

Issue in Focus

April 2012

Saskatchewan's Debt Reporting

Core Issue: There are two sets of financial statements through which the Government of Saskatchewan reports its debt: the General Revenue Fund (GRF) financial statements and the Summary Financial Statements (which represent the consolidated financial statements of the Government of Saskatchewan). The current practices associated with the GRF, including the use of the Growth and Financial Security Fund and the transfers of Crown corporation dividends, as well as the ongoing public reporting on the two sets of financial statements, creates confusion and hinders public awareness and understanding of the government's true fiscal position.

The Importance of Provincial Debt to Businesses

The impact of Saskatchewan's debt load is felt by every taxpayer in the province. A higher provincial debt means higher interest costs, which generally translate into higher taxes and fewer public services. Reducing the province's debt frees up tax dollars and helps create a more stable and attractive tax environment, which benefits all businesses and residents of the province over the long term.

Clarity over Saskatchewan's true debt load has been a source of ongoing debate in the province. Questions regarding the treatment of Crown corporation debt, other government business enterprise debt, and future pension obligations mean that a variety of "debt totals" are presented to the public. This confusion makes it difficult to compare Saskatchewan's debt load to the rest of Canada and to successfully evaluate the fiscal performance of the province. The business community and engaged citizenry need clearer access to this information.

Background

In Saskatchewan, the government recognizes public debt as consisting of government general debt, Crown corporation general debt, and government business enterprise specific debt.¹ Government business enterprise specific debt reflects the "amounts borrowed specifically for self-sufficient government organizations (e.g., utilities) which are expected to be repaid from cash flows generated by these organizations."² In addition to these types of debt, the province also has future pension

Unsure about a term or phrase?
Please see the glossary in the back

¹ Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012. p. 54. <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>.

² Government of Saskatchewan. Financial Highlights of 2009-10 Budget. 18 March 2009. 20 January 2012. p.1. <<http://www.finance.gov.sk.ca/budget2009-10/Budget200910FinancialHighlightsGreenSheet.pdf>>

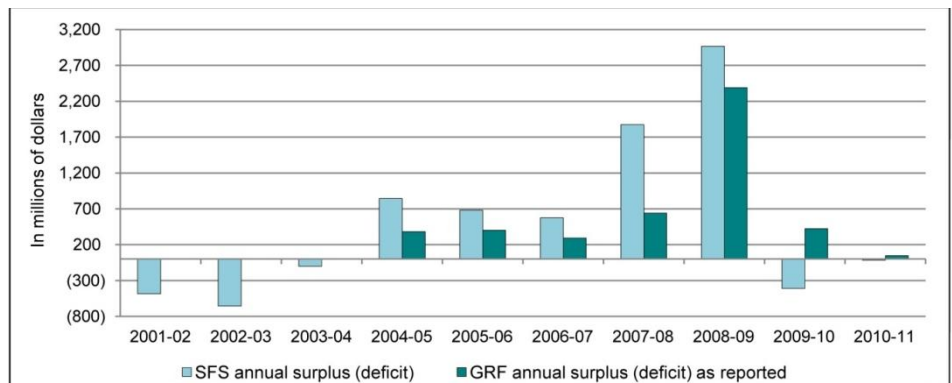
obligations that, while not traditionally incorporated in Saskatchewan’s debt totals, do represent a future liability owed by the taxpayers.

Government debt is typically incurred by issuing bonds and debentures.³ These outstanding bonds and debentures are then partially offset by the government’s investment in sinking funds. Sinking funds are monies set aside (typically in investments) for the repayment of debt. Prior to repaying matured debt, sinking funds are able to earn interest revenue for the province.⁴ In accordance with cabinet decisions, the Government of Saskatchewan annually contributes not less than 1% of certain debentures outstanding into sinking funds.⁵ When the government discusses public debt, it is referring to its debt minus the amount set aside in sinking funds.

There are two sets of financial statements through which the Government of Saskatchewan reports its public debt: the General Revenue Fund (GRF) financial statements and the Summary Financial Statements.

The GRF financial statements compare “spending of ministries to that authorized by the Appropriation Acts and other statutory spending authorities (Estimates). They provide audited information on spending of ministries and revenues (primarily from taxes, non-renewable resources, and transfers from the federal government).”⁶ These statements do not include the financial results of all agencies controlled by the government. Nor do they include pension obligations and they incorrectly recognize transfers to and from the Growth and Financial Security Fund as revenue and expenses.

Table 1: Comparison of Summary Financial Statement and General Revenue Fund Annual Surplus (Deficit) As Reported



Note: The GRF financial statements reported an annual surplus of \$1.1 million in 2001-02, \$860,000 in 2002-03, \$983,000 in 2003-04, \$424.5 million in 2009-10, and \$47.7 million in 2010-2011. The SFS reported an annual deficit of \$13.3 million in 2010-11.
 Source: Office of the Provincial Auditor of Saskatchewan. "Financial reporting— Public financial reporting— the need to change." 28 November 2011. Provincial Auditor Saskatchewan 2011 Report – Volume 2. 12 January 2011 . p. 203.
 <[http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/\\$file/10_Public%20financial%20reporting.pdf](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/10_Public%20financial%20reporting.pdf)>.

³ Office of the Provincial Auditor of Saskatchewan. "Financial reporting— Public financial reporting— the need to change." 28 November 2011. Provincial Auditor Saskatchewan 2011 Report – Volume 2. 12 January 2011. p.204
 <[http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/\\$file/10_Public%20financial%20reporting.pdf](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/10_Public%20financial%20reporting.pdf)>.

⁴ Government of Saskatchewan. Debt Reduction. 14 January 2011 <<http://www.finance.gov.sk.ca/Default.aspx?DN=2027985a-c4ec-46a7-9df8-3b74d4c837bb>>.

⁵ Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012. p.66. <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>.

⁶ Office of the Provincial Auditor of Saskatchewan. "Financial reporting— Public financial reporting— the need to change." 28 November 2011. Provincial Auditor Saskatchewan 2011 Report – Volume 2. 12 January 2011. p. 188.
 <[http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/\\$file/10_Public%20financial%20reporting.pdf](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/10_Public%20financial%20reporting.pdf)>.

Conversely, the Summary Financial Statements provide “audited information on the aggregate financial affairs and resources for which the government is responsible (about 270 agencies including the General Revenue Fund, Crown corporations, and other Crown agencies).”⁷ Only the Summary Financial Statements properly include pension obligations and eliminate the recording of transfers between the General Revenue Fund and the Growth and Financial Security Fund. These statements also more closely align with other provincial governments and the federal government to allow for an easier comparison of operating results.⁸

The use of the General Revenue Fund financial statements versus the use of the Summary Financial Statements significantly impacts the information reported to the public. For instance, according to the 2010-11 General Revenue Fund financial statements, Saskatchewan had a surplus of almost \$47.7 million. However, on a Summary Financial Statement basis, the province ran a deficit of approximately \$13.3 million.⁹ Furthermore, according to Saskatchewan’s mid-year update, the province expects to run a budget surplus of \$25 million on a General Revenue Fund basis for 2011-12, whereas the province is expected to end up with a \$304.3 million deficit in the Summary Financial Statements.¹⁰

Saskatchewan is the only province in Canada, which continues to publically highlight the government’s fiscal results based on the General Revenue Fund financial statements, despite the fact that the province has prepared and published the Summary Financial Statements since 1992.¹¹

Current Situation

Since 2001-02, the government general debt reported in the General Revenue Fund financial statements has declined from \$7.56 billion to \$4.14 billion as of March 31, 2011, a difference of \$3.42 billion.¹² Furthermore, government general debt is projected to decrease again to \$3.8 billion by March 31, 2012.¹³

It is this government general debt number (which is net of the province’s sinking funds) from the General Revenue Fund financial statements that is most commonly referred to by the governing political party. However, as Table 2, “10 Year Comparison of GRF Public Debt” indicates, this

⁷ Ibid., p. 188.

⁸ Ibid., p. 188.

⁹ Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012. p.50 and p.82 <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>

¹⁰ Government of Saskatchewan. 11-12 The Saskatchewan Advantage Mid-Year Report, 28 November 2011. 15January 2012. p.10 and p. 23. <<http://www.gov.sk.ca/adx/asp/adxGetMedia.aspx?mediaId=1587&PN=Shared>>

¹¹ Hall, Angela. "Auditor calls for change in financial reporting." 9 December 2011. Leader-Post. 12 January 2012 <<http://www.leaderpost.com/business/Auditor+calls+change+financial+reporting/5833682/story.html#ixzz1hBlgec9J>>.

¹² Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012. p.20. <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>.

¹³ Government of Saskatchewan. 11-12 The Saskatchewan Advantage Mid-Year Report: Backgrounder Report Summary. 28 November 2011. 15January 2012. p.3< <http://www.gov.sk.ca/adx/asp/adxGetMedia.aspx?mediaId=1588&PN=Shared>>

amount leaves off a significant number of liabilities that the government is ultimately responsible for, including Crown corporation general debt and government business enterprise specific debt.

According to the 2010-2011 Public Accounts, “Crown corporation general debt and government business enterprise specific debt have remained relatively constant since 2001-02 and on March 31, 2011 mainly includes \$2.513 billion for SaskPower, \$861 million for SaskEnergy, and \$370 million for SaskTel.¹⁴ In total, for the year ending March 31, 2011, the debt from these two segments equalled approximately \$3.98 billion (net of sinking funds).

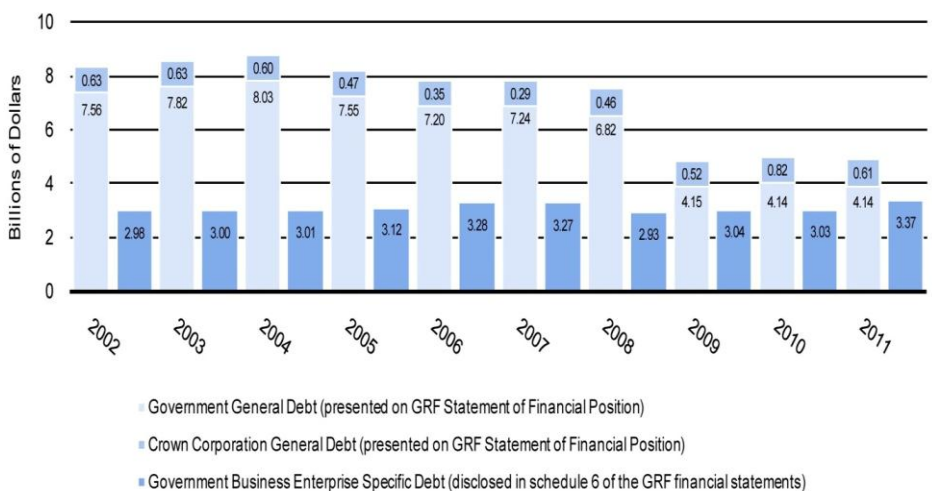
The government GRF general debt, Crown corporation general debt and government business enterprise specific debt totalled \$8.12 billion (net of sinking funds) for the year ending March 31, 2011.¹⁵ This number is significantly higher than the much more commonly published \$4.14 billion.

Saskatchewan has sinking funds of approximately \$2.4 billion offsetting the debt numbers outlined above which means it is currently paying debt

servicing charges on its gross debt of \$10.5 billion. Nevertheless, according to the Provincial Auditor, the figure of \$10.5 billion still does not truly reflect the Government of Saskatchewan’s gross debt because pension liabilities are not included in the General Revenue Fund financial statements.¹⁶

The Summary Financial Statements includes the General Revenue Fund debt of \$10.5 billion, a small amount of “other” debt (approximately \$300,000), and pension liabilities (\$6.2 billion) to reflect the province’s gross debt. Based on these statements, for the year ending March 31, 2011, Saskatchewan’s gross debt was \$16.9 billion. Pension liabilities represented approximately \$6.2 billion of this total. Although the processes for funding the government’s pension obligations

Table 2: 10 Year Comparison of GRF Public Debt (net of sinking funds)



Source: Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012 <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>. p. 20

¹⁴ Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012. p.20. <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>.

¹⁵ Government of Saskatchewan. 11-12 The Saskatchewan Advantage Mid-Year Report. 28 November 2011. 15 January 2012. p.16. <<http://www.gov.sk.ca/adx/asp/adxGetMedia.aspx?mediaId=1587&PN=Shared>>

¹⁶ Ibid., p. 204.

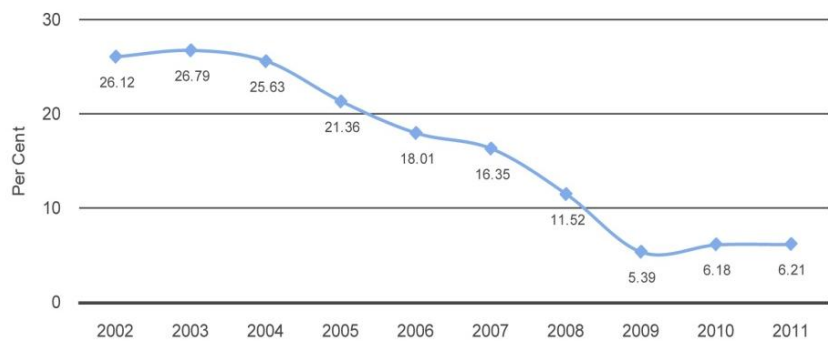
continue to be an ongoing source of debate, the current system, which expects to see pension debt peak within the next decade, leaves a liability for future generations to fund.

Net debt is another way of looking at debt and the amount that has been left to future generations. Net debt measures the amount of future revenues required to pay for past transactions and “takes into account not just the total amount of debt that a government owes, but how much debt a government has in relation to its financial assets (e.g. cash, receivables).”¹⁷

According to the 2010-2011 Public Accounts, net debt of the Summary Financial Statements has declined from \$8.71 billion in 2001-02 to \$3.78 billion. However, during 2010-11, net debt increased by \$224 million from 2009-10.¹⁸

Comparing the government’s net debt to GDP provides insight into the “degree to which a government can maintain existing service commitments and meet its existing financial obligations without increasing debt or taxes.”¹⁹ A higher ratio means the net debt of the government is more of a burden on the economy, so a lower net debt to GDP ratio is desired and indicates higher sustainability.

Table 3: 10 Year Comparison of Net Debt as a Percentage of the Province’s Gross Domestic Product



Source: Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012. p.37. <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>.

As Table 3, “10 Year Comparison of Net Debt as a Percentage of the Province’s Gross Domestic Product” indicates, the government’s net debt as a percentage of GDP has decreased significantly since 2002. This decrease, which is the result of growth in the provincial economy combined with the declining net debt, suggests the province is better able to maintain its existing services and meet its financial obligations without increasing its debt or tax burden relative to the economy.

Despite the province being better able to meet its debt obligations, debt is still very costly to Saskatchewan. In 2010-2011, debt servicing charges represented approximately 4% of the General Revenue Fund expenses, a portion only surpassed by the ministries of health, education,

¹⁷ Ibid., p. 224.

¹⁸ Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012 <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>. p. 32.

¹⁹ Office of the Provincial Auditor of Saskatchewan. “Financial reporting— Financial status of pensions—an update.” 28 November 2011. Provincial Auditor Saskatchewan 2011 Report – Volume 2. 12 January 2011. p. 225. <[http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/\\$file/12_Pensions.pdf](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/12_Pensions.pdf)>.

advanced education, employment and immigration, and social services.²⁰ However, because of the decrease in General Revenue Fund (GRF) debt, the debt servicing costs reported by the GRF have decreased from \$696 million in 2001-02 to \$424 million in 2010-11.²¹ Nevertheless, the amount of debt servicing charges publicly communicated are different depending on which set of financial statements are used. On the Summary Financial Statements in 2011, debt service charges represent approximately 5% of expenses and debt charges were \$709 million, which still represented a significant decrease from the \$900 million charged in 2002. The average effective interest rate on the debt during 2010-11 was 6.4%.²²

Summary Financial Statements versus General Revenue Fund Financial Statements

As outlined above, there are significant differences between the debt number reported on the General Revenue Fund financial statements and the Summary Financial Statements. The use of the General Revenue Fund financial statements has continued to be supported and used by governments of various political stripes in Saskatchewan on the basis that these statements show the tax-supported activities of government and spending as approved by the legislature.²³

However, this idea has been routinely criticized because not all tax-supported debt is included in the General Revenue Fund financial statements. Furthermore, the structure of the General Revenue Fund allows the government to manipulate the amount and timing of funding from/to other Crown agencies as well as the amount and timing of transfers from/to the Growth and Financial Security Fund. These transfers allow governments to change the financial results of the General Revenue Fund.

The General Revenue Fund financial statements also misrepresent Saskatchewan's total debt because pension liabilities and a disability benefit liabilities are not recorded. According to the Provincial Auditor, the General Revenue Fund financial statements are not prepared in accordance with Generally Accepted Accounting Principles.²⁴ The significant impact of these errors is illustrated in Table 4.

“The Summary Financial Statements are not subject to the same potential for accounting adjustments as they eliminate the financial impact of a government doing business with itself.”²⁵ The manipulation of the General Revenue Fund financial statements is quite significant when their results are compared to the Summary Financial Statements. In fact, in five out of the last ten years, the province reported an annual deficit on the Summary Financial Statements, but focused instead on a surplus created by the use of the General Revenue Fund financial statements.

²⁰ Government of Saskatchewan. 2010-11 Public Accounts - Volume 1 - Main Financial Statements. June 2011. 14 January 2012. P.16. <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>.

²¹ Ibid., p. 21.

²² Ibid., p. 34.

²³ Office of the Provincial Auditor of Saskatchewan. "Financial reporting— Public financial reporting— the need to change." 28 November 2011. Provincial Auditor Saskatchewan 2011 Report – Volume 2. 12 January 2011. p. 194.

<[http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/\\$file/10_Public%20financial%20reporting.pdf](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/10_Public%20financial%20reporting.pdf)>.

²⁴ Ibid., p.190

²⁵ Ibid., p.184

The Saskatchewan Chamber of Commerce Position

Political parties of all stripes have focused public attention on the General Revenue Fund financial statements. However, while this option is more politically attractive, it fails to provide the province's residents with a clear understanding of the government's fiscal position. This contradicts one of the key principles of the Saskatchewan Chamber of Commerce which is the support for increased accountability, transparency and cost effectiveness in provincial government expenditures. The Chamber is therefore urging the provincial government to increase the transparency and clarity of its financial reporting.

The Chamber believes it is important for the reason of public accountability that the government show the tax-supported activities of government versus the spending as approved by the legislature, but since the government continues to use "special" Crown corporation dividends and transfers to and from the Growth and Financial Security Fund to manipulate the balance of the General Revenue Fund, the necessary type of transparent reporting is not currently being used.

The adjustments that can be made to the General Revenue Fund financial statements are well documented and the current process hinders public awareness of the government's true fiscal position. Additionally, the continued use of two sets of financial statements creates confusion around the truth of the data presented. It is time for this practice to change.

The Saskatchewan Chamber of Commerce is strongly recommending that the provincial government adopt the reporting standard used by other Canadian jurisdictions and switch to reporting on a Summary Financial Statement basis. In addition to this, the Government of Saskatchewan should present clearer information regarding the allocations versus expenses of central government operations. The Chamber recognizes that this will require changes to government procedures beyond just the reporting of information, but believes strongly that it is time for the province to undertake this effort and make the transition.

Table 4: Impact of Errors on the GRF financial statements for the Year Ended March 31, 2011

Line item on financial statements	Amount reported in the statements	Amount that should be reported in the statements	Difference Amount reported is: Overstated (too high) Understated (too low)	Reason for difference
Statement of Financial Position				
Total Financial Assets	\$3.08 billion	\$4.08 billion	\$1.00 billion (understated)	Unrecorded "Due from Growth and Financial Security Fund"
Total Liabilities	\$6.76 billion	\$12.78 billion	\$6.02 billion (understated)	Unrecorded pension and a disability plan debt
Net Debt	\$3.68 billion	\$ 8.70 billion	\$5.02 billion (understated)	Net impact of not recording the above amounts
Accumulated Deficit	\$499 million	\$5.52 billion	\$5.02 billion (understated)	Net impact of not recording the above amounts
Statement of Operations				
Total Expense	\$10.97 billion	\$11.21 billion	\$240 million (understated)	Unrecorded pension and a disability plan costs for current year
Transfer to the Growth and Financial Security Fund	\$48 million	\$ ---	\$48 million (overstated)	Inappropriately including transfer as an expense
Surplus (deficit)	\$48 million	\$(145) million	\$193 million (overstated)	Net impact of above errors on current year surplus

Source: Office of the Provincial Auditor of Saskatchewan. "Financial reporting— Public financial reporting— the need to change." 28 November 2011. *Provincial Auditor Saskatchewan 2011 Report – Volume 2*, 12 January 2011 <[http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/\\$file/10_Public%20financial%20reporting.pdf](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/10_Public%20financial%20reporting.pdf)>.

Glossary

Bond

A debt investment in which an investor loans money to an entity (corporate or government) that borrows the funds for a defined period of time at a fixed interest rate.

Debenture

A type of debt instrument that is not secured by physical asset or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital. Like other types of bonds, debentures are documented in an indenture.

Government Business Enterprise Specific Debt

Debt issued by the General Revenue Fund specifically on behalf of a government business enterprise where the government expects to realize the receivable from the government business enterprise and settle the external debt simultaneously.

Gross Debt

The aggregate of borrowings through the issuance of debt instruments (e.g., bonds and debentures) and pension obligations.

Net Debt

A measure of a government's financial position that is calculated as the difference between financial assets and liabilities. Net debt provides a measure of the future revenues required to pay for past transactions and events.

Sinking Funds

Monies set aside (typically in investments) for the repayment of debt.

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The StarPhoenix. Voters require full accounting. 10 December 2011. 14 January 2012
<<http://www.thestarphoenix.com/business/Voters+require+full+accounting/5840172/story.html#ixzz1hBjrHWGy>>.