Intelligence MEMOS

From: William B.P. Robson and Nicholas Dahir

To: Canadian Budget Observers

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Re: **CANADIANS DESERVE BETTER BUDGETS**

Canada's federal, provincial and territorial governments are gearing up for another year's budgets, which inevitably feature clashes over taxation and spending priorities, and, this year, at least one election. Some principles, though, should unite everyone, including the need for government budgets to be accessible, timely and reliable.

The C.D. Howe Institute's annual report card on Canada's senior government makes no judgments about their fiscal priorities. It is about how well their budgets and financial statements present the numbers, and as the report reveals, too many governments come up short.

Budgets are statements of priorities and tools for accountability. Citizens and legislators deserve a clear picture of governments' plans and how results compared to those plans. Budgets that bury the key numbers dozens or even hundreds of pages deep, that do not show changes from the recent past and also hide contingency reserves do not provide that picture.

The numbers need to be reliable, capturing everything the government controls. Excluding parts of programs, such as healthcare in the case of Nova Scotia, or types of expense, such as the federal government's moving of pension costs below the line, presents a misleadingly partial picture.

Newfoundland and Labrador, Manitoba, Saskatchewan and British Columbia present their key numbers within the first 10 pages of their budgets, making them hard to miss. The financial statements of all provinces and territories present their consolidated numbers early, clearly and on a single page. All Canadian senior governments should adopt this practice for their budgets as well.

Budgets are also more meaningful when they compare the current year's plan to both the most recent financial statements and the projected results for the year about to end. This practice allows readers to answer straightforward questions such as: How much more do we plan to spend this year compared to recent years?

The answer to that question should be obvious when looking at a budget. Yet half of Canada's senior governments do not include the latest actual results. They should follow the example of Ontario and the territorial governments, whose budgets contain this information and are far more useful.

Governments could also handle uncertainty more transparently. Unrealistic revenue and expense forecasts undermine the credibility of budget projections and risk readers dismissing them as irrelevant.

Governments that include explicit contingency reserves, such as Prince Edward Island and Quebec, are much more transparent. When reserves are modestly sized, clearly labelled and explained in the budget documents, they provide more insight for the reader about how their government is handling the uncertainty inherent in budgeting. Nine of Canada's 14 senior governments present explicit contingency reserves; the remaining five should follow suit.

Timeliness is also critical. Senior governments' fiscal years run from April 1 to March 31. Budgets should appear long enough before the year begins to give legislators time to review them – and the accompanying estimates that show specific programs requiring a vote. Budgets presented after the fiscal year has begun, when money is raised and spent without proper parliamentary oversight, violate a fundamental principle of representative government.

The proroguing of parliament means we will not get a timely federal budget this year, which is doubly unfortunate. The federal government should set a good example. Moreover, provinces benefit from knowing the federal government's plans when framing their own budgets, and municipalities, in turn, benefit from knowing provincial plans. Legislation requires Alberta to present its budget in February – a deadline it regularly achieves – while New Brunswick has historically delivered its budget in January. If they can do it, so can all of Canada's senior governments.

As budget preparation for 2025 gets under way, governments in Canada should adopt the best practices from each other and from their own year-end financial statements. Timely, clear and transparent budgets are not only achievable but also inexpensive to implement.

Examples are already out there, and adopting these improvements would strengthen public trust, encourage civic engagement and promote better fiscal management.

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To send a comment or leave feedback, email us at blog@cdhowe.org.

A version of this Memo first appeared in The Globe and Mail.