# GOOD ENOUGH FOR GOVERNMENT WORK:

## Grading Canada's 2007/08 Provincial Finances

IAN MUNRO

April 2008

## Atlantic Institute for Market Studies

The Atlantic Institute for Market Studies (AIMS) is an independent, non-partisan, social and economic policy think tank based in Halifax. The Institute was founded by a group of Atlantic Canadians to broaden the debate about the realistic options available to build our economy.

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The Institute's chief objectives include:

a) initiating and conducting research identifying current and emerging economic and public policy issues facing Atlantic Canadians and Canadians more generally, including research into the economic and social characteristics and potentials of Atlantic Canada and its four constituent provinces;

b) investigating and analyzing the full range of options for public and private sector responses to the issues identified and acting as a catalyst for informed debate on those options, with a particular focus on strategies for overcoming Atlantic Canada's economic challenges in terms of regional disparities;

c) communicating the conclusions of its research to a regional and national audience in a clear, non-partisan way; and

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# ABOUT THE AUTHOR

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# Executive Summary

This study evaluates fiscal year 2007/08 provincial finances using a standardized grading system developed in previous editions of this series. This is the first year that AIMS is presenting a single document discussing all ten provinces.

The ten provinces are grouped together fairly closely on their overall grades, with no province above a B+ or below a C–. So, no province is "too hot" or "too cold," *à la* Goldilocks, but this does not mean that all ten are "just right," either. (In fact, on certain subgrade marks, the results are definitely Grimm.)

The highest scores this year go to Alberta and Ontario with B+ grades. The next tier consists of four provinces with average C+ grades: Newfoundland and Labrador, New Brunswick, Saskatchewan, and British Columbia. Prince Edward Island and Quebec follow with C grades, while Nova Scotia and Manitoba finish in a last place tie with C– marks. These overall results are broadly similar to last year's.

Turning to the three subgrades — fiscal health, fiscal accuracy, and budget impact — there is more variance. Perhaps unsurprisingly, the three traditional "have" provinces — Alberta, British Columbia, and Ontario — score highest on fiscal health, with Alberta's A+ at the front of the pack. These leaders on the fiscal health subgrade have, in general, the lowest levels of per capita interest payments, the lowest per capita deficits, the lowest levels of per capita spending, and the smallest per capita public services. Quebec, Manitoba, Saskatchewan, and the Maritime provinces fall into the range from C+ to C– on fiscal health. Newfoundland and Labrador lags with a D, although optimism about the province's offshore sector should translate into improvements on this measure in future years. Once again, the ranking on this subgrade is similar to that in the 2006/07 study. It is good to see that Newfoundland and Labrador has improved on last year's very poor F/D– mark.

Alberta also leads on the fiscal accuracy/transparency subgrade with an A–, a strong improvement over last year's C+ mark. That is, Alberta does best at producing budget estimates that are consistent both with independent third-party analysis and across years in the province's own budget documents. Newfoundland and Labrador manages a second-place finish on this measure with a B+, while Ontario and Prince Edward Island also record good marks, each with a B. New Brunswick records an average C+, followed by Saskatchewan with a C and British Columbia and Nova Scotia with C– grades. Manitoba and Quebec finish tied for last in this category with D+ marks; Manitoba's D+ is especially disappointing after the B– it received last year.

Finally, the top mark for the economic impact of its budget goes to Newfoundland and Labrador with a B+, followed by Saskatchewan with a B. These two provinces also scored the two highest marks on this score last year, although Saskatchewan claimed top spot in 2006/07. These high grades mean they have presented budgets that will do the most to promote healthy economies in the long term — by limiting or reducing taxes, expenditures, interest payments, and deficits. British Columbia and Ontario both record above-average B– grades. Manitoba, Nova Scotia, and Quebec all manage an average C+, followed by New Brunswick with a C. Alberta and Prince Edward Island tie for last place with D+ marks.

# INTRODUCTION

This study is the fourth in an ongoing series from the Atlantic Institute for Market Studies (AIMS) evaluating provincial budgets. This year marks the first time that all ten provinces are discussed in a single document. The assessment is based on the assumption that careful, well-planned, cautious budgetmaking has a positive impact on provincial economic growth. Lower taxes and prudently balanced budgets are key to strong provincial economic development. More important, avoiding debt and encouraging growth contribute to long-term solutions for the demographic challenges that all provinces increasingly will face. Accordingly, pointing out deficiencies in the provinces' finances can help the public, opinionmakers, and policymakers in their demands that provincial governments take prudent action to secure their citizens' economic future.

To determine a single overall grade for each province, three separate subgrades are developed first:

- a measure of the fiscal health of each province just before the tabling of the fiscal year 2007/08 budget in spring 2007;[1]
- a measure of the fiscal accuracy, or transparency, of the 2006/07 budget, which allows us to assess how the province has adhered to its 2006/07 budget forecast according to the revised data in the 2007/08 budget, and how the province's budget data deviate from the more comprehensive statistics published by the Dominion Bond Rating Service (DBRS); and,
- a budget impact grade, which is an assessment of the 2007/08 budget itself.

The three subgrades are then averaged to derive an overall grade for each of the ten provinces, with a C+ representing an average grade.

Each province's budget is assessed relative to the average of all ten provinces. To do so, however, it is important to look beyond the merits of the budgets themselves. A budget is simply a statement of how the province intends to collect and spend revenue in the following year. To place these intentions in context, it is necessary to measure the state of a province's public finances before the budget is tabled and compare that state with the national average. For example, a province that cuts government spending might do so not out of a sense of frugality or fiscal conservatism but because it is attempting to deal with a high deficit and debt load. Thus, the context in which the province undertakes a spending cut must be taken into account. Accordingly, a *fiscal health grade* is assigned, which is a measure of the state of the province's fiscal finances for fiscal year 2006/07, prior to the tabling of the spring 2007 budget; this component is worth 40 percent of the total grade.

1 For Prince Edward Island, we use the October 2007 budget of the new Robert Ghiz government.

**Table 1:** ***Definitions of the Fiscal Indicators Used to Compile the Three Grades***

| Indicator | Definition |
|---|---|
| *Fiscal Health Grade* | |
| Indicator 1 | 2006/07 per capita debt interest paid |
| Indicator 2 | 2006/07 per capita deficit (or surplus) |
| Indicator 3 | 2006/07 per capita ordinary expenditures less debt interest |
| Indicator 4 | Number of provincial employees per thousand population in 2006 |
| *Fiscal Accuracy Grade* | |
| Indicator 5 | Negative of the absolute value of the 2006/07 per capita deficit error (DBRS vs. budget documents) |
| Indicator 6 | Negative of the absolute value of the 2006/07 per capita spending error (DBRS vs. budget documents) |
| Indicator 7 | 2006/07 deficit estimate error (2006/07 vs. 2007/08 estimates) |
| Indicator 8 | 2006/07 expenditure estimate error (2006/07 vs. 2007/08 estimates) |
| *Budget Impact Grade* | |
| Indicator 9 | Change in per capita deficit (or surplus) from 2006/07 to 2007/08 (from budget documents) |
| Indicator 10 | Change in per capita debt interest from 2006/07 to 2007/08 (from budget documents) |
| Indicator 11 | Change in per capita dollar expenditures from 2006/07 to 2007/08 (from budget documents) |
| Indicator 12 | Tax indicator (existing tax levels and qualitative assessment of tax changes in the budget) |

Another complication is that a province might promise a spending cut in its budget, but it might not deliver on that promise during the fiscal year. Alternatively, the province might forecast a balanced budget but end up with a deficit at the end of the fiscal year. Accordingly, to assess the government's fiscal accountability, a *fiscal accuracy grade* is assigned, which is determined in two ways. First, the believability of the province's budget data is gauged using comparable statistics from the DBRS, which provide the best, most complete picture of a provincial government's fiscal status. This is done for per capita deficits and surpluses, as well as for per capita total spending. Second, the forecasting error of the numbers in the fiscal year 2006/07 budget is measured as determined by the revised data for 2006/07 contained in the spring 2007 budget. The fiscal accuracy grade is also worth 40 percent of the total grade.

Finally, a *budget impact grade* is assigned for the fiscal year 2007/08 budget based on the extent to which it promotes the province's economic growth. That grade is determined according to whether the budget holds spending growth to a modest rate, reduces a deficit or maintains a surplus, and keeps provincial tax rates down. In particular, high marks are given to a provincial government that cuts the most pernicious taxes, such as corporate capital and income taxes. This component is worth 20 percent of the final grade.

Each of the three subgrades is determined by four indicators — 12 in all (see Table 1). Indicators 1 to 11 are calculated using a statistical measure known as a "z-score," which permits data from all ten provinces to be graded relatively. Indicator 12, on the other hand, is based on a combination of a z-score approach for several tax statistics and a qualitative assessment of tax changes offered in each province's budget (see Tables 2 and 3). The tax statistics that we analyse include the following:

- the general corporate income tax rate (lower is better);
- the small business income tax rate (lower is better);
- the top personal income tax rate (lower is better);
- the basic personal tax credit (higher is better); and
- the share of “good taxes” in the province’s revenue mix (higher is better).

On this last component, there is a considerable body of theory and research showing that consumption taxes do less overall economic harm than corporate taxes and personal income taxes, and that user fees are preferable to taxes as a means of covering the cost of public services where user fees can be applied in a practical manner. Data from DBRS on provincial revenue sources, including a calculated proxy variable for user fees, are used to gauge the percentage mix of “good” revenue sources (consumption taxes and user fees) versus “bad” ones (corporate and personal income taxes).

A z-score based on the three identified tax rates, the basic personal tax credit, and the percentage of “good taxes” accounts for half the Indicator 12 mark. The other half comes from a judgment of the tax measures contained in the budget: deep and wide tax reductions score better than shallow or narrow reductions, which in turn are better than tax increases.

One could reasonably argue for variations in the calculation methodology for Indicator 12. For example, perhaps the marginal effective tax rate should be used to score provinces on their business tax stance, or perhaps average personal tax rates at certain income levels should be considered, rather than the top marginal rate. As well, there is room for debate as to whether, say, fuel taxes should be considered “good taxes” in the same way as are broad-based general consumption taxes. (And here the answer will depend on the policy position behind the fuel tax: is it for revenue generation? cost recovery for transportation infrastructure? an incentive related to environmental goals?) We believe that we have constructed a fairly well-rounded tax measure, but we welcome input from interested readers on this new measure.

**Table 2:** ***Tax Information, by Province***

| | NL | PE | NS | NB | QU | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *Selected rates and credits for 2007 tax year* | | | | | |
| General corporate tax rate *(%)* | 14.0 | 16.0 | 16.0 | 13.0 | 9.9 | 14.0 | 14.0 | 13.0 | 10.0 | 12.0 |
| Small business tax rate *(%)* | 5.0 | 4.3 | 5.0 | 5.0 | 8.0 | 5.5 | 3.0 | 4.5 | 3.0 | 4.5 |
| Top personal income tax rate *(%)* | 18.02 | 18.37 | 19.25 | 17.95 | 19.20 | 17.41 | 17.40 | 15.00 | 10.00 | 14.70 |
| Basic personal tax credit *($)* | 7484 | 7560 | 7481 | 8239 | 12,188 | 8553 | 7834 | 8778 | 15,435 | 9027 |
| | | | | | *Revenues by type, fiscal year 2007/08 estimates from spring 2007 budgets (October 2007 budget for PEI)** | | | | | |
| "Good" revenues *($ millions)* | | | | | | | | | | |
| Retail sales tax | 684 | 195 | 1096 | 909 | 10,020 | 16,682 | 1327 | 875 | – | 4890 |
| Fuel tax | 147 | 44 | 252 | 191 | 1701 | 3142 | 232 | 380 | 720 | 919 |
| Other user fees and charges | 474 | 166 | 757 | 854 | 5718 | 7524 | 449 | 750 | 6888 | 9868 |
| "Good" subtotal | 1305 | 405 | 2105 | 1954 | 17,439 | 27,348 | 2008 | 2005 | 7608 | 15,677 |
| "Bad" revenues *($ millions)* | | | | | | | | | | |
| Personal income tax | 786 | 214 | 1718 | 1210 | 18,045 | 25,923 | 2159 | 1685 | 7318 | 6389 |
| Corporate tax | 342 | 55 | 462 | 385 | 4729 | 15,155 | 822 | 967 | 3370 | 1853 |
| Liquor & tobacco tax | 222 | 34 | 348 | 230 | 1832 | 3015 | 417 | 178 | 1532 | 1515 |
| "Bad" subtotal | 1350 | 303 | 2528 | 1825 | 24,606 | 44,093 | 3398 | 2830 | 12,220 | 9757 |
| *Total* | *2,655* | *708* | *4,633* | *3,779* | *42,045* | *71,441* | *5,406* | *4,835* | *19,828* | *25,434* |
| "Good" revenues as percentage of total *(%)* | 49.2 | 57.2 | 45.4 | 51.7 | 41.5 | 38.3 | 37.1 | 41.5 | 38.4 | 61.6 |
| "Bad" revenues as percentage of total *(%)* | 50.8 | 42.8 | 54.6 | 48.3 | 58.5 | 61.7 | 62.9 | 58.5 | 61.6 | 38.4 |

* Natural resource and gaming and lottery revenue are considered "neutral" for this exercise and therefore are excluded from the analysis.

Source: Dominion Bond Rating Service, *The 2007 Canadian Federal and Provincial Governments Overview: Still on Solid Ground* (Toronto: DBRS, October 2007).

**Table 3:** ***Announced Tax Changes by Province, fiscal year 2007/08 Budget***

| | Business Taxes | Personal Income Taxes | Sales and Excise Taxes | Other Taxes and User Fees | Comment |
|---|---|---|---|---|---|
| Newfoundland and Labrador | Small business threshold raised from $300,000 to $400,000 | Rates cut for first 3 brackets; surtax eliminated; inflation indexing introduced | Sales taxes on used motor vehicules cut from 15% to 14% | Variety of user fees reduced | Wide range of tax and fee reductions |
| Prince Edward Island | Small business tax rate cut | Tax bracket thresholds increased | Gasoline tax cut | | Only modest cuts in a high-tax environment |
| Nova Scotia | Continued phase-out of capital tax | Basic personal amount & other credits (e.g. for spouses and dependants increased | Tobacco and aircraft fuel taxes increased | Most user fees increased by 6.8%; several highly specialized credits introduced or increased | Only modest tax cuts and user fee increases |
| New Brunswick | Corporate income tax rates increased (reversal of cuts announced earlier) for large and small businesses; small business threshold decreased; tax credit for small business dividends increased | Rates increased for four brackets; some credits increased | Increase in gasoline tax repealed | | Wide range of tax increases |
| Quebec | Corporate income tax rate increased; continued phase-out of capital tax | Tax bracket thresholds, basic personal amount increased | | | Personal tax cuts offset by corporate tax increases |
| Ontario | Continued phase-out of capital tax | | | | Minimal action while economy stalls |
| Manitoba | Capital tax to be phased out; continued cuts to large and small corporate income tax rate | Rate for middle bracket cut, threshold increased | | | Broad-based cuts |
| Saskatchewan | Capital tax to be phased out; corporate income tax rate cut; small business threshold increased | | | | Continued cuts to business taxes |
| Alberta | Small business threshold increased | | | Tobacco taxes raised by 16%; some credits (e.g. education, charitable donations) increased | Minimal action, but already a low-tax environment |
| British Columbia | | Four lowest rates cut by about 5% | | | Continued cuts to personal income taxes |

Sources: Dominion Bond Rating Service, *The 2007 Canadian Federal and Provincial Governments Overview: Still on Solid Ground*. (Toronto: DBRS, October 2007); budget documents.

# THE RECENT ECONOMIC BACKGROUND

Canada's economic outlook for 2008 is less rosy than in recent years as concerns mount about a possible recession in the United States, our largest trading partner.

Growth likely will be uneven across the country as high commodity and energy prices propel the economies of western Canada and Newfoundland and Labrador; however, the strong Canadian dollar will hinder the manufacturing sector in Ontario and Quebec.

As shown in Table 4, the four western provinces all experienced strong growth in 2007, led by Saskatchewan, with a stellar 4.9 percent increase over 2006, and Alberta's robust 3.8 percent growth. The best performance in the country, however, was Newfoundland and Labrador's 5.9 percent jump. While unable to match the numbers posted by their oil-rich cousins, the Maritime provinces, Quebec, and Ontario all managed to achieve growth rates between 2.0 and 2.5 percent.

Forecasts for 2008 show a largely similar relative pattern: the best performances will come from the resource-rich western provinces, particularly Saskatchewan and Alberta at 3.0 percent and 2.8 percent, respectively. Central Canada and the Maritimes will post lower but still positive numbers, with New Brunswick leading this subset at 2.0 percent growth and Quebec and Ontario forming the other bookend at only 0.9 percent. The biggest change from 2007 to 2008 is Newfoundland and Labrador's drop from a country-leading 5.9 percent to a far more modest 1.2 percent figure.

Although 2008 looks to be a mediocre year at best for some parts of the country, forecasts for 2009 show generally improved performances.

## *Trends in Provincial Government Revenues*

Growth in total per capita government revenue also will be uneven across the country, as Table 5 shows. The largest increases will occur in Atlantic Canada, led by Newfoundland and Labrador's figure of 13.0 percent. Quebec, Ontario, and Manitoba will post more modest increases, while the three westernmost provinces will show declines in per capita government revenue compared with fiscal year 2006/07. These decreases in the west, particularly the large drops in Saskatchewan and Alberta, drag the total figure for all ten provinces into negative territory, although just barely, at –0.1 percent.

There also is a lot of variance in the drivers behind these numbers. The Atlantic provinces all show strong revenue growth, but in Newfoundland and Labrador and New Brunswick it is own-source revenue (mainly in the form of oil royalties, for the former) that is responsible for the increase,

**Table 4:** ***Estimated and Forecast Growth in Real GDP Per Capita, by Province, 2003–08***

| | NL | PE | NS | NB | QU | ON | MB | SK | AB | BC | CA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *(year-over-year percentage change in GDP per capita)* | | | | | | | | | | |
| 2003 | 5.8 | 2.1 | 1.4 | 2.8 | 1.2 | 1.4 | 1.4 | 4.6 | 3.2 | 2.3 | 1.9 |
| 2004 | –1.7 | 3.0 | 1.4 | 1.4 | 2.6 | 2.5 | 2.6 | 3.8 | 5.2 | 3.7 | 3.1 |
| 2005 | 0.2 | 1.3 | 1.8 | 0.5 | 2.0 | 2.9 | 2.7 | 3.5 | 5.3 | 4.5 | 3.1 |
| 2006 | 3.3 | 2.6 | 0.9 | 3.0 | 1.7 | 2.1 | 3.2 | –0.4 | 6.6 | 3.3 | 2.8 |
| 2007 | 5.9 | 2.3 | 2.1 | 2.3 | 2.0 | 2.1 | 3.3 | 4.9 | 3.8 | 3.1 | 2.6 |
| 2008 | 1.2 | 1.5 | 1.7 | 2.0 | 0.9 | 0.9 | 2.7 | 3.0 | 2.8 | 2.5 | 1.5 |

Sources: Statistics Canada, CANSIM database, Table 384-0002; Robert Kavcic, "Provincial Monitor: An Update on Provincial Economic & Fiscal Matters" (Toronto: BMO Capital Markets, winter 2008); available at <http://www.bmonesbittburns.com/economics/monitor/2008h1/monitor.pdf>.

whereas in Prince Edward Island the key factor is an increase in federal transfers. Nova Scotia's revenue growth is a more even blend of these two influences. Quebec, Ontario, and Manitoba all show very weak growth in own-source revenue but sizable increases in federal transfers. The variability continues in the west, with Saskatchewan showing large decreases in both own-source revenue and federal transfers, Alberta recording a large drop in own-source revenue but a significant increase in federal transfers, and British Columbia posting a small decrease in own-source revenue and a large one in transfer payments.

## Trends in Provincial Government Expenditures

Table 6 depicts trends in per capita government spending. In terms of total spending, Newfoundland and Labrador, Prince Edward Island, and Alberta lead the way with double-digit increases. Such large increases in government expenditures — far larger than the forecast growth in GDP — are always a cause for concern, particularly so in Prince Edward Island, which cannot claim to be spending a windfall from record-high oil prices. New Brunswick, Quebec, Manitoba, and British Columbia also show fairly large expenditure growth in absolute terms; furthermore, these spending figures exceed the forecast growth rates in provincial revenues. Nova Scotia, Ontario, and Saskatchewan are to be commended for more prudent spending: the former two keep per capita spending increases below their corresponding revenue figures and Saskatchewan limits spending growth to a tight 0.3 percent.

Table 6 also provides growth figures for certain subcategories of spending: health care, interest payments on the debt, and a "residual" category that captures everything else.

Governments' ability to control health care spending appears lacking, as five provinces show increases greater than 7 percent and even the most disciplined province, Ontario, increased spending by 4.1 percent from the previous year. The need to get this cost line under control will become increasingly critical as Canada's population ages.

**Table 5:** ***Growth Rates in Components of Provincial Government Revenue Per Capita, by Province, fiscal years 2004/05 to 2007/08***

| Component | NL | PE | NS | NB | QU | ON | MB | SK | AB | BC | CA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(year-over-year percentage change)* | | | | | | |
| Own-source revenue | | | | | | | | | | | |
| 2004/05 | 10.8 | 5.9 | 5.2 | 2.7 | 4.3 | 13.9 | 23.9 | 9.8 | 11.8 | 8.7 | 10.2 |
| 2005/06 | 18.4 | 9.4 | 8.4 | 8.8 | 2.2 | 6.6 | 8.6 | 15.4 | 25.3 | 6.1 | 9.0 |
| 2006/07 | 2.6 | 1.8 | 6.1 | 2.6 | 3.8 | 3.8 | 0.0 | 0.0 | 1.3 | 4.1 | 3.4 |
| 2007/08 | 22.9 | 1.5 | 4.7 | 4.4 | 0.0 | 0.4 | 1.4 | –7.1 | –12.0 | –0.8 | –1.5 |
| Transfers | | | | | | | | | | | |
| 2004/05 | –6.0 | 11.0 | 14.9 | 22.9 | –2.2 | 18.6 | 15.2 | 61.2 | 8.4 | 42.6 | 14.4 |
| 2005/06 | 24.0 | 0.7 | 4.4 | 1.7 | 7.3 | 10.3 | –0.5 | –23.7 | 3.1 | 9.4 | 6.1 |
| 2006/07 | –9.3 | 7.6 | 6.3 | 4.5 | 9.7 | 5.9 | 6.8 | 11.2 | –11.9 | 9.4 | 5.2 |
| 2007/08 | 1.0 | 10.8 | 6.9 | 0.7 | 18.8 | 12.6 | 8.2 | –9.7 | 17.3 | –14.9 | 8.1 |
| Total revenue | | | | | | | | | | | |
| 2004/05 | 4.4 | 7.8 | 8.4 | 10.0 | 2.2 | 14.6 | 18.6 | 17.7 | 11.4 | 13.0 | 10.5 |
| 2005/06 | 24.8 | 5.9 | 16.1 | 5.9 | 4.3 | 7.2 | 5.4 | 7.1 | 22.8 | 6.6 | 8.7 |
| 2006/07 | –5.7 | 4.0 | –2.1 | 3.4 | 5.6 | 4.2 | 1.4 | 1.7 | 0.1 | 5.1 | 3.7 |
| 2007/08 | 13.0 | 5.2 | 5.4 | 3.0 | 2.5 | 2.4 | 1.2 | –7.6 | –9.6 | –3.2 | –0.1 |

Source: Dominion Bond Rating Service, *The 2007 Canadian Federal and Provincial Governments Overview: Still on Solid Ground.* (Toronto: DBRS, October 2007).

Somewhat better news is available on the interest payment front. Newfoundland and Labrador records a decrease and six provinces keep their increases below 3 percent. New Brunswick's increase of 12 percent is more troubling — this trend cannot continue if the province is to achieve its goal of long-term self-sufficiency. Alberta's huge increase of 26.8 percent appears alarming, but this figure should be taken with the proverbial grain of salt as year-on-year changes appear much larger since Alberta's interest payments are very small in absolute terms. As Alberta effectively has paid off its provincial debt, there is really little to be concerned about in terms of its interest payments.

The "residual" spending category is a mixed bag, with large increases in Newfoundland and Labrador, Prince Edward Island, New Brunswick, Quebec, Manitoba, and Alberta, modest increases in Ontario and British Columbia, and decreases in Nova Scotia and Saskatchewan.

Overall, the trend in expenditure growth is disappointing: in most provinces, it exceeds the growth of both government revenue and the provincial economy.

**Table 6:** ***Growth Rates in Components of Provincial Government Expenditures Per Capita, by Province, fiscal years 2004/05 to 2007/08***

| Component | NL | PE | NS | NB | QU | ON | MB | SK | AB | BC | CA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(year-over-year percentage change)* | | | | | | |
| Health | | | | | | | | | | | |
| 2004/05 | 2.5 | 0.8 | 9.1 | 2.7 | 7.4 | 6.5 | 5.0 | 10.2 | 16.8 | 1.2 | 6.9 |
| 2005/06 | 5.1 | 6.0 | 8.6 | 6.8 | 2.1 | 2.8 | 6.0 | 8.4 | 4.9 | 6.3 | 4.0 |
| 2006/07 | 8.2 | 1.5 | 8.0 | 7.5 | 5.3 | 8.5 | 6.0 | 8.4 | 8.8 | 5.2 | 7.1 |
| 2007/08 | 11.3 | 7.9 | 7.9 | 7.7 | 5.6 | 4.1 | 5.3 | 5.6 | 9.3 | 5.8 | 5.7 |
| Interest | | | | | | | | | | | |
| 2004/05 | –2.8 | –0.4 | 3.8 | –0.4 | 2.2 | 6.6 | –2.8 | –4.0 | 9.2 | –5.4 | 2.7 |
| 2005/06 | –1.5 | 3.1 | –2.8 | 1.8 | 0.3 | –5.5 | 4.0 | –5.4 | –47.1 | –7.7 | –3.5 |
| 2006/07 | –5.9 | 7.4 | –2.7 | –7.1 | 0.8 | –3.5 | 3.5 | –0.3 | –13.9 | 2.2 | –1.5 |
| 2007/08 | –6.0 | 2.9 | 0.4 | 12.0 | 2.5 | 2.4 | 2.4 | 2.3 | 26.8 | 5.5 | 2.3 |
| Residual | | | | | | | | | | | |
| 2004/05 | –6.0 | –5.7 | 3.2 | 8.4 | 2.5 | 8.8 | 6.9 | 3.8 | 6.4 | 6.9 | 5.7 |
| 2005/06 | 14.5 | 4.5 | 7.6 | 4.9 | 3.5 | 8.4 | 9.2 | 13.2 | 13.9 | 6.8 | 7.9 |
| 2006/07 | –8.3 | 6.7 | 13.4 | 9.9 | 3.9 | 2.9 | 0.9 | 9.4 | 5.5 | 9.3 | 4.8 |
| 2007/08 | 19.5 | 12.2 | –0.7 | 8.6 | 5.9 | 0.8 | 6.1 | –3.5 | 11.6 | 1.9 | 4.4 |
| Total | | | | | | | | | | | |
| 2004/05 | –3.3 | –3.3 | 5.5 | 5.5 | 4.2 | 7.6 | 5.9 | 5.5 | 10.1 | 4.0 | 5.9 |
| 2005/06 | 9.3 | 4.9 | 6.6 | 5.4 | 2.5 | 4.6 | 7.9 | 9.9 | 9.9 | 5.9 | 5.3 |
| 2006/07 | –3.6 | 5.1 | 9.3 | 7.8 | 4.0 | 4.5 | 2.7 | 8.3 | 6.6 | 7.4 | 5.1 |
| 2007/08 | 13.4 | 10.2 | 2.7 | 8.4 | 5.3 | 2.3 | 5.7 | 0.3 | 10.8 | 3.5 | 4.7 |

Source: Dominion Bond Rating Service, *The 2007 Canadian Federal and Provincial Governments Overview: Still on Solid Ground.* (Toronto: DBRS, October 2007).

# PRESENTING THE GRADES

Our grading scheme is laid out in Table 7. Note that the scheme is a relative one in which an average score is geared to be a C+.

As Table 8 shows, the top overall marks this year go to Ontario and Alberta with B+ grades. The remaining eight provinces are grouped together in the "C"s: C+ for Newfoundland and Labrador, New Brunswick, Saskatchewan, and British Columbia; C for Prince Edward Island and Quebec; and C– for Nova Scotia and Manitoba.

Not surprisingly, the top marks for the fiscal health subgrade go to the three provinces that traditionally have had the strongest economies: Alberta (A+), Ontario (A–), and British Columbia (B). Equally unsurprising is that traditional economic cellar-dweller Newfoundland and Labrador posts the lowest fiscal health grade with a D.

Alberta and Ontario also score well on fiscal accuracy with an A– and a B, respectively, but here others get their chance to shine as well, such as Newfoundland and Labrador with a B+ and Prince Edward Island with a B. Quebec and Manitoba do the poorest job of producing budget numbers that reflect previous government forecasts or that are supported by third-party estimates and thus post the lowest marks on this subgrade with D+ scores.

On the budget impact subgrade, Alberta is at the bottom of the list with a D mark, which suggests that the province continues to have difficulty in effectively managing its booming economy. In

**Table 7:** ***The Grading Scheme***

| Grade | Z-Score Interval | Grade Interpretation |
|---|---|---|
| A+ | 1.11 and above | outstanding |
| A | 0.91 to 1.1 | excellent |
| A– | 0.71 to 0.9 | excellent to very good |
| B+ | 0.51 to 0.7 | very good |
| B | 0.31 to 0.5 | good |
| B– | 0.11 to 0.3 | slightly above average |
| C+ | –0.1 to 0.1 | average |
| C | –0.11 to –0.3 | slightly below average |
| C– | –0.31 to –0.5 | mediocre |
| D+ | –0.51 to –0.7 | mediocre to poor |
| D | –0.71 to –0.9 | poor |
| D– | –0.91 to –1.1 | very poor |
| F | –1.11 and below | failure |

**Table 8:** ***Grades for Provincial Government Finances and Budgets, fiscal year 2007/08***

| | Fiscal Health Grade | Fiscal Accuracy Grade | Budget Impact Grade | Overall Grade |
|---|---|---|---|---|
| Newfoundland and Labrador | D | B+ | B+ | C+ |
| Prince Edward Island | C– | B | D+ | C |
| Nova Scotia | C– | C– | C+ | C– |
| New Brunswick | C | C+ | C | C+ |
| Quebec | C+ | D+ | C+ | C |
| Ontario | A– | B | B– | B+ |
| Manitoba | C– | D+ | C+ | C– |
| Saskatchewan | C– | C | B | C+ |
| Alberta | A+ | A– | D+ | B+ |
| British Columbia | B | C– | B– | C+ |

contrast, Newfoundland and Labrador and Saskatchewan, which are also enjoying the resource boom, have budgeted more prudently and take the top two spots for this subgrade with a B+ and a B, respectively.

It is good to see that no province records an F on any of the three subgrades this year, and that only five of the 30 subgrade marks are below a C–. Also cause for optimism is that 11 of the subgrades are B– or better, including three at A– or better. New Brunswick, Nova Scotia, Quebec, and Manitoba all fail to record any subgrade above a C+, but New Brunswick and Nova Scotia also manage to avoid any mark below C–; more disappointing are Quebec and Manitoba, which have no subgrade marks above average (two C+ grades and one D+ for Quebec, and a C+, a C–, and a D+ for Manitoba). Ontario is to be commended for having all three subgrades above the average C+ level, the only province to do so.

We now discuss the results of the ten provinces, in east-to-west order.

## *Newfoundland and Labrador*

### Overall Grade: C+

Newfoundland and Labrador's overall C+ grade is just slightly above last year's mark of C/C+. Many analysts see good times ahead for the province as oil royalties flow in and oil prices remain in the stratosphere. This should drive improvements in the province's fiscal health grade from this year's poor D mark, although we should note that there is a silver lining to this D in that it is an improvement on last year's F/D– grade. A booming oil sector also should see continued strong performance on the province's budget impact grade — a country-leading B+ this year — if the province manages this new wealth wisely.

The province should take pride in once again posting a solid B+ for fiscal accuracy and transparency.

## Fiscal Health Grade: D

Within the fiscal health subgrade, Newfoundland and Labrador scores average marks on two indicators and poor marks on two others. Average C+ grades are earned for Indicator 2 (per capita surplus/deficit) and Indicator 4 (size of the provincial public service). Had it not been for the enormous size of Alberta's fiscal year 2006/07 per capita surplus (almost ten times the ten-province average), Newfoundland and Labrador's per capita surplus of $247 dollars, third highest behind Alberta and British Columbia, would have earned it a much higher mark in our relative grading scheme.

As it did last year, the province earns an F for Indicator 1 (per capita interest payments). If in the future the government makes the wise choice to tackle aggressively the provincial debt as oil royalties flow in, it should be able to whittle down its per capita interest payments, which stood at $1420 in fiscal year 2006/07, by far the highest in Canada and more than double the ten-province average of $649.

Achieving improvements on Indicator 1 will require improvements as well on Indicator 3 (per capita expenditures). If the province wishes to record better marks than this year's D– and last year's F, it will need to exercise the type of tight spending discipline that can free up enough funds for the debt to be paid down significantly. In fiscal year 2006/07, only Manitoba outspent Newfoundland and Labrador's figure of $7983 per person.

## Fiscal Accuracy Grade: B+

The province once again receives a B+ for its fiscal accuracy and transparency grade. Beneath this subgrade are strong A+ and A– marks, respectively, for Indicator 8 (year-on-year expenditure estimate) and Indicator 6 (DBRS versus budget expenditure estimate). An above-average grade of B– also was received for Indicator 5 (DBRS versus budget surplus/ deficit estimate). The only below-average Indicator for Newfoundland and Labrador in this group is Indicator 7 (year-on-year surplus/deficit estimate), where a C was recorded. Last year's mix of indicator grades was slightly different in that high marks were recorded for the two year-on-year measures (Indicators 7 and 8), while more modest grades were awarded for the two DBRS-budget comparisons (Indicators 5 and 6).

### Budget Impact Grade: B+

Newfoundland and Labrador posts a very strong performance on budget impact, taking top spot for the subgrade with a B+ and top spot on Indicators 9 and 10 (change in surplus/deficit, change in interest payments) with A and A+ marks, respectively. In contrast, the province ties Prince Edward Island for last place on Indicator 11 (change in spending) with a dismal F grade. Compared with last year, the province has matched its excellent performance on Indicator 10 and posted impressive improvements on Indicators 9 and 12. The F for Indicator 11, however, is a drop from last year's already poor D+ grade.

These marks illustrate well the challenge the province faces as oil royalties roll in. Although these funds should allow for solid budgets featuring strong surpluses, which, in turn, will lead to reductions in future interest payments, they also represent a double-edged sword in that the government might drift toward excessive spending at the expense of these other potential improvements.

## *Prince Edward Island*

### Overall Grade: C

Prince Edward Island saw two budgets last year, one in April from the Pat Binns Progressive Conservative government that was sent packing by the voters shortly thereafter and an October budget from the new Liberal government of Robert Ghiz, which we use in our analysis.

Prince Edward Island's overall grade remains unchanged from last year at a C. On the subgrades, the province has improved on fiscal health (from D/D+ to C–) and on fiscal accuracy (from B– to B), but it also has lost ground on its budget impact grade by dropping from a B– to a disappointing D+.

### Fiscal Health Grade: C–

This year's fiscal health indicator grades are almost identical to last year's for Prince Edward Island. Remaining constant are the C– and F earned, respectively, for Indicators 2, and 4 (surplus/deficit, and number of employees). Indicator 1 (interest) drops from a C+ last year to a C this year. The one glimmer of brightness amidst these generally poor results is an improvement from C– to C on Indicator 3 (ordinary expenditures).

There are several worrying trends within the numbers for this subgrade: per capita interest expenses went up in fiscal year 2006/07 for the second year in a row, the province moved from a surplus position back into a deficit, based on DBRS calculations, per capita expenditures rose for the second year in a row, and the province had more public sector employees per capita than any other (109 per thousand population, versus a ten-province average of 94).

### Fiscal Accuracy Grade: B

There is a much better story to tell on the fiscal accuracy front, where the province posted a solid B overall and strong grades of A–, A (tops in the country), and B for Indicators 5, 6, and 8, respectively. These marks show that the province is generally doing a good job of managing its budgets once they are delivered. Also encouraging is that there is an upward trend here as the previous year's marks for these three indicators were B+, B+, and B–. There was also improvement on Indicator 7 (year-over-year surplus/deficit error), from D+ to C–, but this year's mark is still below average.

### Budget Impact Grade: D+

Things turn downward again with the budget impact subgrade. The below-average D+ subgrade is down sharply from last year's B–. Strong A–, B–, and B– marks last year for Indicators 9, 11, and 12 (change in deficit/surplus, change in expenditures, and taxes) have given way to very disappointing marks of C, F, and C this year. The change in debt interest mark, Indicator 10, remained constant at a poor D+.

## *Nova Scotia*

### Overall Grade: C–

As was the case last year, Nova Scotia finishes at the bottom of the pack this year, in a tie with Manitoba with an overall grade of C–. The province also posts C– grades for the fiscal health and fiscal accuracy subgrades, but manages an average C+ on the budget impact subgrade.

Despite a last-place finish, there is some good news in that the province has shown improvement over last year's marks on two of the three subgrades. The province is on the right trend with fiscal accuracy, moving from a D+ to a C–, and on budget impact, moving from a C–/C to a C+. On fiscal health, however, Nova Scotia declines from a C last year to a C– this year.

### Fiscal Health Grade: C–

The news is not good for Nova Scotia with regard to its fiscal health subgrade. Its marks of D+, D+, and D for indicators 1, 2, and 4 reflect poor relative performance on per capita interest, surplus/deficit, and size of public service metrics, and all represent declines from last year's marks. The per capita deficit figure of $168 is second worst in the country, behind only Quebec at $199. Minor redemption comes from a B mark for Indicator 3 (expenditures), although it too is a decline from last year's B+ grade.

### Fiscal Accuracy Grade: C–

The province also posts generally disappointing results on the fiscal accuracy indicators, including an F for Indicator 5, a D+ for Indicator 7, and a C– for Indicator 8. These compare with marks of C, D+, and B– for the same indicators last year — two drops and one flatlined D+. Again, there is a single bright spot among the indicators, a B for Indicator 6 (DBRS versus budget spending error), which is a huge improvement over the F earned in the prior year.

### Budget Impact Grade: C+

Nova Scotia manages an average C+ for the budget impact grade and records marks at or above average for three of the four indicators: a B for Indicator 9 (change in surplus/deficit), a B– for Indicator 10 (change in interest payments), and a C+ for Indicator 11 (change in expenditures), all of which are better than or equal to last year's marks. Nova Scotia was one of only two provinces — the other being Newfoundland and Labrador — to show a decrease in per capita interest payments, although the decrease was minuscule at 90 cents per Nova Scotian.

For Indicator 12, which grades the quality of the fiscal year 2007/08 budget, the province earns a below-average C, down from last year's B– mark.

## *New Brunswick*

### Overall Grade: C+

New Brunswick receives an average C+ as an overall grade this year, and also stays close to average with its three subgrades: a C+ for fiscal accuracy and a C for both fiscal health and budget impact. Last year's grades included an overall C+, as well as a C+ for fiscal health, a C for fiscal accuracy, and a B for budget impact.

### Fiscal Health Grade: C

As was the case last year, New Brunswick receives marks of B and C– for Indicators 1 and 2, respectively. One bright spot for the province is that its per capita interest payment figure of $451 stands out as the best in Atlantic Canada by far.

For Indicators 3 and 4 (ordinary expenditures and size of public service), this year's marks are below-average C– and C, which are down from last year's corresponding grades of C and B.

### Fiscal Accuracy Grade: C+

Within the fiscal accuracy grade, the province scores above-average B grades for the two expenditure-related Indicators (6 and 8), but below-average C and D+ marks for Indicators 5 and 7, which relate to surplus/deficit measurement. Last year, the province recorded an above-average B– for Indicator 5, but below-average marks of C–, D+, and C for Indicators 6, 7, and 8.

### Budget Impact Grade: C

The budget impact indicator marks are also a mixed bag. For Indicators 9 and 11 (change in deficit/surplus and change in expenditures), the province receives a B and a B+, respectively, compared with last year's marks of B– and A–. D– and C– grades are recorded for Indicators 10 and 12 (change in interest payments and taxation score), both drops from marks of C+ and B– the year before. These D– and C– grades are the lowest among the ten provinces for these indicators (the latter is a tie with Nova Scotia and Ontario). As the New Brunswick government reversed previously announced corporate and personal income tax reductions in its spring 2007 budget while many other provinces were cutting taxes, it is unsurprising that the province fared poorly on the budget impact subgrade.

## *Quebec*

### Overall Grade: C

Quebec also turned in a lacklustre performance this year, managing a sub-par C as an overall grade, average C+ marks for the fiscal health and budget impact grades, and a poor D+ grade for fiscal accuracy, all unchanged from last year except for the latter, which is a decline from last year's slightly better C– mark.

### Fiscal Health Grade: C+

On the fiscal health subgrade, Quebec seems to suffer from a split personality. It earns a dismal F mark for Indicator 1 due to its $1155 per capita interest payment, behind only Newfoundland and Labrador at $1420. It earns a poor D+ for Indicator 2 for a per capita deficit figure of $199.

In contrast, the province earns stellar A+ and A– marks for Indicators 3 and 4. Its ordinary expenditure per capita figure of $6286 is second lowest in the country after Ontario's $5744 and its figure of 85 public sector workers per thousand population is well below the ten-province average of 94.

This "split personality" pattern is very similar to what was seen in the prior year's results.

### Fiscal Accuracy Grade: D+

Quebec's fiscal accuracy marks are quite poor on three of four indicators, with grades of D+, F, and D+ for Indicators 5, 6, and 7, respectively. These are all drops from last year's corresponding marks of B+, D+, and C–. A better performance is turned in on Indicator 8 (year-on-year expenditure estimate error) with a B grade, up from last year's B–. The overall subgrade mark of D+ is a sharp drop from last year's C+ grade.

### Budget Impact Grade: C+

On the budget impact front, Quebec's overall subgrade is unchanged at C+. The Indicator 9 (change in surplus/deficit) grade drops from B+ to B, while Indicator 10 (change in debt interest) holds steady at D+ and Indicator 12 (taxes) declines from B– to C+. Indicator 11 (change in expenditure) shows more movement, improving significantly from C– to B+.

## *Ontario*

### Overall Grade: B+

Ontario is tied with Alberta for top spot this year with an overall grade of B+. Ontario's three sub-grades are all at the B– level or above, and among the 12 indicators there is nothing below a C– and four marks in the A– to A+ range.

### Fiscal Health Grade: A–

Ontario posts a strong A– mark for the fiscal health subgrade, up from last year's mark of B+. Two A+ marks for Indicators 3 and 4 help Ontario on this front; its ordinary expenditure figure of $5744 per capita and its figure of 77 public sector workers per thousand population lead the country. More middling marks of C+ and C– are earned for Indicators 1 and 2 (debt interest and surplus/deficit). This is similar to the pattern seen in the prior year's results.

As the strong Canadian dollar continues to create difficulties for the manufacturing sector, Ontario may be at risk of seeing its fiscal health grade slip in the future.

### Fiscal Accuracy Grade: B

On the fiscal accuracy subgrade, Ontario posts above average grades for Indicators 5, 6, and 8 (B+, A–, and B), and an average C+ for Indicator 7. Last year, the province earned marks of A–, A–, C–, and C+ for Indicators 5, 6, 7, and 8, respectively, but only a B– for the overall fiscal accuracy subgrade, compared with this year's B.

### Budget Impact Grade: B–

Ontario earns an above-average B– for its budget impact subgrade. This mark is based on diverse results at the indicator level. A strong mark of A is earned for Indicator 11 (change in expenditures), along with an above-average B– for Indicator 9 (change in surplus/deficit). However, Ontario receives sub-par grades of C and C–, respectively, for Indicators 10 (change in interest payments) and 12 (tax score). This year's indicator marks are all within one step of the grades received last year, and the overall subgrade of B– is unchanged.

# *Manitoba*

## Overall Grade: C–

Manitoba ties with Nova Scotia for last place in this year's study. This stands in sharp contrast to last year, when only the three traditional "have" provinces — Alberta, British Columbia, and Ontario — recorded better overall marks than Manitoba.

The province's performance has declined on all fronts: on the fiscal health subgrade from C+ to C–, on the fiscal accuracy subgrade significantly from B– to D+, and on the budget impact grade from B– to C+.

## Fiscal Health Grade: C–

Manitoba is all over the map with the fiscal health grade. On Indicator 1, it earns a solid A–, behind only Alberta, and, at $296, Manitoba's figure is less than half the ten-province average of $649. On Indicator 2, the province receives a slightly below-average C grade, but at least it does post a surplus rather than a deficit. In the absence of Alberta's massive per capita surplus, which strongly skews the calculation, Manitoba would earn a much higher grade. These two grades are identical to last year's scores.

Less inspiring are the province's grades for Indicators 3 and 4, particularly the F for the former, down strikingly from last year's B– mark for per capita ordinary expenditures. At $8172, Manitoba spends more per capita than any other province. Manitoba continues to have a higher-than-average number of public sector workers per thousand population, with 104, earning it a D grade for the second year in a row.

## Fiscal Accuracy Grade: D+

Similarly mixed marks occur for fiscal accuracy. It earns a commendable A for Indicator 5 (DBRS versus budget surplus/deficit error), but from there the marks decline across the indicators, from a C– for Indicator 6, to a D+ for Indicator 7, and on to a dismal F for Indicator 8. The corresponding grades from last year were A–, A–, D+ and C–, resulting in last year's far better overall fiscal accuracy subgrade of B–.

## Budget Impact Grade: C+

Manitoba fares somewhat better on the budget impact subgrade with an average C+ and all four indicator grades at C– or better, including respectable B marks for Indicators 9 and 12 (change in surplus/deficit and taxation framework), and a C– and a C for Indicators 10 and 11 (change in interest payments and change in expenditures). Last year's indicators were broadly similar, with marks of B, C, C+, and B for Indicators 9 through 12, respectively, and the same overall subgrade of B–.

Last year's indicators were broadly similar, with marks of B, C, C+, and B for Indicators 9 through 12, respectively, and the same overall subgrade of B–.

## *Saskatchewan*

### Overall Grade: C+

Saskatchewan is forecast to have the strongest economic growth performance in Canada in 2008, but it merits only an average C+ for this year's overall grade, the same grade it received last year.

Despite its strong economy of late, the province manages only a C– for the fiscal health subgrade. On fiscal accuracy, Saskatchewan scores a C, with a B for the budget impact subgrade. Last year, the province posted marks of C, C, and B+ for these three subgrades.

### Fiscal Health Grade: C–

Saskatchewan receives an above-average B– for Indicator 1 (compared with a B–/B mark last year) and slightly below-average C grades for Indicators 2 and 3 (compared with C and C/C+ marks last year). For Indicator 4, however, the province gets an F grade, down from last year's D, due to the fact that it employs 108 public sector workers per thousand population, more than any other province except Prince Edward Island (with 109 per thousand).

### Fiscal Accuracy Grade: C

On fiscal accuracy, Saskatchewan again scores well on one indicator (an A for Indicator 5 — DBRS versus budget surplus/deficit error) and poorly on the other three (D+, D, and C, respectively, for Indicators 6, 7, and 8 — the DBRS versus budget expenditure error and the two year-on-year budget error marks). In contrast, last year the province scored above-average grades of B–, B, and B– for the first three indicators, plus an F for Indicator 8. Despite the different pattern of indicator grades, the overall subgrade last year was the same as this year, at a C.

### Budget Impact Grade: B

The province's performance on the budget impact grade is stronger, with grades of B, C+, A+, and B for the four indicators. Last year's marks of C–, C, A+, and A– left the province with a slightly better subgrade of B+. Saskatchewan is to be congratulated for its firm control on spending; it earns a top A+ mark for Indicator 11 for limiting per capita spending growth to only $33, far below both the average of $424 and the $954 figure posted by Newfoundland and Labrador.

# Alberta

## Overall Grade: B+

Alberta has moved up from second place last year into a first-place tie with Ontario in this year's analysis. The province earns outstanding A+ and A– marks for the fiscal health and fiscal accuracy subgrades, but merits only a lowly D for the budget impact measure. Last year the province also scored well on fiscal health and poorly on budget impact; it is the improvement in fiscal accuracy from last year's C+ to this year's A– that has given the province an overall improvement from B– to B+ and a share of first place.

## Fiscal Health Grade: A+

It is no surprise that Canada's perennial economic powerhouse gets a top mark of A+ for fiscal health, including A+ indicator-level grades for per capita interest payments, per capita surplus/deficit figures, and public sector workers per thousand population. There is, however, one blemish on Alberta's fiscal health record: a below-average C– grade for Indicator 3. Last year saw a similar pattern for Alberta's fiscal health indicator grades.

## Fiscal Accuracy Grade: A–

Alberta has improved significantly on its fiscal accuracy score, going from an overall subgrade of C+ last year to a Canada-best A– grade this year. Last year saw a Jekyll and Hyde story as the province received A+ marks for Indicators 6 and 7 and F grades for Indicators 5 and 8. This year the marks are more balanced, with B grades for Indicators 5 and 6 (the DBRS versus budget errors), an A+ for Indicator 7 (the year-on-year budget surplus/deficit error), and a C+ for Indicator 8 (the year-on-year budget expenditure error).

## Budget Impact Grade: D+

Alberta's performance slips a bit on the budget impact measure. It earns respectable B– and A– grades for Indicators 10 and 12 (change in interest payments and tax score), but also receives less-than-stellar marks of F and D– for Indicators 9 and 11 (change in surplus/deficit and change in expenditures). Last year, the province received grades of F, C, D+, and C for the four budget impact indicators.

In fairness to Alberta, however, there is an anomaly in the relative scoring system. Alberta recorded by far the largest negative change in surplus/deficit position from its 2006/07 budget to its 2007/08 budget, and hence earned a mark of F. It must be remembered, though, that the province still recorded a surplus in its 2007/08 budget of $628 per capita, more than any other province, and that the large drop from the previous year is possible only because the oil-revenue-driven surplus that year was phenomenally large at almost $2200 per capita. Alberta should be forgiven for asking that its F for Indicator 9 be taken with a large grain of salt.

# British Columbia

## Overall Grade: C+

British Columbia finished in a second-place tie with Alberta last year with a B– grade. This year the province has slipped slightly to a C+ and a four-way tie for third spot.

The province's fiscal health grade is virtually unchanged, going from B–/B last year to B this year. Fiscal accuracy slips from B– to C–, while budget impact improves from C–/C to B–.

## Fiscal Health Grade: B

If there were an award for fiscal health consistency, British Columbia would be the winner: its four indicator grades of B+, C+, C+, and A– are identical to last year's scores. British Columbia also would have scored a much higher mark for Indicator 2 had it not been for Alberta's enormous surplus, which heavily skews the results.

## Fiscal Accuracy Grade: C–

Fiscal accuracy, however, is a different matter. The province posts F marks for Indicators 5 and 6 (the two DBRS versus budget error marks), down dramatically from the B+ and B grades received last year. As for the year-on-year budget error marks, Indicator 7 shows a sharp improvement from C last year to A this year. Indicator 8 is unchanged at B.

## Budget Impact Grade: B–

Last year, the province was fairly consistent with its budget impact indicators, scoring grades of C+, C–, C, and C–. This year, one indicator has slipped (Indicator 9, down to a D+), while the other three have improved to grades of C+, B+, and A–. It must be remembered, though, that such "improvements" reflect relative performance. Even though British Columbia appears to be doing "better" on Indicators 10 and 11, the absolute numbers are going the wrong way for both measures as both per capita interest expenses and per capita expenditures are increasing from 2006/07 to 2007/08. More positively, British Columbia's mark of A– for the taxation indicator represents a first-place tie with Alberta.

# SUMMARY AND CONCLUSIONS

Several lessons can be gleaned from this year's results.

Because most provinces have both weaknesses and strengths that are captured in this analysis, the final results tend to bunch toward the middle: this year's highest overall grade is a B+ and the lowest is not that far away at C–.

Traditional economic strength does help with some components of the analysis, but powerhouses like Alberta still record very low grades, including F marks, on some indicators. Similarly, traditionally poorer provinces like Newfoundland and Labrador are able to score highly on many measures, despite the more difficult circumstances they face in certain economic dimensions.

Finally, it remains the simple truth that the best way to ensure a high grade in this exercise — which we believe is consistent with a province's ensuring the best possible economic prospects for its citizens — is to remain focused on core fundamentals: avoid deficits, pay down debt to reduce interest payment burdens, keep tax rates low and competitive, keep a tight lid on spending, and always report thoroughly and accurately on the state of the province's finances.

# APPENDIX TABLES

**Table A-1:** ***Scores for Indicator Components of Fiscal Health Grade***

| | Indicator 1 | Indicator 2 | Indicator 3 | Indicator 4 | Grade |
|---|---|---|---|---|---|
| Newfoundland and Labrador | F | C+ | D– | C+ | D |
| Prince Edward Island | C+ | C– | C | F | C– |
| Nova Scotia | D+ | D+ | B | D | C– |
| New Brunswick | B | C– | C– | C | C |
| Quebec | F | D+ | A+ | A– | C+ |
| Ontario | C+ | C– | A+ | A+ | A– |
| Manitoba | A– | C | F | D | C– |
| Saskatchewan | B– | C | C | F | C– |
| Alberta | A+ | A+ | C– | A+ | A+ |
| British Columbia | B+ | C+ | C+ | A– | B |

**Table A-2:** ***Scores for Indicator Components of Fiscal Accuracy Grade***

| | Indicator 5 | Indicator 6 | Indicator 7 | Indicator 8 | Grade |
|---|---|---|---|---|---|
| Newfoundland and Labrador | B– | A– | C | A+ | B+ |
| Prince Edward Island | A– | A | C– | B | B |
| Nova Scotia | F | B | D+ | C– | C– |
| New Brunswick | C | B | D+ | B | C+ |
| Quebec | D+ | F | D+ | B | D+ |
| Ontario | B+ | A– | C+ | B | B |
| Manitoba | A | C– | D+ | F | D+ |
| Saskatchewan | A | D+ | D | C | C |
| Alberta | B | B | A+ | C+ | A– |
| British Columbia | F | F | A– | B | C– |

**Table A-3:** ***Scores for Indicator Components of Budget Impact Grade***

| | Indicator 9 | Indicator 10 | Indicator 11 | Indicator 12 | Grade |
|---|---|---|---|---|---|
| Newfoundland and Labrador | A | A+ | F | B | B+ |
| Prince Edward Island | C | D+ | F | C | D+ |
| Nova Scotia | B | B– | C+ | C– | C+ |
| New Brunswick | B | D– | B+ | C– | C |
| Quebec | B | D+ | B+ | C | C+ |
| Ontario | B– | C | A | C¬ | B– |
| Manitoba | B | C– | C | B | C+ |
| Saskatchewan | B | C+ | A+ | B | B |
| Alberta | F | B– | D– | A– | D+ |
| British Columbia | D+ | C+ | B+ | A– | B– |

**Table A-4:** ***Change to Total Grades, fiscal years 2006/07 to 2007/08***

| | Total Grade 2006/07 | Total Grade 2007/08 | Direction of Change |
|---|---|---|---|
| Newfoundland and Labrador | C/C+ | C+ | minuscule improvement |
| Prince Edward Island | C | C | no change |
| Nova Scotia | C– | C– | no change |
| New Brunswick | C+ | C+ | no change |
| Quebec | C | C | no change |
| Ontario | B | B+ | slight improvement |
| Manitoba | C+/B– | C– | significant decrease |
| Saskatchewan | C+ | C+ | no change |
| Alberta | B– | B+ | significant improvement |
| British Columbia | B– | C+ | slight decrease |

# Selected Publications from the AIMS Library

**Publications on Provincial Finances**

*Could Do Better — West: Grading Western Canada's 2006/07 Provincial Budgets*, by David Murrell and Ian Munro

*Could Do Better 3: Grading Atlantic Canada's 2006/2007 Provincial Finances*, by David Murrell and Ian Munro

*Could Do Better2: Grading Atlantic Canada's 2005/06 Provincial Finances*, by David Murrell and Bruce Winchester

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