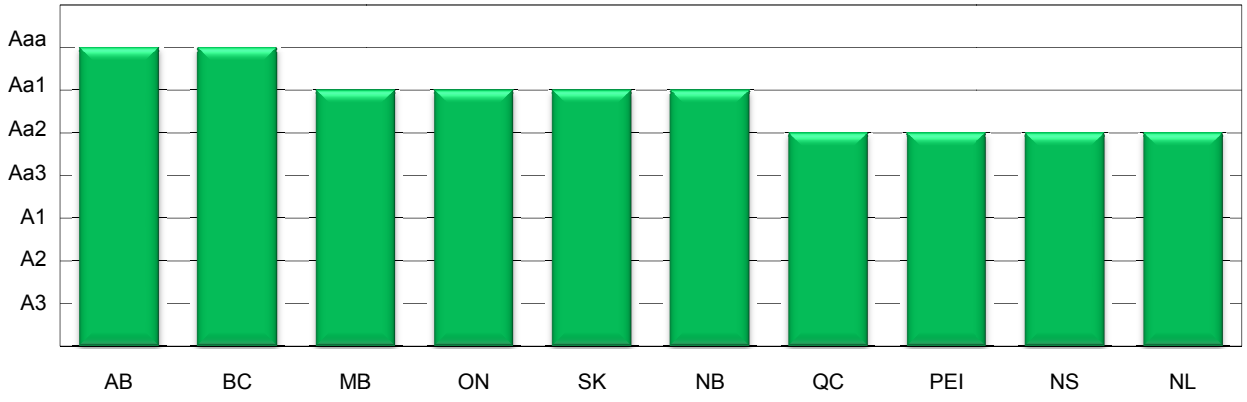
Graph O

Dominion Bond Rating Service - credit ratings as at July 31, 2009 by province



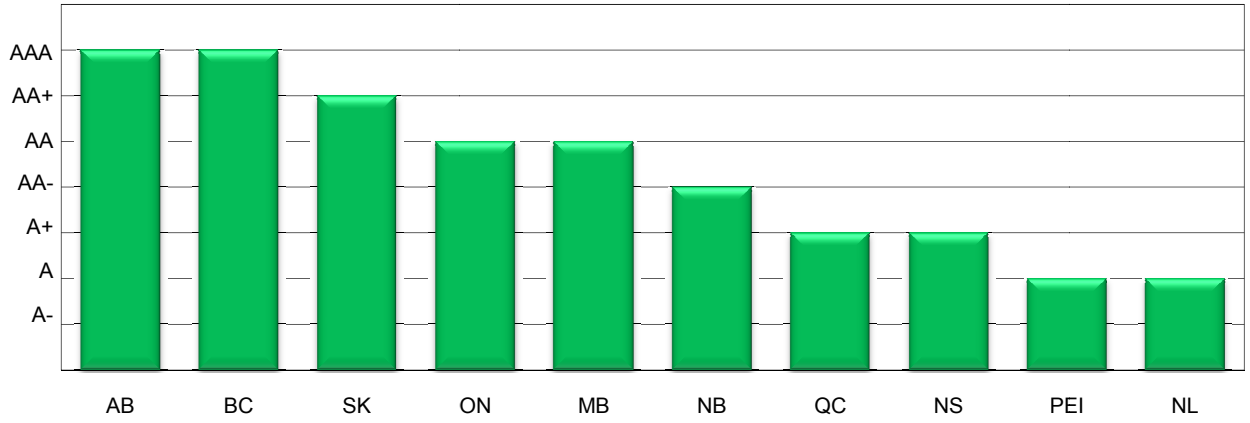
Graph P

Moody's Investors Service - credit ratings as at July 31, 2009 by province



Graph Q

Standard and Poor's - credit ratings as at July 31, 2009 by province



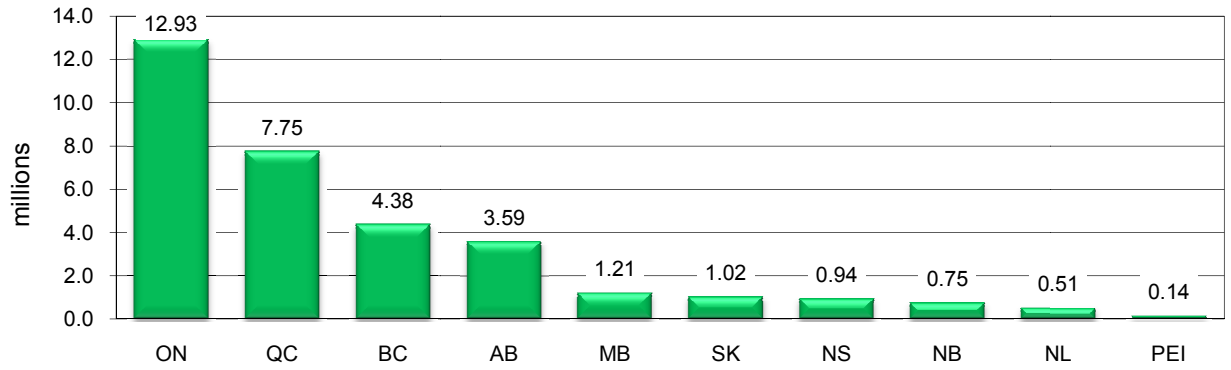
17. How did the size of Saskatchewan's population compare with other provinces?

At April 1, 2009, Saskatchewan's estimated population was 1,027,092 (2008 - 1,010,146).[42] Per Statistics Canada at April 1, 2009, the populations of all western provinces, Ontario, and Quebec grew from that of the prior year.[43]

As shown in Graph R, as at July 1, 2008, Saskatchewan's population has remained around one million – the sixth largest in Canada.[44] Its population continues to be comparable to Manitoba and Nova Scotia.

Graph R

Population as at July 1, 2008 by province



[42] Government of Saskatchewan. *Saskatchewan Bureau of Statistics Quick Facts, Saskatchewan Quarterly Population Report, First Quarter 2009.* http://www.stats.gov.sk.ca/pop/QPR%202009%20Q1.pdf (21 Aug. 2009).
[43] Ibid. http://www.statcan.gc.ca/daily-quotidien/090623/dq090623a-eng.htm (21 Aug. 2009)
[44] Statistics Canada CANSIM http://www40.statcan.gc.ca/l01/cst01/demo02a-eng.htm (21 Aug. 2009).

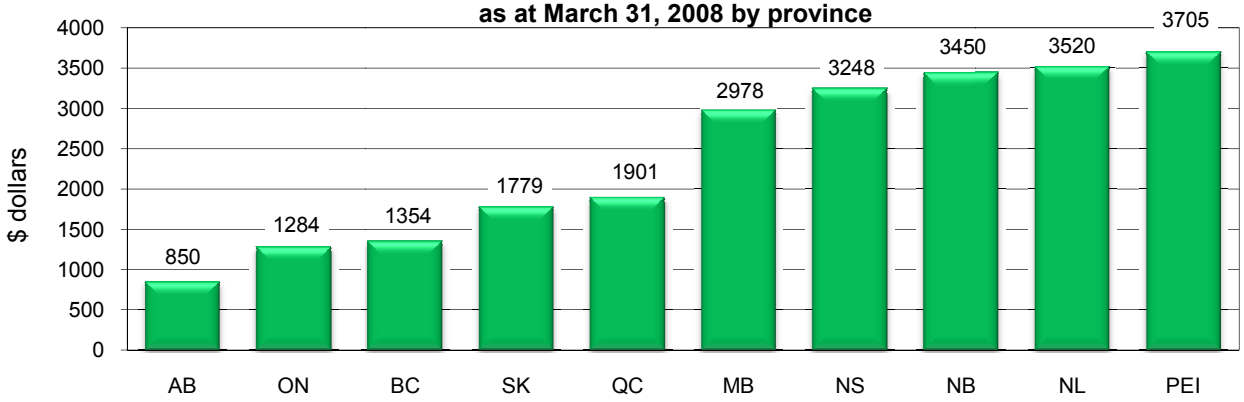
18. How did Saskatchewan's Federal Government transfers per capita compare with other provinces?

At March 31, 2009, Saskatchewan's Federal Government transfers per capita was $1,914.

As shown in Graph S, for the year ending March 31, 2008, Saskatchewan's Federal Government transfers per capita was the fourth lowest. Saskatchewan's ranking was fifth lowest in the prior year.[45]

Graph S

Federal Government transfers per capita as at March 31, 2008 by province



19. To what extent does the Government use investments in sinking funds to manage its debt?

Investments in sinking funds are a pool of money set aside by the Government to help repay the amount that it owes for debentures. The Government invests money on a regular basis throughout the life of its medium and long-term debentures.

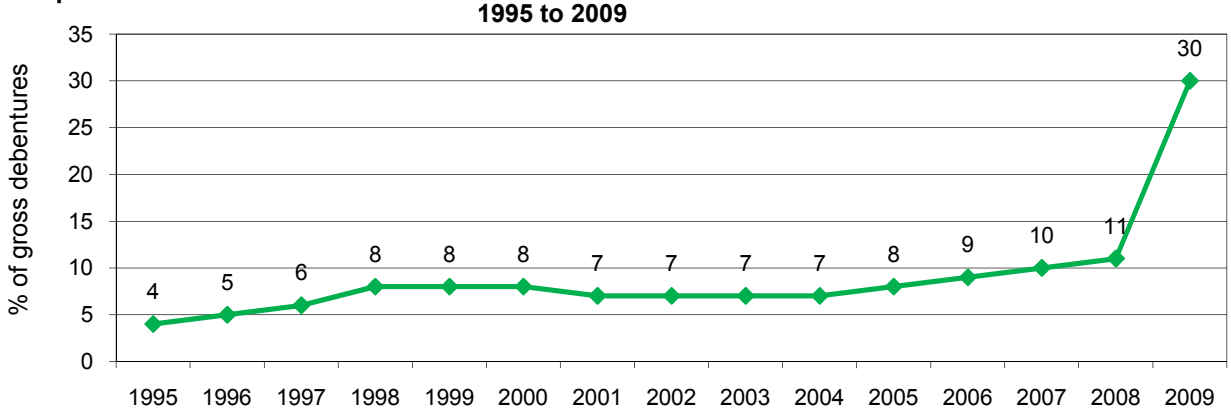
The Government's investments in sinking funds increased from $435 million with related gross debentures of $10.5 billion in 1995 to $3.4 billion with related gross debentures of $11.3 billion in 2009.

Graph T shows that investments in sinking funds as a percentage of gross debentures increased dramatically from 2008. Prior to 2009, investments in sinking funds as a percentage of gross debentures gradually increased from a low of 4 in 1995 to 30 in

[45] Ibid.

2009. This significant increase is because of the Government debt management strategy announced in the fall of 2008.[46] The Government has decided to set aside monies in sinking funds as a way to reduce its debt. The Government records its debentures net of its investments in sinking funds.

Graph T **Investments in sinking funds as % of gross debentures for 1995 to 2009**



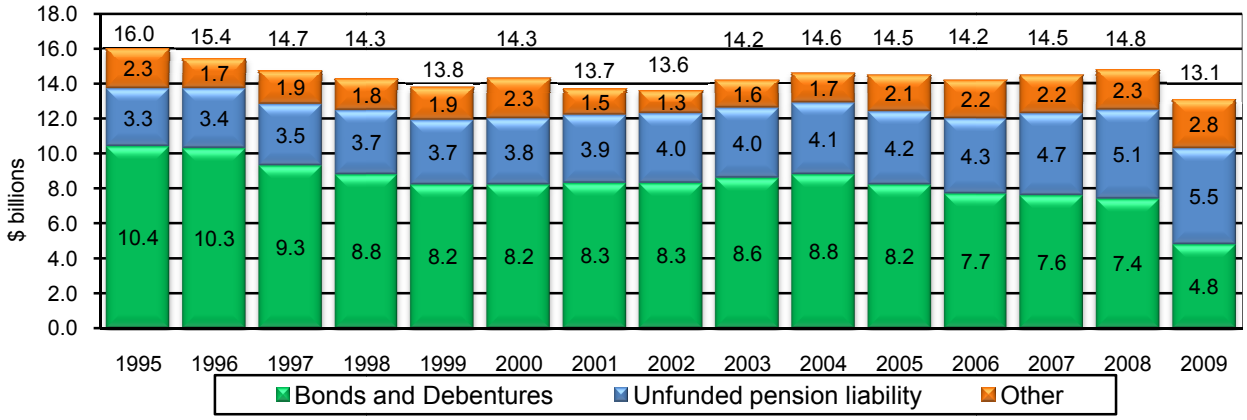
20. What are the trends in the Government's total liabilities excluding liabilities of Government business enterprises?

Total liabilities reflect the amount a government owes. The Government's total liabilities include bonds and debentures, unfunded pension liabilities, accounts payable, accrued interest, and unpaid claims for government insurance services. Total liabilities do not include liabilities of government business enterprises.

Graph U shows how much the Government owed each year over a fifteen-year period. The graph shows that total liabilities have declined slightly over the last fifteen years. Total liabilities decreased from $16.0 billion in 1995 to $13.1 billion in 2009. During this fifteen-year period, bonds and debentures decreased $5.6 billion, amounts owed for unfunded pension liabilities increased $2.2 billion and other liabilities have increased $0.5 billion.

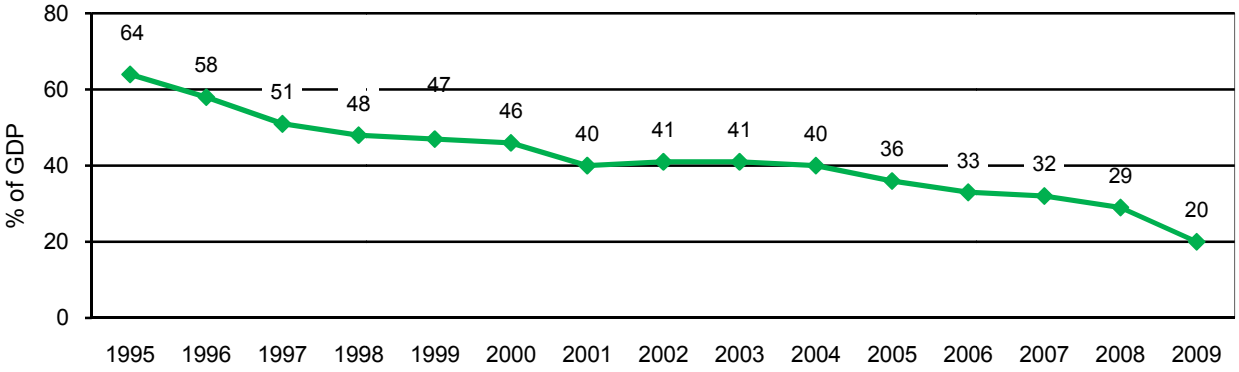
[46] Almost all of the Government's long-term debt is non-callable (i.e., cannot be paid off before its maturity).

Graph U **The Government's total liabilities as at March 31 from 1995 to 2009 (excluding liabilities of Government business enterprises)**



Graph V compares total liabilities to provincial GDP and shows a decline over the last fifteen years. Total liabilities as a percentage of provincial GDP decreased from 64% in 1995 to 20% in 2009. As Graph 3 shows, Saskatchewan's economy grew significantly over this period.

Graph V **The Government's total liabilities (excluding liabilities of Government business enterprises) as % of provincial GDP from 1995 to 2009**



Net debt is a more meaningful indicator of financial condition than total liabilities (see Graph 4 for further detail) because it takes into account financial assets available that could be used to repay liabilities.

Appendix 3 – Methodology and data limitations

Methodology used

This report uses financial indicators developed by The Canadian Institute of Chartered Accountants (CICA) to assess the finances of governments.[47] Financial indicators, expressed as ratios or trends, provide a picture of what has occurred over a period of years and facilitate comparisons.

The CICA has grouped its indicators into three categories that measure a government's financial health in the context of its overall economic and financial environment. The indicators measure:

- whether a government is living within its means (sustainability)
- how well a government can respond to rising commitments by either expanding its revenue or increasing its net debt (flexibility)
- how much a government relies on revenue sources beyond its direct control or influence, such as money from the Federal Government (vulnerability)

Where possible, this report provides fifteen years of indicator data. Providing data for many years allows readers to observe the general direction of the indicators over time and identify trends. Data for a specific year provides a snapshot of the indicators, whereas trends provide information that is more meaningful.

This report also compares Saskatchewan's finances for selected indicators to those of other provinces. Prior year data is used (i.e., for the year ending March 31, 2008) because current year data is not available from most other provinces at the time of writing this report.

Source of data and its limitations

The financial indicators in this report use key financial information from provincial governments' audited summary financial statements. Economic information is obtained from Statistics Canada and the Saskatchewan

[47] *Statement of Recommended Practice 4 - Indicators of Financial Condition*, CICA, 2009.

Bureau of Statistics. Comparative data presented is not adjusted for inflation.

For the following reasons, data from other provinces is not fully comparable.

First, in some cases, other provincial governments record their financial activities different from Saskatchewan. Where public information is available, we have adjusted the financial information of those provinces to conform to Saskatchewan. However, information is not always publicly available.

Second, how a provincial government organizes itself can affect what financial activities are included within its summary financial statements. For example, some provinces include the financial activities of school boards and universities in their summary financial statements, whereas Saskatchewan does not. It is not feasible or appropriate for us to adjust data for these types of differences.

Third, on occasion, the financial information of other provinces may not be reliable.[48]

Furthermore, it is not feasible to adjust data for differences in the characteristics of provincial economies. For example, own-source revenue for some provincial governments (such as Alberta and Saskatchewan) includes significant revenue from non-renewable resources such as oil and gas.

[48] For the year ending March 31, 2009, the auditor's report on the summary financial statements of the Government of British Columbia cites various problems.

Appendix 4 - Detailed revenues and expenses - 1991 to 2009

(in $ millions)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenue																			
Taxes	1,988	2,163	2,276	2,536	2,643	2,854	3,125	3,116	3,155	3,224	3,010	2,834	3,167	3,202	3,388	3,769	4,134	4,420	**4,433**
Federal government transfers	1,603	1,706	1,447	1,488	1,512	1,046	853	675	1,088	1,553	1,029	1,518	1,414	1,290	1,995	1,459	1,552	1,807	**1,966**
Non-renewable resources	423	323	393	453	718	673	907	781	622	943	1,486	1,092	1,446	1,338	1,676	2,069	2,046	2,640	**4,612**
Income from government enterprise	362	266	249	310	313	590	549	568	652	582	642	426	453	734	843	718	701	943	**685**
Other	932	952	948	775	899	1,260	791	983	784	910	926	1,079	1,000	1,124	1,320	1,453	1,434	1,923	**2,578**
Total Revenue	5,308	5,410	5,313	5,562	6,085	6,423	6,225	6,123	6,301	7,212	7,093	6,949	7,480	7,688	9,222	9,468	9,867	11,733	**14,274**
Expense																			
Agriculture	827	1,183	950	693	554	375	284	251	323	693	322	837	1,329	701	780	512	537	520	**727**
Community development	143	107	104	145	160	158	148	152	160	158	176	204	236	240	231	295	318	348	**575**
Debt charges (interest costs)	1,053	1,147	1,299	1,285	1,338	1,305	1,224	1,175	1,111	1,027	949	900	898	931	905	843	819	821	**804**
Economic development	86	125	81	79	79	148	132	96	110	109	150	141	109	138	277	371	223	258	**229**
Education	847	871	883	849	874	828	853	855	886	901	1,019	987	989	1,062	1,208	1,414	1,692	1,787	**2,268**
Environment and natural resources	184	20	87	151	116	192	142	119	202	168	149	156	243	186	154	174	217	240	**270**
Health	1,659	1,641	1,614	1,553	1,622	1,623	1,682	1,761	1,931	2,174	2,223	2,424	2,558	2,745	2,944	3,222	3,345	3,651	**4,029**
Protection of persons and property	262	274	248	178	187	195	190	203	230	262	266	299	303	317	319	356	399	434	**444**
Social services and assistance	446	507	547	550	584	588	586	700	747	785	783	784	794	792	821	827	843	900	**929**
Transportation	283	242	201	212	228	236	248	273	272	273	303	337	328	291	317	329	368	417	**574**
Other	270	969	199	148	202	212	191	212	260	256	292	363	347	385	422	446	531	484	**457**
Total Expense	6,060	7,086	6,213	5,843	5,944	5,860	5,680	5,797	6,232	6,806	6,632	7,432	8,134	7,788	8,378	8,789	9,293	9,860	**11,306**
Annual surplus (deficit)	-752	-1,676	-900	-281	141	563	545	326	69	406	461	-483	-654	-100	844	679	574	1,873	**2,968**

[1] 1991 information is unaudited. 1991 was the first year that the Government produced Summary Financial Statements. Information prior to 1991 is not available.

Prior year amounts are restated for change in accounting for long-term debt not borrowed specifically on behalf of government business enterprises and comparatives have been reclassified to conform to current year's presentation.

Appendix 5 – Listing of graphs

The following lists graphs included in the body of this report.

1 The Government's annual surplus or deficit from 1995 to 2009
2 The Government's total spending by type as at March 31, 2009
3 Saskatchewan's GDP and the Government's net debt from 1995 to 2009
4 The Government's net debt as % of provincial GDP from 1995 to 2009
5 Net debt as % of GDP as at March 31, 2008 by province
6 The Government's own-source revenue as % of GDP from 1995 to 2009
7 Own-source revenue as % of GDP as at March 31, 2008 by province
8 Net book value of tangible capital assets as a % of cost of tangible capital assets from 2001 to 2009
9 The Government's interest costs as % of total revenue from 1995 to 2009
10 Interest costs as % of total revenue as at March 31, 2008 by province
11 Revenue from Federal Government transfers from 1995 to 2009
12 Federal Government transfers as % of Saskatchewan Government own-source revenue from 1995 to 2009
13 Federal Government transfers as % of own-source revenue as at March 31, 2008 by province

The following lists graphs included in Appendix 2 of this report.

A Percentage of change from 1995 to 2009 of revenue, expense, CPI, & GDP
B Net debt per capita for 2008 by province
C Annual % change in Saskatchewan's GDP, 1995 to 2009
D December 31, 2008 GDP by province
E December 31, 2008 GDP per capita by province
F Percentage of change of revenue & expense from 1995 to 2009
G Oil revenue and equalization transfers from 1995 to 2009
H Income from gaming from 1995 to 2009
I The Government's health and education costs as % of total expense from 1995 to 2009
J The Government's social services & assistance and other costs as % of total expense from 1995 to 2009
K The Government's agriculture costs as % of total expense from 1995 to 2009
L Agriculture expenses from 1995 to 2009
M The Government's total liabilities as at March 31 from 1995 to 2009 (including liabilities of Government business enterprises)
N Dominion Bond Rating Service – credit ratings from 1995 to 2009 for Saskatchewan
O Dominion Bond Rating Service – credit ratings as at July 31, 2009 by province
P Moody's Investors Service – credit ratings as at July 31, 2009 by province

Q Standards and Poor's – credit ratings as at July 31, 2009 by province
R Population as at July 1, 2008 by province
S Federal Government transfers per capita as at March 31, 2008 by province
T Investments in sinking funds as % of gross debentures for 1995 to 2009
U The Government's total liabilities as at March 31 from 1995 to 2009 (excluding liabilities of Government business enterprises)
V The Government's total liabilities (excluding liabilities of Government business enterprises) as % of GDP from 1995 to 2009