Issue Paper #5

Long-Term Context for Budgeting

The Budget Process Review Panel

An independent panel appointed to recommend improvements
to the budgeting and financial management
of the Province of British Columbia

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Issue

The issue is that British Columbia provincial budgets seem to take a short-term perspective, with the result that it is difficult for public sector managers and for those in the private sector that rely on public sector activity to plan effectively for the future. Of course, government must have the ability to adjust its activities in response to changes and situations that arise over time. However, lack of a long-term context for financial and performance planning and management leads to inefficiency and ineffectiveness.

The specific issues for the Panel are:

- Setting a strategic direction.
- Multi-year budgeting.
- Intergenerational reporting and long-term policy implications.

- Capital budgeting.

Suggested Reading

In addition to Chapters 2 and 3 of the Auditor General's report, please also see the "Five Year Fiscal Planning Framework" in the Budget '99 Budget reports, page 44 to 46.

Terms of Reference and OAG Recommendations

In the Panel's Terms of Reference, these issues are referred to as follows:

> Specifically the Panel will be asked for advice on:
>
> > D. Any changes to government budgeting and reporting to reflect long run implications of budget decisions.

The following recommendations in the Auditor General's report refer to these issues:

> 2.5 The government bring clarity and firmness in its debt reduction goals and strategies, and provide longer-term focus to its financial management plan.
>
> 2.6 The government prepare long-term fiscal and business plans for its activities and public finances, as an integral part of the Estimates process.
>
> 2.7 The government consider:
>
> > a) adopting intergenerational reporting so that it can provide an assessment of the financial effects of program and policy decisions on future generations;
> >
> > b) segregating its operating and capital plans in the Estimates;
> >
> > c) using sunset clauses and regular evaluations for statutory programs.
>
> 3.9 The government to proceed with the implementation of its capital expense budgeting process as an integral part of the Estimates process.

Discussion

Strategic Direction

The Auditor General has recommended that government include in the budget documents a long-term fiscal plan. That is consistent with the idea, put forward in the Issue Paper #3, Accountability for Results and Performance Management, that government have a strategic plan that sets out the themes that will govern government's medium to long-term agenda. Part of that is clearly government's fiscal plan.

In British Columbia, there usually has been some disclosure in the budget documents about what the fiscal outlook is for the medium term at least and projections are included for high level fiscal indicators such as revenue, expenditure, deficit and debt. The 1999/00 budget includes a relatively comprehensive discussion of the fiscal plan over the next five years, including some analysis of the sensitivity of the plan to economic conditions. That seems to be an improvement over the strategic level fiscal planning that has been disclosed in the past several years.

A next step might be to have a government strategic plan that incorporates a strategic-level fiscal plan, providing more context for how the government's fiscal plan links with its overall strategic direction. So far, such information seems to have been provided in only a relatively vague way. In addition, the fiscal plan in the 1999/00 budget says nothing about what government's reaction will be if fiscal targets are not met. What will the government do if the fiscal results are better or worse than its targets?

That is not to say that government does not engage in long term strategic planning. It does. The point is that there is no clear connection in the budget information at least between government's strategic direction and its fiscal plan.

Multi-year Budgeting

Multi-year budgeting is a term that can mean several different things. It can mean literally changing the budget cycle from one to two or more years. Many U.S. states operate on bi-annual budgets with expenditure appropriated for two years instead of one. However, it can also refer to a system where there are annual appropriations but also specific budget targets for future, especially for major expenditure programs.

The objectives of multi-year appropriations include:

- to allow administrators to take a longer term view,
- to plan more effectively for initiatives that take longer than one year to fully implement,
- to increase management flexibility and
- to reduce incentives to spend at year-end to avoid losing unused expenditure authority that expires at year-end.

The disadvantages include reducing government flexibility to change priorities and therefore expenditure allocations. Multi-year appropriations also fit more easily with a system of fixed election dates where there would be two budgets in a fixed four-year term than in the parliamentary system, where the government could change or an election be called at any time.

The problem with the current approach is that managers have no certainty whatsoever based on the budget, either for the current year or for future years making management in the public sector primarily reactive rather than proactive.

The practice for many years has been to set the budget with little or no margin for error and then, as the year unfolds and it becomes clear that the deficit target will not be met, to make mid-year adjustments. Managers now expect that mid-year they will have their expenditure authority further constrained but have no information about how or by how much. Restraint measures include hiring freezes, contracting freezes and "claw-backs" of a percentage of expenditure authority in selected ministries or government-wide.

Similar problems occur with the budget-building exercise itself where programs are often given spending targets that represent significant reductions but proposals for cutting service, shifting priorities or implementing a different way of doing business are rejected, resulting in the inevitable requirement to do more with less. Given this situation within a given budget cycle, it is doubly difficult to plan ahead for the next budget cycle and beyond.

This problem is exacerbated for bodies outside of the direct government that rely on government funding. Schools, universities, colleges and health regions are not usually allocated specific budgets until months after budget day and even that can be subject to mid-year adjustments. As a result, budgets are often not finalized for specific institutions until near the end of the fiscal year and there is no reliable guidance given for planning for the next and subsequent years.

How do managers cope with this uncertainty? They become adept at predicting what is going to happen and at reacting by making frequent operating adjustments. As we can see, the work of government does carry on and services are provided. However, throughout the system, managers learn that there is no benefit to long-term planning or to being proactive.

Much of this problem could be addressed through long-term strategic plans specifically linked to fiscal planning and by increasing the disclosure of assumptions and the prudence of fiscal forecasts (See Issue Paper #7, Economic, Revenue and Expenditure Forecasting). In addition, some advocate a multi-year budget targeting approach.

Multi-year budget targeting could be done in two ways:

- establish multi-year appropriations subject to annual review and adjustment.; or
- establish single year appropriations but include in the Estimates target levels for future year appropriations, either for all votes or just for those that authorise substantial operating contributions to other service providers, such as school districts or universities.

Neither of these multi-year targeting approaches would limit the ability of government to adjust spending authority either in mid-year or for the subsequent year. The intention would be to give public service managers reasonable targets upon which they can plan their operations.

It is noted that other Canadian jurisdictions, notably Alberta and Saskatchewan, have been able to provide multi-year expenditure targets to government bodies. Alberta in particular does this in the context of a pervasive performance management ethic. However, other multi-year budgeting exercises, including the approach used by the federal government for several years, have been less successful.

The primary argument against trying to do multi-year budget targeting in British Columbia is that the economy and revenues are cyclical with a high degree of variability and the revenues drive the expenditures. In this uncertain environment multi-year targets would have little or no credibility and therefore provide the benefit of allowing useful planning. The added cost of developing the multi-year budget targets would therefore not be offset by any real benefit.

Another concern is that it is very difficult to reduce expenditure when necessary. Multi-year budget targets might just make it even more difficult. On the other hand, giving advance notice of future expenditure reductions may make the actual reductions less controversial and therefore easier to implement when they take effect and may provide managers with clear direction about what is going to be expected from them in the future.

Intergenerational Reporting and Long-Term Policy Implications

Intergenerational Effects of Deficits, Surpluses and Capital Expenditure

Intergenerational reporting refers to disclosing the impact that government's current activities will have on future generations. There are several ways that current activities can affect the future. One is that the costs of current operations may be more or less than the revenues available to support the operations, resulting in either a surplus or deficit. A deficit must be repaid in the future while a surplus may reduce the obligations that being passed on to future taxpayers.

Another way that current actions affect the future is through the provision of physical assets, like roads and buildings, that will be used to provide public goods and services in the future. This is known as capital expenditure. The cost of such assets is paid now but the benefits are enjoyed over their useful life, often a long period of time. For some assets, like land acquired to make park, the benefits will be enjoyed indefinitely.

For both effect of the surplus or deficit and the effect of capital expenditure, full accrual accounting helps to sort out the intergenerational impacts. It allows assets that will provide benefits over time to be "capitalized" and the costs allocated over time, consistent with the useful life of the asset. In other words, the costs are accounted for as the benefits are realised. By accounting in that way, the difference between accounting revenue and expense is a reasonable measure of the surplus or deficit generated by current government operations, including how much government used up existing assets in the period.

There have been suggestions that this concept of accounting should be extended to fully account for the social, environmental and other costs and benefits of government over time. For example, shouldn't expenditure on education be treated as an investment in the future? While that idea is very attractive, the concepts and practices to put it into practical use have yet to be developed and it is generally accepted that such an approach is not feasible at present.

The Intergenerational Effect of Future Commitments

Future commitments entered into in the present represent another way in which current activities affect future taxpayers. Two types of future commitment about which there is currently comprehensive reporting are debt and unfunded pension liabilities. Often other future commitments are somewhat uncertain, with the financial impact dependent upon conditions that will exist in the future. The complexity and uncertainty around future commitments is one of the reasons that there is not comprehensive disclosure of such commitments

There are many technical difficulties associated with reporting on future commitments. For example, it requires that the future amounts be "discounted" to reflect their "present value."[1] Choosing the appropriate discount rate can be an issue and can make a large difference in the expected overall financial impact.

In spite of the technical difficulties and the fact that this is an emerging area for accounting, it should be possible to begin to identify such commitments and report on them. However, given the concerns, it may make sense to initially limit such reporting to a scheduled periodic basis, such as once every three or five years.

Future Implications of Policy Decisions

Another way that reporting of long-term implications of current actions could be addressed might be better disclosure of the implications of policy decisions as they are made, including the long-term fiscal implications. That might have the effect of encouraging government to take a longer view when making policy decisions as well as bringing more transparency to government decision-making.

Many believe that, due to the relatively short tenure of elected officials, they are often prepared to accept high future costs in exchange for current benefits because the present is much more important than the future in a political sense. However, rarely are the full implications of government policy decisions disclosed when such decisions are made. Rather, government seems to often focus on the aspects of its policies that it believes will generate the most support and it is up to critics to point out other implications. This affects government's credibility and the quality of the policy debate.

In one area of government policy, regulatory policy, government has made a commitment to more complete disclosure of policy implications with the new *Regulatory Impact Statement Act* (RISA). While regulatory policy is not an area where one would expect there to be a lot of future fiscal commitments, it has been suggested that this model could be applied to policy decisions that will affect future fiscal results. Broad application of the principles underlying the RISA[2] could provide a better understanding of the full implications of major government policy, including future fiscal impacts and commitments, which could in turn contribute to increasingly comprehensive reporting of commitments over time.

That would mean requiring public disclosure of the objectives, alternatives, implications (including fiscal implications and business case) and process (e.g. consultations, competitive bids, etc.) of all major policy decisions when they are announced. It would apply to operating program and capital expenditure decisions, tax and revenue policy decisions and other major government policies. The challenge would be to find a way to discriminate between those policy decisions that are significant and those that are not, so as not to unnecessarily add internal red-tape that bogs down the system. RISA does that through the use of an advisory committee.

Sunset Clauses

Another way to try to encourage government to consider long-term policy implications would be through sunset clauses. Sunset clauses refer to provisions, usually in legislation, that require that a policy or program be reviewed after a certain period of time and that automatically repeals the legislation on a set date. The purpose of the review is to determine whether the program or policy is still required and to consider whether the efficiency or effectiveness of it can be improved. The purpose of the automatic repeal is to require government to debate the program in the Legislature if they want it to continue,[3] thereby providing an incentive to conduct the review.

The Business Task Force recommended that all major regulatory policy changes should include a sunset provision and government has accepted the recommendation.

However, some believe that sunset provisions do not work well. If there is no burning issue, often the provisions are simply amended without review. If the reviews are undertaken, they tax already overburdened government policy resources that could often be more profitably applied to other issues.

On the other hand, others argue that major programs should be regularly evaluated to ensure that they are performing a useful service and doing so in an efficient manner. It has also been pointed out that it is often better to maintain programs when there is no crisis or burning issue, with the high degree of emotion that often accompanies a crisis, and that doing so can sometimes avoid a crisis from developing. It is noted that the recent Royal Commission on Workers' Compensation recommended a scheduled review of that program area for just this reason.

Capital Budgeting

Capital Budgeting Issues

Capital expenditure is, by its very nature, current expenditure undertaken to provide the means for production of future goods and services. Capital expenditure therefore always has long-term implications.

The current accounting treatment of capital, which allows for it to be capitalized,[4] appropriately distributes the costs over time in accordance with the benefits that will be received. As a result, construction or purchase of a capital asset now has no immediate effect on the deficit although it will affect the deficit over the whole life of the asset.

The alternative treatment used before capitalisation of assets was adopted was to treat the cost of capital assets as an expense in the period when the cost was incurred. That had the effect of increasing the deficit in the year in which the capital expenditure was made and decreasing it in future years, compared with capitalization. As a result of the impact on the deficit and the importance of the deficit as an indicator of government's financial position, that encouraged capital expenditure to be deferred as a deficit reduction measure. Capital expenditure is necessary to keep up with population growth and to replace worn-out capital over time. While deferring a few projects once in a while for a year or two is unlikely to have much real effect, the practice of continually deferring needed projects quickly has the result of causing operating inefficiencies because of the deterioration of the capital stock. In other words, when capital is expensed, governments tend to "eat" their capital.

While capitalizing resolves this problem, it can result in the opposite problem. Because capital expenditure does not affect the deficit immediately, there is not the same incentive to limit capital expenditure as there is to limit operating expenditure – it is seen as being free. That can lead to trying to use capital expenditure as an economic development lever, as a way of buying votes and to the creation of inefficiency by overbuilding the capital stock or not exercising appropriate restraint.

Current Capital Approval Process

To bring rigour to the capital allocation process and try to prevent inappropriate or unnecessary capital expenditure, there is an extensive formal capital budgeting process. Appendix 5-A of this issue paper reproduces a sub-section from Chapter 3 of the Auditor General's report, which outlines the current capital approval process. It suggests, among other things, that the capital planning process should include:

- developing clear and measurable objectives for capital projects;
- preparing a long-range capital plan outlining future needs;
- synchronizing the long-range plan with ministry business plans and the government financial management plan;
- linking the capital assets plan with the annual operating budgeting plan;

The Auditor General's Report points out that work is underway to implement the recommendations of a government working group that would make the current process more consistent with the expectations outlined in the Auditor General's report.

Already there is a five-year Consolidated Capital Plan and the Estimates provide information about CRF capital expenditure. However, the concern is that capital budgeting and operating budgeting continue to be treated as separate and unlinked activities.

It seems likely that changes intended to address some of the issues raised in other Issues Papers would also work to improve capital budgeting. For example:

1. If the Summary Entity is adopted for budgeting purposes, the Estimates should at least include information about capital expenditures, expanded from the CRF to the Summary Entity;
2. An overall government strategic plan that includes a fiscal plan would provide a better opportunity for linking a long-term capital plan with a long-term fiscal plan;
3. A move to more accountability for results would provide a framework for requiring and using objectives for capital projects to measure and adjust performance;

4. Use of business plans throughout the public sector would provide a vehicle for integrating capital planning with operating budget planning; and

5. As suggested above, expansion of the regulatory impact statement requirements to all major policy decisions, including major capital projects, would enhance transparency in decision-making.

Summary of Consultations

External Input

The Chartered Accountants of British Columbia made the following recommendation:

> Recommendation #7:
>
> > The Chartered Accountants of B.C. believe that the Government of B.C. must develop and publish a comprehensive long-range plan for the province. The plan should include measurable financial and performance targets.
>
> Most importantly, it is in the public interest to develop a long-range plan. It is essential for government, and taxpayers, to know about the long-term effects of programs, and the ability of current and future taxpayers to afford them. Long-range planning is an important tool in addressing the Auditor General's concerns about assessing the intergenerational effects of programs.

The Legislative Press Gallery submission indicates "I believe there should be guidelines compelling the government to disclose all their budget plans to eliminate what happened with the undisclosed plan to tap into FRBC in 1996."

The Canadian Bankers Association submission states:

> While in principle, intergenerational reporting would be useful to provide an assessment of program and policy decisions on future generations, in practice intergenerational accounting is not sufficiently developed to be a particularly useful tool. We are concerned that the government, for no real benefit, would incur additional costs.

The College Institute Educators' Association of B.C. submission argues for more long-term planning and greater certainty and stability, especially in the post-secondary education sector. It states "While governments must hold public institutions accountable for the public funds with which they are entrusted, we would urge the panel to explore ways to ensure accountability within a multi-year budgeting framework."

The Certified General Accountants Association of British Columbia made the following observation in its submission:

> CGA-BC believes that it is imperative that the provincial government prepare a comprehensive, long-term plan with the principal objectives of addressing issues of fiscal responsibility, taxation and debt reduction.
>
> … CGA-BC also believes such a planning process will encourage the government to

remain committed to transparency and accountability.

Immediate Public Sector Input

Views expressed by officials in the immediate government include:

- Multi-year business planning by specific agencies and business units is important based on a clear statement of government priorities and directions.
- The barrier to multi-year planning is a fear of being wrong.
- Government should disclose commitments in the sense of answering the question "what is the shut-down cost of government?" Although government can not be shutdown, this hypothetical construct would show what the future implications of current programs and policy decisions are.
- There are enough problems with dealing with the present that it would be better to leave the long-term issues until the rest of the process is improved.
- There is already some intergenerational reporting. The move to full accrual accounting addresses this issue in part by spreading the costs of capital assets over their life. Commitments need to be further developed, as the PSAB guidelines for this area develop over time.
- Long-term fiscal plans are complex, unreliable, and therefore prone to political manipulation. The federal government has limited specific forecasts to two years and that should also be done in British Columbia to add credibility.
- Long-term implications of not maintaining the physical infrastructure are not taken into account when capital is cut to reduce expenditure. Full accrual accounting is a partial solution.
- The Regulatory Impact Statement requirement should be applied to all government policy decisions.
- Requires a change in philosophy from "immediate" to a "life-cycle" approach to planning and budgeting.

In addition, the need to improve capital expenditure planning and budgeting was mentioned by several participants. Comments were directed towards ensuring that the objectives of projects are identified and disclosed in measurable terms, identifying and disclosing the long-term fiscal implications of projects, identifying and integrating the operating implications of capital projects into business planning and disclosing the capital expenditure commitments arising from multi-year capital projects.

Options

Setting A Strategic Direction

1. **Status Quo** – continue to disclose a multi-year fiscal plan in the budget

documents as was done in 1999/00.

2. **Enhanced Strategic Plan** – provide an integrated statement of government's operating priorities and directions together with a multi-year overall fiscal plan, based on and consistent with multi-year business plans for business units and public bodies.

Multi-Year Budgeting

1. **Status Quo** – no change

2. **Change from an annual basis for budgeting to biannual budgets** - or some other basis.

3. **Provide multi-year budget targets -** consistent with the government's strategic plan and integrated into the multi-year business plans of business units and public bodies.[5]

Intergenerational Reporting and Long-Term Policy Implications

1. **Status Quo** – continue to report on the commitments currently reported (debt, unfunded pension liabilities), continue to implement full accrual accounting and continue to develop further commitment accounting over time as PSAB produces guidelines for this reporting.

2. **Enhanced Commitment Accounting** – begin to develop now more comprehensive disclosure of government commitments, perhaps with reporting on a specified schedule (say, every three or five years).

3. **Implementation of Policy Impact Statements** – expand the Regulatory Impact Statement initiative to require formal, standardized disclosure by government of the implications of all major policy decisions, including the long-term fiscal implications as well as other implications and including major capital projects.

4. **Implement Sunset Clauses –** including statutory review requirements for all major programs and policies.

Capital Budgeting

1. **Status Quo** – continue to manage capital budgeting separately from operating budgeting.

2. **Integrate Capital Budgeting** – while continuing to recognize that capital expenditure differs fundamentally from operating expenditure, ensure that capital is managed using the same set of principles as the operating budget in terms of performance management, long-term implications and disclosure and that capital and operating budgeting is appropriately linked.

Appendix 5-A – Capital Expenditure Planning [6]

Government spends significant sums of money on capital assets, for use in providing and administering public services. Over the last few years, the government has spent about $1.8 billion annually on capital assets. In the area of social programs, these assets include schools, hospitals, courthouses, colleges, and universities and government office space. In the field of transportation, the assets include highways, bridges, ferries and public transit. Spending on capital assets takes place both in Crown corporations (such as BC Hydro and BC Rail) and in ministries. The purpose of these investments is largely to meet the heavy and rising demands imposed by population and business growth; to stimulate the economy and produce growth; and to update, modernize or replace worn-out assets.

A large portion of these capital expenditures is not included in the annual estimates of expenditures because they occur outside the Consolidated Revenue Fund, and also because funding for such expenditures comes mainly from borrowing.

When a government has to rely mainly on debt to finance capital investments, the decision to spend the money on any capital infrastructure is always difficult. On one hand, there is demand to keep the Province economically competitive and protect its citizens' quality of life. On the other, there is concern about the rising debt level. In the last few years, approximately 83% ($1.5 billion) of the Province's annual capital spending has been financed through debt. Since the 1989/90 fiscal year, the total debt of the Province has grown from $16.2 billion to $29.3 billion as of March 31, 1997. The annual interest costs have also increased, rising in the same period, from $1.7 billion to about $2.4 billion. This is a sizeable amount compared with program spending in many ministries.

When capital spending escalates, it increases both the debt load and the debt servicing cost. The higher debt servicing cost means that each year in British Columbia there is about $2.4 billion less available for spending on social programs, education, health care, and research and development. Yet, when population is growing—and at the same time ageing—the increase in demand on capital structures is unavoidable. This presents a challenge.

The decisions of how much to spend on capital assets and where are policy issues, and the responsibility of Cabinet. However, it is the Treasury Board Secretariat's responsibility to develop an orderly capital budgeting plan to help politicians make capital program decisions that foster economic and social development while minimizing the effects of an increasing financial burden. To develop such a plan, we expected staff of the Treasury Board Secretariat to be supported by centralized procedures for:

- maintaining an up-to-date capital assets inventory;
- developing clear and measurable objectives for capital projects;
- preparing a long-range capital plan outlining future needs;
- synchronizing the long-range plan with ministry business plans and the government financial management plan;
- linking the capital assets plan with the annual operating budgeting plan;
- receiving adequate review and approval by Treasury Board;
- maintaining an adequate monitoring framework; and
- providing timely reporting of progress and an evaluation of goals and objectives.

In the fall of 1996, the function of reviewing and coordinating capital expense proposals was transferred back from the Ministry of Employment and Investment to the Treasury Board Secretariat, Capital Expenditure Branch. The proximity of the Capital Expenditure Branch to Treasury Board has helped staff coordinate work on capital budgeting issues, such as determining the costs of maintaining or replacing existing capital assets and assessing their effects on the annual Estimates process.

Also in the fall of 1996, the Ministry of Finance and Corporate Relations performed an internal review of the Province's capital investments. The work was carried out by the Capital Expenditures Review Working Group, whose members were drawn from across government. The group was assigned three tasks:

1. to prepare a new four-year Consolidated Capital Plan for1997/98 through 2000/01 that would respond to taxpayers' concerns and meet the objectives of the debt management plan;

2. to assess all provincial agency capital programs, with the objective of reducing both the demand for capital and the cost of capital projects; and

3. to review the provincial capital program as a whole, including examining possible alternative structures for managing the program.

The working group's report, released in January 1997, presented a number of key recommendations to improve the process, many of which are consistent with the expectations we outlined above. We have been told that the ministry is currently working toward implementing those recommendations. We noted that much has been done in this respect. Currently, for example, Treasury Board approves capital expenditure limits, and ministries and tax-supported Crown corporations submit five-year capital investment plans based on those approved limits. Social capital projects are forwarded to the Treasury Board Secretariat, and non-social capital projects are forwarded for review to the Secretariat and the British Columbia Buildings Corporation, as appropriate. The latter develops a long-term capital plan and submits it to Treasury Board staff (Capital Expenditure Branch) for further assessment.

Another review session is carried out between the Treasury Board Secretariat and representatives from ministries and tax-supported Crown corporations, to rationalize capital expenditure priorities and needs and to ensure consistency of their capital plans with the Financial Management Plan (formerly Debt Management Plan). The Secretary to Treasury Board, supported by the Capital Expenditure Branch, makes recommendations to Treasury Board, which may then vary the recommendations and fund allocations. A five-year Consolidated Capital Plan is prepared by Treasury Board staff to inventory assets, determine need for maintenance and new capital expenditure, and ascertain the operating cost of certain assets. The 1998/99 Estimates included a schedule outlining the capital expenditures of the Consolidated Revenue Fund. However, neither this, nor the multi-year capital information mentioned above has yet been formally integrated with the operating budget.

We encourage the government to proceed with the implementation of its capital expense budgeting process as an integral part of the Estimates process.

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[1] Money to be received or paid in the future has a lower value than money available or paid in the present. This is known as "the time value of money" and is due to risk, uncertainty and inflation as well as the fact that money in hand is more valuable than money to be received because you can use it now, even if there is no risk or inflation. The time value of money is recognized by applying a "discount rate" to convert the "future value" of the money to its "present value." A discount rate conceptually includes components representing the risk free time value of money plus expected inflation over the period plus an amount to reflect the riskiness of the transaction.

[2] The RISA requires policy and procedures to be established for the publication of Regulatory Impact

Statements. These statements must identify the objective, identify alternatives for achieving the objective, analyse the implications of the alternatives including fiscal, business, economic, social, environmental, First Nations, labour and other implications and demonstrate that effective consultation has been conducted.

[3] because that would require at least that the automatic repeal be amended.

[4] Note that capital owned by the provincial government is directly capitalized. Where government makes a capital contribution to a public body, such as a School District, to purchase a capital asset such as a school, that is also effectively capitalized by treating the contribution as a Prepaid Capital Advance, which is written-down and expensed over the life of the asset. See Issue Paper #2 for more discussion.

[5] The issue of prudence and avoiding inevitable annual mid-year adjustments will be addressed in Issue Paper #7 – Forecasting.

[6] Source: Auditor General of British Columbia, 1998/99 Report 4: A review of the Estimates Process in British Columbia, Chapter 3, pp. 119 – 121.