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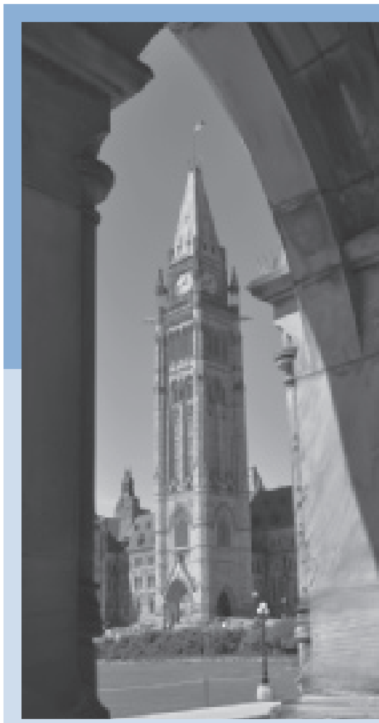

Report of the Auditor General of Canada to the House of Commons

CHAPTER 7
Long-Term Fiscal Sustainability—Finance Canada

OAG

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CHAPTER 7

Long-Term Fiscal Sustainability—Finance Canada

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance;
- gather the evidence necessary to assess performance against the criteria;
- report both positive and negative findings;
- conclude against the established audit objectives; and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

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Long-Term Fiscal Sustainability—Finance Canada

Main Points

What we examined

Long-term fiscal sustainability refers to a government's capacity to finance its activities and debt obligations in the future without imposing an unfair burden on future generations.

In its 2007 Budget, the federal government committed to publishing a comprehensive fiscal sustainability and intergenerational report aimed at providing "a broad analysis of current and future demographic changes and the implication of these changes for Canada's long-run economic and fiscal outlook." In 2011, the Office of the Auditor General encouraged the government to publish the long-term financial projections needed to fully assess the impact of the challenges facing the country and to inform Canadians.

We examined whether the Department of Finance Canada takes into account the impact of spending and tax measures on long-term fiscal sustainability before recommending new policies. We also examined how analyses of long-term fiscal sustainability are prepared and reported.

Audit work for this chapter was completed on 28 August 2012. More details on the conduct of the audit are in **About the Audit** at the end of this chapter.

Why it's important

The government faces many ongoing challenges that could impact Canada's long-term fiscal sustainability, such as changing demographics, climate change, and aging infrastructure. If the public debt were to grow faster than the economy for a long period, these challenges could make public finances unsustainable and reduce the living standard of future generations.

Long-term fiscal projections can help governments understand and protect the sustainability of public finances and respond more effectively to financial pressures in the future. Though long-term projections of fiscal sustainability are not predictions, they underpin fiscal sustainability and inform fiscal policy decisions. Understanding and considering the possible future consequences of fiscal decisions support sound economic development and the efficient use of available resources.

What we found

- Finance Canada officials prepare long-term fiscal analyses of spending and tax measures only if they consider it relevant to do so. Therefore, if the fiscal impact of measures being considered is not expected to change significantly relative to the size of the economy, the Department will not project the impact beyond five years. Although there are opportunities for improvements, we concluded that this approach, where officials use their professional judgment to determine whether the long-term fiscal impact needs to be considered, is reasonable. When officials do consider it relevant to perform analyses, they assess the long-term impact of individual measures on revenues or expenditures but do not always assess the impact on the budgetary balance and the public debt. Nor do they always project how the measures support or hinder long-term fiscal sustainability. Departmental officials rely on sometimes incomplete analyses of the long-term impact of measures when formulating recommendations.

- Regularly since 2010 and on occasion before that, Finance Canada has been providing the Minister of Finance with the results of fiscal sustainability analyses that project budgetary balance and public debt in the long term. However, the Department does not prepare these analyses—which indicate how budget measures will impact the fiscal position of the federal, provincial, and territorial governments—in time to inform budget decisions and before budgets are tabled in Parliament. For a given budget, the Minister is not informed of the overall long-term fiscal impact until months after the budget measures have been approved.

- While Finance Canada prepared a draft report in 2007 on the long-term fiscal sustainability analyses that the government committed to issuing that year, the analyses were not published; nor has any report on long-term fiscal sustainability been published since then. While long-term fiscal sustainability analyses have been regularly prepared since 2010, they have not been made public. This lack of reporting means that parliamentarians and Canadians do not have all the relevant information to understand the long-term impact of budgets on the federal, provincial, and territorial governments in order to support public debate and to hold the government to account. Many of the countries that are members of the Organisation for Economic Co-operation and Development (OECD) already publish reports on their long-term fiscal positions.

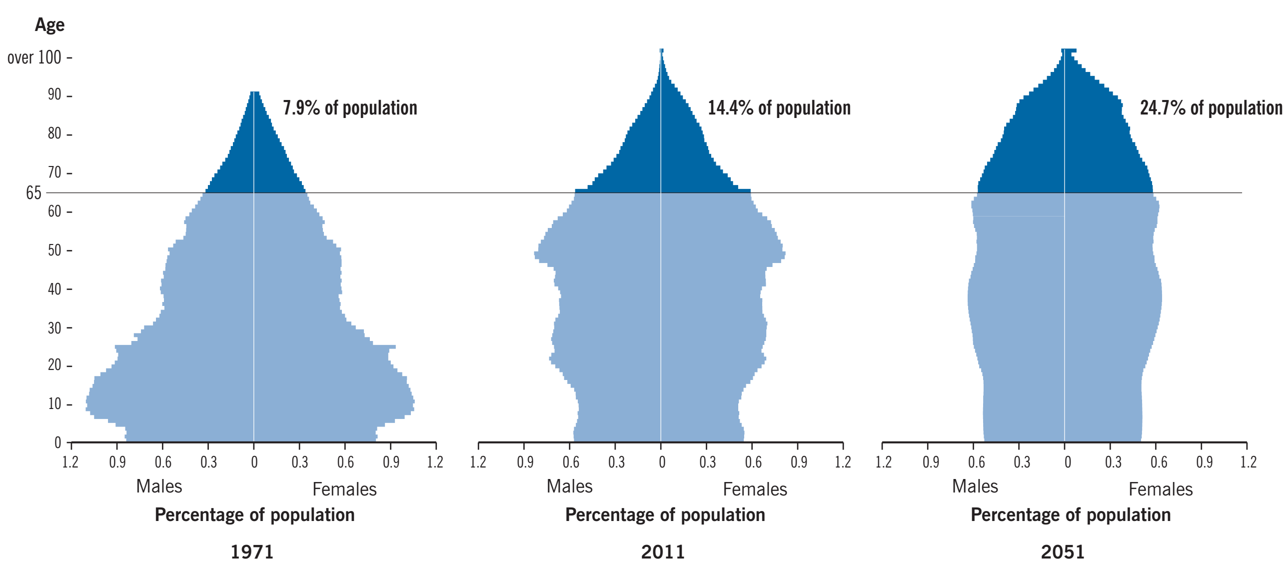
The Department has responded. The Department agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.

Introduction

7.1 A number of significant risks could affect Canada's long-term fiscal sustainability, including demographic changes, climate change, and aging infrastructure. These challenges make it important for the government to understand the budgetary impact of existing policies and policy options on the country's long-term fiscal position and the sustainability of public finances. In this audit, we focus on how the Department of Finance Canada analyzes and considers long-term fiscal sustainability (which could be affected by demographic changes) in the process of making policy recommendations and how it reports long-term fiscal analyses.

7.2 Canada's population is aging rapidly (Exhibit 7.1). Canadians aged 65 and older now make up 14.4 percent of the population, compared with 13.3 percent in 2006. In 40 years, seniors will account for almost a quarter of the country's population. This demographic shift could weaken the fiscal position of governments by decreasing participation in the labour force, thus reducing potential economic growth as well as growth in government revenues. An aging population will also put upward pressure on health care costs and pensions. In this context, if interest charges on the public debt grow faster than the economy and unless revenues increase or spending levels decrease, the federal government could face an unsustainable budgetary position in the long run.

Exhibit 7.1 **Seniors make up a growing proportion of Canada's population**



Source: Adapted from Statistics Canada

7.3 Policy actions could be necessary to put public finances at the federal, provincial, and territorial levels on a solid footing, and to deal with the long-term spending and revenue pressures resulting from the aging population. The demographic changes require careful consideration because the macroeconomic outlook and fiscal conditions can rapidly deteriorate and jeopardize the long-term fiscal sustainability of governments. For example, the financial turmoil of 2008 heavily affected the long-term fiscal outlook of the federal, provincial, and territorial governments. Because of the impact of the financial turmoil on revenues and expenses, the federal government posted budgetary deficits of $5.8 billion in 2008–09, $55.6 billion in 2009–10, $33.4 billion in 2010–11, and $24.9 billion (estimated in Budget 2012) in 2011–12.

7.4 Long-term fiscal sustainability refers to the capacity of a government to finance its activities and its debt obligations in the future without placing an excessive burden on coming generations. Fiscal sustainability requires the growth of the economy to outpace government debt in the long run. Long-term fiscal analyses can help governments understand and protect the sustainability of public finances, and respond more effectively to possible future financial pressures. Exhibit 7.2 describes in more detail the concept of fiscal sustainability and how it can be analyzed and reported. It also explains the risks and limitations of long-term projections.

7.5 Long-term projections are not firm predictions. However, they underpin fiscal sustainability and provide guidance for fiscal policy decisions. Awareness and understanding of the future consequences of fiscal policies can foster sound economic development and the efficient use of available resources.

7.6 In 1998, the Office of the Auditor General published a study drawing attention to the inadequate information provided by the government to Parliament and the public concerning the implications of demographic trends and their potential impact on current fiscal decisions. The Department of Finance Canada responded that "presenting long-run fiscal projections to Parliament every year would serve only to detract attention from the important goal of debt reduction."

7.7 In its 2007 Budget, the federal government committed to publishing a comprehensive fiscal sustainability and intergenerational report. As stated in the Budget, the report was to "provide a broad analysis of current and future demographic changes and the implication of these changes for Canada's long-run economic and fiscal outlook." The rationale for publishing a report on fiscal sustainability was motivated by "the Government's view that maintaining sustainable public finances at all orders of government is a critical condition to achieving intergenerational equity and strong and sustained economic growth." The report was never published. The Department of Finance Canada last released a comprehensive analysis of the demographic challenge in an annex to the 2005 Budget.

Exhibit 7.2 Long-term fiscal sustainability analysis helps governments plan for the future

Sustainable public finances are required to achieve high and stable economic growth and to ensure that spending and taxation are distributed fairly across generations. Fiscal sustainability is about whether, based on current policy outlook, a government is headed toward excessive debt.

Fiscal sustainability has four dimensions:

Solvency: capacity to finance existing and probable future liabilities.

Growth: capacity to sustain economic growth over an extended period.

Stable taxes: capacity to finance future obligations without increasing the tax burden.

Fairness: capacity to provide to future generations benefits that are not less than benefits provided to current generations.

Long-term fiscal sustainability analyses may include baseline projections, fiscal gap analyses, and intergenerational accounting.

A **baseline projection** estimates revenues, spending, budget balance, and public debt at the end of a selected long-term period, using demographic, economic, and policy assumptions. This is the method most commonly used in jurisdictions abroad and the one used in this chapter. It involves critical economic assumptions, such as GDP growth, wages, productivity, and interest rates. By taking into account the fiscal impact of changing demographics, long-term fiscal analyses can provide insights into future budget conditions.

A **fiscal gap analysis** estimates the fiscal adjustment necessary to ensure that the present value of the primary balance (which is defined as the amount by which revenues, excluding investment income, exceed expenses, excluding public debt charges), given the present value of the debt, achieves a specific level of debt at the end of a selected period.

Generational accounting estimates the tax position of each age group over an extended period. This analysis focuses on the benefits that each age cohort will receive and the taxes it will pay.

Long-term fiscal sustainability analyses provide estimates, not predictions. Rather than exact fiscal forecasts, they are best estimates. The actual long-term fiscal position could be worse or better than projected. Among the reasons for the uncertainty of long-term projections are inappropriate fiscal modelling, poor demographic assumptions, wrong macroeconomic assumptions (including labour market participation, productivity forecasts, projected GDP, interest rates, and borrowing costs), and poor estimates of growth/decline in governments' revenues and spending.

In addition, projections do not consider emergency spending to fund unforeseen events, such as financial crises, pandemics, wars, or natural disasters. Long-term fiscal projections assume no changes in policy. Finally, while a long-term analysis can project a situation in which governments start accumulating wealth and have no more debt, this situation is highly unlikely to occur. Future policy decisions could take advantage of projected surpluses by increasing spending through new or enriched programs, or by reducing taxes.

7.8 At the end of her 10-year mandate in 2011, former Auditor General Sheila Fraser expressed concern about the long-term fiscal pressures faced by the federal government. She encouraged the government to publish the long-term financial projections needed to fully assess the impact of the challenges ahead, and to inform Canadians and engage them in discussing the difficult choices that could eventually be required.

Focus of the audit

7.9 Our objective was to determine whether the Department of Finance Canada

- considered the long-term fiscal impact when analyzing and recommending spending and tax measures, and
- publicly reported information related to Canada's long-term fiscal sustainability.

7.10 We looked at the processes and tools used by the Department to prepare the fiscal impact of spending and tax initiatives with long-term budgetary consequences. For selected budget and fiscal update announcements, we examined whether the Department had prepared long-term fiscal sustainability analyses and had considered them in formulating recommendations. We also looked at the process used by the Department to project and publish sound analyses of overall long-term fiscal sustainability.

7.11 The audit examined how the policy decision framework takes into account long-term fiscal sustainability that could be affected by demographic factors. We did not examine how the decision-making process at the Department of Finance Canada takes into account the potential impact of climate change or aging infrastructure.

7.12 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Considering the long-term fiscal impact

7.13 Budget decisions need to take into account the long-term impact of a government's existing fiscal structure, as well as the interests and needs of future generations. If the needs of today's taxpayers are not properly balanced with those of tomorrow's, future generations may face a decline in living standards.

7.14 According to the International Monetary Fund and the Organisation for Economic Co-operation and Development (OECD), budgets should be prepared on the basis of realistic macroeconomic assumptions (for example, the growth rate of the economy, the rate of inflation, and interest rates), reasonable revenue projections, and realistic future costs of policies and programs. To recommend sound policy options with possible future impact, policy makers must have access to long-term fiscal analyses and projections.

7.15 We examined whether the Department of Finance Canada prepared sound analyses of the long-term impact of new spending and tax policies on fiscal sustainability before it recommended policy options. Such analyses need to take into account, when considered relevant, the future impact of spending and tax measures on revenues and expenditures, budgetary balances, and public debt. In a federation such as Canada, an analysis needs to include, when relevant, an assessment of the impact that federal decisions may have on provincial and territorial governments.

7.16 We also examined whether the Department of Finance Canada considered the results of these analyses when recommending spending or tax policy measures.

7.17 In this audit, we reviewed six spending and tax measures announced in federal budgets from 2007 to 2012:

- pension income splitting,
- the reduction of the goods and services tax (GST) rate,
- the maintenance of the GST/HST credit,
- the introduction of Tax-Free Savings Accounts (TFSAs),
- the new growth rate for the Canada Health Transfer (CHT), and
- the change in age of eligibility for Old Age Security (OAS).

7.18 We selected these measures because (unless policies change) they are long-lasting and they could have a significant long-term impact on federal, provincial, and territorial budgets and the fiscal outlook. Some programs or transfers (such as benefits for seniors and health care) will be affected by the aging population. Hence, performance of long-term fiscal sustainability analyses for the six selected measures could be relevant in view of the possible impact of these measures on the fiscal outlook. For each initiative, we examined whether and how the Department of Finance Canada assessed the projected impact on long-term sustainability, and whether it used analyses in formulating options and recommendations. We examined briefing notes and analyses prepared by the Department. We also interviewed officials from the Department.

The Department of Finance Canada has the capacity and tools to analyze the long-term fiscal sustainability of budget measures

7.19 Before determining whether the Department conducted analyses, we assessed the resources it had in place for doing so. We found that the Department has the analytical capacity and tools for projecting the long-term fiscal sustainability of measures before policy decisions are made. Qualified employees are available to prepare the analyses and projections. The Department has a number of tools at its disposal for assessing the impact of policy options:

- The **partial equilibrium accounting model** is the main tool used to produce long-term baseline projections and long-term analyses of fiscal sustainability. The fiscal variables used in these projections are based on underlying demographic and economic assumptions.

- The **static micro-simulation model** (T1 model) uses a sample of individual tax returns to simulate changes to the personal income tax system. To estimate the impact of possible tax changes on revenue, the model recomputes taxes payable using adjusted values.

- The **overlapping generation general equilibrium model** is a general equilibrium model designed to analyze fairness across generations. The model is based on the life-cycle theory of savings behaviour; this theory postulates that household members accumulate wealth during their working years by consuming less than their disposable income, and they consume out of their wealth during retirement. The model consists of three sectors: consumers, businesses, and government.

7.20 For preparing long-term projections of government debt and budgetary balances, the Department of Finance Canada uses the partial equilibrium accounting model. This model considers changes in revenues and expenses arising from foreseeable changes in the demographic and macroeconomic environments, particularly taking into account the impact of population aging.

Nominal gross domestic product—Gross domestic product (GDP) expressed in current dollars, that is, not adjusted for price variations.

Sensitivity analysis—Analysis that determines how small differences in the value of variables (such as GDP or interest rates) will affect the results of a projection.

7.21 The Department uses a number of assumptions in its analysis, such as interest rates and the components of growth in **nominal gross domestic product**—that is, productivity, population, and inflation. We found that the Department ensures that these assumptions are properly prepared and their reasonableness is verified. It compares the assumptions with those of other forecasters and also considers occasional peer reviews. We found that the Department uses sound analysis to project the growth rate of the various major components of government expenses, and then uses this data to project the fiscal balance in the long term. It performs **sensitivity analyses** of results when appropriate. Finally, we found that the Department has tools for projecting, when relevant, the fiscal impact of measures on provincial and territorial governments.

When formulating recommendations, the Department analyzes and considers the long-term fiscal impact only if officials judge the analyses to be necessary

7.22 We noted that departmental officials prepared analyses of the long-term fiscal sustainability of policy measures, when they considered them relevant, and they relied on the results to provide guidance for decisions. In its process for analyzing policies, the Department has no requirement to systematically analyze the long-term fiscal impact of policy measures. No agreement between officials is required to determine when or why such an analysis might be necessary. Officials indicated that if a proposed measure is not expected to have a significant fiscal impact relative to the size of the economy in the long term (that is, if it has no impact on the revenue-to-GDP ratio), they do not project the impact beyond five years. Also, while fiscal analyses project the long-term impact of individual measures on revenues and expenses, we found that some analyses do not always project the long-term impact that the measures will have on the overall budgetary balance and public debt. Further, the analyses do not always project how these measures support or hinder the long-term fiscal sustainability of the federal, provincial, and territorial governments. This means that at times the Department does not fully consider long-term impact when formulating recommendations. Our audit found the following results for the six measures we reviewed.

7.23 **Pension income splitting.** Under a personal income tax provision announced in the 2006 Tax Fairness Plan and included in the 2007 Budget, pensioners may split their eligible pension income with their spouse if certain requirements are met.

7.24 We found that the Department did not prepare analyses of the long-term fiscal sustainability of pension income splitting when the measure was proposed. Officials indicated that such an analysis was not relevant because the cost of the measure in the long run would be offset by a reduction in the pension income gap between spouses. The Department assumed that the proportion of families with two income earners would gradually increase, lessening the opportunity to split pension income. No analyses were available to support these assumptions. The Department now estimates that the cost of pension income splitting in forgone revenues was $925 million in 2011 but will decline in coming years.

7.25 **Goods and Services Tax** and **GST/HST credit.** After an announcement in the 2007 Fall Economic Statement, the government reduced the goods and services tax from 6 percent to 5 percent in January 2008; earlier, in July 2006, it had reduced the tax rate from 7 percent to 6 percent. The government offers a credit to help persons with low or modest incomes offset all or part of the tax they pay—GST or, in applicable provinces, the GST part of the harmonized sales tax (HST). Despite the reduction in the tax, the credit to low-income earners was maintained as if the GST rate were still 7 percent. The second 1 percentage point reduction in the GST rate was estimated to cost $6 billion in the 2008–09 fiscal year, the first full year of implementation of the 5 percent tax rate. The cost of maintaining the GST/HST credit as if the GST were still 7 percent was estimated at $1.1 billion for 2008–09.

7.26 When the measures were announced, the federal government's budgetary position was considered to be strong in the long term because of sound economic and fiscal conditions. Department of Finance Canada officials determined that it was not necessary to perform long-term fiscal analyses of the tax rate reduction or GST/HST credit since the cost relative to GDP was not expected to grow. Senior management did not receive analyses of the long-term fiscal impact of these measures. Departmental officials told us that the long-term costs of the measures associated with the GST were included in the overall long-term fiscal sustainability analyses prepared for the Government of Canada and provided to senior management in 2007.

7.27 For our estimates, we replicated the economic and fiscal conditions of 2007, reducing the GST to 5 percent while maintaining the GST/HST credit at 7 percent. We found no substantial impact on the then sustainable long-term fiscal position of the federal government.

7.28 **Tax-Free Savings Account.** In the 2008 Budget, the government announced the Tax-Free Savings Account, for implementation starting in January 2009. This is a registered savings account that allows Canadians to accumulate investment income on a tax-free basis. Neither income earned within a TFSA nor withdrawals from it affect eligibility for federal benefits and credits that are based on the level of income of recipients. The cost of the measure was estimated at $50 million in the 2009–10 fiscal year. More recently, the Department of Finance Canada estimated the cost to be $220 million for 2011. The increase can be explained partly by the fact that the $5,000 yearly contribution room is cumulative.

7.29 We found that the Department of Finance Canada estimated the long-term cost of the TFSA up to the year 2050, using the T1 micro-simulation model (see paragraph 7.19). The analysis included both the impact on personal income tax revenues and the benefits that depend on the income level of recipients. We found that the analysis accounted properly for a number of long-term factors, including demographic changes, annual increases in the TFSA contribution room, the interaction of the TFSA with unregistered assets and registered retirement savings plans, and the fact that income from capital gains would increase over time in TFSAs. While the analyses estimated the cost of the tax measure in the long term, they did not assess what impact it would have on the federal government's long-term budgetary balance and public debt. The Department of Finance Canada calculated the revenue impact on the provinces.

7.30 **Canada Health Transfer.** The Canada Health Transfer is the largest transfer from the federal government to the provinces and territories. In the 2011–12 fiscal year, it accounted for 47 percent of major transfers to other levels of government. According to the Department of Finance Canada, the CHT cash transfers will reach $29 billion in the 2012–13 fiscal year and be made on an equal amount per capita basis in 2014–15.

7.31 The previous legislation governing the Canada Health Transfer was set to expire on 31 March 2014. In December 2011, the government announced changes to the CHT. The new legislation, introduced later, provides for a 6 percent yearly increase in the amount of the transfer through the 2016–17 fiscal year. Starting in the 2017–18 fiscal year, the

Moving average—A set of averages taken over a series of overlapping time periods. It serves to reduce short-term fluctuations and highlight more stable, longer-term trends.

transfer will grow in line with a three-year **moving average** of nominal GDP growth, with funding guaranteed to increase by at least 3 percent a year.

7.32 When the new CHT regime was announced, the Department of Finance Canada did not disclose the associated financial impact of the new growth rate of the health transfer or the way the change would affect the long-term sustainability of federal and provincial/territorial government finances. We sought to determine whether the Department had in fact assessed the long-term sustainability of this measure. The CHT is a significant expense relative to total federal government spending. If the CHT grew faster than the economy, it would put the long-term fiscal sustainability of the federal government at risk relatively quickly. From the viewpoint of the provincial/territorial governments, their public finances could face additional stress if health care expenditures increase over the coming decades as a result of population aging and other factors such as the price of technology.

7.33 We found that the Department of Finance Canada analyzed the long-term impact of different CHT options on the fiscal position of both the federal and provincial/territorial governments, using the partial equilibrium accounting model (see paragraph 7.19). We found that the Department used sound assumptions to project the costs of the transfer program and measure its sustainability. For example, the Department gave particular attention to assessing future growth in health care costs. The Minister of Finance was advised of the pros and cons of different CHT options and their associated long-term financial impact on governments, including the provinces and territories.

7.34 We conducted our own analyses and projections, based on the economic and fiscal conditions noted in the government's 2011 Update of Economic and Fiscal Projections. Assuming that the CHT growth rate remains at 6 per cent beyond 2013–14, we found that the new CHT measure should significantly improve the federal government's fiscal sustainability in the long run. Compared to a status quo scenario, the change in the rate of growth of the CHT could improve the federal debt-to-GDP ratio by almost 30 percentage points over a 40-year period.

7.35 **Old Age Security.** The Old Age Security program provides a monthly payment available to qualifying Canadians aged 65 and older. The Guaranteed Income Supplement (GIS) and spousal allowance provide additional support to low-income seniors, on top of the OAS payments. The 2012 Budget announced that the age of eligibility for OAS and GIS benefits would gradually increase from 65 to 67 over a six-year period, starting in April 2023, with full implementation by January 2029. When it announced this change, the government did not release the cost savings or the overall long-term fiscal impact. Only academics and organizations have issued analyses on the sustainability of the program.

7.36 In 2009, at the request of the Department, a consultant produced a report comparing the pension systems of Canada and selected other OECD member countries. The report stated that there was "no pressing financial or fiscal need to increase pension ages in the foreseeable future." However, it added, "The reduced benefit expenditures from a higher pension age could be used to augment the value of benefits, for example." The report concluded that Canada's retirement income system is strong compared to that of other countries. Nevertheless, the government announced changes to the age of OAS eligibility. In providing advice to the government, the Department considered a number of factors, including Canada's shifting demographics, projected changes in the labour market, and the costs of the OAS program, in addition to international trends in the age of eligibility for public pension programs.

7.37 We examined whether the Department had estimated the long-term fiscal impact of the proposed changes. We found that the Department performed and considered a number of analyses to formulate recommendations on OAS. It estimated gross and net savings of raising the eligibility age from 65 to 67, and it included this information when it prepared a policy analysis on the measure. It also analyzed the measure's impact on the provinces and territories. As well, the Department considered the impact on working Canadians and on labour force participation.

7.38 Analyses by the Department showed that the OAS program was one of the factors that could cause a deterioration in budgetary balances in the long term because annual average OAS spending is growing faster than the nominal GDP. One analysis concluded that potential OAS changes could help protect the fiscal sustainability of the federal government and create room for other spending priorities. In addition, according to the analysis, increasing the age of eligibility could improve labour market participation for older Canadians and provide some fiscal flexibility to deal with population aging. To assess how changing the OAS program would provide fiscal flexibility for the federal government over the next 40 years, the analyses considered scenarios with less favourable economic and fiscal assumptions, such as lower economic growth and lower tax revenues.

7.39 We performed an analysis replicating the economic and fiscal conditions found in the 2012 Budget. We found that without the announced OAS policy change, the expenses related to benefits for seniors would have risen from $35.6 billion (2.2% of GDP) in the 2010–11 fiscal year to just over $100 billion (2.9% of GDP) in 2029–30. The higher age of eligibility could reduce government expenses by over $10 billion in 2029, when the government will have fully implemented the new policy.

7.40 **In summary.** We found that the Department considered analyses of long-term fiscal sustainability to be relevant for three of the measures we selected for review: the Tax-Free Savings Account, the new growth rate of the Canada Health Transfer, and the increase in the age of eligibility for Old Age Security benefits (Exhibit 7.3). Specifically, we found the following:

- The Department conducted the analyses and used them in formulating policy options.
- It prepared projections of long-term budgetary balance and public debt for the new CHT regime and the new age of eligibility for OAS.
- The TFSA analysis considered the impact on revenues, but it did not project the impact on the budgetary balance and public debt.
- For the three initiatives, the analyses took into account the fiscal impact on the provinces.

7.41 To determine the need for long-term fiscal analyses, departmental officials currently use their professional judgment, sometimes with discussions and input from senior management. In our view, relying on judgment to make the determination is a good approach, and detailed procedures may not be cost-effective. However, to ensure due diligence, it would be prudent to enhance existing practices for deciding on the need for long-term fiscal sustainability analyses. Better practices would also help the Department ensure that it gives adequate consideration to the long-term impact of measures on budgetary balance and public debt. For example, one such practice by which the long-term fiscal impact of policy recommendations might be better considered could be in preparing the briefing documents presented to the Minister of Finance. When seeking approval for policies or spending initiatives to be included in the Budget, the Department of Finance Canada officials use a template for preparing briefing documents for the Minister. This template could include long-term fiscal impacts of proposed policy initiatives.

Exhibit 7.3 The Department performed long-term fiscal sustainability analyses for some budget measures

Measure	Analysis performed
1) Pension income splitting	There was no analysis of the long-term fiscal impact. Officials assumed it was not relevant to consider the long-term cost because the growing proportion of families with two income earners would reduce the opportunity for income splitting.
2) Reduction of the GST rate to 5% 3) Maintenance of the GST/HST credit as if the GST rate were 7%	Analyses for these two measures were not considered relevant because their costs relative to GDP were not expected to grow.
4) Tax-Free Savings Account	Officials analyzed the long-term fiscal impact on revenues and considered the findings when formulating recommendations. The impact on revenues in the provinces was considered. There was no analysis or reporting of the long-term impact on budgetary balance and public debt.
5) Canada Health Transfer	Officials analyzed the long-term fiscal impact on expenditures, budgetary balance, and public debt, and considered the findings when formulating recommendations. They also considered the impact on provincial/territorial governments when recommending policy options.
6) Increase in age of eligibility for OAS	Officials analyzed the long-term fiscal impact on expenditures and considered the findings to support the decision-making process. They also considered the impact on budgetary balance and public debt, as well as the impact on the provinces and territories to inform decisions.

Performing and publishing long-term analyses

7.42 Long-term fiscal analyses are not meant to precisely predict the government's future fiscal position. Rather, such analyses are best estimates that may vary from actual results because of changing economic and fiscal circumstances. Nevertheless, for policy makers, parliamentarians, and the general public, they can provide insight into the fiscal future and significant information for consideration in debates on budget proposals.

7.43 In recent years, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) have issued a number of best practices and guidance documents regarding long-term fiscal sustainability reports. According to the OECD, governments should prepare yearly fiscal projections that include all public revenues and expenditures to support fiscal stability and efficient resource allocation. In its Best Practices for Budget Transparency, the OECD recommends that projections cover a period of 10 to 40 years. Sound analyses on long-term fiscal sustainability need to rely on appropriate modelling techniques. They also need to use reasonable assumptions and sensitivity analyses to project the long-term impact of spending measures or policies. The OECD recommends that all key assumptions underlying the projections be made explicit.

7.44 We examined whether the Department of Finance Canada prepares and publishes projections on Canada's long-term fiscal position. We reviewed analyses of long-term fiscal sustainability produced by the Department. We also interviewed departmental officials and consulted with former officials and experts. Finally, using baseline projections derived from the 2012 Budget, we projected the federal government's overall long-term fiscal position to the 2050–51 fiscal year.

The Department prepares analyses of Canada's long-term fiscal position, but not in time to support budget decisions

7.45 We found that the Department of Finance Canada regularly prepared 10- and 40-year fiscal projections for the federal government. For example, it prepared budgetary balances and debt projections in August and November 2010, as well as in May, July, and November 2011. The projections described the overall fiscal position of the federal government in the long term. They contained analyses of the fiscal challenges presented by an aging population, including the fiscal impact of lower GDP growth, rising benefits for seniors, and increased health care spending. The projections took into account combined changes in revenues and expenses, considering the impact of known policy changes and evolving macroeconomic conditions. For example, in some recent analyses the Department concluded that if health care transfers grew faster than GDP, the long-term fiscal position of the federal government would become unsustainable. Since the Department considers the health care program an important national issue, the analyses also projected health care expenditures by province/territory and considered the impact of growing health care expenses on provincial/territorial budgets.

7.46 We found that the Department took the following actions for the economic and demographic assumptions it uses in making its projections:

- verified the assumptions for reasonableness,
- compared them with those of forecasters from the private sector and other organizations,

- included sensitivity analyses, and
- included analyses of different scenarios.

7.47 We found that fiscal sustainability analyses considered the long-term fiscal perspective for the provincial/territorial governments, as well as for the federal and provincial/territorial governments combined. For example, the Department prepared 45- and 55-year long-term fiscal projections for all provinces and territories combined, as well as for the provincial, territorial, and federal governments combined.

7.48 We found that senior management considered the results of the long-term fiscal analyses and regularly conveyed this information to the Minister of Finance. The Department prepared analyses after the fall economic and fiscal update, as well as after the tabling of the federal government's budget, but not before the budgetary process was concluded. Consequently, before the budget measures were approved, senior management and the Minister of Finance did not have access to long-term analyses describing the impact of those measures on the overall long-term fiscal position of the federal and provincial/territorial governments. For example, the Department officials told the audit team that the long-term projections that included the impact of the measures announced in the 2012 Budget were given to the Minister of Finance in August 2012. This means that senior management and the Minister of Finance were not informed of the overall impact of the 2012 Budget on the government's long-term fiscal position until well after they had approved budget measures.

7.49 **Recommendation.** As it concludes the budgetary process, the Department of Finance Canada should analyze the overall long-term fiscal implications for the federal government and should inform the Minister of Finance before budget measures are decided and approved.

The Department's response. Agreed. Starting with Budget 2013, the Department of Finance Canada will expand its internal analysis to provide the Minister of Finance with an assessment of the overall long-term fiscal implications of new budget measures before the budget is finalized.

The Department has not published analyses of Canada's long-term fiscal position

7.50 In its 2007 Budget, the federal government committed to publishing a comprehensive fiscal sustainability and intergenerational report. However, no such report has been published. The Department of Finance Canada last released information on the demographic challenge in an annex to the 2005 Budget; but except for health spending, this did not contain long-term fiscal projections. A report drafted in 2007 included long-term fiscal projections for the federal and total government (federal, as well as provincial and territorial governments), but the government never published it. The Department has prepared other long-term fiscal sustainability analyses since 2010, but they too have not been made public.

7.51 Many OECD countries publish long-term fiscal projections (Exhibit 7.4). For example, Australia and New Zealand regularly publish 40-year projections. Norway, Switzerland, and the United Kingdom publish 50-year projections. The United States (through the Office of Management and Budget, the Congressional Budget Office, and the Government Accountability Office) publishes 75-year projections. Denmark, Sweden, the US and the UK report this information annually. The Netherlands publishes intergenerational accounts. In Canada, the Office of the Parliamentary Budget Officer has published a number of fiscal sustainability reports since 2010. Other than an ad hoc report in 2002, there has been no public reporting of long-term fiscal analyses by the Government of Canada.

7.52 There are significant benefits that would result from taking into account and publishing long-term projections of Canada's overall fiscal position. These benefits would include

- support for the decision-making process;
- better policy decisions that ensure intergenerational fairness, economic development, and the efficient use of public resources in the long term;
- enhanced long-term fiscal transparency to support policy and parliamentary debates;
- increased ability of Canadians to understand what our future might look like, based on a better assessment of whether budgets are fiscally prudent for the federal, provincial, and territorial governments;
- ability to hold leaders accountable for the long-term impact of their budget choices;
- greater ability of capital markets to anticipate the consequences of the government's long-term fiscal outlook;
- enhanced public sector credibility in the financial markets; and
- a demonstrated commitment on the part of the government to future budget sustainability.

Exhibit 7.4 Many Organisation for Economic Co-operation and Development countries publish reports on their long-term fiscal position

Country	Statutory reporting obligations	Most recent report title (release date)	Time horizon	Periodically produced	Published comparison with past government assessments	Reported sensitivity analysis	Reported methodology and key assumptions	Published fiscal impact of past reforms or general policy options	Related to the budget
Australia	*Charter of Budget Honesty Act 1998*	Intergenerational report 2010—Australia to 2050: future challenges (January 2010)	40 years	Yes, every 3 years	Yes	Yes	Yes	No	Yes
Denmark	European Union (EU) Stability and Growth Pact	Convergence Programme Denmark 2012 (April 2012)	Until 2070	Yes, annually	Yes	Yes	Yes	Yes	No
Germany	EU Stability and Growth Pact	Third Report on the Sustainability of Public Finances (October 2011)	Until 2060	Yes, every 3 years	Yes	Yes	Yes	Yes	Yes
Korea	None	Vision 2030 (2006)	25 years	No	No	No	No	No	No
Netherlands (Bureau for Economic Policy Analysis)	EU Stability and Growth Pact	Ageing Divided (June 2010)	Until 2200	Yes, every 5 years	Yes	Yes	Yes	Yes	Yes
New Zealand	*Public Finance Act 1989*	Challenges and Choices: New Zealand's Long-term Fiscal Statement (October 2009)	40 years	Yes, at least every 4 years	Yes	Yes	Yes	Yes	Yes
Norway	None	Long-term Perspective for the Norwegian Economy (March 2009)	50 years	Yes, at least every 4 years	No	No	Yes	Yes	Yes
Sweden	None	Spring Fiscal Policy Bill 2012 and Sweden's Convergence Programme 2012	Until 2060	Yes, annually	No	Yes	Yes	Yes	Yes
Switzerland	None	Long-term Sustainability of Public Finances in Switzerland (January 2012)	50 years	Yes, at least every 4 years	No	Yes	Yes	No	Yes

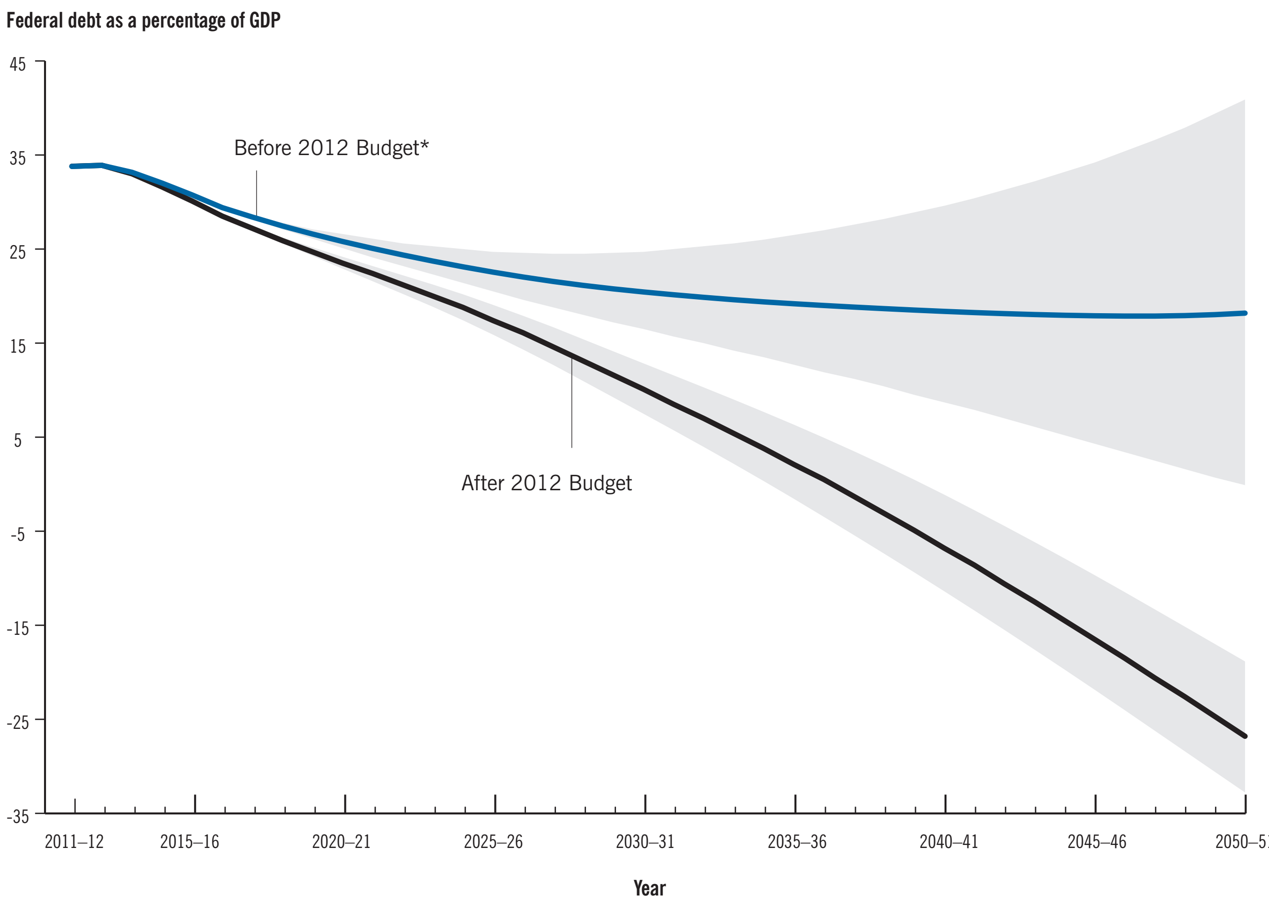
Exhibit 7.4 Many Organisation for Economic Co-operation and Development countries publish reports on their long-term fiscal position (continued)

Country	Statutory reporting obligations	Most recent report title (release date)	Time horizon	Periodically produced	Published comparison with past government assessments	Reported sensitivity analysis	Reported methodology and key assumptions	Published fiscal impact of past reforms or general policy options	Related to the budget
United Kingdom (Office for Budget Responsibility)	*Budget Responsibility and National Audit Act 2011*	Fiscal Sustainability Report (July 2012)	50 years	Yes, annually	Yes	Yes	Yes	Yes	Yes
United States (Office of Management and Budget)	*Budget and Accounting Act of 1921*	Analytical Perspectives, Budget of the United States Government, Fiscal Year 2013 (February 2012)	75 years	Yes, annually	Yes	Yes	Yes	Yes	Yes
United States (Department of the Treasury and Office of Management and Budget)	*Budget and Accounting Act of 1921*	2011 Financial Report of the United States Government	75 years	Yes, annually	No	Yes	No	No	No
United States (Congressional Budget Office)	No	The Long-Term Budget Outlook (June 2012)	75 years	Yes, annually	Yes	No	Yes	Yes	Yes
United States (Government Accountability Office)	No	The Federal Government's Long-Term Fiscal Outlook—Fall 2011 Update	75 years	Yes, annually	No	No	Yes	No	Yes

Source: Adapted from the Organisation for Economic Co-operation and Development

7.53 We prepared fiscal projections to illustrate the impact of the 2012 Budget on the long-term fiscal sustainability of the federal government (Exhibit 7.5). The assumptions used in our long-term projections are generally consistent with those that the Department uses when projecting long-term fiscal balances and debt levels. Also, our long-term results are similar to the Department's projections. Our projections show that the combined measures announced in the budget significantly improved the government's fiscal outlook. These results are hypothetical since future policy decisions could take advantage of the projected surpluses to increase program benefits, introduce new spending initiatives, or reduce taxes.

Exhibit 7.5 The federal debt as a percentage of GDP is projected to decrease significantly over the long term as a result of measures from the 2012 Budget



*Economic assumptions and economic conditions as in March 2012 Budget

Sensitivity analysis that shows the possible range of +/– 0.5 percent of nominal GDP

Note: This potential situation where the federal government starts accumulating wealth and has no more debt is hypothetical, since future policy decisions could take advantage of the projected fiscal dividends by increasing program benefits, introducing new spending initiatives, or reducing taxes.

7.54 According to our projections, in the 2050–51 fiscal year, the change to the Canada Health Transfer will account for about 60 percent of the government's improved fiscal position, shown by the projected lower debt-to-GDP ratio. Our projections show that other policy decisions in the 2012 Budget will also contribute positively to the government's long-term fiscal balance; examples are spending restraint measures and the change in the age of eligibility for seniors' benefits. Even though the projections appear to be favourable, they must be interpreted carefully: they are estimates and are sensitive to changes in long-term assumptions and in future fiscal and economic conditions. Changes in factors such as GDP growth, interest rates, or productivity would affect the fiscal sustainability projections.

7.55 As shown in Exhibit 7.5, different GDP growth scenarios would shift the curve in the shaded area and make the government's long-term fiscal position more or less favourable in the long term. In addition, future policy decisions could affect the government's fiscal sustainability. In About the Audit, we included the assumptions we used to project the long-term debt-to-GDP ratios as well as analyses showing the impact and sensitivity of different assumptions and policy changes on the long-term projections.

7.56 We found that the Government of Canada has not followed through on its 2007 commitment to publish a long-term fiscal sustainability report. It is important to publish information on long-term fiscal sustainability analyses. In committing to publishing such analyses in 2007, the federal government held the view that maintaining sustainable public finances at all levels of government was a critical condition to achieving intergenerational equity and sustained economic growth. Although there are limitations in projecting 40 or 50 years into the future, an understanding of long-term fiscal trends is relevant when examining policy choices. The analyses of current and future demographic changes provide valuable information as well as the implication of these changes for Canada's long-term economic and fiscal outlook overall. In this context, long-term fiscal sustainability analyses

- should include the long-term fiscal position of the federal government and the provinces and territories, as well as the position of the two levels of government combined to give a total Canada perspective;
- should be comprehensive and understandable to lay readers; and
- should be regularly reviewed and published because long-term projections are sensitive to changes in economic and fiscal conditions, in related assumptions, and in policy.

7.57 **Recommendation.** The Department of Finance Canada should publish yearly the overall long-term fiscal sustainability analyses for the federal government and provide from time to time an analysis for all governments combined, including the federal, provincial, and territorial governments, to give a total Canada perspective.

The Department's response. Agreed. Given that the federal government is not accountable for the fiscal situation of the provinces and territories, the Department will publish long-term fiscal analyses for the federal government on an annual basis, by 2013 at the latest.

Conclusion

7.58 Long-term fiscal projections and analyses are not meant to be precise. Nevertheless, they help raise fiscal sustainability issues for consideration during the budget process. They indicate whether spending and tax measures support fiscal sustainability in the long term, and whether these measures protect and improve the living standards of future generations. Sound fiscal projections can help minimize the risk that unaffordable fiscal pressures will force future governments to make sudden policy shifts.

7.59 We concluded that the Department of Finance Canada analyzed and informed the Minister of Finance about the long-term fiscal impact of budget measures. We found that the Department has the tools and capacity to prepare long-term fiscal sustainability analyses when considering spending or tax measures. But, we found that the Department analyzed long-term fiscal sustainability issues only when officials considered such analysis to be relevant. Senior officials used their judgment to determine the need for long-term fiscal analyses. Although there are opportunities for improvement, we concluded that the Department's approach is reasonable. For three of the six initiatives we reviewed, the Department analyzed the long-term impact on revenues or expenditures. For two of the three initiatives, the Department conducted long-term budgetary balance and public debt analyses. For all three initiatives, the Department considered the fiscal impact on the provinces. The Department considered the analyses that it performed when formulating recommendations.

7.60 We found that since 2010 the Department of Finance Canada regularly prepared sound long-term fiscal projections of the budgetary balance and public debt for the federal government. These projections captured the fiscal challenges of Canada's aging population. The Department reviewed the assumptions on which the projections were based and made sure that they were reasonable. In addition, the projections took into account the impact on the provinces and territories. However, before the budget process was completed, the Department did not prepare projections of the impact that budgets would have on the fiscal position of the federal, provincial, and territorial governments. That is, it did not prepare the projections in time to influence or support budget decisions.

7.61 Finally, we found that the Government of Canada has not followed through on its 2007 commitment to publish a long-term fiscal sustainability report. Many member countries of the Organisation for Economic Co-operation and Development regularly publish such reports. Publicly available information on long-term fiscal sustainability would help policy makers, parliamentarians, and Canadians understand the long-term trajectory of the fiscal position of the federal, provincial, and territorial governments. It would also help them determine whether budgets are fiscally prudent, and would make leaders accountable for the long-term consequences of budget choices.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The audit examined whether the Department of Finance Canada considered the long-term fiscal impact in proposing measures and policies, as well as whether it publicly reported information related to long-term fiscal sustainability for Canada. The audit had the following sub-objectives:

- to determine whether the Department of Finance Canada analyzed long-term fiscal sustainability issues and informed decision makers of their results, and
- to determine whether the Department of Finance Canada prepared and published sound long-term fiscal sustainability analyses.

Scope and approach

The audit focused on the Department of Finance Canada, where we looked at the Economic and Fiscal Policy Branch.

The audit examined the process used by the Department for estimating the long-term fiscal impact when its officials consider spending and tax initiatives, and how the policy- and decision-making process takes into account this impact. As well, we looked at the process used by the Department to analyze long-term fiscal sustainability and publish reports.

We reviewed various documents, including briefing notes and analyses prepared by the Department as well as analyses, research papers, and foreign reports, including guidance issued by international organizations. We reviewed literature related to the issue of long-term fiscal sustainability. In addition, we consulted with former officials and experts in the field. We examined the analyses carried out by the Department of Finance Canada from 1 April 2006 to 31 March 2012. We did not examine how the fiscal impact of climate change or aging infrastructure is taken into account in the decision-making process at the Department. We examined practices for reporting information on long-term fiscal sustainability.

Assumptions used to project the long-term fiscal position of the federal government

The long-term economic and fiscal projections we developed are based on the projections contained in the applicable budget or economic and fiscal update. The assumptions used in our long-term projections are generally consistent with those that the Department uses.

Economic projections. The base projections for nominal gross domestic product (GDP) were taken from the applicable budget or economic and fiscal update. In each case, the long-term projections of nominal GDP growth are based on Statistics Canada's middle-growth population scenario, productivity growth of about 1 percent per year, and inflation of 2 percent per year (consistent with the Bank of Canada's mid-point inflation target).

Fiscal projections. The long-term projections by major component after the reference period of the budget or economic and fiscal update were derived as shown in the following table.

Projection	Method
Personal income taxes	The ratio of personal income tax to GDP for the final year of the applicable budget or economic and fiscal statement update was applied to the forecast of nominal GDP. To reflect the impact of the progressivity of the personal income tax system, the ratio increased by 0.02 per year.
Corporate income taxes and other income taxes	Based on growth in nominal GDP
Goods and services tax	Based on growth in nominal GDP
Customs import duties	Based on growth in nominal GDP
Other excise taxes and duties	Annual growth of 1.5% per year
Employment Insurance (EI) premium revenues	EI premium revenues are to be set to cover EI benefits and administration costs. The EI Operating Account should have no impact on the fiscal balance over time, although it could have a significant impact on an annual basis. For the purposes of this exercise, it is assumed that EI premium revenues would cover EI benefits and administration costs on an annual basis.
Other revenues	This is a highly volatile component, affected by exchange fund profits, offshore revenues, profits of Crown corporations (including the Bank of Canada), and interest payments on sovereign, student, and selected Crown corporation debt. Offshore revenue should have no impact on the budgetary balance as it is transferred to the applicable provinces and territories (with at the most a year's delay). Exchange Fund profits are too volatile to forecast, and so we have assumed no change. Revenues of Consolidated Crown corporations, share of annual profits by enterprise Crown corporations, sales of goods and services, and other miscellaneous revenues are extrapolated on the basis of change in population and inflation. Interest from enterprise Crown corporations, and interest and penalties, have been extrapolated based on a forecast of short-term interest rates.
Benefits for seniors	For the base case, current projections of Old Age Security program beneficiaries and expenditures from the Office of the Chief Actuary were linked to the final year of the 2012 Budget.
Employment Insurance benefits	We projected unemployment using the current relationship between the number of unemployed persons and the total population. Benefits are based on growth in the number of unemployed and inflation (benefits are indexed to changes in the average industrial wage).
Children's benefits	Based on the most current forecast of Statistics Canada (mid-case population projections) for the age group 0 to 14, and on inflation.
Transfers to other levels of government	Based on legislative parameters of the individual components: Canada Health Transfer (6% escalator until the 2016–17 fiscal year, followed by three-year moving average of nominal GDP growth thereafter), Canada Social Transfer (3% escalator), fiscal arrangements linked to growth in nominal GDP, Quebec Abatement linked to growth in nominal GDP, and Gas Tax Transfer held constant at $2 billion per year.
Direct program expenses	Linked to growth in nominal GDP
Public debt charges	We broke down interest-bearing debt into short-term market debt, long-term market debt, the Public Service Pension Plan, and other future benefits. Public debt charges for the market debt were calculated using interest rates based on the applicable budget's or economic and fiscal update's short- and long-term interest rate forecasts. When surpluses are accumulated, the return on financial assets is assumed to be 3%. The interest rate used for interest expenses on the Public Service Pension Plan and other future benefits was 6%.

The table below shows the impact of different assumptions for the projected federal debt-to-GDP ratio on the post-2012 Budget.

Sensitivity of post-2012 Budget projections

Assumptions	Federal debt to GDP				
	2017–18	2020–21	2030–31	2040–41	2050–51
Base case	27.2	23.5	10.1	-6.8	-26.8
GDP growth (–0.1 p.p.*)	27.2	23.7	10.6	-5.7	-25.4
GDP growth (+0.1 p.p.)	27.2	23.4	9.5	-7.8	-28.1
Change in interest rate (–1 p.p.)	26.9	22.5	7.2	-9.8	-28.0
Change in interest rate (+1 p.p.)	27.5	24.6	13.4	-2.4	-23.8
Productivity (–0.3 p.p.)	27.3	23.9	11.7	-3.5	-22.3
Productivity (+0.3 p.p.)	27.1	23.2	8.5	-9.6	-30.6
2016–17 personal income tax revenues (–$10 billion)	27.2	23.6	10.3	-6.4	-26.4
2016–17 personal income tax revenues (+$10 billion)	27.2	23.5	9.8	-7.1	-27.1
2016–17 direct program spending (–$10 billion)	26.7	21.6	2.9	-18.7	-42.5
2016–17 direct program spending (+$10 billion)	27.7	25.5	17.2	6.0	-10.0

*p.p.: full percentage point

Criteria

Criteria	Sources
To determine whether the Department of Finance Canada analyzed long-term fiscal sustainability issues and informed decision makers of the results, we used the following criteria:	
The Department of Finance Canada prepares sound analyses on long-term fiscal sustainability prior to recommending decisions regarding new (or changes to existing) policies and spending/tax measures.	• Guidelines for Public Expenditure Management, International Monetary Fund • Supplementary Document to the Department's 2011–12 Report on Plans and Priorities (RPP) Regarding Sustainable Development, Finance Canada • OECD Best Practices for Budget Transparency, Organisation for Economic Co-operation and Development (OECD) • The Benefits of Long-term Fiscal Projections, Organisation for Economic Co-operation and Development
The Department of Finance Canada reports to decision makers the results of long-term fiscal sustainability analyses when recommending decisions regarding policies and spending/tax measures.	
To determine whether the Department of Finance Canada prepared and published sound long-term fiscal sustainability analyses, we used the following criteria:	
The Department of Finance Canada prepares sound analyses on Canada's long-term fiscal sustainability.	• Code of Good Practices on Fiscal Transparency, International Monetary Fund, 2007 • Budget 2007, Finance Canada • The Benefits of Long-term Fiscal Projections, Organisation for Economic Co-operation and Development • OECD Best Practices for Budget Transparency, Organisation for Economic Co-operation and Development
The Department of Finance Canada publishes comprehensive long-term fiscal sustainability information for Canada.	

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period between April 2006 and March 2012. Audit work for this chapter was completed on 28 August 2012.

Audit team

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For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Appendix List of recommendations

The following is a list of recommendations found in Chapter 7. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Performing and publishing long-term analyses	
7.49 As it concludes the budgetary process, the Department of Finance Canada should analyze the overall long-term fiscal implications for the federal government and should inform the Minister of Finance before budget measures are decided and approved. **(7.45–7.48)**	Agreed. Starting with Budget 2013, the Department of Finance Canada will expand its internal analysis to provide the Minister of Finance with an assessment of the overall long-term fiscal implications of new budget measures before the budget is finalized.
7.57 The Department of Finance Canada should publish yearly the overall long-term fiscal sustainability analyses for the federal government and provide from time to time an analysis for all governments combined, including the federal, provincial, and territorial governments, to give a total Canada perspective. **(7.50–7.56)**	Agreed. Given that the federal government is not accountable for the fiscal situation of the provinces and territories, the Department will publish long-term fiscal analyses for the federal government on an annual basis, by 2013 at the latest.